www.thedialogue.org

Latin America Advisor

The Interactive Forum for the Region's Leaders

Thursday, May 23, 2002

Today's Top News

Advisor ANALYSIS

Q **That Haitian politics are mired in crisis is well known to Haiti watchers, but not much is known about doing business in the Caribbean country. What are the investment opportunities in such an adverse political and economic climate? Are there positive examples of doing business in Haiti from which investors in Latin America can learn, in sectors such as telecommunications or tourism? How can the private sector become a stabilizing force in Haiti and contribute to resolving the country's prolonged crisis?**

A **Guest Commentary: Amy Coughenour & Hans Tippenhauer:** "The Haitian business sector has been engaging in the formation of a national agenda and has an important role to play as a stabilizing factor, due to its ability to generate employment, provide training, and create investment opportunities. The most powerful role for the business sector would be to lead a broader civil society dialogue, which can transcend the current political situation and involve all sectors of Haitian society in setting national goals. In any case, the crisis in Haiti cannot be solved without deeper private sector involvement in the social sector, nor without creating an environment in which foreign investment can take place. Clearly, however, the government must step up to the plate to create the conditions for this to happen. Despite the current political environment, there are investment opportunities in Haiti in energy, water, and other infrastructure sectors, including telecommunications. Haiti still maintains strong export potential in the agricultural sector, including niche markets, and offers competitive advantages in textile assembly and culturally-based products, such as artisan crafts and woodworking. Tourism is an area that has suffered dramatically from the political climate, but still holds promise. In the telecom sector, at least two cellular and seven Internet companies are operating in Haiti, and while the markets are underdeveloped and are wrought with access and infrastructure issues, there is tremendous potential."

> "Light manufacturing ... seems to be the only sector realistically open to the foreign investor."
>
> -- James Morrell

Guest Commentary: Carlo Dade: "What is perhaps most interesting in the Haitian context is the emergence of social investment by Haitian businesses. Social investment, also referred to as corporate social responsibility or community involvement, is standard

*see **Q&A**, page 2 ...*

... ***Q&A***, *from page 1*

fare for business in the U.S., western Europe and countries such as Brazil. It is a newer phenomenon in other parts of the region. Social investment is not charity or philanthropy; it is investment by business in social projects that produce a return for the business. For example, investments in community health projects in neighborhoods near a factory. In the Dominican Republic, we have seen the publication of a guide for social investment for Dominican business this past year. Given the economic, political, and social problems confronting Haiti, and particularly given the problems faced by business, Haiti might be the last place one would expect to find businesses undertaking social investment projects. Yet, there are an increasing number of examples in Haiti. DHL is working with an IAF grantee to fund a project for female beekeepers in the south; UniBank has a well-respected project in microenterprise with the IFC (of the world bank); Sogge bank has several investments; and Citibank is participating in a job training project with the Scouts of Haiti, also financed by the IAF. Social investment has become almost a factor of production for modern globalized businesses. Haitian firms that have strong social investment programs are better able to speak the new language of business and make better partners for foreign firms, almost all of whom have strong social investment programs. Companies with strong social investment programs also are better candidates for attracting foreign investment."

Guest Commentary: James Morrell: "The only sector in Haiti that is not under political control is the light-manufacturing sector. Even in light manufacturing, the tendency is to minimize Haitian governmental interference. The dynamics are illustrated by the investment of the Grupo M of Santiago, Dominican Republic in the new border free-trade zone. The group has invested in a free-trade zone on the Haitian side of the border in Ouanaminth, where it will be using cheap and efficient Haitian labor -- often considered the Caribbean's best -- to compete with Asian garment manufacturers. They will be able to bring in all the professional personnel from the DR every day since they are located two hundred meters from the border town of Dajabon. They will be able to furnish the electricity, water, and all infrastructure necessary for the zone to operate competitively. Since the manufacturing will be done by Haitian labor, they will be able to use part of Haiti's unused quota under the

