



Canadian International
Development Agency

Agence canadienne de
développement international

COUNTRY STUDY – THE HAÏTI CASE

Canadian International Development Agency
200 Promenade du Portage
Gatineau, Quebec
K1A 0G4
Tel: (819) 997-5006
Toll free: 1-800-230-6349
Fax: (819) 953-6088
(For the hearing and speech impaired only (TDD/TTY): (819) 953-5023
Toll free for the hearing and speech impaired only: 1-800-331-5018)
E-mail: info@acdi-cida.gc.ca

Canada 

Summary

COUNTRY STUDY - THE HAÏTI CASE

1.0 Context and Mandate of the Evaluation

The Performance Measurement Branch has undertaken a series of studies for the purpose of evaluating the performance of CIDA's activities in the sector of Private Sector Development (PSD). Econotec was commissioned to carry out a case study of CIDA's private sector interventions in Haiti, more precisely through an assessment of its cooperative development assistance program (RMCH).

Canada's support to PSD includes a number of channels:

- The RMCH, which aims at implementing financial and agricultural co-operatives and is being delivered by la Société co-operative de développement international (SOCODEVI) and Développement international Desjardins (DID); this project is by far the most important PSD project in Haïti, with a budget of \$10 million.
- The Industrial Cooperation from Canadian Partnership which finances a number of studies amounting to some \$800,000 each year;
- The Kore Fanm Fund, to support women's initiatives in the domain of health, legal rights and microfinance;
- A new project in the domain of community development by MEDA (Menonnite Economic Development Association);
- A cooperative development project delivered by FIDA (Foundation for International Development Association) financed by the NGO Division (Canadian Partnership).

This study has the following objectives:

• The Present Situation:

- Providing a summary of the private sector development profile in Haiti over the past 10 years, including the activities of CIDA and other donors;
- Assessing the impact of the Canadian program and drawing lessons from activities to date;
- Summarizing the accomplishment and experience acquired through executing the RMCH;
- Comparing the RMCH to CIDA's overall programming in Haiti as well as to the Agency's draft Policy for PSD, and discussing the congruence of this new policy with CIDA's programming;

• Outlook for the Future:

- Completing an analysis of sectors of both the cooperative and the microfinance sectors in Haiti

- (advantages and disadvantages compared to other PSD sub-sectors);
- Assessing the country's absorption capacity and risk level with regard to PSD, compared to the other sectors of CIDA's programming framework;
- Identifying the institutional networks in Haiti on which CIDA could build its PSD strategy;

- **Synthesis**

- Assessing the best approaches to PSD in the poorest countries, where both the institutional network and enabling environment are very weak;
- Reviewing CIDA's choices regarding its actual or planned programming and projects in Haiti according to expected results (lessons learned and PSD dimensions that are likely to best suit the country's weak enabling environment).

- **The Structure of the Report**

The main report includes the following sections:

- Introduction and methodology
- An analysis of the PSD context and a review of donors' PSD initiatives over the past 10 years
- A profile of the microfinance sector in Haïti and a review of Canada's and other donors' initiatives in that sector
- An evaluation of the RMCH (history, factors of success and results)
- Findings, lessons learned and best practices
- Opportunities for CIDA's support in the PSD

2.0 Review of the Political, Economic and Social Environment

2.1 A high Risk Country

Haiti is one among a number of countries that have faced a situation of grave chaos over the past decade. This chaos has left behind a bloodless country, largely destroyed and deeply disorganized. Despite the vigorous actions undertaken by donors to reconstruct the country and strengthen its institutions, little progress has been accomplished in the rehabilitation of justice and rights. In view of the blind and ubiquitous dictatorship of violence abroad in the country, one must admit that Haiti remains on the edge of anarchy.

The return of some form of democracy has not been conducive to stability: the country has had five Prime Ministers over the past five years. Endemic governance problems are at the root of Haiti's extreme poverty. The political party that has been running the country in recent years (Fanmin Lavalas) initially declared its intention to carry out deep reforms, but fell back very rapidly into the bad governance and corruption that has characterized Haiti for so long.

Since 1997, Haiti has been without a Parliament. Indeed, in January 1999, President Preval declared this institution to be obsolete, thereby aggravating the political crisis and increasing social tension. The move has resulted in a series of political attacks. This

situation continues to be disastrous for the economy, given that 10's of millions dollars of multilateral funds are lost each year, since these credits have to be approved by a legal Governing Body.

Lately the Prime Minister has announced that legislative elections will be held during spring 2000. He has requested support from Canada and other donors to help with launching a free and democratic election process. However, given its historical background, Haiti remains a high risk country where it is unclear whether any political goodwill will ever be triumphant.

2.2 Main Problems

It is estimated that 70% of Haitians, and 80% of the rural population live under the absolute poverty line. The country is plagued with problems:

- Until now, a Government incapable of making any progress, powerless in terms of its leadership, manipulated by parties with ulterior motives and without any credibility among the population;
- An inefficient institutional machinery, rife with corruption and incompetence;
- An uncontrolled and blind violence;
- The decayed condition of physical infrastructures (roads, water, energy, etc.) which inhibit any economic recovery;
- The ruinous condition of social infrastructures (education and health);
- Severe degradation of the environment which lessens, year after year, Haiti's capacity to meet, even partially, its own basic needs for food;
- A host of other problems, including the disappearance of small industry due to a succession of embargo, and its replacement by drug traffic and violence; an uncontrollable flow of rural migrants toward Port-au-Prince which is rapidly sinking under such a pressure; the concentration of wealth in the hands of a few prominent families, and the shortage of natural resources that could stir an economic recovery.

