

IHRC Project Concept Note

For IHRC use only

Ref. No:

Date received:

Date approved:

To assist IHRC's approval and coordination efforts, please submit a concept note for each project that your organization is leading to: projects@cirh.org

What is the IHRC mandate over project approvals?

- The mandate of the IHRC is to conduct strategic planning and coordination and implement Resources from bilateral and multilateral donors, non-governmental organizations, and the business sector, with all necessary transparency and accountability.
- In order to ensure that all activities are aligned with the Action Plan for National Recovery and Development of Haiti and Ministry plans, not duplicative, and implemented effectively, the following projects will be submitted to and addressed by the IHRC:
 - Planned or proposed activities or sets of activities, by any person or entity related to the post-earthquake recovery or associated development needs of Haiti, that involves any pledge, or donation, or the pledge or grant of debt relief, by any Donor, Haitian NGO, or International NGO; and
 - Planned or proposed activities or sets of activities by any person or entity that involves the expenditure of Private Funding related to a matter of National Significance.
- The above projects should be submitted to the IHRC through this document: the new project concept note.

Why is this project concept note needed?

- This document assists in the recovery of Haiti by: 1) allowing IHRC to ensure that minimum standards are met in the design and implementation of a project—for example, to ensure that local stakeholders were involved in the planning of the project and sufficient anti-corruption mechanisms are in place, and 2) providing sufficient detail by project for effective coordination and facilitation
- This information will, over time, serve as the basis for a single source of recovery information, enabling the IHRC to provide insights into overlaps, gaps and opportunities for coordination and collaboration.
- Your support through completing this document is critically important for helping the Government of Haiti achieve an integrated, strategic plan for the country.

Who should fill out an IHRC new project concept note?

Donor and civil society organization funders must submit this document to the IHRC for projects related to the post-earthquake recovery or associated development needs of Haiti that have not already received approval and/or already started by June 17, 2010, according to the following criteria – if you are a:

- **Bilaterals or multi-lateral:** If the project has any funding at all from your organization, please fill out this document.
- **Civil society organization (e.g., Haitian NGO, International NGO):** If the project is partially or self-funded by your organization without any funding by a bilateral or multilateral, please fill out this document.
- **Private individuals:** If the project is privately funded by any person or entity without any funding by a bilateral, multilateral or civil society organization, is seeking IHRC

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facilitation and assistance, and is reasonably expected to exceed \$500,000, please fill out this document. If the project is of National Significance, regardless of value and regardless of seeking of IHRC facilitation and assistance, please fill out this document (a list of projects deemed of National Significance will be available online).

What is considered as a 'project' that requires an IHRC project concept note?

Each major group of activities, including budget support operations, whether it is on-going or in planning that is related to the recovery of Haiti is considered as a project - it should not include relief/emergency activities. A project is defined as a group of activities focused on one major objective-- for example, a project by 1 NGO to build wells in multiple villages should be grouped into a single "project". In the same way, a project to rebuild a single village (which cuts across multiple sectors) should be 1 project-- it has a single objective to rebuild a village. However, a "health program" to build hospitals, develop a water system, and train midwives should have 3 separate project concept notes. If you have questions deciding how many concept notes to submit, please contact the IHRC at projects@cirh.org

The IHRC is not a funder of projects itself at this time. Therefore, projects should be submitted for approval only if they are funded or have a clear path to obtain funding (e.g., plans to apply for HRF funding).

How does the IHRC approval process work?

