Board of Executive Directors
Simplified Procedure
On or after: 29 September 2010

PR-3594
14 September 2010
Original: English

To:	The Board of Executive Directors
From:	The Secretary
Subject:	Haiti. Proposal for a nonreimbursable financing for the “Program to Establish a Partial Credit Guarantees Fund for Enterprise Development”

Basic Information:

Loan type .... Specific Investment Operation (ESP)
Beneficiary .... Republic of Haiti
Amount .... up to US$20,000,000
Source .... IDB Grant Facility

Inquiries to: Juan Antonio Ketterer (telephone 506-2-523-3318 at the Country Office in Costa Rica) or Joaquin Dominguez (telephone 809-562-6436 at the Country Office in Dominican Republic)

Remarks: This operation is included in document GN-2576 “2010 Operational Program Report (OPR)”, approved by the Board of Executive Directors on 3 August 2010. Additionally, its amount does not exceed the ceiling established for Group D countries; therefore, it qualifies for approval by simplified procedure.

References: GN-1838-1(7/94), DR-398-8(7/10), GN-2442-11(5/07), AB-2565(5/07), AG-8/07

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HAITI

PROGRAM TO ESTABLISH A PARTIAL CREDIT GUARANTEES FUND FOR ENTERPRISE DEVELOPMENT

(HA-L1050)

GRANT PROPOSAL

This document was prepared by the project team consisting of: Juan Antonio Ketterer (CMF/CCR) Project Team Leader; Joaquin Dominguez (CMF/CDR) Alternate Team Leader; Felipe Gomez-Acebo (VPC/HRC); Andrea Terán Barrientos (ICF/CMF); Jorge Sales Gomes (ICF/CMF); Hyun Jung Lee (LEG/SGO); Ariel Rodriguez (PDP/CHA); Marise Etienne (PDP/CHA); Sergio Barrero (SCF/PMU); Daniel Fonseca (SCF/FMK); Héctor Campos (VPS/ESG); and Marina Massini (ICF/CMF).

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http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35190387
2. Monitoring and Evaluation Arrangements
http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35191124
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ABBREVIATIONS

BRH	*Banque de la République D'Haïti* (Central Bank of Haiti)
EA	Executing Agency
FA	Fiduciary Agent
FDI	*Fonds de Développement Industriel*
IFIs	Intermediary Financial Institutions
GDP	Gross Domestic Product
GNP	Gross National Product
GOH	Government of Haiti
HRF	Haiti Reconstruction Fund
MDB	Multilateral Development Banks
MEF	Ministry of Finance
OR	Operational Regulations
SME	Small and medium-sized enterprises
PCG	Partial Credit Guarantee
PCGF	Partial Credit Guarantee Fund
PDNA	Post-Disaster Needs Assessment

PROJECT SUMMARY

HAITI

PROGRAM TO ESTABLISH A PARTIAL CREDIT GUARANTEES FUND FOR ENTERPRISE DEVELOPMENT

(HA-L1050)

<table>
<tr><th colspan="4">Financial Terms and Conditions</th></tr>
<tr><td colspan="4">Beneficiary: Republic of Haiti
Executing Agency: Fonds de Développement Industriel (FDI)</td></tr>
<tr><td>Source</td><td>Amount (US$ million)</td><td rowspan="2">Disbursement period:</td><td rowspan="2">30 months</td></tr>
<tr><td>IDB Grant Facility</td><td>20</td></tr>
<tr><td>Co-financing and parallel financing</td><td>Up to 75</td><td rowspan="2">Currency:</td><td rowspan="2">US Dollar</td></tr>
<tr><td>Total</td><td>Up to 95</td></tr>
<tr><th colspan="4">Project at a Glance</th></tr>
<tr><td colspan="4">Project objective and description: The objective of this operation is to contribute to the rehabilitation of the Haitian productive sector which has been negatively affected by the earthquake, in particular those enterprises that remain viable. This would be achieved by establishing a partial credit guarantee fund to allow such enterprises to restructure bank-debt obligations they are currently unable to meet, preventing viable enterprises from going into liquidation and, furthermore, facilitating their continued access to finance to rebuild and operate their businesses.</td></tr>
<tr><td colspan="4">Special contractual conditions: Prior to the first disbursement of the Program, the Executing Agency will provide evidence, to the Bank's satisfaction, of: (i) the signature of agreement between the Ministry of Finance and FDI, with the Bank's no objection (¶3.2); (ii) the entry into effect of the Operational Manual agreed with the Bank (¶3.17); and (iii) the hiring of the individual advisor or advisory firm that will support the executing agency in managing the Program (¶3.14).</td></tr>
<tr><td colspan="4">Special aspects: None.</td></tr>
<tr><td colspan="4">Exceptions to Bank policies: None.</td></tr>
<tr><td colspan="4">The project is in line with the country strategy: Yes [X] No [ ]</td></tr>
<tr><td colspan="4">The project qualifies for: SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ]</td></tr>
</table>

I. DESCRIPTION AND RESULTS MONITORING

A. Background and justification

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

1.2 The estimates of the damage and losses caused by earthquake, according to the Haiti Earthquake Post-Disaster Needs Assessment (PDNA), is around US$7,804 billion, equivalent to slightly more than the country's GDP in 2009. Most of the damage and losses have been suffered by the private sector, reaching US$5,722 billion or 70% of the total losses. The total needs for recovery, reconstruction, and setting up the Haitian State again, amounts to US$12 billion.

1.3 While these figures represent a substantial increase in the demand of financing, the economic effects of the earthquake in the private sector (such as the serious de-capitalization of firms whose assets and liquidity have deteriorated significantly), are likely to impede access to financial resources for the reconstruction process. In this context, a properly functioning financial system that is able to reopen credit flows to the productive sector, particularly the SMEs segment, is vital for the recovery and the re-launching growth.

