

# **The Haiti Reconstruction Effort**

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**How Can the Private Sector Best Contribute  
To Haiti's Sustainable Rebirth**

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**Testimony before the House Subcommittee  
On International Monetary Policy and Trade**

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**By**

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Mr. Chairman and Honorable Members of the House Subcommittee on International Monetary Policy and Trade,

Thank you for providing me the opportunity to talk to you about the Haiti Reconstruction Effort and especially on the precious role that private investment and the private sector can and should play in the rebirth of our country.

Two months ago, Haiti suffered one of the most terrible catastrophes ever to hit a nation. Over 200,000 people died, 1.2 million got displaced and more importantly, millions more, even not directly hurt by the disaster, are still traumatized and in doubt about their future. Beyond suffering, however, lies a real opportunity not to just to rebuild but to build a better Haiti. The January catastrophe was a wake-up call to remind us that not only our buildings but our whole society is in need of repair. We can and should use this new crisis as motivator to create a new Haiti, more prosperous, but also where prosperity is widely shared and not just for the few lucky ones.

Opportunities indeed exist for Haiti's economy to grow fast, create over a million jobs in the near future and attract US\$5 billion private investments in a relatively short period. Over the course of last year, the Presidential Working Group on Competitiveness, with help from the OTF Group and following a truly participative process, identified five priority clusters, namely fruit and tubers, animal husbandry, garments, tourism and urban development, where we could spur private-led inclusive growth, generate tax resources and thus offer better social services and welfare to our citizen. Together with the Competitiveness Group, the members of the Private Sector Economic Forum, including the main business associations and major financial groups, believe not only that developing these clusters can achieve our national goals but also that the Forum itself can truly partner with our government, civil society and international community to create a new social compact for all Haitians.

Granted, the ideas that private investment is the key to growth and shared prosperity and that public-private partnership can work are old ones. Haiti's abject poverty and cultural individualism and mistrust among private and public players raise legitimate doubts, first about private sector commitment to play his role and secondly about government faith in private-led growth. The good news is that Haiti was already moving toward removing such doubts way before the earthquake.

### ***The Past as an Indication of a Better Future***

Indeed, the disaster hits us exactly when positive signs of a new Haiti were emerging. 2009 was the fifth consecutive years of economic growth, with a decent 2.9% mark, even at a time when the whole region was suffering recession; agriculture, which occupies 60% of the population, grew at over 5% in 2009; inflation had been in retreat since 2004;

well over US\$700 million of private investments, including FDIs, were recorded over the last five years in tourism, energy, telecommunications and port infrastructure. As a symbol for all Haitians, let me cite the fact that a contract was allegedly concluded, just two weeks ago, to privatize the state-owned Telecommunications Company, following the privatization of the flour mill and cement plant and the licensing of numerous private communication providers in the late 1990s. Another symbolic event is that of July 2009 when E-Power, an Independent Power Producer owned by 56 Haitian and Haitian-American and two Korean companies, started building a US\$56 million-30 MW Power Generation Plant located in Cite Soleil, an area considered only a few years ago as a symbol of Haitian despair, lawlessness and violence.

A third symbol of the new Haiti can be found in the December 1<sup>st</sup> 2009 ceremonial entry of "Princess of the Seas", the world's largest cruise boat, in the newly built Labadie Port in the North of Haiti. That event was the result of nearly US\$100 million worth of investment by the Royal Caribbean Cruise Line Company, including US\$55 million to be repaid by the Government.

On the same wave length, the formation in January 2009 of the Working Group on Competitiveness was part of a conscious and welcome effort by President Préval to partner with Civil Society to rethink Haiti's future. Indeed, over 100 professionals, most of them private citizens, accepted Mr. Préval's invitation to participate in six different working groups involved in education, technology, legal and constitutional reforms, security, cultural matters and competitiveness.

Reflecting over these facts and others, I can safely say that not only the last 6 years but in fact the last 15 years contain signs of Haiti's renewal, despite political crises and instability. Several public policy moves and stories of public-private partnership are noteworthy to that respect.

