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REBUILDING HAITI'S COMPETITIVENESS AND PRIVATE SECTOR

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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REBUILDING HAITI'S COMPETITIVENESS AND PRIVATE SECTOR

Tuesday, March 16, 2010

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Gregory W. Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Waters, Watt, Driehaus; Miller of California, and Paulsen.

Ex officio present: Representative Bachus.

Also present: Representatives Clay and Maloney.

Chairman MEEKS. This hearing of the Subcommittee on International Monetary Policy and Trade will come to order.

For the record, and without objection, all members' opening statements will be made a part of the record.

What I will do is open up with an opening statement at this time. Before I begin, I would like to thank my friend and colleague, Representative Miller from California, the ranking member of this subcommittee, for his help in planning this hearing, and to express again my gratitude for our ability to work in a truly bipartisan manner in seeking solutions to the critical situation in Haiti.

This hearing is the second in a series of hearings on the situation in Haiti, and I was so thrilled to see such strong bipartisan support last week for the Haiti debt relief bill, which passed with unanimous support out of the full House, following its passage out of this subcommittee.

Finally, I want to reiterate my sincere thanks to the chairman of this committee, Barney Frank, and the ranking member, Spencer Bachus, for their continued support for Haiti and the work of this subcommittee.

I want to give a special thank you to Representative Bachus for his touching remarks on the plight of Haiti on the House Floor last week in support of the bill, where he reiterated how Haiti from even its very beginnings, its own independence, was riddled with debt because they had to pay for that independence. He was very eloquent on the Floor of the House last week.

I would like to thank our panel of witnesses for appearing here today and for sharing their thoughts and experience on rebuilding Haiti's competitiveness and private sector.

Haiti's recovery will happen in my opinion in three distinct if not overlapping phases. Phase one consists of the crisis response, focused on basic survival needs which began in the hours immediately following the devastating earthquake of January 12, 2010. Phase one is likely to be ongoing for some time, particularly for the most vulnerable groups in Haiti.

Phase two, which is in its very early stages of development today, consists of rebuilding the basic physical and governance infrastructure of Haiti. This phase will take several years to complete, but must get under way quickly, and it is critical to allowing the government and the people of Haiti to get back to work and to retain some minimal sense of normalcy.

Phase three, the plan which is being developed today and for which this hearing is trying is cover, is a continuation of the extensive work already underway prior to the earthquake. It consists of implementing a long-term economic strategy for Haiti, allowing it to grow prosperous and to move beyond the dependency on aid which has characterized the country for decades. As our witnesses will address here today, much of the preparatory work for phase three was already being done prior to the earthquake under the leadership of President Preval.

These plans have been modified as a consequence of the earthquake, but not fundamentally changed.

It is my hope that today's hearing and the testimony of our panel of witnesses will shed some light on how we can empower the Haitian institutions and the private sector to enable the successful and rapid progression of Haiti from phase one, crisis response mode, where it is today, to phases two and three, of long-term economic planning in a manner that lays the foundation for a new sustainable, stable, and prosperous Haiti, providing hope and opportunity for all its population and not just the privileged elite.

You cannot rebuild without the private sector. It has to be that joint venture between the public and the private sector. We know how important that is.

I look forward to hearing about how we can ensure the effective coordination of the multitude of development efforts including especially the multilateral and international development institutions under the leadership and stewardship of the Haitian people themselves.

Eventually, we have to move so that the Haitian people can lead and govern as they build a future for themselves and according to their plans, their culture, and their vision for a resurgent Haiti.

With that, I yield back the balance of my time and recognize the ranking member, my friend and colleague from California, Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Chairman Meeks. I would like to associate myself with your comments regarding the cooperation of processing the previous bill that we experienced on the Floor last week.

You have been an effective and strong voice for the needs of the Haitian people and I want to publicly commend you for that. I know it is a passion for you and it is a good effort we have undertaken.

I would like to thank you for holding this hearing to discuss ways American resources can be leveraged to more effectively help Haiti recover from the massive earthquake that devastated the country and economy.

I was pleased when this committee and subcommittee of this Congress were able to pass legislation last week supporting the international debt relief effort in Haiti. I am currently working on legislation that we discussed previously to involve American labor and American expertise in the process of rebuilding Haiti. Because we are going to be expending American tax dollars, we should be looking also at how do we employ American workers, who have the expertise, in benefitting and helping to recover from the impact in Haiti.

Last week, Congress overwhelmingly passed legislation originating from the subcommittee requiring the Secretary of the Treasury to instruct the U.S. executive members of the IMF, the World Bank, the Inter-American Development Bank, and other multilateral development institutions to seek immediate and complete cancellation of all debts owned by Haiti to such institutions.

Unfortunately, this is only part of the recovery effort that must be undertaken in Haiti. The IDB estimates a total cumulative construction cost of at least $14 billion, which is double Haiti's national GDP. According to State Department figures, an estimated 230,000 people died, which included up to 40 percent of the country's civil service. Further, 28 to 29 government ministry buildings were destroyed, 70 percent of the population is unemployed, and a third is illiterate.

At present, international aid efforts are focusing on meeting Haiti's basic survival needs. Haiti's long-term economic recovery rebuilding will need to rely on public/private partnerships and internationalists to supply the nation with heavy equipment and technical expertise needed to clear the estimated 78 million cubic yards of rubble to begin rebuilding an infrastructure that can more effectively withstand disaster in the future.

Impeding efforts to rebuild are lack of uniform building standards, mistrust in the government by Haitian people, a high perception of government corruption, and a total lack of heavy machinery and equipment needed to undertake a task of this proportion.

Recently, the Washington Post quoted Haiti's largest contractor, who estimated the entire nation of Haiti has nearly 100 excavators, nowhere near the amount needed to clear the public rubble they have experienced. If you took the rubble that we are facing in Haiti and stacked it 727 feet on the Mall, that is equivalent to what we have to move with 100 pieces of equipment.

We need to effectively make sure that the resources are there needed to deal with this impact and the American labor force who need to be employed are also put there, and I think at that point, we can benefit the people of Haiti.

I yield back the balance of my time.

Chairman MEEKS. Mr. Bachus?

Mr. BACHUS. Thank you, Mr. Chairman. I thank you for holding this important hearing. This is the second hearing that the subcommittee has held on Haiti. I applaud you and Mr. Miller and other members of the committee for your continued efforts to re-

spond to the distress and suffering citizens of this devastated country.

If you picked a capital in any country in the world that could least deal with an earthquake, it would be Port-au-Prince, Haiti. The human tragedy following the January 12th earthquake is overwhelming, and as Haitians seek to rebuild, we must stand alongside them.

The House took the first step to provide assistance last Wednesday, agreeing to legislation which I was proud to support, that helps address Haiti's national debt.

Haiti was born into debt. The French upon leaving Haiti imposed a heavy debt on the Haitian people and they have suffered under that debt and additional debt for their entire history. I think that explains to some extent why they have never had the funds to achieve any type of economic independence.

Rebuilding Haiti will not be an easy task. Some estimates place reconstruction costs as high as $14 billion. Such a challenge will require a comprehensive coordinated effort.

The United States and Haiti cannot afford to have resources stolen or wasted on redundant efforts by various groups working completely independent of one another without any coordination whatsoever.

Additionally, Mr. Chairman, this effort must have the buy-in and support of both the Haitian Government and the Haitian people. The goal must be to break the cycle of aid dependency that has kept Haiti mired in poverty for generations. Rather, we should provide the tools for Haiti to become a competitive, self-sustaining country. That is really what the Haitian people desire.

To bring this about, the private sector should be an important engine towards sustainable growth. International aid can take the Haitian economy only so far.

Achieving this goal will require consultation with the Haitian Government and its people to ensure that aid is delivered in a transparent and fair manner and to those in need. We must make certain that the policies implemented are not undermined by corruption that siphons off limited resources and disenfranchises the Haitian people.

The United States has always been a benevolent and caring country. Even during our current economic challenges, we have not lost our compassion. In fact, our present travails have in some respects, I believe, given us a greater appreciation for the desperation and suffering of those facing challenges and hardships, although the hardships and challenges that Haiti faces are almost unimaginable for most Americans.

Providing assistance to a nation devastated by a natural catastrophe is consistent with our principles. We can lead by example while we lend a helping hand.

Mr. Chairman, I again commend you and Mr. Miller for your commitment to this matter. You have assembled before us today a distinguished group of panelists, each of whom will be able to provide us with unique insights into how to help the Haitian people to realize their potential and achieve sustainable development.

This legislation is important to help the people of Haiti get back on their feet, and I look forward to working with you and other members of this committee going forward.

With that, I yield back the balance of my time.

Chairman MEEKS. Thank you, Mr. Bachus. Before you got here, I mentioned that I wanted to publicly thank you for your eloquent statement you just made on the record on the Floor of the House as we passed the Haiti debt relief bill.

At that time, Chairman Frank and the gentlelady from California, Maxine Waters, also just talked about how for a long time you have been working collectively in a bipartisan manner with them to try to overcome poverty and debt problems to help Haiti.

I just want to thank you for your commitment and your hard work in this endeavor. We really appreciate you.

Without objection, each witness' statement will be made a part of the record. You will be recognized for a 5-minute summary of your testimony, but your written testimony will be considered part of the entire record.

First to testify, we have with us Mr. Michael Fairbanks. Mr. Fairbanks is the co-founder of SEVEN, a philanthropic foundation run by entrepreneurs whose strategy is to produce films, books, and original research to markedly increase the rate of diffusion of enterprise solutions to global poverty.

He is the founder and chairman emeritus of the OTF Group, a strategy consulting firm based in Boston, and the first venture-backed U.S. firm to focus on developing nations. He was a U.S. Peace Corps teacher in Kenya.

His most recent projects include advising the president of the Inter-American Development Bank on opportunities for the majority initiative, working for the president of Rwanda to improve the competitiveness of that nation's tourism, coffee, and agro industry sectors, and advising the minister of finance of Afghanistan on private sector reforms.

He has co-authored many books, including the Harvard Business School's landmark book on business strategy in emerging markets, "Plowing the Sea, Nurturing the Hidden Sources of Advantages in Developing Nations," which Business Magazine said, "points the way towards creating prosperity in developing nations."

He co-conceived and contributed to the global bestselling book, "Culture Matters, How Value Shape Human Progress," and I just finished reading his most recent book entitled, "In the River They Swim: Essays from Around the World on Enterprise Solutions to Poverty," which was released, I believe, last year.

With that, let me welcome Mr. Michael Fairbanks.

STATEMENT OF MICHAEL C. FAIRBANKS, FOUNDER, SEVEN FUND

Mr. FAIRBANKS. Thank you, Mr. Chairman, and members of the subcommittee. Thank you for the opportunity to discuss enterprise solutions to poverty and the United States' aid policy in Haiti.

I would like to start with a couple of foundational concepts, and I am going to build on those towards the end.

The first thing I want to talk about is prosperity. It is the ability of an individual, group or nation to provide shelter, nutrition and

other material goods that enable people to live a good life according to their own definition.

Prosperity helps to create the space in people's hearts and minds so that unfettered by the everyday concern of the material goods that are required to survive, they might develop a healthy emotional and spiritual life, again, according to their own preferences.

There's another definition of "prosperity" that is equally important, and that is using the stock view of prosperity. This is in regard to the enabling environment. In every country, whether it is Haiti or the United States or anyplace else in the world, this country has seven types of wealth.

There are natural resources. There is man-made capital. There is financial capital. These are the easy to see, easy to measure forms of wealth that exist in every nation.

The more important types of capital are the ones that are difficult to measure, impossible to see sometimes, and these are what I call the "higher forms of capital." Institutional capital, like rules of law and democracy, both of which are very positively correlated with economic growth.

Knowledge capital, like databases and ideas. International patents would represent a robust level of knowledge capital.

Human capital, which is skills and abilities and insights that are basically knowledge capital with legs. It can leave the country, and this is very pertinent to the case of Haiti.

Finally, we have the most important type of capital, which is cultural capital. Not just the explicit articulation of culture, fashion and music and design, food and language, but the ideas and the attitudes, the beliefs, the assumptions and the goals of people who can either promote innovation and prosperity or can diminish innovation and prosperity.

With that as a foundational base of my comments, I would like to make several further points. First of all, most foreign aid never achieves its desired impact. This is according to one of the most prominent aid organizations on the planet Earth whose leader showed me their internal report before he had to shelf it because if he were to make these findings public, he would not be able to do his job any more.

According to him, and it is a name we all know, 80 percent of all the foreign aid around the world never achieves its desired impact. In fact, there are reasons to believe the opposite.

Aid largesse can distort private initiatives, stifle democracies, amplify ethnic based patron/client relationships, and promote corruption.

The former Finance Minister of Afghanistan, Ashraf Ghani, who is known to everybody in this room, is short-listed to lead the United Nations, short-listed to lead the World Bank, observes that aid can even "sever the sovereign relationship between people and their leaders."

What I want to talk about today is the microeconomic foundations of growth, how growth really occurs, where do taxes come from, where does employment come from.

The greatest quote that I have ever heard with regard to this is that every farmer in Haiti is the private sector. Every fisherman in a little boat off the Haitian Coast is the private sector. Every

kid selling chiclets or Coca-Cola on the street corner is the private sector.

We should not think of the private sector as monolithic family-owned conglomerates that engage in rent-seeking activities, monopolistic access to government favors, raw materials, and markets.

The private sector is the farmer. We need to keep that in mind.

Nations that do not create wealth for their citizens share much in common. Our evidence suggests that they are overreliant on natural resources, including cheap labor, and they believe in simple advantages of climate, location, and government favors.

My recommendations for Haiti are to build modern institutions on top of traditional values, to find new segments of the market in which to cooperate, and my recommendation for the United States Government is to consider focusing on our own values and attitudes and what we can do better, not what the Haitians can do, and to focus very particularly on USAID procurement services. It is the most non-competitive aspect of the American economy.

The consultants we send overseas are mediocre. They are underappreciated. They are overpaid. The fact is what we are finding is that the vendors to USAID are really nothing more than head hunters who extract a rent for providing a service to the U.S. Government. They have no intellectual property. They do not train their consultants. They do not understand the needs of the countries in which they work, and their real client is the United States Government, not the poor nations of the world.

I ask you very much to look at my written comments for some support of those.

Thank you very much for the opportunity to speak to you today, and I hope you and your staff will rely on me for further briefings as you may require them.

[The prepared statement of Mr. Fairbanks can be found on page 62 of the appendix.]

Chairman MEEKS. Thank you. Next, we have Mr. Pierre-Marie Boisson. Mr. Boisson is the founder of Sogesol, Haiti's largest microfinance company and a 50 percent owner of the subsidiary, Sogebank, Haiti's largest commercial bank.

He is also an economic advisor to Sogebank's executive committee and was the bank's chief economist for 15 years.

Sogesol was created 10 years ago and is a long-term partner of ACCION International.

Mr. Boisson is also vice president of the Board of Sodaphetees, a private development finance corporation, and secretary of the board of E-Power, an independent power producer. He is a member of the Presidential Working Group on Competitiveness and the Private Sector Economic Forum, and sits on executive committees of both groups.

Before joining Sogebank in 1991, he led USAID-sponsored reorganization of Haiti's professional banking association in 1990.

He is a former staff member of the World Bank's IFC, where he spent 2 years, and he also worked a total of 9 years with the Haitian public sector.

He holds an MBA from Harvard University and an MSM from Arthur D. Little's Management Education Institute, and a BS in civil engineering from the State University of Haiti.

Welcome.

STATEMENT OF PIERRE-MARIE BOISSON, CHAIRMAN, SOGESOL

Mr. BOISSON. Thank you, Mr. Chairman. Mr. Chairman and honorable members of the House Subcommittee on International Monetary Policy and Trade, thank you for inviting me to talk to you about the Haiti reconstruction effort and especially the precious role that the private sector can and should play in that country's rebirth.

Two months ago, Haiti suffered one of the most terrible catastrophes ever to hit a nation. Over 200,000 people died and 1.2 million got displaced and millions more are still traumatized.

Beyond suffering, however, lies a real opportunity to build a better Haiti, more prosperous and more equitable. Haiti has a real chance to create over a million jobs and attract $5 billion worth of private investments over the next 5 years.

The Presidential Working Group on Competitiveness, with the help of the OTF Group, and following extensive international dialogue, identified five priority clusters where we could spur inclusive growth and generate tax resources.

The Group is supported by the Private Sector Economic Forum, which includes the main business associations and major financial groups. The Forum believes that the private sector must partner with government and civil society to create a new social compact for all.

Granted, Haiti's poverty and cultural mistrust raises doubts about social commitment to private led growth and public/private corporations. The good news is that Haiti was already moving toward removing such doubts way before the earthquake.

In fact, 2009 was the fifth consecutive year of growth with a 2.9 percent mark even in the midst of a world recession. Inflation had been in retreat and more than $700 million of private investments, including FDIs, were recorded over the last 5 years.

Many signs of public/private corporations emerged as well, including the creation of the Commission itself, which reflects serious efforts by President Preval to partner with civil society.

I have listed a lot of examples of corporations over the last 10 to 15 years in my written remarks. Those are maybe considered episodes of goodwill but they reveal serious change in the mentality of Haitians. They reveal profound mutations of Haitian society including the growth of the Diaspora itself.

I am confident that the earthquake itself will urge Haitians to unite against fatality and reinforce our will to build partnerships.

The vision of both the Group and the Private Sector Forum is that without economic growth and increased fiscal revenue, popular demand for subsidies and welfare will always be the domain of donor and this is as Professor Fairbanks has explained, and we agree with that, a mixed blessing for Haiti.

