



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
HAITI BUSINESS DEVELOPMENT AND INVESTMENT PROJECT
APPROVED ON MAY 21, 2013
TO THE
REPUBLIC OF HAITI

FINANCE, COMPETITIVENESS AND INNOVATION
LATIN AMERICA AND CARIBBEAN

Regional Vice President:	Axel van Trotsenburg
Country Director:	Anabela Abreu
Senior Global Practice Director:	Alfonso Garcia Mora
Practice Manager/Manager:	Zafer Mustafaoglu
Task Team Leader:	Emiliano Duch Navarro



ABBREVIATIONS AND ACRONYMS

BDI	Business Development and Innovation Project
EFI	Equitable Growth Finance and Institutions (EFI) Vice-Presidency of the World Bank Group
GoH	Government of the Republic of Haiti
IRM	Immediate Response Mechanism
MCI	Ministry of Commerce and Industry
MEF	Ministry of Economy and Finance
MFD	Maximizing Finance for Development
MSME	Micro, Small and Medium Enterprises
PIU	Project Implementation Unit
SDR	Special Drawing Rights
SEZ	Special Economic Zones



BASIC DATA

Product Information

Project ID P123974	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 21-May-2013	Current Closing Date 30-Nov-2019

Organizations

Borrower Republic of Haiti	Responsible Agency Ministry of Commerce and Industry
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Project Development Objective (PDO)

Original PDO

The objective of the Project is to assist the Recipient in: (a) improving the conditions for private sector investment and inclusive growth; and (b) improving its capacity to respond promptly and effectively to an Eligible Emergency.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-H8650	21-May-2013	14-Jun-2013	11-Nov-2013	30-Nov-2019	20.00	9.10	9.87

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. BACKGROUND

1. This proposed level two restructuring has been prepared in response to a request from the Ministry of Economy and Finance (MEF) of the Republic of Haiti (GoH), dated February 13, 2019 to extend the Closing Date of the Grant for the Business Development and Innovation Project (the BDI Project) by two years, to November 30, 2021. The GoH considers this closing date extension necessary for the project to be successful, as it will allow for the implementation of one key component; namely leveraging private investment through performance-based contracts to provide transport and cold-chain logistics services to export-oriented Micro, Small and Medium Size Enterprises (MSMEs). This component is key to illustrate how private investment in Haiti can generate large pro-poor and inclusive economic gains at short term.
2. *Grant (H865-0-HT)*. The SDR 13.4 million (US\$20 million equivalent) Grant for the BDI Project was approved on May 21, 2013. Its Project Development Objectives are to assist the Recipient in: (a) improving the conditions for private sector investment and inclusive growth, and (b) improving its capacity to respond promptly and effectively to an Eligible Emergency. The Grant became effective on November 11, 2013 and the original Closing Date was May 31, 2018. A restructuring was needed to extend the deadline for effectiveness of the Grant from September 12, 2013 to accommodate a delay in meeting effectiveness conditions.
3. *Restructuring from industrial zones to value chains (December 2015)*: This Level 2 restructuring was the first and only major restructuring to date that introduced changes in components and focus areas, hence it reset the clock for the project implementation when it was approved on December 24, 2015 and became effective on September 2, 2016. Under this restructuring the BDI Project continued to pursue its Project Development Objective of improving the conditions for private sector development and inclusive growth but moved the Project focus from integrated economic zones to the development of value chains. This restructuring reallocated funds from the integrated economic zone activities towards: (i) expanding the support provided by the Ministry of Commerce and Industry (MCI)'s enterprise support services teams, from 1 to 10 regional offices; and (ii) aggregating the Matching Grants from individual beneficiary subsidies to common services benefiting a group of Micro, Small and Medium Enterprises (MSMEs), and increasing the total envelope for Matching Grants from US\$4 million to US\$8 million. Finally, this restructuring revised the Project's Results Framework to reflect changes in the Project's Description and, also extended the Grant's Closing Date by 18 months from May 21, 2018 to November 30, 2019. Non-consulting services had been omitted from the table Eligible Expenditure in this restructuring and these expenditures were required for the Matching Grants under Component 2 of the Project. Therefore, a second restructuring was processed to include "Non-consulting services" as an Eligible Expenditure under Category (3) in the table in Section IV.A.2. of Schedule 2 to the Financing Agreement. This restructuring was approved on August 30, 2016 and became effective on October 28, 2016.
4. *Restructuring to respond to Hurricane Matthew (December 2017)*: This level two restructuring was prepared in response to the MCI's requests dated November 15, 2016 and December 30, 2016 to trigger the BDI Project's