- The 2006 Hope Act which currently provides precious support to Haiti's garment production resulted from successful public-private partnership initiated since 2004 by Haiti's manufacturers association (ADIH). This critical endeavor is now being implemented by a public-private committee headed by Haiti's Prime Minister and comprised of 4 government officials, 3 representatives from unions and 3 from the private sector.
- Banking liberalization reforms were put to law and regulations from 1995 to 1998 upon active partnership between the banker's association and the Central Bank. Right after these regulations were enacted, five private commercial banks, including the two largest ones, made their entry into the world of microfinance, serving the needs of hundreds of thousands of micro entrepreneurs, who

constitute the backbone of the economy and account for 80% of all revenue earners. Today, commercial banks directly and indirectly hold two thirds of Haiti's microfinance portfolio, serving about 60,000 micro and small enterprises. A study recently estimated that the microfinance industry, including banks, NGOs and saving and loans cooperatives, has helped create and/or support over 230,000 jobs in Haiti.

- A third noteworthy initiative was the project launched in 1998 by the Center for Free Enterprise and Democracy (CLED), a business association, in partnership with Hernando de Soto and the Peru's Instituto para Libertad and Democracia (ILD), to formalize over US\$2 billion worth of informal real estate property. Lack of proper titles indeed prevents owners from using these assets as collateral to obtain bank loans and create profitable ventures. This project's implementation was however interrupted by the 2000-2004 political crises and needs to be revived.
- In 1998, after about a year of wide consultation, a largely representative group of business associations produced the "Business Sector's Agenda", formulating a whole series of public policy proposals, including the creation of a High-Level Commission on Economic Modernization, which would include representatives from both private and public sectors and would serve as institutional vehicle for policy dialogue. A similar exercise was in fact repeated in April 2006, when then President-elect René Préval requested proposals from the Private Sector for his first year in office. Twenty business associations signed the "Private Sector's Roadmap" presented to the President-elect and his main advisors, which contained many concrete policy proposals. Several of those did find their way into the Prime Minister's General Policy Statement submitted to the Parliament.
- Private-Public partnership went even beyond the economy and business. In 2002, The Sogebank Group Foundation signed a 5-year grant agreement as principal recipient (PR) for the Geneva-based Global Fund for the Fight against HIV-AIDS, Tuberculosis and Malaria. This program, focusing on HIV prevention and treatment, helped bring HIV incidence from 5.5 to 2% and the number of patients under ARV treatment from 200 to over 10,000 in only 6 years. Six other grant agreements were since signed for a total of US\$200 million worth of health services scheduled over the next 5 years. Coordinating such programs requires strong public-private collaboration, through "Country Coordination Mechanisms" (CCM), where all players are represented, including the government, the service

providers, the international organizations involved, the business sector and even the persons living with the diseases.

I do not want to exaggerate the meaning of the above. These have been episodes of goodwill and constructive behaviors in a society that remains largely plagued by a significant degree of suspicion among different elites and social classes. These episodes however reveal a true process of mentality and attitude change, driven by the profound mutations of Haitian society and its people. Several factors influence significant behavioral and cultural changes, including the growing Haitian Diaspora, the development of mass communication and the presence of large contingents of foreign workers in the country. I am also personally optimistic about the prospect for the recent catastrophe to increase the urge to unite ourselves against fatality and reinforce our will to build partnership for the good of all.

### ***Vision for a New More Prosperous and Equitable Haiti***

The Private Sector widely believe that the only real way to fight Haiti's poverty and boost welfare is to attract large private and public investment in Haiti's most competitive productive clusters, build a solid tax base and create a large middle class through publicly-funded education, health and human development effort. One of our key challenges is of fiscal nature: Haiti currently generates about 15% of the Dominican Republic's GDP and the State only collects 10% of GDP as taxes against 18% for the DR. The two countries having similar populations (10 Millions), this means that Haiti's Government collects less than 10% tax revenue per capita than its neighbor. With such limited means, popular demand for subsidies and welfare state cannot be faced other than by way of donor support, perpetuating the poverty-dependency trap we have been digging ourselves into over the last 20 years. The only way out of this trap is: (i) to rapidly grow the economy and (ii) increase fiscal pressure at the same time. The Private Sector Economic Forum has come to a large consensus that both must be achieved in parallel. We are determined to show a strong commitment for fiscal responsibility and transparency, to the extent of demanding high fiscal and ethical standards as a condition to be accepted as member of the Forum.

