

**Effectiveness of Aid in Haiti and  
How Private Investment Can Facilitate  
the Reconstruction**

Written Statement of

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to the

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of  
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**“Rebuilding Haiti in the Martelly Era”**

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## *Introduction*

Mr. Chairman, Members of the Subcommittees, I am pleased to share and describe my experiences about what I have learned and observed in working in Haiti prior to the earthquake and in its aftermath. The Haitian-American Chamber of Commerce (US) and my company, BioTek Solutions/BioTek Haiti SA, has always been committed to Haitian private sector development. I am eager to discuss solutions, models and strategies which could be instrumental in today's efforts of rebuilding Haiti. I am also extremely gratified and happy to see that our collective Haitian and Haitian-American voices are being heard.

Haitian immigrants have always constituted a very visible segment of American society, dating back to before independence in 1804 and in the years prior to the American civil war, with Haiti contributing to the American Civil war efforts. Many influential early American settlers and black freemen, including Jean Baptist Point du Sable and W. E. B. du Bois, were of Haitian origin.

The Haitian-American Chamber of Commerce, based in NY and Florida serves as the advocate for the overall community as well as resource for consumers and businesses dedicated to serving both the needs of our members and the economic development needs of the broader Haitian Community.

Today, of the 1.6 million Haitians and Haitian-Americans who continue the tradition of contributing to the US economically and socially, are the 10% of African-American doctors, the same for the 11% of African-American Attorneys and 13% of African-American engineers of Haitian origin.

The chamber of commerce represents US, Haitian and Haitian-American companies of diverse interests, such as Wachovia Bank and Royal Caribbean Cruise lines as well as Sogexpress; Dr Kernisant's Preferred Health Partners, the largest, privately-owned, multi-specialty medical group in Brooklyn, NY, serves a patient population of over 150,000 and employs 175 medical professionals with 750 supporting staff. Dr. Kernisant is also founder, president and CEO of **Simact**, a Haitian-American investment consortium. Simact has invested US\$ 11.5 million in Haiti, including in their flagship, Le Cap Lamandou Hotel which employs 100 employees from the Jacmel region. Simact remains the first hospitality business in Haiti to have signed a franchise agreement with **Choice Hotels International** for both Le Cap Lamandou and the

future Belle Rive Hotel. Simact also owns a Mining company in partnership with Canadian company, Majescor Resources presently being traded on the Toronto Stock exchange. That entity alone employs 100 people in Trou du Nord, Haiti. SME members include Galerie d'Art Nader and the law practice of attorney James Jean Francois.

We must also acknowledge the many Haitian-American public service employees, whom though given the opportunity to earn large salaries in the private sector or to become business owners themselves, prefer to dedicate their services to the US government (USG).

It is therefore understandable that President Clinton stated **“that given the right organization and support, Haiti could become a self-sustaining and very successful country.”**<sup>1</sup> Those same sentiments are echoed by thousands of Haitians, including Mr. Pierre-Marie Boisson, a respected Haitian economist and long-term advocate of Haiti's public-private policy dialogue and the 2003 Harvard University recipient of Public Service Innovator for his pioneering role in Haitian microfinance. Mr. Boisson stated “Haiti is a land of opportunity, if only its citizens want to believe in it and start building their own future. The real secret for removing Haiti from its depressing poverty-dependency trap is to induce massive productive investments in the economy. Attracting such investments is the only way to generate good jobs and revenue for Haitians. It's the surest way for the State to build a sizable fiscal base and thus regain its capacity to play a meaningful role in society.”

Mr. Joel Ducasse, President of Haitian Solidarity SA, a reforestation and biomass energy company believes that recent US policy innovations present an improvement over the past, - “The USG has made significant strides in the past 3 years in trying to reverse bad economic policies [in Haiti] with a number of initiatives, -by linking the rural sector to Haitian economic sustainability and by encouraging the "private sector" to invest in production instead of imports or speculative activities; By bringing loans guarantees to would- be investors; Efforts have been made to channel Diaspora money into productive activities; And, the introduction of Mobile Banking provides an important tool to credit and banking to +80% of the population who would otherwise not benefit from access to credit and banking at all.”

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<sup>1</sup> Bill Clinton, “What Haiti Needs” *Time*, Jan. 14, 2010. [www.time.com/.../0,28804,1953379\\_1953494\\_1953521,00.html](http://www.time.com/.../0,28804,1953379_1953494_1953521,00.html)

## *Impediments to Haitian Economic Progress*

Haiti's status quo has been ineffectual for 200 years. Haiti's history of mismanagement and strife has resulted in a poverty rate that climbs over 80%, continued reliance on Diaspora remittances,- which represented between 23 and 30 % of Haiti's gross domestic product (GDP) in 2010; - in addition to Official Development Assistance (ODA) which also accounts for some 10% of GDP);<sup>2</sup>—While the land is over 98% deforested and the topsoil washes away to the sea. These ongoing conditions have created unprecedented erosion and challenges to sustainable agriculture—which in turn has led to the massive urbanization of the capital, Port-au-Prince as well as an over-reliance on imports.

