

HAITI:

TOWARDS A NEW NARRATIVE SYSTEMATIC COUNTRY DIAGNOSTIC

May 2015

Latin America and the Caribbean Region



Acknowledgement

We would like to thank the members of the Haiti Country Team from all Global Practices, CCSAs, IFC, and MIGA, as well as all the partners and stakeholders in Haiti who have contributed to the preparation of this document in a strong collaborative process. We are very grateful for the generosity exhibited in providing us with substantive inputs, knowledge and advice, particularly given the time limitations. The table below identifies the full list of team members who have contributed their time, effort and expertise, and their affiliations.

The team was led by Raju Jan Singh (Program Leader, LCC8C). The work was carried out jointly with the IFC (Sylvain Kakou) and MIGA (Petal Hackett) under the overall guidance of Mary Barton-Dock (Special Envoy for Haiti, LCC8C) and Jun Zhang (Senior Regional Manager for the Caribbean, IFC).

We wish to thank for their helpful suggestions and insights the SCD peer reviewers, Nancy Benjamin, Senior Country Economist (GMFDR), Oscar Calvo-Gonzalez, Program Leader (LCC2C), and Philip Keefer, Principal Advisor (IDB), as well as Rolf Parta for moderating our two-day Country Team retreat, and Augusto de la Torre (LCR Chief Economist) and Daniel Lederman (LCR Deputy Chief Economist) for their advice throughout the stages of the SCD process.

The SCD not only draws on existing literature from within and outside the Bank, but benefitted from the results of the recent household survey (ECVMAS 2012), as well as access to the MINUSTAH data on crime events across Haiti. In this regard, we wish to express our gratitude to the ONPES, IHSI, and MINUSTAH for making this possible. This report also draws heavily on the recently-completed Poverty Assessment and the ongoing Public Expenditure Review. In addition, a number of background papers have been written by the Country Team on specific themes. In this respect, the Team is appreciative to Prof. James Robinson (Harvard University) and Prof. Suresh Naidu (Columbia University) for discussions on the role of Haitian business elites in Haiti's development, and particularly to Lauren Young (Columbia University) for presenting preliminary results of their research at the World Bank. We wish also to thank Prof. Cristina Bodea and Masaaki Higashijima (both from Michigan State University) for their work on public spending and conflict.

The analytical work was validated by wide consultations. In this regard, we wish to thank Bernard Craan, Executive Director of the Private Sector Economic Forum for organizing a meeting with the members of his association; Delphine Colbeau, UNDP, who coordinated a workshop on violence with the heads of all UN agencies present in Port-au-Prince; Gilles Damais, IDB, for inviting us to present our work at one of its Wednesdays' of Reflection with members of the academia, civil society, private sector, and Haitian administration; Kesner Pharel to provide us with the opportunity to share our ideas on his TV show; and Mariam Yazdani from Vivario for interesting discussions on gang dynamics. We are also very grateful to Hans-Muller Thomas, *Kore Fanmi* National Coordinator, Germanite Phanord, *Kore Fanmi* Regional Coordinator, and Jean Raynold Saint Hilaire, Chief Social Worker for organizing our field trip to the communes of Boucan Carré and Thomassique, Central Plateau Department, as well as to the National Association of Haitian Professionals for having invited us at Harvard University for their Third Annual Conference with the Haitian diaspora.

Finally, we wish to thank Ricardo Augustin (Dean, School of Economics - Notre Dame University of Haiti), Raulin Cadet (Dean, School of Economics Dean - Quisqueya University), Fritz Deshommes (Deputy Dean of the State University of Haiti), Amos Durosier (Dean, Advanced Commercial and Economic Studies Institute), and Lionel Metellus (Dean, Quisqueya American University Institute) for setting up our competition of academic papers (“The Twin Goals Awards”), as well as all the members of our Selection Committee from Haiti: Henri Bazin (President, Haiti Conciliation and Arbitration Chamber), Charles Cadet (Ministry of Economy and Finance, Haiti), Kathleen Dorsainvil (American University), Fritz Jean (President, North East Chamber of Commerce, Haiti), Eddy Labossière (President, Association of Haitian Economists) and Guy Pierre (Autonomous University of Mexico), and from the World Bank: Dorsati Madani (Senior Economist, GMFDR), Gael Raballand (Senior Public Sector Specialist, GGODR), and Erik von Uexkull (Country Economist, GMFDR). A special thanks should be given to all our participants from Haiti, Canada and the United States, but particularly to our laureates: Jose Minerve Cayo (State University of Haiti), Jean Ribert Francois (State University of Haiti), Carl-Henri Prophète (*Centre d’Études Diplomatiques et Internationales*, CEDI), Alendy Saint-Fort (FDSE), Jean Carrington Saintima (IHECE), and Guimard Syvrain (CTPEA).

