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April 28, 2010



ENTREPRENEURSHIP:

ADVOCACY AND TESTIMONY

A TOOL FOR SUSTAINABLE DEVELOPMENT VIA AN INCLUSIVE « WIN/WIN » DEAL”

28/04/2010

Presented by Mathias Pierre

**MR. CHAIRMAN AND HONORABLE MEMBERS OF THE HOUSE SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE,**

AN ENTREPRENEUR WHO STARTED FROM NOTHING

It is a pleasure and an honor for me to be here today in order to present my testimony and insight on entrepreneurship in Haiti. I will, at first, present what allows me to speak of entrepreneurship in my country. When I think of my own past experience, and my current involvement in my country's private sector, I believe that not only is it possible to change one's future but most importantly, I have learned that change can be learned. Though we are not conditioned to change by our origins, our social background or our wealth, to change it is instead necessary to define new ways to do things and I believe, as a cornerstone for rebuilding Haiti, we must instill a paradigm of change in the minds of Haitian youth.

Research and conclusions from Michael Fairbank's OTF Group will serve as a guide to understand the current reality faced by the entire Haitian private sector. Information obtained from these documents will allow us to understand the impact of the January 12, 2010 earthquake on the private sector and what this unprecedented event represents for all of those who would like to lead this country forward toward sustainable development both on the national and international level. Recommendations on the means and

perspectives to achieve sustainable development in Haiti are presented at the end of this document.

Though I do not come from a wealthy family I was nonetheless capable of establishing a level of financial performance by applying certain principles described in my book, « THE POWER OF A DREAM. » Today, I am the President and General Manager of GaMa Consulting S.A., beneficiary of the « role model » Pioneers of Prosperity Award over 500 competing companies in the Caribbean. I am also the Vice President of the Western Department Chamber of Commerce and Industry of Haiti, assistant treasurer of AMCHAM (American Haitian Chamber of Commerce), President of AHTIC (Haitian Association of Information and Communications Technologies), to name a few.

In North America, I would be considered a very active businessman. This would be viewed as an entirely normal situation when one takes into account the existing facilities, the structures, the business environment in the United States and Canada, and it would be understood that I could be so involved and able to produce results.

However, in Haiti this type of participation is mostly viewed as an exception to the rule, a relatively rare species. The absence of structures and institutions compounded with a culture based on survival, creating mental barriers makes he who frees himself of such obstacles an extraordinary person.

I am convinced that what I have accomplished is possible only because I actually did it. I believe that I can share my proven “know how” and I am

working through Foundation ETRE Ayisyen with more than 500 young university students to share that knowledge. My accomplishments? I would like to see them serve as models, inspiring symbols to those who decide to get involved in (the private sector?) sustainable development. I sincerely hope that, in a very near future, I will see the creation of two hundred small businesses similar to what I have built, built by entrepreneurs who can serve as a foundation for a new and better SME sector in Haiti

HAITI : MORE EMOTIONAL THAN RATIONAL

Haiti is a country where emotion and perception play an important role in the ways an individual acts, his attitude and behavior. Therefore, this is why those who succeed are perceived as drivers of growth, seemingly destined as depositories of wealth. Those who are deprived of means are perceived, and consider themselves to be incapable of participating to the growth process. Life is considered as a hostile heritage, and one must make enormous efforts to survive making it difficult to overcome the realities of one's origins and social status. Compared to the United States, where poor become rich (and rich become poor) in one generation, a typical Haitian's destiny is determined by his parent's status.

I had all the reasons to fail. However, in taking the less travelled road in Haiti, that of entrepreneurship, I have been able to refute this mental attitude unknown in developed countries like the United States or Canada, for example. I have proven by my experience that economic success can be achieved in learning new ways to do things in a specific manner which are applied by those who succeed. Better yet, I am also convinced that this attitude can be shared with those who desire to advance and adhere to a

positive vision to change their lives.

However, the Haitian reality is strongly modeled on a type of entrepreneurship: Entrepreneurship as a means of survival. Many undertake a small business activity. Habits are present; motivation is centered on a defensive attitude instead of being aggressive and pro-active. Entrepreneurship in its actual form is far from being a way to do business. Young people are trained to be employees in an environment where the unemployment rate is very high. When one takes the initiative to carry out some sort of business activity in a hostile situation, it is done without a long term vision and outside a true growth-driven entrepreneurial framework.