see ***Q&A***, *page 4 ...*

Economic News

Brazil's Copom Leaves Selic Unchanged Due to Inflation

Brazil's Central Bank left the benchmark Selic interest rate unchanged at 18.5 percent Wednesday due to the inflation outlook for Latin America's largest economy. "Although there are signs that free-moving prices are converging in the desired direction, the balance of risk still does not permit a reduction in rates," the Bank's Monetary Policy Committee (Copom) said in a statement. Inflation as measured on the IPCA index stands at 7.98 percent for the 12 months ended April. The government's inflation target for 2002 is a maximum of 5.5 percent. Copom's decision was in line with analyst expectations. "It showed they were prudent and committed to maintaining their inflation targeting scheme," Miguel Palomino, senior Latin America economist at **Merrill Lynch**, told the *Advisor*. "We believe there will be opportunities to cut rates in a much more favorable environment in the near future." Palomino added that he didn't think the Copom decision would be detrimental to medium-term growth. The Central Bank last lowered interest rates 25 basis points in March. In other Brazil news, the Brazil Democratic Movement Party (PMDB) named Deputy Rita Camata as vice presidential running mate on the coalition ticket with Brazil Social Democratic Party (PSDB) presidential pre-candidate Jose Serrá. The naming of the four-term legislator from the southeastern state of Espirito Santo consolidates the ruling alliance's support for Serra, who is lagging in recent polls.

Argentine Government Says Blejer to Stay on as Central Bank Head

Dispelling rumors of the respected Central Bank president's imminent resignation, the Argentine government affirmed Wednesday that Mario Blejer would retain his post. Speculation regarding Blejer's departure emerged after local media reported Blejer told aides he would resign unless he obtained immunity from prosecution in advance of an overhaul the financial system. The news that Blejer, who spent 20 years with the International Monetary Fund (IMF) and is widely viewed as an advocate of orthodox monetary policies, will stay at the Central Bank renewed hope of an eventual agreement with the IMF. Economy Minister Roberto Lavagna wrapped up two days of meetings with the Fund in Washington yesterday, and aims to secure a deal for financial aid by the end of June. Blejer and Lavagna had clashed recently over the economy minister's strategy to end the so-called *corralito* restrictions on bank deposit withdrawals. Lavagna supports issuing bonds to replace savings, which could be used to buy property, automobiles, and stocks. Blejer's team, however, said the money would find its way into Dollars and further weaken the Peso, which has lost approximately 70 percent of its value since its devaluation in January. In other Argentina news, the country will join Brazil in challenging the U.S.' new farm law in the World Trade Organization. Last year, recession-wracked Argentina exported $26.5 billion worth of farm goods and needs the export Dollars to prop up the beleaguered Peso. U.S. President George W. Bush earlier this month signed a six-year law raising crop and dairy subsidies 67 percent, adding an estimated $6.4 billion annually to farm spending.

ECUADOR NEWS

Ecuadorean Minister Calls Differences with IMF over Fiscal Reform Bill "Insignificant"

By Janna Sherman

WASHINGTON (May 22) -- Ecuadorean Economy and Finance Minister Carlos Julio Emanuel said Wednesday a disagreement with the International Monetary Fund IMF over the distribution of 10 percent of revenue from an oil stabilization fund to development initiatives is negligible and should not derail talks for an IMF standby loan.

"We shouldn't be arguing about an element that is insignificant from the point of view of macroeconomics," Emanuel said Wednesday at meeting hosted by the Inter-American Dialogue in Washington. "Instead of concentrating on the 10 percent which they dislike, we should concentrate on the 90 percent Ecuador will obtain from the new oil revenue."

As Ecuador's fiscal reform bill currently stands, 70 percent of the oil revenue stabilization fund is allocated to pay back debt, 20 percent to oil stabilization and disaster relief, and 10 percent to health and education, the latter equivalent to only 0.19 percent of 2002 GDP, according to Emanuel. Approval of fiscal reform legislation is critical in securing a $280 million IMF standby loan.

Ecuadorean Economy and Finance Minister Carlos Julio Emanuel. Source: Ministry of Economy and Finance.

