PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR2 MILLION
(US$3 MILLION EQUIVALENT)

TO THE

REPUBLIC OF HAITI

FOR A

POST-DISASTER PARTIAL CREDIT GUARANTEE PROGRAM
SUPPORT PROJECT

November 19, 2010

Finance and Private Sector Development
Caribbean Country Management Unit
Latin America and the Caribbean Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's Policy on Access to Information.
CURRENCY EQUIVALENTS
(Exchange Rate Effective as of November 18, 2010)
Currency Unit Haitian Gourde
US$1.00 HT39.55
HT1.00 US$0.002529

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS
ANIMH National Association of Haiti’s Microfinance Institutions (Association Nationale des Institutions de Microfinance d’Haïti)
BNC National Credit Bank (Banque Nationale de Crédit)
BPH Haitian People’s Bank (Banque Populaire Haïtienne)
BRH Central Bank of Haiti (Banque de la République d’Haïti)
CAS Country Assistance Strategy
DCA Development Credit Authority
ESMS Environmental and Social Management System
FDI Industrial Development Fund (Fonds de Développement Industriel)
FI Financial Intermediary
FIRST Financial Sector Reform and Strengthening Initiative
FM Financial Management
FOGAPE Chilean Partial Credit Guarantee Fund
FSSA Financial System Stability Assessment
FY Fiscal Year
GDP Gross Domestic Product
HRF Haiti Reconstruction Fund
IADB Inter-American Development Bank
IDA International Development Association
IFC International Finance Corporation
IFI International Financial Institution
IMF International Monetary Fund
MFI Microfinance Institution
MSME Micro, Small and Medium Enterprises
NPL Non-Performing Loan
ORAF Operational Risk Assessment Framework
PCG Partial Credit Guarantee
PCGF Partial Credit Guarantee Fund
PCGP Partial Credit Guarantee Program
PDNA Post-Disaster Needs Assessment
PDO Project Development Objective
SIG Specific Investment Grant
SME Small and Medium Enterprises
TBD To Be Determined
USAID United States Agency for International Development
US$ United States Dollar
<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
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<tbody>
<tr>
<td>Vice President</td>
<td>Pamela Cox</td>
</tr>
<tr>
<td>Country Director</td>
<td>Yvonne Tsikata</td>
</tr>
<tr>
<td>Sector Director</td>
<td>Marcelo Giugale</td>
</tr>
<tr>
<td>Sector Manager</td>
<td>Lily Chu</td>
</tr>
<tr>
<td>Task Team Leader</td>
<td>Juan Buchenau</td>
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Date: November 19, 2010
Country Director: Yvonne Tsikata
Sector Director: Marcelo Giugale
Sector Manager: Lily Chu
Team Leader(s): Juan Buchenau
Project ID: P121391
Lending Instrument: Specific Investment Grant

Sector(s): Financial Sector
Theme(s): Financial Sector, MSME finance
EA Category: B

Project Financing Data:

Proposed terms:

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

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<th>Source</th>
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<td>Recipient:</td>
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<td>Other cofinancing:</td>
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<tr>
<td>New</td>
<td>$3.0 (US$ equivalent)</td>
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Recipient: Republic of Haiti

Responsible Agency: Central Bank of Haiti (Banque de la République d’Haïti, BRH) /
Industrial Development Fund (Fonds de Développement Industriel (FDI))

Contact Person: Lhermite Francois
Telephone No.: 509 244 9728
Email: fdi@fdihaiti.org
Estimated Disbursements (Bank FY/US$ m)

<table>
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<th>FY</th>
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<td>2.8</td>
<td>2.9</td>
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Project Implementation Period: 6 years
Expected effectiveness date: February 28, 2011
Expected closing date: February 28, 2017

The US$2.5 million will be disbursed as an advance and will count as eligible expenditure as claims are made. The implementation period is 6 years in order to give stability to the Partial Credit Guarantee Fund (the “PCGF”) described in the first component of the Project.

Does the project depart from the World Bank Group Country Assistance Strategy (CAS) for Haiti FY09-FY12 in content or other significant respects? No

Does the project require any exceptions from Bank policies? No
Have these been approved/endorsed (as appropriate by Bank management)? N/A
Is approval for any policy exception sought from the Board? N/A

Does the project meet the Regional criteria for readiness for implementation? Yes

Project Development Objective

The objective of the Project is to support the development of a partial credit guarantee program by the Recipient to help (i) financial institutions restart lending; and (ii) financial sector borrowers overcome the impact of the Emergency.

1 Emergency is a generic term defined and used for all Haiti operations to refer to the consequence of the January 2010 earthquake.
Project Description

The first component of the Project will support the provision of partial credit guarantees to participating financial institutions to mitigate their credit risks on (i) small loans to eligible borrowers and (ii) micro, small and medium enterprises (MSMEs) and housing loans through support to the operation of a Partial Credit Guarantee Fund (the “PCGF”) to be established by the Recipient in a manner satisfactory to the Association, subject to the pertinent provisions in Section IV.B. of Schedule 2 to the Financing Agreement.

The second component, the financial sector technical assistance, will provide support to the design and implementation of measures to remove obstacles to credit growth.

Safeguard policies triggered?

| Environmental Assessment (OP/BP 4.01) | x Yes ○ No |
| Natural Habitats (OP/BP 4.04) | ○ Yes x No |
| Forests (OP/BP 4.36) | ○ Yes x No |
| Pest Management (OP 4.09) | x Yes ○ No |
| Physical Cultural Resources (OP/BP 4.11) | x Yes ○ No |
| Indigenous Peoples (OP/BP 4.10) | ○ Yes x No |
| Involuntary Resettlement (OP/BP 4.12) | ○ Yes x No |
| Safety of Dams (OP/BP 4.37) | ○ Yes x No |
| Projects on International Waterways (OP/BP 7.50) | ○ Yes x No |
| Projects in Disputed Areas (OP/BP 7.60) | ○ Yes x No |

Conditions and Legal Covenants:

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<th>Financing Agreement Reference</th>
<th>Description of Condition/Covenant</th>
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<tr>
<td>Article IV</td>
<td>Operation Manual satisfactory to IDA</td>
<td>Effectiveness</td>
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<td>Article IV</td>
<td>Signature of the Agreement between the Haitian Ministry of Finance and FDI satisfactory to IDA³</td>
<td>Effectiveness</td>
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<td>Schedule 2, Section I.E; Schedule 2, Section IV.B.1 (b)</td>
<td>Environmental and social management framework (“Environmental and Social Management System”) satisfactory to IDA</td>
<td>Before first disbursement under Category 1 (a)⁴ and no later than 6 months after effectiveness</td>
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<tr>
<td>Schedule 2, Section IV.B.1 (b)</td>
<td>Opening of the PCG account</td>
<td>Before first disbursement under Category 1 (a)</td>
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² Eligible borrowers are those whose loans were performing before the earthquake, who have been adversely affected by the earthquake and who are expected to be able to service their obligations according to the terms defined following a restructuring, and if needed, additional financing.

³ Protocole d’Accord MEF-FDI pour la gestion du programme de garantie partielles du risque de crédit post-séisme et la rétrocession des ressources.

⁴ See page 28 for the consistency between disbursement categories and the Project’s components.
<table>
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<th>Schedule 2, Section</th>
<th>Activity Description</th>
<th>Target Date</th>
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<td>IV.B.1 (b)</td>
<td>Recruitment of a consultant to support FDI in the management of Pillar 1</td>
<td>Before first disbursement under Category 1 (a)</td>
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<tr>
<td>I.A.2 (d)</td>
<td>Recruitment of Fiduciary Agent</td>
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<td>I.A.1</td>
<td>Establishment of Steering Committee</td>
<td>No later than December 31, 2010</td>
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<tr>
<td>II.B.4</td>
<td>Recruitment of independent auditor</td>
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<td>IV.B.1 (c)</td>
<td>Establishment of the Partial Credit Guarantee Fund and implementation arrangement satisfactory to IDA</td>
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<td>I.E.1 (b) (ii)</td>
<td>Update of the Environmental and social management framework (“Environmental and Social Management System”) satisfactory to IDA</td>
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<td>II. A.2</td>
<td>Mid-term review</td>
<td>No later than 24 months after effectiveness</td>
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I. Strategic Context

A. Country Context

1. Haiti is the poorest country in the Western Hemisphere. Some 78 percent of its population of 9.6 million live below the poverty line (less than US$2 a day), with 54 percent in extreme poverty (less than US$1 a day). Over the last two decades, it has been affected by adverse natural events, volatile commodity prices, and economic and social crises.

2. Despite such a risky environment, the Haitian economy has shown signs of positive performance. Economic growth averaged 2.5 percent per year over the 2007-09 period, with a minimal impact of the global crisis and a post-hurricane rebound. This trend continued during October-December 2009. Growth reached 2.9 percent in Fiscal Year (FY) 2009 (ending in September 2009), driven by strong agricultural and manufacturing output, while annual inflation bottomed out at -4.7 percent due to falling global commodity prices. In addition, the fiscal deficit (excluding grants and externally financed projects) was contained at 4.4 percent of GDP due to efficient fiscal consolidation. Textile exports increased as a result of the HOPE Act\(^5\) of the US Government and low import prices. Exports and resilient remittances helped reduce the external current account deficit to 3.2 percent of GDP in FY09, from 4.5 percent in FY08.

3. Haiti’s recent positive performance was dramatically reversed on January 12, 2010, when the country was shaken by a 7.0 magnitude earthquake. The epicenter was located only 17 km south-west of the densely populated capital area of Port-au-Prince. Over 230,000 lives were lost. Hundreds of thousands of Haitians were left homeless and fled the affected area to find refuge in the provinces, adding to an economic situation which was already difficult in those regions. Many of them have since returned to Port-au-Prince to live in sprawling tent cities.

4. The Post-Disaster Needs Assessment (PDNA), prepared by a joint team composed of representatives of the Haitian Government and members of the international community, evaluated the impact of losses and damage to be US$8 billion, or 1.2 times the country’s 2009 GDP. Reconstruction costs and requirements are estimated by the PDNA at US$12 billion. The overall economic impact of the earthquake is likely to result in an 8.5 percent fall in the country’s GDP growth rate in 2010, which is expected to rebound by 9.8 percent in FY 2011 and by 8.4 percent in FY 2012.

5. The earthquake affected economic activity disproportionately because it occurred near the Port-au-Prince area where 65 percent of economic activity is concentrated. Its impact was especially harmful for the private sector, which, according to the PDNA, suffered damage and losses in an amount of US$5.7 billion (70 percent of the total damage and losses). The most affected private sector was the housing sector, which suffered damages in an amount of US$2.3 billion, followed by commerce, private education, industry, food and transport. The earthquake disrupted borrowers’ income sources while damaging the quality of physical assets and inventories. As a consequence, the earthquake jeopardized the private sector’s ability to keep up with the terms of their loans and reduced the value of their collateral.

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\(^5\) Haitian Hemispheric Opportunity through Partnership Encouragement Act. This Act includes special trade rules that give preferential access to U.S. imports of Haitian apparel.
B. Sectoral and Institutional Context

6. Prior to the earthquake, the financial sector was considered sound in general but with significant development challenges. The Financial System Stability Assessment (FSSA) of 2008 found that Haiti’s financial system played a limited role in supporting economic growth. Constraints were found in the legal and institutional frameworks, fragile security, limited competition among banks, poor governance, high reserve requirement ratios and the absence of a functioning credit registry (see Annex 7 on the financial sector).

7. As of December 2009, the Haitian banking sector consisted of nine commercial banks, including two public banks (BNC and BPH) and seven private banks. The system was highly concentrated with the three largest banks holding 80 percent of total assets. Access to banking credit was limited as loans (net of provisions) only stood at 30 percent of total banking assets (this ratio is around 60 percent in the region). Non-performing loans (NPLs) stood at 8.6 percent for the sector, but reflected different performance between banks. The system was highly liquid (ratio of cash and short term investment to deposits close to 40 percent), mostly as a result of substantial reserve requirements established by the Central Bank (Banque de la République d’Haïti, BRH) in domestic and foreign currency.

8. The impact of the earthquake on the country’s financial institutions has been three-fold: (i) financial institutions have lost staff and suffered damages in their branches; (ii) the quality of loan portfolios has deteriorated, because borrower’s capacity to repay has been hindered and borrowers in the affected areas lost their collateral; and (iii) this has led banks to restrict credit to existing borrowers in good standing. Banks managed to reopen nine days after the disaster despite the magnitude of human and material losses.