- Upon receipt, a new project concept note is initially assessed and reviewed by the IHRC Office of the Secretariat, in consultation with applicable Ministries, to ensure that plans adhere to quality standards and fit within the overall priorities of the Action Plan for National Recovery and Development of Haiti. Based on IHRC's published checklist (to be made available online), each project is rated into one of four categories: "Unconditional approval", "Conditional approval", "Holding bay", or "Turn Down."
 - **Unconditional approval** means the project meets criteria for immediate implementation and the IHRC has no questions/concerns on the project
 - **Conditional approval** means the IHRC feels the project can be approved, but there are specific concerns/ questions that need to be clarified prior to implementation
 - **Holding Bay** means the project is not ready for approval, but there are no clear reasons to turn down the project. Feedback will be provided to the proponent with specific concerns
 - **Turn down** means project is not approved for implementation because the project is not required or the IHRC does not feel the project will be implemented in an appropriate manner
- Follow-up letters will be sent via email outlining the decisions made only to the primary contact person/organization whose information is provided on the project proponent section of this new project concept note.

Anti-Corruption efforts at IHRC

As part of the anti-corruption efforts of the IHRC, all implementing agencies (including government agencies) of projects will be required to complete the [Implementing Agency Questionnaire](#) attached to this new project concept note.

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1 Proponent Information

Please fill in information about your organization.

1.1 Contact information (all correspondence from IHRC will be sent to this contact)

| | |
|--------------------------------------|--|
| Name of organization: | Banque de la Republique d'Haïti (BRH) |
| Contact person: | Charles Castel |
| Contact information (phone/address): | (509) 299-1200 Angle rues Pavée et du Quai Port-au-Prince, Haïti |
| Email: | castelc2001@yahoo.com |

1.2 Background information

| | |
|-------------------------------------|--|
| Size of organization (# employees): | Around 750. |
| Focus of work (sectors): | The legislation identifies four key roles of the BRH, which can be stated as follows: (i) defend the internal and external value of the currency; (ii) ensure efficiency, development and integrity of the payments system; (iii) ensure the stability of the financial system; and (iv) act as banker, fiscal agent and treasurer of the State. |
| Number of years in operation: | 31 years (the BRH was created by the Law of August 17, 1979). |
| Number of countries operating in: | Only Haiti. |
| Number of years operating in Haiti: | 31 years. |
| Total budget for Haiti: | N/A. |

2 Project Details

2.1 Project name

Program to Establish a Partial Credit Guarantee Fund for Enterprise Development

2.2 Implementing agency details if different from above (if implementing agency already selected)

The implementing agency is the organization tasked with the execution of the project. This could be a contractor, NGO, Government body or other entity. It can be the same organization as the project proponent. The implementing agency must also fill out the attached [Implementing Agency Questionnaire](#).

| | |
|--------------------------------------|---|
| Name of implementing agency: | Fonds de Développement Industriel |
| Contact person: | Lhermite François |
| Contact information (phone/address): | 12, Angle Rue Butte et Impasse Chabrier Port-au-Prince, Haïti PO Box 2597 (509) 244-9728 |
| Email: | fdi@fdihaiti.com |

2.3 Project timing and cost (please put estimate on the timing even if the timing is not finalized yet)

| | |
|-------------------------------------|----------------|
| Project start date: | November 2010 |
| Project duration: | 5 years |
| Total estimated project cost (USD): | US\$35 million |

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2.4 *Project synopsis*

Please include a brief description of the project, a statement of its specific objectives and an explanation of how the proposal is consistent with the Haiti Action Plan.

The objective of the project is to contribute to the rehabilitation of the Haitian productive sector, by providing funding for the implementation and operation of the first stage (or pillar) of a Partial Credit Guarantee Fund. This first pillar will grant guarantees to firms affected by the earthquake that need support for the restructuring of impaired, but viable, loans which were performing before January 12 (first pillar of the PCGF, see 5.1).

The proposed project is totally consistent with the Haiti Action Plan since it states Investment and Access to Credit as one of the key areas for economic rebuilding: *“The proper functioning of economic and financial channels is crucial for funding reconstruction and relaunching growth...”*

Furthermore, this action plan remarks the creation of a guarantee fund as one of the key initiatives to help the borrowers affected by the quake.

