

## Testimony for House Financial Services Committee, Subcommittee on International Monetary Policy and Trade

### “Promoting Small and Micro Enterprise in Haiti”

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Mr. Chairman and Members of the Sub-Committee: Thank you for the opportunity to discuss creating economic recovery in Haiti through private enterprise.

In this testimony, I will provide evidence that will show that the promotion of small growing businesses and a culture of entrepreneurship can make a vital contribution to putting Haiti on the path to recovery and growth. Improving the policy and infrastructure to facilitate the establishment and growth of a vibrant and dynamic Haitian private sector will be insufficient without a complementary set of interventions targeting the fledgling and would-be entrepreneurs themselves. Haiti’s history lacks a strong and vibrant small business sector; it has been dominated by a handful of multinational businesses and a small local elite. Without direct intervention to promote economic plurality at the grass roots of the economy, development efforts will fail to alter the structure of the business sector and restrain the potential for new broader sources of growth to emerge. At the same time, we have evidence from our work elsewhere that suggests Haiti does not have to wait for the macro policy and infrastructure environment to improve before seeing benefits from such grass roots efforts.

TechnoServe is a US 501(c)3 non-profit committed to breaking the cycle of poverty in the developing world by empowering people there to build small and medium scale businesses. Our focus on building these businesses stems from three core beliefs, grounded in forty-two years of on-the-ground activities in Central America, South America, Africa and India:

- 1) The best way to reduce poverty is to foster equitable economic growth.
- 2) Economic growth stems from entrepreneurial people’s success in understanding markets and market opportunities, and in starting and growing competitive and profitable businesses that generate employment and wealth.
- 3) Well-designed and well-executed targeted assistance programs, even in inhospitable business environments, can catalyze the development of successful businesses and industries.

TechnoServe has been working in Haiti since July 2009 as part of a consortium implementing a multi-year U.S. Agency for International Development-funded project to improve access to finance for local small and medium businesses. This project, Haiti Integrated Financing for Value Chain & Entrepreneurship (HIFIVE), is meant to complement other USAID-funded

programs in Haiti, with a focus on rural areas and high-potential value chains (such as coffee, cocoa, mango, tourism and handicrafts). It is USAID/Haiti's next phase in a sequenced strategy to further develop the country's financial services sector to promote employment generation, to improve livelihoods, and to boost the economy. TechnoServe's role is to identify promising local businesses, analyze their financial or business needs, facilitate negotiations with financial institutions and business service providers and monitor the results.

This work was just beginning when the earthquake struck. It is far too early for us to be drawing conclusions or sharing results. However, we do have enough of a sense already that approaches we have used elsewhere are applicable to Haiti. We believe these can lead to the growth of small businesses and key economic sectors in Haiti that will create jobs and open up new marketing opportunities for local producers, leading to increasing incomes and opportunities for Haitians, especially the poor.

Our recommendations are to include two key types of interrelated programs in any new reconstruction, recovery and development programming for Haiti. First, Haiti needs a much strengthened culture of entrepreneurship – which can be enhanced through the use of the types of entrepreneurship programs that TechnoServe has implemented successfully across many countries. Second, Haiti will benefit from sectoral strengthening programs also along the lines of those implemented elsewhere with positive socio-economic impact by TechnoServe.

While Haiti may be the poorest country in the Western hemisphere, there are many countries in other regions of the world where TechnoServe has worked that have similar characteristics. The World Bank's ongoing Doing Business project currently ranks Haiti as #151 out of the 183 listed countries in the relative ease of doing business there, a composite of ten major factors (<http://www.doingbusiness.org/EconomyRankings>). Examples of TechnoServe's work can inform what is possible and potentially impactful in Haiti. I'll present examples of our work in Uganda, currently ranked 112, Tanzania, ranked 131, and Mozambique, ranked 135.

Following the examples, interwoven with their applicability to the Haitian context, I touch on reasons for optimism – reasons to believe it can be different this time.