We are encouraged that the private sector will be more responsive to social needs and really to be disciplined taxpayers, but in fact, the most important thing is to really build growth which is the basis for the revenues that the state will have to do the needed social redistribution.

We have identified five clusters where significant investment can be done to empower the private sector to really act for the common good.

We listed the food and tubers' sector, which is agriculture, where we could create 300,000 jobs over the next 5 years with investment of $190 million in post-harvest centers, crop insurance, etc.

Animal husbandry, where we could create 400,000 jobs, also with $180 million of investment that I have listed in my written remarks, including sea ports, quality assurance, laboratory, dairy cooperatives, etc. All of those are in my written remarks.

The garments sector has already benefitted from significant U.S. help in the form of the HOPE II legislation. There, we can create a lot of jobs and help, because one of the things the earthquake has taught us is that it is very important to have a more balanced growth in Haiti.

Fourth is tourism, facing a lot of challenges, but a sector also that could be really powerful in creating jobs and attracting investments and boosting Haiti's image.

Lastly, the earthquake really brought housing and urban development as a major growth sector for the next 5 years. It is really a place where we will need more foreign aid. This is not something that we can do alone. We will not have enough to provide for the $4.5 billion that will be necessary for rebuilding 250,000 units of housing.

We will need to avoid the crowding out of private investment that can be consequential to the huge amount of dollars that will enter the economy because of that.

On the governance, we really support the creation of an entity that will really better coordinate foreign aid and better coordinate also the insurgence of policy making into the exercise. That is already approved in fact by the government itself, but it needs to be approved by the parliament, but we think this kind of governance instrument will be necessary to manage this huge flow of foreign aid and dollars, regardless of the real impact it will have on the economy.

Mr. Chairman, in closing, I once again thank you for this opportunity to address such a crucial matter for my country. I will be happy to answer your questions and contribute to your thoughts about how the United States can help restore our nation and the dignity of our people.

Thank you.

[The prepared statement of Mr. Boisson can be found on page 46 of the appendix.]

Chairman MEEKS. Thank you very much. Next, we have Mr. Mark D'Sa, who is the senior director of sourcing and production for Gap Inc. His responsibilities include directing product development, placement strategies, and procurement in North, Central, and South America and parts of Asia.

He is currently located in Miami from where he leads a team that oversees price negotiations, placement, execution, quality, product integrity, logistics, and other supply chain operations related to the product made for Gap Inc. in the Americas.

He has 38 years of global experience in the textile and apparel industry, having lived and worked in India, Thailand, Canada, Singapore, and the United States.

He has previously worked with several brands including Polo, Ralph Lauren, and Levi Strauss & Company.

In the 1980's, he was a consultant to the Government of Thailand for quota negotiations, and more recently he was actively involved in Gap's efforts to support the passage of ATPDEA.

Welcome.

STATEMENT OF MARK D'SA, SENIOR DIRECTOR, SOURCING & PRODUCTION, GAP INC.

Mr. D'SA. Thank you. Thank you, Mr. Chairman, and members of the subcommittee. Thank you for inviting me to be a part of this discussion today.

Gap Inc. has been sourcing product in Haiti for a number of years and we remain committed to continue doing business there. Even before the tragedy, we were exploring internal recommendations to improve the business environment and how we could encourage more investment to come to Haiti so that companies might want to establish a footprint in that country and help build out the infrastructure.

Prior to the earthquake, we had determined that it made good sense to source out of Haiti because of the quality, the competitiveness, the efficiency of the factories, the workforce, and the proximity to the United States.

As you may know, goods shipped from Haiti can reach the United States in 3 to 4 days, as compared to 5 to 6 weeks from some of the locations in Asia.

Despite the recent devastating tragedy, we are committed to Haiti resuming its rightful place in the sourcing community. Our staff is working with Gap Inc.-contracted factories to facilitate a full return to business while working with the Haitian Government and Departments of the U.S. Government to explore some of the ways that the environment might be improved in order to attract potential investors to that country.

Haiti needed help before the earthquake and it needs it more than ever now. The apparel industry employed approximately 28,000 people before the earthquake and we believe more sustainable jobs could be created in textiles and apparel if the current trade legislation were amended to allow a wider mix of product from Haiti to have duty free access to the United States.

My colleagues and I have met with people in the various committees with jurisdiction over trade policy and we are hopeful that some of the current legislation can be more liberalized in order to make the environment more conducive to investors to want to come into Haiti.

Currently, there are investors standing in the wings looking critically at what we are doing at this point in time.

Haiti is important to U.S. retailers from a supply chain perspective. Its geography and its workforce are its two major strengths. The workforce is motivated, dedicated, and friendly. The resilience of the people came across stronger than anything else after the earthquake.

Despite their personal losses and tragedies, people were back at the factories 72 hours after the earthquake.

I remember one of our vendors telling me that he spoke to his workers offering them time off but people said no, we have lost our houses, we have lost our near and dear ones, but we need to work. They live from day to day and that is their situation.

Another strength of that country is its proximity. In order to leverage the proximity and human capital, we need to ensure that the legislative environment that currently exists, the HOPE II agreement, which is largely underutilized because of the way it is constructed and because of some of the exclusions under the tariff preferential limits need to be re-examined and made more user-friendly and more applicable to the industry as it stands today.

We have encouraged both the Haitian and United States Governments to focus on infrastructure development which would benefit both local and foreign companies as well as the Haitian people themselves.

Improvements to the ports and roads, power supply and communication, as well as urban transportation are critical to long-term sustainable development. In the short term, of course, progress must continue to be made in ensuring delivery of food and the provision of better shelter for the Haitian people.

One thing we have to be cognizant of is there are large communities of people today living in tents. They are out in the open. There is no drainage and sewage.

In a couple of months, the rainy season will start. That could bring on a number of health problems. Something has to be done immediately to help and remediate that situation.

Following the earthquake in Haiti a few months ago, our company and our employees joined forces and have made donations to Mercy Corps, which works on short-term efforts as well as long-term reconstruction for the country. At the same time, the factory that makes our clothes was among the first to be able to put Haitian employees back to work and continues to provide them with food, clothing, and shelter. We also continue to explore other ways that the company might be able to help.

I want to thank the U.S. Government for taking such strong and proactive action in the aftermath of the earthquake as well as for their commitment to supporting a real recovery in the textile and apparel production sector, which can continue to create more sustainable jobs for Haiti.

We appreciate the swift action and encourage this committee to work with your colleagues here in Congress and all the relevant governmental agencies to coordinate an effort that can be lasting and sustainable for the investment environment in Haiti.

Gap Inc. remains committed to sourcing in Haiti and we continue to explore how we can increase our sourcing over time with a goal of fostering the sustainability and growth of the industry over the long term.

Thank you, Mr. Chairman, and members of the subcommittee for your commitment to and interest in Haiti, and thanks again to you and the committee for inviting me to be a part of the discussion today.

[The prepared statement of Mr. D'Sa can be found on page 60 of the appendix.]

Chairman MEEKS. Thank you. Next, we have Ms. Nancy Birdsall, who is the Center for Global Development's founding president. From 1993 to 1998, she was executive vice president of the Inter-American Development Bank, the largest of the regional development banks, where she oversaw a $30 billion public and private loan portfolio.

Before that, she worked for 14 years in research, policy, and management positions at the World Bank, including as director of the Policy Research Department.

She is the author, co-author or editor of more than a dozen books and over 100 articles in scholarly journals and monographs. Shorter pieces of her writing have appeared in dozens of U.S. and Latin American newspapers and periodicals.

She received her Ph.D. from Yale University and her MA from Johns Hopkins School of Advanced International Studies.

Prior to launching the Center, she served for 3 years as senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace where her work focused on globalization, inequality, and the reform of the international financial institutions.

Welcome.

STATEMENT OF NANCY BIRDSALL, PRESIDENT, CENTER FOR GLOBAL DEVELOPMENT

Ms. BIRDSALL. Thank you very much, Chairman Meeks, Ranking Member Miller, and other members of the subcommittee. As always, it is a great privilege to have this opportunity to speak with you.

I would like to set out three principles for how the United States might follow up on the tasks you have set out so well in Haiti, and suggest three specific actions that I hope this subcommittee will support.

First, the three principles. The first is that it is about more than aid, you said this yourself, Chairman Meeks. It is about all the other ways the United States can support Haiti—trade, investment, support of the Diaspora—and I will return to that issue in a minute.

The second principle is about coordination. I think there is endless discussion of the need for donor coordination. We just cannot let the ideal be the enemy of the good.

It is true that it is not going to be easy in Haiti until the government itself is ready to coordinate the donors. That could take some time. It is good that the initial step Mr. Boisson mentioned has been taken, but we have to recognize that prior to the earthquake, the government was weak on this issue compared even to some countries in Africa which are becoming more assertive in taking charge.

What can the United States do? I think as one of the largest single donors, it can lead on pushing the other donors, including the United Nations, to set out who is the lead donor on key sectors.

For example, on reconstruction, is it the IDB or the World Bank? On social sector provisioning in the short run, who is it? Is it the British? Is it the Canadians? Is it USAID? And so forth.

More important, I urge this committee to push USAID in particular to set the tone on transparency of what it is doing and what the other donors are doing. The only way to create accountability to Haitian taxpayers, Haitian citizens, and to U.S. taxpayers is to maximize the information about what each donor is doing in a timely way to all of you and to civil society groups in Haiti.

How to do that, it means thinking through what should be published on a Web site, whether there can be a platform that all donors would use for monthly information about their plans, their commitments, their actual disbursements.

The third principle has to do with the way we organize ourselves in this government, and that is the need to make it very clear that USAID is not only the lead agency, as the President designated Dr. Rajiv Shah, the administrator, for humanitarian relief, but is the lead agency for this medium-term development challenge that you all have emphasized in your opening remarks.

And that USAID should take the lead, at least for its own activities, and the activities of other U.S. agencies on planting now the seeds of good, rigorous evaluation and a process of learning as the aid program and Haiti's own development programs evolve, so that adjustments can be made, so there is a dynamic process of evaluation, and an openness to innovation and new ways of doing things.

Let me go to the three actions. The first has already been referred to indirectly, but let me try to be as clear as possible.

This subcommittee, this committee, could push hard for provision of duty-free/quota-free access for Haitian exports, including apparel, and making that access permanent. Already, we see the benefits of the recent rounds of legislation on opening up the U.S. market to Haitian exports before the earthquake.

The issue now is to take further steps to encourage investment even more than has been the case so far. First, to lift the current quota on Haitian apparel exports, which may be discouraging potential investors. Gap is going ahead. There might be more without the current quotas that are imposed.

Second, there should be full product coverage, as Mr. D'Sa mentioned. Third, change the program rules to allow the broadest possible sourcing of fabric and other inputs rather than restricting key imports. This would get the Haitian preference closer to what we have in the African Growth and Opportunity Act.

Finally, make these preferences permanent. There could be an opt-out for the Congress or the U.S. Administration in the case of a coup or human rights' violations that were egregious in some future government of Haiti.

This, by the way, would have minimal effects on U.S. textile production.

Action to create more flexibility in our immigration policy to allow in more Haitians. I would refer you to the written testimony for more clarity on this, but the idea could be to have a numbers neutral improvement that is substituting again some of the other existing ways to get in, and allow something like 10,000 more Haitians a year to come here.

This would reduce greatly the embarrassment that I see in the future and that colleagues of mine see when we are turning back boats of Haitians in the next year or more.

An action to take every possible step to channel as many of the U.S. resources as can be reasonably channeled through the multilateral development banks, through the trust fund that Mr. Boisson mentioned.

I do not know which bank, IDB or World Bank, maybe both of those. In particular, the IDB has the multilateral investment fund which was a George H.W. Bush initiative in the late 1980's, works on the private sector, and would make a lot of sense.

Let me also add that these two banks, as you know, are now seeking capital increases, and I think one of the big reforms that could be encouraged is that they develop more insurance and risk management instruments.

Haiti benefitted from an $8 million payout against a very small insurance program that the World Bank had set up. It should and could be more because these small, very poor nations are subject to all kinds of weather and other external shocks.

Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Birdsall can be found on page 40 of the appendix.]

Chairman MEEKS. Thank you. Last, but far from least, we have Mr. Skrobiszewski, who has 30 years of experience spanning investment fund management, socioeconomic development, crises communications, public affairs, government agency reform, and strategy development working in the United States, Europe, Africa, Asia, and the Middle East.

For much of his career, he has been called upon to conceive and implement innovative solutions to extraordinary challenges. At the outset of communism collapse in 1989, he was called to the White House by President Bush to discuss strategies for the redevelopment of the Polish economy, and later to meet Lech Walesa within days of the fall of the Berlin Wall.

In 1990, he prepared a forward-looking U.S. Labor Department strategy anticipating the fall of the remaining Soviet bloc regimes.

He was recruited to draft a business plan for the Polish-American Enterprise Fund, a successful private equity firm conceived by the President and the U.S. Congress to promote development of the Polish private sector and the institutional foundation for a market economy.

He served initially as an officer of the PAEF and later in its sister enterprise fund in Hungary, where he conceived and managed the latter's cutting edge, high-tech VC fund.

He is also director of portfolio management of a Polish privatization fund, advised on the establishment of the Eurasian Development Bank, and serves today on the Investment Committee for the Polish National Capital Fund, financing new high tech VC funds in Poland.

Welcome.

STATEMENT OF FRANCIS J. SKROBISZEWSKI, ASSOCIATE, VISIONAMERICAS LLC

Mr. SKROBISZEWSKI. Thank you, Mr. Chairman, and members of the subcommittee. I am pleased to be here to describe my experiences as an officer of the Enterprise Funds in Poland and Hungary and to discuss how this model could be instrumental in today's rebuilding of Haiti.

The Miami Herald's Jacqueline Charles recently observed that the prospects of massive spending already has groups jockeying for roles in Haiti's revival. For such spending to be effective, we must address fundamental questions of what are we doing to empower the Haitian people to help themselves? How do we support the Haitians in revitalizing their own country and give the little people a chance they never had before?

In building back better, an enterprise fund designed for Haiti would focus beyond relief and reconstruction, provide in a deliberate and prudent manner essential financing Haitian businesses need, to create jobs that are sustainable and offer genuine opportunity for the Haitian people at the grassroots level.

In 1989, the enterprise fund was an innovative vehicle conceived by visionaries in the U.S. Congress and the first Bush Administration to support Central and Eastern Europe's unprecedented transformation by jump starting the local private sector.

Congress recognized that capital would be the catalyst to building private businesses and to be effective, that capital had to be professionally deployed. Financial investors were not ready to take unknown risks and enter those markets.

Thus, through the SEED Act of 1989, Congress authorized the establishment of initial enterprise funds with publicly sourced capital of $240 million for Poland and $60 million for Hungary to be privately managed by bipartisan boards of investment and other professionals appointed by the President, with the mandate to provide financing and related support to viable private businesses.

In following years, Presidents Bush and Clinton created additional enterprise funds under the SEED Act and for countries of the former Soviet Union under the Freedom Support Act.

Later, without the benefit of congressional legislation, the Clinton Administration also created a modified form of enterprise fund chaired by Ambassador Andrew Young for post-apartheid empowerment of local SMEs in Southern Africa.

Such an innovative business-to-business approach applied to a developmental mission was driven by private sector strategic thinking, decision-making and risk taking, and was executed by employing sound operational standards and established commercial disciplines, subject, of course, to appropriate public oversight.

This model proved exceedingly effective in terms of achieving Congress' primary development objectives but also performed beyond expectations in financial terms. This is illustrated by the detailed results outlined in my written materials.

The enterprise funds put their publicly sourced capital to work financing tens of thousands of local businesses, those little people, the little farmers, the entrepreneurs, the small people and across-the-board to larger enterprises.

They established banks and other institutions to extend their reach and created underpinnings of market economies, and in the aggregate, diligently grew their assets through prudent investment decisions.

Thus, on the completion of their missions, the enterprise funds in the CEE region are in varying degrees returning their capital to the U.S. Treasury, and with the residual investment proceeds, they are establishing charitable foundations in their host countries to carry on developmental work.

For example, the Bulgarian-American Enterprise Fund with an initial capital base of only $55 million from Congress returned its public funding and established a $400 million foundation in Bulgaria.

Most Central and Eastern European enterprise funds have also raised private capital, enabling them to expand their operations while returning their public capital.

The Polish-American Enterprise Fund's now independent investment team has raised over $1.8 billion in a series of private funds, and in doing so, they demonstrated to global investors the opportunities that existed in Poland and attracted competing funds with billions of dollars more in capital.

There is no reason a congressionally-mandated enterprise fund for Haiti could not likewise achieve significant private sector development objectives while maintaining the value of its assets by operating in a commercially disciplined manner as its predecessor enterprise funds have demonstrated is possible.

To do so would take one, a critical mass of capital that can be freely and flexibly deployed, for example, providing long-term equity financing for businesses, capitalizing SME and microenterprise loan facilities to provide working capital, creating modern financial institutions for mortgage banking, ag financing, leasing, traditional commercial lending, and related institutional infrastructure.

Two, appointment of a bipartisan board comprised of investment and knowledgeable professionals who understand their fiduciary responsibilities and are allowed to freely employ private sector approaches unencumbered by bureaucratic constraints as could be mandated by Congress.

Three, a commitment by donors to sustainable development through financing local Haitian businesses, which create real sustainable jobs and will empower a new Haitian middle class of private entrepreneurs.

Thank you, Mr. Chairman, and subcommittee members. I would be happy to answer any questions.

[The prepared statement of Mr. Skrobiszewski can be found on page 74 of the appendix.]

Chairman MEEKS. Thank you all. Thank you for your extremely well-informed testimony.