3 **Line Ministry Involvement**

3.1 *Required approvals*

Please let us know the steps you have taken to get approvals needed for the project, including the approvals requested, status of requests, and names of your contacts in government agencies

3.2 *Line Ministry involvement*

| | |
|---|--|
| Which Ministries are you in touch with: | Ministry of Economy and Finance (MEF) |
| Please provide the name of your contacts within the Ministries: | M. Ronald Baudin, Ministry of Economy and Finance of Haiti |
| How does this project align with Ministry plans: | According to a joint document issued by the MEF and the BRH, one of the consequences of the earthquake on January 12 was “the sharp decapitalization of consumer borrowers in Port-au-Prince and other affected cities”. The proposed project will provide guarantees to restructure affected loans that are impaired, but still viable, in order to support the recovery of productive firms while ensuring that banks remain stable. |

4 **Project sectors and geography**

4.1 *Sectors*

Please enter the approximate distribution of funds across the project sectors and locations. If the exact distribution is not available you may distribute the funds equally.

| Category | Sub-sector | % of funds |
|---------------------------|---|------------|
| 1. Territorial Rebuilding | Transport (ports, road, rail, air) infrastructure | |
| | Energy infrastructure | |
| | Disaster management and prevention | |
| | Telecommunications | |
| | Other (please fill in): _____ | |
| 2. Economic Rebuilding | Agriculture, farming and fishing | |
| | Industry, commerce and tourism | |
| | Job creation and training | |
| | Finance and investment | 100% |

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| | | |
|-----------------------------|---------------------------------|--|
| | Other (please fill in): _____ | |
| 3. Social Rebuilding | Housing | |
| | Health | |
| | Education | |
| | Culture | |
| | Food assistance and relief | |
| | Women and children | |
| | Water and sanitation | |
| | Other (please fill in): _____ | |
| 4. Institutional Rebuilding | Democratic institutions | |
| | Stronger central administration | |
| | Justice and security | |
| | Other (please fill in): _____ | |
| 5. Budget support | | |

4.2 Geography

Please detail the départements, arrondissements, communes, and, where possible, sections where project activities are being undertaken. Please approximate the distribution of funds by geography; if the exact distribution is not available you may distribute the funds equally.

While there is no eligibility restrictions regarding the geographic location of borrowers, the purpose of the project is to reach all borrowers affected by the earthquake (that is enterprises or borrowers either located or operating in the areas affected by the earthquake) which need support to restructure their existing obligations with the banking sector.

5 Project Descriptions and Outputs

5.1 Project description

This includes a description of the need that the project will address, the desired outcomes, main activities, and an explanation of links between needs, activities, outputs, and outcomes

The immediate problem faced by the firms and the financial system can be described as follows: (i) productive firms, typically bank borrowers, have experienced a negative shock as a consequence of the quake which has disrupted their business plans, damaged the quality of physical assets and inventories, and disrupted supply chains. As a consequence, the quake has jeopardized the ability of businesses to keep up with the terms of their loans; (ii) the subsequent degradation of the credit quality of bank's assets has, in turn, driven the system towards a situation of credit gridlock that is endangering the flow of financing resources to the productive sector; and (iii) all this, nonetheless, takes place in a context where the banking system is fairly liquid and when credit is most needed to finance reconstruction efforts and reactivate the economy.

Since the problem faced, therefore, is not lack of liquidity, but rather increased credit risk, it has to be addressed accordingly. To disentangle the existing situation, the most direct way is to facilitate the restructuring of those loans that were granted before the quake to firms that were viable then, and that, after some restructuring, would still be viable now. The proposed project aims to support this restructuring process through Partial Credit Guarantees to borrowing firms, helping them to continue running their businesses.

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If debtor firms were driven into liquidation, there would be a large economic loss of ongoing concerns and good will would take place. In addition, financial intermediaries will also be damaged as a consequence of the capital losses that will be taken after the loan write off process is finished. Helping both, firms and banks, to restructure their liabilities and assets, will considerably reduce the costs to the financial system in returning to a situation of normality, which is fundamental to maintain credit flow for the productive sector.

