



CATEGORICAL EXCLUSION

Project Location: Haiti

Project Title: Loan Portfolio Guarantee/
Development Credit Authority

Project Number: 521-0256

Funding: US \$750,000

Life of Project: FY 2004-2006

IEE Prepared by: Danielle Typinski, Acting MEO
USAID/Haiti

Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision: Concur with Recommendation

Comments:

Activity 1: Under 22 CFR 216.2(c)(2)(x), DCA activities are subject to a categorical exclusion when the “objective is to assist in the capitalization of the institution or a part thereof and when such support does not involve the reservation to right and approve individual loans made by the institution.” Through the DCA activity, USAID will encourage financial institutions to continue lending in productive sectors during the period of political transition in Haiti. USAID will not have control over individual loans made by these institutions. Therefore, a **Categorical Exclusion** is issued for Activity 1 of USAID/Haiti’s DCA loan portfolio guarantee activity.

While USAID does not have control over the activities chosen by the lending institutions, the legal agreements with Sogebank and Sofihdes addresses the environmental considerations associated with this DCA activity. Under the agreements, certain activities cannot be financed without prior approval from USAID including the REA and BEO. The list of such activities is in the attached IEE.

The financing of these activities is contingent upon sufficient evidence of compliance with local environmental laws and 22 CFR 216, consideration of environmental impacts, identification of appropriate mitigation measures and the intent to implement an environmental mitigation plan. None of the above activities will be approved for loans guaranteed with USAID funding without an adequate environmental review.

Activity 2: Under 22 CFR 216.2(c)(2)(i), “education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment” are subject to a Categorical Exclusion. Based on this citation, a **Categorical Exclusion** is issued for Activity 2 of the USAID/Haiti’s DCA loan portfolio guarantee activity.

If any changes in the program which may have significant impact are contemplated, an IEE must be completed. CTOs are responsible for making sure environmental requirements are met. It is the responsibility of the SO Team to ensure that all implementing agreements contain adequate instructions to this effect.

Date _____
George R. Thompson, P.E.
Bureau Environmental Officer
Bureau for Latin America and the Caribbean

- Copy to : David Adams, Director, USAID/Haiti
- Copy to : Danielle Typinski, A/MEO, USAID/Haiti
- Copy to : Grace Lang, USAID/Haiti
- Copy to : Mike Donald, REA
- Copy to : Gerald Barth, LAC/CAR
- Copy to : IEE File

Attachment: IEE

P:\LAC.RSD.PUB\RSDPUB\EES\Reg 216\IEE\IEE04\IEE04-72.CE(HT-DCA).doc

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Haiti

Project Title: Loan Portfolio Guarantee/
Development Credit Authority

Project Number: 521-0256

Funding: US \$750,000

Life of Project: FY 2004-2006

IEE Prepared by: Danielle Typinski, Acting MEO
USAID/Haiti

Recommended Threshold Decision: Categorical Exclusion

CONCURRENCE:

Susan Riley, Chief
Economic Growth Office
USAID/Haiti

Sally Patton, Chief
Policy Coordination and Policy Support Office
USAID/Haiti

Erna Kerst, Mission Director
USAID/Haiti

CLEARANCE:

Michael Donald, Regional Environmental Advisor
Central America Region

LAC Bureau Environmental Officer
Date: _____

Background

In February 2004, after a series of political disturbances and a violent uprising of an armed insurgency, President Aristide resigned and left Haiti for the Central African Republic. In early March, Gérard Latortue took office as interim prime minister and appointed a new cabinet. Monetary authorities, under the supervision of the IMF, continue to try and contain price pressures, lowering inflation from an estimated 37 percent in fiscal year 2003 to roughly 22 percent in fiscal year 2004 (ending September 30) and meeting a target of 15 percent in fiscal year 2005. The exchange rate remained remarkably stable throughout the political disturbances and resultant economic disruption.

While many businesses were looted during the political uprising to oust then-President Aristide, anecdotal evidence from the largest commercial banks in Haiti indicates that the quality of their loan portfolios remain largely unaffected. Citibank Haiti, Sogebank, Unibank, and Sofihdes report that clients affected by the looting continue to repay their loans according to schedule. In addition, despite the recent political and economic difficulties that Haiti experienced earlier in the year, the banking industry has persisted. However, the lending history in Haiti has been characterized by low-risk loans in the sectors of manufacturing and commerce and financial institutions remain reluctant to lend to higher-risk sectors, especially during this period of political transition.

Proposed DCA Activities:

Activity 1: USAID/Haiti proposes to support the continued growth and expansion of the economy during the transition period by partially guaranteeing new loans made by two major commercial financial institutions. The Mission's Loan Portfolio Guarantee (LPG) will stimulate increased medium-term lending for higher-risk activities in productive sectors such as industry, agribusiness, communications, construction, technologies, and microenterprises. The proposed guarantee fits in with USAID/Haiti's ongoing strategy that focuses on poverty alleviation and economic growth as well as supports the Mission's reconstruction strategy which emphasizes job creation.