9. The most recent data, as of June 2010, show a NPL ratio of 11.9 percent, which has been relatively stable since March. This relatively low ratio after a disaster of such magnitude is explained by the fact that banks have written off unrecoverable loans. However, the share of (i) loans “à signaler” which are loans over 30 days due but not yet classified as non-performing and of (ii) restructured loans has risen from 13.9 percent in September 2009 to 23.5 percent in June 2010. In addition, banks have not restarted lending. The total stock of loans (net of provisions) has gone from 33.3 billion gourdes in September 2009 to 28.8 billion gourdes in June 2010, representing a drop of 13.5 percent. In addition to these very negative developments, there is a high risk of credit gridlock, since many borrowers have lost collateral and are unlikely to be in a position to obtain additional loans.

C. Higher Level Objectives to which the Project Contributes

10. In this context of high credit constraints but robust liquidity, the BRH requested the donors to support a program of partial credit guarantees (including inter alia a Partial Credit Guarantee Fund (PCGF) yet to be established) to help lenders and borrowers restructure their loans and ultimately, banks and cooperatives to restart lending.

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6 Financial System Stability Assessment, including a Report on the Observance of Standards and Codes on Banking Supervision, March 27, 2008.
11. Beyond restructuring loans, the Project will contribute to two higher level objectives:

- **Stabilization of the banking sector.** Eligible financial institutions will be able to restructure loans without damaging their asset base, since credit risk will be shared with the partial credit guarantor.
- **Rehabilitation of the productive sector.** Many firms and borrowers have lost collateral and have difficulty accessing financial resources for reconstruction. The guarantees will place firms in a better position to negotiate loan restructuring with their financial institutions, obtain new loans and continue running their businesses.

12. Ultimately, this Project will contribute to addressing the limited role played by the banking sector in supporting economic growth in Haiti, an issue that was raised in the FSSA and has been worsened by the earthquake. To that end, this Project includes a small technical assistance component. This long-term objective will require the preparation of a global strategy for the financial sector and more resources than provided by this operation. This is consistent with the World Bank Group Country Assistance Strategy for Haiti FY09-FY12 (Report #48284-HT) discussed by the Executive Directors on June 2, 2009 which stresses the importance of improving access to finance in particular to SMEs, and of strengthening the financial sector.

**II. Project Development Objectives**

**A. PDO**

13. The main objective of the Project is to support the development of a partial credit guarantee program by the Recipient to help (i) financial institutions restart lending; and (ii) financial sector borrowers overcome the impact of the Emergency. This objective is consistent with the Haiti Recovery Plan presented by the government in March 2010.

**B. Project Beneficiaries**

14. The beneficiaries of the Project will be local banks and cooperatives participating in the partial credit guarantee program whose credit risk on the guaranteed loans will be shared with the partial credit guarantor, as well as borrowers (firms and individuals), especially those who have been affected by the earthquake who need temporary relief to continue running their businesses. The Project will enable the restructuring of their loans on sustainable terms.

**C. PDO Level Results Indicators**

15. The following loan portfolio indicators will be used to measure the achievement of the PDO (see Annex 1 for quantified benchmarks):

- The volume of loans restructured in the course of the first two years after the earthquake.
- The total volume of overdue loans at the end of each calendar year (NPL ratio).
- The total volume of outstanding loan portfolio at the end of each calendar year.
These indicators attempt to measure the overall impact of the Project and not just the use of the Partial Credit Guarantee Program (PCGP).7

III. Project Description

16. The Project will have two components: (i) provision of partial credit guarantees (PCGs) for the financial sector with two Pillars; (ii) technical assistance to the design and implementation of measures to remove obstacles to credit growth.

17. IDA resources will be leveraged by grant funding from other donors, and form part of a larger initiative to revive the Haitian credit market. Given its expertise and prior knowledge of the Haitian financial system, IDA has played a key role in designing the scheme and has contributed in other areas, such as the insurance sector. Other donors have signaled that IDA’s participation will be crucial for the materialization of donor grants in an estimated range of US$32 million to the PCGP. Given this leverage the internal decision was made at initiation that IDA’s contribution should go ahead despite its small size.

18. The design of the PCGP follows a specific request by Haiti’s BRH and the private sector banks, which was presented in February 2010. Following this request, IDA retained experts from the Chilean Partial Credit Guarantee Fund (Fondo de Garantía para Pequeños Empresarios, FOGAPE) to assist in designing the PCGP. A group from IDA, the Inter-American Development Bank (IADB) and the US Department of Treasury (“US Treasury”), supported by the FOGAPE experts, collaborated with the BRH on the design of the PCGP; valuable inputs were received from the International Finance Corporation (IFC) and the International Monetary Fund (IMF). The Operation described in the Annex 2 closely follows the recommendations of the experts and is backed by the BRH as well as by the multilateral organizations and donors involved.

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7 The PDO result indicators were selected to be broader than the PCGP, since providing a guarantee on one loan may help reduce provisions, which would allow the banks’ capital base to support lending beyond the amount of the guarantee.
A. Project Components

a) First Component: Supporting the Provision of Partial Credit Guarantees (US$2.5 Million)

19. The first component of the Project will support the provision of partial credit guarantees to participating financial institutions to mitigate their credit risks on (i) small loans to eligible borrowers and (ii) MSMEs and housing loans through support to the operation of a Partial Credit Guarantee Fund (the “PCGF”) to be established by the Recipient in a manner satisfactory to the Association, subject to the pertinent provisions in Section IV.B. of Schedule 2 to the Financing Agreement.

i. Outline of the PCGP

20. The PCGP has two pillars:
   • Pillar 1 will guarantee loans to customers (i) whose loans were performing before the earthquake, (ii) who have been somehow affected by the disaster, and (iii) who are expected by the financial institutions to have the capacity to service their obligations according to the terms defined following a restructuring process. This sub-component is directed towards viable borrowers who need temporary help; it will also include additional financing extended to existing borrowers, especially firms, to support them temporarily. It will only guarantee small loans, expected to be under US$1 million. Pillar 1 does not involve the establishment of an organic fund. It will be temporary in nature and is not expected to be self-financed.
   • Pillar 2 will guarantee new loans, extended to existing borrowers outside the restructuring process or to new borrowers, with a particular focus on SMEs and housing. It involves the establishment of an organic fund (the PCGF) and is expected to operate on a self-financed basis.

21. The operation presented in this document will provide grant resources to support, first, the provision of PCGs to improve the credit risk profile of participating institutions and facilitate the restructuring of small loans as described in Pillar 1. Any resources that are not needed for Pillar 1 or are freed up as Pillar 1 fulfills its temporary role will be transferred to Pillar 2 to support the provision of PCGs by an organic PCGF to be established to facilitate MSMEs and housing lending.

22. Eligible institutions will be commercial banks and cooperatives that meet Haitian prudential standards (see Annex 2). It is expected that microfinance institutions (MFIs) will be covered by the HELP fund that is being set up by the IADB’s Multilateral Investment Fund.

ii. Justification for the PCGP

23. Justification for Pillar 1: A large number of bank borrowers, both firms and private households, experienced a negative shock as a consequence of the earthquake which jeopardized

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8 The final cut-off will be determined in the Financing Agreement between the donors and the Recipient. Larger loans will be restructured under a similar scheme to be funded separately.
their ability to keep up with the terms of the loans while reducing the value of the collateral. This is evidenced in the sharp increase in (i) loans “à signaler” that are not yet non-performing but that have been due for at least 30 days and (ii) restructured loans. The subsequent degradation of the credit quality of bank assets has in turn driven the system towards credit gridlock, which is endangering the flow of financing resources to the productive sector. All this has taken 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.

24. Since the problem is not lack of liquidity, but increased credit risk, it must be addressed accordingly. The most direct way is to facilitate the restructuring of loans that (i) were granted before the earthquake to borrowers that were viable at the time; and (ii) could be viable again after some restructuring and possibly additional financing. In the case of firms, the first pillar of the proposed PCGP aims to support this restructuring process by granting guarantees, thereby helping them to continue running their businesses. Helping both firms and banks to restructure their liabilities and assets will considerably reduce the costs to the financial system in returning to normalcy, which is fundamental to maintain credit flow for the productive sector. It will also help reduce the gap between a reduced supply and an increased demand for credit during the reconstruction.

25. The BRH has been supporting the restructuring process by issuing regulations whereby restructured loans will require lower provisioning (2 percent) than non-performing loans (20 percent and up depending on the delay).

26. The Project team considered other options that would meet similar objectives as the PCGP. However, they were deemed less effective than the PCGP for the following reasons:
   - Recapitalization of banks to address possible solvency issues: The quality of loan portfolios deteriorated following the earthquake and several loans have to be written off (part of this has already occurred). As a result, some banks may become insolvent. This instrument was not considered appropriate because Haitian banks indicated that their shareholders would be able to recapitalize if needed. The BRH also made this point.
   - Direct help to enterprises: The Bank is considering a private sector development project, which will address direct support to enterprises and complement the PCGP.

27. Previous disaster recovery experiences, such as after the 2004 tsunami in Asia highlighted that the absence of collateral after the disaster constituted an obstacle to the recovery of the private sector, affecting especially SMEs. Evaluations of the consequences of the tsunami in Indonesia and Sri Lanka stress that the lack of collateral for SMEs was an important obstacle for banks to serve borrowers in the affected areas. In response, Pillar 1 of the PCGP will provide guarantees to businesses that have lost part or all of their original collateral, or need bridge funding to overcome temporary impairments to their production capacity.

28. Justification for Pillar 2: This Pillar will support in a sustainable manner growth in lending to cope with an increased demand for loans in the context of the country’s reconstruction.

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and ambitious growth plans. It will facilitate the supply of loans to viable firms and households, whose repayment capacity justifies larger financing than the collateral they have to offer. In doing so, it will draw on lessons of successful entities in other countries.

b) Second Component: Financial Sector Technical Assistance (US$0.5 Million)

29. While the PCGP will remove some of the obstacles to lending by providing borrowers with additional collateral, the second component will provide support to the design and implementation of measures to remove obstacles to credit growth, following up on the diagnostic and suggestions of the FSSA.

30. The BRH has suggested organizing a consultative financial sector working group which will include the institutions that participated in the design of the PCGP and which will meet regularly to discuss financial sector issues and support related activities. This component of the grant will provide technical inputs (consultancies) for the design and implementation of measures to improve the lending conditions in the country. Based on preliminary discussions with other donors, such consultancies could focus on providing inputs for the following areas:

- Upgrade the financial infrastructure to improve the conditions for lending with actions such as a modern collateral registry and regulations for movable assets or the strengthening of an incipient credit bureau. To reduce the transaction costs for lenders and borrowers it could also include upgrading the payment system and its connectivity with cooperatives and microfinance institutions (following up on a World Bank program to restore the functionality of the country’s payment system as part of the emergency response program).
- Improve regulations and supervision practices to facilitate an orderly growth and consolidation of the cooperative and microfinance sector, which are important potential providers of loans to the lower-income segments of the market.
- Support relevant intermediaries to improve their operational efficiency.

31. As mentioned, the activities in this component are to be strategically defined by BRH in coordination with other donors and subject to the availability of other sources of funding.

B. Project Financing

a) Lending Instrument

32. The IDA’s contribution to the Project will be implemented as a Specific Investment Grant (SIG) in the amount of SDR2 million (US$3 million equivalent) to the Republic of Haiti.

b) Project Financing Table

33. Funding estimation is based on the loan portfolio figures provided by the BRH as of June 2010, which indicate a preliminary amount of US$140 million of eligible small restructured loans implying a required funding of US$35 million (see Annex 2 for details).
34. The PCGP will be funded with resources from the Haiti Reconstruction Fund (HRF), a multi-donor trust fund created for the reconstruction of the country, which has approved US$12.5 million for this purpose with the IADB as partner entity. The funding of the PCGP by the HRF is supported by the US Treasury. In addition, the IADB has approved a US$20 million grant for the PCGP. IDA, IADB and HRF’s contributions will fund the window designed to support the restructuring of small loans (Pillar 1). Any resources of this grant which are not needed for Pillar 1 or freed up after repayment of the restructured loans will be transferred to Pillar 2.