1. Financial system

1.4 There are 9 commercial banks operating in Haiti, 7 private and 2 public (*Banque Nationale de Credit -BNC-* and *Banque Populaire Haitienne*). The banking sector is highly concentrated with the three largest banks (Sogebank, Unibank and BNC) holding 82% of total assets as of December 2009.

1.5 Even prior to the earthquake, the volume of credit in the Haitian economy showed modest growth. Indeed, as of December 2009, the financial system: (i) continued to be small, with total assets of Gourdes 114 billion (US$2.9 billion or about 36% of GDP); and (ii) reported loan portfolios of only 31% of total assets (Gourdes 36 billion or US$0.9 billion), a figure well below the average 55-60% credit-deposit ratio of most financial systems in the Region.

1.6 Some of the key constraints for a greater expansion of credit were: (i) high reserve requirements, representing 25% of total assets for the system; (ii) crowding out by the public sector because of the high interest rates paid on Central Bank notes (investments in these risk-free assets reached 6% of total assets in December 2009); and (iii) the high risk perception of lenders, aggravated by a deficient legal and judicial environment. As a result, there has been a limited provision of credit and high intermediation spreads, which averaged 10% in December 2009.

1.7 The impacts of the earthquake have put the financial system in a vulnerable position, even though the system is currently very liquid. Specifically, the Haitian banking system presents the following characteristics: (i) Loan Origination has decreased significantly - lending to existing customers in good standing has restarted, albeit slowly as risk assessment is taking time; (ii) Asset Quality is deteriorating, as loan portfolios have suffered a credit shock from the effects of the earthquake on the borrowers. Estimates of non-performing loans are on average 12% in March 2010, while non-performing loans were 8.6% in December 2009; and (iii) Capital Adequacy seemed adequate for the private banking sector[1] in December 2009 (regulatory capital over risk-weighted assets was 16.5%), while public banks registered capital adequacy below the regulatory requirements. After the earthquake it became an acute concern especially because of the rise in non-performing loans. (Link Financial System).

2. The productive sector

1.8 The main sectors in the Haitian economy, in terms of contribution to GNP, are the service sector, which accounts for over 30% of the GNP, and the agriculture sector (25.3% of GNP). The export sector is mostly composed of light manufactures, which grew by a strong 9.9% in 2008/09, owing mostly to increases in garments assembled for the US market under the HOPE II program. Agricultural products such as essential oils, mango and cacao are the other main exports. (Link Productive Sector).

1.9 Exports are expected to contract sharply this year as many industries, and transport infrastructure, have suffered with the earthquake. However, plans are under way to help boost some export sectors, particularly the garment industry, which employs approximately 25,000 Haitians. Nonetheless, the level of economic growth needed to reduce poverty and improve social indicators will require substantially increased investment in key productive sectors and infrastructure.

1.10 One of the main obstacles for recovery is that many micro, small and medium enterprises face high interest rates and have no sufficient collateral, limiting access to credit. In effect: (i) the lending interest rates required by financial institutions for riskier projects (such as micro and SMEs investments) exceed the internal rate of return of such projects. This has been aggravated by a backlog of impaired loans and increased macroeconomic uncertainty following the earthquake; and (ii) the destruction of physical assets and other earthquake induced losses has reduced the availability of potential collateral for new loans.

[1] BNC, holding 23% of the assets of the system, had a negative regulatory capital derived from the effects of the takeover of all assets and liabilities of the failed Socabank. Under the terms of the 2007 agreement on the absorption, the BNC will benefit from a BRH guarantee on a portion of the NPLs received from Socabank.

1.11 The ability of firms to borrow has therefore been restricted at a time when financing is most needed to continue business operations and recovery activities. Increasing access to credit will thus be essential to restarting and promoting private-sector activity. Some of the figures used in this analysis are somewhat approximated given the fact that the exact extend of the earthquake impacts are still being evaluated.

3. Description of the problem and how it will be addressed by the Program

1.12 The immediate problem faced by the productive and the financial system can be described as follows: (i) productive firms have experienced a negative shock as a consequence of the earthquake. It has dislocated business, damaged the quality of physical assets and inventories, and disrupted supply chains. As a consequence, the earthquake has jeopardized the ability of businesses to keep up with the terms of their loans; (ii) the degradation of the credit quality of bank's assets has increased the capital used up for provisioning loans, driving the system towards a situation of credit shortages; (iii) this, in turn, is severely limiting the access of the productive sector to credit; but (iv) all this takes place in a context where the banking system is fairly liquid. That is, the problem is not about lack of liquidity, but rather originates in an increased credit risk.

1.13 The most direct way to address the problem is to facilitate the restructuring of those loans granted before the earthquake to firms that were viable then, and that, after some restructuring, would still be viable now (i.e., firms that have the capacity to repay existing loans when restructured along with any additional funding they may receive). In turn, to implement the restructuring, the most efficient instrument would be to set up a partial credit guarantee facility or fund to grant guarantees to borrowing firms. With fresh guarantees firms would be in a better position to negotiate with their respective banks a restructured loan. In this way, firms could keep running their businesses.

1.14 The situation just described needs to be resolved urgently, and prior to granting new loans. This is because, if debtor firms were driven into liquidation, there would be an important shrinkage in the number of borrowers left to take up new loans and a large economic loss of ongoing concerns would take place. Financial intermediaries would also be damaged as a consequence of the capital losses that would be taken after the loan write off process were finished. Helping both, firms and banks, to restructure their liabilities and assets, will considerably reduce the costs to the financial and productive systems in returning to a situation of normality, which is fundamental to maintain credit flows to the productive sector.

1.15 As a consequence of the above analysis, the GOH has asked the Bank and other donosr to support the establishment of a Partial Credit Guarantee Fund (PCGF). This instrument will seek to contribute to the reactivation and development of the private sector by: (i) facilitating the restructuring of loans that have been affected by the earthquake; and (ii) supporting the provision of new loans for reconstruction and economic recovery.