### ***On Economic Growth and Building Large Middle Class***

The Presidential Working Group on Competitiveness (GC), with the help of OTF, spent last year analyzing data, conducting surveys and workshops with business, students, civil society and government leaders through different regions of Haiti. The goal was to come with an ideal selection of productive clusters where Haiti could create large number of jobs, increase productivity and create hundreds of thousands of micro, small and medium microenterprises (SMEs), the backbone of any economy.

Among selection criteria, major consideration was given to export potential, import substitution, environmental sustainability, rapid implementation and potential for migration from low to high value-added products. The GC also took gender, age and rural-urban divide into account in its cluster selection process. A survey of 750 respondents was first conducted, including 120 students, analyzing, among other factors, mental models and cultural factors. Forty-two clusters were initially selected and, after discussing with various groups and government officials, it was narrowed down to the five with the greatest potential to lift economic growth. The chosen portfolio balanced the imperative of job creation with long-term structural transformation of the economy. The five priority clusters were:

- Two in agriculture, namely fruits and tubers and animal husbandry.
- Two dedicated to serve urban areas, including outside of Port-au-Prince: garments production and tourism.
- A fifth selected mostly for its ability to attract young urban people, namely technology-based Business Process Outsourcing (BPOs).

Five cross-cutting clusters were identified to support the growth clusters, namely construction, education, finance, information and communication technology and the business enabling environment. We calculated that actively developing these clusters could generate about 500,000 jobs over the next few years.

In addition to selecting priority clusters, the Competitiveness Groups worked to identify: (i) public policies and measures that could have an immediate impact of the business enabling environment (quick wins); (ii) social marketing strategies to promote entrepreneurial culture and positive attitude among Haitians; and (iii) public policies and programs to support SMEs.

The GC's final report was submitted to President Préval and his government last December. Based on the report's content and its prospect to constitute the basis for a new economic strategy, the President decided to empower the Group for a second year mandate with OTF assistance, whose main objectives would be to: (i) establish "business plans" for each cluster; and (ii) start a social marketing campaign to instill the attitude change identified as a key success factor for the strategy.

### ***Post Earthquake Revision***

Consistent with his mandate, the GC reconvened only 10 days after the January 12 earthquake to revisit the strategy. We quickly realized that the vision established last year was even more adapted to Haiti's post-disaster needs than before. Indeed, January 12<sup>th</sup> would not have been so tragic if Port-au-Prince was not so densely populated. Decentralizing and diversifying the economy away from the capital thus becomes the

focal point of any recovery strategy. GC approach, by boosting agriculture and industrial production could actually serve as a magnet to attract people outside of Port-au-Prince.

The main post-earthquake revisions to our rapport, however, was the need to make housing and urban development a priority growth cluster and to raise the total target to one million jobs, 70% of which from agriculture. We decided to de-emphasize the BPO cluster to make room for housing. The GC then revised its Executive Summary and started working on roadmaps for the five growth clusters.

While approving the new strategy and asking for financial support to GC from USAID, the President expressed his desire that the GC work serve as a basis for Haiti's post-earthquake economic recovery strategy. He formally asked GC to team with the Private Sector Economic Forum to work with his Government in preparation of the next Donor Conference to take place on March 31, 2010, at UN headquarters in New-York City.

### *Cluster Roadmaps*

In view of the March Conference, GC just produced the following elements of the five cluster roadmaps, which were discussed in an IDB-sponsored Meeting yesterday:

#### *1. Fruit and Tubers*

Haiti has made a good start in fruits, selling organic mangoes in the US market at \$6 a dozen against \$4 for Mexico. Favorable climate, abundant labor, proximity to sizable consumer markets and possibility to export year-round provide mango with good export and job creation potential. The country can also produce organic bananas and price-competitive pineapple for the US market. The GC found that 300,000 jobs could be created in fruit and tubers production and processing all over the country during the next 5 years. The following investments, amounting about US\$188 millions, have been identified to support the fruit industry over this period:

- Invest in higher value processing and export facilities (\$10M)
- Invest to create 200 post-harvest centers at \$35,000 each (\$8M over 5 years)
- Establish mango plantations in 3 priority zones (\$15M)
- Establish 2,500 hectares of SME accessible ferti-irrigation banana production (\$90M)
- Establish Crop Insurance capability (\$10M)
- Using the post-harvest centers as delivery points, establish farmer to post-harvest center capacity building program (\$27.5M over 5years)
- Create a brand and marketing strategy (\$150k)

- Organize two way FAM trips (\$1.25M over 5 years)
- Prepare and finance a large-scale marketing campaign (\$5M over 5 years)
- Control watershed in key agricultural priority regions (\$7.8M)
- Establish a Partial Guarantee Fund for investment into the sector (Minimum 70% coverage)
- Build new key roads to improve access
- Invest in product standardization & quality monitoring capability & ongoing system (\$5M over 5 years)
- Develop deep sea ports in Ft. Liberté and Les Cayes through transparent bidding mechanism (\$420M); to that effect, joint public/private partnership is required to revisit public bidding law and procedures and boost effectiveness and efficiency of the Commission Nationale des Marchés Publics (CNMP), the organ in charge of public procurement.

Associated public policies also need to be considered including, as for all export and import substitution industries, weaker currency, custom acceleration and equipment import fiscal incentives, together with incentives for financing and capacity building support to small farmers and revision of land-lease ownership laws for state land to attract FDIs.

## ***2. Animal Husbandry***

Favorable weather and soil condition combine with abundant labor force and strong government support to make animal husbandry one of the most promising clusters for Haiti. Eggs imports currently reach 44 million every month, with 80% from neighboring Dominican Republic. With adequate policy support, chicken and eggs could be competitively produced and replace import. Pork and fish farming are two other segments with great potential. The GC found that about 400,000 jobs could be created over the next 5 years. The following investments, amounting about US\$179 millions, have been identified to support animal husbandry over the period:

- Invest in 2 Incubators / Hatchery (\$1.52M)
- Invest in 12 Feed mills (\$65M)
- Invest in 12,925 Farms (\$56.4M)
- Invest in 1 Slaughterhouse (\$40M)

- Invest in 25-50 new dairy cooperatives (\$2.5M)
- Invest in an animal husbandry training institute (\$5 M over 5 years)
- Create a comprehensive sector strategy (\$400k)
- Support the establishment of appropriate points-of sale, through risk guarantee for these types of operators (\$10M)
- Invest in a national animal husbandry laboratory (\$500k)
- Build new key roads to improve access
- Invest in product standardization & quality monitoring capability & ongoing system (\$7.5M over 5 years)
- Develop deep sea ports in Ft. Liberté and Les Cayes (\$420M) through transparent bidding mechanisms after reform of public auction system.

Associated public policies also need to be considered including weaker currency as for all exports and import substitution, enhanced credit conditions, appropriate road systems, simplification of law/procedure to attract FDIs and incentives to microcredit extension to farmers.

### **3. *Garments***

Thanks to proximity to the US market, abundant, highly trainable and eager workforce, lowest labor cost in region, the US Hope II legislation and well organized local industry group, Haiti's garment industry offer great prospects for job creation in urban areas both in Port-au-Prince and provincial towns. The GC found that the garment cluster can create 120,000 jobs over the next 5 years. The following investments, amounting about US\$357 millions, have been identified to support this cluster over the period:

- Establish 3 new industrial parks including investment or operating incentives, one in Port-au-Prince, one in the North in Cap-Haitien and one in the South in Les Cayes (\$300M)
- Re-build existing firms, and cover losses (\$36.8M)
- Support the establishment of full-service product development firms, such as TC<sup>2</sup> or Astralis (\$5M)
- Establish 2 new training institutes capable of training 200-400 persons every 8 wks, possibly with Senai-CetiQ (\$10M)

- Re-open CHF / USAID training institute
- Sell Haiti through the improvement of HOPE II, especially through increasing maximum allowable Haiti export to 256 million SME per year (1% of US market)
- Launch a full-scale marketing campaign to attract business to Haiti (\$5M over 5 years)
- Establish an garments sector guarantee fund
- Improve laws regarding truck transit from DR to Haiti (\$150k)
- Improve access to and cost of electricity
- Revise labor laws to allow for more flexibility with shifts (\$150k)

Associated public policies to be considered include a weaker currency, as currency strength was a significant impediment to industry performance and ability to pay higher salaries to workers, rental cost subsidy for park tenants depending on extent of currency depreciation, enhanced credit conditions and reduction of electricity tariffs.