Additional economic constrictions, as presented by SAJ Group SA CEO, Mr. Steeve Khawly, who imports various commodities, - include:

1. Security , justice and the rule of law must be addressed;
2. Lack of available funding/capital or an institution offering loans with better rates, conditions and adequate grace periods.
  - Loans and affordable credit rates to both SMEs and large impact sector companies: i.e.: garment industry, agriculture, energy, mortgages, construction and tourism industries;
3. Consistent dumping of goods into Haiti which undermines local agricultural and other production;
4. Lack of infrastructure, such as Ports, Airports, Road(s) and maintenance;
5. High tariff duties and various Port charges in Haiti vs. that of other CARICOM countries, - especially in comparison to DR tariffs;
6. Lack of community building and development

### *Haiti's 3 challenging sectors:*

Three (3) sectors exacerbate Haitian developmental progress: agriculture, energy and lack of available credit.

All of these factors are inter-related and must be addressed to redress Haitian economic decline and to significantly reduce international aid dependency. The priorities of

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<sup>2</sup> Johanna Mendelson Forman, 2011. Center for Strategic and International Studies

the US, the International Community, the Government of Haiti (GOH) and the Haitian private sector must be to establish food and energy security and greater access to credit/financing—both for Haiti’s own internal socio-economic and political stability and to attract foreign investors. Thus far, the Haitian business classes or Haiti’s elites have gained wealth chiefly through commerce, but have failed to invest meaningfully in production enterprise. The new GOH must be able to encourage and lead this transition from commerce to production, including foreign investment.

The USG has been consistently supportive of Haitian productive sectors, - such as the garment and apparel sectors with the HOPE legislations. The USG has also been fairly consistent and pro-active in regards to Haitian environmental protection, - such as USAID (United States Agency for International Development) Winner’s irrigation programs with the Arcahaie and Ennery watersheds. USG inconsistency lies mainly in failing to link existing indigenous potentials which have the ability and capacity to simultaneously impact in the immediate and the long-term more people, as well as the Haitian market economy.

An example is the recent US Supplemental US\$ 1.2 Billion Fund (one of the best Haiti fund packages to date) is the categorically ignored and bypassed Province of Leogane, which was 90% destroyed during the January 2010 earthquake and hosts Haiti’s only remaining and operating sugar mill. The Plaine de Leogane also supports over 100 alcohol and rum distilleries dependent on sugar cane cultivation/production and thousands of farmers. The sugar cane industry *IS* a large Impact Sector.

### *Agriculture*

The USG has been promoting agriculture in Haiti for the past 15 years with limited success, despite large investments in this sector. This sector’s lack of success is due in part to USG reluctance if not refusal to address Haiti’s Major Agricultural Impact Sectors. As of 2008, the agricultural sector accounts for 25% of Haiti’s GDP, a decline from 40% in the 1990s.

Agriculture employs two-thirds of Haiti’s workforce.<sup>3</sup> Haiti spends 80 % of its export earnings to import staple foods like rice and sugar and poultry. Yet, Haiti has 700,000 hectares

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<sup>3</sup> Inter-American Development Bank (IADB) 2009

(ha) of unused and/or underutilized lands. Haiti can be growing and producing these products itself as it did some 20 years ago.

These 3 products/sectors have suffered the direct loss of 831,000 agricultural farming jobs as a result of World Trade Organization (WTO) and CARICOM trade policies represent between 47 to 50% of Haiti's annual trade deficit.

Ongoing challenges impeding general and agricultural development include the facts that only 1 in 10 Haitian farmer having access to adequate seed stock, irrigation or fertilizers; And only 4% of rural households, - generally farmers, - have savings accounts, and only 11% of report receiving credit.

Lack of investment and credit in Haiti's Major Economic Impact sectors (Rice, sugar and poultry) contribute to the root causes of Haiti's poor and endemic food security.

According to Mrs. Johanna Medelson Forman of the Center for Strategic and International Studies "Agriculture is a good place to start given its importance to the Haitian economy" to revitalize Haiti's economy. Mrs. Mendelson Forman cited the example of the Coca-Cola Company which was designed to diversify supplies for the Odwalla beverage. The initiative Mango Tango will serve as a much needed catalyst for related infrastructure projects and investment deals.

For example, TechnoServe will provide technical assistance to grow the crops more efficiently. Coca Cola is working with the U.S. Agency for International Development (USAID), the Inter-American Development Bank (IDB), the Clinton Bush Haiti Fund, and local and international actors to provide the financial underpinning for the project."<sup>4</sup>

Coca Cola's example clearly shows the potential to optimize Haiti's agricultural sector, but unlike Coca Cola which can internally finance such a program and has the resources to access international funding institutions, -many of Haiti's SMEs and its farmers do not have such credit nor readily available access to either local or international funding.

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<sup>4</sup> Johanna Mendelson Forman, Hardin Lang, Center for Strategic and International Studies

## *Agricultural Revitalization and Solutions*

We have sought to present multiple solutions to Haiti's Major Challenges using indigenous products and/or assets. This strategy invites (a) local entrepreneurship at a lower financial [start-up] cost, (b) reduces the amount of international aid necessary for program implementation, (c) creates jobs and (d) contributes towards Haitian economic self-sufficiency. The primary challenges and solutions to be adopted to ensure adequate Haitian food production and security are (the below):

- 1. Irrigation**
- 2. Seed banks and nurseries or agricultural research and development centers for the distribution of viable and disease resistant seed stocks**
- 3. Application of fertilizer to ensure viable cultivation/production output or harvests**

The primary challenges and solutions to be adopted to ensure adequate Haitian food production and security (shown above) are being met in part by the Inter-American Development bank (IADB) with the revitalization of 7 of Haiti's main watersheds. These programs will complement and optimize Haitian agriculture. These important components will mitigate erosion; reduce flood risks, loss of life, property and livestock as well as increase farmers' production yields and therefore, revenues.