1.16 The Bank has worked closely with the World Bank, the IFC, the US Treasury, the IMF and other donors to attend this request. These efforts resulted in the design of a two pillar strategy for setting up a partial credit guarantee scheme:

a. The first pillar will issue partial credit guarantees to support the restructuring of debt obligations of viable firms that have been adversely affected by the earthquake. It will have a limited life of approximately 5 years[2] and it will transfer the remaining funds, as the amounts guaranteed expire, to the Second Pillar (see ¶3.10h, ¶3.11). Financing this first pillar will be the object of the present operation[3].

b. The second pillar will be designed to provide partial credit guarantees to new loans, helping to finance new investments.[4]

1.17 It is important to notice the following: (i) the purpose of the PCGF is not to support a loan restructuring process *per se*, but rather to mitigate the effects of the earthquake on the borrowers' ability to repay their loans and to keep conducting their businesses, with the respective impacts on economic recovery, employment and growth. In view of the special circumstances in Haiti, the PCGF structure is the most suitable for reaching the strategy of the Bank in the Country, which highlights private sector development; and (ii) even though the direct beneficiaries of the intervention will be the borrowing firms, the c*redito*r banks will also benefit, since their asset base will improve as a consequence of the restructuring.

4. The Strategy of the Bank in the private sector in Haiti

1.18 In order to support the role of the private sector in the reconstruction of the country, the Bank will operate through: (i) its public window, which will provide grant resources seeking to achieve goals that cannot be attained by market forces alone; and, in parallel (ii) its private windows, which will provide reimbursable resources.[5]

1.19 To enable a coordinated and continuous action of all the Bank's windows and to maximize the additionality of the Bank's operations, VPC/HRC has adopted a "Programmatic Approach[6]" for country programming in the private sector development area. The Programmatic Approach has been structured following the

[2] If guarantees are requested for loans with terms longer than 5 years, i.e. mortgage loans, the life of the Fund would be adjusted accordingly.

[3] SCF/FMK and OMJ are currently working on an operation to fund the second pillar of the PCGF.

[4] The attached Term Sheet describes the operational agreement among all donors and the BRH as to how the two-pillar PCGF will work. The Manuel du Fonds de Garantie Partielle de Crédit presents the operational details of the First Pillar.

[5] "Private windows" refers to the windows of the IDB group that provide loans without sovereign guarantee.

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

guidelines of the Paris Declaration[7], it does not predetermine the specific programs or the amounts to be included, and it does not entail a commitment of the Bank to finance any operations.

1.20 The Programmatic Approach consists of a set of grant operations and a set of reimbursable operations that will complement each other - grant operations will catalyze and leverage reimbursable operations and resources of the private financial sector and will have demonstration effects that will trigger the investment.

1.21 Grant operations will support the GOHA with programs in, *inter alia*, the following areas: (i) partial credit guarantees for the restructuring of earthquake affected loans; (ii) supporting public policy regarding economic growth in relevant sectors; (iii) expansion or creation of industrial parks; (iv) business development services to support enterprises; (v) reconstruction of schools and universities, completing financial sector loans; and (vi) improvement of the agribusiness productivity. The Bank is also striving to raise grant and reimbursable funds from private sector donors, in order to complement the Bank's resources. Reimbursable loans will channel resources to the private sector, completing the local financial capacity.

1.22 The current operation, focused on financing a PCGF to help restructure loans damaged by the earthquake, is the first program of the strategy described above.

1.23 The Program presented in this document is fully consistent with the Country Strategy. Indeed, the Bank's Country Strategy for Haiti (GN-2465-2) states that "The Bank will therefore act to support private sector development by: (i) creating a business environment conducive to investment and entrepreneurship, including strengthening the GOH capacity to analyze, prioritize and promote business opportunities; (ii) focusing on employment creation, investment, and competitiveness in high-priority sectors, such as tourism, textiles, and agribusiness; (iii) ensuring complementarity between the activities of the different Bank Group windows; and (iv) providing credit, or creating the conditions for such provision, to private companies, particularly improving SME access to the financial system."

5. Coordination with other donors

1.24 The Program has been designed and developed jointly with the World Bank and the United States Government, through its Treasury Department. The meetings with representatives of the GOHA and the BRH have been always attended by the three institutions, and the mission teams to Haiti have been composed by members of the three institutions. The concept of the Program has been endorsed by the IMF.[8]

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[7] The Paris Declaration (PD) was signed in April 2005 by 60 countries and several multilateral institutions, including the Bank. The PD highlights the importance of coordinated strategies and programmatic approaches.
[8] "Haiti: 2010 Article IV Consultation", IMF, August, 2010.

1.25 The Program will be co-financed by the World Bank and the Haiti Reconstruction Fund (HRF). The funding of the latter is currently in its final stages of approval.

1.26 The operation of the PCGF (operating regulations of the Program), reporting procedures, auditing and monitoring of the Program results will be done in complete coordination among the donors.

B. Objective, characteristics and components

1.27 The objective of this operation is to contribute to the rehabilitation of the Haitian productive sector which has been negatively affected by the earthquake, in particular those enterprises that remain viable. This would be achieved by establishing a Partial Credit Guarantee Fund (PCGF) to allow such enterprises to restructure bank-debt obligations they are currently unable to meet, preventing viable enterprises from going into liquidation and, furthermore, facilitating their continued access to finance to rebuild and operate their businesses.

1.28 The Program has two components: (i) funding of partial credit guarantees issued by the PCGF to restructure viable loans affected by the earthquake; and (ii) technical assistance to strengthen the Executing Agency and to run the Program.