### **Strengthening the culture of entrepreneurship**

**In Tanzania**, with support from Google.org, TechnoServe has been implementing a program to identify and train up-and-coming small entrepreneurs based on the framework of a business plan competition. Over more than 30 iterations in over a dozen countries since 2002, TechnoServe has refined this approach to SME development as an effective way not only to support promising entrepreneurs and assist them to build growing businesses, but also to help build an entrepreneurial culture in countries where it is lacking, and furthermore develop a broader understanding and appreciation of the role of entrepreneurs in economic development. We are currently in the early stages of one such competition in Haiti.

In Tanzania the local organizing committee – a critical component of the approach -- included experienced local business leaders. Experience also comes from the use of volunteer competition judges and mentors, who include established entrepreneurs (who can be powerful role models), venture capitalists, bankers, private investors, university professors, technical experts, and other professionals from Tanzania’s private sector. All judging was anonymous, both for the judges and for the participants.

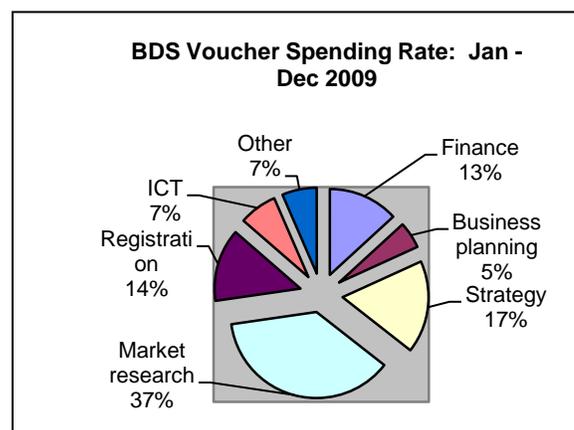
In late 2008, 550 entrepreneurs responded to the program publicity around this initiative, Tanzania’s first national business plan competition, and submitted business concepts to the competition. Of these, 356 entrepreneurs were invited to two days of training, offered in multiple venues, to help them further develop and better present their business ideas. The submissions that emerged were assessed by the volunteer judges.

Based on this, 110 entrepreneurs, 20% of the original applicants, were invited to participate in an intensive comprehensive training course in business planning and operations, offered over a couple of months. They were partnered with experienced independent consultants for mentoring and assistance to develop full business plans. More rounds of judging culminated in a competitive round of personal presentations by the finalists to select the top prize winners.

But in fact there are many winners...

When we first piloted this approach in Central America many of the judges, often banks loan officers, struggled to assess these anonymous business plans. They were accustomed to judging the merits of a business loan request based primarily on the family name of the applicant. The notion of real business plan analysis was rather novel. But, with the orientation and training they received as part of the overall competition approach, they became capable and enthusiastic supporters of an analytic merit-based approach.

In Tanzania, the Minister of Industry, Trade and Marketing participated in awarding the top-20 finalists a total of \$130,000 in seed capital awards. The top 80 received a total of \$400,000 in vouchers for follow-on business development services BDS. By the end of the year almost half those funds had been disbursed for approved services being used by 52 of the entrepreneurs (see split in use in the graphic to the right). While the eventual success of these businesses is yet to be determined – the uptake of the vouchers firmly demonstrates the stimulus to enterprise development that such an intervention can provide.



And the program doesn’t end there. It continues by building an alumni network for mutual support and to help in the continuing effort to build networks that promote the culture of

entrepreneurship, cultivate and support opportunities for other entrepreneurs, and break down residual 'old boy' barriers.

More details on this program in Tanzania and related work can be found at <http://www.believe-begin-become.com/Tanzania/index.asp>

Do these competitions generate the promised impact? The evidence to date is very encouraging. A recent quantitatively robust study of 13 TechnoServe competitions in Central America from 2002-2009, using analytical techniques developed by Harvard economists, interviewed 590 participating and non-participating entrepreneurs, and demonstrated that participants in the training phases dramatically out-performed their peers, generating:

- 250% the two-year sales growth
- 250% more jobs
- 300% more capital invested.

The analyzed competitions generated \$3.70 in client business sales over three years for every program dollar spent and one full-time job per \$700 spent.