Following IMF review of the legislation, Ecuadorean President Gustavo Noboa could issue an executive decree to make any immediate changes in line with IMF stipulations. The Fund calls for 60 percent of oil revenues to pay off foreign debt, 20 percent to payment of social security debt, and 20 percent to the oil stabilization fund. While Ecuador had hoped for an agreement by April to help close its financial gap, if no agreement is reached by June, the government will explore possible spending cuts, including delayed payments to the Armed Forces, police, and the education sector, Emanuel said.

Although Ecuador could likely manage without the loan, the IMF's approval would open the doorways to disbursement from other multilaterals including the World Bank, Inter-American Development Bank, and possibly the Andean Development Corporation. Despite Emanuel's hopes for progress on IMF talks, some Wall Street analysts believe that progress has effectively stalled and that the scope of disagreements with the IMF goes far beyond the percentage allotted to debt service. The outstanding issues include Paris club arrears of $80 million; problems liquidating **Filanbanco** by the target date of June 10; failure to name a debt negotiator for the government's domestic debt workout program; and loopholes in the fiscal reform law.

During his visit to Washington, Emanuel is meeting with officials from the IMF, U.S. Treasury Department, World Bank, and Inter-American Development Bank.

... **Q&A**, *from page 2*

Caribbean Basin Initiative. With the zone just two hours away from Santiago and Puerto Plata, it has access to ports and airports connecting to Miami and Fort Lauderdale. It is only thirty minutes away from the port of Manzanillo. Since the zone is on the border, conceivably the Dominican army could intervene if there was threat to lives and property in the zone. In short, the border zone concept seeks to resolve the severe political problems stifling enterprise in Haiti by substituting more efficient Dominican Republic governance by propinquity. For the Dominican manufacturers not to lose their number-one position in pants manufacturing to Asian competitors, they are increasingly looking to cheap and efficient Haitian labor. The other sectors of the economy in Haiti confront formidable political problems stemming from corruption in the regime. Telecommunications is controlled by the state apparatus and the cronies system. Only if you are linked to the regime and share the profits with it can you enter this market. The best slots are already taken by politically-connected insiders, making this sector risky financially, as well as involving physical threat to the outside investor. Tourism has enormous potential. The current investment by the Haitian-American Tobacco company with the Hilton chain in a 200-room hotel room near the airport is a harbinger. However, it caters to businesspeople primarily, not tourists. Except for Haitian-Americans on family visits, general tourism is not viable today because of the terrible condition of the infrastructure and the unpredictable security situation. Light manufacturing, the only sector that does not demand major investment and yet offers some potential for growth and short-term reward, seems to be the only sector realistically open to the foreign investor."

Amy Coughenour is Adjunct Fellow at the Center for Strategic and International Studies. **Hans Tippenhauer** is with Group Croissance in Haiti.

Carlo Dade is Representative for Haiti at the Inter-American Foundation.

James Morrell is Director of the Haiti Democracy Project.

Company News

IntesaBci Denies Injecting Capital into Argentine Unit

Italian bank **IntesaBci SpA** on Wednesday denied reports it has injected more capital into its Argentine subsidiary and said it has no plans to do so. "Any decision on supporting the Argentinean subsidiary is subordinate to local authorities defining a restructuring plan of the Argentine banking and financial system," IntesaBci said in a statement. Yesterday's announcement came after a spokesperson for **Banco Sudameris Argentina**, a unit of IntesaBci's Paris-based **Banque Sudameris**, on Tuesday said Paris-based Sudameris would transfer $100 million to its local unit to meet liquidity demands. Last year, IntesaBci took 750 million Euros ($US 695.1 million) in provisions against its exposure in Argentina and Peru. Robert Lacoursiere, director of Latin American equity research at **Lehman Bros.**, said foreign banks operating in Argentina are reluctant to support their local units with further injections of liquidity until the government sorts out the current mess. "It's not very popular right now to be standing up saying you're going to send more of your shareholders' money to Argentina," Lacoursiere told the *Advisor*.

Latin America Advisor
is published daily by the
Inter-American Dialogue,
Copyright © 2002

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

Latin America Advisor is published daily by:
Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553