3.0 The PSD in Haiti: Lessons, Best Practices and Risks

3.1 ODA's Institutional Network

From 1988 until today, the country's disastrous condition has resulted in donor support being almost exclusively focussed on emergency and reconstruction activities. During this period, the country has been deprived of any enabling environment, whether physical or institutional.

Since 1994, poverty reduction has been the major objective in the short term. Donors' funds have been largely directed toward building infrastructures of all sorts, since these activities are bound to create massive, if short term, jobs and to help soothe misery.

During the 1988-94 period, when bilateral and multilateral assistance was suspended, NGOs took over the responsibility for humanitarian assistance. Even if some microprojects revealed similarities with some types of PSD support, NGO's approaches were essentially oriented toward the satisfaction of basic needs. However, some of the organizations implemented during that period could be capitalized on today for the purpose of fostering PSD: for instance, the development of the now rapidly growing rural co-operatives.

- **Lesson 1 - The Role of NGOs with regard to PSD**

In the absence of an enabling governmental environment, NGOs and other organizations from the civil society can play a major bridging role in preparing the ground for PSD focussed strategies. Given the same circumstances as those faced by Haiti, it would be important for any country to make sure that the NGOs that take over the responsibility of ODA (Official Development Assistance) for a given period be competent (or become so through institutional strengthening) and that actions be conceived from the beginning as sound corner stones for future PSD interventions.

3.2 Donor PSD Activities

As is the case in the majority of developing countries, the Haitian private sector comprises two distinct environments: the formal and the informal sectors. Informal activities are dominant in Haiti, contributing 80% of employment.

However, both the formal and informal sectors encounter the same kind of barrier to their development, including lack of training, technical support and access to credit. Needs are particularly acute for would-be entrepreneurs who contemplate starting up a business.

Meso organizations are not efficient and represent only a small part of private enterprises. The relationship between the private and the public sector is tainted with mutual distrust.

In past years, PSD support activities have been mostly carried out from the perspective of short term poverty reduction. Much activity has occurred on a trial and error basis. Canada figures among the donors whose PSD strategy has been oriented toward sustainability.

One significant impact of emergency and reconstruction programs has been the participation of Haitian enterprises in the building of infrastructures and other labour intensive projects. These projects have contributed primarily to the survival of large enterprises, but also to that of small and medium-sized enterprises. Unfortunately, there has been no study carried out to date for evaluating that impact.

- **Lesson 2 - Impact of Large Reconstruction Programs on Local Enterprises**

When investing large amounts of funding in the construction or rehabilitation of infrastructures and services, donors should take into account their impact on local enterprises, in such a way as to maximize, through subcontracting, the spin-off from programs to the SME network. When necessary, donors should include technical support to enhance capacity and improve productivity.

Only recently did donors envisage structuring interventions for a longer term in the private sector. A spectrum of activities has been carried out in such domains as the improvement of the legal framework (liberalization of interest rates, respect of property rights, etc.); microfinance operations through all sorts of organizations; training and technical support, and the strengthening of meso organizations.

• **Lesson 3 - The Best Targets for PSD**

Despite the fact that donors do not always have on hand proper data with which to measure the results of their recent PSD experiences, it seems obvious that in as difficult a context as Haiti, there is no unique formula or approach to maximize results: support is required at all levels. But there are some minimal prerequisites for reducing investment risks and promoting the private sector “resuscitation.” These include:

- *The co-ordination of donors’ strategies and when possible the sharing of leadership among the different sub-categories of PSD;*
- *The establishment of transparent laws and rules and their enforcement in order to create trust; to be accomplished through intensive dialogue concerning policy between donors and local Government;*
- *The development of private enterprises by means of access to production resources, including credit;*
- *The strengthening of a public-private partnership and, in the absence of explicit good will on the part of the Government, the strengthening of civil organizations (with special emphasis on meso organizations: boards of trades, associations of entrepreneurs, etc.) so that such organizations may become more influential advocates of their own needs.*

Other enabling ingredients will be required for development of the private sector, including good governance, strong central or extension services, social infrastructures and safety nets, a pool of competent human resources, etc. However, the above “minimal” conditions should be made the first priority of intervention.

3.3 Canada's Approach to PSD

3.3.1 Overview

Canada provides a range of development assistance that meets the above conditions, for example its support in the domain of governance (justice and police), and its activities in the fields of telecommunications and energy, etc. Canada has been an active participant to donors' forums where it has been considered a leader in the justice sector. With regard to private-public partnership, Canada has been advocating the involvement of the Central Bank of Haiti (BRH) as the best organization for supervising the thrift and credit co-operatives. In the meantime, the creation of an association of "caisses populaires" for the purpose of advocacy as well as self-regulation constitutes a major step toward strengthening meso organizations.

Canada's direct support to PSD has been mostly channelled through the RMCH project. Results, lessons and best practices in the co-operative sector will be discussed below.

Independent of actual results, Canada's decision to target co-operatives was entirely coherent with its previous country program frameworks, including the program of 1992, where the RMCH was considered as a lever for the reconstruction of the civil society and the promotion of democracy, and the program of 1997 in which the RMCH constituted one of the three vectors selected for Canada's support to economic development (the other ones being the rehabilitation of infrastructure and the protection of the environment).

3.3.2 Comparative Advantages of the Co-operative sector versus other PSD Categories

As stated above, PSD requires a spectrum of favourable conditions. In the absence of any enabling framework, whether physical or institutional, the targets identified in 3.2, when accompanied by sound strategies and entrusted to competent organizations, confer advantages only. Concerning the actual rationale behind Canada's choice to target the development of co-operatives, the following lessons may be drawn from this assessment.