Table 1: Project financing table (including co-financing)

<table>
<thead>
<tr>
<th>Component and/or Activity</th>
<th>Total IDA (US$million equivalent)</th>
<th>IADB/HRF co-financing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Partial Credit Guarantee Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pillar 1 for small restructured loans</td>
<td>2.5</td>
<td>32.5</td>
<td>35</td>
</tr>
<tr>
<td>Pillar 2 PCGF</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Component 2: Technical Assistance</td>
<td>0.5</td>
<td>TBD</td>
<td>0.5/TBD</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>32.5</td>
<td>35.5</td>
</tr>
</tbody>
</table>

35. The financing for Pillar 2 has not yet been defined in detail. Pillar 2 will be funded with unused funds from Pillar 1, with additional contributions from the private sector window of the IADB, which is in the early stages of the preparation of an operation and, possibly, other commercially-oriented sources, such as the IFC.

C. Lessons Learned and Reflected in the Project Design

36. The rationale for IDA’s involvement stems from (i) its expertise in designing and financing partial credit guarantee funds, (ii) its expertise in designing and implementing financial sector technical assistance programs in several countries, and (iii) its extensive involvement in designing the scheme in Haiti and coordinating among a wide range of actors. While there are no precedents in the use of PCGs to mitigate the impact of catastrophes as intended in Pillar 1, several critical lessons have been learned from previous experiences with self-financed partial credit guarantee funds, which are similar to the one to be introduced through Pillar 2 and which are presented in the following paragraph.

37. Four IDA/IFC risk-sharing facilities or partial credit guarantee projects to support lending to MSMEs have been approved in Madagascar, Mali, Ghana and Senegal. An IFC/IDA task force was established in April 2008 to review the experience of those facilities, and especially the use of IDA resources in partial credit guarantee operations.10 The task force concluded that the early outcomes from the small sample of partial credit guarantee operations were encouraging, and noted that the results from the Madagascar project (launched in 2006) had been impressive. In three years, the two participating commercial banks approved over 1,200 new loans to SMEs, valued at US$30 million; US$2.5 million of IDA funds leveraged US$10 million

of IFC investment and US$12.5 million of commercial banks funding. The task force concluded that more country experience was needed and proposed the development of a pilot scheme with a small number of additional partial credit guarantee funds involving the use of IDA resources. This Project is part of the pilot.

38. The Pillar 1 of the proposed operation is different from the experiences mentioned above:

- it is a restructuring operation: it will guarantee existing loans which were performing before the earthquake and which have been restructured to be viable again;
- it is not expected to be self-financed;
- it has a 5 year sunset clause.

39. Pillar 1, which is dedicated to existing restructured loans affected by the earthquake, has no known precedent. As a result, the design of Pillar 1 includes a “flexibility clause” whereby some provisions (commission, deductible, availability period, and leverage and coverage ratios) may be modified by the Steering Committee (see paragraph 40) to reflect market conditions. The implementing agency will be assisted by experienced consultants to adjust procedures and reduce transaction costs as needed.

IV. Implementation

A. Institutional and Implementation Arrangements

a) First component: Supporting the Provision of Partial Credit Guarantees

40. The Project is closely coordinated with the BRH, the IADB and the US Treasury. A Steering Committee (Comité de Pilotage) including the BRH, the Haitian Ministry of Finance and the donors (some of them as observers as permitted under their respective rules) will oversee the management of the PCGP.

41. The implementing agency for the PCGP (Pillar 1) will be the Fonds de Développement Industriel (FDI). The FDI is a specialized institution of the BRH endowed with operational and financial autonomy and dedicated to promoting the development of the private sector by offering loans and guarantees to SMEs. Despite its small size (US$35 million in assets as of September 2009), the FDI has demonstrated adequate management (retained earnings representing 30 percent of assets) and satisfactory institutional capacity according to an evaluation carried out by the IADB. In addition, despite literature stressing that the choice of a public entity to manage a partial credit guarantee fund is likely to increase credit risk, the choice of the FDI has been driven by its adequate track record and the urgency to launch the operation. It is important to stress that the Pillar 1 is temporary (5 years estimated life).

42. The responsibilities of the FDI, as the implementing agency, will be, among others: (i) reviewing the corresponding documentation of the portfolios to be guaranteed; (ii) approving the granting of partial credit guarantees and submit information to the Fiduciary Agent; (iii)

collecting fee payments from participating institutions; (iv) verifying eligibility of loans, compliance with all the covenants of the guarantee, and payment of all guarantee fees up to date; (v) verifying that participating institutions maintain their eligibility status in time as outlined in the Operation Manual.

43. An individual advisor or an advisory firm will be hired by the FDI to help it manage the program and transfer knowledge. Additionally, a Fiduciary Agent will ensure the proper use of the resources allocated to Pillar 1. In particular, the Fiduciary Agent will be responsible for: (i) \textit{ex-post} analysis of portfolios by sampling and visiting financial institutions and borrowers, in order to determine if banks have included non-viable loans or loans that violate social and environmental safeguards; (ii) authorizing the release of funds upon the call of the guarantees. The IADB will fund the costs for the advisor and the Fiduciary Agent.

44. The operations of Pillar 1 of the PCGP will be defined in the Operation Manual, which will be framed by the agreement between the FDI and the Haitian Ministry of Finance. Both documents will be a condition of effectiveness of the Financing Agreement.

45. The operations of Pillar 2 will be designed in coordination with the entities contributing to its funding. Funds of the IDA grant will support Pillar 2 only if the PCGF is established in a manner satisfactory to IDA and operates on the basis of an implementation arrangement satisfactory to IDA. If these conditions are met, funds of the IDA grant may be transferred in one or several installments. In any case, the implementation arrangement will ensure that IDA’s rules are complied with, including, inter alia, (i) ensuring that funds provided to the PCGF are used for their intended purpose and the financing of eligible expenditures, or are returned to IDA, (ii) the PCGF maintains continuous and adequate record keeping, furnishes regular reports to IDA and allows IDA’s visits and inspections.

\textbf{b) Second component: Financial Sector Technical Assistance}

46. The second component will be implemented by BRH. BRH will be procuring consultants to improve the conditions for lending, especially to businesses and farms as well as for housing.

\textbf{B. Results Monitoring and Evaluation}

47. The result indicators for the Project will be the following (see Annex 1):

- The volume of loans restructured in the course of the first two years after the earthquake.
- The total volume of overdue loans at the end of each calendar year (NPL ratio).
- The total volume of outstanding loan portfolio at the end of each calendar year.

As one of the main benefits of the Project is its ability to catalyze funds from other donors, the additional funding raised by the Project to strengthen financial sector development will also be monitored.

48. In addition, as the Project is part of a pilot scheme for partial credit guarantee funds using IDA resources to develop the SME sector, it is proposed to also collect the following indicators for participating institutions into the Pillar 2 of the PCGP, subject to availability:
- Number of active loan accounts for micro enterprises (less than US$1,000) and SMEs (between US$1,000 and US$1 million);
- Amount of active loan accounts for micro enterprises and SMEs;
- Average portfolio at risk;
- Return on assets.

49. No later than 24 months after effectiveness, the implementing agency will submit a midterm evaluation report on: (i) the extent to which the objectives and outcomes have been achieved based on the results matrix; and (ii) the steps that may be taken in the event that the Project is considered not to have substantially achieved its objectives.

C. Sustainability

50. Given its focus on restructured loans, Pillar 1 is not expected to be self-financed. However, it will contribute to the overall sustainability of the financial sector by improving the financial institutions’ asset base and of the productive sector by ensuring the continuous operations of businesses affected by the earthquake. If successful, Pillar 1 will reduce the costs of the earthquake on bank portfolios and will allow the continuing access of a significant number of borrowers to financial services on commercial terms.

51. Pillar 2 is expected to be self-financed and to involve commercially-oriented investors, and will benefit from successful experiences in other countries.

V. Key Risks

A. First component: Supporting the Provision of Partial Credit Guarantees

52. Insufficient funding to cover the loans presented by the financial intermediaries. Even with an assessment of loan portfolios as of June 2010, it is very difficult to estimate the funding required for the Pillar 1. The requirement is estimated today at up to US$35 million. If the demand for guarantees exceeds the capacity of the PCGP, additional funding will have to be mobilized or adjustments to the maximum size of the guarantees will have to be made.

53. Insufficient funding to cover the claims. The Pillar 1 of the PCGP is structured with a leverage of 2 times (the Program can grant guarantees up to twice its funding). In the unlikely event that the amount of claims is higher than the available resources, a contingent rule for the Program will be activated, under which the BRH will pay any residual claims that could not be paid with available resources.

54. Non-materialization of co-financing. This risk is considered low as the financing from the HRF was approved in August 2010 and from the IADB on September 29, 2010.

55. Insufficient use of the PCGP. As the financial institutions are expected to pay a fee to contribute to the costs of the PCGP, its use may not be attractive for some. In case there are unused IDA resources in Pillar 1 at the end of the availability period, and funds released as Pillar 1 fulfills its objective, such funds will be transferred to Pillar 2, subject to the establishment of
the organic PCGF and its satisfactory governance and management. If there are unused IDA resources twelve months before closing or at an earlier date to be agreed between the Recipient and the Association, such resources will be reallocated to the component 2 (specific activities, budgets and implementation arrangements to be agreed upon between IDA and the Recipient).

56. **Risk of loss or inappropriate use.** As the Project is a restructuring operation, the credit risk of loans benefitting from guarantees is likely to be higher than in a guarantee operation for new loans, and it is inherent to the operation. It is however difficult at this point to determine the amount of losses that Pillar 1 will bear. Steps have been taken to avoid losses due to the inclusion of non-viable loans in the scheme. The Fiduciary Agent will ensure that the Program’s resources are used in accordance with its founding principles and will limit the risk of fraud and corruption. The Operation Manual will provide for penalties for financial institutions that present non-viable loans beyond certain threshold.

57. **Coordination with other guarantee mechanisms.** USAID runs a small low cost Loan Portfolio Guarantee Facility in Haiti (through its Development Credit Authority, DCA) that could potentially overlap with the PCGP presented here. The team has established communication with the USAID/DCA in order to coordinate further actions. Other institutions have plans to develop risk-sharing facilities with individual banks that could potentially overlap with the PCGP.

58. **Need for significant reforms along with the PCGP.** The PCGP will not solve preexisting sector and financial market problems that prevented banks from extending credit prior to the earthquake. This risk will be mitigated by the second component of this Project which aims at designing measures to remove obstacles to credit growth.

**B. Second component: Financial Sector Technical Assistance**

59. The main risk for the second component is poor coordination with other donors that will delay or impair the design and implementation of measures to remove obstacles to credit growth. This risk is mitigated, as this component will receive technical inputs from the financial sector working group, which involves some of the major entities contributing to the development of the financial sector.

60. Another significant risk is related to the lack of resources: the operation of the second component depends on the availability of funding to implement the reforms to be identified under the technical assistance.

**VI. Appraisal Summary**

**A. Economic and Financial Analysis**

61. The main benefit of this project is the prevention of bankruptcy of firms and individual borrowers since their loans will be restructured. This benefit is difficult to assess, but the PCGP has been designed to reach the largest number of banking borrowers by focusing on small loans. In order to ensure cost-efficiency, the design of the PCGP also includes incentives to the financial institutions to clean up their portfolio affected by the earthquake, either by (i)
restructuring their loans before applying for a guarantee, or by (ii) going after the borrowers once the guarantee has been called, in so far as they will share the recovery proceeds with the guarantor. Finally the guarantee instrument is a cost-effective mechanism to encourage financial institutions to resume lending in so far as (i) it leverages resources (one dollar of funding can provide partial risk guarantee coverage to four dollars of loans), and (ii) the payment to the financial institution does neither occur up-front, nor in all cases, but only when the guarantee is called. Since each qualifying financial institution will make its own decisions on the purchase of guarantees, and since their decisions are based on commercial criteria, the use of guarantees will be consistent with positive rates of returns.

B. Technical

62. The design of the PCGP is based on a feasibility study and actuarial analysis performed by FOGAPE. This analysis determined the different windows for restructured loans and new loans since the two have very different levels of risk and processing needs. The study proposed for Pillar 1 a flat commission to keep the pricing structure simple and a variable deductible by institution to ensure that financial institutions with good management practice prior to the earthquake do not subsidize weaker lending by other banks. The study also determined the steps and conditions for making the call and payment of the guarantee as effective as possible, so as to generate incentives for collection. The design of the PCGP relies on best practices such as:

- Adequate pricing: a commission of 1.5 percent, to avoid misuse and a variable deductible depending on the risk of each bank to incorporate performance.
- An efficient management of the PCGP:
  - Documentation requirements kept to a minimum for small loans to encourage financial institutions to use the guarantee.
  - Payments shall be processed within 30 days of the claims.
  - Financial institutions incentivized to pursue vigorous loan recovery efforts since they will share the proceeds with the PCGP.
- A prudent financial structure: the financial strength of the Pillar 1 of the PCGP to meet calls on guarantees is based on a low leverage (2 times, which corresponds to a capacity to cover losses up to 50 percent of the guaranteed portfolios) and on a contingent funding from the BRH if claims exceed the available resources.