1. Component I. Funding of partial credit guarantees

1.29 The first component will provide resources to the Fund so it can grant partial credit guarantees (PCG) for eligible loans (see section III.A.2 for a detailed explanation of the Fund's mechanics). It will have two subcomponents:

a. Subcomponent I.a: Issuing guarantees to restructure eligible smaller loans. Small loans are those below US$1 million dollars (see ¶3.8).

b. Subcomponent I.b: Issuing guarantees to restructure eligible larger loans (loans above US$1 million dollars, see ¶3.8).

2. Component II. Technical Assistance to the Executing Agency

1.30 The second component will support the Executing Agency (EA) with technical assistance, in order to strengthen its institutional capacity to execute the Program. Such assistance will consist on hiring an independent advisor or advisory firm that will help the Executing Agency to adjust its operational processes, systems and organizational structure in order to ensure an appropriate administration of the Program and the transfer of knowledge. This component will also fund the costs of the auditing, the technical consultancies and any other expense needed to properly run the Fund, including an impact evaluation at the end of the Program execution.

C. Key results indicators

1.31 Component I. Given the nature of the Program, it is very important to keep in mind that one of the basic design premises is that resources will be used efficiently and that the PCGs will be granted to the most viable borrowers. To achieve this objective, the Program will use an incentive compatible allocation mechanism. That is, the guarantees will be allocated by the intermediary financial institutions (IFIs) participating in the Program. The incentive compatibility feature derives from the fact that the IFIs will: (i) still have its capital at risk; (ii) incur with the loss of the deductible in case of default of the guaranteed loans, and will share any further losses *pari pasu* with the Fund; and (iii) be penalized if non-viable loans are included in guaranteed portfolios, by having guarantees cancelled and increasing the quarterly fees for the remaining guarantees granted. (See the operation of the Fund in section III.A.2).

1.32 The results indicators for this Component, which are described in the Results Matrix, are: Outputs: (i) PCGF existing and operative, (ii) Program's resources available to issue PCGs, (iii) number of financial intermediaries that have access to partial credit guarantees of the Program; Intermediate Outcomes: (i) the amount of partial credit guarantees issued by the Program, (ii) the amount of restructured loans that benefited with the partial credit guarantees, and (iii) the number of loans guaranteed by the Program; Final Outcomes: the difference between the survival ratio of participating firms (i.e. firms with loans restructured that are still performing at the end of the Program) and the survival rate of similar non-participating firms, in terms of number of borrowers and volume of assets.

1.33 In order to increase the volume of information on Program outcomes in addition to the results framework, *ex post* data will be collected at the borrower level (e.g. employment, revenue, etc) for these purposes. 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, to help develop a quantitative base to evaluate the results of the Program.

1.34 Component II. Regarding the technical assistance to be provided to the executing agency under this component, the results will be monitored through the following indicators: Outputs: the individual advisor or advisory firm hired to support the EA to run the Program, and the number of consulting days towards the implementation of institutional strengthening activities; Outcome: the progress of the EA's ability to run the Program without the support of the individual advisor or advisory firm, measured as the number of functions the EA is able to perform by itself, and the number of credit guarantees issued by the EA.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Cost and financing

1. Origin of resources

2.1 The sources of financing for the Program will be: (i) IDB Grant Facility: US$19 million for subcomponent Ia and US$1 million for component II; (ii) World Bank: US$2.5 million for component Ia; and (iii) HRF: up to US$12.5 million for subcomponent Ia and up to US$60 million for subcomponent Ib.

Table 1. Program Costs (in US$ millions)

Description	IDB Grant Facility	Co and parallel financing	Total
Subcomponent I.a	19	Up to 15	**Up to 34**
Subcomponent I.b	0	Up to 60	**Up to 60**
Component II	1	0	**1**
Total Cost	**20**	**Up to 75**	**Up to 95**

2. Destination of resources and Program sizing

2.2 The resources of the Program will be used to: (i) issue partial credit guarantees for eligible loans (Component I); and (ii) strengthen the institutional capacity of the EA (Component II).

2.3 The amount of loans eligible for restructuring in Subcomponent I.a, as per data supplied by the BRH, adds up to US$180 million. As it is explained in section III.A.2: (i) the Fund will guarantee 50% of the nominal of each eligible loan (coverage ratio); and (ii) the Fund will issue guarantees for up to twice its resources (leverage ratio). Therefore, to guarantee loans for US$180 million, US$45 million of resources of the Fund will be required. On the other hand, an informal survey conducted among the eligible banks yielded a much lower figure of eligible loans, US$75 million, which would use up Fund resources for an amount of US$18.75 million. Given the approximate nature of the estimates, an average of US$34 million has been budgeted for Subcomponent I.a.

2.4 The amount of loans eligible for Subcomponent I.b, as per data supplied by the BRH, amounts to US$240 million. Therefore, to guarantee US$240 million, US$60 million of Fund resources will be required. It is expected that the GOHA will request that amount from the HRF (Link Estimation of Demand).

B. Environmental and social safeguard risks

2.5 Since the Program will provide PCGs for restructuring loans upon demand, it is not possible to determine ex-ante its social and environmental impacts. Therefore, according to the B.13 directive of the Environment and Safeguards Compliance Policy (GN 2208-20 and OP 703), and as such this operation is not categorized according to its potential environmental and social impacts. Based on a preliminary review of existing loans that could be eligible to participate in the Program, and their corresponding sector activity classification, the majority are expected to have minimal to moderate environmental risks and impacts. These will not involve resettlements and have no impacts on natural habitats or on indigenous people.

2.6 As described in the ESMR, the EA should comply with all environmental, social, health and safety and labor regulatory requirements applicable in Haiti, as well as IDB's social and environmental policies[9] and list of excluded activities for non-sovereign guaranteed operations. In this sense, the EA will provide an Action Plan to the Bank, acceptable in form and substance, defining the actions, responsible parties, dates and cost to implement an internal Environmental and Social Management System along with a Contingency Plan for emergency events.