Immediate Response Mechanism (IRM) by reallocating grant funds to assist victims of Hurricane Matthew that hit Haiti on October 4, 2016. Hurricane Matthew affected 364 MSMEs previously registered by the BDI Project operating in two coffee, one vetiver and one honey value chains (Departments of Grand'Anse and Southeast, South Department and Nippes Department respectively). These MSMEs were impacted through the loss of coffee trees, an inability to cultivate and sell damaged vetiver and damaged or destroyed bee hives. These were the MSMEs located in the four value chains supported by the BDI Project through its Component 2 "Business Development Services for MSMEs". This restructuring also approved changes to the Project's Results Framework to more accurately capture its results, to better measure its impact on women, and to capture the results expected from the IRM Component.

B. PROJECT FOCUS AND ITS DISTINCT FEATURES

5. Recognizing the problems faced by integrated economic zone projects in Haiti, the restructuring of December 2015 modified the Project from its original design, based on Special Economic Zones (SEZ), with a focus on public financing of concentrated industrial infrastructure to de-risking of private investment in services provided across the whole country, with the following key differences and distinct features:

- **The Project is focusing on the bottom 40 percent of the population:** The Project is not only about increasing exports of fruits, coffee, cocoa or apparel, but also about making sure that those exports benefit the poorest farmers and producers in lagging regions and not just intermediaries in the capital or abroad.
- **The Project is following the Maximizing Finance for Development (MFD) approach:** The Project has been preparing the terrain to attract private sector investors, and not public investment, to provide the common services (quality control cold chain logistics, packing, etc.) needed for local producers to access more profitable markets.
- **The Project is introducing blockchain with an innovative approach to inclusiveness and sustainability:** The Project is the first World Bank financed project to develop a blockchain solution for traceability and payments. This will allow producers to keep ownership of their products until final sale and to be paid directly, through smart contracts, via phone-based payment systems. The Project has been chosen by the Equitable Growth Finance and Institutions (EFI) Vice-Presidency as a pilot on the use of real-time data coming from the blockchain to monitor the inclusiveness, sustainability and market transparency (Creating Markets in the Digital Economy: Knowledge Generation & Capacity Building project-P168669).
- **The matching grant scheme under the Project is disbursing based on results to mitigate certain risks in service provision:** The Project's matching grants component has been designed as a guarantee of payment to the Service Providers, as long as the service has been provided and the products exported successfully. The Project is not subsidizing any inputs—it is only de-risking the provision of services by private actors.
- **The Project is tackling anti-competitive practices to increase market efficiency and support farmers:** The Project is also building capacity on competition policy and diagnostics; and intends to break the monopsony power of intermediaries and exporters in value chains by allowing farmers to export directly.

C. STATUS OF IMPLEMENTATION



6. Project implementation has only picked up after the second restructuring, which became effective on September 2, 2016 and radically changed the project design. Between its approval in November 2013 until the effectiveness of this restructuring, the BDI Project worked in developing the capacity of the local MCI teams that have engaged with the beneficiaries to identify the needed investments for the matching grants component. Since then, important progress has been achieved in the following areas. Key laws (discussed below under Component 1) aimed at improving the general business environment, with reformed legislation and credit infrastructure, have been passed by the Lower Chamber of the Parliament. The movable collateral registry has been established and currently under implementation. An identification of markets subject to an uneven playing field, including due to the delivery of investment incentives to some firms, has been performed. The BDI Project has also strengthened the Government capacity to support small entrepreneurs across the whole country to access higher quality markets by training and coaching 10 Enterprise Support Service teams, that have subsequently reached 1,400 small producers, above the 1200 target, through information sessions dedicated to specific value chains. Now, everything is in place for the producers to upgrade in their value chains, except the missing links that the Project intends to fill with the services to be provided by the firms winning the following tenders: (i) logistics for fresh fruits, (ii) logistics and packing for semi-perishables (coffee, cocoa, honey), (iii) fast response apparel, and (iv) blockchain solution for traceability and payment of value chains. The PDO indicators cannot be achieved until the service providers are recruited and the services are offered. Detailed progress and results achieved per component are discussed below.