If appropriate measures are not put in place, the gap between (a reduced) supply and (an increased) demand of credit would widen during the reconstruction efforts, impeding the private sector to act as a key driver in the reconstruction of the country, while labor market conditions would further deteriorate in the short term.

The Partial Credit Guarantee Fund (PCGF) will contribute to the reactivation and development of the private sector by: (i) facilitating the restructuring of loans that have been affected by the quake; and (ii) supporting the provision of new loans for reconstruction and economic recovery.

The IDB and the World Bank have worked closely with the US Treasury, the IMF and other donors to design of a step-by-step strategy for setting up a partial credit guarantee scheme in two stages or pillars. In this way, each of the challenges mentioned above can be addressed in a coordinated but independent manner as follows:

i. The first pillar will: (i) support restructured loans by issuing partial credit guarantees; (ii) have a public governance structure, (iii) have a limited life of approximately 5 years; and (iii) transfer the remaining funds, as the amounts guaranteed expire, to the Second Pillar. It will be subdivided into two sub-funds: one to attend to smaller firms (sub pillar or sub fund I.a.), and the other directed at larger firms (sub pillar or sub fund I.b.).

ii. The second pillar will: (i) provide partial credit guarantees to new loans, helping to finance new investments; (ii) be sustainable; and (iii) have private governance.

The proposed project will provide grant resources to support the **first pillar** of the PCGF, which aims to support the rehabilitation of the productive sector by granting guarantees to restructuring quake-affected impaired loans. It is expected that this restructuring process will facilitate firms to keep operating which will in turn help to reactivate economic activity and preserve employment, while enabling the financial system to continue the provision of new credit for new investments.

5.2 Project components

| No. | Component | Amount |
|-----|--|-----------------|
| 1 | Granting partial credit guarantees to restructure individual, micro and SMEs loans (loans smaller than US\$1 million) that are impaired as a result of the earthquake. | US\$ 34 million |
| 2 | Providing technical assistance to the Implementing Agency in order to strengthen its capacity to manage the Fund. | US\$ 1 million |

5.3 List of key project outputs/milestones and associated budget

For example, km of roads, numbers of schools, numbers of houses, health workers trained etc.

| No. | Outputs | Budget | Deliverables timeline | | | | |
|-----|--|----------------|-----------------------|--------|--------|--------|--------|
| | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| 1 | Inception of the Partial Credit Guarantee Fund | | PCGF created | | | | |
| 2 | Availability of resources to issue partial credit guarantees | US\$34 million | Up to US\$34 million | | | | |

5.4 List of key project success indicators (e.g. jobs created, farmers revenues raised, health outcomes improved, etc.)

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Given the nature of the Program, it is very important to keep in mind that one of the basic design premises is that the guarantees will be granted borrowers that, after the restructuring process, are the most viable. To achieve this objective, the program will use an incentive compatible allocation mechanism. That is, the guarantees will be allocated, upon demand, by the intermediary financial institutions (IFIs) participating in the program.

Consequently, the aggregate impact of the projects supported by the PCGF will be determined by prevailing market conditions. Thus, the levels achieved by the Program's purpose or goal indicators can only be considered a priori estimates of what the market can attain, but cannot be used to judge the success or failure of the operation.

On this basis, the success indicators (intermediate and final outcomes) are therefore exogenous to the Program, and depend on whether the basic assumptions for this type of program materialize (demand of IFIs and of borrowers).