Capacity building via the establishment of agro-industrial partnerships will positively impact the environment and the market economy. As a result, farmers will be more encouraged to cultivate/produce for the larger public, beyond their villages. In addition, the riverbanks can be cultivated/planted with dual-purpose value-added crops (such as moringa, vertiver and jatropa) for soil conservation and to mitigate erosion as well as the production of bio-oils.

This multi-purpose approach will serve to contribute to job creation, the establishment of a local "village based" energy production base which will provide affordable/accessible energy resulting in reducing the use of charcoal which represents 16% of peasant revenues.

Addressing the irrigation and environmental issues by making use of alternative energy source geared towards Community Development and a Sharing Concept creates strong vested agro-industrial partnerships [between farmers and processors/industrialists].



The strategy to cultivate/plant designated crops along Haiti's riverbanks eliminates land tenure contentions and can be implemented immediately.

### *Agricultural Research and Development Centers*

The US and the international community can support local Haitian Universities and Agricultural Research and Development Centers—of which there are only 20 ill-equipped operating with nearly non-existing funding in Haiti. Another option would be to gear funds to NGOs with Haitian partners who work and operate outside of Port-au-Prince in the agricultural and environmental rehabilitation sectors.

These AgResearch/Development Centers would be able to work with their international partners (NGOs) to establish partnerships which would result in local agro-industrial entrepreneurships. The centers would develop local disease resistant, improved high yield seeds, which in turn would increase and diversify farmers' income and contribute to food security. Also, planting and cultivation would lead to environmental conservation and would serve to mitigate and/or reduce impact of natural disasters.

### **Major Impact Sectors:**

#### *(1) Sugar Cane and Sugar*

The Province of Leogane, which is the sugar cane cultivation/production region of Haiti has one of the lowest yields of sugar cane output in the Western hemisphere with a range of 8 to 40 MT of sugar cane per hectare—compared to up to 85 MT in other parts of Haiti and [other] Latin American countries. For sugar cane as with other crop cultivation/production, Haitian farmers have limited access to fertilizer, consequently yields remain low.

The regional low yields result in low income for farmers and poor cane and subsequently—poor sugar quality. Haiti produces on average 2% of its nearly 190,000 MT

annual consumption, estimated US\$ 117 million/year or 11% of Haiti's annual trade deficit. Sugar cane remains one of the most important cash crop in Haiti.<sup>5</sup>

BioTek's optimization of Haiti's only remaining operating sugar mill, the Usine Sucriere Jean Leopold Dominique de Darbonne (commonly referred to as the Darbonne Sugar Mill) in Leogane would directly rehabilitate 15,000 hectares of existing sugar cane fields/plantations.

This will result both in the augmentation of sugar cane yields as well as continued BioTek basic cleaning of regional watersheds to mitigate flood risks. The Darbonne Sugar Mill has the production capacity to produce 100,000 metric tons (MT)/year of sugar annually, - thus can displace 50% of Haiti's sugar imports and produce an estimated 12 to 15 megawatts (MW) of renewable green energy to service the capital, Port-au-Prince. The project will create 32,000 farming jobs. The BioTek/Darbonne Project can in one scoop, provide a return on investments that would contribute to food security for over 250,000 people (since each worker in Haiti cares and/or feeds 8 others), increase regional Leogane buying power and contribute to energy security and independence with electricity production from sugar cane processing.

The Darbonne Sugar Mill optimization can is a prime example that Investments not Aid are the key to economic self-sufficiency. A similar project can be replicated in the North to service the already financed and planned industrial park in Cap-Haitien to contribute towards the energy requirements of that new facility—estimated at 25MW. Such projects entrepreneurial development which would result from readily available electricity.

Besides local sugar production, sugar cane cultivation promotes environmental conservation and offers the potential for renewable energy production/generation, - such as Bio-Energy from sugar cane bagasse (a waste product of sugar cane processing and sugar production). The right investments in this sector will result in greater energy accessibility and affordability, - with offshoot benefits supporting decentralization [of the capital Port-au-Prince), the establishment of SMEs, foreign investments, healthcare and schools, - as well as increase GDP and create jobs.

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<sup>5</sup> Depending on market, import price and even fuel/freight fluctuations.

## *(2) Rice*

Haitian rice consumption is estimated at 467,000MT/9.5 million people and produce only 12% of that total.<sup>6</sup> Rice has comprised the 2<sup>nd</sup> largest type of food aid to Haiti, in volume terms, both globally and from the US. Rice is the most important crop in the food security debate in Haiti and plays a major role in influencing national and regional politics. Much of this sensitivity arises from the fact that the country was once nearly self-sufficient in rice production, but now relies heavily on imports.

If the US and the international community were to invest an estimated US\$ 400 million of its Aid funding towards the revitalization of 100,000 hectares of rice fields/plantations, the return on investment cost would be the creation of an estimated 250,000 agricultural jobs, production of an estimated 350,000 to 400,000 MT/year of rice (conservatively)—while simultaneously ensuring decentralization of Port-au-Prince. This investment would displace the average annual US aid to Haiti and the funds spent on food aid programs in 3 years.

According to USAID, “Locally-produced rice is preferred by Haitians over imported. However, given the significant price differential between imported and the locally-produced varieties, which may cost as much as twice the price of imports at the retail level, depending on location and seasonality—households have to carefully balance their preference for locally-produced commodities with their binding budget constraints. This price differential has been exacerbated by the reduction of import tariffs in 1996, and increase production costs.”<sup>7</sup>

The USAID Report also states that “The purchase of imported food commodities diverts resources away from Haitian producers, and a significant share of the profits generated along the marketing chain for imported commodities is captured by a small, collusive group of oligopolistic importers of staple foods.