#### **4. Tourism**

As a Caribbean nation with attractive natural resources such as many gorgeous beaches, favorable climate, multiple historical sites, reputable art and music, Haiti enjoys great tourism potential and the Haitian Government is determine to use tourism development as a way to boost the Haiti's image. The country's poorly developed infrastructure, coupled with currency strengthening, lack of tailored tax and credit incentives and regulations have combined to greatly constrain the development of the industry over the last 50 years. Current prospects for job creation are thus limited compared to other clusters: the GC has found that 29,000 jobs could be created by tourism during the period. The following investments, amounting about US\$521 millions, have been identified to support this cluster over the period, out of which we distinguish between the capital (US\$168 M) from provincial towns (US\$353 M):

##### *A. In the capital, Port-au-Prince*

- Invest in development of 500-1000 new medium to high end hotel rooms (\$100M)
- Build a state of the art convention and exhibition facility, as a centerpiece of PAP's new zoning and reconstruction (\$50M)

- Invest in development of 500-1000 new medium to high end hotel rooms (\$100M)
- Build a state of the art convention and exhibition facility, as a centerpiece of PAP's new zoning and reconstruction (\$50M)
- Prepare and finance a large-scale marketing campaign (\$10M over 5 years)
- Revise laws that directly impede tourism development (DR crossings, condominium law) (\$150k)
- Improve the procedures for tax incentives
- Establish "cluster basics" in each target zone, including a medical facility, schools, electricity & sanitation (\$300M)
- Upgrade the Cap-Haitian airport (\$35M) through transparent bidding mechanisms after reform of public auction system
- Upgrade the Les Cayes airport (\$75M)

*B. In provincial towns*

- Investment to create 2000 new rooms in the target regions (\$300M)
- Upgrade the Citadelle Product and the historical north (\$35M)
- Invest in development of networks of cultural experiences (\$10M)
- Rebuild downtown Jacmel (TBD)
- Establish regional branches of a world-class tourism training institute (\$6M)
- Organize FAM trip (\$1.25M over 5 years)
- Prepare and finance a large-scale marketing campaign (\$10M over 5 years)
- Revise laws that directly impede tourism development (DR crossings, condominium law) (\$150k)
- Improve the procedures for tax incentives
- Establish "cluster basics" in each target zone, including a medical facility, schools, electricity & sanitation (\$300M)

- Upgrade the CH airport (\$35M) through transparent bidding mechanisms after reform of public auction system
- Upgrade the Les Cayes airport (\$75M)

Associated public policies to be considered include a weaker currency, as for all export activities, enactment of tax and credit incentives, reduction of electricity tariffs, revision of outdated condominium laws and procedures for FDI.

### ***5. Housing and Urban Development***

Up to recently a poorly developed cluster with rudimentary building codes and poor enforcement by Central State and municipalities, the prospects for housing and related urban development have suddenly exploded as a direct consequence of the earthquake. Thanks to potential donor-supported billions of investments, this cluster is likely to be the most important contributor to growth, job creation and foreign exchange generation over the next 5-10 years. The GC has found that US\$3.8 Billion, mostly coming from foreign sources, will be needed to build 250,000 units of housing to replace the ones destroyed by the earthquake. Out of the total, 200,000 (80%) will be social housing, costing US\$10,000 per unit, and US\$50,000 (20%) will be moderate to low cost housing, averaging US\$36,000 per unit. The amount needed to build other type of housing (commercial and administrative) has not yet been forecasted. Additional investment amounting US\$700 millions will also be needed for community infrastructure. 75,000 jobs will be created during the period. In addition to building houses and infrastructure, the following investments, amounting US\$45 millions, have been identified:

