ICR Review
Operations Evaluation Department

Report Number : ICRR10867

1. Project Data:		Date Posted :	12/14/2000	
PROJ ID:	P007309		Appraisal	Actual
Project Name :	Industrial Restructuring & Development	Project Costs (US$M)	24.6	52.7
Country:	Haiti	Loan/Credit (US$M)	11.4	9.6
Sector(s):	Business Environment	Cofinancing (US$M)	7.9	36.1
L/C Number:	C2071			
		Board Approval (FY)		90
Partners involved :	USAID	Closing Date	06/30/1995	03/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:	

2. Project Objectives and Components

a. Objectives

Original objectives: (i) help finance productive facilities and resources that will contribute to economic and social development; (ii) support the private industrial sector in adjusting to become export oriented and competitive; (iii) support trade policy reform; (iv) strengthen the Industrial Development Fund's (FDI) financial and human resource base; (v) improve the regulatory framework of the industrial sector.

Revised objectives (1997): (i) same; (ii) support private sector adjustment consistent with Private Sector Development Program; (iii) strengthen financial intermediaries, the privatization agency (CMEP) and the Ministry of Economy and Finance; (iv) improve the regulatory framework of the public services. Although not directly mentioned in the revised objectives, privatization of state-owned utilities had become the focus of the project. This was done, rather than supporting privatization through a new operation, in response to the Government's request for assistance in this area and the absence of a fully constituted Parliament to approve any new debt. Support for trade reform was dropped, as the reform had been largely implemented, and regulatory reform for the industrial sector was supported by other agencies.

b. Components

Original components: (i) line of credit for sub-loans to large and medium sized restructuring private enterprises (US$4.8 million) and for sub-loans and guarantees to small and medium scale non-restructuring private enterprises ($5.2 million); (ii) TA ($1.4 million) for a wide range of activities including strengthening of FDI and of central bank supervision, improvement of the customs administration, and studies.

Revised components: The first restructuring (1995, see below) streamlined the project to meet the changed circumstances; the amount for enterprise restructuring was reduced, that for FDI's regular lending and guarantees increased, and only the first TA sub-component was retained. The 1997 restructuring (i) further shifted the funds away from restructuring to non-restructuring enterprises under the credit component (total $7.5 million), (ii) retained the FDI TA component ($1.5 million), and (iii) added a privatization TA component ($2.4 million) to support the privatization agency, help prepare and implement a communication strategy for the private sector development program, reform the legal and regulatory framework for utilities, and support the Ministry of Economy and Finance.

c. Comments on Project Cost, Financing and Dates

The final total cost of the FDI sub-loans was $45.2 million, of which IDA contributed $7.6 million; $0.8 million was spent on TA for FDI and financial intermediaries; and only half of the amount earmarked, or $ 1.2 million, was disbursed for the privatization TA. The original credit amount was US$ 11.4 million equivalent, of which $9.6 million was disbursed and $2.8 million canceled (the difference coming from changes in the US$/SDR exchange rate).

The project was approved in FY90, then suspended during the 3-year economic embargo, 1991-94. It was reformulated when lending resumed in 1995, within its original development objectives, and restructured further in late 1997 with revised development objectives. Project closing was extended three times, the last two extensions relating only to the privatization/regulatory reform component.

3. Achievement of Relevant Objectives:

The two broad areas of reform--private enterprise restructuring and development (represented by the first two components) and privatization and improved regulation (3rd component)--achieved some of their objectives, but only very partially. Although a number of individual activities were implemented, their impact in the context of a volatile political situation and waning government commitment was only marginal. Trade reform, one of the original objectives, was largely implemented (and it does not therefore appear as one of the revised objectives).

4. Significant Outcomes/Impacts:

Two significant industrial **public enterprises** were **privatized**; the performance of one has improved, the other is still in rehabilitation.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The project had limited influence on **restructuring and financing of private enterprises**; banks remained risk averse, despite the availability of term resources, and most continued to lend only for the short -term. Overall term lending by Haitian banks decreased during the 1990s. The line of credit contributed to 61 loans and 124 micro-loans, creating an estimated 3,000 jobs. However, the economic embargo, political uncertainty and institutional weakness of the economy had a significant negative impact on the business environment and the ability of enterprises to become competitive. FDI also offered credit guarantees, and is the only financial institution in Haiti to do so, but they remain a relatively small instrument. FDI is profitable and self-financing, and was able to weather the embargo and interruption of IDA funding. However, its share of overall lending in Haiti is minor, and its portfolio is declining and is increasingly dominated by one financial intermediary. Some of the **TA to FDI and financial intermediaries** was used effectively for training and studies, but only a little over half of the available funds were used, and the majority was used for studies that did not support project objectives. FDI and CMEP were substantially strengthened, but both institutions have since been marginalized. Technical work was completed for the **privatization of three utilities** (port, airport, telecommunications), but the three were never privatized as government commitment waned. Legal and regulatory frameworks for the utilities have not been enacted due to the absence of a Parliament. The **public information campaign** to mitigate negative perceptions of privatization was not implemented.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Lines of credit should be accompanied by reforms to improve the business environment.
- Small TA components with no clear benchmarks or links with other lending activities are unlikely to be effective in the absence of a good policy dialogue.
- A line of credit operation should identify financial intermediaries at an early stage and involve them in the design of the credit line.
- Projects in countries with an unstable political environment should have a very explicit appraisal of risks and should include indicators of progress with appropriate alternatives and exit strategies.
- It is important to engage the government in a dialogue on the needs of a sector based different policy options, rather than from the viewpoint only of privatization. The latter should be seen as a means to an end, and outcomes defined in terms of final benefits (e.g. access to infrastructure), rather than privatization per se.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR gives a good description of a complicated project and of the many factors which influenced its implementation. A lengthy contribution from the borrower is included, and a brief contribution from the cofinancier.