- **Lesson 4 - Agricultural Enterprise Development: the Co-operative Alternative**
- *Farmers' groups exist wherever producers have learned that mutual aid is a condition of survival, especially in remote rural areas where Government support, if any, has always been dismal. Under such circumstances, agricultural support must inevitably be channelled through these groups of farmers who hold a common interest;*
- *When projects include subsidies or grants (revolving funds, provision of equipment, construction of infrastructure, etc.), a legal or quasi-legal entity is needed for the purpose of property transfer while ensuring that the project's benefits will be shared in an equitable fashion by participants. In this respect the co-operative formula is best suited to the purpose of collective proprietorship and participatory management;*
- *The degree to which farmers' groups are structured can vary. Sustainability requires that farmers' organizations outlive the local elected authorities that often participate in*

rural development projects, while being endowed with the capacity to develop and manage specific activities in the sector of agriculture. When solidly anchored and developed, co-operatives still offer an excellent tool for promoting self reliability among target groups while constituting a good school for democracy.

- **Lesson 5 - Financial Enterprise Development: the Co-operative Alternative**
- *Thrift and credit co-operatives (Credit Unions: CUs) constitute good instruments for providing credit access to credit-deprived people at the same time as promoting local development;*
- *Compared with village banks and private companies, CUs are authorized to mobilize and collect savings and when well managed and controlled, they are well equipped to secure deposits;*
- *Compared to commercial banks, CUs enable a large proportion of savings to be reinvested locally;*
- *CUs offer savings and credit conditions adapted to the poor and can reach a large portion of the population which otherwise could not access financial services;*
- *Compared with village banks, CUs are more likely to be run by competent, well trained staff;*
- *Like other kinds of co-operatives, CUs are organizations that are owned and managed collectively; they are a good instrument for the democratic development of the milieu;*
- *CUs are good channels for delivering microfinance services; they can offer a larger spectrum of products than village banks or other microfinance mechanisms, since they can answer the needs of microenterprises (including small trade) as well as small and medium-sized businesses.*

3.3.3 Emergency and Reconstruction Programs

Chapter 3.2 alludes to the potential impact of emergency programs on large as well as small, medium and even microenterprises. One lesson to be learned is that donors should get a better understanding of the ramifications of emergency programs in order to develop strategies fostering local participation in large infrastructure projects. This is true for any country in which CIDA's emergency programs constitute a priority, even if their first objective is an immediate easing of poverty.

4.0 Microfinance: Lessons, Best Practices and Risks

4.1 Overview

Microfinance is one of three main categories of support offered to Haitian MSMEs (micro, small and medium enterprises) together with information and training. Although far from being able to meet all needs, and while being delivered by organizations whose competence is highly uneven, microfinance actually constitutes the most widespread service to MSMEs. NGOs have been playing a major role in this area.

All sorts of microfinance options are available in Haiti. However, microfinance services are focussed on credit and little effort has been devoted to promoting the savings.

The range of credit products offered in Haiti include:

- Large credits, granted by local banks and/or large financing international organizations (which themselves use local commercial banks and important credit organizations); these credits are allotted to major enterprises and amount to 10's of thousands dollars;
- Medium credits, granted by commercial banks, private credit enterprises or Credit Unions, to micro, small and medium enterprises, the scale of which ranges from very small loans (for instance to subsistence trade) to larger ones, but which usually target amounts above “micro” credits;
- Credits to the farmer, delivered through local rural associations or organizations;
- Microcredits, for instance those delivered in the course of microactivities; they are offered by organizations such as village banks.

Recent trends have included the increasing participation of commercial banks in the microfinance market as well as the rapid rise of private credit societies.

NGOs are putting much thought into rendering village banks sustainable. Such banks currently form part of the structure of a project. This would necessarily include improved professionalism and the establishment of regional structures that would offer a spectrum of services, including savings deposits.

CIDA has launched a project (Fonds Kore Fanm) which includes an important microcredit component. The project has not yet generated the expected results for a number of reasons including: a vague definition of criteria and objectives, little attention paid to the habilitating opportunities of the initiatives; a social rather than an economic approach, encouraging the “gift” culture; a lack of skills and expertise on behalf of the project’s local manager.

Lesson 6 - Microfinance and Women

Microfinance projects targeting women should be designed to avoid mixing charity and economics. Otherwise such projects undermine women's capacity to undertake profitable economic activities. These projects should be endowed with an accurate definition of criteria, objectives and expected results. They should be managed by staff that have skills in the domain of finance. It is not very effective from a sustainable development view point to be less demanding for projects that are targeting women versus projects that are not gender differentiated.

4.2 Success Factors and Barriers

The microfinance sector in Haiti is faced with many constraints:

- The “credit/gift” culture and its beneficiaries, amplified by the fact that NGOs involved in microfinance activities depend on international funds for their survival;
- Loan repayment problems, due not only to the above factor, but also to massive injections of funds (from donors) that overwhelm NBFIs (non banking financial institutions), and their clients’ absorption capacity;
- The presence of non sustainable NBFIs, that perpetuate a “project” modus vivendi;
- The weakness of the legal framework which increases the risk of financial mismanagement;
- The absence of baseline data for assessing the impact of microfinance on poverty and for improving strategies;
- A new phenomenon: the risk of pyramid-shaped interest rates due to the multiplying of intermediaries among microfinance operators; here CUs offer a clear advantage since there is no intermediary, other than the co-op, between funds (i.e. savings) and loans;
- The scarcity of programs that could help borrowers increase their productivity.

A number of “best practices” may be drawn from Haiti’s experience, but few studies enable an assessment of microfinance results. Indeed, it would seem those results in terms of impact on poverty are mitigated: multiplying loans in markets that have reached saturation, in the absence of support for productivity enhancement, can only contribute to price drops while aggravating debt problems.