7. **Under Component 1 (Business Environment and Investment Generation)**, the Project has supported the preparation of four laws to improve the business environment, against three that were initially targeted. Of these four laws, the “Reform of the Companies Law” and the “Secured Transactions Law” have been approved by the Lower House of Parliament in September 2017 and are now in the Senate, awaiting approval. The two remaining laws, the “Leasing Law” and the “Insolvency Law” are on the legislative agenda and may be voted upon in the Lower House in the next six months. These laws are expected to reduce the constraints to open and close a business as well as accessing credit, especially for young and less well-off entrepreneurs that lack initial capital. They will also have a positive impact on Haiti’s Doing Business score once implemented. In addition, the BDI Project has also helped increase transparency and consistency in the granting of investment incentives by the Inter-Ministerial Commission for Investment, thanks to the identification and publication of all incentives given in the past 5 years, as well as to the support to the Investment Promotion Agency. The BDI Project has also helped strengthen the capacity of the Ministry of Finance’s Unit responsible for Competition Policy, that is about to start its first competition analysis in the telecommunications and drinking water industries.

8. **Under Component 2 (Business Support Services)**, all the preparatory work (including road shows to attract potential bidders, preparation and finalization of procurement documents, and launching of the bids) have been completed to hire the four value chain services providers for: (i) a cold chain logistics provider for fresh products; (ii) apparel production, finishing and logistics service providers for the fast response market in the US; (iii) a post-harvest, logistics and sales service provider for semi-perishable value chains (coffee, cocoa and honey); and (iv) a blockchain solution for traceability of value chains. Moreover, under this component, the BDI Project has engaged more than 1,400 small producers, above the 1200 target, who are requesting the transport and logistics services required to access higher quality markets. For that, the role of the 10 Enterprise Support Service teams (each team comprising one agronomist, one economist and one industrial engineer trained and coached with the Project’s support) has been critical. The teams have visited the advanced markets, have identified what is needed to access them and have designed the tenders to attract the private sector services for this purpose

9. The last BDI Project Implementation Status Report archived on July 25, 2018 rated both Implementation Progress (IP) and Progress towards Development Objective (DO) as Moderately Satisfactory. In addition, all



Project's legal covenants and safeguards requirements are complied with and there has been no deviation of Safeguards during implementation. Fiduciary and safeguards ratings have also consistently been rated Moderately Satisfactory. There are no overdue audit reports and the last audit report of the Project was received on time and deemed satisfactory. Due to the delays during initial implementation as well as delays in the procurement of the services for the value chains (Matching Grants sub-component of Component 2), the Grant has disbursed US\$9.10 million or 48 percent of the total commitment as of December 6, 2018. An implementation plan has been finalized and agreed with the Government, by which all the remaining Grant proceeds will be committed within the original closing date of the Project and fully disbursed by the newly sought closing date, upon the delivery of the services.

D. RATIONALE OF THE RESTRUCTURING

10. This proposed Level II restructuring has been prepared in response to a request from the Ministry of Economy and Finance (MEF) to extend the Grant's Closing Date by two years, to November 30, 2021. The proposed extension would allow the BDI Project to fully implement the bulk of its activities, i.e. to support MSMEs in the selected value to access more profitable markets and increase substantially their revenues. These activities represent more than 70% of the total Project resources and are tied to all PDO indicators: (i) -amount of money invested by the private sector in supported value chains; and (ii)- share of increased value added of supported MSMEs in the selected value chains). If these activities are not completed (including the hiring of the service providers and provision of transport and logistics services to MSMEs), there is a very high likelihood that the Project will be Unsatisfactory. The Project has completed all the initial activities including the identification of important coordination failures in the fresh fruits, semi-perishables and apparel value chains; and more importantly, the launch of the procurement process to bring qualified service providers for these selected value chains. However, for the Service Providers to justify their investments in Haiti, their contracts should cover at least a foreseeable minimum period of operation, that is at least two harvesting seasons or production time for the products to be exported. The 11-month remaining implementation period is insufficient, posing a high threat to the success of this bidding process and implementation of related value-chain services. Therefore, the two-year extension of closing is critical for the BDI Project to achieve its development objectives. This two-year extension would also allow the completion of the administrative process for the approval of the business environment laws supported by the Project and the adoption of these laws.

11. In addition, the GoH has shown increased commitment for the BDI Project with more involvement from the President's Office, the Ministry of Commerce and Industry, the Ministry of Finance, and the Central Bank and stepped up efforts from these entities to pilot the innovative approach given its high potential for fostering inclusive growth. Not extending the BDI Project could curtail these renewed efforts when the Bank has a momentum to make a difference and achieve results.