C. Fiduciary risk

2.7 Fiduciary risks are present given the circumstances of the country. Such risks will be mitigated by an execution mechanism with a twofold approach: (i) the Executing Agency will be assisted by an individual advisor or advisory firm to ensure that the Program is properly executed; and (ii) a Fiduciary Agent, appointed by the donors, will monitor the management of the Program and the use of resources. (See ¶3.12-3.16). The fiduciary group of COF/CHA has assessed the fiduciary risks of the Program, resulting in a medium overall risk.

D. Other risks key and issues

2.8 Regarding moral hazard risk, although it cannot be completely eliminated, the design of the Program features several provisions to keep it bounded. Specifically: (i) only loans restructured under rules issued by the BRH are eligible (¶3.6); (ii) there are deductibles and fees to be paid by IFIs (¶3.10d); (iii) a private Fiduciary Agent will monitor the compliance with the operating regulations (¶3.15); and (iv) a claw back provision in case the scheme is misused by any participating IFI.

2.9 Financing from HRF for subcomponent I.b is not yet secured. This represents a risk for the size and scope of the Fund. However, even if not enough financing is obtained for this subcomponent, the Program will begin focusing on the smaller loans (Subcomponent I.a). The donors agree that restructuring the smaller loans *per se* will still have enough development impact to justify proceeding with Subcomponent I.a alone.

2.10 There are some parameters of the Program, such as commissions, fees, deductibles, etc., that are still in the process of being negotiated further with the

[9] These include: the Environmental and Safeguards Compliance Policy (OP-703), the Involuntary Resettlement Operational Policy (OP-710), and the Operational Policy on Indigenous Peoples (OP-765).

IFIs. The objective is to ensure that the Program can be executed while minimizing its fiscal cost. If this negotiation spans for longer than expected, it might cause a delay on the start date of the Fund.

2.11 Given the fact that the issuance of the guarantees is completely demand driven, there is the possibility that, when the Fund begins its operations, the effective demand for guarantees falls below estimates. Should this be the case, it will be known rather quickly, since there will be a limited window of twelve months during which the Fund will issue guarantees. In this event, it is recommended that whatever funds remain uncommitted be reallocated to alternative uses as soon as possible.

2.12 In the unlikely event that there are more claims than resources available, a contingent rule for the Fund will be activated. The rule is that BRH will pay any residual claims that could not be paid with Funds resources. This will generate a contingent liability for the BRH.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

1. Beneficiary and executing agency

3.1 The Beneficiary of the Program will be the Republic of Haiti, and the Executing Agency (EA) will be the *Fonde de Développement Industriel* (FDI).

3.2 **The resources of the Program will be transferred to the EA under a *Protocole d'Accord* signed between the Ministry of Finance and the FDI, which will be a condition for disbursement, subject to the Bank's no objection.**

3.3 The FDI is a specialized institution of the Central Bank of Haiti (*Banque de la Republique d'Haïti - BRH*), endowed with operational and financial autonomy, whose Board of Directors is the same as the Board of the BRH. The FDI is dedicated to promote the development of the private sector by offering loans and credit guarantees to sustainable SMEs with potential to generate employment and create added value (Link FDI). Despite its relatively small size (total assets of US$35 million as of September 2009), the FDI has demonstrated: (i) adequate management and sustainability (30% of its assets correspond to retained earnings); and (ii) institutional capacity to satisfactorily implement programs with international development agencies[10]. Following the fiduciary assessment, the FDI, with the assistance of the advisors already discussed, is deemed capable to manage the Program. (Link Fiduciary Report).

[10] Such as: (i) the World Bank, providing resources to support its start-up in the 1980's with an Industrial Credit Project, and a second program in the 1990's; and (ii) the European Union, supporting a microcredit program.

2. Operation of the Fund

3.4 The Fund will be created by an administrative resolution of the BRH. It will be a facility within the balance of the FDI, consisting of a matching pair of segregated accounts. In the liability account there will be issued guarantees and in the matching asset account there will be the cash disbursed by the Program to back up the guarantees. The Fund's resources will be invested according to the BRH guidelines for investing international reserves, and any revenue generated will be fully capitalized into the Fund.

3.5 Eligible beneficiaries. Borrowers must be viable, i.e. must have the capacity to repay the restructured liabilities. All sectors[11] will be eligible to participate in the Program. Other characteristics of eligible borrowers will be established in the OR.

3.6 Eligible loans. All viable loans that are impaired[12] as a result of the earthquake are eligible to receive guarantees from the Program, as long as they are restructured under the BRH guidelines. The eligible amounts include new additional financing required for the restructuring operation, of up to 50% of the original loan.

3.7 Program funds may not be used to guarantee loans that finance: (i) dividend payments or recovery of invested capital; (ii) purchase of equities, bonds, or other movable assets; (iii) projects that do not meet the environmental standards set out in Haitian law or established by the relevant public agencies; or (iv) any other activities prohibited in the OR.

3.8 Depending on the size of loans, smaller loans will be eligible for Subcomponent I.a, while larger loans will be eligible for Subcomponent I.b. The cut-off point separating small and large loans currently stands at US$1 million, but it might be revised during the execution of the Program.

3.9 Eligibility of IFIs. All regulated financial institutions are eligible to participate in the Program, including: (i) public banks, although the claims of the guarantees will not be covered with resources of the Program but with public resources; (ii) regulated non-bank private financial intermediaries and credit unions[13], under conditions to be established in the OR.

3.10 The Fund mechanics will work as follows:

a. Guarantee allocation. The Fund will grant PCGs for individual eligible loans, upon request of the IFIs and the borrowers.

b. Leverage ratio. The leverage ratio will be of 2:1 (i.e. for each dollar available in the Fund, it will issue guarantees for two dollars worth). If the actuarial analysis of the fund changes, this leverage ratio will be adjusted accordingly.