In our current entrepreneurship efforts, in addition to the business plan competitions, we are using a range of additional interventions – all of which we believe would be relevant to Haiti:

- Using a screening test for entrepreneurial ability developed in part on the basis of our work by the Harvard University's Entrepreneurial Finance Lab. This tool uses personal histories and characteristics to enable the competitions to focus on the highest potential candidates.
- Supporting entrepreneurs with access to the most critical resource they require – finance. The so-called "missing middle" in finance for small growing enterprises requires entrepreneurs to have more than a good business plan – they need assistance to develop a strong application to financiers, put in place sound financial management, formalize their business and have a well defined market with a strong competitive value proposition.
- Remittances can be leveraged to finance entrepreneurial activities – either directly or through financial intermediaries.
- In addition, the entrepreneurs need financial institutions and investors available with a keen interest in the small business sector and suitable products on offer.

We are convinced based on the early indications from our Haiti competition that this approach can be highly impactful in Haiti too. We had received 99 completed applications by the February deadline, of which 50 applications were submitted AFTER the January earthquake. Of these, just over half were in the agricultural sector broadly defined, and the rest were spread across areas including cultural industries, healthcare, recycling, energy and IT.

We believe there is significant opportunity to expand the competition, its reach and its impact from these early beginnings. A program of direct support and network building would be developed, including a series of adapted business plan competitions, supporting both start-up entrepreneurs and paving the way for current entrepreneurs to reach their potential. We

would work with local institutions to implement the tools mentioned above to drive the creation of an entrepreneurship support platform in Haiti. The program will build capacity among existing local institutions to house the platform and continue supporting entrepreneurs. In addition, the entrepreneur alumni of the program will become a key element in creating a confident voice to represent their interests.

We propose four basic components for an expanded Haitian entrepreneurship program:

- Mini-business plan competitions in each of the priority sectors to identify and train a broad class of entrepreneurs
- A national business plan competition to support and elevate the most promising entrepreneurs
- Facilitation of access to finance for the most promising entrepreneurs. SMEs are currently seen as too risky. To overcome this requires partnering with leading financial institutions that want to change, training their staff, implementing improved practices and smartly brokering deals with the best entrepreneurs
- Facilitation of an efficient and service-oriented national entrepreneurship platform, including a clearing house for interested investors and supporters to meet and support the entrepreneurs on a sustainable ongoing basis.

### Strengthening key economic sectors

To ensure that Haiti's high-potential sectors receive the support and attention they need to become the engines of economic recovery and growth, it will not be enough however to stimulate entrepreneurship and hope that some good entrepreneurs arise in each such sector. TechnoServe has significant experience of focusing on priority opportunity sectors and developing integrated programs to unlock growth in those sectors – powered by entrepreneurial people establishing and growing enterprises.

**In Uganda**, *matooke* (a kind of cooking banana) is the most important food staple. It is produced by more than 2.5 million small farmers. The nation's annual crop, virtually all consumed domestically, has a market value well over \$300 million. But *matooke* farmers' income opportunities have been constrained by high transport costs, poor product handling and poor market coordination, among other factors. Such conditions pertain to many crops in Haiti today.

With initial support from the Rockefeller Foundation, and now from AGRA (Alliance for a Green Revolution in Africa – a joint initiative of the Rockefeller foundation and

Ugandan farmers are faced with agricultural markets that are characterized by multiple intermediaries between farm gate and consumers. Lack of transparency in market transactions, collusion at all levels of trade, limited access to reliable, independent and useful market information, limited access to input supply services, limited access to markets for output--- all combine to make farming unprofitable and unattractive for most smallholder farmers with little hope of escaping a poverty trap. As a result of perpetually low incomes and no opportunity to invest in their crops and in their land, soil fertility, already perilously low, declines still further to the point of exhaustion. Poor to begin with, many farmers face abandonment of their lands to little more than scrub agriculture. The challenge, therefore, is to improve the terms on which the rural poor engage in markets, and to increase their participation and gain in a more profitable value chain.

Much the same could be said about small-scale Haitian farmers.

the Bill & Melinda Gates Foundation), TechnoServe has been working with the Uganda President's Initiative on Poverty Alleviation to make this industry more efficient and beneficial to the rural poor. The project's key objectives are to:

- Expand market opportunities for 25,000 smallholder farmers primarily involved in *matooke* production
- Build the capacity of farmers' organizations and other stakeholders that provide services and/or market access to smallholder *matooke* farmers
- Assist the farmers to move into dairy to diversify their income sources and support soil fertility enhancement.