63. The financial sector technical assistance component tackles several aspects mentioned in the Haiti FSSA of 2008. The financial sector working group will provide advice and support the Haitian authorities in designing and implementing adequate measures.

C. Financial Management

64. IDA carried out an assessment of the financial management arrangements for the Pillar 1 of the PCGP for which the FDI is primarily responsible. A fiduciary assessment of FDI was also carried out by the IADB. An assessment of the financial management arrangements for Pillar 2 will be carried out at the time that it is established.

65. The objectives of the Project’s financial management system are: to ensure that funds are used only for their intended purposes in an efficient and economical way while implementing
agreed activities; to enable the preparation of accurate and timely financial reports; and to safeguard the Project’s assets and resources. In ensuring that funds are used only for the intended purposes, the Project will need to ensure that for its first component, loans subject to guarantee are assessed as viable at the time of issuing the guarantee. This entails ensuring proper bank supervision, effective assessment of loan portfolios, and procedures for the applicability of guarantees.

66. The key risks that FDI may face in achieving these objectives relate to staffing, information asymmetry in the credit market that may lead to a misuse of funds, coordination of arrangements for the accountability of the Project’s finances, and compliance with established internal control procedures. The recruitment of the Fiduciary Agent will help to mitigate these risks, and in addition, the FDI will maintain strong governance and oversight arrangements. The FDI will ensure compliance with credit procedures and monitor the performance of the credit portfolios, while the BRH will ensure continuing strong bank supervision. These risks, together with the mitigating measures adopted to address them are indicated in the ORAF.

67. The FDI will maintain a strong system of internal controls and procedures and will continue to be monitored by the internal audit department of the BRH. It will also ensure the continuing adequacy of staffing arrangements. Its accounting system is assessed as adequate and accounting procedures are documented in the Operation Manual. It will prepare regular financial reports and have its annual financial statements audited by a firm of independent public accountants acceptable to IDA.

68. For the second component, the BRH will be responsible for the financial management.

69. The conclusion of the assessment is that the financial management arrangements for the Project satisfy IDA’s minimum requirements under OP/BP10.02 and are adequate to provide, with reasonable assurance, accurate and timely information on the status of the Project required by IDA. Steps will also be undertaken to mitigate the risks mentioned above as outlined in the Financial Management Action Plan.

D. Procurement

70. Procurement activities for the Project will be limited to the technical assistance required for the second component and will be carried out in accordance with the World Bank Procurement and Consultant Guidelines dated May 2004 and revised in October 2006 and May 2010, and with the provisions of the Financing Agreement. It is expected that only a few contracts with consulting firms and individual consultants will be financed by the grant under this US$500,000 component. For each contract to be financed by the grant, the various procurement and consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame have been agreed upon by the Recipient and IDA in the Procurement Plan. Funds for the second component will be disbursed to a segregated account.
E. Social and Environment

71. The proposed Project is classified as Category B. No major social and environmental issues are expected to arise as a result of the Project, since the vast majority of banking loans in Haiti and supported by this Project are extended to the commercial and service sectors and to individuals; however, there may be a small number of loans in the manufacturing, industrial and construction sectors that apply for guarantees, which could potentially have some negative environmental and social impacts. For that reason, a framework has been developed to screen all loans for potential impacts and mitigate them, in compliance with the World Bank’s environmental and social safeguards. This framework uses a twofold approach:

- Small loans (expected to be under a threshold of around US$62,000) in the commercial and service sectors are expected to have no environmental impacts, and thus will be reviewed and processed in a streamlined manner. These loans will be screened against a list of activities that may not be supported by the PCGP, i.e. a “negative list”, which is included in the Project’s Environmental and Social Management System (ESMS). They will be processed in batches, and the FDI will check ex-post compliance with the World Bank’s environmental and social safeguards on a sampling basis. In case a small loan is found not to comply with the safeguard policies, remedies will be applied including if necessary the cancellation of the guarantee.

- A limited number of small loans to manufacturing, industrial and construction sectors, identified a-priori from the database of the BRH, may potentially have negative environmental impacts. Therefore, those loans will be screened in greater detail, following the same procedures summarized below for larger loans, and described in full detail in the ESMS. The list of those loans will be included in the ESMS.

- Larger loans (above the threshold) will also be screened against the “negative list”. In addition, an individual assessment of each loan will be carried out to identify potential social and environmental risks. Mitigating measures will be evaluated prior to granting the guarantee. In the event that any loan will involve the storage, purchasing or handling of pesticides, the guarantee will not be granted prior to the development of a pest management plan with appropriate budget and arrangements for its implementation.

72. The FDI will assess the environmental and social impacts and risks associated with the issuance of guarantees. The ESMS will be included in the Project’s Operation Manual and will be disclosed no later than 6 months after effectiveness as per the Financing Agreement. It will provide procedures for developing a pest management plan as defined under OP 4.09, as well as procedures to be followed in the event that any sub-project comes across any physical cultural resources, as defined under OP 4.11, during the course of its implementation. Supervision missions of IDA and the IADB will check compliance with safeguard policies.

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12 The Financing Agreement refers to the Environmental and Social Management Framework which is the general World Bank term. For this particular Project, this document is entitled “Environmental and Social Management System”.

15
Annex 1: Results Framework and Monitoring

HAITI
POST-DISASTER PARTIAL CREDIT GUARANTEE PROGRAM SUPPORT PROJECT

Project Development Objective (PDO): The main objective of the Project is to support the development of a partial credit guarantee program by the Recipient to help (i) financial institutions restart lending; and (ii) financial sector borrowers overcome the impact of the Emergency.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline (Jun 2010)</th>
<th>Cumulative Target Values (Dec of each year)</th>
<th>Frequency</th>
<th>Data Source</th>
<th>Responsibility for Data Collection</th>
<th>Description (indicator definition etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume of loans restructured in the course of the first two years after the earthquake</td>
<td>Amount</td>
<td>1,500 M Gourdes</td>
<td>2,000 M Gourdes</td>
<td>3,000 M Gourdes</td>
<td>N.A</td>
<td>N.A</td>
<td>N.A.</td>
<td>This indicator will show the volume of loans that are restructured after the earthquake.</td>
</tr>
<tr>
<td><strong>Indicator Two:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total volume of overdue loans at the end of each calendar year (NPL Ratio)</td>
<td>%</td>
<td>10.5%</td>
<td>10%</td>
<td>9%</td>
<td>8.5%</td>
<td>8%</td>
<td>7%</td>
<td>This indicator intends to show the stabilization of the financial system and of the borrowers after the earthquake.</td>
</tr>
<tr>
<td><strong>Indicator Three:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total volume of outstanding loan portfolio at the end of each calendar year</td>
<td>Amount</td>
<td>28,500 M Gourdes</td>
<td>31,000 M</td>
<td>32,000 M</td>
<td>33,000 M</td>
<td>34,000 M</td>
<td>35,500 M</td>
<td>Annual</td>
</tr>
</tbody>
</table>

INTERMEDIATE RESULTS

<table>
<thead>
<tr>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline (June 2010)</th>
<th>Cumulative Target Values (Dec of each year)**</th>
<th>Frequency</th>
<th>Data Source</th>
<th>Responsibility for Data Collection</th>
<th>Description (indicator definition etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intermediate Result Indicator:</strong></td>
<td></td>
<td></td>
<td>Action: None yet</td>
<td></td>
<td>Annual</td>
<td>Supervision</td>
<td>BRH</td>
</tr>
</tbody>
</table>

16
Note: As the Project is part of a pilot scheme for partial credit guarantee funds using IDA resources to develop the SME sector, it will also collect the following indicators for participating institutions into the PCGP, subject to availability:

- Number of active loan accounts for micro enterprises (less than US$1,000) and SMEs (between US$1,000 and US$1 million);
- Amount of active loan accounts for micro enterprises and SMEs;
- Average portfolio at risk;
- Return on assets.

These indicators will only be collected for Pillar 2.
Annex 2: Detailed Project Description

<table>
<thead>
<tr>
<th>Pillar 1: existing loans to viable borrowers, restructured after the earthquake</th>
<th>Pillar 2: new loans to existing borrowers outside the restructuring process and to new borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required capital = US$35 million</td>
<td>Required capital = US$30 million</td>
</tr>
<tr>
<td>Leverage 2x</td>
<td>Leverage 4x initially - TBD</td>
</tr>
<tr>
<td>Existing loans to micro and SME borrowers (loans &lt; US$1 M) Guarantee granted loan-by-loan but processed in batches</td>
<td>New loans to micro enterprises, SMEs and housing Max guarantee per borrower limited to 5 percent of the Pillar 2 fund’s paid in capital Guarantee granted loan-by-loan but processed in batches</td>
</tr>
<tr>
<td>Temporary (sunset clause 5 years)</td>
<td>Permanent, with own legal structure Commercially managed</td>
</tr>
<tr>
<td>Availability: 9 months after inception</td>
<td>No limit on availability period</td>
</tr>
<tr>
<td>Access by banks and cooperatives which meet prudential standards, have transparent information and acceptable performance and lending procedures.</td>
<td>Access only by private banks and cooperatives compliant with Haitian prudential rules, solid lending procedures and with criteria on loan portfolio quality Access subject to review of participating institutions’ underwriting and collection procedures</td>
</tr>
<tr>
<td>50% coverage</td>
<td>Up to 80% coverage. TBD</td>
</tr>
<tr>
<td>Commission in the region of 2% and deductible which varies by bank and based on NPL before the quake</td>
<td>Commission and deductible reviewed each year</td>
</tr>
<tr>
<td>Administration: Fonds de Developpement Industriel with international advisor</td>
<td>Administrator with managerial autonomy and independence</td>
</tr>
<tr>
<td>Fiduciary Agent</td>
<td>Fiduciary Agent to be reviewed by investors in Pillar 2</td>
</tr>
<tr>
<td>Flexibility clause</td>
<td></td>
</tr>
</tbody>
</table>

a) Description of Pillar 1 of the PCGP (existing viable loans whose borrowers have been affected by the earthquake)

1. **Scope.** Pillar 1 will guarantee small loans extended prior to the earthquake, which have been restructured. Small loans are defined as under US$1 million. The final cut-off amount will be defined in the agreement between the donors and the Recipient. For larger loans above US$1 million, the BRH indicated that it may set aside on a temporary basis some of its foreign exchange reserves and seek additional donor resources to provide partial credit guarantees to these loans.

2. **Duration.** Pillar 1 will be a temporary fund, to deal with loans affected by the earthquake, and will have a sunset clause after 5 years. Specific treatment is sought for mortgage loans, which had an average life of 10 to 12 years before the earthquake. Pillar 1 will be able to grant guarantees during 9 months after its launch, a period which may be extended to 12 months.
3. **Eligibility of institutions.** Commercial banks and cooperatives that meet Haitian prudential standards will be eligible to access Pillar 1. Public banks will have access to Pillar 1, but any amount paid off to them will be covered by Haitian public resources. It is expected that microfinance institutions will be covered by the HELP Fund being designed by the Multilateral Investment Fund of the IADB. The interest of the banks was confirmed in a mission early July and banks provided figures of their potential participation.

4. **Eligibility of loans.** Loans eligible for guarantees will have been performing prior to the earthquake of January 12, 2010, and be deemed viable by the financial institutions after restructuring (i.e. the borrower is able to meet repayments). There is no sector restriction, although eligible loans will have to comply with the IADB and World Bank environmental and social safeguards requirements.

5. **Sustainability.** Pillar 1 is not expected to be self-financed or even operate in the long-term as it will deal with loans affected by the earthquake.

6. **Commission.** A flat commission of 1.5 percent will be charged on the guaranteed amount. The commission is not expected to cover all the claims for Pillar 1 and has been determined following FOGAPE experts’ input so as to reflect the weighted average of the losses of the banking system using the figures over the past 10 years.

7. **Deductible.** Participating institutions will have to bear a deductible that will vary depending on the risk of each entity. Through the deductible, banks will take the first loss. The deductible is expected to be based on the average non-performing loan ratio of each institution in the three years before the earthquake and will be adjusted annually.