• Best Practices

Reviewing the microfinance sector in Haïti has enabled a number of best practices to be identified:

- In order to foster good management and high repayment rates, microcredit schemes should be entrusted to organizations that are outside and independent from project executing agencies;
- State organizations should not be directly involved in the delivery and daily operations of microfinance projects;
- Microfinance initiatives should be as far as possible entrusted to organizations that have developed an expertise in the sector of finance.

4.3 Microfinance and the Credit Union (CU) Component of the RMCH Project

The RMCH launched a special microfinance program which showed positive results, at least from a financial standpoint. Microfinance products were designed in a way to attract deprived target groups, especially women, while being profitable for CUs and thus favourable to their sustainability.

- **Lesson 7 - Microfinance and Profitability**

Microfinance products that take into consideration both target groups' needs and delivery costs can also be profitable to borrowers and to the financial institutions that market these products.

- **Lesson 8 - Microfinance and CUs**

CUs, when well managed, can constitute excellent vehicles for microfinance operations:

- *They are sustainable structures, or on the way to sustainability;*
- *They are competent and they specialize in the domain of financial intermediation;*
- *Their financial practices provide a better reflection of market risks (rates of interest better fitted to market conditions; sound saving/credit ratios; reserves; realistic provisions for losses, etc.) than “non profit” operators;*
- *They show some rigour and discipline regarding loan recovery practices;*
- *They offer risk sharing advantages since credit comes from members' own savings, which constitutes a strong incentive for loans to be well managed;*
- *In the absence of a sound legal framework, they have their own control mechanisms, for instance supervision committees within each CU, together with an Audit and Inspection Bureau and an auto regulating body, the ANACAPH (Association nationale des caisses populaires d'Haïti).*

5.0 The Co-operative Sector: Lessons, Best Practices and Risks

Chapter 5 presents the results achieved by each component of the RMCH project.

In summary, the financial component (i.e. CUs) has engendered the expected results:

- 60 CUs have been rehabilitated or implemented, 40 of which show a financial surplus, while 30 have reached a high degree of self-reliance and sustainability;
- Each CU has its own business plan (membership, savings, credit and profitability targets); 255 full time jobs were created and the total membership is in the vicinity of 75,000 persons, close to 50% being women.

The agricultural component (i.e. rural co-ops) has not met expectations:

- At the time of this evaluation, there were no profitable or viable co-operatives;
- Out of 12 co-ops, only half were abiding to democratic principles as regards their management;
- Technology transfer was only very fragmentary;
- The transfer and ownership of management tools was very limited.

Many lessons can be drawn from this experience.

5.1 Contextual Factors

The main contextual factors that have influenced the capacity of projects to meet expected results are summarized below.

• Lesson 9 - Exogenous Factors of Success and Failure

The economic environment and the legal framework can constitute major barriers to the development of co-operatives:

- *An economic environment as depressed as Haiti's hampers co-operative development, more particularly agricultural co-ops. The synergy between the agricultural potential and the project does not necessarily create the impetus for developing activities that could lead to financially self-sustaining co-ops, especially when the agricultural sector is very precarious and largely oriented toward subsistence;*
- *The institutional framework can also be a major obstacle to co-op growth. In Haiti, the CNC which regulates the co-op sector is a centralizing and authoritarian body whose own weaknesses and deprivation can only be a nuisance to co-op development;*
- *A defective legal framework, especially in relation to measures of control and good governance, raises the risk of mismanagement in a society where democracy and good governance are flawed all levels.*

5.2 Endogenous Factors of Success and Failure

The RMCH review has enabled the identification of lessons to be learned regarding the main internal causes of success and failure in co-operative development projects.

CIDA's decision has been to require the setting up of a consortium made of DID and SOCODEVI to deliver the project, which approach later revealed itself to be failure. The geographic rather than sectoral sharing of activities has been inefficient cost-wise. The situation was tense between the two executing agencies that remained competitors, especially in what regards the information sharing. This approach has also weakened CIDA's credibility pertaining to the establishment of Canadian co-op unique model in Haïti, given that each agency had its own vision.

- **Lesson 10 - Establishing Consortia**

Project management by consortia is valuable when it fosters cross-fertilization between Canadian Partners. It is much more uncertain when partners are competing organizations.

It should also be underlined that the RMCH components are targeting different groups. CUs are mostly established in urban or semi urban areas, while agricultural co-ops are implemented in rural areas. RMCH documents contain very limited information regarding the socio-economic profile of beneficiaries, especially as regards women, and thus do not allow for drawing lessons pertaining to the success or failure that can be attributed to this very key project factor.

- **Lesson 11 - Target Group Profile**

In order to get a better understanding of the success and failure factors in the co-operative sector, while providing a baseline for impact assessment, it would be important that project planning, management and monitoring documents contain appropriate data as regards the socio-economic profile of target groups.

- **Lesson 12 - Endogenous Development Factors in the Co-op Sector**

The main conditions for success can be summarized as follows:

- *Full accountability of partners regarding results to be achieved;*
- *Implementation of mechanisms ensuring that partners will progressively assume all recurrent project costs;*
- *Decentralization and focus on primary co-ops instead of second and third tier structures;*
- *Implementation of rigorous control and auto-regulation mechanisms wherever the legal framework is ineffective;*
- *A participatory approach where partners, and not the project agency, define their own needs, priorities and activities;*
- *Extensive efforts to promote the active participation of all members in co-op management so that the co-op becomes an effective tool of collective development;*
- *Identification of “natural” partners, i.e. groups of people who have strong interest in common and who have developed collective working habits prior to the project; and*
- *More particularly in the agricultural sector, the generation of immediate or very short term economic results, in order to stimulate the motivation and interest in co-op development which in turn requires long term support.*

5.3 Best Practices

A number of best practices in the field of co-operative development have been identified.