Let me start with Mr. Boisson. One of the things that I hear often is the situation in regards to Haiti about Haiti's long-term dependency on aid and the fact that we have over 9,000 NGOs which things are going through in Haiti.

There seems to be a general sense among the general population and among Haitian government institutions that the model of

NGOs basically governing things must change after the earthquake.

What is your opinion on that and how do you think we could be of assistance there?

Mr. BOISSON. Thank you, Mr. Chairman. My answer to that would be the large number of NGOs working in Haiti reflect a perception that Haiti needs to be assisted, that it is a poor country. What I have observed myself is there are many Haitians who on profitable businesses can build productive capacity, it is just a matter of giving them the proper environment.

The more you mistrust the private solutions, the more you handicap them. One example is because there is so much money coming from aid and charity and NGOs, that crowds out completely the incentive to create private enterprise. That crowds out even the economic signal. The attention of the government is completely out of private investors, out of businessmen.

NGOs are necessary but just to supplement, not to replace private enterprise and the real support to create a viable economy.

Chairman MEEKS. Mr. Fairbanks, let me ask you really quick, Mr. Watt and I traveled not too long ago to Rwanda. We had a chance to speak with President Kagame and go see what was going on over there with the microenterprises.

What are the key success factors that are observed in Rwanda and other places that you think Haiti will have to implement so that it can be the success story that basically we were seeing taking place in Rwanda?

Mr. FAIRBANKS. Thank you for that question. Rwanda is the greatest success story in the history of Africa in terms of its economic growth, justice, and participation of women in government. Paul Kagame will go down in history with President Nyerere, President Mandela, and others as the greatest leaders in Africa.

He did two or three things that nobody ever thought he could do. The first thing was he built modern institutions on top of traditional values.

If there is one thing we take away from my part of this discussion, it is that when he needed to get something done, he did not listen to the multilaterals, he did not listen to fancy academics, and frankly, he did not listen to me, and what he did was he went deep into the history of his culture and he found the historical almost archaeological mechanisms and to upgrade and improve and he made them modern, and that improved the receptivity to the entire nation to do something.

For example, when he wanted to clean the country, he found the notion of Umaganda, which was something the villagers used to all go out once a week and clean their villages. He made Umaganda a national phenomenon, and then he role-modeled this by going out the third Saturday of every month and sweeping the sidewalk in front of his own house.

Gacaca courts, which I am sure you heard about when you were there, was a traditional village system of justice that was actually more adaptable to trying hundreds of thousands of perpetrators of the genocide than any modern court system that could be imported from any other part of the world. Paul Kagame found a way to rely on traditional values to solve modern problems.

The second thing, in his relationship with the multilateral system and the bilateral system, Paul Kagame insisted on four things. Number one, there be a shared vision between the provider and the recipient. You do not get to do the strategy, I do. I am the elected president of the country and you should be willing to be guided by my vision and if you are not, then you have to go.

Number two, disbursement has to be made through national and indigenous institutions. He is very upset with USAID and he loves DFID because DFID will work with him in that way.

Number three, he wanted investment to increase competence beyond applying for more aid. This is what was being discussed a few minutes ago. An entire nation will turn its attention and configure to receive more aid rather than build the private sector, build the academy and build civic institutions, and he will not let that happen.

Finally, there were no parallel donor structures that undermine all of the above. Right now, we are talking about a big reconstruction institution in Haiti. I think that is probably appropriate when the population is vulnerable to natural disasters, but it is never going to build the nation.

It has to be given a very finite timeframe, like 36 months, a short timeframe, where it can work to alleviate the suffering of vulnerable populations, but then the locus of responsibility for building a nation has to put on the shoulders of the Haitians. You know what? Whether they are ready for it or not.

The 5 or 10 percent of leakage through corruption is worse than the 40 percent of leakage through the insufficiency of aid bureaucracies.

Chairman MEEKS. Thank you. One more question and then we are going to go another round. I want to ask Ms. Birdsall a question. We always talk about capacity building and the need to build capacity, especially human capacity. In the earthquake, Haiti has lost almost 40 percent of its public servants.

I was wondering if you had any ideas of where the international community should invest mostly in rebuilding local and human capital and if there are any models you know of that can help that happen quickly.

Ms. BIRDSALL. Thank you, Chairman Meeks. I think there is a model that was developed at our Center for Global Development on the basis of a gift that our chairman made to the President of Liberia.

It is a model under which young people are recruited, people who are in their early 30s, and go to work in the public service of the government, and through being special assistants to key ministers, actually provide unimaginably important service to those ministers who are completely beleaguered and overwhelmed.

In the case of Haiti, for some time it is not going to have very much support within their own ministries, partly because so many Haitians will be going to work for all the NGOs and for all the donors who are now flooding into Haiti.

I think Mr. Boisson mentioned not only does this influx of aid from so many different players crowd out private sector initiatives, it actually can undermine the ability of the government itself to manage the donors and to manage its own expenditures.

This is one example of a model which I think could be built on to have maximum use and deployment of the very skilled Haitian Diaspora, particularly in this country, if there were any arrangements set up, say by USAID or another agency with encouragement from the Congress, that made it easier for members of the Haitian Diaspora to go for 6 months, for a year, for 2 years into public service in Haiti, then that would be part of building up the capacity of that public service.

This has worked very well in the case of Nigeria, in the case of Malawi, in the case of other countries in Africa where there has been some mechanism by some private donor often to create a channel that provides a framework for people to go into the public service at different levels.

The model we have, I think, is a very low-cost one which does not take away management functions from the key ministers because people go when they are young and they are special assistants. They do many of the things that no doubt you have staff help on yourself and your colleagues have here on Capitol Hill, which can be very important, and which can be part of a larger process of gradually recruiting and building up local Haitian capacity in key functions that are very nitty-gritty, not glamorous.

Just to give you a feel, we had as many as a dozen of these special assistants in Liberia being paid $30,000 to $35,000 a year, which was far more than most of the public servants but far less for most of them than they might have been earning here. Half of the people who applied to do this activity were Liberians themselves and several have ended up as vice ministers and in other offices of the government.

Chairman MEEKS. Thank you. Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

This hearing today was based on some conversations we had in the previous hearing and my concerns with what we have to do in Haiti. I really enjoyed all the testimony today.

If we are looking at long-term development of an economy, that is one issue. We are dealing with the immediate impact to a disaster today in Haiti.

If you just look at the 78 million cubic yards of rubble that have to be dealt with, the entire nation has about 150 excavators, we are not talking about what you would see on American construction sites. We are talking about old, worn-out, antiquated units sold off to that country by many contractors in the United States and other countries, and they are not capable of doing the work.

They do not have the technical expertise within the labor force and the construction industry to deal with the infrastructure needs of electrical, roadways, bridges, sewers, storm drains, and if that is debatable, go look at what they had, and it will tell you clearly they do not have that expertise.

The United States is going to be the largest donor helping Haiti, no doubt about it. As I talked to the chairman and other members, we need to look at providing the ability to rebuild this country.

I really enjoyed the comments of Mr. Fairbanks where you were saying that 80 percent of the aid never gets to the purpose intended, and Haiti is prolific with corruption, as many countries are,

because you have a disaster today of $14 billion with a GDP of half of that.

We are going to have a tremendous amount of money going into Haiti in a very short period of time, and for that reason alone, I think we need to take the responsibility as the United States Government if we are going to provide this aid, let's provide the expertise.

With 15 million people unemployed in this country and tremendous labor force in the construction industry who have the expertise to immediately deal with the impact on this nation and the reconstruction of this nation, we should do that.

Mr. D'Sa with Gap, you have done a great job. You employ people. You put them to work. In order to do that, you have to have everything in place to do that.

Haiti has an ability we do not have in this country as far as environmental standards and labor standards. They do not have to deal with things American labor deals with, and we are going to deal with trade issues and investment issues later, and when we do that, we need to look at the impact we have on American industries in the future, too.

Like China has a tremendous benefit over the United States' workforce and businesses as far as trade standards. They have virtually wiped out the manufacturing industries and the furniture interests, specifically in North Carolina and California and other States in our Nation. They no longer can compete with China.

We do need to look at helping the Haitian people without a doubt once reconstruction occurs, but we have to reconstruct immediately.

My concern and the chairman's concern is throwing money into a nation and thinking 80 percent of it or 50 percent or 40 percent could disappear based on corruption, putting the dollars in the hands of individuals who are not used to dealing with these types of dollars and expending that amount of currency in a very short period of time to deal with the immediate impact and disaster that we are facing over there.

None of my comments should be taken in a negative term. It is not meant that way.

We need to help these people. The best way to help these people is to provide the expertise, talent, and the resources necessary to immediately mitigate the impact on this country. I believe if we do not take some oversight over it based on the American tax dollars we are investing in it, we will not be doing a service to the Haitian people and there is a tremendous labor force available in Haiti, manpower to get out and do specific jobs, but they do not have the expertise, and that is not impugning the people, they do not have it.

One hundred and fifty pieces of equipment, that would be an embarrassment on an American construction site. In fact, these units would not even be allowed on American construction sites because they do not meet the standards and the environmental requirements placed on them by the government here.

Mr. Fairbanks, I would like to let you respond and maybe if you think I am incorrect in some way, I would like to have you expand on that.

Mr. FAIRBANKS. No, sir. I think what you are saying is a very valuable perspective on the short-term needs versus the long-term requirements.

I think our points of view reconcile around the way that the work is procured. I would make two suggestions. The first one that I would hazard a guess we would agree on and the second one, we will not agree on, but I would like to put it out anyway.

The first one is as we go out to procure services through USAID, we should envision contracts where the vendors are punished for poor performance and rewarded for superior performance.

Right now, what we are seeing is too much responsibility in the proposal process and too little responsibility over the outcomes. That is the way to characterize aid vendors right now.

In the proposal, they can do anything. You have a problem, I can fix it. You have a problem, I already solved it somewhere else. Six months later, 2 years later, I could not do it because the people are stupid. I could not do it because the government is corrupt.

We go from too much responsibility to too little responsibility.

Mr. MILLER OF CALIFORNIA. If we invest American expertise in our companies, combined with Haitian labor, the result will be what we need it to be, and that is beneficial to the people of Haiti and it will be done in a proficient way, done properly, and the resources that are there when we leave are going to be long-term resources. They are not going to be substandard electrical systems, substandard bridges, substandard highways, substandard sewer systems. They will be done in a fashion that they should be done in and the Haitian people can build upon that when we pull back out.

Mr. FAIRBANKS. That is correct, sir. In fact, you get development twice. You move the rubbish and you leave behind skilled people. That is a great vision.

What I want to focus on is the procurement process to make sure the contracts are done right so that the incentives are—

Mr. MILLER OF CALIFORNIA. I agree with you 100 percent on that.

Mr. FAIRBANKS. That is really broken right now. The vendors get away with murder.

The second comment I would like to make which I do not think we will agree upon but I would love the opportunity to test it with you, is that I think eventually USAID needs to go to untied aid, which means we have to give aid that is not tied to American suppliers.

I know this is not the time in our Nation's economic cycle to have that discussion. The fact is other countries already do this, Japan and the United Kingdom. They are much more accepted as development partners around the world. You also get development twice.

If we were to put out a contract that procured services from the Dominican Republic or governance consultants from Rwanda, we would also get development twice because we would be helping the Haitians solve a problem and we would be helping the other countries to develop that capacity.

This is not the time or place for that argument, but some day, it has to happen.

Mr. MILLER OF CALIFORNIA. In closing, we are dealing with an immediate disaster. I cannot think of any group more capable of dealing with that than the American workforce and American contractors, in combination with Haitian labor.

When that immediate disaster is dealt with, we pull back out, the Haitian Government takes control of their own destiny, and hopefully at that point of time, the infrastructure is in a situation and modernized enough where it really will benefit the Haitian people in the future, plus it gives the Haitian people a matrix that they can look at on how things should be done. It gives Haitian contractors an opportunity to work with American companies to realize how things can better be produced for the long-term benefit of their people.

I feel strongly, Chairman Meeks, we need to look at that. We need to not only be concerned about the Haitian people. We also need to be concerned about the American workforce and how that American labor in conjunction with labor of the Haitian people can resolve the impact on these people immediately, deal with the disaster, and move on and then let their country take over.

I yield back.

Chairman MEEKS. Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman. Let me thank the chairman for convening the hearing. It has been a very interesting hearing.

Mr. Miller's questions actually helped me try to reconcile some of the things the panelists were saying, particularly Mr. Fairbanks. When I first heard his testimony, your oral testimony, not having read the written testimony, I was a little concerned that we were going to read too much into it, but then I went back and skimmed quickly what you said in your written testimony, and just wanted to make sure that we do not overread what you were saying.

It sounded like initially you were saying, let's do away with this aid and not bother with it. You are more concerned about how it plays itself out. I think that is a concern that Mr. Miller expressed and all of us are concerned about.

Let's make sure that we are just not providing fish, we are really teaching or supporting the ability to learn how to fish, so there is a longer-term impact. That is really what you are saying, I think.

Mr. FAIRBANKS. I would take it even further, Congressman, by suggesting that we should be teaching the Haitians how to export the world's most sophisticated fishing rods to the world's most demanding fishermen for the highest possible price points.

Mr. WATT. Gotcha. I would not argue with that as a general proposition. I do not think any of us would.

There is some notion that we are really better-positioned to do that with Haiti than in some other locations because we really have never had a direct or for a while we have not had a direct relationship with the Haitian Government because of the U.S. concerns about corruption and what-have-you.

A lot of the infrastructure that is there that we have worked through has been through NGOs that give the capacity to have a different relationship with non-government organizations, although I am not sure Mr. Miller or any of us would think building up and

supporting a more robust and honest and transparent government is not also necessary.

This is somewhat a philosophical discussion about very concrete needs and some of these things can by necessity be done more effectively through government structures than through private sector or non-government organizations.

I guess what we are trying to figure out here is how you appropriately balance those things in somewhat of an emergency situation and play it out long term so there are some skills left at the end of the day.

Any arguments with any of that—the gentleman whose name did not roll off your lips either—I was kind of hoping at some point Stephane, who has that French flavor to his presentation might do some of these introductions. I think a lot of these names might have been done a better service.

I think at the end of the day, it sounds to me like everything that all five panelists are saying is reconcilable and perhaps maybe more so in Haiti than in some other settings.

Mr. SKROBISZEWSKI. Thank you, sir. We had capital and we came into Poland with the capital in the early days, and we worked with the government when it was appropriate to work with the government to influence policy change, influence development of institutions, but at the same time, our focus was on developing the private sector by providing capital to build businesses.

In building those businesses, you build the fundamentals and on that basis, you create the ecosystem from the bottom up.

Mr. WATT. Basically, what you are suggesting is we follow the same or a similar approach in Haiti?

Mr. SKROBISZEWSKI. Commerce is taking place every day in Haiti by the little people and those little people need capital to grow. By helping them build their businesses, you also help build the other institutions that support those businesses.

Mr. WATT. I am not arguing with that. I agree with you. I do not want us to walk away from here with the message that I thought I was hearing first from Mr. Fairbanks, and I came full circle when I read it, that this can be done solely through that mechanism as opposed to supporting a robust, honest, transparent government that has an important role to play.

Mr. SKROBISZEWSKI. It is one piece of a large pie, exactly. In the SEED Act in 1989, there were a range of traditional aid programs and the enterprise fund, which was an innovative unprecedented approach.

Mr. WATT. I think I have heard that message and I do not disagree with it. I think we need to be cognizant of that. I thank the gentleman for recognizing me and for convening the hearing, and I yield back.

Chairman MEEKS. Ranking Member Bachus had a number of questions that he wanted to ask, and we talked about how he had been instrumental before, and he left the questions, so I am going to allow Mr. Miller to ask the questions of Mr. Bachus.

Mr. MILLER OF CALIFORNIA. Thank you. Mr. Skrobiszewski? Correct?

Mr. SKROBISZEWSKI. Correct.

Mr. MILLER OF CALIFORNIA. I did that pretty good for a German.

Mr. WATT. You did not do all that well either.

[laughter]

Mr. MILLER OF CALIFORNIA. I was going to give you a lesson in that but I said not to my friend.

His question, first of all, is how did the enterprise funds avoid local government corruption, private enterprise corruption?

Mr. SKROBISZEWSKI. As I stated to mention to the previous question, it takes two to tango. We had the capital. If we smelled anything, we did not put the capital into the particular venture. We had the local authorities, we had the national authorities working closely with us because they wanted to see—

Mr. MILLER OF CALIFORNIA. You also kept control of it, it sounds like.

Mr. SKROBISZEWSKI. Pardon me?

Mr. MILLER OF CALIFORNIA. You also kept control.

Mr. SKROBISZEWSKI. We kept control of the money. We had control. We took a disciplined approach. If we smelled anything of corruption, we did not do it. We did not put the money out. Money talks.

Mr. MILLER OF CALIFORNIA. I agree. What are the fundamental reasons for the enterprise fund's success in helping rebuild the private sector of Central and Eastern Europe?

Mr. SKROBISZEWSKI. I would say first and foremost, the professional management that was appointed to bipartisan boards and the professionals they hired that were able to take a disciplined approach in putting out the capital.

Mr. MILLER OF CALIFORNIA. Qualified expertise.

Mr. SKROBISZEWSKI. Exactly. They were primarily American driven. We brought over our capabilities, and of course, we had the benefit of a lot of Polish Diaspora that came to the United States during the marshal law period, as there are many Haitian Diaspora here today.

We also had the freedom to operate freely. That is we did not have to go back and ask permission. We made commercial decisions because we had provisions in the legislation that allowed us to do that.