The team spoke with some of the local Haitian importers, who confessed that their business practices would not be fair according to US standards. The report concludes that Haiti’s top-level market actors benefit from unregulated trade and challenge the entry of new market actors.

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<sup>6</sup> Note: Average Consumption" only reflects the sum of imports and production, and lacks food aid contributions.

<sup>7</sup> USAID Food Program. (Office of Food for Peace Haiti, 2010 Haiti Market Analysis.

Additional challenges:

- The majority of key informants in the private sector do not favor food distribution.
- Food insecurity in Haiti is primarily due to limited cash which constrains household capacity to purchase marketed food.
- Local markets are fairly well-integrated, though in general, the markets for imported commodities are more integrated than for local commodities.
- Poor transportation infrastructure increases the costs of marketing, and thereby affects integration of markets.
- Lack of credit negatively impacts all players along the entire value chain for locally-produced commodities.

To sum it up—The USAID Report indicates that food insecurity in Haiti is not caused by the lack of food availability. Clearly, the private market has the capacity to meet localized food deficits. However, this availability is heavily dependent on imported foods, prices for which are subject to fluctuations in global food prices and, more importantly in Haiti's case, to manipulation by the oligopolistic firms that control an estimated 80 percent of Haiti's marketed food supply. Based on available evidence, these firms engage in rent-seeking behavior which results in unfair market prices for consumers.

These characteristics of the Haitian food supply create an access issue among average Haitians, an estimated two-thirds of whom are unemployed, and 50 % of whom live on less than US\$1 per day.

### *(3) Livestock: Poultry and Eggs*

This report will not cover poultry and other livestock for the sake of brevity. But let the record note that poultry and eggs represent imports estimated at US\$ 185 million annually or 17% of Haiti's annual trade deficit.<sup>8</sup>

The Poultry/Egg sector's main impediment is not the ability to grow chicken and eggs, but the inability to feed the chicken and eggs. The poultry mills must import the feed, - which

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<sup>8</sup> Numbers are based on pre-earthquake figures MFT SA, a Haitian poultry/egg company.

they cannot afford. The poultry industry's obvious solution is to grow the feed locally to sell and to service both the human and poultry markets.

As with the other sectors showcased in this report, in order to succeed the poultry industry also needs agricultural revitalization with investments in the expansion of maize and other products to survive and to thrive.

#### *(4) Agro-Solutions: Converting waste to Fertilizer and/or Compost*

The Major Agricultural Impact sectors (rice, sugar and poultry) are inter-related and have the potential capacity to (a) optimize Haiti's existing Agro-Energy nexus and (b) create thousands of jobs, and (c) contribute to the reduction of Haiti's trade deficit while also increasing GDP and the standard of living. Therefore, any genuine and viable economic program must revamp these key sectors to revitalize Haiti's economy.

Solutions, including converting waste to fertilizer and/or compost can become vital employment and created entrepreneurship opportunities in Haiti. Waste collection to be recycled and converted to fertilizer and compost adopts an Integrated Resource Management approach which makes use of indigenous or existing assets such as waste, including Municipal Solid Waste to produce and yield a natural fertilizer with ten times the nutrient content of composting. This results in the reduction of the use of fossil fuel fertilizers (which Haitians can ill afford).

Haiti's capital produces between 1,600 to 2,000 MT of Municipal Solid Waste (MSW) — of which 75% is food waste. This agricultural waste product can be converted to fertilizer and/or compost and energy. Preliminary evaluations from US company, DCK indicate that Port-au-Prince's waste stream can produce an estimated 12 MW of electricity. Therefore, allowing waste collection and processing to pay for itself as well as improve food production with higher yields and create jobs.

The use of recycle MSW to produce fertilizer and compost is carbon-neutral and can reduce Green House Gas emissions by up to 25% according to Chris Corps of British Columbia's Simon Fraser University and Royal Roads University.

### *Investing in Haiti means investing in Haitian Agriculture*

USAID [Report]t emphasizes that “the longer-term solutions to enhancing market performance and improved food security will depend on overall investment in agriculture, infrastructure, and development of income-generating opportunities, in the near-term, continued cash and in-kind support will be necessary to ensure basic needs are met in the short- and medium-term.”

At 1<sup>st</sup> glance, per USAID, the availability of food, combined with the lack of consumer purchasing power, suggests that increasing poor households' income and therefore access to food is the logical answer. According to USAID, longer-term solutions to reducing food insecurity will require reducing the dependence of the poor on the market in its current structure.

But how can Haitians whose average earnings of US\$ 1 to 2 per day secure this purchasing power and/or develop income-generating opportunities with competing and even subsidized products from the US and other countries?

### *Energy*

According to Haiti's Ministry of Public Works, the Haitian electricity deficit is estimated at 700 Megawatts (MW). Electricity is generated nearly 100% from imported fossil fuels and represents an estimated 27 % of Haitian annual trade, - nearly 1/3rd of the Haiti trade deficit, - or + US\$ 350 million per year (estimate based on fluctuating market price).

Haiti fuel is provided 100% through an agreement between the GOH and Venezuela via PetroCaribe. The PetroCaribe/Haiti cooperation agreement sponsored by Venezuela offers a secure energy supply at preferential financing rates to 17 Caribbean countries, including Haiti. Under Petrocaribe's financing terms, Haiti can import 14,000 barrels of oil a day and has 3 months to pay for 60 % of each oil shipment, and 25 years to pay the balance at 1% interest.