And we are well on our way. In less than four years, starting in January 2005, we organized some 10,400 farmers and helped them negotiate and complete some \$3 million in sales of bananas. Now in its third and final phase the project's key objectives relate largely to sustainability, along with further growth.

**Mozambique** is ranked 172 out of 182 in the UNDP's 2009 Human Development Index, while Haiti is ranked 149. Indicative of its general condition, Mozambique's national literacy rate is estimated as below 50%, far exceeded by all its neighbors (CIA Factbooks).

Mozambique's Independence in 1975 was followed by 17 years of civil war. An estimated one million people died. The economy was devastated. And in the three years after the fighting ended in 1992, more than 1.7 million refugees poured back across the borders from neighboring states.

**Cashew:** While at the beginning of the war the nation was the world's leading exporter of processed cashew kernels, accounting for some third of global production and trade, a generation later the entire industry was largely moribund. The nation's share of the world cashew market had fallen to less than 5%.

In 2001, in partnership with a visionary local entrepreneur, Antonio Miranda, and with technical assistance funded via a USAID project, TechnoServe set out to reverse the slide and rebuild the industry. It was clear that along with the raw cashew nuts still being exported, Mozambique was losing a major opportunity. Together we designed and piloted a model processing plant. It was a labor intensive model, intended to generate the rural jobs so desperately needed. When it first opened, in a rural community in Nampula in Northern Mozambique, a thousand people applied for the first 70 jobs created.

We used the successful pilot plant as a laboratory and a training ground – to build processing efficiency and attract other entrepreneurs into the business. Many were interested and ready to invest. In 2004, we helped the seven leading entrepreneurs create a services company, and a brand, to reach the scale and quality control needed for efficient export operations.

By 2008, as we exited support for the industry, some 5,000 jobs had been created, about half held by women. From 785 metric tons (MT) of nuts processed in 2002, in 2008 24,000 MT were processed, some 40% of the total crop. The factories operating that year earned an average

net profit of just over 10%, on sales of US\$ 13 million. In January 2009, detailed analysis found that since 2001, the aggregate positive impact of the renewed cashew industry had been \$11.5 million. In 2008 this included some \$1.6 million in factory worker wages and an estimated increase in the raw nut farmgate price received by many tens of thousands of small-scale producers of \$38 / MT.

**Poultry:** Like cashew, Mozambique's domestic poultry industry collapsed after Independence. Economic liberalization of the 1980s opened possibilities. While these were largely captured by Brazilian imports, several domestic producers persevered. But the 2004 outbreak of Avian Influenza in South Africa, the source of most day-old chicks for Mozambican commercial producers, precipitated a crisis. In 2005 alone, chicken imports surged 221%. In supermarkets, foreign chicken was being sold for 23% less than its domestic counterpart, despite the shipping costs of ~\$200 per ton, and tariffs ranging between \$300 and \$800 per ton.

Our research, supported by USAID funding, found that most foreign poultry was, in reality, being imported at or near the end of its shelf life. It was Brazilian but was coming indirectly, via Dubai, after sitting in freezers for a year or more, and much of it was entering the country without paying the import tariffs or VAT. TechnoServe produced an in-depth report detailing the industry's challenges and opportunities, and drafted an industry strategy. The USDA provided a grant to enable us to take it forward.

As a starting place, we convened a meeting of industry leaders. The first meetings were difficult, but the initial mutual distrust among the industry leaders eventually gave way to points of agreement, and then broader consensus. In March 2007 the national poultry association A.M.A. (Associação Moçambicana de Avicultores) was formed. Officers were elected, and TechnoServe assisted, serving as their secretariat.

In June 2007, a nationwide marketing campaign was launched to promote a newly adopted brand for national chicken. The radio and TV advertisements eventually spread to 21 cities, far more than the target of eight. The campaign became so successful that its jingle became popular as a local cell phone ringtone.

In 2004 2 out of every 3 of the 21 million commercially produced broilers sold in Mozambique came from Brazil. Since 2005, the domestic industry has doubled in value from \$37.9 million to \$80.7 million, and imports now make up only a quarter of commercial chicken sold. More than 1,200 poultry jobs have been created.