Deliverables timeline

| No. | Success Indicator | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----|---|-----------------------|--------|--------|--------|--------|
| 1 | <u>Intermediate outcome</u> Amount of guarantees issued to eligible borrowers (assuming a leverage ratio of 2:1) | Up to US\$68 million | | | | |
| 2 | Amount of loans benefited with the partial credit guarantees (assuming a coverage ratio of 50%) | Up to US\$136 million | | | | |
| 3 | <u>Final Outcome</u> Survival rate of participating enterprises (i.e. firms with loans restructured that are still performing at the end of the program) | | | | | 50% |

5.5 *Data source to verify success indicators (e.g., randomized household or business surveys, student aptitude tests, medical questionnaires, farm yield data.)*

The source of data will be the information of guaranteed portfolios performance available in the files of the Implementing Agency and IFIs at the end of project execution.

6 Impact assessment

Please provide a brief description of how the project will affect the following areas. A given question may be not applicable, if this is the case for your project, please note "N/A" and explain why not applicable.

6.1 Contribution to Haiti's economy

| | |
|--|---|
| Please specify numbers of local workers that will be employed in this project: | N/A. Since the partial credit guarantees will be granted upon demand, it is not possible to estimate the number of workers employed by the beneficiary firms. Nevertheless, it is expected that, with the support of the project, most of these firms will be able to continue operating, reducing, at least partially, negative effects in employment (i.e. |
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| | if firms were liquidated). As part of the impact evaluation plan of the Program, the donors will hire a consultant that will collect data from beneficiary firms, including employment. |
| Please estimate number of women and children that will be impacted: | N/A. Same as above. |
| Please provide detail on how the project will use Haitian-sourced raw materials and create additional capital for the Haitian economy: | The project will allow the banking sector, along with regulated credit cooperatives, reduce losses from impaired loans that could still be viable after some restructuring, and maintain their capacity (and capital) to provide new credits for reconstruction efforts and new investments. |

6.2 Sustainability assessment

How will you ensure that this project will be sustained after completion?

The first pillar of the PCGF is not intended to be sustainable since it addresses an extraordinary problem that the productive sector and the financial system is facing, which needs to be solved in order to facilitate the continuity of credit for the productive sector and the reactivation of the economy.
If any financial resources are remaining at the end of the project's execution, they will be transferred to the second pillar of the PCGF (granting guarantees for new loans), or will be used for another purpose to be agreed between the donors and the Government of Haiti.

6.3 Environmental assessment

If relevant, please specify how the project might negatively impact the environment, and how you plan to measure and mitigate this impact.

Since the program will provide partial credit guarantees for restructuring loans upon demand, it is not possible to determine *ex-ante* its social and environmental impacts. However, based on a preliminary review of existing loans that could be eligible to participate in the project, and their corresponding sector activity classification, the majority are expected to have minimal to moderate environmental risks and impacts.
The Implementing Agency should comply with all environmental, social, health and safety and labor regulatory requirements applicable in Haiti, as well as IDB's and WB's social and environmental policies and list of excluded activities. In this sense, the Implementing Agency will provide an Action Plan to the donors, acceptable in form and substance, defining the actions, responsible parties, costs and timeline to implement an internal Environmental and Social Management System along with a Contingency Plan for emergency events.

7 Funding

7.1 Funding plan

7.1.1 *Please check to identify whether this is an on-budget or off-budget project.*

- On-budget, on-Treasury projects** are funded through the budgeting system of the Government of Haiti. Fund source could be Government or foreign grants or loans.
- On-budget, off-Treasury projects** are counted as Government of Haiti expenditures but funding flows through third party/ies (e.g., a multilateral donor).
- Off-budget projects** are direct implementation projects, funded directly by donors and / or NGOs. Off-budget funds do not flow through the Government of Haiti budgeting system.

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7.1.2 Please identify the funding agency and amounts to date.

| Funding entity | 1 st level Implementer | Type of Fund (loan / grant / equity) | Commitment amount | Disbursement amount | Currency |
|---|-----------------------------------|--------------------------------------|-------------------|---------------------|----------|
| Inter American Development Bank | | Grant | US\$20 million | - | USD |
| World Bank | | Grant | US\$2.5 million | - | USD |
| Haiti Reconstruction Fund (to be requested) | | Grant | US\$12.5 million | - | USD |

7.1.3 Please check to identify if the project will be seeking funding from the Haiti Reconstruction Fund (more information on the HRF can be found on the IHRC website).