The Haitian Electricity Company (EDH) has a dismal 169,000 clients sporadically receiving electricity services in a nation of 10 million. Businesses and more affluent Haitians

are forced to fend for themselves at a cost estimated to range between US\$ .75 cents to US\$ .85 cents per kilowatt (KW) compared to the average US retail electricity prices of US\$.12 cents/KW.

Haiti can optimize its agro-energy base and potential by making (a) use of its existing assets: sugar and rice industries to produce bio-energy from processing waste or biomass products; (b) Rehabilitate watersheds and rivers by cultivating specific agricultural species along the [river] banks which will mitigate erosion and produce bio-oils, (c) There is also the potential of converting Municipal Solid Waste (MSW) into energy.

Lack of readily accessible and affordable energy/electricity keep wages low in many sectors, - as much of Haiti's basic infrastructure (i.e.: water, transportation) is either highly cost prohibitive or non-existent. Energy shortages alone severely limit buying power, access to education and technology and as a result impede educational opportunities, productivity and return on human and capital investments.

The EDH suffers chronic loss of +50% of electricity during grid transmission as a result of theft, antiquated and poor infrastructure,- representing a financial loss of US\$ 84 million/year).

Existing agricultural waste to energy options as seen in the previous segment, - along with Haiti's existing agro-energy potential can provide consistent and lower cost electricity and can make a positive impact on the Haitian energy market.

### *Credit/Financing*

This sector remains the most challenging for the Haitian Private Sector because one cannot revitalize either agriculture or energy or any sector without money. Credit and financing are nearly non-existent and depend a great deal on international financing agencies, - for which the qualification process can be so daunting to many Haitians that even larger companies do not seek to apply, - much less qualify.

A March 2010 survey of Haitian Small and Medium Business Enterprises (SMEs) cited in the Haitian Presidential Commission on Competitiveness Report of March 2010 found that access to affordable financing ranked as a top priority in their efforts to re-start operations in the aftermath of the earthquake.

## *Effectiveness of Aid in Haiti*

Despite widespread agreement that entrepreneurial innovation is the engine that fuels economic growth and job creation, US funding and resources dedicated to cultivating Haiti's private sector have been comparatively low. Since 1990, the USG has invested or donated US\$ 4 billion in order to counter Haiti's dismal economic downfall, yet the country remains the poorest in the Western Hemisphere. (*U.S. Department of State, Hill Briefing Notes, published in March 2010.*) The donor community has pumped in a similar amount--with little to show for it.

Many Haitians believe that these poor results are due in part to the lack of support and USG funding targeted towards the private sector, which over the past 15 years has totaled just USD 163 million, with roughly 42% of the total coming through during fiscal years 2009/2010, according to the US Agency for International Development (USAID).

According to the World Bank's Outlook for Remittance Flows (2010-11), the Diaspora officially sent \$1.4 billion in remittances to Haiti in 2008, and unofficially may have sent as much as \$2 billion. Remittances have now surged to US\$ 1.8 billion officially. Additional aid comes from an estimated 50% of American households to Haiti. Private donations represented an estimated US\$2.7 billion in the aftermath of the earthquake. Yet, in spite of all of these billions of dollars in aid and contributions, - Haiti remains one of the most food-insecure places on earth with 58% of Haitians lacking adequate access to food, - which equates to 5.2 million people.

Though, Haiti has benefited from roads, hospitals and the revitalization of many of its sectors from US aid. We, in the US must acknowledge that if for every US\$ 100 of USG Aid to Haiti, US\$ 98.40 returns to the US, -then we cannot expect a better return on investment than that represented by the limited results to date.

Therefore, it is time to re-think and redefine US development assistance approach to Haiti—and it is imperative that the US, the international community (or Haiti's financial partners) and Haitian actors themselves adopt and implement solutions that redress unfair international policies and local impediments that have caused endemic Haitian economic failure. Per Mr. Bracken Hendricks of the Center for American Progress "The global



community must ensure that the reconstruction of Haiti's infrastructure increases economic resilience by adding value to existing indigenous assets."

The US and Haiti's other financial partners should implement an approach based on investment which demands better accountability and expect future "Return on investment" in the form of establishing and contributing towards a self-sufficient economy—where Haitians have actual buying power. This strategy will save the US billions of tax dollars in aid funding in the long run and create an economically self-sufficient Haiti.

Dr. Philip Auerswald's of George Mason University

*"Haiti's path to prosperity does not run through the halls of aid agencies, but from seed to harvest".*

If the international community is at a loss regarding Haiti, Haitians themselves are quite sure of what they want. Respondents to an Oxfam America survey of people affected by the earthquake ranked support for **local food production** among the 4 most important assistance interventions (along with job creation, education and shelter).

## **Background: Haiti is Not Without Resources**

Senator Lugar's Haiti report states "In a nascent economy like Haiti's, growth is driven by new business formations. This occurs in the service sector especially (restaurants, hotels, and corner stores) but also in the broad array of businesses that support entrepreneurial expansion. Historically, entrepreneurial instincts among Haitians have recognized these economic needs and the broad promise that business development offers the Haitian people, especially regarding job creation."

Haitian agriculture is at the very fabric of Haiti's potential to revitalize its economy. And, to understand Haiti's agricultural struggle today and the current sensitivities surrounding certain commodities, one must acknowledge two primary factors which resulted in Haiti's agricultural decline: the trade embargo imposed on Haiti in the early 1990s, and the trade liberalization which began in the mid-1990s under the Structural Adjustment Programme.