90% OF HAITI'S ECONOMY DEPENDS OF THE INFORMAL SECTOR

With the assistance of the OTF Group, the GTC (Competitiveness Group) report revealed that large formal companies in the private sector represent 5% of the Haitian economy, another 5% are formal SMEs and that informal MSMEs comprise 90% of the economy. Therefore, only 10% of the companies in the private sector contribute to the state's fiscal base. At the same time, 90% of the private sector's jobs come from the informal sector.

Today, large companies contribute 20% of earned revenues; MSMEs contribute 80% of earned revenues and are the largest employer. The informal sector is mostly composed of micro, small and medium businesses that do not have any assistance in terms of financial, fiscal and training tools. This sector relies on Micro Credit since the companies do not fulfill the traditional banks' requirements for financing.

Though the private sector has the capacity to be agile, rapidly

adapting to the economy, it is also very sensitive to timing. Private sector companies would rather appeal to a financial institution capable of financing its business on its timeline, despite a high rate of interest, rather than approaching an institution capable of offering a lesser rate with a longer lending process.

It took me close to 8 years to obtain credit. Even after 7 years working with my first bank, my company was still unable to obtain a good financing plan. I had to change banks three times in 3 years. Each of these transactions was costly and had a negative impact on my desire to obtain financial assistance through a bank. My negotiations, during the past 2 years, with the country's traditional banks have allowed me to have better loan conditions; this better conditions along have allowed me to double my turnover ... **Access to credit still remains impossible for the greater majority of MSMEs. This explains, for the most part, why today these MSMEs find themselves in the informal sector. ...**

12/01 : CONSEQUENCES AND OPPORTUNITIES

It is in this context that January 12, 2010 occurred, completely changing our business environment. Haiti's most important symbols have been destroyed and the country has been deeply hurt within at its core. The National Palace, the Palace of Justice, Parliament, the Palace of the Ministries, la Direction Générale des Impôts (Tax Office), the media, the financial system, trade, universities, schools and especially families are stunned by the extent of a devastation never experienced before and, that, today, we still have to understand.

The earthquake's aftermath offers an opportunity for a new beginning. This unfortunate event must be for us an opportunity to redefine the country. Plans for sustainable development, an inclusive approach with the active participation of young people in the definition of this new vision are necessary. We also need tangible achievements which can serve as inspiring models and allow each one of us to become an active participant in this mandatory reconstruction.

When considering the reconstruction challenge, one must take into account not only the reconstruction of the INDIVIDUAL BUSINESS but also the products from each INDIVIDUAL HAITIAN. Today, those who have survived this earthquake must adopt a new approach with actions that will fundamentally change the structure of the Haitian economy:

- **Increase the tax base by fostering the formalization of MSMEs;**
- **Encourage and assist in the development of the entrepreneurship culture in order to create jobs and wealth ;**
- **Create an intelligent and efficient injection of capital.**

These three elements serve as a guide when I think of the following issues: recovery of the national economy, and a reconstruction based on sustainable development with the active participation and involvement of Haitian youth.

According to a survey conducted by **USAID /WINNER**, losses in the SME sector amounted to \$ 1.2 billion and \$ 800 million amongst the micro businesses. This study counts 800,000 MSMEs, (200 000) of which are micro businesses registered on the financial institutions' databases, and only 60 000

of which benefit from the assistance of micro credit institutions.

INCREASE AND FORMALIZE THE SMMEs

These informal sector businesses, as stated above, do not pay their taxes, which represents an enormous loss in terms of state revenues. Should these companies resume their activities, this would be an ideal moment for them to become part of the formal sector and have access to credit in order to facilitate their participation in the country's economy.

This will be achieved in making available to the informal sector financing at a rate much lower than that offered today by micro credit institutions, which ranges from 2% to 5% per month or rates varying up to 60% per year. These rates actually available on the market depend on the type of loan and rapidity of the approval. The lower the amount and the faster the disbursement, the higher the rate.

In the formalization process, training is a must. Specific training aimed at establishing an entrepreneurial culture will allow the participant to become rapidly operative.

Assistance at the financial, fiscal and administrative levels will facilitate the transition from being an actor in the informal sector to becoming one in the formal sector as well as having ownership of standards internationally accepted in the global economy.

These businesses deprived of the means capable of allowing them to fulfill the banks' requirements will have to be "coached" in order to gradually learn how to work with the financial institutions.