- Build advocacy capacity of builders association, AHEC (\$350 K)
- Subsidize memberships in regional and international associations (\$100 K)
- Upgrade capacity of technical schools (\$1 M)
- Vouchers for training schools (\$10 M)
- Encourage OTJ training through strategic subcontracting (\$5 M)
- Financial guarantee fund & reduce bonding requirements (\$25 M)
- Establish equipment leasing program (\$500 K)
- Requirements for local firm and labor (\$100 K)
- FDI campaign to attract specialized anchor firms (\$500 K)

- Development of zoning plans for provincial, satellite and capital (\$1.5 M)
- Elaboration of construction standards and norms (\$250 K)
- “Haiti Home” design competition: \$250 K

Key issues facing this cluster’s development and positive related outcome for the economy are however: (i) poor competitiveness of local builders and likelihood that many contracts might be rather awarded to foreign providers; (ii) lack of skilled labor, constraining local builders and reducing value-added to the economy. Accordingly, effective State strategies should be undertaken to make sure that foreign contractors be forced to sub-contract a decent fraction to local companies. This, combined with training, would allow local providers to progressively build capacity and at some point dominate the market, thus enhancing benefit for the local economy. Other key policy to support the cluster would be to offer partial guarantee to local financing of housing.

### *On Governance and the Role of Donors*

The above-mentioned investment in the five selected cluster amount to US\$5.8 billion, to which must be added cross-cutting investments of transversal nature. While GC has no precise estimate of this endeavor, it is likely that its cost bring the total to be invested in the Haitian economy close to US\$10 billion. This would literally mean that annual foreign aid would quadruple vis-à-vis the recent average observed. Such a large increase cannot possibly be managed by existing administrative structure, both in terms of financial control and coordination of the concerned financing partners. Based on recent international experience, notably during the reconstruction effort of the Aceh province in Indonesia, two different structures, both involving partners, i.e.: (i) a National Steering Committee in charge of conducting the Reconstruction Program, co-managed by the Government and International partners; and (ii) a multi-donor trust fund, which would receive all funds invested by different donors and use them to finance projects approved by the National entity. This solution, coupled with strict arms-length management and transparency rule, would certainly greatly enhanced funds management and donor coordination. It will however require formal endorsement by the Parliament to become effective.

On top of contributing to good financial management, what should be expected from this structure is a focus on overall cluster-oriented strategy, to make sure that public funds are not wasted and economic benefits are maximized. In effect, while Aceh was an undeniable success in term of financial management, positive impact for the economic has been a subject of debate. During the first few years of post-disaster management, the economy was mostly dominated by construction and related trade business, the other economic sectors, including agriculture and manufacturing showing

poor performance, preventing the economy to diversify out of oil, construction and trade. This remains a serious risk for the Haitian economy, especially considering that the huge inflow of dollars resulting from the construction and infrastructure effect, might well contribute to further currency strengthening and “Dutch Disease effects”, reducing export and import substitution activities’ competitiveness.

### *Social commitment*

Beyond partnering with the public sector in building a strong economy through selected cluster development, the Private Sector Economic Forum is determined to take this unique opportunity to build a “new social compact” among all members of society. We sincerely hope to be able to contribute, not only fiscally, but also through corporate social responsibility principles and actions, particularly in providing support to workers and contributing to human development endeavors in health and education. As already said, our fiscal focus will be primarily to discipline our members and increase fiscal responsibility and transparency. We are however supporting also supporting all efforts to enlarge the tax base as a major requirement to bring fiscal pressure to the 18% level from current 10-11% low base. A comprehensive strategy centered on five pillars, namely jobs and economic opportunity, food and environmental security, health and education, housing and economic security and government and institutional capacity, is being currently brainstormed among private sector leaders, with help from Dalberg Global Development Advisors. It is bound to become the new guiding chart of the Private Sector Economic Forum, truly rebranding Haiti’s Private Sector as true partner for State, civil society and the people.

Mr. Chairman, Honorable Congressmen,

In closing, may I once again thank you for this opportunity to address you on such a crucial matter for my country as the post-earthquake recovery strategy and the new role that Haiti’s Business Sector intends to play for building a new nation, more prosperous and more equitable for all Haitians. I will be happy to answer your questions and contribute to your thoughts about how the US could help us restore our nation and the dignity of our people.

Thank you.