5.3.1 Accountability

Given that a key objective of co-op development is the launching of self-reliable enterprises, whether from an institutional or financial view point, one condition of success is that partners adopt this perspective from the outset, which means that they must be made largely responsible for their own results. An innovative tool was developed by DID for this purpose, which features are summarized in the following best practice.

In order to foster partners' accountability as well as the sustainability of results, the following agreement should be concluded with local partners right at the outset:

- *The establishment by each partner of annual targets (a business plan) in terms of membership, savings, the hiring of a competent manager, progress toward profitability, good management, etc.;*
- *The signing of general and annual subsidiary agreements with each partner, specifying explicit targets to be achieved in order to continue receiving project support;*
- *A financial contribution by the project not before, but after partners have reached their objectives;*
- *For that purpose, the establishment of an accounting system whereby all project renewal costs (training, audit and inspection, technical advice, etc.) are charged to CUs in order for managers and administrators to know from the outset how much it costs to run a CU. The costs are then partly covered by a subsidy which progressively decreases as CUs progress toward breaking even.*

5.3.2 Associative Culture and Control Measures

Risks attached to associative life are high in a country like Haiti where governance problems are endemic, where administrators' education level is very low, where co-ops have long been controlled by the Government and where they have often been used by local leaders as a means for self-empowerment. Without any effective legal supervision, many leaders will continue to use co-ops as their own enterprises, at the expense of both the establishment of a real democratic life, and the active participation of members and the development of co-ops according to their fundamental *raison-d'être*, i.e. as a tool for improving members economic situation.

In order to change that power culture and to enhance co-op chances of reaching sustainability, it is imperative to:

- *Invest extensive efforts in training programs (co-op principles, member's rights, organizational development, etc.), not only for leaders but especially, if not primarily, for all members, to monitor closely the education programs and above all their results, and to promote with all co-ops the establishment of education committees;*

- *Make sure that the decision-making power is properly shared according to sound rules established between administration and management, through hiring competent managers (one manager can serve a number of co-ops if they do not have the income to pay for full time staff), and by insuring that leaders and managers fully adopt co-op principles, responsibility sharing and mutual roles in the decision-making processes;*
- *Invest efforts in developing audit and inspection services and in building the capacity for these services to exist within coops;*
- *Ensure that competent supervision committees are established in each co-op.*

5.3.3 Associative Development and Short Term Results

The *raison-d'être* of co-operatives is to improve their members' living conditions. This is true both for thrift and credit co-ops and rural co-ops.

In the first instance, the possibility of securing savings with some return, small as it may be (money-keepers charge as much as 25% of the savings value for their services while the minimum savings conditions required by commercial banks exclude the vast majority of people) and of accessing credit constitutes a powerful incentive for promoting the associative culture.

In the agricultural domain, improvement of conditions for members must not follow, but rather accompany the development of an associative life from the outset. This means that if co-op institutional development requires a long time, economic results should be visible in the very short term.

In order to generate sustainable results, a co-operative development project must:

- *Respond as closely as possible to members' genuine needs; they themselves should identify their priorities, translating them into concrete initiatives;*
- *Provide technical support from the beginning, with packages that might be less ambitious, but that would yield "visible" improvements in the very short run (for instance after one sole crop); more sophisticated technical packages can be contemplated once the associative life is well implemented;*
- *Develop a sense of self-reliability among members by making them fully responsible for their co-operative; this includes introducing input credit schemes (with strict repayment mechanisms) to fight the "gift" mentality; reinvestment of profits to capitalize co-ops instead of refunds to members; the active participation of members in the decision making process regarding the selection of co-op economic initiatives.*

5.3.4 The Transfer of Knowledge

For an optimal transfer of knowledge and in order to foster the ownership of technical and management tools by local partners:

- *These tools must be tailored to local partners' absorption capacity;*
- *They should be developed in collaboration with a local specialized organization, which will not only enable some institutional strengthening of that organization but will also*

ensure that, when the project is terminated, local expertise will be available to upgrade or develop new tools

6.0 The RMCH, CIDA's Country Program Framework and the PSD Policy

6.1 The RMCH and CIDA's PSD Policy

In terms of inputs and expected results, the RMCH project is fully consistent with CIDA's PSD policy. In terms of actual results, the project's two components (CUs versus rural co-ops) showed uneven results.

The CU component has succeeded in achieving its objectives in the creation of local enterprises and the improvement of competence and productivity. The agricultural component will not deliver as planned. Its legacy will include partial improvements in the capacity and competence of co-operative, but it is not likely to generate any self-reliable enterprise. In terms of the legal framework, efforts by one or the other partners have not yielded the desired improvements. Other aspects of the PSD policy, namely the development of private sector linkages and the building of capacity to meet economic integration, were not among the explicit objectives set for the RMCH.

6.2 Country Programming versus the PSD Policy

CIDA's PSD approach in Haiti is generally consistent with the new PSD policy:

- The basic objective in Haiti is reducing poverty;
- The selection of activities, in particular the RMCH, is congruent with the country's needs and the priorities of local Government;
- CIDA's initiatives for economic development should in principle generate significant leverage effects, both through its activities in the telecommunications and energy sectors, and the RMCH that was planned to implement sustainable co-operative enterprises bound to improve the economic conditions of their members;
- In terms of strategic partnering, CIDA has been an active participant to donors' forums with a view to promoting consistency in programming.

But in the context of the weak political, economic and institutional environment of Haiti, and despite the fact that CIDA's strategic choices were based on a cautious analysis of the situation, the risk is high that investments will not yield expected results.