Mr. MILLER OF CALIFORNIA. I think that is a great pattern for American investment, too, in the future.

Mr. Fairbanks, you point out that, "Aid largesse can distort private initiatives, stifle democracies, amplify ethnic based patron/client relationships and promote corruption."

Given the amount of aid that is likely to flow into Haiti, how do you prevent such negative side effects?

Mr. FAIRBANKS. All of those side effects are going to occur, so it is a question of balancing the benefits with these disadvantages.

Any time you put a lot of money into a situation, you get Dutch disease, which is inflation to the local economy. You also get the leadership distracted, as Mr. Boisson had mentioned very eloquently, and you also promote cultural values that are anti-innovation, paternalism, looking at wealth as a series of bureaucratic relationships and so on.

These things are unavoidable and you still need to go ahead and do it, as you pointed out, sir, in the short run, to alleviate catastrophe.

The important point is we decide at what point in the near future we are switching from dealing with acts of God and starting to deal with acts of man.

My own sort of swag at this is it is very short, 36 months. At that point, the budget is declining. The locus of decision-making is moving from the metro polls of North America, Europe and Asia onto the Haitians themselves, and that they know about this.

That we set up punishment and reward systems, allocate decision rights, and look at very clear metrics of performance, and then we get out of the way.

There will still be problems, but it will promote, if you excuse this paternalistic phasing in itself, the maturation of that society.

Mr. MILLER OF CALIFORNIA. I agree with you 100 percent. A general overall question for the panel, whomever would like to respond to it. He says, how can the United States navigate through the tricky waters of helping Haiti rebuild speedily without seeming to take jobs away from the Haitians and are there some instances in which speed of reconstruction is more important than maximum employment of the Haitian workers and if so, who would make that determination?

Yes, sir?

Mr. BOISSON. I would like to address your question and complete what Mr. Fairbanks was saying. I think that what we need to do is two things. First of all, we have to build a new Haiti, not only in response to the emergency, but build a new Haiti.

That means if we lose sight of that, we are going to provoke a catastrophe because the catastrophe was partly manmade. It was bad governance, for example, with there was a complete lack of control of the construction center, it was because of bad government. Yes, we have to respond to the emergency but we have to build human capacity and its institutions.

As the private sector is concerned and the importance of buying—using Haitian resources, there must be almost an obligation of U.S. companies, be they competent as they are, to build local capacity. There also must be an obligation of multilateral and bilateral donors to build capacity.

That means, for example, if you have a rubble contract, yes, its expertise lies with the U.S. company, but there is nothing that prevents them from sourcing from some of the manpower in anything they can source from Haiti and building capacity so that in 2 to 3 years time, you may have a Haitian firm ready to do any job of that sort.

Mr. MILLER OF CALIFORNIA. We have trained them.

Mr. BOISSON. Train them. In a sense, this is exactly the same image we should use for the international community.

If you have, for example, that big unit that is going to manage and you do not address the issue of institution and political institution in Haiti, and how that society can control their government and avoid corruption, you just are pouring money, you may just increase the corruption.

Mr. MILLER OF CALIFORNIA. You are; yes.

Mr. BOISSON. Building institution and being able to provide public or private services, we must have a result where there is as much competition as possible, and that is what Mr. Fairbanks was

saying. I support it. I think by having—the reason why the private sector works, be it in Haiti, the United States or anywhere, is because private entrepreneurs are penalized, they disappear, when they do not manage well. That does not happen somehow in providing international aid supported public services, and that is bad for the economy and that is bad for the society.

Mr. MILLER OF CALIFORNIA. Thank you. I yield back the balance of my time.

Chairman MEEKS. I would just want to say this, if there is anyone who has been focused on Haiti through all of its time, up's and down's and around, the person who has been focused on Haiti and making a difference and keeping Haiti on the forefront here in the United States Congress, one of those individuals is the gentlelady from California, who was the writer of the debt relief bill that we passed unanimously in the House last week, and I yield to the Honorable Maxine Waters.

Ms. WATERS. Thank you very much, Mr. Chairman. I certainly appreciate the leadership that you are providing on this issue and the fact that already you have held two hearings and not letting this issue die after the crisis is focused on for a few weeks or so, and your commitment to have a redevelopment plan, a national plan for Haiti. I think that is very important.

I am sorry that I was not here to hear all of the witnesses this morning, but I have quickly glanced at some of the testimony that has been given, and in going through the testimony, I see that a lot of what has been said seems to be basically a growing consensus about the direction that all of the funding agencies and donors and USAID and everybody needs to take in order to deal with the redevelopment of Haiti.

Let me just say that on my last visit to Haiti a couple of weeks ago, we organized about 130 would-be business people who are basically lawyers, doctors and educated people in Haiti who have not been involved in business per se in Haiti, not been involved necessarily in government. I think it is typical of the middle class that has been left out and the middle class that has not been developed for Haiti.

I am convinced that we have to develop through our work a middle class in Haiti. That, I think, can be done in a number of ways. One of the testimonies that I glanced through talked about the investment in education and all of that in order to develop this middle class and the creation of jobs, etc.

I think that is all true. I want to say that USAID is working very, very hard. The U.N. is working very, very hard. They are working despite the fact they have lost some of their own personnel, etc.

But it is very frustrating to see that the only way that services can be delivered in Haiti is through the NGOs. I hear numbers anywhere from 6,000 to 10,000 NGOs in Haiti, and while I agree that there are a lot of social services that must be delivered and work that must be done, I get this feeling that increasingly some of the NGOs are taking over what should be business in Haiti. That is frustrating.

I want to give you an example of that. I have some pictures we took, Mr. Chairman, and I will pass them down to you, of the tem-

porary shelters that are being built in some locations. This is very slow getting off the ground.

As a matter of fact, they are disseminating the plastic sheets to provide some kind of shelters. The need is so great until even these temporary shelters, not many of them are going to be built, and the NGO that is kind of responsible said maybe they might get 20,000 of them built, I doubt it.

This is a business. This should be done by business people. This should not be done by a nonprofit. I talked to the persons who were working on it and the guy who really knew how to do it, who was on payroll, really should have been the business that owned this operation and providing this temporary shelter.

I think we have a job to do working with the government to try and do everything that we can in this crisis to help create some small businesses, and to help get people who have some expertise in contracting, in building, and doing some things into some new business opportunities rather.

I invited USAID to send over the contracting officer with the 130 business persons that I organized, and he was very generous and he came over. He brought with him basically the requirements for doing business with USAID.

The first thing is, it was all in English, it was not in Creole, not even in French. We had interpreters there. We had people, a lot of them could speak English, but when you start to use terminology that people may not be familiar with, you really have to translate it, even for some of the English-speaking people.

Everybody started to laugh at one point when he said that for unsolicited proposals, you need to have 3 years of audited receipts. We were talking to people whose homes and everything else was blown away and everything they owned. Even the government downtown in Port-au-Prince, the government buildings, all their papers are still on the ground.

This young man was great. He was intent on talking about how to do business with USAID, but I had to talk with him and say this will not cut it, this will not do it.

That is one of the problems we have. It is a problem. It is an innocent problem. It is not a contrived problem. It is an innocent problem. A lack of knowing how to understand the culture and deal with the people you say you want to help.

There are several things that we have to do. First of all, all of the clusters in Haiti, local people are not involved. The NGOs run them. You have health clusters, education clusters. They meet every day. It is a secured operation. Local people cannot get into the clusters where the planning is going on for the very people who they are planning for.

The other thing is, just reverting a little bit back to what is going on now, many of the camps that have opened up are not getting serviced.

I was in a camp of 650. They have tarps. They still need latrines and some of those things. The way it works, the camp has to be identified by an NGO. The camp has to organize its little committee with who is going to be in charge of some things. Then they cannot get the tarps, they cannot get the food, they cannot get the water and they cannot get the latrines until the NGO gets to them.

This crisis, they should have these plastic sheets on some flatbed trucks rolling around putting them everywhere they can put them and not the organizational structure that ensures the NGO is running it and in charge. I think that is important. That is something that can come, but the way that it works, until again the NGO identifies the camp, they have to sit there and wait.

I was in a camp that had nothing. They had been building frames for the tarps to go over, and we finally went to USAID and brought them out there on a Sunday and met with the people who had already formed the committee, etc.

The point of all this is there is a lot of room for business. Not only the big business that some of us are talking about, but small business that Haitians could be doing, that would help them not only to earn money but to become better at being business persons.

I just think that we cannot have redevelopment without Haitian involvement and Haitian ownership. That is really important. The development of the middle class, Haitian ownership, and I would like to see—I have talked with the chairman about this—credits given to American firms, any other firms that come in to do business that have included in that proposal a way that they are going to include people on the ground in Haiti. I think they should be given credits for that.

I think American firms, firms from Canada or France, everybody has a role to play. We cannot play that role in the absence of involvement and ownership of the Haitian people.

Just yesterday, there was a meeting that was put together by the Inter-American Development Bank, some of you may be aware of it, in Haiti, with the international community.

I talked with the director and I said I want to know if you think you have some people who are smart enough to be in business, Haitians, who are invited to this conference, and not just the same, for lack of a better description, five families.

We know where people turn because this is what people know and understand about Haiti, that which is referred to as kind of the business elite, etc., that is involved in all the export/import, etc., and the fact that this emerging middle class or would be middle class have not been involved.

They said no, we gave them 10 names because they were almost at capacity, to invite some of the business people that we had at the meeting of the 130 where USAID had come out and they have agreed to come to some other meetings that we will be setting up with the middle class or emerging middle class.

In all that we do in the redevelopment of Haiti, encouraging those firms who really want to do good business, and you are right, we are not talking about shoddy business, who really want to do good business, to come in and include joint ventures and participation on the ground and maybe not even joint venture ways, but some ownership ways that can be created.

Unless we do that and we have an appreciation for the culture and we have Creole that is used in the explanation of how our culture works and what we expect, we are going to make the same mistakes that I think we have made historically in Haiti.

I just want to thank all of you for your expertise and your background and for what you had to offer, but let us all collectively

work very hard to do it and do it right, and to make sure that working with USAID and with the U.N. and with the Inter-American Development Bank and others that we include the kind of approaches and training and development of those that we want to understand what we are talking about with how to do business with USAID.

I cannot do business with USAID. Many of the minorities we represent cannot do business with USAID. We cannot follow this so we cannot comply with it.

We have to undo the mystery of it and get right down to getting it done.

Thank you for the time, Mr. Chairman. I yield back and I appreciate it.

Chairman MEEKS. I ask unanimous consent that Mr. Clay be permitted to participate in today's hearing. Without objection, it is so ordered.

Mr. WATT. Can I object? Oh.

[laughter]

Mr. WATT. Can I reserve the right to object, just long enough to tell Mr. Fairbanks that he probably has been surprised at how entrepreneurial and community-oriented we are on this panel. Sometimes, we get accused of being anti-business. I think you could relate to the comments that Representative Waters made in a special kind of way.

With that, I will not object to my friend participating in this hearing.

Mr. CLAY. I thank my friend from North Carolina and let me say Amen to what Ms. Waters said and thank the chairman for conducting this hearing and allowing me to be a part of it. I appreciate that.

Let me thank all of the witnesses for their testimony and along the same lines as Mr. Miller and Ms. Waters, I have heard from several members of my church who minister in Haiti who have talked about some of the more immediate concerns that they have, especially with the rainy season here, with the situation not really moving like they would like to see it move.

Let me just say I put this question out to the panel. Going forward, what should we do differently as far as rebuilding the infrastructure of Haiti, as far as involving Haitian citizens?

Will there be groups like Habitat for Humanity involved in helping rebuild homes? Will there be new building codes for building these structures, to make them somewhat earthquake resistant? Will the Haitian people, as Ms. Waters mentioned, benefit from getting some skills and being able to support themselves and their families with a job?

Is there a timetable for that? Can anyone try to answer? Yes, sir?

Mr. SKROBISZEWSKI. Yes, sir. Thank you. I can respond to some of those questions. It is really stimulating the local Haitian private sector and putting capital in their hands, as we did with our first program at the enterprise fund addressing the very concerns that Congresswoman Waters was raising, that avoided the complexities of the USAID requirements.

We did community lending. That was one of the first programs we did. Thousands of Poles lined up to get the money. They did not

understand some of the aspects. We had a small application and we went back and cleaned it up. It was all in Polish. Some of them learned more about their business than they ever knew before in just filling out the application, even though they might not have gotten the loan. That ended up making 10,000 loans over the 10-year period, and we did another 126,000 micro-loans.

That establishes the foundation, and then if you are also working—it is the private sector that is making investments in these kinds of firms that are imposing the standards. They want to see construction according to certain standards, if they are making investments in that construction, because it is a longer-term return you are looking for.

When we created a mortgage bank, when we invested in construction companies, we impose those kinds of standards, and then that filters down through the economy.

Mr. CLAY. Yes, Ms. Birdsall?

Ms. BIRDSALL. When I was listening to Congresswoman Waters, Congressman Clay, I got a little depressed. I endorse fully the remarks of Mr. Skrobiszewski regarding having these enterprise funds.

I want you, because you, with all due respect, you representing the Congress are part of the problem of USAID's complex arrangements. As he said in speaking, in Poland and in Eastern Europe, we avoided the complexities of USAID, went around them.

I think if you want to have something happen differently in Haiti, one important step would be to support USAID having the flexibility to do the kinds of things that Congresswoman Waters was talking about, without having to worry so much about an accretion of rules, an accretion of procurement arrangements, the problems of everything being tied in terms of aid that Michael Fairbanks referred to.

Mr. CLAY. Would that require some kind of legislative change or allowing them to waive the rules that they operate under now?

Ms. BIRDSALL. One approach would be to say since Haiti is so special, it is so close to the United States, let us give the new Administrator of USAID some special period of greater flexibility and test it out and see what happens.

There is a lot of eagerness at USAID to clean up and have greater capacity to do exactly the kinds of things—

Mr. CLAY. Their hands are tied now?

Mr. BIRDSALL. Their hands are largely tied. I think if this subcommittee could use Haiti as a vehicle for also helping our Administration get much greater value for money and work much more effectively with the government of Haiti on building government capacity, that would be tremendously good.

The second thing I would say is it is not politically easy, I understand this, but to the extent possible, I urge the Congress to put some of the resources, as much as possible, through the multilateral institutions.

Why? They have more open procurement. You reduce the problem of coordination. If every donor insists on putting her flag or her flag on every health clinic or every can, then you are creating this burden for the government of Haiti to finally take charge in the way that you are making it harder for the new administration in

Haiti to do what President Kagame was able to do in Rwanda, as other members of the panel have said.

It is just a thought in response to the very good statements you are all making, that there is a way perhaps to have Haiti, a response in Haiti, be the leading wedge of a larger reform that should be on the agenda.

I am sure you know that some of your colleagues in other committees are thinking about new foreign assistance legislation. There has not been new authorization legislation in decades.

To support that new legislation as well, but perhaps to build some momentum for it by having some special interim arrangement for Haiti.

Mr. CLAY. Any other thoughts on the panel?

Mr. SKROBISZEWSKI. Yes. I just want to clarify that we work closely with USAID. They had their capabilities and we had ours, and ours was focused on commercial practices. That is investing and lending on commercial terms, according to commercial disciplines.

That worked very well together. They brought other resources to bear. We had that flexibility that I mentioned because Congress granted it to the enterprise fund specifically in the SEED Act, that gave us the capability to do our investments in a way that were commercially responsible.

Mr. CLAY. Thank you for your responses. I thank the chairman for his indulgence.

Chairman MEEKS. Thank you. Before we close out, Mr. D'Sa, let me just ask you a question. Gap is still doing business and pursuant to some of the questions that Ms. Waters talked about, do you have any examples? Are you using Haitians now? Are you still getting your shipments in and exports and imports in now? Can you just tell us what you are doing in regard to Haitians on the ground now?

Mr. D'SA. Thank you, Mr. Chairman. Ms. Waters, I love the story you told us about USAID and the missing Creole translations.

In one of my first visits to Haiti, when we usually walk around, we do an evaluation of the factories. I talked to the people on the floor, and the owners, of course, told me what a wonderful factory they had and how strong the management was, and how they could take care of productivity efficiency and quality.

I speak a little bit of French, no Creole. I asked one of the Creole supervisors there to explain to me why he did what he did, and he could tell me what he did but he could not tell me why he did it.

As I dug deeper, what I found was the management of the factory, the senior management was from Asia. The middle management was from the Dominican Republic. You had people who spoke English, who spoke Spanish, one or two spoke a little bit of French, and nobody who spoke Creole.

Just like you had with USAID, we had disconnects 3 years ago in our factories as well. We have been working to change that. Similar stories.

Mr. Chairman, coming to your question, we have been working with Haiti and with Haitian suppliers of services and some foreign investment as well. We had identified certain impediments to investment and challenges before the earthquake.

Since the earthquake, those challenges have only been exacerbated, but yes, we have been working with our suppliers there and things have been moving along, and yes, we have Haitian services in place.

The one thing that Gap does in most of the countries that it works in is capacity building and empowerment to the labor. A few years ago, there was hesitation on the part of Congress and there was a requirement for certain elevations in the factories that we worked in, sustainability, social responsibility, labor standards, management, etc.

With the expertise we have, the intellectual property we own within the company, we rolled out workshops, not just for our suppliers, but for all suppliers in several Central American countries, to help them elevate their standards, taught them situational leadership, enlightened management, and then for the workers, you have to keep in mind that in most of these countries, people who work in the apparel industry tend to be illiterate. They do not know when they are eligible for overtime or how to manage their own wages, etc.