USAID/Haiti will provide loan guarantees to Sogebank and the *Société Financière Haitienne de Développement, S.A.* (Sofihdes), two of Haiti's primary financial institutions. Agreements for the loan guarantees will total US \$222,000. Under the agreements, USAID will guarantee fifty percent (50%) of qualified loans. The maximum loan portfolio that USAID will guarantee for Sogebank and Sofihdes will be \$3 million and \$2 million, respectively. The maximum individual loan amount that can be made under each agreement is \$100,000. USAID/Haiti will have no role in the selection of individual loans.

Sogebank and Sofihdes have identified the following sectors as potential borrowers under the guarantee: textile manufacturing, fruit and vegetable export, micro and small enterprises involved in various services such as art, handicraft, and light manufacturing. USAID/Haiti expects that increased credit will lead to economic stimulation and employment generation in the areas of infrastructure/construction such as the expansion of industrial parks.

Activity 2: A technical assistance component in the amount of \$528,000 will be added to the LPG package to assist with improved management of the additional risk associated with the new activity's lending. Funds will be used to strengthen access to client information, develop accounting controls and audits, enhance credit control and management, and other areas that Sogebank and Sofihdes deem necessary.

Expected Developmental Impact:

USAID/Haiti expects that the proposed guarantee to Sogebank will facilitate the lending to creditworthy Haitian borrowers during a period of political transition. It is vital that economic activity continue throughout this period of political change. As indicated by the largest commercial banks in Haiti, the departure of former President Aristide has not resulted in increased defaults. However, banks remain conservative and have indicated that they will decrease lending until the political situation has calmed. With the proposed guarantee, Sogebank is willing to continue to lend to borrowers that it deems are creditworthy.

The proposed guarantee to Sofihdes will stimulate medium-term financing to targeted businesses during a period of lending contraction. Lenders are contracting activities because of the political transition. With the proposed guarantee, Sofihdes will have the confidence—by shouldering less risk—to continue serving this market niche with medium-term financing. As a result of the guarantee, Sofihdes' end-borrowers will have greater access to working capital and credit for technological investment and productive infrastructure expansion.

Link with USAID Strategy

The DCA loan portfolio guarantee agreement (LPG) will support the Mission's Strategic Objective SO1, "Sustainable Increased income for the Poor", and contribute to create new jobs and increase income in the economy. It falls under IR3 "Small and Micro Enterprises Economically Empowered".

Three performance indicators are considered under the DCA program with Sogebank and Sofihdes:

- 1) Number of small and medium enterprises (SMEs) accessing financial products;
- 2) Number of employment generated by assisted SMEs; and
- 3) Number and value of loans made to targeted enterprises.

Description of the Environmental Impact

Under the DCA guarantee agreement, Sogebank and Sofihdes will use its own funds for the loans. Loans of \$100,000 or less may be made to fund activities in the following sectors: textile manufacturing, fruit and vegetable export, micro and small enterprises involved in various services such as art, handicraft, and light manufacturing. Loans may also be provided for small infrastructure and construction activities, such as the expansion of industrial parks. While USAID funds will not be used directly under this program to fund construction of infrastructure

projects, it is recognized that the potential exists for a causal relationship between the activity and the Agency.

While USAID does not have control over the activities chosen by the lending institutions, the legal agreements with Sogebank and Sofihdes addresses the environmental considerations associated with this DCA activity. Under the agreements, certain activities cannot be financed without prior approval from USAID. These activities include those that would:

- significantly degrade national parties or similar protected areas, or introduce exotic plants or animals into such areas;
- purchase or use pesticides or logging equipment;
- result in the loss of forest lands due to livestock rearing, road construction or maintenance, colonization of forest lands, or construction of dams or other water control structures; and
- be likely to have a significant adverse affect on the environment, including:
 - river basin development programs
 - significant irrigation or water management projects (including dams and impoundments);
 - agricultural land leveling;
 - major drainage projects;
 - large-scale agricultural mechanization;
 - new lands development;
 - resettlement projects;
 - penetration road building or road improvement projects;
 - construction of power plants or industrial plants; or
 - large-scale potable water and sewage projects.

The financing of the above activities is contingent upon sufficient evidence of compliance with local environmental laws, consideration of environmental impacts, identification of appropriate mitigation measures and the intent to implement an environmental mitigation plan. None of the above activities will be approved for loans guaranteed with USAID funding without an adequate environmental review. Although USAID reserves the right to have final approval of all environmental reviews that are conducted for loans awarded under the agreements, USAID does not reserve the right to review and approve individual loans made by the institution.

Recommendation

Activity 1: Under 22 CFR 216.2(c)(2), DCA activities are subject to a categorical exclusion when the “objective is to assist in the capitalization of the institution or a part thereof and when such support does not involve the reservation to right and approve individual loans made by the institution.” Through the DCA activity, USAID will encourage financial institutions to continue lending in productive sectors during the period of political transition in Haiti. USAID will not have control over individual loans made by these institutions. Therefore, the Mission requests your approval for a Categorical Exclusion of Activity 1 of USAID/Haiti’s DCA loan portfolio guarantee activity.

Activity 2: Under 22 CFR 216.2(c)(2)(i), “education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment” are subject to a Categorical Exclusion. Based on this citation, the Mission also requests your approval for a Categorical Exclusion of Activity 2 of the USAID/Haiti’s DCA loan portfolio guarantee activity.