E. IMPACT OF THE RESTRUCTURING

12. The proposed 2-year extension would allow the BDI Project to help address market failures, by applying the Maximizing Finance for Development (MFD) principle to attract a private sector logistics service provider to fill existing gaps by providing a cold chain service from tree to destination. More specifically, this extension will help the Project crowd in up to US\$5 million of private sector investments in the logistics for fresh fruits, semi-perishables (coffee, cocoa, honey), and fast response apparel value chains. It will also allow farmers and producers operating in these value chains, including those living in the poorest Departments of Haiti (where the poverty rate is above 60%) to complete two full harvesting seasons or production years and thus substantially



boost their exports and increase their revenues. Further, the extension would allow the monitoring of the changes and improvements in farmer revenue through the blockchain traceability and payment solution, thereby providing solid data and evidence of the effectiveness and impact of the Project. This pilot could be replicated elsewhere in the Bank as this would be the first time a blockchain solution for traceability and payments, which allow producers to keep ownership of their products until final sale and to be paid directly via phone-based payment systems, would be implemented by a Bank-funded Project.

13. Moreover, a more overreach impact of the proposed two-year extension and completion of activities with expected increases in farmers’ revenues, would be a high potential impact on poverty reduction. As an illustration, the estimated impact of the cold chain services on farmers’ revenues has been calculated for before and after the BDI Project and presented in the table below. The benefits arise from reduced losses and increased prices, with an increase of production limited to 5 percent.

Table 1: Estimated impact of the cold chain services on farmers’ revenues

Harvest years	Mango revenue to farmers	Avocado revenue to farmers	Total farmers revenue	Data assumptions
Baseline	\$8,761,667	\$5,973,030	\$14,734,697	Present
2019	\$11,628,738	\$7,927,579	\$19,556,316	3% new Value Chain share
2020	\$18,161,194	\$12,380,905	\$30,542,099	10% new Value Chain share
2023	\$35,786,100	\$24,396,210	\$60,182,310	25% new Value Chain share
2029	\$77,074,448	\$52,543,428	\$129,617,877	50% new Value Chain share
Sources: Production FAO 2016, Losses DTIS 2014, base prices Dry Run WUR 2018				

F. MEASURES TAKEN TO ACHIEVE RESULTS

14. To ensure completion of activities and achievement of results within the newly sought closing date, the Project team with support from the Bank has been implementing key measures:

- **Supplement of the PIU’s capacity** with the hiring of an external provider to manage the contracts and payments to the Service Providers to prevent any delay given the frequency of payments. This mechanism has been successfully tested under the RESEPAG II Project (Projet de Relance de l’Agriculture : Renforcement des Services Publics Agricoles – P126744) in the Haiti program;
- **Strengthening of the technical capacity of the PIU to manage the service contracts.** The Bank has provided hands-on and specialized technical assistance (TA) to prepare and finalize the two most complex tenders of the BDI Project (representing more than 28% of project funding): the “Blockchain Traceability and Payment Solution” and the “Cold Chain Logistic Services”. The first is under implementation and the latter bid has been received and should be awarded by the end of February. TA is also being provided to finalize the procurement of the two-remaining value chain service providers contracts “Semi-Perishables (Coffee, Cocoa, Honey)” and “Fast Response Apparel”, and both are expected to be published by end of February 2019. Finally, the PIU has secured the services of Wageningen University and Research, which will supervise the technical implementation of the most complex and largest contract of the Project, the “Cold Chain Logistic Services”.



II. DESCRIPTION OF PROPOSED CHANGES

- 15. This Level 2 restructuring entails: (i) an extension of the Project’s Closing Date for a period of 2 years, from November 30, 2019 to November 30, 2021; (ii) a reallocation of funds between components between Categories of the Project’s eligible expenditures; and (iii) a fine-tuning of the Results Framework.
- 16. The extension of the Grant’s Closing Date will not result in the need for additional funding, but the Project requires a minor reallocation of funding among components. This is because most of the activities under the Project will be contracted and under implementation by the original closing date. The activities and structure of the PIU will therefore be reduced to a minimum necessary to supervise the implementation of and payments under these contracts. The proposed minimal structure and budget for the PIU is detailed below:

	FY2018-19 (yearly basis)	Extension Period (yearly basis)
Number of staff*	15	4
Salary cost	\$360,100	\$85,150
Operational cost	\$151,300	\$46,500
Total costs	\$511,400	\$131,650
*Staff to be limited to a project coordinator, a procurement specialist, an accountant and a driver		

- 17. The Results Framework will be streamlined for more realism, consistency, and relevance to the PDO. In particular, an indicator which has attribution issues will be revised to measure scope of the Project’s intervention while other duplicative indicators will be deleted.
- 18. The proposed restructuring does not introduce any change in scope or nature of project activities or any other amendment to the Financing Agreement.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Loan Closing Date(s)	✓	



Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Components and Cost		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-H8650	Effective	31-May-2018	30-Nov-2019	30-Nov-2021	30-Mar-2022