According to the USAID Office Food for Peace, Haiti Market Analysis Report (August 2010) “Until the first half of the 1980s, tariff barriers protected Haitian agriculture from foreign competition. Customs duties were relatively high to discourage imports.

Many Haitians believe that Haitian agriculture decline began in the 1980’s as opposed to the 1990’s with the massive importation of rice and other agricultural commodities. The adopted strategy by the then Duvalier regime was the sporadic suppression of the sale of local rice production [and subsequently of the farmers] in favor of imports. Though, this practice was sporadic indeed, the laws to benefit those in the rice and other import industries did not officially take effect until the implementation of the World Trade Organization (WTO) and CARICOM agreements, and were further exacerbated by the 1990’s trade embargo.

The embargo imposed on Haiti from 1992-1994 destroyed the Haitian agro-industrial base and caused the loss of 200,000 jobs as per the Lugar report, mainly in the factories. For example, the Darbonne Sugar Mill which was opened in 1983 and promptly closed some 3 years later by then Minister of Finance Delatour who thought it more economical to import sugar. The embargo also limited the availability and even access of fertilizer to farmers.

Under the recommendations of the International Monetary Fund and the World Bank, important trade barriers were removed in 1995 as part of a Structural Adjustment Programme, making Haiti the most open economy in the region and tremendously increasing the country’s imports of agricultural products. Trade liberalization removed protections for domestic commodities and encouraged an increase in imports, many of which directly or indirectly competed with domestic commodities.”<sup>9</sup>

Although the trade embargo was lifted the next year (1996), local production continued to struggle. This struggle continues today. While locally-produced agricultural commodities are abundant on markets immediately after harvest, domestic producers are unable to meet increasing demand from a growing population for relatively inexpensive cereals. This is especially true for rice, which has become an important staple in the local diet.

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<sup>9</sup> USAID Office Haiti Food for Peace, Haiti Market Analysis. August 2010.

The Artibonite is regarded as Haiti's Bread Basket and Leogane regions' pertinent agricultural sectors (rice and sugar) have the potential for the creation of an estimated 132,000 agricultural jobs in the rice and sugar. Haiti went from being self-sufficient in the production of rice, sugar, poultry, and pork to becoming the 4<sup>th</sup>-largest importer of subsidized US rice in the world and the largest importer of foodstuffs from the US in the Caribbean."

In the 1970s, Haiti imported just 19 % of its food. During that decade, the USG, World Bank, and International Monetary Fund began creating development plans designed to spur growth in the country's manufacturing sector and to move large parts of the workforce into urban communities. As part of the strategy, GOH lowered the country's tariffs for food imports to as low as 3 %, while the US raised barriers to exports from Haiti. (Note: the Caribbean average is 38%).

Even USAID's WINNER program which looks like a great use of U.S. taxpayers' money focuses on crops such as mangoes, lettuce, cabbage, and peppers. Accordingly, WINNER's 5 year Monsanto seed donation and distribution program to almost 400,000 Haitian farming families establishes further dependency on US Tax payer funded programs and ignore a problematic reality and obvious solutions.

But even if USAID wanted to invest money in helping Haiti to become self-sufficient in rice or sugar production, the agency is prohibited from doing so by the Bumpers Amendment. The law prevents USG aid from being spent on programs that could benefit crops that might compete with American exports on the global market. As then-Sen. Dale Bumpers, D-Ark., said in 1985, the law is designed to "prevent American tax dollars from being used to help foreign countries who are trying to take our export markets." It is the reason why farmers are only eligible for USAID funding if they were growing lettuce or mangoes rather than rice or sugar. Mangoes, which barely accounted for US\$ 15million exports in 2009 and cabbage are not going to change the negative balance of trade in favor of Haiti. It's not going to allow agriculture to become a mainstay for the majority of Haitian farmers. Mangoes and cabbage will not contribute to food security in Haiti.

The USG has taken steps to remediate the disparities in the banking sector with the introduction of Mobile Banking. This initiative, which was introduced in January 2011 is a viable provision of accessible and affordable banking to any Haitian with a cell phone, - a technology which promises to be very popular, prevalent and accessible to nearly all Haitians.

Likewise, the new GOH must also provide the leadership and focus necessary to the Haitian-American Diaspora and the numerous NGO operating in Haiti to encourage collaboration, share expertise in priority sectors, including training/education, healthcare and agricultural industries.

### **How Can Private Investment Facilitate the Reconstruction?**

For Haiti's reconstruction aid to be effective and sustainable, however, Haitian entrepreneurs must also be included and empowered like never before to "buy-in" and participate in the rebuilding of their own country.

With the understanding that long-term social, political and economic success lies with the creation of viable businesses that create jobs and contribute to bottom-up economic development models that are beneficial for all parties, - Substantive joint efforts must articulate, define, design and map out a strategy with a specific focus towards the establishment of a Haitian Enterprise Economy.

To this end, US aid should be effectively converted into **US investments** to better focus on sectors that prioritize Haiti's actual needs and capacities—with an eye towards **innovation** and **open competition**— and with the unequivocal goal of Haitian economic self-sufficiency.

Mr. Boisson words are spelled out succinctly in Senator Lugar's July 2010 report "Without Reform, No Return on Investments in Haiti."<sup>10</sup> The report states "Promoting conditions that will catalyze indigenous job creation can empower the Haitian people to help themselves and is a sustainable approach to foreign assistance. It is in our national interest to see Haiti emerge as a commercial partner."