8. **Coverage.** Pillar 1 will pay up to 50 percent of the guaranteed loan amount, net of the deductible.

9. **Administration.** Pillar 1 will be managed by an Administrator, whose responsibilities will be *inter alia* to review the applications, propose to underwrite guarantees, deal with calls of the guarantee and related documentation, apply risk ratings to banks, and collect the commissions. The Administrator is expected to be the *Fonds de Developpement Industriel* (FDI), a development fund created with the help of the World Bank in 1981 to allocate guarantees and loans, assisted by an individual advisor or advisory firm.

10. **Fiduciary Agent.** A Fiduciary Agent will be responsible for ensuring the proper use of the Fund’s resources in accordance with its founding principles and procedures. In particular, the Fiduciary Agent will be responsible for: (i) *ex-post* analysis of portfolios by sampling and visiting financial institutions and borrowers, in order to determine if banks have included non-viable loans or loans that violate social and environmental safeguards; (ii) authorizing the release of funds upon the call of the guarantees. The IADB will hire and fund the costs for the Fiduciary Agent.
11. Allocation of guarantees. The Administrator will grant the guarantee, subject to an ex-post review by the Fiduciary Agent. The guarantee will only be extended on the principal of the loans (excluding interests and outstanding fees).

12. Call of guarantees: If the guarantee is called, the Administrator will examine calls and request the authorization for the release of funds from the Fiduciary Agent. The call of the guarantee is subject to a proof that the financial institution has initiated collection actions and that the collection rights are subrogated to the guarantor. The documentation required for the payment of the guarantee will be defined in the rules of operation.

13. Oversight. Pillar 1 will have a Steering Committee (Comité de Pilotage) consisting of representatives from the donors (some of them as observers as permitted by their status) and the Haitian authorities. The Administrator will report semi-annually to the Steering Committee on the management of the Program and to the respective donors.

14. Flexibility Clause. Since the appropriateness of the conditions established for Pillar 1 cannot be foreseen, the Comité de Pilotage will retain the ability to adjust some provisions (commission, deductible, availability period, and leverage and coverage ratios) so as to reflect market conditions.

15. Advisory Services and Technical Assistance. It is expected that significant advisory services and technical assistance will be needed for the implementation of Pillar 1. An individual advisor or an advisory firm will be hired by the Administrator to assist in managing the program and transfer knowledge. This advisor will be funded by the IADB.

b) Description of Pillar 2 of the PCGP (new loans focused on SME and housing)

16. Scope. Pillar 2 will be focused on SME and housing loans. The eligibility of borrowers will be based on a maximum guarantee per borrower at 5 percent of the Pillar 2 fund’s paid in capital. This will benefit SMEs and some micro enterprises, according to the categorization of companies currently used in Haiti.¹³

17. Duration. Pillar 2 will be an organic partial credit guarantee fund, permanent, and will have a stronger institutional framework (own legal structure, dedicated staff), and no limitations on the availability of partial guarantee over time.

18. Eligibility. Access will only be by private banks compliant with Haitian prudential rules, solid lending procedures and with criteria on loan portfolio quality. Access will be subject to review of participating institutions’ underwriting and collection procedures.

¹³ Micro and small enterprises have a turnover less than 5 million gourdes (US$ 125,000); medium enterprises have a turnover between 5 and 50 million gourdes (US$ 125,000 and 1,250,000); large enterprises have a turnover above 5 million gourdes (US$ 1,250,000). Assuming the Pillar 2 capital is US$ 30 million and paid-in capital is US$ 7.5 million, the limit would be set at US$ 370,000 per borrower; this could translate into a loan of US$ 700,000 assuming a coverage of 50 percent, representing over half the turnover of medium-size companies.
19. **Commission and deductible.** Pillar 2 will be managed on commercial terms. The commission will be reviewed each year to ensure that this Pillar can be self-financed. A deductible will be applied as in Pillar 1.

20. **Coverage.** Pillar 2 will pay up to 80 percent of the guaranteed loan amount, after the deductible is used. This amount is higher than in Pillar 1 because of the lower risk of guaranteed loans. However, the coverage is to be reviewed by the investors into Pillar 2.

21. **Administration and Fiduciary Agent.** The role of the administrator will be similar to the Pillar 1; however, the Pillar 2 will have dedicated professional staff with managerial autonomy. While the Fiduciary Agent is a material feature for Pillar 1, it could be temporary for Pillar 2. The need for the Fiduciary Agent in Pillar 2 will be determined by the investors into this sub-fund.

22. **Allocation and Call.** The process for allocation and call of the guarantee will be identical to Pillar 1, with a variation depending on whether the Fiduciary Agent is kept for Pillar 2.

23. **Governance and Oversight.** It is envisioned that Pillar 2 will be structured like a commercially oriented company and will have its own Board, gathering investors in Pillar 2. Detailed governance arrangements are to be defined by the investors in this Pillar.

c) **Funding of the Partial Credit Guarantee Program**

24. **Funding structure.** In both Pillars, the financial institutions will take the first loss through the deductible. Then, losses will be shared *pari passu* between donors/investors.

25. **Leverage.** The leverage is expected to be 2 times in Pillar 1 (the Program may only extend guarantees for an amount up to two times its funding) and 4 times in Pillar 2. The difference reflects the quality of the guaranteed loans. Pillar 1 will focus on higher risk loans that have been restructured. For Pillar 1, in the unlikely event that there are more claims than resources available, a contingent rule for the Program will be activated. The rule is that BRH will pay any residual claims that could not be paid with the available resources. For Pillar 2, the contingent rule will be defined by the investors.

26. **Required funding.** The amount of funding needed is related to the volume of portfolio to be covered and to the expected loss ratio. The information provided by the BRH on the loan portfolios of banks as of June 2010 shows that a proxy for the eligible loans to Pillar 1 (restructured loans so far under US$1 million and loans under US$1 million that are performing but which are more than 30 days overdue) could be in the region of US$95 million. Assuming an extension of new loans up to the limit of 50 percent of the eligible portfolio, the amount of eligible loans for Pillar 1 would be US$142 million. The funding contributed to the Program

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14 An informal survey conducted among the eligible banks in early July 2010 yielded a lower figure of eligible loans for Pillar 1, US$ 75 million, which would use US$18.75 million of resources. The current proposal is based on the higher estimate, as surveyed banks did not yet have the full proposal of the intended scheme and its conditions, and as eligible cooperatives were not included in the survey.
could be leveraged two times assuming maximum loss ratio of 50 percent of the guaranteed loan portfolios. As Pillar 1 will only cover up to 50 percent of the loans presented by the financial institutions, a funding of US$35.5 million would be required.

27. It is important to note that such estimates are complicated by the progressive restructuring of loans, the insurance proceeds and the fact that the quality of loan portfolio is changing overtime. In addition, as noted in the USAID/Winner report,\textsuperscript{15} borrowers who have lost their property as security to banks are likely to be out of the portfolio after reimbursement by insurance companies. It turns out that these borrowers are often the most regular in their payments. Thus, the banking sector may lose the healthiest part of its portfolio, which is likely to increase the rate of unproductive loans. In addition, borrowers that are not directly affected by the earthquake may become insolvent because of the slowdown in activity post-earthquake, thus increasing the volume of unproductive loans and provisions. Given the approximate nature of the estimates, the donors and the BRH have decided to target a funding of up to US$35 million for Pillar 1.

28. It is expected that there will be a spillover of funds from Pillar 1 to Pillar 2 as the individual guarantees in Pillar 1 are being released. This spillover of funding will be junior to private investors in Pillar 2. The private sector arm of the IADB may contribute additional funding up to US$40 million for Pillar 2.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image.png}
\caption{Simplified structure of the PCGP}
\end{figure}

29. Tranching and reallocation. It is expected that the donors’ contributions will be tranchered and closely follow the implementation of the different pillars of the Program and the roll-out of the guarantees. The 9-month availability of Pillar 1 will be an important test to assess the amount of loans that will be guaranteed under this Pillar. In case there is an excess of funding in relation to the amount of guaranteed loans in Pillar 1 once the availability period is closed, the IDA proceeds will be reallocated to Pillar 2.

\textsuperscript{15} USAID/WINNER, Etude d’impact du séisme du 12 janvier sur le secteur privé haïtien, Mars 2010.
Annex 3: Implementation Arrangements

A. Project institutional and implementation arrangements

1. Project administration mechanisms

1. The implementing agency for the PCGP (Pillar 1) will be the *Fonds de Développement Industriel*. The FDI is a specialized institution of the BRH created in 1981 with funding from the World Bank and the EU. The General Manager of the FDI is appointed by the BRH. Its financial and operational independence is sufficient to ensure an enhanced internal control environment. The assessment of financial management arrangements illustrates that despite its small size (FDI currently manages approximately US$35 million in assets), it has a good knowledge of the banking sector and its linkages with the business environment in Haiti. It has also managed similar guarantee facilities before, and has in place satisfactory staffing resources and a strong internal control environment. Within the FDI, a Credit Committee comprised of the General Manager, the Credit Manager and the Administrative and Financial Manager reviews and approves all credits. FDI’s institutional capacity is thus assessed as satisfactory and sufficient to adequately implement and execute the program.

2. The financial management responsibilities of the FDI will include: (i) reviewing the corresponding documentation of the portfolios to be guaranteed; (ii) approving the granting of partial credit guarantees and submit information to the Fiduciary Agent; (iii) collecting fee payments from participating institutions; (iv) verifying eligibility of loans, compliance with all the covenants of the guarantee, and payment of all guarantee fees up to date. The FDI will also verify that participating institutions maintain their eligibility status in time as outlined in the Operation Manual.

3. A Fiduciary Agent will ensure the proper use of the resources allocated to Pillar 1. In particular, the Fiduciary Agent will be responsible for: (i) *ex-post* analysis of portfolios by sampling and visiting financial institutions and borrowers, in order to determine if banks have included non-viable loans or loans that violate social and environmental safeguards; (ii) authorizing the release of funds upon the call of the guarantees. The IADB has agreed to hire and fund the costs for the Fiduciary Agent.

4. As regards the overall governance and oversight: For Pillar 1, The PCGP will have a Steering Committee (*Comité de Pilotage*) consisting of representatives from the donors (some of them as observers as permitted under their respective rules), and the Haitian authorities. The Administrator will report semi-annually to the Steering Committee on the management of the Program. Pillar 2 is intended to be structured like a commercially oriented company and will have its own Board composed of representatives of investors in the fund. Detailed governance arrangements are to be defined by the investors in this Pillar.

5. For the second component, the implementing agency will be the BRH which will carry out procurement activities according to Bank guidelines. The BRH will also be responsible for the financial management of the second component.
6. The institutional arrangements were agreed with all the donors involved in the funding of the Program and with the BRH.

7. The FDI is headed by a General Manager who reports to the Governor of the BRH. Within the professional staff employed by the organization, the Financial and Administrative Manager is responsible for maintaining the accounting records for the Project. With regard to the use of funds, it is important to note that the FDI staffing structure also includes a credit manager and 4 credit officers whose role will be essential in ensuring that Project funds are used only to achieve the objectives of the Project.

8. The FDI has identified the need to recruit 3 Credit Officers to strengthen the capacity of their staff that will manage the grant funds. FDI currently is composed of 10 professionals: the General Manager, the Operations Manager, Financial and Administrative Manager, Credit Manager and 4 Credit Officers. IADB recommended that FDI add two new independent members to the credit committee to strengthen the organizational structure of the FDI.

9. The final staffing arrangement of the FDI will be made once the individual advisor / advisory firm has been recruited by the FDI to strengthen its capacity in managing the Pillar 1 of the PCGP and transfer knowledge. The advisor will be funded by the IADB proceeds and its recruitment will be a covenant of the Financing Agreement.

2. Financial Management, Disbursements and Procurement

a) Financial Management

FM Risk Assessment

10. The Bank has carried out an assessment of the financial management arrangements for the Pillar 1 of the PCGP for which the FDI is primarily responsible. A fiduciary assessment of FDI has also been carried out by the IADB. An assessment of the financial management arrangements for Pillar 2 will be carried out at the time that it is established.

11. The objectives of the Project’s financial management system are: to ensure that funds are used only for their intended purposes in an efficient and economical way while implementing agreed activities; to enable the preparation of accurate and timely financial reports; and to safeguard the Project assets and resources. In ensuring that funds are used only for the intended purposes, the Project will need to ensure that loans subject to guarantee are assessed as viable at the time of issuing the guarantee. This entails ensuring proper bank supervision, effective assessment of loan portfolios, and procedures to determine applicability of guarantees.