A benefit of integrating the informal sector into the formal sector, would be to increase the state's tax base. Strengthening this segment of the private sector would increase state revenues, and thus, the latter's capacity to fulfill its major role towards the country's different institutions and by the same token towards the citizens.

Earlier, I mentioned that perceptions and impressions have a great influence on our daily lives. A major part of the Haitian businesses considers itself excluded from the country's private sector. One of the objectives of formalization is to change this perception. To make citizens more accountable and more demanding towards the state since they actively contribute to the increase of the fiscal base. As a result, a state more « responsive » to the needs of individuals because it collects more revenues and is subject to more specific and justified demands.

The consequences derived from formalizing the private sector's informal businesses are significant:

- **A new vision of the sector (more positive).**
- **An increase of the fiscal base making the state more independent.**
- **The emergence of proactive citizens.**
- **A more efficient and responsive state.**

Nonetheless, as a starting point it is important to note that the operating mode of businesses is strongly rooted in a survival attitude with very focus on a growth strategy. A period of survival (or fight against poverty) begins by acknowledging that one has become poorer with the decapitalization of one's businesses. The first attempt to remedy this situation is to seek assistance. This occurs with the development of a state of

assistance. This attitude creates a state of mistrust both nationally and internationally which is based on doubting of one's capacity to deliver. The fear of taking a risk because of the lack of trust creates, in the long term, poverty and the cycle is closed. Any business initiative, arising from this cycle, gravitates towards no risk at all, short term projects and no long term vision. There exist many commercial businesses that have emerged despite the system's weaknesses. There are much more commercial businesses than service institutions creating wealth: A trade-based economy instead of an economy based on production and job creation.

The private sector would like to break this vicious survival circle by establishing a healthy cycle which would replace foreign assistance with public/private investments. Investing in large infrastructure would reduce the cost of services and the cost of establishing MSMEs. By reducing start-up costs, it encourages their duplication. In increasing their number, we create an environment of trust and incentives to invest at all levels of the economy whether domestic or international. This is the way one advances towards wealth.

THE CHALLENGE OF FORMALIZATION

Formalization is a real challenge. It implies a reform of the fiscal and customs systems. The state currently collects only 35% of its revenues from taxes, duties and fees; the rest comes from external assistance. These 35% come from the large taxpayers (5% of the economy) and formal SMEs (5% of the economy) which renders the state very conservative and not inclined to take risks by reducing tax rate for SMEs.

The increase of the fiscal base becomes a necessity to motivate the State. Nevertheless, with the actual tax rates available on the market, it is still difficult to pay taxes and this remains a challenge above and beyond the complications of the badly managed tax system itself. One must address the issue intelligently to achieve an institutional reform that will take into account its different aspects.

STRENGTHEN MSMEs THROUGH ENTREPRENEURSHIP

The majority of Haiti's population is young. This situation must be considered when carrying out any major activity. According to the Haitian Institute of Statistics (IHSI) more than half of the country's population is less than twenty-one (21) years old. Those of less than fifteen (15) years of age represent 36,5 % of the population, the group aged 15 to 64 years represents 58,3 % while the population aged 65 and plus is only 5,1 %. It is also necessary to note that in urban areas there are 86 males for 100 females; and in the rural sections, 98 males for 100 females. A very young population with women having a slight advantage over men. It is imperative that anyone thinking about the future should target this segment of the population. This situation may offer a rather interesting opportunity since youth by its very nature is daring and willing to prove its capacities.

In its roadmap, the private sector hopes to create one million jobs in the next 5 years. Concerning certain sectors and more precisely the agricultural value chain, it is clear that job creation implies young entrepreneurs' participation, a group which represents 70% of Haiti's active

population.

It is also an opportunity for us to sensitize the citizens of Haiti that, since everything has to be rebuilt, it will be accomplished much more efficiently with the help of job creators rather than that of those seeking jobs. It will be necessary to assist those who are already entrepreneurs by providing them with practical training in order to make them feel more comfortable in a formal environment, and increase their revenues with access to credit.