Simply teaching them not just the entrepreneurial skills but self-management skills, how do you track what your earnings are, what are you entitled to, how do you manage your funds at home, how do you do budgeting, these are the kind of classes that we roll out. This is the kind of education that we do.

In several countries in Asia today, Gap is involved in what we call the competitive literacy initiative, teaching people to read and write and from there on, creating career advancement opportunities.

There is another program we have called PACE, which stands for personal achievement and career enhancement. To a smaller extent, some of these have already started to be rolled out in Haiti in cooperation with a company called TC2 out of North Carolina, that started with training the trainers who are Haitians, and then the Haitians go out and start training workers in factories to be able to manage their careers, to be able to manage their personal lives.

That is one place where we are beginning to empower the Haitian labor, the Haitian supervisors.

Yes, we are working with Haitian services, transportation, catering services in the factories.

Around the apparel industry, yes, there are a number of opportunities for Haitian medium and small enterprises and it is beginning to happen and hopefully if HOPE II is reconstructed to be able to, as Ms. Birdsall and I have referred to, if we raise the TPLs and we open the product offering that is available, we should be able to do a lot more for the Haitian people.

Thank you.

Chairman MEEKS. Thank you. Let me, at this time, thank all of the witnesses for your testimony. I think it has been very enlightening. As I think Mr. Watt has indicated, and if there is something that is uniting, it has been your testimony that we need to create jobs for the Haitian people.

We need to get money in their hands so they can provide for their families. We need to teach them how to sell that exclusive

fishing rod to us in the United States, so they can participate in the global economy.

With that also comes the human capacity building of a government so that the people can gain the confidence and have confidence in it as was beginning to happen prior to this earthquake.

We are going to stay focused. This subcommittee will continue to stay focused on Haiti, even when the cameras are gone. We are already preparing our next hearing on Haiti, which will be dealing with microenterprises, so we can make sure that there is continuing progress.

Congresswoman Clarke, for example, she has some ideas, and I believe she is working with you in trying to make sure we create a fund.

We will be continuing to move forward for a marshal plan for Haiti because as I think Ms. Birdsall said and Ms. Waters, we need coordinating of all this, so we know what we are doing and it is not one hand working against the other. We are all pulling in the same direction and working in the same direction for making a difference with Haiti.

Again, thank you for your testimony. Thank you for being here. I look forward to having conversations and dialogue with you in the near future.

With that, the Chair notes that some members may have additional questions for this panel which they may wish to submit in writing, and without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

This hearing is now adjourned.

[Whereupon, at approximately 12:00 p.m., the hearing was adjourned.]

A P P E N D I X

March 16, 2010

Rebuilding Haiti's Competitiveness and Private Sector

March 16, 2010

Representative Meeks Prepared Remarks

Before I begin, I would like to thank Representative Miller, the ranking member of this subcommittee, for his help in planning this hearing, and to express again my gratitude for our ability to work in a truly bipartisan manner in seeking solutions to the critical situation in Haiti. This hearing is the second in a series of hearings on the situation in Haiti. I was thrilled to see such strong bipartisan support last week for the Haiti debt relief bill, which passed with unanimous support out of the full house, following its passage out of this subcommittee. Finally, I want to reiterate my sincere thanks to Chairman Frank and Ranking Member Bachus, for their continued support for Haiti and the work of this subcommittee, and especially thank Representative Bachus for his truly

touching remarks on the floor of the house last week, in support of the Haiti debt relief bill.

Now, I would like to thank our panel of witnesses for appearing here today, and for sharing their thoughts and experience on rebuilding Haiti's competitiveness and private sector. Haiti's recovery will happen in three distinct, if overlapping phases. Phase one consists of the crisis response, focused on basic survival needs, which began in the hours immediately following the devastating earthquake of January 12, 2010. Phase one is likely to be ongoing for some time, particularly for the most vulnerable groups in Haiti. Phase two, which is in its very early stages of development today, consists of rebuilding the basic physical and governance infrastructure of Haiti. This phase will take several years to complete, but must get under way quickly as it is critical to allowing the government and the people of Haiti to get back to work, and to regain some minimal sense of normalcy.

Phase three, the plan for which is being developed today, and is a continuation of extensive work already underway prior to the earthquake, consists of implementing a long-term economic strategy for Haiti, allowing it to grow prosperous, and to move beyond the dependency on aid which has characterized the country for decades. As our witnesses will address here today, much of the preparatory work for phase three was already being done prior to the earthquake, under the leadership of President Préval. These plans have been modified as a consequence of the earthquake, but not fundamentally changed.

It is my hope that today's hearing, and the testimony of our panel of witnesses, will shed some light on how we can empower Haitian institutions and the private sector to enable the successful and rapid progression of Haiti from phase one, crisis response mode, where it is today, to phases two and three of long-term economic planning, in a

manner that lays the foundation for a new, sustainable, stable, and prosperous Haiti, providing hope and opportunity for all its population, and not just a privileged elite. I also look forward to hearing about how we can ensure effective coordination of the multitude of development efforts, including especially the multilateral and international development institutions, under the leadership and stewardship of the Haitian people themselves, as they build a future in accordance to their plans, their culture, and their vision of a resurgent Haiti.

"Rebuilding Haiti's Competitiveness and Private Sector"

Testimony for the House Financial Services Subcommittee on International Monetary Policy and Trade

Nancy Birdsall
President, Center for Global Development

March 16, 2010

Thank you Chairman Meeks, Ranking Member Miller and other members of the subcommittee. I appreciate the opportunity to appear before the subcommittee today to discuss how the U.S. and the international institutions can support Haiti's reconstruction and recovery following January's devastating earthquake.

Humanitarian relief efforts remain an urgent concern in post-quake Haiti. At the same time, the disaster has prompted soul-searching and debate in the development community. Why haven't previous efforts to assist Haiti resulted in a more resilient society? How can the United States and the international institutions like the World Bank, International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) support Haiti's reconstruction and recovery, especially when Haiti's government and institutions have been crippled by the earthquake?

In my remarks, I'd like to propose three key principles for the U.S. and international response in Haiti and three policy actions that would have a big impact on the lives of Haitians as they seek to rebuild and replenish their nation.

THREE PRINCIPLES

1. It's about more than aid.

Aid is the first response in the aftermath of major natural disasters, and rightly so: helping Haiti pull it citizens from the rubble, and providing emergency medical care, water, and shelter is paramount. But to build a capable state in Haiti and an independent middle class, aid will not be sufficient. What Haiti needs from the United States are other kinds of support: policies to encourage investment and open our consumer market to Haitian exports; special programs to encourage deployment of the considerable talents of members of the Haitian diaspora in rebuilding public services in Haiti; and a new program to allow more Haitians to emigrate to the U.S. I suggest specific actions below.

2. Ultimately only the Haitian government can "coordinate" the donors; meanwhile the U.S. should encourage lead donor arrangements by sectors and should lead on transparency.

There are now more than 25 official donors, including at least 10 United Nations agencies plus the U.S., British, French, Canadian, European Commission, Brazilian, Chinese and hundreds of international organizations operating in Haiti. Since the January earthquake, there has been the usual drumbeat among official donors on the need for coordination. But coordination of the international community's input by the international community itself is a hopeless ideal. Since the earthquake, the Obama administration has made good efforts to avoid adding to the confusion by emphasizing that the government of Haiti must be in charge of the aid-funded programs.

In Haiti, this is tricky because many of Haiti's government and civil society institutions have been destroyed and many officials, police and other leaders have died. What can be done in the short run? The U.S. is likely to be among the largest if not the largest single donor/creditor in Haiti (the U.S. currently accounts for 32 percent of total humanitarian assistance in Haiti). The U.S. should work with the Haitian government to identify who among the official donors is in charge of what. For example, one of the multilaterals (i.e. the Inter-American Development Bank or the World Bank) might take the lead on reconstruction; the U.S. might lead on leveraging private sector investment through USAID and the Overseas Private Investment Corporation; another large donor might lead on social sector investments, etc.—in all cases working with other donors but being the principal counterpart for the government. These are just examples, but clarity about who is in charge of what would go a long way to support the Haitian government's own efforts and to make sense of the panoply of actors and interests currently operating in the country.

The U.S. should also take the lead on transparency. I urge a special focus by all U.S. agencies involved to make their plans, commitments, deployment of personnel and disbursements fully available to the public on an ongoing basis on a public website for the indefinite future; and for USAID to commission the creation of a platform that would make it easy for private donors to do the same. That or some other initiative should be taken to provide the government of Haiti the information in usable form to increasingly take charge themselves. It would also allow Haitian civil society the information to permit them to hold their own government gradually more accountable. (Similarly, the Congress and U.S. taxpayers would have more timely and useable information about U.S. resource deployment.) This approach would also minimize the risks of waste and corruption that are ever-present when large new inflows of outside aid for reconstruction begin to flow.

3. Put USAID more clearly in charge of the U.S. effort and call on USAID to focus on innovation and evaluation.

President Obama designated USAID Administrator Raj Shah "our government's unified disaster coordinator" immediately following the earthquake. USAID has a long history of disaster response as well as transitioning from humanitarian crises to long-haul development. But amid

the growing and visible roles of the Pentagon, State Department and other federal agency responding to the earthquake, we are running the risk of confusion about who is really in charge of the U.S. strategy and response.

Even the perception of poor coordination among U.S. actors can weaken the effectiveness of our response. President Obama, Secretary Clinton, the U.S. Congress and others should continue to make it clear that Dr. Shah is not only the president's designated disaster coordinator but also the head of the primary U.S. agency for development. They should give him the profile and tools and authorities to do the job he has been asked to do. Getting this part right can help Haiti put its country back together again, and might in turn, help strengthen our own development apparatus too.

I urge this committee to in turn urge USAID to take steps to ensure that there is adequate emphasis on defining objectives for all U.S. aid programs in Haiti, in terms--wherever possible--of measurable outcomes on the ground (jobs, gains in school enrollment and learning, reductions in infant and child mortality, etc.); testing new approaches; and investing now in the baseline information for systematic and independent evaluation. This is vital if we are to improve the process, which elsewhere has been plagued by difficulties, of shifting from emergency humanitarian programs to long-term development investment.

THREE ACTIONS

There are a number of things that can be done in the short-term to help Haitians recovery from the earthquake: ensure Haiti's adolescent girls are protected from sexual violence while they are in temporary settlements; consider using cash transfers to get the economy going; create a jobs and emergency works program; and provide, as appropriate, police force resources. But there are three major policy changes very much in the jurisdiction of this committee that would have immediate and lasting impact.

1. Provide duty-free, quota-free access for Haitian exports, including apparel, and make that access permanent.

Haitian-Americans and Haitians (some of whom came to the U.S. after the earthquake in order to see U.S. Trade Representative Mark Kirk and members of Congress) are asking for one thing: more trade with the United States – which can result from further opening of the U.S. market to Haitian exports.

Haiti already has duty free access for most goods it might export to U.S. markets under current preferences.[1] And exports—especially of job-intensive apparel and textiles—deserve some credit for the small but significant improvement to Haiti's economy before the earthquake (see annex).

[1] The Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (**HOPE II**) and Caribbean Basin Trade Partnership Act.

But more can be done as my colleague Kim Elliott has argued in a recent blog post on "Haitian Recovery, Sweatshop Jobs and the Role of Trade Preferences.[2] First, the current quota on Haitian apparel exports should be lifted—the current quotas are likely discouraging potential investors even now. Second, there should be full product coverage. Third, change program rules to allow the broadest possible sourcing of fabric and other inputs rather than restricting key imports from Haiti to those using American inputs. And fourth, make preferences for Haiti permanent (the increase in Hope II to 10 years clearly helped; a permanent program would be even better). While the programs should be permanent, there can be an opt-out for the U.S. in the case of a coup or other significant human rights violation.

These are among the recommendations in a forthcoming CGD Trade Preference Working Group report[3] that Kim Elliott chaired. The report makes clear that better access for all least developed countries—including Haiti—would have a minimal negative effect on U.S. firms and jobs. The report indicates that increased access for all least developed countries might reduce U.S. production of textiles by one half of one percent. Such access for Haiti can contribute to both more and better jobs for Haitians trying to survive in the wake of this terrible tragedy.

Increased trade access to the world's largest consumer market—the U.S.—has the potential to create jobs *quickly* and have a lasting impact on Haiti's economy. Customers, not charity is a critical part of the equation for Haiti's long-term recovery.

2. Create a Golden Door Visa for a limited number of Haitians to emigrate to the U.S.

To help Haiti's earthquake victims, change U.S. immigrations laws. CGD fellow Michael Clemens has called for a new Golden Door Visa for a limited number of Haitians and other people in the world's poorest countries.[4] Haitians will continue getting on boats in large numbers to try to escape Haiti in the weeks to come. But most of them will be forced to do so without permission, because there is no provision in current U.S. immigration policy to reserve even a single visa to the U.S. for people simply because economic opportunity is abysmal where they are. (Refugee visas are only for people threatened by war or persecution, and don't apply to natural or economic disasters; the 'Diversity Visa' does not apply to Haiti.)

A Golden Door Visa would change that. It doesn't need to mean more immigrants, though it might; it could be made "numbers-neutral" so that the number of all immigrants stayed the same but became slightly weighted toward places where people need more opportunity. It could be given in more limited numbers when the U.S. economy is weak, greater numbers when it's strong. Even small numbers would be tremendously helpful: 10,000 per year would represent a 50% increase in the number of legal Haitian immigrants, but only 1% of total U.S. immigrants.

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[2] Kim Elliott, "Haitian Recovery, Sweatshop Jobs, and the Role of Trade Preferences", Center for Global Development, January 25, 2010, http://blogs.cgdev.org/globaldevelopment/2010/01/haitian-recovery-sweatshop-jobs-and-the-role-of-trade-preferences.php.

[3] Kim Elliott leads the Center for Global Development's Trade Preferences Working Group (http://www.cgdev.org/section/initiatives/_active/reformingtradepreferences/global_trade_preference_reform).

[4] Michael Clemens, "Reactions to My Proposal for a New Visa to the Unites States,", Center for Global Development, January 25, 2010, http://blogs.cgdev.org/globaldevelopment/2010/01/reactions-to-my-proposal-for-a-new-visa-to-the-united-states.php.

Creating some degree of flexibility in this way would help reduce the embarrassment of forcing poor people who will be trying to leave Haiti back into the disaster zone. It may also be the most successful way to help Haitians lift themselves out of poverty. According to calculations by Clemens and CGD visiting fellow Lant Pritchett, 82 percent of Haitians who live on more than $10 per day live in the U.S. Only the top 1.4 percent of people in Haiti had that living standard even before the quake. So for most of the Haitians who left, leaving Haiti was the *cause* of leaving poverty.

In addition to creating a Golden Door Visa, there should be support for Haiti's diaspora members to return to Haiti to shore up public functions, especially at the government ministries. CGD founder Ed Scott helped create the Scott Family Fellows program aimed at recruiting young professionals to support the government of Liberia as it recovers from 14 years of civil war. The fellows fill a huge capacity gap and work in Liberia as special assistants to senior Liberian government officials, primarily cabinet members. Since its inception, the program has attracted both Liberian nationals and U.S. citizens. A similar program could help rebuild and re-staff the Haiti's vital government infrastructure.

3. Channel more resources through the multilateral development banks.

The World Bank and Haitian officials are expected to establish and run a "multi-donor trust fund" similar to the one set up after the 2004 Asian tsunami. The Bank's trust fund is expected to include an "executing agency" led by Haitians, while the United Nations and other international staff will supervise the massive rebuilding projects. A trust fund could also be established at the Inter-American Development Bank, which could help raise resources from Latin American and Caribbean neighbors, and or U.S. resources could supplement the existing Multilateral Investment Fund at the IDB for work in Haiti over the next five years; the MIF was started as a U.S. initiative at the IDB to support private sector investment and public-private partnerships in the Latin America and Caribbean region.

Both the World Bank and the IDB are in the process of seeking capital increases. Among the reforms the United States should urge at those banks is increased attention to risk management instruments, including insurance and guarantee products for low-income countries against natural disasters and other external shocks, as I have recommended in earlier testimony before other committees.[5]

[5] Nancy Lee, Guillermo Perry, and Nancy Birdsall, "The Age of Turbulence and Poor Countries: The Case for MDB Help with Risk Management", November 17, 2008, http://www.cgdev.org/content/publications/detail/967322 and Guillermo Perry, "Beyond Lending: How Multilateral Banks Can Help Developing Countries Manage Volatility", Center for Global Development, May 13, 2009, http://www.cgdev.org/content/publications/detail/1422098.

Annex:
Haitian apparel exports to the United States rose from $450 million dollars in 2006 to $512 million dollars in 2009, but make up less than one percent of the share of total U.S. imports, meaning improved trade opportunities could create the jobs that are so desperately needed in Haiti, with minimal negative effect on the U.S. or other exporters.

Haitian Apparel Exports to the United States (million dollars)				
	2006	2007	2008	2009*
Total	450	453	412	512
Share of total U.S. imports	0.6%	0.6%	0.6%	0.8%

* Extrapolated from January-November data.
Sources: U.S. Department of Commerce, Office of Textiles and Apparel; U.S. International Trade Commission.

The Haiti Reconstruction Effort

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

Testimony before the House Subcommittee
On International Monetary Policy and Trade

By

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Chairman, Sogesol

Member of the Presidential Working Group on Competitiveness

And of the Private Sector Economic Forum

March 16, 2010

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

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

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

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

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

The Past as an Indication of a Better Future

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

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

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

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

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

- The 2006 Hope Act which currently provides precious support to Haiti's garment production resulted from successful public-private partnership initiated since 2004 by Haiti's manufacturers association (ADIH). This critical endeavor is now being implemented by a public-private committee headed by Haiti's Prime Minister and comprised of 4 government officials, 3 representatives from unions and 3 from the private sector.