12. The key risks that FDI may face in achieving these objectives relate to staffing, information asymmetry in the credit market that may lead to a misuse of funds, coordination of arrangements for the accountability of Project finances, and compliance with established internal control procedures. The recruitment of the Fiduciary Agent will help to mitigate these risks and in addition, the FDI will maintain strong governance and oversight arrangements. The FDI will
ensure compliance with credit procedures and monitor the performance of the credit portfolios while the BRH will ensure continuing strong banking supervision. These risks, together with the mitigating measures adopted to address them are indicated in the ORAF.

13. Planning and Budgeting. The FDI’s budget is prepared by the management of the FDI and approved by the BRH before the beginning of every year.

14. For the second component (technical assistance), the implementing agency will be the BRH which will carry out procurement activities according to Bank guidelines. The procurement plan for implementation of this component was agreed between the Recipient and the Project Team on October 25, 2010 and will be updated at least annually.

**Internal Controls and Procedures**

15. The FDI will maintain a strong system of internal controls and procedures. These will be documented in the Operation Manual. For the monitoring of the credit portfolio, FDI uses a MS Excel spreadsheet which was developed in-house—using advanced features of MS Excel—and which produces automated financial reports that include, among others, the following data by borrower: risk rating, loan balances, interest rate and commission fee calculations. It also provides billing information and aging of the credit portfolio.

16. Operational and credit regulations are defined in the “Déclaration Générale de Politique et Procedure Amendée June 2005”, which was approved by the BRH. The document establishes the procedures for the authorization, movement, registration and controls for all financial and administrative operations including eligibility criteria, terms and conditions of credit operations and repayments of financial instruments. For the administration of Pillar 1 of the PCGP, FDI will follow the specific rules and procedures set out in the Operation Manual that will be agreed upon with the donors.

17. The BRH will be responsible for the financial management of the second component, the technical assistance. The BRH counts with an internal audit department, and its accounts are externally audited by Mérové Pierre – Cabinet d’Experts-Comptables, which has a technical agreement with KPMG.

**Flow of Funds**

18. A pooled account in the name of the FDI will be opened at the BRH for the implementation of the first component of the Project. Proceeds of the grant will be deposited in this account, as will funds from other donors.

19. The IADB is the biggest donor to the PCGP. It will make disbursements in tranches upon request of the FDI and certification of the Fiduciary Agent. Each tranche will be of such amounts as will be necessary to cover the notional amount in loans guaranteed by the Program at any point in time, plus a 25 percent mark up to facilitate the operation. At the inception of the PCGP, the IADB is expected to make a disbursement of US$5 million to cover the initial operations.
20. For the implementation of the second component of the Project, a segregated account will be opened at the BRH. The BRH will manage this account.

Mechanisms to supervise and monitor agreed FM plans

21. The mechanisms to supervise and monitor agreed FM plans will be jointly coordinated with the IADB. These will include regular supervision missions, and the review of information regularly submitted to IDA.

Accounting Systems and Procedures

22. To maintain the efficiency, accuracy and timeliness of financial reporting and to facilitate management analysis of the financial information, the FDI uses a computerized accounting system based on the ACCPAC software. The system is used to maintain the accounting records and facilitates the generation of periodic financial reports and the annual financial statements. The accounting system is judged to be adequate for the purposes of the grant. The accounting procedures systems, policies and operations of the PCGP will be documented in the Operation Manual. The Operation Manual will be used by IDA to assess the acceptability of the Project accounting, reporting and control systems; staff as a reference manual and by the auditors to assess Project accounting systems and controls and in designing specific Project audit procedures.

23. A Chart of Accounts is the main tool through which accounting transactions will be recorded in such a manner as to facilitate the monitoring of the use of funds and the preparation of the financial reports and statements. The existing Chart of Accounts for FDI will be amended to enable data to be captured and classified by the relevant categories of the grant.

Financial Reporting

24. The FDI will prepare the financial reports for the project on a semi-annual basis, which will include the situation of the resources of the PCGP. In addition, the FDI will prepare annual financial statements for the Project. In order to have only one single report for the Project, the reports will also include the financial situation of the second component. The annual statements will also report on the indicators and on compliance with social and environmental safeguards.

Audits

25. The FDI and BRH are subject to internal audit procedures carried out by the BRH’s internal audit department. The external audit of the financial statements of FDI and BRH are carried out by Mérové Pierre – Cabinet d’Experts-Comptables, which has a technical agreement with KPMG, and audits almost all the entities in Haiti's banking and financial sector. The firm was selected in accordance with criteria that meet IDA’s requirements in terms of independence and competence. The Terms of Reference will be amended to accommodate the activities of the grant. The audit report will be submitted to IDA within four months after the end of each financial year. The responsibility for ensuring the proper follow up of audit issues and recommendations will lie with the Comité de Pilotage.
b) Disbursements Arrangements

26. The portion of the grant to the first component (provision of PCGs -US$2.5 million) will be advanced at effectiveness, subject to the conditions stated in the Financing Agreement.

27. Any unused resources to back guarantees or freed up after repayment of the guaranteed loans will be reallocated to Pillar 2. Funds of the IDA grant will support Pillar 2 only if the PCGF is established in a manner satisfactory to IDA and operates on the basis of an implementation arrangement satisfactory to IDA. If these conditions are met, funds of the IDA grant may be reallocated as needed. In any case, the implementation arrangement will ensure that IDA’s rules are complied with, including, inter alia, (i) ensuring that funds provided to the PCGF are used for their intended purpose and the financing of eligible expenditures, or are returned to IDA, (ii) the PCGF maintains continuous and adequate record keeping, furnishes regular reports to IDA and allows IDA’s visits and inspections.

28. If there are unused IDA resources under the first component twelve months before closing or at earlier dates to be agreed between the Recipient and the Association, such resources will be reallocated to the second component (specific activities, budgets and implementation arrangements to be agreed upon between IDA and the Recipient).

29. The proceeds for the second component (technical assistance -US$500,000) are expected to be disbursed in FY12-FY17.
Categories of expenditure, related amounts and percentages to be financed under the Project:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in US$)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Provision of PCGs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Part 1 (a) of the Project</td>
<td>2,500,000</td>
<td>100% of amounts paid under the PCGs</td>
</tr>
<tr>
<td>(b) Part 1 (b) of the Project</td>
<td>0</td>
<td>100% of amounts paid under the PCGs</td>
</tr>
<tr>
<td>(2) Goods and Consultants’ services under Part 2 of the Project</td>
<td>500,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,000,000</td>
<td></td>
</tr>
</tbody>
</table>

Category (1) (a) refers to PCGs provided by the Pillar 1 of the PCGP. Category (1) (b) refers to the PCGs provided by the organic Partial Credit Guarantee Fund (so called “Pillar 2” of the PCGP). Category 2 refers to the financial sector technical assistance.

**Designated Accounts**

30. An advance of US$2.5 million will be made into a pooled account in the name of FDI at the Central Bank of Haiti for the provision of PCGs. The funds will be used to pay claims, and any unused funds to back guarantees or to pay claims will be transferred from time to time to the Pillar 2 as per the Schedule 2, Section IV.B of the Financing Agreement. Twelve months before the closing date or earlier, as agreed upon between the Recipient and the Association, any unused funds under the PCG component will be returned to IDA for further use under the second component. The supported documentation to be provided shall follow the provision of the Financing Agreement, Schedule 2, Section IV.B.6.B (2).

31. To ensure that funds are readily available for the implementation of the Technical Assistance component, the BRH would open, maintain and operate a Designated Account (DA) at the Central Bank of Haiti. Deposits into and payments from the Designated Account will be made in accordance with the provisions stated in the Financing Agreement. Disbursements under this component will be transaction-based and include withdrawal applications for advances, direct payments and reimbursements. Withdrawal applications will be prepared by the BRH and signed by authorized signatories, as designated by the representative of the borrower. The name of each of the authorized signatories and their corresponding specimen of signature will be submitted to IDA before the first disbursements are claimed.

32. The authorized ceiling of the Designated Account would be US$50,000. The Designated Account would be replenished monthly based on withdrawal applications supported by appropriate documentation, or when half of the advance to the DA has been utilized, whichever
occurs first. The Designated Account will be audited annually by external auditors acceptable to IDA as part of the overall project audit.

Use of Statement of Expenditures (SOEs)

33. All applications for withdrawal of proceeds from the grant account for the TA component will be fully documented, except for expenditures under contracts with an estimated value of: (a) US$100,000 or less for consulting firms, and (b) US$50,000 or less for individual consultants, which will be claimed on the basis of Statement of Expenditures (SOEs). The documentation supporting expenditures will be retained at the Project Implementation Unit at the Central Bank and will be made readily accessible for review by the external auditor and periodic Bank supervision missions. All disbursements will be subject to the conditions of the Financing Agreement and disbursement procedures defined in the Disbursement Letter.

c) Procurement

34. Procurement activities for the Project will be limited to the technical assistance required for the second component (US$500,000) and will be carried out in accordance with the World Bank Procurement and Consultant Guidelines dated May 2004 and revised in October 2006 and May 2010, and with the provisions of the Financing Agreement. For each contract to be financed by the grant, the various procurement and consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame have been agreed upon by the Recipient and IDA in the Procurement Plan. Funds for the second component will be disbursed to a segregated account.

35. Selection of Consultants. The grant will finance consultant services required for technical assistance to develop the financial sector and remove obstacles to credit growth. Only a few contracts with consulting firms and individual consultants are expected to be financed by IDA for the proposed Project. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

36. Selection of Consultants. The grant will finance consultant services required for technical assistance to develop the financial sector and remove obstacles to credit growth. Only a few contracts with consulting firms and individual consultants are expected to be financed by IDA for the proposed Project.

37. Assessment of the Agency’s capacity to implement Procurement. Procurement activities will be carried out by the BRH and are likely to be limited to the award of several contracts with individual consultants and one or two contracts with consulting firms. IDA’s assessment of BRH’s capacity to implement procurement actions for the Project is based on a desk study of the BRH’s existing procurement organization. While the BRH is well equipped to execute procurement according to Bank Guidelines, the overall public procurement system in Haiti remains relatively weak. Despite recent reforms in the legal and institutional framework for procurement, there is still a lack of skilled personnel with knowledge of international norms,
limited planning and follow-up capacity, and insufficient use of standard documents and procedures. Consequently, the overall Project risk for procurement remains high.

38. Procurement Plan, Thresholds for Procurement Methods and Bank Review. The procurement plan for implementation of the proposed Project was agreed between the Recipient and the Project Team on October 25, 2010 and is summarized below in Table 1. The plan will be updated annually. The recommended thresholds for the use of the procurement methods specified in the Financing Agreement are identified in Table 2 below. These thresholds, as well as the requirement for IDA prior review of all contracts, are common to all World Bank projects in Haiti, and have served as the basis for the agreed procurement plan. Supervision of procurement will be carried out primarily through prior review supplemented by supervision missions at least once a year.