A partnership with the young business population based on cost-effective activities should foster the spirit of entrepreneurship. Five possible activities to further this agenda are presented below:

- 1. Orientation of youth toward key sectors.**
- 2. Development of the country through personal growth and entrepreneurship.**
- 3. Revalorizing the sense of service and duty amongst Haitian youth.**
- 4. Promoting an alternative to foreign aid**
- 5. Building an awareness of the necessity to develop our country for everyone's benefit.**

The inclusion of a new agenda at the academic level will give a new impulse to the economy. The will to succeed through entrepreneurial activities taught in school will ensure a better understanding of the business world, will create a new generation of entrepreneurs, and will foster the emergence of success stories in business as a new trend. **Examples like mine will, at the beginning, serve as a model and will become normal in the Haitian private sector.**

It is mandatory to start by creating success stories among the youth in

order ensure the institutionalization of the entrepreneurial culture.

INTELLIGENT AND EFFICIENT INJECTION OF CAPITAL

Almost exclusively, the Haitian financial and credit institutions rely on guaranties given by small or large buildings. Today, these buildings have been destroyed and so are the guarantees. From the large company to the family owned business, many dreams have gone to dust... Investments in the real estate sector have been long perceived as the realization of a lifelong dream. At 4:53 p.m. on January 12th, all those dreams, these guarantees, all these symbols of one's successes were erased. It is an undeniably heavy mental blow for the nation's economy in its entirety. How can these families recover and regain the lost capital? How can one reintegrate in the economy, small businesses that took 10, 15 years to be established, now recuperate lost jobs and, create new ones?

A recovery plan has been undertaken for the large companies and formal businesses. This affords some sort of comfort to the financial sector and this is an important factor. However, it will also contribute to reactivating a system that, prior to the 12th of January, was already weak in terms of capacities and, therefore, inappropriate. This conservative system, inappropriate for the development of entrepreneurship, with a credit capacity of only \$ 800 million, meets only the needs of some large companies and a small percentage of the MSME sector. A risk exists for the informal sector that, in adapting itself to the formal business environment, it may disappear. It will then become a "survivor" trading in the informal sector and

institutionalizes the cycle of dependence on foreign aid ...

According to the USAID /WINNER survey, \$2.7 billion are needed for economic recovery for Haiti's private sector. Tangible activities must be undertaken that address the financial needs of the productive sectors that are today decapitalized. I believe that this could be achieved by adopting the following measures:

1. Provide capital to three currently under-served segments of the private sector:
 - a. **Establish an MSME support and assistance fund:** Inject, on an annual basis, capital in the micro enterprises and in the form of loans at very low rates. These funds will assist businesses in the financial training process and provide the means to formalize the sector.
 - b. **Establish a growth capital for small and medium businesses in the \$100,000 - \$1million size (larger than micro-enterprise, but smaller than big business)**
 - c. **Establish a fund for the development of entrepreneurship:** Make available to young entrepreneurs start-up funds for their businesses. Organize contests at the level of universities and technical training schools to obtain financial, fiscal and legal assistance.
2. **Foster an entrepreneurial culture:** Support and build, as soon as possible, the spirit of entrepreneurship in young Haitians. Entrepreneurship with the goal of building a better Haiti must be the dream of our youth.
3. **Provide the management skills required to succeed as entrepreneurs:** capital and the desire to become an entrepreneur are not sufficient to succeed in business. Aspiring entrepreneurs must also have the basic business skills required to conceive, build and operate competitive businesses. To deliver these skills, Haiti

must develop a robust Business Development Services (BDS) industry.

And, to start the process, it is necessary to have, in parallel, a support and follow-up system after these businesses have started. Finally, a more equitable banking system will help these companies become success stories.

A MATTER OF CHOICE: A BUSINESS SURVIVAL ISSUE

After several years of sacrifice and hard work, on April 8, 2008, during the hunger riots, my small SME that I was fighting to make viable and profitable was seriously damaged. I understood then that the private sector, through its most representative members, had a key role to play in social policy. Not only does the private sector creates jobs, pay dividends to its investors, and participate in state revenues, it wants to make its country more attractive to investors. And this very same private sector **has the corporate responsibility to take charge of the environment in which it operates.**

Haiti needs a responsible and participatory business elite and middle class. Through my personal experience, I am trying to duplicate the activities that I myself pursued , helping me build a successful company; by partnering with the youth, and vowing to see that within 2 or 3 years a critical mass of 200 « success stories » will be created throughout the country, I can model what a responsible private sector looks like. **At this moment, when everything must be rebuilt, I am taking this opportunity to be part of this reconstruction effort in order to leave a legacy to my country.**

Thank you

Mathias Pierre