To achieve this TechnoServe worked with all interested poultry agri-businesses to help them test and develop outgrower models of production, to enable small-scale producers to benefit in the expanding demand for domestic poultry. More than 2,500 small farmers were trained and began participating in outgrower production operations, with increases in household income of 200% to 1000%. In the feed grains sector thousands of small-scale soy and maize farmers benefitted from growth in that sector's revenue from \$15mm to \$60mm.

With the national poultry association well-established, TechnoServe is now turning its attention to further develop the feed industry, a critical cost component for poultry. We are pleased to have as partners in this new effort Cargill and a range of local production agribusinesses, along with the USDA and the Bill & Melinda Gates Foundation. It is through the expanded domestic production of soybeans that additional tens of thousands of small farmers will be able to benefit from the growing poultry industry.

And now we are taking the lessons we have learned through sectoral programs in coffee, cashew, cocoa, and dairy to a much larger scale. We are running programs to reach between 150,000 and 200,000 farmers in each of these cases, across several African countries.

**Haitian Mangoes:** It was based on these and the establishment of a similar program to boost the mango and passion fruit sectors in East Africa in 2009, that Coca-Cola selected TechnoServe to be their implementing partner for the recently announced Haiti Hope project. This five-year project seeks to double the income of 25,000 Haitian mango farmers, and establish the local institutions and infrastructure to support the ongoing growth and competitiveness of this sector. Apart from a cash injection of \$3.5m from the Coca-Cola company (much of it based on the profits from US sales of juice products, such as the recently launched Odwalla Haiti Hope Mango Lime-Aid™), the project is expecting to receive \$3m in support from the Multilateral Investment Fund of the Inter-American Development Bank and potentially other development partners.

TechnoServe has a team in Haiti designing a program to help Haitian mango farmers grow their crops more productively and efficiently; organize the supply chain around farmer-owned business hubs to help them access markets sustainably, and improve post harvest practices and logistics; train the farmers to produce additional crops to boost their incomes; support Haitian entrepreneurs to establish local value-adding processing and logistics enterprises; and undertake research and development into improved mango varieties and industrial practices.

We believe that the Haiti Hope project can become a role model for sectoral revitalization that can contribute to the long-term development of Haiti. Indeed, we would propose to use our experience to launch and implement such growth strategies in other sectors with strong potential.

## Reasons to be cheerful

I believe that out of the recent crisis there is a moment of discontinuity that will allow the US Government and other donors and philanthropists, as well as private sector investors to create a new beginning for Haiti if programs to be launched can be based on the following principles:

1. **Build on prior achievements and existing assets** – not all prior efforts have been wasteful or negative. In the mango sector for example, there are already farmers using improved agricultural practices, some well functioning cooperatives, some established collection center infrastructure, a handful of Haitian exporters that are working well

alongside the USDA to get 10,000 tons per year of their Francisque mangoes to the US markets, and some local organizations with training skills and capacity.

2. **Learn lessons from prior work** – efforts to develop any sector need to:
  - a. Be market-led, comprehensive and based on overcoming informational constraints
  - b. Build individual and organizational capacities across each sector of focus
  - c. Promote local ownership and competitive business building
  - d. Run for a minimum of five years
  - e. Act at an appropriate scale – micro-enterprises rarely scale to access international markets.
3. **Foster a new attitude** – the involvement of international business partners is a game changer; bringing in the best international skills and experiences helps to raise the performance bar and expectations; insisting on local leadership and ownership reduces the risk of ongoing aid dependence; and taking advantage of the current crisis to foster a climate of collaboration can potentially overcome rivalries of old.

This is not easy work. But it is important. And it is doable. It requires the application of rigorous business analytics to understand the drivers of - and path to - competitiveness, a market-led approach, hands-on interventions, and most importantly a focus on specific businesses and people making money, to ensure their businesses are commercially viable and sustainable.

Thank you, Mr. Chairman, for this opportunity to speak to you. As you deem useful, I would be pleased to follow up with you, the Committee members or any of your staff.

Respectfully,  
Simon Winter