- Banking liberalization reforms were put to law and regulations from 1995 to 1998 upon active partnership between the banker's association and the Central Bank. Right after these regulations were enacted, five private commercial banks, including the two largest ones, made their entry into the world of microfinance, serving the needs of hundreds of thousands of micro entrepreneurs, who

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

- A third noteworthy initiative was the project launched in 1998 by the Center for Free Enterprise and Democracy (CLED), a business association, in partnership with Hernando de Soto and the Peru's Instituto para Libertad and Democracia (ILD), to formalize over US$2 billion worth of informal real estate property. Lack of proper titles indeed prevents owners from using these assets as collateral to obtain bank loans and create profitable ventures. This project's implementation was however interrupted by the 2000-2004 political crises and needs to be revived.

- In 1998, after about a year of wide consultation, a largely representative group of business associations produced the "Business Sector's Agenda", formulating a whole series of public policy proposals, including the creation of a High-Level Commission on Economic Modernization, which would include representatives from both private and public sectors and would serve as institutional vehicle for policy dialogue. A similar exercise was in fact repeated in April 2006, when then President-elect René Préval requested proposals from the Private Sector for his first year in office. Twenty business associations signed the "Private Sector's Roadmap" presented to the President-elect and his main advisors, which contained many concrete policy proposals. Several of those did find their way into the Prime Minister's General Policy Statement submitted to the Parliament.

- Private-Public partnership went even beyond the economy and business. In 2002, The Sogebank Group Foundation signed a 5-year grant agreement as principal recipient (PR) for the Geneva-based Global Fund for the Fight against HIV-AIDS, Tuberculosis and Malaria. This program, focusing on HIV prevention and treatment, helped bring HIV incidence from 5.5 to 2% and the number of patients under ARV treatment from 200 to over 10,000 in only 6 years. Six other grant agreements were since signed for a total of US$200 million worth of health services scheduled over the next 5 years. Coordinating such programs requires strong public-private collaboration, trough "Country Coordination Mechanisms" (CCM), where all players are represented, including the government, the service

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

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

Vision for a New More Prosperous and Equitable Haiti

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

On Economic Growth and Building Large Middle Class

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

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

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

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

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

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

Post Earthquake Revision

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

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

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

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

Cluster Roadmaps

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

1. ***Fruit and Tubers***

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

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

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

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

2. ***Animal Husbandry***

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

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

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

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

3. *Garments*

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

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

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

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

4. *Tourism*

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

A. In the capital, Port-au-Prince

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

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

B. *In provincial towns*

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

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

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

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

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

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

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

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

On Governance and the Role of Donors

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

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

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

Social commitment

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

Mr. Chairman, Honorable Congressmen,

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

Thank you.

Testimony for Mark D'Sa
Senior Director, Sourcing & Production, Gap Inc.
Hearing on Haiti
Subcommittee of International Monetary Policy and Trade
Tuesday March 16, 2010

Good morning Mr. Chairman and members of the International Monetary Policy and Trade Sub-Committee. My name is Mark D'Sa and I am the Senior Director for Sourcing and Production at Gap Inc. and I thank you for inviting me to be a part of the discussion today.

Gap Inc. has been sourcing product in Haiti for a number of years and we remain committed to continuing to do business there. Even before the tragedy we were exploring internal recommendations to improve the business investment environment in Haiti so that more companies might want to invest in the country and to help build out the infrastructure.

Prior to the earthquake, we had determined that it made good sense to source out of Haiti because of the quality, the competitiveness, the efficiency of the factories and workforce, and the proximity to the U.S., our largest market.

As you may know, goods shipped from Haiti can reach the U.S. shore within 3 days; this is much quicker than many other locations where retail companies, including Gap, source products.

Despite the recent devastating tragedy, we are committed to Haiti resuming its rightful place again in the sourcing community. Our staff is working with Gap Inc.-contracted factories to facilitate a full return to business while working with the Haitian Government and departments of the U.S. Government to explore some of the other ways that the infrastructure might be improved in order to attract more potential investors to the country.

Haiti needed help before the earthquake and needs it more than ever now. The apparel industry had employed approximately 28,000 people before the quake and we believe more sustainable jobs could be created in textiles and apparel if the current trade legislation were amended to allow a wider mix of products from Haiti to have duty free access to the U.S.

My colleagues and I have met with people in the various committees with jurisdiction over trade policy and we are hopeful that some of the current legislation can be more liberalized so that investors could come to Haiti with confidence. This would create good jobs for the people of Haiti and offer a sourcing location with strategic proximity to support the needs or rapid response that U.S. retailers and brands require in today's environment.

Similarly we have encouraged both the U.S. and Haitian governments to focus on infrastructure development, which would benefit both local and foreign companies as

well as the Haitian people themselves. Improvements to the ports and roads, power supply and communication, as well as urban transportation are critical to long-term, sustainable development. In the short to medium term, of course, progress must continue to be made in ensuring delivery of food and the provision of better shelter for the Haitian people.

Following the earthquake in Haiti a few months ago, our company and our employees joined forces to raise more than $300,000 for Mercy Corps' recovery efforts, and, at the same time, the factory that makes our clothes was among the first to be able to put Haitian employees back to work. We also continue to explore other ways that the company might be able to help.

I want to thank the U.S. Government for taking such strong and proactive action in the aftermath of the earthquake as well as for their commitment to supporting a real recovery in the textile and apparel production sector.

We appreciate the swift action and encourage this committee to work with your colleagues here in Congress and all the relevant governmental agencies to coordinate an effort that can be lasting and sustainable for the investment environment in Haiti.

Gap Inc. remains committed to sourcing in Haiti and we continue to explore how we can increase our sourcing over time, with a goal of fostering the sustainability and growth of the industry over the long term.

Thank you, Mr. Chairman, for your commitment to and interest in Haiti and thanks again to you and the Committee for inviting me to be a part of the discussion today.

Mr. Chairman and Members of the Sub-Committee: Thank you for the opportunity to discuss Enterprise Solutions to Poverty and U.S. Aid Policy in Haiti.

Not so long ago if one spoke about competitiveness and private sector development as a core principle of economic development, they were met with something between indifference and antagonism. Now, the concepts are discussed in the corridors of the multi- and bi-laterals, and viewed as a critical part of any nation's strategy to help its people.

There are still many misunderstandings over the role of the private sector in national development, so, please allow me to respectfully brief you on a couple of foundational concepts concerning prosperity and a strong society. I have spent the last nearly twenty years working in developing nations, advising governments in the aftermath of crises, including Rwanda, Afghanistan, Colombia, El Salvador, Tartarstan, and Serbia. Based on this experience, I believe Haiti is now at a critical juncture in its development.

I also ask your indulgence. My comments are meant to be frank and evaluative; they are based on 30 years experience from grass roots development as a Peace Corps volunteer in Africa to my role as an advisor to some twenty presidents around the world.

What is Prosperity?

Prosperity is the ability of an individual, group, or nation to provide shelter, nutrition, and other material goods that enable people to live a good life, according to their own definition. Prosperity helps to create the space in peoples' hearts and minds so that, unfettered by the everyday concern of the material goods they require to survive, they might develop a healthy emotional and spiritual life, according to their preferences. Prosperity can only be achieved when a nation's leadership sets its own vision, and follows a self-determined path.

We can think of prosperity as a flow and a stock. Many economists view it as a flow of income; the ability of a person to purchase a set of goods, or capture value created by someone else. We use a notion of income called purchasing power.

Prosperity is also the enabling environment that improves productivity. We can therefore look at prosperity as a set of stocks. I have listed below the seven kinds of stock, or what I call, the Seven Forms of Capital, the last four of which constitute social capital. In this conceptualization we see all forms of prosperity falling into the following categories: *natural endowments* such as location, sub-soil assets, forests, beaches, and climate; *financial resources* of a nation like savings and international reserves; *human-made capital* which are buildings, bridges, roads, and telecommunications assets; *institutional capital* such as legal protections of tangible and intangible property, government departments that work with little hidden costs to the economy, and firms that maximize value to shareholders, and compensate and train workers; *knowledge resources* such as international patents, and university and think tank capacities; *human capital* which represents skills, insights, capabilities; and *culture capital* which means not only the explicit articulations of culture like music, language and ritualistic tradition, but also attitudes, beliefs and values that are linked to innovation.

Figure 1: The Seven Forms of Capital

	Representative Elements	Representative Examples
Cultural	• Tangible Articulations • Norms • *Mental Models*	• Architecture, Music, Language • Range of Acceptable Behaviors • *Trust, Wealth Creation Attitudes, Long-term Thinking*
Human	• Health and Population • Education and Training • Attitudes and Motivation	• Nutrition, Medical & Mental Health • Primary & Secondary, Technical • Self-responsibility, action-orientation
Knowledge	• *Qualitative, Quantitative Data* • *Frameworks and Concepts* • *Knowledge Generation*	• *Statistics, Opinions, Records* • *Theories, Processes, Procedures* • *Universities, R&D, Market Learning*
Institutional	• "Good, Clean Governance" • Justice System • *Connective Organizations*	• Transparency, No Hidden Costs • Property Protection, Predictable Regulations • *Chambers of Commerce, Unions*
Financial	• Financial Systems • *Private Wealth* • *Public Wealth*	• Banks, Stock Markets • *Bank Deposits* • *Bank Reserves, Taxes, Duties, Macroeconomic Stability*
Man-Made	• Transportation, Communication • Power • Water and Sewerage	• Roads, Ports, Telephone Systems • Electric Grids, Generation Capacity • Pipelines, Pumping Stations
Natural Endowments	• Environmental Issues • *Raw Materials* • *Climate and Location*	• Conservation, Restoration • *Agricultural, Mineral, Petroleum* • *Proximity to Markets*

Moving away from a conceptualization of prosperity as simply a flow of per capita income enables us to consider a broader system, and the decisions for investment in an enriched and enabling "high-productive" environment. Nobel laureate Amartya Sen suggests that, "The advantage of a stock view would be to give us a better idea of a nation's ability to produce things in the future."

Why Does Prosperity Matter?

We know that individuals around the world have vastly different purchasing powers, and countries possess stocks of wealth in different proportions. According to Thomas Sowell, "We need to confront the most blatant fact that has persisted across centuries of social history – vast differences in productivity among peoples, and the economic and other consequences of such differences."

There are intimate connections between poverty and malnutrition; but poverty is more insidious than statistics can indicate. Poverty destroys aspirations, hope, and happiness. This is the poverty you cannot measure, but you can feel. There is a rich literature on correlation between incomes and such progressive human values as: productive attitudes toward authority, tolerance of others and support of civil liberties, openness toward foreigners, self-esteem, sense of personal competence, interpersonal trust, and satisfaction with one's own life. Ronald Inglehart writes that higher rates of self-reporting of both objective and subjective well-being are correlated with the levels of national prosperity.

Most Aid Never has Impact

Eighty percent of assistance from the aid agencies, the not-for-profits, and the United Nations never achieves the desired goal of improving the wealth of nations; this is according to an aid agency that shelved their own report. Aid should be used in situations such as Haiti to mitigate the impact of natural disasters on vulnerable populations, but it has never been sufficient to lift nations out of poverty. In fact, there are reasons to believe the opposite.

The United Nations has 17,000 peace-keeping forces in Congo costing billions of dollars, but never addresses the underlying issues that caused the war: lack of governance, degrading poverty, and intolerance. The U.N. Millennium Village program created high expectations, but failed to coordinate with national governments. They have programs for visitors that officials call "Poorism." Tourists pay to visit villages and buy small crafts and agricultural products. One official showed me a brochure that sets rules for the busloads of visitors. The first rule is, please do no not feed the villagers.

These places are less like the model villages of the new millennium and more like the Potemkin villages of the last millennium: Russian towns built like theatrical sets, with large fires that glowed in the distance to portray economic activity.

Not-for-profit organizations are uneven in their impact. Pioneers like Paul Farmer who founded Partners in Health, or Greg Mortenson of "Three Cups of Tea" fame, are respected for starting with only a vision, and accomplishing great things.

Other not-for-profit leaders, especially some of those who refer to themselves as Social Entrepreneurs, claim they borrow the best ideas of the private sector, and focus on innovation to serve the poor. Yet, they often spend more money on

public relations than on R&D and training their own staff; and they place their headquarters closer to media centers and the affluent rather than the needy. Their impact is tiny compared to the multilaterals, or faith–based initiatives, or even the development aid provided by the Pentagon.

Aid largesse can distort private initiatives, stifle democracies, amplify ethnic-based patron-client relationships, and promote corruption. Former Finance Minister of Afghanistan, Ashraf Ghani, who has been shortlisted to lead the U.N. and the World Bank, observes that aid can even "sever the sovereign relationship between people and their leaders."

It is for these very reasons that Haiti's private sector must be empowered.

What is Competitiveness?

Nations that do not create wealth for their citizens share much in common. Our evidence, and that of others, suggests that they are over-reliant on natural resources, including cheap labor; and that they believe in the simple advantages of climate, location, and government favor. Because of this they often do not build the capacity to produce differentiated goods and services that create greater value for demanding consumers who are willing to pay more money for these goods.

By focusing on these easily imitated advantages, on these lower forms of capital, they compete solely on the basis of price, and therefore, tend to suppress wages. It is exports based on poverty, not exports based on wealth creation; and the only competition they are in is to see which country can stay the poorest the longest until its society disintegrates.

A nation's ability to create both price and non-price value for consumers inside and outside the country is what determines its productivity, therefore its prosperity, and most importantly, its impact on the goals, assumptions, attitudes, and values of its people.

Three Recommendations for Haiti:

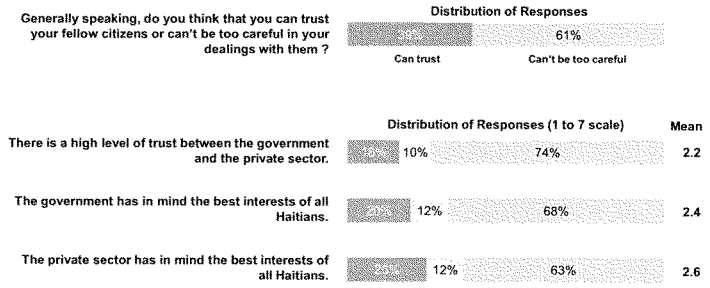
1. Invest in the Highest Forms of Capital: Institutions, Specialized Knowledge, Human Abilities, and Pro-Innovation Beliefs, a "Culture of Innovation."

I will focus today on the last one. Pro-innovation beliefs include: competition is a

force for positive changes, wealth is a product of human initiative and not sub-soil assets, one may spontaneously socialize and trust fellow countrymen, and perhaps the most important of all, self-determination.

In Haiti, Interpersonal Trust is low, especially between the public and private sectors. The majority of respondents identify the lack of trust in Haitian society as a huge issue, with only 16% of respondents saying that there is trust between the government and the private sector.[1] Although the analysis focuses on the public and private sectors, our hypothesis is that this lack of confidence is widespread. This represents a major constraint to the articulation of a shared vision. Lack of trust in Haitian society is, perhaps, the greatest hidden tax on their economy.

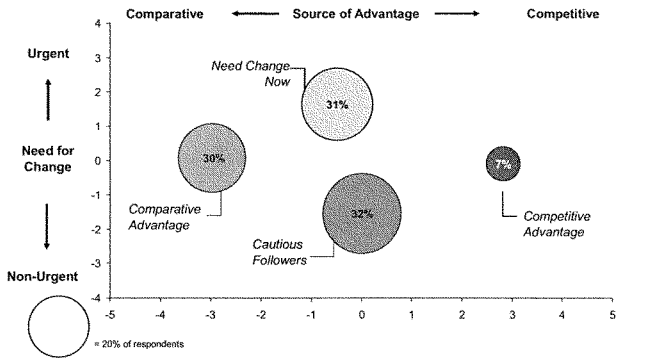
Figure 2: Haiti Competitiveness Survey Example



Four segments of opinion exist in Haiti with regard to competition. 30% of leaders surveyed want to see an immediate change; 32% are cautious followers and said they favor maintaining the status quo; 30% favored a comparative advantage based on cheap labor and low costs. Only 7% see the need to develop a competitive advantage based on innovation and productivity. These segments also point to the need to build a consensus around competitiveness.

[1] "Haiti Competitiveness Survey" Haiti's Presidential Working Group on Competitiveness and OTF Group, May 2009, n=752.

Figure 3: The Four Segments of Haitian Society



Note: N=561 pour segments originels, N=752 for Haiti.
Source: Segment definitions based on 1998 Monitor Company Surveys: El Salvador, Bermuda, United States, Palestinian Authority; Haiti data analyzed based on the segments from the previous four survey sets.

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2. Build Modern Institutions on Top of Traditional Values

Key elements of Haitian culture and society date back to independence. When Haiti won its independence, two national traits emerged. The first is a sense of fierce individual survival. For many Haitians, self-sufficiency takes precedence over working together to better their society. Second, there is a deep mistrust of foreigners, whom they perceived as occupiers and meddlers in Haiti's history. The great challenge, therefore, is how to layer modern management and institutions on top of these traits to come up with a uniquely Haitian model.

Another discussion that we could begin here is how the proposed multi-donor reconstruction agency can integrate aspects of Haitian culture, while introducing the transparency and accountability that the donors require. This could be a precursor to Haitian-managed institutions. Given the likely importance of this reconstruction agency, it will be useful to develop and introduce some case studies or lessons learned on how this should work.