While the RMCH has enabled the creation of a number of private enterprises offering good chances of reaching sustainability, many variables still threaten their capacity to make progress in the long run, especially the public governance problems, the obsolescence and deficiency of the legal framework, the non-respect of legal rights, and the absence of a political goodwill, all of which engender a high level of social strain.

Regarding the development of an enabling environment, one cannot yet foresee the day when the Haitian production system will be able to compete in the global economic market,

even in the sector of basic commodities. Most economic activities are still informal and are characterized by subsistence. Efforts invested in the education sector will only yield results in the long term. Infrastructures are in such a bad shape that even massive investments cannot succeed in making them work efficiently.

In this context, one cannot hope that PSD activities in Haiti will succeed in developing exchange linkages with Canada, other than links of assistance.

In a country as impoverished as Haiti, it would not be desirable to articulate Canadian assistance around a PSD focussed strategy, especially considering the bad state of governance, the total lack of respect for rights and the absence of any transparent and equitable definition of the “rules of the game”. Controlling violence and bringing order back constitute extremely hazardous challenges, but these are sine qua non conditions for creating a sound environment and attracting investments in the private sector.

Finally, no database exists for measuring the alleviating impact of CIDA (or other donors) PSD interventions on poverty.

7.0 Risks Associated with the PSD Compared to other Programming Sector

The study focussed on three levels of risk: those associated with CIDA’s overall and PSD programming, those associated with microfinance, and those stemming from the RMCH project.

7.1 Risk Management at the Programming Level

Interviews with other donors have led to the conclusion that Canada has undertaken the most serious reflection concerning risk management in Haiti. Canada is tackling risk from a result perspective, since these have until now been very disappointing in view of efforts at development invested in the country. The Americas Branch has launched an exercise whose purpose is to develop a methodology for risk management. Haiti, given the high risk that this country represents at all levels (political, social, economic, ecological, etc.) was selected for use as a case study.

Presently, the Canadian approach in Haiti consists of two scenarios, an optimistic and a pessimistic one.

The optimistic scenario is based on the assumption that the political situation will improve significantly, that thorough reforms will be achieved, and that a new economic and social model, well adapted to local conditions, will be implemented. The pessimistic scenario presumes that the country will not achieve its internal reconciliation, that distrust will deepen even more, and that the political, economic and social institutions will continue deteriorating.

Under these circumstances, Canada will continue to maintain three major assistance channels: humanitarian assistance (given the endemic poverty), economic development (given the fundamental objective of poverty alleviation) and democracy/good governance strengthening (given that the country can not develop in a sustainable fashion until it becomes a State of Right).

More precisely, a number of risks have been identified:

- Pervasive violence linked to the fragility of the social fabric, profound distrust and a weak sense of civic responsibility;
- Political instability due, among other factors, to the lack of political goodwill;
- The persistency of misery and the consequent social agitation.

In order to mitigate these risks, CIDA's strategy includes:

- Resisting the scattering of efforts by making strategic choices (the 3 channels stated above); as well as:
- Close monitoring of the political situation, given that Canada is deeply involved, and in a very visible manner (police force, Canadian NGO's extensive presence...) in the promotion of democracy.

From this perspective, the RMCH remains a logical option, since it is in line with key areas of CIDA's intervention, i.e. reducing poverty, promoting democracy, developing economic activities and helping meeting basic human needs (i.e. securing food sources through the establishment agricultural co-operatives).

7.2 Risk Management and Microfinance

Here we do not intend to discuss techniques for dealing with financial risks. All sorts of standards and financial ratios already exist which are recognized in the international scene and ought to be part of any microfinance operation.

• Lesson 13 - Risk in the Microfinance Sector

One important lesson to be drawn from this assessment is that, in the microfinance domain, and especially in what regards credit, the best way to manage risk is to share it. A number of means exist to put this principle into operation including:

- *Partially guaranteed funds which enable a sharing of risk between development organizations and financial institutions, whether they be commercial banks, credit unions or other private firms;*

- *Credit lines to banks, CUs and other NBFIs which remain responsible for loan recovery; this constitutes a good incentive for managing credit efficiently;*
- *Lending capital risks to local financial institutions which remain fully accountable for loan recovery;*
- *Investing (i.e. purchasing capital shares) in enterprises where entrepreneurs have to provide a significant percentage of the funding requirement for a given project.*

Credit Unions, when well managed, constitute a good tool for risk management:

- *Loans are financed through members' savings, which means that everyone is concerned with efficient credit management;*
- *CUs (from the DID network in Haiti) are equipped with credit supervision committees whose members are trained in financial safety practices;*
- *A majority of CUs are run by competent managers, with suitable academic backgrounds and a "cultural profile" emphasizing profitability of their enterprise.*

7.3 Risk management in the Design and Monitoring of the RMCH Project

Risk management in the design and follow-up of the RMCH has been insufficient. Almost all of the critical conditions identified in the PAM as well as in the project management plan are external ones, i.e. conditions over which the project cannot have any direct influence.

An operational review of the project had recommended that the CEAs review these critical conditions and make a new assessment of those most likely to impede or foster the achievement of results. The review suggested that the critical conditions be split into two categories: those that the project cannot modify, and the barriers that the project could surmount through adjustments to the intervention strategy.

It would have been appropriate to identify a limited number of key factors and to develop a monitoring grid, which could have developed a good synergy involving the project and CIDA's policy dialogue.

Despite the operational review recommendation, the revised management plans as well as the progress reports remained rather vague concerning these factors. They did not constitute efficient decision making tools.

Given the fact that CIDA has launched an exercise to develop a risk management methodology and that Haiti will be used as a case study for that purpose, it would be interesting to use the RMCH to implement such a methodology on an experimental basis.