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>Description of Contract</th>
<th>Estimated Cost (US$)</th>
<th>Procurement Method</th>
<th>Review by Bank (Prior / Post)</th>
<th>Estimated date of award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting services</td>
<td>Consulting Firm #1 - Financial sector TA to remove obstacles to credit growth (financial infrastructure, regulation and supervision)</td>
<td>$300,000</td>
<td>QCBS</td>
<td>Prior</td>
<td>2012</td>
</tr>
<tr>
<td>Consulting Services</td>
<td>Individual Consultant #1 - Financial sector TA to remove obstacles to credit growth in the agriculture sector</td>
<td>$50,000</td>
<td>3 CVs</td>
<td>Prior</td>
<td>2011</td>
</tr>
<tr>
<td>Consulting services</td>
<td>Individual Consultant #2- Financial sector TA to remove obstacles to credit growth (financial infrastructure, regulation and supervision)</td>
<td>$50,000</td>
<td>3 CVs</td>
<td>Prior</td>
<td>2011</td>
</tr>
<tr>
<td>Consulting services</td>
<td>Individual consultants (multiple contracts) - Financial sector TA to remove obstacles to credit growth</td>
<td>$100,000</td>
<td>3 CVs</td>
<td>Prior</td>
<td>2012/13</td>
</tr>
<tr>
<td>Goods</td>
<td>None foreseen at negotiations</td>
<td>TBD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$500,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 2: Thresholds for Procurement Methods and Prior Review

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value (Threshold) US $ thousands</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>&gt;100</td>
<td>ICB</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>25-100</td>
<td>NCB</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>&lt;25</td>
<td>Shopping</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Regardless of value</td>
<td>Direct Contracting</td>
<td>All</td>
</tr>
<tr>
<td>2. Consulting Services</td>
<td>- 2.A Firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regardless of value</td>
<td>QCBS, QBS, FBS, LCS</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>&lt;100</td>
<td>CQS</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Regardless of value</td>
<td>Single Source</td>
<td>All</td>
</tr>
<tr>
<td>- 2.B Individuals</td>
<td>Regardless of value</td>
<td>Comparison of 3 CVs in accordance with Chapter V of the Guidelines</td>
<td>All</td>
</tr>
</tbody>
</table>

Abbreviations:
- ICB = International Competitive Bidding
- NCB = National Competitive Bidding
- DC = Direct Contracting
- QCBS = Quality- and Cost-Based Selection
- QBS = Quality-Based Selection
- FBS = Fixed Budget Selection
- LCS = Least-Cost Selection
- CQS = Selection Based on Consultants' Qualifications
- SSS = Single Source Selection

### Environmental and Social (including safeguards)

39. The proposed Project is classified as Category B. No major social and environmental issues are expected to arise as a result of the Project, since the vast majority of banking loans in Haiti and supported by this Project are extended to the commercial and service sectors and to individuals; however, there may be a small number of loans in the manufacturing, industrial and construction sectors that apply for guarantees, which could potentially have some negative environmental and social impacts. For that reason, a framework has been developed to screen all loans for potential impacts and mitigate them, in compliance with the World Bank’s environmental and social safeguards. This framework uses a twofold approach:

- Small loans (expected to be under a threshold of around US$62,000) in the commercial and service sectors are expected to have no environmental impacts, and thus will be reviewed and processed in a streamlined manner. These loans will be screened against a list of activities that may not be supported by the PCGP, i.e. a “negative list”, which is included in the Project’s Environmental and Social Management System (ESMS).¹⁶ They will be processed in batches, and the FDI will check ex-post compliance with the World Bank’s environmental and social safeguards on a sampling basis. In case a small loan is found not to comply with the safeguard policies, remedies will be applied including if necessary the cancellation of the guarantee.

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¹⁶ The Financing Agreement refers to the Environmental and Social Management Framework which is the general World Bank term. For this particular Project, this document is entitled “Environmental and Social Management System”.

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• A limited number of small loans to manufacturing, industrial and construction sectors, identified a-priori from the database of the BRH, may potentially have negative environmental impacts. Therefore, those loans will be screened in greater detail, following the same procedures summarized below for larger loans, and described in full detail in the ESMS. The list of those loans will be included in the ESMS.

• Larger loans (above the threshold) will also be screened against the “negative list”. In addition, an individual assessment of each loan will be carried out to identify potential social and environmental risks. Mitigating measures will be evaluated prior to granting the guarantee. In the event that any loan will involve the storage, purchasing or handling of pesticides, the guarantee will not be granted prior to the development of a pest management plan with appropriate budget and arrangements for its implementation.

73. The FDI will assess the environmental and social impacts and risks associated with the issuance of guarantees. The ESMS will be included in the Project’s Operation Manual and will be disclosed no later than 6 months after effectiveness as per the Financing Agreement. It will provide procedures for developing a pest management plan as defined under OP 4.09, as well as procedures to be followed in the event that any sub-project comes across any physical cultural resources, as defined under OP 4.11, during the course of its implementation. Supervision missions of IDA and the IADB will check compliance with safeguard policies.

4. Monitoring & Evaluation

40. The FDI and BRH will collect the indicators (PDO result indicators and additional information on SME lending subject to availability).

41. Midterm evaluation. No later than 24 months after effectiveness, the implementing agency will submit a midterm evaluation report on: (i) the extent to which the objectives and outcomes have been achieved based on the results matrix; and (ii) the steps that may be taken in the event that the Project is considered not to have substantially achieved its objectives.

B. Role of Partners

42. The IADB is co-financing the Project, and the US Treasury is supported the funding of this Project from the Haiti Reconstruction Fund.

43. The IADB is a co-financier of the Project and this entails particular legal provisions such as cross-remedies. The application of the Bank’s Anti-Corruption Guidelines and Environmental and Social Safeguard Requirements has been accepted by the IADB and will be applied on future co-financiers of the Program.
Annex 4: Operational Risk Assessment Framework (ORAF)

HAITI
POST-DISASTER PARTIAL CREDIT GUARANTEE PROGRAM
SUPPORT PROJECT

Project Development Objective(s)

The main objective of the Project is to support the development of a partial credit guarantee program by the Recipient to help (i) financial institutions restart lending; and (ii) financial sector borrowers overcome the impact of the Emergency.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The volume of loans restructured in the course of the first two years after the earthquake;</td>
</tr>
<tr>
<td>2. The total volume of overdue loans at the end of each calendar year (NPL ratio);</td>
</tr>
<tr>
<td>3. The total volume of outstanding loan portfolio at the end of each calendar year.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Rating</th>
<th>Risk Description</th>
<th>Proposed Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Stakeholder Risks</td>
<td>MI</td>
<td>Lack of coordination or diverging views amongst the donors, and between the donors and the BRH could undermine both components of the Project (PCGP and technical assistance) Lack of interest from commercial banks in the PCGP</td>
<td>Following a suggestion of the BRH, it has been decided to set up a consultative working group to discuss financial sector issues, alongside the PCGP which will include the institutions which participated in the design of the PCGP. The donors will be represented on the Comité de Pilotage that will oversee the activities of the PCGP. Close monitoring and flexible adjustment of design, especially of Pillar 1.</td>
</tr>
<tr>
<td>Implementing Agency Risks</td>
<td>MI</td>
<td>Financial management and procurement risk, limited capacity</td>
<td>Completed fiduciary assessment of the FDI concluded that it was capable to manage the program and was already familiar with donors’ procurement procedures. Recruitment of advisor or advisory firm to reinforce the capacity of the implementing agency.</td>
</tr>
</tbody>
</table>
### Project Risks

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Probability</th>
<th>Description</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Design</td>
<td>MI</td>
<td>Risk that the PCGP may not be used by the banks or that it may have insufficient/excessive funding</td>
<td>Flexibility to adjust the cut-off size and other terms of the guarantees in Pillar 1 if the demand of the banks is more or less than expected. Alternative use of available resources established in the financing agreements, should demand fall far below expectations.</td>
</tr>
<tr>
<td>• Social and Environmental</td>
<td>L</td>
<td>Risk that guarantees are extended to loans that violate social and environmental safeguards</td>
<td>Environmental and Social Management System integrated to the Operation Manual that specifies the screening processes and remedies</td>
</tr>
<tr>
<td>• Program and Donor</td>
<td>MI</td>
<td>Risk that donors' funding to the PCGP do not materialize. Fund will not be viable without the IADB contribution</td>
<td>IADB Board approval in September 2010 HRF contribution approved on 17 August 2010</td>
</tr>
<tr>
<td>• Delivery Quality</td>
<td>H</td>
<td>Risk that non-viable loans are included in the PCGP Risk of a slow delivery of guarantees</td>
<td>Fiduciary Agent to check that non-viable loans have not been included in the guaranteed portfolios Documentation requirements streamlined to speed implementation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall Risk Rating at Preparation</th>
<th>Overall Risk Rating During Implementation</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>MI</td>
<td>H</td>
<td>Implementation risk is high because of (i) uncertainty surrounding the design in a complex environment, (ii) uncertainty with respect to the demand for partial credit guarantees, (iii) short time frame for preparation in order to meet demand on the ground</td>
</tr>
</tbody>
</table>
Annex 5: Implementation Support Plan

1. The Implementation Support Plan proposed below describes how IDA will support the implementation of the risk mitigation measures and provide the technical advice necessary to facilitate the achieving of the PDO.

2. The strategy and approach for the Implementation Support Plan is based on:

   - **Strong coordination with the BRH and other donors.** Following a suggestion of the BRH, it has been decided to set up a working group to discuss financial sector issues, alongside the PCGP which will include the institutions which participated in the design of the PCGP in order to promote coordination amongst donors, and between the donors and the BRH. The donors will be represented on the Comité de Pilotage that will oversee the activities of the PCGP. In addition IDA is coordinating with the IADB the joint reporting framework.

   - **Flexibility in the design.** As there are no previous experiences with the use of PCG in mitigating the impact of catastrophes, the design of the Pillar 1 includes a “flexibility clause” whereby some provisions (commission, deductible, availability period, and leverage and coverage ratios) may be modified by the Comité de Pilotage to reflect market conditions. The financing agreements will establish alternative use of resources to support the development of the financial system and increase lending, should demand for partial credit guarantees fall far below expectations.

3. The Implementation Support Plan is based on the following:

   - Onsite technical assistance to the implementing agency by experienced consultants shall provide the technical support needed to adjust procedures and reduce transaction costs as needed. A completed fiduciary assessment of the FDI concluded that it was capable to manage the Program and was already familiar with donors’ procurement procedures but that its capacity will need to be reinforced.

   - The Environmental and Social Management System is acceptable to the IADB and IDA and is included in the Operation Manual. The FDI will be responsible for implementing it.

   - A Fiduciary Agent will be in charge of ensuring the proper use of the resources allocated to Pillar 1. In particular, the Fiduciary Agent will be responsible for: (i) *ex-post* analysis of portfolios by sampling and visiting financial institutions and borrowers, in order to determine if banks have included non-viable loans or loans that violate social and environmental safeguards; (ii) authorizing the release of funds upon the call of the guarantees.
The IADB has agreed to fund the cost of the advisor to the FDI and the Fiduciary Agent, as well as to provide some training in the area of social and environmental safeguards.

What will be the main focus in terms of support to implementation during:

<table>
<thead>
<tr>
<th>Time</th>
<th>Focus</th>
<th>Skills Needed</th>
<th>Resource Estimate</th>
<th>Partner Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>First twelve months</td>
<td>Launch of Pillar 1 and speedy granting of guarantees</td>
<td>Finance/fiduciary</td>
<td>Advisor and Fiduciary Agent</td>
<td>IADB to fund the cost of the Advisor and Fiduciary Agent</td>
</tr>
<tr>
<td></td>
<td>Launch of Pillar 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12-48 months</td>
<td>Processing of claims in accordance with the rules of the PCGP</td>
<td>Finance/fiduciary</td>
<td>Advisor and Fiduciary Agent</td>
<td>IADB to fund the cost of the Advisor and Fiduciary Agent</td>
</tr>
</tbody>
</table>

II. Skills Mix Required

<table>
<thead>
<tr>
<th>Skills Needed</th>
<th>Number of Staff Weeks</th>
<th>Number of Trips</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>12</td>
<td>One quarterly</td>
<td>Joint supervision missions with the IADB</td>
</tr>
</tbody>
</table>

A. Partners

<table>
<thead>
<tr>
<th>Name</th>
<th>Institution/Country</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRH</td>
<td>Haiti</td>
<td>Local partner in designing and monitoring the Project</td>
</tr>
<tr>
<td>IADB</td>
<td></td>
<td>Co-financier</td>
</tr>
<tr>
<td>US Treasury</td>
<td>USA</td>
<td>Partner who contributed to the design</td>
</tr>
<tr>
<td>FDI</td>
<td>Haiti</td>
<td>Implementing Agency of Pillar 1</td>
</tr>
</tbody>
</table>
### Annex 6: Team Composition

**World Bank staff and consultants who worked on the Project:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Juan Buchenau</td>
<td>Sr. Financial Sector Specialist</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Caroline Cerruti</td>
<td>Financial Sector Specialist</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Patricia Melo</td>
<td>Operation Analyst</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Vyjayanti T. Desai</td>
<td>Senior Economist</td>
<td>IISEC</td>
</tr>
<tr>
<td>Helene Bertaud</td>
<td>Senior Counsel</td>
<td>LEGAF</td>
</tr>
<tr>
<td>Joseph Kizito</td>
<td>Senior Financial Management Specialist</td>
<td>LCSFM</td>
</tr>
<tr>
<td>Nko Etesin Umoren</td>
<td>Resource Management Analyst</td>
<td>AFTFM</td>
</tr>
<tr>
<td>Patricia MacGowan</td>
<td>Senior Procurement Specialist</td>
<td>LCSPT</td>
</tr>
<tr>
<td>Yingwei Wu</td>
<td>Senior Procurement Specialist</td>
<td>LCSPT</td>
</tr>
<tr>
<td>Renee Desclaux</td>
<td>Senior Finance Officer</td>
<td>AFCGH</td>
</tr>
<tr>
<td>Miguel Santiago-Oliveira</td>
<td>Senior Finance Officer</td>
<td>CTRFC</td>
</tr>
<tr>
<td>Khalid Siraj</td>
<td>Consultant</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Eric Palladini</td>
<td>Consultant</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Micky Ananth</td>
<td>Program Assistant</td>
<td>LCSPF</td>
</tr>
<tr>
<td>Monica Rivero</td>
<td>Program Assistant</td>
<td>LCSPF</td>
</tr>
</tbody>
</table>
Annex 7: Haiti Financial System

1. Prior to the earthquake, the financial sector was considered to be sound in general but with significant development challenges. The Financial System Stability Assessment (FSSA) of 2008 found that Haiti’s financial system played a limited role in supporting economic growth. Significant constraints were found in the legal and institutional frameworks, the fragile security situation, limited competition between banks, poor governance, high reserve requirement ratios, the absence of a functioning credit registry, and crowding out of bank lending as banks earned higher returns on BRH bonds. The result has been low credit growth, high intermediation spreads and limited access to credit.