3. Place the Locus of Responsibility for Haiti's Growth Strategy on its Private Sector

Over the past year, OTF Group has worked with Haiti's Presidential Working Group on Competitiveness (GC). Created by President Preval in January 2009, this group of twenty professionals from the private sector, government, and civil society initiated a process to develop a "Shared Vision for a Competitive and Prosperous Haiti"[2]. This vision, finalized in November 2009, contains three broad recommendations to upgrade Haiti's competitiveness:

- *Create a Culture of Innovation and Competitiveness:* the GC firmly believes that national mindset change must be a cornerstone of Haiti's transformation. They envisioned an ongoing communications campaign to change mindsets and promote pro-innovation behavior.
- *Articulate and implement strategies for priority growth clusters:* creating and selling great products and services, usually in a different way than conventional wisdom would dictate, are at the heart of competitiveness and prosperity. The GC identified five priority clusters, which it believes will drive Haiti's economic transformation.
- *Implement "quick wins" to improve the business environment:* according to the IFC's "Doing Business" rankings, Haiti's business environment is among the worst in the world. The GC foresees close collaboration with the Government of Haiti to quickly reform the economy as Rwanda did in 2009.

Post-earthquake, we have renewed our partnership with the GC to develop a medium-term Economic Recovery Roadmap that reflects a broad consensus in the Haitian private sector on what is required to rebuild the country's shattered economy.

The Case of Rwanda

A mini-case study may illustrate some of the above strategy initiatives in a context of national renewal: President Paul Kagame of Rwanda says, "Sometimes, the best strategy is reconciling what others believe are opposites."

[2] "A Shared Vision for a Competitive and Prosperous Haiti", Presidential Working Group on Competitiveness and the Government of Haiti, November 2009.

He applies this strategic, contrarian attitude to the environment, justice, and economics; but in a very specific way. Paul Kagame builds modern institutions on top of traditional values.

Everywhere you stand in Kigali provides a long view of a peripatetic group of Africans, cooking fires, farm animals, and small expertly cultivated farm plots, an immaculate nation. There isn't a mango peel on the roads. The President made the importation of plastic bags illegal; he wants clean streets, and the bags are not biodegradable.

The last Saturday morning of each month, bus service is suspended and businesses close. All citizens, irrespective of class, gender and including the President himself, sweep the area in front of their homes. The tradition is called *Umuganda,* and means, "We work together." This initiative builds interpersonal trust and civic engagement.

In the aftermath of the genocide, modern courts were incapable of handling the hundreds of thousands of perpetrators. International legal advisors were flummoxed. Kagame introduced the traditional *Gacaca* system to give the perpetrators of the genocide the opportunity to tell the truth and ask the community for forgiveness.

President Kagame even asked those who took farms from the killers who ran away, to return them. Some say they will because the President asked them to do so; others say they will because God would not have spared them from the genocide to do otherwise.

The economy was a priority from day one. The economy shrunk for five years before the genocide. The President explained to me, "When economic scarcity occurs, human values deteriorate: with poverty comes mistrust, impatience, and intolerance."

Many international advisors told him that exporting green coffee was impossible because the Vietnamese and Brazilians were flooding the market, and Rwanda's logistics made it hard to compete. Still, there were 500,000 subsistence farmers whose traditions and lives would be ruined if Rwanda gave up on coffee. Kagame decided that Rwanda would invest in washing stations, advanced transportation logistics, and new distribution relationships. Recently, they exported some of the finest coffee in the world to Costco and Starbucks.

His own tourism operators insisted that he lower the price of admission to the game parks to compete with the Kenyans. Kagame, instead, raised prices to attract only the world's best tourists, and then built roads, lodges and invested in guides so they could create a one of a kind experience.

The facts speak for themselves: The economy has grown at an average of 8% since 2001, grew at 11.2% in 2008, and around 7% in the throes of 2009. More importantly, wages in these sectors increased by up to 30% each of the last nine years. Women represent 56% of the legislature and hold the key cabinet posts, and this summer, the nation looks forward to free and closely scrutinized national elections.

One Recommendation for the USA:

The United States' aid procurement systems exist for a time in which we no longer live, and must be changed and upgraded.

There are features of successful aid programs:

1. A shared vision by both the provider and recipient,

2. Disbursement through national and indigenous institutions,

3. Investment that increases competence beyond applying for aid,

4. And, no parallel donor structures that undermine all of the above.

According to some leaders in the developing world, the United States Agency for International Development (USAID) is one of the worst at meeting these criteria; the U.K.'s DFID is the 'best of the West.'

In addition, the few firms that supply services to USAID, and to a lesser extent, the multilaterals represent an oligopoly. Their largest departments are, almost without exception, their legal departments; they have no R&D departments and virtually no training for consultants. Their core competence is attracting former USAID managers, and drafting winning proposals. This latter competence should not be underestimated; it represents a barrier to entry for new firms, spinouts, carve outs, and mergers—all signs of healthy competition and innovations. Consultants are considered mediocre by the American private sector. In fact, one might consider the vendors to USAID to be little more than

Head Hunters, possessing little intellectual capital and a lamentable record of achievement.

1. US aid, to be effective, should be untied to American providers. Japan, the UK, and many other nations already do this. It creates real competition, fosters innovation, and in the case where consultants are chosen from other developing nations, sources more relevant skills, saves money, and creates development impact, twice.
2. Aid vendors should be punished for poor performance and rewarded for superior performance. This avoids the "over responsibility" inside the proposal, and the "under responsibility" over the outcomes of the project. Consistently poor performers should be forced by competitive global market forces to leave the industry.

Mr. Chairman and Members of the Sub-Committee, Haiti is crippled by natural disasters, by models of government-private sector relations and wealth creation that are archaic, but also, by a culture that is fatalistic, event driven, intolerant of new ideas, and paternalistic.

Haiti's challenges will *never* be surmounted by the current approaches: massive infusions of aid, top down regulatory advice, and decisions taken in the metropoles of wealthy nations. America's foreign aid vision lacks coherence, is uninformed, does not balance the past with the future, and is over-influenced by donor fashions, entrenched vendors, and sentimentality concocted by PR executives with skinny passports and foisted on the American public.

Before the earthquake, my foundation, the SEVEN Fund, identified some of the best entrepreneurs in Haiti. Their personal narratives of achievement under difficult conditions, are not only inspiring, they could be a much-needed salve on the wounds of a nation. We are reaching out to them even now to make sure that they have what they need to resume their businesses, and that we document through film over the next three years, their rise to prominence and productivity once more.

We in the United States should do more of this; it is what we can do better than anyone: focus on "Enterprise Solutions to Poverty." The greatest thing we could do to build international trust, encourage self-determination, and help poor people is to stop protecting industries where the rich nations have lost authentic competitive advantages. We should broaden our definition of international security from geo-strategic to upgrading firm-level relationships between our

societies; and, we should bond with the thousands of entrepreneurs in Haiti and other poor nations who are already successful and give them 'rocket fuel' by connecting them to global networks of productivity, trade and investment. The best way to create many new entrepreneurs is to show that great ones, though few in number, are already there to emulate.

Thank you, Mr. Chairman, for this opportunity to speak to you. Please do not hesitate to have your staff ask me to focus deeper into any or all parts of my comments. I will be at your service.

Respectfully,

Michael Fairbanks

Written Statement of Francis J. Skrobiszewski[1]
for
U. S. House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
Hearing on
"Rebuilding Haiti's Competitiveness and Private Sector"
March 16, 2010

The "Enterprise Fund" Model Employed as a Tool in Haiti's Reconstruction

Rationale for Creation of a Haitian Private Enterprise Development Fund

The widespread destruction in Haiti offers the donor community an opportunity, in the words of President Clinton, to "build back better." Ultimately, it will be the Haitian people who will be responsible for the success of donor assistance programs. And for reconstruction aid to be sustainable, Haitian entrepreneurs must be empowered like never before to "buy-in" and participate in the rebuilding of their own country.

The transformational experiences in Central and Eastern Europe (CEE) and southern Africa indicate that motivating the indigenous private sector can best be accomplished on a business-to-business basis using the proven model of the Enterprise Funds. To build local businesses and 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.

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[1] **Francis J. Skrobiszewski** has been involved deeply in the transformation of Central and Eastern Europe since President George H.W. Bush called him to the White House in July 1989 to discuss strategy for assisting Poland's economic recovery. Skrobiszewski drafted the ground-breaking business plan for the **Polish-American Enterprise Fund**, where he served as Vice President; subsequently, he assisted in the restructuring of the **Hungarian-American Enterprise Fund**, where he served as Senior Vice President. At HAEF, Skrobiszewski was instrumental in raising a parallel private fund, and he conceived and managed HAEF's **Hungarian Innovative Technologies Fund**. He also has advised the **Southern Africa Enterprise Development Fund**, the Eurasian Development Bank and the MCC on its fund in the Republic of Georgia. He serves on the Investment Committee of the Polish National Capital Fund, a fund-of-funds investing in emergent venture capital funds financing innovative SMEs. Skrobiszewski has spoken widely on the Enterprise Fund model in private sector development and its applicability in post-conflict reconstruction. A fuller resume is attached.

With a small portion of the billions of dollars being allocated for Haitian redevelopment earmarked for an Enterprise Fund, mandated with the full flexibility of the CEE model (explained in detail below), donors can introduce similar creative, flexible and market-driven approaches to achieve sustainable development in Haiti. In doing so, the donor community would replicate for Haiti approaches business professionals managing the Enterprise Funds have conceived and implemented during the past 20 years.

For Haiti, such Fund would ultimately require an authorized capital base of approximately $200-300 million to ensure the "clout" needed to have meaningful impact in the marketplace, to establish financial intermediaries (e.g., SME and micro-enterprise loan programs to provide short-term working capital, leasing companies, modern mortgage, Ag and commercial banks, etc.), to invest equity capital flexibly in a wide range of private businesses, to provide supportive technical assistance, and to attract the seasoned investment professionals critical to properly managing these assets.

When the initial Enterprise Funds were conceived by the US Congress and the first Bush Administration in 1989, there were no roadmaps. It took a full year from the time the Polish-American Enterprise Fund was legislated to the completion of its first investment in Poland. Later, when the Hungarian-American Enterprise Fund launched its venture capital subsidiary, the Hungarian Innovative Technologies Fund was able to close its first investment in half that time. Haitian businesspeople need financing immediately, and experience exists today to further accelerate the start-up of a Haitian Private Enterprise Development Fund and provide such financing in a disciplined way in accordance with sound commercial practices and procedures designed to protect the Fund's assets.

Moreover, while the US Government was the sole funding source for the Enterprise Funds, it would be possible to consolidate public-sourced capital from a host of donors in a single Fund created and overseen by a lead donor. Also, since there are practical limits to what such a Fund gearing-up can responsibly disburse and prudently manage (and the Haitian economy could realistically absorb), the proposed Fund's entire capital base need not be available to it at the outset. In fact, the Enterprise Funds were provided funding over a multi-year period as progress in deploying capital dictated. Thus, with an initial donor commitment of $25-50 million, the organization of the Haitian Private Enterprise Development Fund could begin, and be expanded when the more substantial targeted funding can be committed.

Like its predecessors, the Haitian Private Enterprise Development Fund should be organized as a not-for-profit corporation managed by a non-partisan Board of Directors comprised of prominent professionals. This Board would hire executive management, develop strategy to carry out the Fund's mission, impose disciplined investment practices and operating standards, and be empowered

with flexibility to set direction and take action to achieve objectives without political interference or bureaucratic constraints, but subject to sound governance principles and appropriate donor oversight.

Meaningful and sustainable economic development in Haiti must mobilize the Haitian private sector, and an Enterprise Fund for Haiti built on the approaches employed in the CEE region and southern Africa – adapted specifically to needs, conditions and objectives in Haiti – must be an essential tool in the donor development assistance arsenal.

History and Rationale for the Creation of Enterprise Funds in Central and Eastern Europe and Southern Africa

Faced with widespread socio-economic and political upheaval in the wake of Communist regimes collapsing in Poland and Hungary, US political leaders knew that tangible action had to be taken quickly to instill hope in the local populations and contribute to stability. They recognized that making an unprecedented transformation from entrenched command economies to free markets would require jump-starting the local private sector from the bottom-up, and that capital injections in new businesses would be the critical catalyst in this process. Traditional development assistance would be needed, but alone was insufficient for the task at hand. Reliance on commercial practices executed by business and investment professionals would be necessary to allocate resources quickly, yet in an effective and efficiently manner to achieve the immediate and long-term successes needed. Yet, private investors would be reluctant to put their capital at risk where conditions were so unpredictable and the risks were unknown.

As the Soviet Empire was collapsing in Central and Eastern Europe during the late 1980s and early 1990s, officials in the US Congress and George H.W. Bush Administration conceived of "enterprise funds" and innovatively placed pools of public capital into the hands of private investment professionals to finance entrepreneurs initially in Poland and Hungary on a traditional business-to-business basis. The fundamental concepts behind the Enterprise Fund model were succinctly captured by Kenneth Juster, then-Senior Advisor to the Deputy Secretary of State, at a Rand Corporation conference on September 21, 1990:

> *"The enterprise funds are a bold experiment in a new way of delivering economic assistance. Rather than have the U.S. Government provide a one-time grant to Poland or Hungary, we have developed, instead, the enterprise funds as a means for tapping into private sector expertise to manage U.S. Government grants. The President, in consultation with Congress, has asked a group of prominent private citizens from the United States, and from Poland and Hungary for each of the two funds, respectively, to form a corporation to use U.S. Government money to make*

loans, grants, equity investments and other forms of financial transactions designed to promote private sector development in Poland and Hungary. The hope is that these enterprise funds will be able to manage the U.S. Government grants in a way that an investment banker might do – unencumbered by the bureaucratic constraints normally associated with government activities – and that they will be able to multiply many times over the financial impact of the initial grant."

In November 1989, the US Congress enacted the Support for Eastern European Democracy Act (the SEED Act), which, among other things, provided $240 million for a Polish-American Enterprise Fund (PAEF) and $60 million for a Hungarian Fund (HAEF) to simply promote:

(1) development of the Polish and Hungarian private sectors; . . . and,

(2) policies and practices conducive to private sector development in Poland and Hungary, through loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and other measures.

Under the first Bush Administration, two other Enterprise Funds were created; President Clinton established six others for most of the remaining countries of the former Communist Bloc. All were under Congressional legislation. President Clinton later expanded the concept to accelerate private sector development in 11 countries of "post-apartheid" southern Africa. As that Fund was not created by Congress, it was subject to bureaucratic constraints that did not permit it to operate as freely and flexibly as the original Enterprise Funds did in the CEE.

Arguably, dependent upon the lead donor, it might be possible to create the proposed Haitian Private Enterprise Development Fund with similar ability to make commercially-based decisions and to act quickly and effectively without bureaucratic encumbrances, as the CEE Enterprise Funds were able to do. However, given the critical need for an Enterprise Fund vehicle in Haiti, if the US Government were to take the lead, the less flexible model could be established to initiate the flow of professionally-deployed capital to Haiti's private business sector, pending appropriate Congressional legislation that would free the Fund to operate with the freedom of a traditional private investment firm in accordance with sound business practice.

Twenty+ Years of Measurable Results and Successful Performance of Enterprise Funds in Central and Eastern Europe and Southern Africa

The developmental impact of the first Enterprise Funds indeed was demonstrated quickly by the hope in a better future they instilled through tangible action backed by real capital provided to hundreds and then thousands of emergent Polish and Hungarian entrepreneurs who applied for financing. The

basic commercial standards imposed by the Enterprise Funds for venture funding provided local entrepreneurs a rich learning experience in the operation of free markets and the need for instituting their own sound business disciplines. The pioneering SME lending programs and other intermediaries the Enterprise Funds established helped provide the institutional infrastructure for the market economy and influenced local policy development from the bottom-up. They also built local capacity in their hands-on training of the emergent local investment and finance professional, who worked for the Enterprise Funds and also in the management support they provided to local firms receiving their financing. The Enterprise Funds' eventual financial results, under the difficult conditions faced, also have generally been impressive.

Keeping in mind that the Enterprise Funds were conceived to achieve primarily a developmental mission, but operated largely according to commercial principles, their collective results by close of their 2009 Financial Year can be summarized as follows. [2]

Of $1.105 billion the US Government provided in the aggregate to the 10 Enterprise Funds in the CEE region for investment purposes (most, if not all, were also provided a small pool of funds devoted to targeted technical assistance), total net assets of these Funds, including distributions, stand at $1.612 billion, which equals 144% of such capital provided by the Government.

Moreover, in a key measure both of developmental and financial success in demonstrating the indigenous investment opportunities they and their host countries offered, six such Enterprise Funds have attracted a total of $2.714 billion in parallel private equity funds that are continuing to be invested as the original Funds themselves wind-down. (This sum does not include the competing capital of independent investment funds which have entered these markets on the basis of foundations laid by the Enterprise Funds).

With regard to wind-down, six Enterprise Funds have already started returning their public-sourced capital to the US Treasury and established charitable legacy foundations, whose collective capital totals $652 million, to carry-on development activities in their host countries and beyond.

Through its SEED Act authorization of $240 million, the Polish-American Enterprise Fund alone made 50 equity investments totaling over $200 million, established a series of banks and other intermediary institutions, extended 10,000 small business loans and over 125,000 micro-loans and recouped $374 million. Ten years after commencing operations, the Polish Fund was the first of the Enterprise Funds to establish the tradition of returning its capital to the US Treasury and of creating its legacy foundation – which PAEF has capitalized with $250 million. Also, PAEF's now independent investment team has raised over

[2] See attachment on "Building Free Markets – SEED Act 1989-2009 Enterprise Funds – a closed chapter or a model to be followed?" by Krzysztof Bobinski at www.seedact.com

$1.8 billion in a series of private funds, and in the course of these efforts, demonstrated to the global investment community the true risks and the real opportunities of investing in Poland. This has attracted billions of dollars more in competing private equity funds to Poland.