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[11] Subject to the exclusion list described in the ESMR and ¶3.7.
[12] Non-performing loans are those whose capital and interest payments are due for 90 days or more.
[13] The Fund will be supplementary to the HELP Fund (promoted by MIF) which covers unregulated microfinance institutions, by trying to cover large well-managed regulated cooperatives not included in HELP.

c. Coverage ratio. The coverage of the guarantees issued will be around 50% on the balance of the principal of the loan (the exact percentage will be set in the OR of the Program).

d. Deductible. A deductible (first loss paid by the banks) will be applied on each guaranteed loan. It will be set according to the credit risk of the corresponding IFI. The deductible will be reviewed periodically on the basis of the non-performing loan rate and the claims made by each IFI.

e. Net coverage. Upon the reception of a given claim, the guarantee will pay 50% of each loan minus the IFI's deductible.

f. Commission. The commission will be around 2% per annum on the guaranteed amount. (The exact figure is to be analyzed further, and will be set in the OR of the Program).

g. Duration of the guarantees. The PCGs will be issued for a period of approximately 5 years. The exact tenors of the guarantees will be based on the particulars of each underlying loan.[14]

h. Duration of the Fund. The Fund will have a temporary life, that is: (i) there will be a limited timeframe to access the Fund of approximately 12 months after the first disbursement of the Program; (ii) a sunset clause will be established so that the Fund winds down after that last guarantee expires (approximately 5 years); and (iii) residual resources will be transferred to the second pillar of the PCGF, as the notional guaranteed amounts expire, or will be used for another purpose, with similar to the objectives to those of the Program, to be agreed between the Bank and the GOH.

i. Collection procedures. After the claim is submitted, the respective IFI will begin collection procedures on the collateral of the loan, following the protocol set in the OR. The waterfall of the collection will be: first, to pay collection expenses; the rest to be shared *pari passu* between the IFI and FDI. However, at the sole discretion of the FDI, loans under collection procedures may be transferred for management to third parties.

3.11 The parameters of the Fund (coverage ratio, leverage ratio, deductible and fees) are set to maximize the reach of the Program, but the design of the operation has been done in a context of high uncertainty. Hence, given that the Fund needs to be trusted by its users, prudence has been applied, which implies that it is possible that some resources may be left over and passed on to the second pillar, as explained before. To have a complete detail of the actuarial analysis and the calculations of the parameters of the Fund, see Link Actuarial Analysis.

3. Execution and administration

3.12 The responsibilities of the FDI, as the Executing Agency (EA), will be, among others: (i) to review the corresponding documentation of the portfolios to be guaranteed; (ii) to approve the granting of partial credit guarantees and submit

[14] Guarantees may be adjusted for mortgage loans and have tenors longer than 5 years.

information to the Fiduciary Agent; (iii) to collect fee payments from participating IFIs; (iv) to verify eligibility of the loan, compliance with all the covenants of the guarantee, and payment of all guarantee fees up to date; and (v) any other function that is deemed appropriate to run the Fund efficiently.

3.13 Procurement for the proposed Program will be carried out in accordance with the procedures established in the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-7), complemented by the "Special procurement provisions to address the emergency caused by the 12 January 2010 earthquake in the Republic of Haiti" (OP-387-1).

3.14 An individual advisor or an advisory firm will be hired with resources of the Program to assist the EA to properly perform its tasks and to transfer knowledge. **The hiring of the individual advisor or advisory firm that will support the EA will be precondition for the first disbursement of component I.**

3.15 Additionally, a Fiduciary Agent (FA) will be hired by the donors (with Bank's resources from the technical cooperation HA-T1132), to monitor the activities of the Program and will be responsible for: (i) monitoring guarantees issued by the Fund; (ii) overseeing the management of the Fund; (iii) ensuring the good use of the Program's resources in accordance with its founding principles and procedures; (iv) ex-post analysis of portfolios by sampling and visiting IFIs and borrowers, to determine if banks have included non-viable loans or loans that violate environmental safeguards; (v) authorizing payments of guarantee claims; and (vi) any other function deemed appropriate to manage the Fund properly.

3.16 The responsibilities of the EA and the FA will be adjusted and updated in the OR in order to facilitate the execution of the Program, while minimizing its risks.

3.17 Operational Regulations. Each component and subcomponent of the Program will have its own OR that: (i) are consistent with the rules and policies of BRH and of the IDB; and (ii) reflect the operational details of the Program (see Link Manuel du Fonds de Garantie Partielle de Crédit for a draft of the OR). **The entry into effect of the OR agreed with the Bank will be precondition for the first disbursement of the respective component.**

3.18 Responsibility of IFIs. Participating IFIs will be wholly responsible for: (i) evaluating the viability of the loans to be restructured, or of the new loans to be granted, in accordance with the OR; (ii) ensuring that the loans included in the guaranteed portfolio are eligible and in compliance with the OR; (iii) make fee payments timely; and (iv) any other responsibilities established in the OR.

4. Disbursements and disbursement period

3.19 Component I: In order to ensure the trustworthiness of the Fund, the disbursements will be made in tranches upon request of the EA and no objection of the Fiduciary Agent. Each tranche will be sized so that it covers the notional amount guaranteed by the Fund at any point in time, plus a 25% float margin to facilitate the operation. There will be an initial disbursement of US$5 million to cover the initial operations of the Fund.

3.20 Component II: The disbursements will be made upon request of the EA, to keep up with schedule of payments of the individual advisor or advisory firm and other operational expenses.

3.21 The disbursement period of the Program will be thirty months. The commitment period will be twenty four months. However, it is expected that the first component will be disbursed within twelve months after the first disbursement.

B. Summary of arrangements for monitoring results

3.22 The project team and the Bank's Country Office in Haiti will coordinate with co-financing donor agencies, in monitoring the overall progress of the Program.