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES



The World Bank

Haiti Business Development and Investment Project (P123974)

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IDA-H8650-001 Currency: XDR				
iLap Category Sequence No: 1A	Current Expenditure Category: GO, NCS, CS, TR Pt A.1			
721,000.00	619,707.94	1,201,000.00	100.00	100
iLap Category Sequence No: 1B	Current Expenditure Category: GO, NCS, CS, TR Pt A.2			
10,000.00	0.00	0.00	100.00	100.00
iLap Category Sequence No: 1C	Current Expenditure Category: GO, NCS, CS, TR Pt. A.2(d)			
0.00	0.00	0.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: GO, NCS, CS, TR Pt B.1, B2(a,b),B.3			
1,013,000.00	319,815.60	974,000.00	100.00	100.00
iLap Category Sequence No: 3	Current Expenditure Category: M GRANT GO,CW,NCS,CS,TR Pt B.2(c)			
5,328,000.00	4,812.12	5,314,000.00	100.00	100.00
iLap Category Sequence No: 4	Current Expenditure Category: GO, NCS, CS, TR Pt C			
720,000.00	0.00	243,000.00	100.00	100.00
iLap Category Sequence No: 5	Current Expenditure Category: OP Pt A.1(a,c), A.2, B.3, C.1			
4,014,000.00	3,963,721.24	5,366,000.00	100.00	100.00
iLap Category Sequence No: 6	Current Expenditure Category: Emergency Expenditures Pt D			
1,440,000.00	0.00	157,000.00	100.00	100.00
iLap Category Sequence No: 7	Current Expenditure Category: Preparation Advance			



	154,000.00	138,913.13	145,000.00
Total	13,400,000.00	5,046,970.03	13,400,000.00

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2013	0.00	0.00
2014	2,368,418.42	2,368,418.42
2015	1,117,070.79	1,117,070.79
2016	2,266,917.79	2,266,917.79
2017	1,416,837.22	1,416,837.22
2018	1,470,396.74	1,470,396.74
2019	6,572,670.00	3,232,000.00
2020	3,562,050.00	3,068,000.00
2021	0.00	3,068,000.00
2022	0.00	497,000.00



Results framework

COUNTRY: Haiti

Haiti Business Development and Investment Project

Project Development Objectives(s)

The objective of the Project is to assist the Recipient in: (a) improving the conditions for private sector investment and inclusive growth; and (b) improving its capacity to respond promptly and effectively to an Eligible Emergency.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
Improve the conditions for private sector investment and inclusive growth (Action: This Objective is New)			
Private sector investment in supported value chains (Amount(USD))		0.00	5,000,000.00
Increased value added of supported MSMEs in the selected value chains (Percentage)		0.00	15.00
Increased value added of supported MSMEs in the poorest Departments (poverty rate above 60%) (Percentage)		0.00	15.00
Improve capacity to respond promptly and effectively to an Eligible Emergency (Action: This Objective is New)			
Number of MSMEs that receive cash or in-kind assistance to continue or restart productive activity in their value chain (Number)		0.00	260.00
Of which, are women (Number)		0.00	40.00



Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Component 1 - Business Environment and Investment Generation (Action: This Component is New)			
Number of recommended laws, regulations, amendments, codes presented to the Parliament (Number)		0.00	3.00
Number of MSMEs registered in the electronic moveable registry who are able to secure loans (Number)		0.00	50.00
Of which, are women (Number)		0.00	15.00
Electronic moveable collateral registry (to secure loans) system available for use by MSMEs (Yes/No)		No	Yes
Component 2 - Business Development Services for MSMEs (Action: This Component is New)			
Number of pre-bidding conferences on the value chain tenders (Number)		0.00	7.00
Number of firms providing new services in selected value chains (Number)		0.00	4.00
Number of MSMEs registered in the MCI project database (Number)		0.00	1,200.00
Of which, are women owned or operated (Number)		0.00	360.00
Firms benefiting from private sector initiatives (Number)		0.00	700.00
Of which, are women (Number)		0.00	210.00
Of which, are located in the Southern region affected most by Hurricane Matthew (Number)		0.00	360.00
Of which, are women (Number)		0.00	50.00
Number of participants in public consultations (Number)		0.00	1,000.00
Of which, are women (Percentage)		0.00	30.00



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Indicator Name	DLI	Baseline	End Target
Number of Haitian public servants that have satisfactorily completed the Value Chain Strategic Analysis Program (Number)		0.00	30.00
Number of completed value chain diagnostics (Number)		0.00	20.00



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Haiti Business Development and Investment Project (P123974)