8.0 Institutional Networks and Measures Undertaken to Link with these Networks

CIDA's PSD strategy in Haiti could not be articulated around any indigenous institutional network. Neither could the RMCH project anchor itself in a cooperative network offering minimal institutional capacity. A number of palliative measures were put in place:

- The participation of Canada in round tables, commissions or other forums reuniting donors and the local Government;
- Advocacy and representation to the Primature (Prime Minister's Office) to propose improvements to the legal framework; DID also initiated a visit of representatives from the Central Bank to Canada, so that they could familiarize themselves with Canadian law regarding the supervision of Credit Unions;
- The participation of the two RMCH CEAs on a Government Commission whose purpose is to revamp the co-op legal framework;
- The recent participation of DID in the establishment of FINNET, a financial network initiated by the PRET programme (USAID).

According to CIDA managers, much work remains to be done in order to tighten donor's co-operation and mitigate the weaknesses of the local institutional network.

To conclude, working at the grassroots level, strengthening the meso organizations, and promoting the networking of people and institutions involved in the PSD still constitute the best means of developing institutional networks that could serve as bases for future PSD strategies.

9.0 CIDA's management

CIDA PSD in Haïti, essentially articulated around the RMCH project, has been managed with strengths and weaknesses that have been discussed above. Highlights are being recalled below.

9.1 Program Framework and Project Design

The RMCH has adequately served the Haïti Program Frameworks of 1992 and 1997. However, three observations can be made:

- First, the RMCH could have been circumscribed by a better integrated PSD strategy, whereby complementary actions, particularly policy dialogue and common initiatives with other donors, could have been systematized for fostering the success of the project;
- Second, and as stated above, the choice of a consortium approach for delivering the project was not a good one;
- Third, a clearly defined framework of accountability, spelling out more accurately the respective responsibilities of the stakeholders, would have enhanced the co-ordination and decision making process throughout the project.

9.2 Project Monitoring

At first, CIDA has been keen to monitor the RMCH closely. A Canadian co-op specialist together with a local consultant have followed-up the project during the first two years and have informed CIDA about the difficulties in achieving results in the agricultural co-op sector and the conflict and communication problems within the consortium.

An operational review commissioned by CIDA which has brought major changes to the project: a breakdown of the consortium, splitting the project into two major sectoral components, the production of new management plans, and the setting of revised expected result frameworks.

Despite this reorganization, the agricultural component of the project continued to show major shortcomings; expected results kept being tailored down year after year, without being achieved.

Here CIDA could have been more rigorous and demanding (results requirements, closer follow-up, budget review), taking proper decisions given the increasing level of risk involved with the agricultural co-op component of the RMCH.

9.3 Risk Management

Risk management has not been as efficient as it could have been, given the following shortages:

- A rather vague definition of risk factors, all of them external and out of the direct control, or accountability of CIDA and the executing agencies;
- The absence of a follow-up grid that would have enabled monitoring of the project's critical conditions for the purpose of taking appropriate and timely decisions;
- The absence of a phasing out strategy should the project be faced with a situation where critical conditions would not materialize;
- CIDA's lack of a formal strategy to deal with alleviating major constraints to the project.

Would results have been better if CIDA had managed risk in a more systematic manner? Given the weakness of the enabling framework, the incompetence of the local Government and the lack of political goodwill, it is not clear that results would have been worth devoting more efforts to risk management. In Haiti, the situation is unpredictable and requires development agencies to show flexibility and the capacity to adjust swiftly, even if at the expense of a more strategic approach.

Nonetheless, the mere fact that the Central Bank is now convinced that it should have the responsibility for regulating and supervising CUs, while the Primature has launched a commission to revamp the co-operative legislation seem to testify that, in spite of all, ideas promoted by CIDA, the RMCH executing agencies as well as a number of donors are in the process of finding their way through the governmental apparatus.

10.0 Best PSD Approaches in a Country with a Very Weak Institutional Network and Enabling Environment

- In the absence of any enabling environment, the most appropriate approach to promoting the PSD includes
- Developing partnerships with competent NGOs that can be called upon to prepare the ground for future activities targeting capacity building in the private sector;
- Planning emergency and construction programs to enhance the participation of local SMEs;
- Given the boundless need and the scarcity of resources, maximizing the consistency and congruence of donors' activities;
- Implementing or strengthening enterprises by facilitating their access to production factors, including training, credit and technology; given the prominence of the informal sector together with the importance of fighting poverty, developing products and services tailored to the needs and capacities of micro enterprises as well as to initiatives just starting up;
- Supporting the private-public partnership, while putting emphasis on strengthening advocacy organizations within the private sector;
- As a top priority, promoting the establishment of transparent rules and laws to bring back trust and in order to do so, carrying out an intensive policy dialogue with local authorities in full co-ordination with other donors.

11.0 Potential Opportunities for CIDA PSD Activities in Haiti

At the time of this study, the Haiti Desk was in the process of revisiting its country programming framework. Questions were asked about the rationale for pursuing action in the PSD sector and if so, about the avenues offering the best opportunities in view of leveraging and sustainability.

Beside its support in the domain of justice, it is important that CIDA continue to intervene in the rehabilitation of infrastructures (telecommunications, energy or others) in order to help habilitate the private sector environment.

In the PSD sector as such, a number of opportunities could be envisaged.