3.23 Reports. Program execution will be monitored through: (i) semiannual 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 be prepared by the EA and submitted to the Bank by the deadline stipulated in the general contractual conditions. The reports will take as a reference fulfillment of the commitments agreed upon, as shown in the results matrix, and should contain data and information supporting the achievement of project outputs and outcomes.

3.24 Audits. The Program's audits will be performed annually by a firm of independent public accountants acceptable to the Bank, in accordance with Bank's Guidelines for Financial Reports and External Audits. The firm will be selected according to the Bank's procedures (Document AF-200) and their work will be performed based on terms of reference previously agreed upon with the Bank, which will include testing the adequacy of the assessment performed to grant the guarantees to the loans accordingly with the OR of the Fund. The current FDI's auditors could be accepted by the Bank to perform the audit of the Program - without competitive process - provided that they are already eligible to the Bank.

3.25 Midterm evaluation. Within 24 months after the date of the first disbursement, the EA will submit a midterm evaluation report on: (i) the extent to which the objectives and outcomes have been achieved, based on the results matrix; (ii) the extent to which the environmental requirements have been met; and (iii) the steps that may be taken in the event that the Program is considered not to have substantially achieved its objectives.

3.26 The Bank will perform an external evaluation at the end of the disbursement period, to assess the extent to which the Program objectives have been fulfilled and gauge its development impact. The EA will keep all relevant information available to facilitate this evaluation.

Development Effectiveness Matrix
Summary

Indicator	Score	Maximum Score
I. Strategic Relevance	Low-High	
1. IDB Strategic Development Objectives	2.5	10
Country Diversification	2.0	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.5	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	7.2	10
Country Strategy Sector Diagnosis	3.6	6
Country Strategy sector objective & indicator	3.6	4
II. Development Outcomes - Evaluability	Satisfactory	
3. Evidence-based Assessment & Solution	9.0	10
4. Evaluation & Monitoring Plan	5.3	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	10.0	10
III. IDB´s Role - Additionality		
7. Additionality	10.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	3.0	3

I. Strategic Relevance: This operation is implemented in Haiti, country-group D, through a grant facility. Its objective is not linked to the current Bank corporate initiatives. There is evidence of the use of country systems in the area of financial management. The country strategy includes an objective and indicator related to the sector.

II. Evaluability: The project has a good diagnosis with identification of the deficiencies found and their magnitudes. Outputs and outcomes are clearly defined and all indicators are SMART, but there is no definition of the expected impact of the project. General mechanisms for monitoring have been defined, a budget has been included for this activity, and there is reference to the sources of the data to be collected. The operation has a reflexive evaluation methodology but there is no detailed evaluation plan. The project has no economic analysis. The project has identified the principal environmental and social risks, as well as mitigation measures required. It also provides indicators to monitor the implementation of these measures.

III. Additionality: It is expected that this project will help improve the private sector in Haiti by establishing a partial credit guarantee fund to allow enterprises to restructure bank-debt obligations.

RESULTS MATRIX

Program Objective	Contribute to the rehabilitation of the Haitian productive sector.
Purpose of the operation	Support the establishment of a Fund that would issue partial credit guarantees to restructure viable loans affected by the quake.

PURPOSE: Support the establishment of a Fund that would issue partial credit guarantees to restructure viable loans affected by the quake.							
INDICATORS	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**DESCRIPTION**
COMPONENT ONE: Issuing partial credit guarantees to Intermediary Financial Institutions (IFIs) for restructuring quake-affected loans.							
Output							
Partial Credit Guarantee Fund existing and operative	NO	YES				YES	This indicator would determine the successful creation of the Partial Credit Guarantee Fund (PCGF), as a facility within the FDI (the Executing Agency of the Program). This will be verified as the signature of the *Protocol d'accord* between the MEF and the FDI for the execution of the Program, and the approval of the *Manuel du Fonds de Garantie Partial de Credit* by the BRH (central bank) and the donors as the Operating Regulations of the Program.
Program's resources available to issue partial credit guarantees	0	US$19 million				US$19 million	This indicator determines the availability of resources so that the Executing Agency is able to issue partial credit guarantees (if the market –borrowers and IFIs – is interested in accessing them). The source of verification will be the fulfillment of contractual conditions established as conditions for the first disbursement of the Program.
Number of financial intermediaries that have access to partial credit guarantees of the Program.	0	5 IFIs				At least 5 IFIs	The indicator will show the number of existing IFIs that are eligible and willing to participate in the Program. The means of verification will be the signature of a participation contract or agreement between the FDI and each IFI. (For more details about the characteristics participation contract, see the OR of the Program).

INDICATORS	Baseline	Year 1	Year 2	Year 3	Year 4	Target	DESCRIPTION
Intermediate Outcome							
Amount of guarantees issued by the Program for the restructuring of impaired loans	0	US$38 million				US$38 million	This indicator will reflect the actual demand of the partial credit guarantees of the Program. It is important to note that the Partial Credit Guarantee Fund is likely to have a leverage of 2:1, thus its total capacity of issuing guarantees would be twice its total funding (US$19M * 2). Given the temporary nature of the guarantees for restructuring loans affected by the quake, access to the Program's guarantees would be possible only for a certain period of time (approx. 12 months from the creation of the PCGF).
Amount of restructured loans benefited with the partial credit guarantees of the Program	0	US$ 76 million				US$ 76 million	This indicator will show the total amount of loans that received a guarantee from the Program. Under a conservative scenario, it is assumed that the Fund will only count with the resources of the grant from the Bank. Since the guarantees will cover around 50% of eligible loans, it is expected that the total amount of benefited loans would be the double of the amount of guarantees issued.
Number of firms guaranteed by the Program	0	6.500				6.500	This indicator will show the total number of borrowers that received a guarantee from the Program. Note that the estimated number of participating borrowers was calculated using the average size of loans of the total portfolio of the banking system as of March 2010.
Final Outcome							
Difference between the survival rate of participating enterprises (in terms of number of borrowers) and the survival ratio of similar non-participating firms	0					0.25	The indicator will show the difference between the percentage of participating enterprises that are still operating at the end of the Program and the survival ratio of comparable (eligible) firms that did not participate in the Program. $\left(1 - \frac{\text{\# particip. firms in default}}{\text{\# total particip. firms}}\right) - \left(1 - \frac{\text{\# comp. firms in default}}{\text{\# total comparable firms}}\right)$ This is based on the assumption that when firms default they will