Yes – project will seek HRF funding
If yes, please provide name of the Partner Entity: IDB and World Bank.

No – project will not seek HRF funding

8 Local Community Support

8.1 Local Community Involvement

Please explain to what extent you have involved the local community (e.g., community-wide meeting to discuss projects, solicit input from marginalized/disadvantaged groups, other outreach activities)

The BRH has been involved in the design of the project throughout the whole process. Meetings with commercial banks to discuss the terms and conditions of access to the PCGF took place during the first week of July. The findings and suggestions resulting from these meetings will be considered to finalize the operational details of the Program, contained in the Operational Regulations, and also for the future design of the Second Pillar of the PCGF.

9 Monitoring Process

9.1 Anti-corruption mechanisms

Please describe your anti-corruption mechanisms, particularly to address procurement, financial reporting and fund disbursement

The procurement, financial reporting and disbursement mechanisms should comply with the policies of the IDB and the World Bank for those matters. Additionally, a Fiduciary Agent will be hired to oversee the management and operation of the PCGF in order to ensure a proper use of the resources. The Fiduciary Agent will report to the donors.

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9.2 *Project progress monitoring and evaluation process*

Please describe monitoring and evaluation plan and methods for the project:

Program execution will be monitored through status reports prepared by the Executing Agency and submitted to the Bank by the deadline stipulated in the general contractual conditions. These activities shall entail: (i) semi-annual status reports on the activities, the identification of problems and risks, and proposed actions to address them; and (ii) a final report at the end of program execution.

These reports will take as a reference the fulfilment of commitments agreed upon, as shown in the results framework, and should contain data and information supporting the achievement of project outputs and outcomes. This information will be available in the records of the EA for the management of the Program, and should be easily reported by the EA (and the Fiduciary Agent hired to oversee the management of the PCGF), to the donors.

The program proposes an impact evaluation which will be carried out following a reflexive methodology and taking into account the variables, objectives and outcomes proposed in the Results Matrix:

- a. At the purpose level (“Support the establishment of a Fund that would issue partial credit guarantees to viable loans affected by the quake”): (i) the amount of partial credit guarantees issued by the first pillar of the PCGF, showing the actual demand for resources by companies; and (ii) the amount of restructured loans that benefited with the partial credit guarantees, which demonstrates the reach of the Program.
- b. At the goal level (“Contribute to the rehabilitation of the Haitian productive sector”): the survival ratio of the participating firms (i.e. firms with loans restructured that are still performing at the end of the Program) in terms of volume of assets and number of enterprises or borrowers.

Among the responsibilities of the Executing Agency (financed with Program’s funds) will be to collect this data and to build a data base on the evolution of the actuarial parameters of the Haitian financial system (with data provided by the BRH), to help develop a quantitative base to evaluate the results of the Program.

In addition to the results framework, in order to provide more information on the impact of the Program, additional findings based on ex post data collected at the borrower level will also be reported upon (e.g. employment, revenue, etc). An independent expert shall be hired to conduct and submit the findings of the additional final evaluation report. This shall take place within 3 months of the closing of the program, which is estimated to take approximately 5 years from inception date.

10 Obstacles

10.1 *Obstacles*

An obstacle is anything that slows down or impedes the progress of the project’s commencement or continuation. Examples include approvals needed, lack of supply chain capacity, lack of funds, etc.

| Bottleneck | Organization/person that could address the bottleneck | Specific requests to IHRC in addressing the bottleneck |
|------------|---|--|
| | | |
| | | |

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**Thank you for supporting for our effort in coordinating the recovery of Haiti.
Together, we can build back better.**