11.1 PSD Strategic Programming

As far as CIDA envisages pursuing its support to PSD in Haïti, its future interventions should be integrated into a strategic PSD framework. Elements to contemplate include:

- Co-ordination with other donors, policy dialogue and/or direct initiatives to strengthen the capacity of government bodies regarding their role as facilitators for PSD, more specifically the CNC and the Central Bank as regards agricultural and financial co-operatives;
- Coherence of microfinance activities, for example fostering the synergy between such projects as Kore Fanm, the community banks and the Credit Unions; avoiding

conflicting approaches, for instance the emphasis put on CUs' sustainability versus a project-based short term approach for community banks;

- Co-ordinating microfinance projects with other donors, especially those who favour delivering microcredit funds through commercial banks or financial private companies. Indeed, there is a risk that other donors' initiatives generate unwarranted competition and even in the long run, constitute a threat to CIDA's efforts to develop sustainable financial institutions servicing the poor;
- Carrying out studies for identifying sectors and opportunities most likely to foster the development of SMEs.

11.2 Developing data baselines on target groups and/or partners

Reconstruction programs that support private enterprises or projects targeting the poor are very seldom accompanied by appropriate baselines against which to measure change and to assess the impact of and progress accomplished through development initiatives.

CIDA should be more stringent in its requirements for itself (ex. the Kore Fanm Fund) and its partners regarding the establishment of data baselines. Drawn from beneficiaries' profiles, such baselines help focus intervention and allow for measuring impact.

11.3 Continuous Action to Enable the Environment

Problems resulting from Haïti's very weak enabling environment have been thoroughly discussed.

It is obvious that CIDA has invested significant efforts to improve the environment but that, in the absence of a competent Government and of political goodwill, results have been deceiving (this is true for PSD as well as for other sectors). But PSD's future cannot be envisaged without continuous and co-ordinated action for improving the private sector environment, especially the legal system which should offer minimal soundness for attracting investment and enabling enterprises to develop, whether they be co-operatives or other corporate structures. All donors agree that with the return of a legitimate Government, intensive and coherent policy dialogue should be carried out to improve the private sector environment.

11.4 Policy Dialogue Menu

This study has identified a number of areas where policy dialogue and co-ordination with other donors should be emphasized:

- Promoting private-public partnering;
- Establishing an enabling environment to attract private investment, from local or foreign sources;
- Unifying the approach to the proliferation of more or less formal and structured financial organizations which, in the absence of a legal framework, constitute a potential threat to the whole financial sector;
- Taking action to change the “gift culture”, especially as regards donors’ funds that are so often converted to political capital
- Promoting savings as means for improving risk management and stimulating self-reliance;
- Fostering partner’s accountability, whether they be executing agencies, NGOs or Government bodies, as regards the results of projects and programs.

11.5 Protecting Past Investments

The RMCH Credit Union component has yielded excellent results that offer good chances of sustainability. CIDA should continue supporting that sector. Despite the fact that the CU network has endowed itself with two auto-regulating bodies (the ANACAPH and the BIVCH), the absence of an appropriate legal framework as well as a proper institution responsible for enacting the laws constitutes a permanent threat to the future of Credit Unions. Haïti’s financial sector has been faced with decades of corruption and mismanagement which can only underline the importance of promoting the establishment of a transparent, rigorous and well controlled environment.

CIDA should invest all required efforts to ensure that a new law regulating Credit Unions be ratified by the next Government and that the Central Bank become its formal regulating body.

CIDA, together with other donors should also give thought to finding ways and means to establish the rules of the game as regards community banks as well as the whole spectrum of financial service enterprises that are now multiplying so rapidly.

Finally, given the high level of success achieved by the Credit Union project, CIDA should renew its strategy for supporting the development of the CU network, especially its potential capacity for delivering microfinance initiatives.

11.6 SMEs and Start-Up Enterprises

Donors' interventions now concentrate either on large enterprises (European Development Bank, Inter-American Development Bank, etc.), or on micro and very small enterprises from the informal sector. Little support is provided to small enterprises which, with minimum assistance, could graduate to the formal sector, or to medium enterprises which are in strong need of increased productivity.

Also, programs are targeting already established enterprises, while entrepreneurs who contemplate starting a business are left without support.

CIDA could thus envisage the opportunity of intervening in two areas:

- Providing technical support (management training, technology transfer, information, etc.) to enterprises that are seeking financial support (credit) to help them build their capacity in the process; some agreements could be made with microfinance operators;
- Supporting enterprises just starting up, through, for instance, the implementation of business incubators that at times have proved to be a successful formula.

11.7 Credit Unions and Community (Village) Banks

The rapidly multiplying village banks in Haiti were mostly conceived as project extensions rather than sustainable local financial institutions. Thought is now being given to find ways to transform these banks into self-reliant private organizations. Such means could include collecting savings, networking, improving management capacity, etc. A number of operators envisage the opportunity of creating regional savings banks that would not only collect savings, but would also offer services such as audit services, training, etc.

The risk associated with the implementation of these regional savings banks or second tier organizations is quite high. Expertise in these structures will have to be much stronger than at the village level, making village banks very vulnerable to decisions made by the regional structures; moreover, if one considers the absence of a suitable legal framework, the door will be opened to all sorts of abuses and mismanagement, such as have characterized Haiti's history in the domain of financial services.

From that perspective, one must envisage the development of links between village banks and the RMCH Credit Unions. The DID/CU network could secure savings collected by the village banks, offer training services, provide the services of competent credit agents, offer audit and inspection services, etc. The CUs have already equipped themselves with an auto-regulating body (the ANACAPH) and co-ops that are members of that association offer reliable conditions and skills that could benefit village banks.

A number of pilot experiments could be carried out using some ANACAPH CUs and the village banks from a given area, where CUs could play the role of second tier structures. This would not only permit village banks to access savings deposit services, but would also enable CUs to benefit from a larger market and thus increased revenues, while providing additional sources of income to the BIVH (the Audit and Inspection Bureau that was implemented by the RMCH).