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<sup>10</sup> [lugar.senate.gov/issues/foreign/lac/haiti/pdf/investment.pdf](http://lugar.senate.gov/issues/foreign/lac/haiti/pdf/investment.pdf)

For this to occur, it will be necessary for the US and the International Community to provide the pledged financial and technical support to rebuild Haiti better, - including the strategic investment of US aid packages to contribute towards Haitian economic self-sustainability for the success of donor assistance programs.

Mr. Iglode Anglade, a former police officer turned driver in Port-au-Prince, - to better support his family which includes his 3 unemployed siblings, stated that “jobs are the key to rebuilding Haiti”. Mr. Raymond Lerebours, a farmer and agro-entrepreneur who runs a modest coffee and cacao triage company and who has worked for local agro-industrial companies and Mr. Marc-Antoine Acra, General Director of INMETAL SA/ NABATCO SA whose company is heavily vested in the import of commodities and some minor local agricultural projects, all agree “**Haiti needs a Development Bank**”.

Mr. Acra added that a means to jumpstart the Haitian economy is to start by authorizing the existing "*Centre de Facilitation D'investissement*" (CFI) or Investment Facilitation Center to become a one-stop shop which would service all the requirements to establish a business in Haiti. Mr. Acra also strongly supports the need to regulate imports in order to protect local producers and investors by stopping contraband, dumping and to establish and enforce Haitian corporate and social responsibilities.

Even before the earthquake, Haiti had reached a cross-road and was bursting with a thirst for change. Haitians must forge a future with the goal towards economic independence which actively moves Haiti off US and international aid towards implementation of balanced internal and international policies. Haitian leaders must understand that the status quo of wealth via international aid no longer applies.

Haiti is fortunate to have examples of proven economic development models and solutions as those used by Brazil and other developing countries. Such models can be customized to fit Haiti's actual realities, capacities, needs and growth potential.

Examples of internal Haitian solutions would be to work and to educate the miniscule number of large food importers in the Major Agricultural Impact Sectors (rice, sugar, and poultry) to invest in local production and/or to buy local products—thus, establishing vested

agro-industrial partnerships by allowing farmers or members of the informal economy to actively contribute to the overall economy.

More importantly yet, would be initiatives that support micro and SME financing to small farmers increasing local production for local consumption, - while creating viable agro-businesses that also create local jobs.

This would significantly increase the informal sector's buying power—currently estimated at some US\$ 4 billion—and result in increased tax revenues to the State, increased GDP and improve the standard of living.

Haitian economic independence means direct US adoption and implementation of viable and tangible goodwill towards Haitian farmers—which will positively affect Haitian food production and security. According to Dr. Phillip Auerswald's of the School of Public Policy at George Mason University, "It's unambiguous that when you dump agricultural produce in a country at a price that is well below what farmers can reasonably produce that same output, you're going to destroy economic incentives for that industry to exist."

But Haiti's dismal industry and infrastructure can now be capitalized upon, if as outlined in Senator Lugar's report "the reconstruction efforts are to be successful, Haiti must move decisively to address key political and business impediments, which are threatening the reconstruction effort and making Haiti an even less attractive place for foreign investment.

For example: Ensuring transparent and modernizing the property titling system, and reducing barriers confronted when attempting to start and operate a business in Haiti should be among the key priorities. In this regard, the U.S. government should expedite funding and technical assistance in response to and in support of such reforms. However, if reforms in this direction do not occur, American taxpayer investments in Haiti, beyond essential humanitarian aid, should be reassessed."

To progress, Haiti must be an active partner of the US and the international community by also assuming its own responsibilities. To this end, Haiti must consciously aim to change much of its internal political culture—as well as renegotiate existing bilateral

policies with international partners that strain and impede internal/domestic socio-economic relations and negatively impact economic growth.

The example of the DR Development Bank which successfully raised funds in part by using the USDA's US Export Credit Guarantee Programs (GSM-102 and GSM-103) can pump up to US\$ 2 billion into the Haitian economy (figures based on current imports). The capital raised can be invested in the public and private sector development.

A Development Bank and/or an Enterprise Fund can consolidate USG economic policies for Haiti and allow better control of the import market to Haiti. This would result in the gradual reduction of imports as local agricultural production increases. Haiti should also adopt the CARICOM tariff average of 38% to allow its own market to grow. These solutions would provide the opportunity to replicate the DR Development Bank model, - whereby, the funds saved would create sustainable revenue streams that will ensure Haiti's progress long after foreign assistance diminishes."

Enterprise funds created in the 1990s for Eastern European countries are a tested model and have demonstrated examples of road maps for local SME development that can help to create robust economies fueled by a strong private sector.

### *Establishing Credit and Financing: the Haiti Enterprise Fund*

Senator Lugar's Haiti Report cited a lack of Capital Investment as the primary impediment to Haitian economic Progress. The report also stated that pre-earthquake, Haiti's primary interest rate was the highest in the region. Though, rates have significantly been reduced in the aftermath of the earthquake as a result of the backing of international financing institution, - the lack of capital investment continues to be a handicap to the private sector.

To meet this challenge to private sector development, the US, the international financing institutions and Haiti should establish and implement a Development Bank and/or Haiti Enterprise Fund.

The Haiti Enterprise Fund can be underwritten by the USG, rolled over and provide increasing leverage beyond the amount initially invested. Through its activities at the

microeconomic level, the Haiti Enterprise fund can contribute to an improved business climate and ecosystem for investing and lending also becoming a tool to promote Public-Private Partnerships (PPP) and to create the foundation for a stable economy in Haiti.