							most likely be liquidated. Note that the survival rate will be calculated when the Fund winds down, i.e 5 years after the inception of the PCGF.
Difference between the survival rate of participating enterprises (in terms of assets) and the survival ratio of similar non-participating firms	0					0.25	This indicator will show the difference between the percentage of loans (in terms of assets) that are still performing at the end of the Program and the survival ratio of similar (eligible) firms that did not participate in the Program. $\left(1 - \frac{\text{amount of loans in default}}{\text{\# total particip. loans}}\right) - \left(1 - \frac{\text{amount comp. loans in def.}}{\text{\# total comparable loans}}\right)$ Note that the survival rate will be calculated when the Fund winds down, and assuming that when the loan is non-performing and the guarantee is triggered, the borrower will most likely be liquidated. Data of comparable non-participating borrowers will be collected and stored by the BRH and will be provided to the EA at the end of the Program's execution.

INDICATORS	Baseline	Year 1	Year 2	Year 3	Year 4	Target	DESCRIPTION
COMPONENT TWO: Technical assistance to the FDI (executing agency) in order to strengthen its capacity to implement the Program.							
Output							
Advisory firm/individual advisor hired	No	Yes					This component will consist in hiring an advisor/advisory firm that should support the FDI to manage the partial credit guarantees to be issued under the first component of the program.
Number of consulting days for institutional strengthening activities	0	600	600	400	400	2.000	This indicates the progress in the implementation of the activities of the advisory services, estimated as the number of consulting days reported annually.
Outcome							
Number of functions activated out of a total of 6 basic functions (Financial Mgmt, Risk Mgmt, Credit Evaluation, Environmental	1	2	3	4	5	6	This indicator will show the progress of the FDI's ability to run the Pillar 1 of the PCGF (the proposed Program) on its own, independently of the advisor or advisory firm. The figures will specify the functions required to execute the

Mgmt, Reporting, and Back Office)							Program that are performed by the FDI without the assistance of the advisor or advisory firm. (Functions activated refer to functions that are autonomously performed by the Executing Agency).
Number of credit guarantees issued	600					6.500	This indicator will show the evolution of the FDI's capacity to issue credit guarantees before and after the Program, in terms of quantity of individual loans guaranteed.

PROGRAM TO ESTABLISH A PARTIAL CREDIT GUARANTEE FUND FOR ENTERPRISE DEVELOPMENT
(HA-L1050)
Procurement Plan Period: 24 months (October 2010 - October 2012)

No. Ref. [1]	Category and description of the acquisition contracts	Estimated cost of the acquisitions (US$ thousands)	Acquisition method [2]	Revision (ex-ante or ex-post)	Financing form and percentage		Precali-fication [3] (Si/No)	Estimated dates				Status (pending, in process, awarded, cancelled)	Comments
					BID %	Other %		Publication AEA		Termination of the contract			
1	**GOODS**							Sem.	Year	Sem.	Year		
	N/A												
	Subtotal Goods	**0**											
2	**WORKS**												
	N/A	0											
	Subtotal Products	0											
3	**OTHER SERVICES DIFFERENT TO CONSUTLTING**												
	Tickets	33,000	CP	Ex-post	100%	0%	No	2	2010	2	2012	Pending	Periodic Requirements
	Subtotal Services different to consulting services	**33,000**											
4	**CONSULTING SERVICES**												
Technical Management of the Guarantee													
	Consultant in Management (lider)	358,560	NCB	Ex-ante	100%	0%	No	2	2010	2	2012	Pending	
	Consultant in Management (Senior Associate)	271,740	NCB	Ex-ante	100%	0%	No	2	2010	1	2012	Pending	
	Consultant in Management (Senior Associate)	216,720	NCB	Ex-ante	100%	0%	No	2	2011	1	2012	Pending	
	Subtotal Consulting Services	**847,020**											
	Program Auditing	119,980	SSS	Ex-ante	100%	0%	No	2	2010	2	2012	Pending	
	Subtotal Auditing	**119,980**											
	Total	**1,000,000**											

[1] **ICB**: International competitive bidding; **LIB**: limited international bidding; **NCB**: national competitive bidding; **PC**: price comparison; **DC**: direct contracting; **FA**: force account; **PSA**: Procurement through specialized agencies; **PAs:** Procurement agents; **IA:** Inspection agents; **PLFI**: Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP**: Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **PCP**: Community participation procurement; **QCBS**: Quality- and cost-based selection **QBS**: Quality-based selection **FBS**: Selection under a fixed budget; **LCS**: Least-cost selection; **CQS**: Selection based on the consultants' qualifications; **SSS:** Single-source selection.
Q: Calendar Quarter; **Y:** Year of execution. For instance, 3Q1Y stands for the third quarter of the first year of execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-_____/10

Haiti. Nonreimbursable Financing _____/GR-HA to the Republic of Haiti
Program to Establish a Partial Credit Guarantees Fund for Enterprise Development

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 Account, hereinafter referred to as the "Account", to enter into such contract or contracts 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 a program to establish a partial credit guarantees fund for enterprise development. Such nonreimbursable financing will be for an amount of up to US$20,000,000, that forms part of the Account, and will be subject to the Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Grant Proposal.

(Adopted on __________ 2010)

LEG/SGO/HA-35285924-10
HA-L1050