2. As of December 2009, the banking sector in Haiti consisted of nine commercial banks, including two public banks (BNC and BPH) and seven private banks. The three largest banks (Unibank, Sogebank and BNC) represented 74 percent of total credit and 80 percent of total assets, a high level of concentration by international and regional standards. Access to banking credit was limited as loans net of provisions only stood at 30 percent of total banking assets (US$850 million out of US$2.8 billion banking assets). Non-performing loans (NPLs) stood at 8.6 percent for the sector, but reflected different performance between banks. Public banks exhibited NPL ratios of over 30 percent as a result of poor governance (BPH) and prior bank resolution (BNC). The system was highly liquid (ratio of cash and short term investment to deposits close to 40 percent), mostly as a result of substantial reserve requirements established by the BRH in domestic and foreign currency. Lending focused on wholesale and retail trade (respectively 16 and 11.8 percent of total portfolio), real estate (14 percent including commercial and retail), and consumer credit (12 percent of total portfolio). The banking sector is supervised by the BRH.

<table>
<thead>
<tr>
<th>Table 1: Selected banking indicators, December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: BRH. Computation of regulatory capital implies deductions for under provisioning and non-respect of regulatory limits.</td>
</tr>
<tr>
<td>Market Share % assets</td>
</tr>
<tr>
<td>NPLs % gross loans</td>
</tr>
<tr>
<td>Return on Assets %</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
</tr>
</tbody>
</table>

3. As for the non-bank financial sector, the FSSA noted that microcredit had thrived in recent years, but many credit cooperatives were poorly managed. According to the survey done in 2008 by the USAID, there were about 200 microfinance institutions (MFIs) in Haiti including 175 credit unions and cooperatives, about 20 foundations/NGOs/associations, and 4 affiliates of commercial banks. Out of the 200 MFIs, 80 answered a detailed survey which showed the

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17 In 2006, as part of the resolution strategy of the failing bank Socabank, BNC was forced to absorb the portfolio of Socabank with a 50 percent guarantee from the Central Bank. The NPL ratio of BNC jumped from 4.9 percent in December 2006 to 50.6 percent in June 2007 as a result of the absorption of Socabank.
following: US$130 million in total assets, US$83 million in total loans, US$47 million in deposits and about 169,000 borrowers.

4. More recent MFI data is available for the association of microfinance institutions (Association Nationale des Institutions de Microfinance d’Haiti, ANIMH)\(^\text{18}\) which includes 14 leading MFIs. As of December 2009, the members of ANIMH had US$75 million in total assets, US$60 million loan portfolio and catered for over 128,000 clients. Several cooperatives have joined forces in the Fédération des Caisses Populaires Haïtiennes – Le Levier, the first Haitian national federation of credit cooperatives which was created in June 2007. Prior to the earthquake, it comprised 50 credit unions, had 340,000 members and about US$52 million assets, and served about one million people.

5. Performance indicators for 7 Haitian MFIs reporting to Microfinance Information Exchange\(^\text{19}\) show that these (larger) entities had a lower average loan balance and loan cost as well as a lower return on assets than the LAC average. They also shows higher portfolio at risk than the average for Latin America and the Caribbean.

6. Although the BRH is responsible for the regulation of the credit unions, it has limited capacity. The large number of credit unions also makes effective supervision at a similar level as banks practically impossible. MFIs that belong to a banking group are regulated, as part of the general supervision of their banking group, while stand-alone MFIs are not.

7. As of December 2009, there were approximately 15 local private insurers in Haiti; 11 are members of the Insurance Association, which also has three brokers as members. All are shareholder-owned companies; none are mutual companies or cooperatives. There is no regulatory and supervisory framework, and limited information is available on the sector. The Ministry of Finance is responsible for the supervision, but the only supervisory action is the authorization to set up an insurance company. The FSSA noted that due to the lack of

\(^{18}\) The ANIMH was founded in 2002 and currently consists of 14 microfinance institutions: ACLAM, ACME, BPH, BUH/Krèdi Popilè, FHF, FINCA, FONDESPoir, GRAIFSI, GTIH, ID, Micro Crédit Capital, Micro Crédit National, SFF/Fonkoze and SOGESOL.

\(^{19}\) The Microfinance Information Exchange, Inc. (MIX) is a leading business information provider dedicated to provide objective data and analysis on microfinance providers worldwide.
information on the insurance and pension sectors, their importance to financial stability could not be assessed.

8. The impact of the earthquake on the country’s financial institutions (banks, MFIs and cooperatives) has been three-fold: (i) the quality of loan portfolios has deteriorated, because borrowers in the affected areas have lost their collateral and their capacity to repay has been hindered; (ii) this has led banks to restrict credit to existing borrowers in good standing; and (iii) many financial institutions have lost staff or suffered damages in their branches (mostly MFIs). The system was highly liquid prior to the earthquake, and banks managed to reopen 9 days after the disaster. For the insurance sector, an assessment carried out by a Bank’s consultant at the request of the Ministry of Finance and BRH concluded that out of the US$200 million estimated gross cost for insurers, reinsurers will assume about 75 percent, leaving about US$50 million to be borne by the Haitian sector itself. As a result, some failures of insurers may occur.

9. The most recent data from June 2010 show a NPL ratio of 11.9 percent, which has been relatively stable since March. This relatively low ratio after a disaster of such magnitude is explained by the fact that banks have written off unrecoverable loans after the earthquake. However, the share of loans “a signaler” which are over 30 days due but not yet non-performing and of restructured loans has risen from 13.9 percent in September 2009 to 23.5 percent in June 2010. In addition, banks have not restarted lending. The total stock of loans (net of provisions) has gone from 33.3 billion gourdes in September 2009 to 28.8 billion gourdes in June 2010, representing a drop of 13.5 percent. In addition to these very negative developments, there is a high risk of credit gridlock, since many borrowers have lost collateral and are unlikely to be in a position to obtain additional loans.

10. The impact of the earthquake has been gradual. As noted in the USAID/Winner report, borrowers who have lost their property as security to banks are likely to be out of the portfolio after reimbursement by insurance companies. It turns out, however, that these borrowers are often the most regular in their payments. Thus, the banking sector may lose the healthiest part of its portfolio, which is likely to increase the rate of unproductive loans. In addition, borrowers that are not directly affected by the earthquake may become insolvent because of the slowdown in activity after the earthquake, thus increasing the volume of unproductive loans and provisions.

<table>
<thead>
<tr>
<th>Table 2: Selected banking indicators, June 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share % assets</td>
</tr>
<tr>
<td>NPLs % gross loans</td>
</tr>
<tr>
<td>Return on Assets %</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>Source: BRH. Computation of regulatory capital implies deductions for under provisioning and non-respect of regulatory limits. Unibank ratio not available.</td>
</tr>
</tbody>
</table>

Annex 8: Industrial Development Fund (*Fonds de Développement Industriel*)

1. The *Fonds de Développement Industriel* (FDI), created by Decree in March 1981, is a specialized institution of the BRH, endowed with operational and financial autonomy. The FDI’s General Manager is appointed by the Board of Directors, which is actually the Board of the BRH.

2. The FDI’s mission is to promote the economic development of Haiti, by meeting the financial needs of SMEs with a potential for job creation, foreign currency generation, and local raw material valorization - and operating in an environment-friendly way.

3. The World Bank (IDA) and the BRH provided the lending resources through direct funding to the concessionary window. The European Union is a provider of micro-lending resources in the framework of a bi-national program, whose beneficiaries are small enterprises, located around Lake Enriquillo, along the border between Haiti and the Dominican Republic.

4. FDI operates through a network of financial institutions comprised of commercial and development banks, and micro-finance institutions²¹.

**Products**

5. FDI offers a range of financing products, including: Co-financing; Venture loan; Venture capital; Subordinated loan; Long-term loan rediscount; Credit guarantee; Loan put option (LPO); Institutional Micro-credit; and Technical assistance.

6. Guarantee lines, were introduced with technical assistance of the World Bank. The business model developed at FDI for credit guarantees comprises a thorough risk evaluation of its clients. Credit guarantees: (i) can only be awarded to new loans; (ii) need to be related to individual credits granted to a particular enterprise for a specific purpose; (iii) are granted as a maximum percentage of 65 percent of the underlying FI’s loan, up to US$300,000 for each final beneficiary; (iv) are amortized on a pari-passu basis. A guarantee can be maintained for up to 18 consecutive years. Loans for creation, expansion or modernization projects in one of the priority sectors mentioned below and having a debt/equity ratio less than 3:1 are eligible for and FDI guarantee. Working capital loans or loans obtained to redeem other debts are not eligible. Enterprises and managers with poor credit rating are not eligible for an FDI guarantee.

7. FDI’s share in a syndicated loan (co-financing) cannot exceed 90 percent of the total loan or the equivalent of US$750,000. The maximum amount for a venture loan is US$500,000. A venture loan can be granted for a maximum of 3 years with no obligation of principal reimbursement, and a maximum of 2 additional years during which principal reimbursement will be based on the borrower’s free-cash flows-generating power. At the end of the fifth year, the venture loan will be converted into an ordinary loan with a maximum of 13-year-maturity.

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²¹ The 9 commercial banks, 3 microfinance institutions and one non-bank FI funded by USAID.
8. FDI can only hold a minority interest in a company. As a venture capitalist, its initial investment cannot exceed 20 percent of the total shareholders’ equity or the equivalent of US$300,000. FDI cannot maintain its participation in the capital of a company for more than 5 years. At the expiration of these 5 years, in accordance with the participation agreement, the issuing company is obliged to redeem the FDI’s shares, with the aim of reselling them, in priority, to the founder shareholders.

9. The amortization period of a loan used to finance fixed assets, cannot exceed 18 years, including a 3-year grace period; while the maturity is limited to 2.5 years for working investment loans (loans used to finance working capital needs).

10. FDI can provide new entrepreneurs with financial and technical assistance to study the feasibility of their projects. The technical assistance usually consists of preparing the terms of reference of the studies to be made, recruiting and selecting the consulting firms and controlling the outputs.

**Priority Sectors**
11. An investment enterprise or a project operating in one of the following sectors is eligible to the full range of FDI’s products: agribusiness; food processing; drug industry; chemical industry; construction; metal industry; textile and leather industry; tourism; transportation and communication; higher and vocational education; handicraft; and services related to industrial activities.

**Financial structure**
12. Total FDI’s assets amount to 1.5 billion gourdes (approximately US$37 million), as per September 2009, with a 5-10 percent annual growth rate. The guarantee portfolio of the FDI represents only a very small portion of its overall portfolio.

13. The financing structure of the FDI, as of September 2009, is: (i) capital, 60 percent of assets; (ii) retained earnings, 30 percent of assets; and (iii) borrowings, 10 percent of assets.

14. As of September 2009, net return on assets was 3.57 percent, higher than the banking system’s average (1.2 percent as of December 2009). NPLs on the loans and guarantees lines (excluding specific programs of the Haitian Government) amounted to 12 percent, a ratio higher than the banking system’s average (8.6 percent as of December 2009) which stems from the FDI’s particular focus on higher risk customers.

15. FDI is audited on an annual basis by the representative firm in Haiti for KPMG, Mérové-Pierre and Associates. The last audit report as of September 2009 was unqualified.