This demonstration effect would also provide assurances for the banks and contribute significantly to reduce and/or to lower the high interest rates. Because the majority of the fund will be repaid, the fund can be underwritten by the USG and rolled over, thereby increasing leverage beyond the amount of the rolling fund. The Haiti Enterprise Fund can be a tool to promote Public-Private Partnerships and to help create a stable economy in Haiti.

Mr. Francis J. Skrobiszewski is the former vice-president of the Polish-American Enterprise Fund and vice-president of the Hungarian-American Enterprise Fund and who assisted in that fund's restructuring, and is lending support for the Haiti Encouragement Act of 2010, - noted in his march 2010 Congressional hearing Testimony that "Successful examples of enterprise and capacity building are demonstrated by the transformational experiences in Central and Eastern Europe (CEE) and Southern Africa which indicate that motivating the indigenous private sector can best be accomplished on a business-to-business basis using the proven models of the Enterprise Funds.

To build local businesses and to demonstrate the merits of a market economy, these innovative financial vehicles successfully provided developmental capital on a commercial basis under difficult conditions to many thousands of emergent entrepreneurs. Sustainable reconstruction can expand opportunity by investing in local entrepreneurs and supply chains that build Haitian industries"

Programs and solutions can be adopted to create jobs for Haiti's over 67% unemployed which includes Haiti's rich pool of young, dynamic and often trilingual human resource capital—while simultaneously addressing food and energy security in the short and long terms to maximize the country's economic potential.

As stressed in a February 2010 Forbes OP-ED "Priming the pump of private capital and promoting free market mechanisms so Haitians can create sustainable jobs for one another will help ensure a quick and sustainable recovery. Haiti needs business, not



programs and bureaucracy. Haitians need to see they have a stake in their own future, not merely a place in line for hand-outs”.<sup>11</sup>

This very approach helped Central and Eastern Europe rise above the bankruptcy of communism to produce thriving societies with free markets and political pluralism. The challenges there, after 45 to 70 years of operating under Soviet Marxism, were daunting. And while opportunity in the CEE was unparalleled, there were no roadmaps. But there was innovative thinking, which could be replicated in Haiti today.

## Conclusion

Nearly 18 months have passed since Haiti’s devastating earthquake, and thankfully, much humanitarian assistance has been provided by the US, but also much time has been lost in putting in place mechanisms that do more than alleviate the symptoms, but also are needed to cure Haiti’s ailments at its roots.

Policy reforms and efforts to develop Haitian SMEs represent the essential “fuel” that is the catalyst to private business growth. - “Capital” and not just money of any sort, but capital that is “professionally deployed” is critical. In 1989, the US Congress recognized this was critical with the establishment of the Enterprise Funds to “jump-start” the Polish and Hungarian private sector Fund and s.954 is designed to do the same.

The examples shared in this report reiterate the need for solutions that have been successful and that will create jobs and meet the short and long-term structural needs of Haiti. These solutions articulate and design a road map that can contribute to **“the right organization and support needed by Haiti to effectively become a self-sustaining and very successful country”** per President Clinton.

The very establishment of the National Fund for Education (FNE) by Haiti’s new President Michel Martelly is a first step towards Haitian economic self-sustainability.

The fund which is a multi-sectoral consortium which groups the GOH, the private sector, international financial institutions and non-governmental organizations (NGOs) is chiefly

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<sup>11</sup> Haiti Needs Business, Not Bureaucracy. Forbes, February 17, 2010. <http://forbes.com/2010/02/17/Haiti-earthquake-private-sector-business-opinions-contributors-francis-skrobiszewski-roger-noriega-print.html>

composed of a 5 cents deduction on incoming international phone calls and \$1.50 on international money transfers.

The Fund will allow 350,000 children to go to school in the first year, according to UNESCO, and a total of 1.9 million children are expected to benefit overall.

*The NFE is a clear example of innovative financing “independent of the traditional Aid venues”.*

President Michel Martelly along with the Haitian-American Chamber of Commerce (US), Haitian business leaders and friends of Haiti—many of whom are present here today—have issued a collective invitation to the US and the International Community with the call “Haiti is open for Business”.

In the aftermath of the earthquake, Haitian-Americans have seen the positive impact that “good” US responsibility and leadership which can be had with SouthComs’ search and rescue efforts and subsequent re-starting of Haiti’s manufacturing base, estimated at US\$ 350 million for 2010. The latter benefited from direct U.S. legislations such as HOPE I and II and the more recent Haiti Economic Lift Program (HELP) Act meant to enhance trade preferences for Haiti and providing Haitian apparel exports duty-free access to the U.S. market.

The Haitian economy will experience another boost with the Cap-Haitien Industrial Park to open in 2012 with the Korean apparel firm Sae-A Trading, providing fabrics to Gap, Walmart, Target, and others, set to become the largest private-sector employer in Haiti. <sup>12</sup> The Cap-Haitien project, also includes transportation infrastructure, construction and will create thousands of jobs and will make Haiti more attractive for investors.

We also have a Haitian, US and international consensus on the solutions that will lead to Haitian economic prosperity. Let us then engender the political will to move forward and to support and assist Haiti’s new President Martelly’s call and that of all of the Haitian-Americans clamoring for change by placing—or better yet by “**investing**” our tax dollars on a business to business basis in sectors that will incrementally contribute to replace and to displace US and international AID and create a “two-way” viable and new equitable commercial partner for the US: Haiti.