These successes in Poland are not isolated examples – indeed, the Bulgarian-American Enterprise Fund, with its $55 million in original funding, also has returned capital to the US Treasury and created a $400 million legacy foundation in Bulgaria.

Not only has the Enterprise Fund model been successfully employed in the CEE region, but President Clinton's post-apartheid Southern Africa Enterprise Development Fund has also achieved significant results. Its Chairman, Ambassador Andrew Young, in endorsing the concept of an Enterprise Fund for Haiti, reported his Fund's successes, as follows: [3]

> *"SAEDF has invested more than $80 million tax dollars in 25 new business operations owned by formerly disadvantaged indigenous people. Those businesses have employed over 2,000 workers and have created employment for an estimated 50,000 people in spin off jobs. SAEDF's investments have returned over $67 million to date, and its remaining investments are worth almost $50 million and appreciating. SAEDF has also trained and mentored more than 50 indigenous staff members, at least 20 of whom are now senior managers of other local investment funds and businesses, representing a new generation of investment professionals in southern Africa."*

In the face of unprecedented socio-economic transitions, for which there were no roadmaps, the Enterprise Fund approach has proven to be an effective and efficient tool bringing private sector decision-making and risk-taking to development assistance. Clearly, this model, which has been successfully deployed in Central and Eastern European and southern African countries, can be specifically adapted to needs, conditions and objectives in Haiti to similarly achieve meaningful and sustainable results in the development of Haitian private businesses.

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[3] *Huffington Post*, posted January 26, 2010 05:46 PM

Building Free Markets – SEED Act 1989-2009 Enterprise Funds - a closed chapter or a model to be followed?

Krzysztof Bobiński

This autumn, on the 20th anniversary of the fall of the Berlin Wall, the world was reminded of the momentous collapse of communism. In Berlin, Lech Wałęsa, the legendary Solidarity leader, in the company of Mikhail Gorbachev, the former Soviet reformer, and other world personalities, pushed over the dominoes which symbolised the end of the toralitarian system in a succession of Central and Eastern European states. But it is worth remembering that the first building blocks of economic reform in the region were the Enterprise Funds, a new concept pioneered by the then US president George Bush and enacted in 1989 by the US Congress in the Supporting Eastern European Democracy Act (SEED Act) followed by the Freedom Support Act (FSA) three years later.

In his memoirs, George Bush recalls that July 1989 was a hot month in Warsaw. He was visiting the Polish capital when the region was still under Soviet control. The fall of the Berlin Wall was still months away. Democratic reforms were in train in Poland after an overwhelming election win by the Solidarity opposition the previous month. But the economy was a disaster area. Inflation was running out of control. The country had a large foreign debt run up by the communists and the soviet style economy was completely unprepared to compete with the outside world.

As George Bush struggled to sleep in his sweltering hotel room ahead of a speech in the Polish parliament, he was well aware of the inadequacy of the economic package he had brought with him to Poland. The Poles were asking for $10 billion worth of aid from the G7 countries over 3 years. All that Bush could offer was a reduction of the foreign debt as well as a request to the World Bank to offer Poland $325 million in new loans and $100 million in US funds 'to capitalize and invigorate the private sector'.

The size of the grant was modest indeed given Poland's massive needs and Congress later increased the sum to $240 million under the SEED Act and the FSA. But Bush's plan for the deployment of the money challenged conventional thinking in Washington on how aid funds were to be disbursed. And it produced an unprecedented and successful aid programme which was one of the components of the transition to a market economy in the region.

That summer twenty years ago, before the Berlin Wall came down, it was still difficult to imagine that such a programme would be necessary, or even possible, throughout the region. But change was under way in Hungary and demonstrations in East Germany and Czechoslovakia took power from the hands of Communist elites. Bulgaria came next followed by Romania with its brief armed struggle.

The miracle was that the end of the Soviet Empire was accompanied by so little violence. Looking back, it seems that Poland, where negotiations between the Communist rulers and

the Solidarity opposition led by Lech Wałęsa early in 1989 opened the way to democratic change, provided the example of a peaceful transition. After that it was also up to the West to support the transformation.

"George Bush knew exactly what he was doing" recalls John Birkelund, then president of Dillon Read, who was to head the programme in Poland. "He wanted to have investment professionals invest the money to rebuild the private sector – in a combination of public capital and private management".

Alongside the $240 million for Poland the SEED act provided $60 million for Hungary. In all, ten Funds were established throughout the region with total US public funding of around $1,2 billion. The area covered 18 countries and 346 million people. Loans were provided to more than 100,000 companies and over 250,000 jobs were created, and equity capital was injected into more than 500 companies. The Funds also provided over $70 million in technical assistance to entrepreneurs and businesses. They established and financed 30 banks and micro loans institutions. Lenders created by the Funds made more than $1 billion worth of mortgage loans. Every dollar invested by the Funds in the region has attracted an extra 2 dollars from other investors. Indeed the assets of Funds operating in CE Europe had by 2009 seen a doubling of their initial capital. In all, the Funds increased their initial capital by 44%. (see attached tables). The underlying model for this innovative initiative was put together and implemented by Robert G. Faris who managed the Enterprise Fund in Poland. It was this model which was later repeated in several other post Soviet countries.

"Of course some Funds did not do as well as others" says Birkelund, "that is the way it is in the private sector as well". However, the fact of the matter is, that the funds, as a whole, took public money and produced a positive return. Indeed, it was unprecedented for an aid programme not only to achieve what it had set out to do but also saw the donor seeing some of his original grant returned. This was the case of the Polish Fund which returned $120 million to the US government as well as the Bulgaria Fund which returned more than $25 million. "This is the proper way to deploy assistance capital," says Pat Cloherty, the former pro bono Chairman of the Board of the US Russia Investment Fund (TUSRIF) speaking about the involvement in the Funds of private sector investment managers. "We know how to create wealth and jobs".

The experience is a salient one for the US government where USAID, the official economic assistance organisation set up in 1962, was wary of such a pioneering concept which brought in private managers to run a government assistance programme. In effect they used government funds to engage in countries where private investors still feared to tread. "They filled a gap between the time in a country when private investors were too nervous to come into the SME market and the moment when the track record of success (by an Enterprise Fund) would convince investors to face the risk" says Natalie Jaresko, who managed the Western New Independent States Enterprise Fund (WNISEF) focusing on Ukraine, Moldova and Belarus.

John Birkelund is adamant that the key to the success of the Funds was the selection of a strong supervisory board of private people who have financial experience and knowledge of the country the Fund was operating in. "It had to be the right mix of responsible citizens", he says. Crucially that board had to choose the Fund management. Evidently, wherever those choices were flawed the funds underperformed and sometimes managers were replaced. The Fund boards were accountable to Congress (through USAID) but were independent of other government structures. Everyone who was involved agreed that independence for the Funds was a crucial factor in their success.

Aid officials tended to become nervous of entrusting government funds to private boards free of their supervision. They also failed to see the down side of working for the Funds. "At the beginning we were working in hostile environments where the private sector had barely taken shape" says one of the managers. A cap on management remuneration in the Funds imposed by Congress was always a problem and it prompted the Funds eventually to spin off purely privately funded investment vehicles in their country of operation.

The level of development of free markets in a given country was also important. The commitment of local political leaders to market changes was crucial as well. The Funds could only fully succeed if there was an exit from initial investments. This was the case in Poland and Russia, says Pat Cloherty, from TUSRIF. However even good investments in industrial producers could not be realised with a profit in Central Asia because the political climate continued to scare off potential private investors.

"Local political leaders must want change" says Steven Shea of the Central-Asian American Enterprise Fund (CAAEF). "Several of the Central Asia Republics did not and still do not, support the development of a private business sector and open markets. We may have made too many large investments at the start based upon the expectation that supportive change would come. Now I would advise going in cautiously and conservatively and not engage in big projects at the start."

John Klipper, the CEO of the Romanian-American Enterprise Fund, (RAEF) has actually suggested that local officials be brought in to participate in the work of the Funds. He has been quoted as saying "invite local dignitaries to serve on boards, and be patient".

As in Central Asia, the Fund in Slovakia suffered from a lack of support from the government there in the late 1990s. "They were much more under the influence of the old communist system than in Poland. The spirit of entrepreneurship was less evident than in their neighbour to the north", says Richard Yancey, the chairman of the Slovak-American Enterprise Fund (SAEF). He underlines there had to be currency convertibility and a working legal system and that economic reforms had to be moving in directions investors felt happy with. The experience confirms that choosing the right managers is crucial for a Fund as was an estimate of the stage of development of the country the Fund was operating in. And what the intentions of the local political leaders were.

In that sense, the political environment in Poland favoured the Enterprise Fund movement. John Birkelund who chaired the Polish American Enterprise Fund and Robert Faris, the Fund president both vividly recall being told by Lech Wałęsa, who later became President of Poland - "we need banks". The message was echoed by Leszek Balcerowicz, the finance minister and architect of Poland's 'shock therapy' which put the country on a growth path. Indeed Robert G. Faris advises starting with a small loans programme and progressing into a mortgage operation. "But you have to engage in investments as well; after all we had to make money because no one was going to give us any more", he says.

If financial success escaped the Slovakian Fund there were other benefits. Mr Yancey recalls that the small and medium sized enterprise sector was developed thanks to the Fund's operations, where young people were taught how to make business plans and could hone their management skills. "It was learning by doing", he says. And, also, thanks to this people became accustomed to working with western business people.

It is the investment in people which many of the Fund veterans remember as a major achievement. Robert Faris recruited young local people to work for the Fund in Poland in

the early stages. "We had relatively few expats", he says. Those local young people came from the government administration where they had been working on reforms. They were attracted by the prospect of higher remuneration as well as by a love of their country, he recalls.

The Enterprise Funds also contributed to public policy changes in host countries. In Ukraine, Natalie Jaresko's WNISEF fund established the Ukraine Mortgage Association which led to the drafting of the legislation which enabled the granting of individual home mortgages. Dennis Johnson, the chairman of the WNISEF, has been quoted as saying that "almost all the Funds have had some role in the financial services sector in these countries which has impacted their laws".

An important aspect of the Funds' work are their so-called legacy organisations which were organised in the wake of the Fund investment activity. They went in two directions – charitable legacy organisations designed to support civil society groups and privatised financial institutions which continued the investment activity of the funds with private money raised from institutional investors. In Poland, the Polish-American Freedom Foundation was endowed to the tune of $250 million derived from the half of the original government investment plus $130 million of profits realised by the Fund and was tasked to develop civil society initiatives. In Slovakia, it is expected that the legacy organisation will fund business management school scholarships. The name of the Russian legacy fund speaks for itself – The US Russia Foundation for Economic Advancement and Rule of Law. In Central Asia, 101 scholarships have been granted to students at the American University of Central Asia and at the Kazakhstan Institute of Management Economics and Strategic Research. Steven Shea is very excited about the quality of the applicants for these study grants. "This is investing in the young generation. They are very impressive and they are going to jobs in the region, which is as it should be. They should stay", he says. The America for Bulgaria Foundation was capitalised by the successful Bulgarian-American Enterprise Fund at the level of $350 million and will support Bulgaria's non-profit and private sector in the transition to a market democracy as well as to strengthen US-Bulgarian relations. The Romanian-American Enterprise Fund has also established a charitable legacy institution and the Albanian-American Enterprise Fund is going to be establishing one in the near future. Meanwhile, business legacy institutions like Enterprise Investors, Delta Private Equity Partners, Horizon Capital and Axxess Capital manage almost 3 billion Euro and are important investors in Central and Eastern Europe as well as Russian capital markets.

The question remains whether the Fund experience can be deployed elsewhere in Central and Eastern Europe. Ms Jaresko, based in Kiev, the capital of Ukraine, is doubtful. "Maybe in Jordan or elsewhere in the Middle East" she notes, but Cuba, for example, will have lots of private funds coming in when change starts there and so is less likely to need this type of kick start. Ukraine is already developed enough to give private investors confidence and even Belarus is now attracting interest from private investment funds such as her two privately raised funds. The essential purpose of the Enterprise Fund concept which is to use public money to provide a bridge for private investors into emerging markets by assuming the country risk has already been fulfilled in this market. The funds could return to Caucasus region – Armenia, Azerbaijan and Georgia could be a target for a new Enterprise Fund, but the markets are small and the countries are in conflict with each other which makes it difficult to develop a regional strategy. Ms Jaresko also cautions that politicians in some of these countries could be wary of a government financed Enterprise Fund but would be much more friendly to private capital.

John Klipper, the head of the RAEF concurs. He notes that private equity capital funds are in place in many countries in the region. "Then, we were given $61 million. Now that would be small change", he says. The region has developed economically and with increased competition the returns the Enterprise Funds originally produced would be difficult to replicate.

Nevertheless a recent study of the Funds by CASE, a pro market think tank based in Poland with a mandate to cover the CEE region, noted that the Enterprise Fund programme should be extended to those countries freshly setting out on the road to democracy and a market economy. But CASE warns that Fund activities should be "thoroughly tailored to respond to the specific needs of a host country".

Other state aid donors to business like the European Union (EU) ought to take a hard look at the Enterprise Fund experience. Grants are allocated by the EU in the same way administrators of US aid programs do it. This is on the basis of applications which seek to encapsulate business in forms and questionnaires. These miss the essence of entrepreneurial decision making and reaction to fast developing market challenges which involve a high level of risk and attendant success or failure. In addition, final decisions on deploying funds to businesses are taken by officials whose speciality is administration and not private sector finance. This is where the dedicated investment professionals proved to be so valuable in the Enterprise experience. They brought to the Funds not only their wide ranging knowledge of business but also the imagination and courage to take risks which officials tend to avoid by their very nature. John Birkelund, Pat Cloherty and John Klipper admit success is not guaranteed in every case but on balance the Enterprise Funds experience shows that the overall effort points to the chance of a happy outcome. It also reduces the inefficiencies which inevitably accompany traditional aid programmes.

Enterprise Fund experience where private sector professionals deployed public capital in locations where private funds considered the risk too high could prove useful to the EU which is currently embarking on its Eastern Partnership (EP) programme. The EP programme, in operation since May 2009, is aimed at initiating and supporting reforms in six eastern European countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine) which will hopefully bring these countries closer to the EU. A mere 600 million Euro has been allocated mainly for institution building in schemes which look set to be heavily oriented towards bureaucratic interaction.

But other non EU countries including Norway, Canada, Switzerland or Turkey as well as Japan and the US itself also want to see institutional reforms and free market structures strengthened in the EP countries. They are considering involvement alongside the Partnership scheme.

They could well think about setting up funds on the lines of the Enterprise Funds. There are now a number of experienced local professionals in the new member states who worked for the funds from the beginning and still do. They could now be involved in starting up and running new funds. Indeed, there is no reason why the governments of new EU member states such as Poland should not allocate capital or more pertinently mobilise the technical expertise which the Enterprise Fund host countries have accumulated in the past two decades for such funds to operate in an Eastern Partnership country using the US model authored by George Bush twenty years ago. This would be a worthy monument to the foresight of the former US president and US Congress showed in pushing through this entirely new concept in aid practice.

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Enterprise Funds - Financial Year 2009 ($in mil)

Fund	Capital Received (Net of Technical Assistance)	Total Net Assets including distribution	Total NA/ Capital Received
Polish-American Enterprise Fund (PAEF) 1990	243	374	154%
Hungarian-American Enterprise Fund (HAEF) 1990	63	28	44%
Czech and Slovak-American Enterprise Fund (CAEF, SAEF) 1991	58	6	10%
Bulgarian-American Enterprise Fund (BAEF) 1991	54	404	748%
Baltic-American Enterprise Fund (BalAEF) 1994	50	62	124%
Romanian-American Enterprise Fund (RAEF) 1994	58	150	259%
Albanian-American Enterprise Fund (AAEF) 1995	30	171	570%
CE Europe	**556**	**1,195**	**215%**
Western New Independent States Enterprise Fund (WNISEF) 1994	139	90	65%
Central Asian-American Enterprise Fund (CAAEF) 1994	105	17	16%
The U.S. Russia Investment Fund (TUSRIF) 1995	307	297	97%
NIS (Europe/Asia)	**549**	**417**	**73%**
Total	**1,105**	**1,612**	**144%**

Enterprise Fund's Business Legacy Institutions (private equity funds)

Year	Company	Capital attracted from private sources ($in mil)
1992	Enterprise Investors (www.ei.com.pl)	1,835
1997	MAVA (www.mava.hu)	50
2003	Hanseatic Capital (www.hanseaticcapital.net)	37
2004	Delta Private Equity Partners (www.dpep.com)	120
2005	Balkan Accession Fund (www.bafund.net)	150
2006	Horizon Capital (www.horizoncapital.com.ua)	522
Total		**2,714**

Enterprise Fund's Charitable Legacy Institutions (foundations)

Name	Year	Capital received from EF ($ in mil)
Polish-American Freedom Foundation (www.pafw.pl)	1999	250.00
Hungarian-American Enterprise Scholarship Fund (www.haesf.org)	2003	5.00
U.S. Russia Foundation for Economic Advancement and Rule of Law	2007	55.00
U.S.-Central Asia Education Foundation (www.us-caef.com)	2007	15.70
America for Bulgaria Foundation (www.americaforbulgaria.com)	2007	326.00
Romanian-American Foundation	2009	0.35
Total		**652.05**

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Additional information is available on: www.seedact.com