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Abbreviations and Acronyms

ACD	Armed Conflict Dataset
ACLED	Armed Conflict Location and Event Data
ASCUYDA	Automated System for Customs Data
BMPAD	<i>Bureau de Monétisation du Programme d'Aide au Développement</i> (Bureau of Monetization of Development Aid Programs)
BoP	Balance of Payments
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CPIA	Country Policy and Institutional Assessment
CSCCA	<i>Cour Supérieure des Comptes et du Contentieux Administratif</i> (Supreme Court of Accounts and Contentious Administrative Proceedings)
DHS	Demographic Health Survey
DINEPA	<i>Direction de l'Eau Potable et de l'Assainissement</i> (Water and Sanitation Authority)
DR	Dominican Republic
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
ECVMAS	<i>Enquête des Conditions de Vie des Ménages</i> (Household survey)
EDE PÈP	Social Assistance Program « Help the People »
EDH	<i>Electricité d'Haiti</i> (Public Electricity Company)
EIC	Economic Index of Complexity
EM-DAT	Emergency Events Database
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
HELP	Haiti Economic Lift Program
HHI	Herfindahl-Hirschman Index
HIPC	Highly Indebted Poor Country
HNP	Haiti National Police
HS	Harmonized Coding System
HTG	Haitian Gourde
IFC	International Finance Corporation
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IPPs	Independent Power Producers
LAC	Latin America and Caribbean

LIC	Low Income Countries
LPI	Logistics Performance Index
LSCI	Liner Shipping Connectivity Index
MDG	Millenium Development Goals
MDPP	<i>Ministère de la Paysannerie</i> (Ministry of Agriculture)
MDRI	Multilateral Debt Relief Initiative
MEF	Ministry of Economy and Finance
MENFP	<i>Ministère de l'Education Nationale</i> (Ministry of Education)
MINUSTAH	United Nations Stabilization Mission in Haiti
NGOs	Non-Governmental Organizations
ODA	Official Donor Assistance
OECD	Organization for Economic Cooperation and Development
ONPES	<i>Observation Nationale de la Pauvreté et l'Exclusion Sociale</i>
PARDH	<i>Plan d'Action pour le Relèvement et le Développement d'Haiti</i> (Action Plan for the Recovery and Development of Haiti)
PDNAs	Post-Disaster Needs Assessments
PIM	Public Investment Management
PIP	Public Investment Program
POVCALNET	Online Poverty Analysis Tool - World Bank
PPP	Public-Private Partnership
PSDH	<i>Plan Stratégique de Développement d'Haiti</i> (Strategic Plan for Development of Haiti)
REER	Real Effective Exchange Rate
PRSP	Poverty Reduction Strategy Paper
SCA	Supply Chain Analysis
SCD	Strategic Country Diagnostic
SCI	Statistical Capacity Indicator
TEU	Twenty Foot Equivalent Units
TFP	Total Factor Productivity
UN	United Nation
USD	US Dollars
WHO	World Health Organization

Map



Executive Summary

1. **Haiti has a vision to become an emerging economy by 2030.** Haiti's geography, resources, and history provide it with opportunities. The country has comparative advantages, including its proximity and access to major markets; a young labor force and a dynamic diaspora; and substantial geographic, historical, and cultural assets. Areas of economic opportunity for Haiti include agribusiness, light manufacturing and tourism. Building on these opportunities, the Government of Haiti issued in May 2012 a Strategic Development Plan (PSDH), aiming at building a new modern, diversified, resilient, competitive and inclusive economy, respectful of its environment and in which people's basic needs are met. This objective would require ambitious double digit growth rates, a significant break from the past, based on an expansion of agriculture, construction, manufacturing, and tourism.

2. **Overall, Haiti's growth performance in the last four decades has been disappointing, however, and poverty remains endemic.** A history of vested interests, political instability, and natural disasters has prevented the country from realizing its aspirations, trapping the country in a low equilibrium and keeping it as one of the poorest and least equal countries in the world. GDP per capita fell by 0.7 percent per year on average between 1971 and 2013. As a result, in 2012 59 percent of Haitians remained poor and 24 percent suffered from extreme poverty, indicating that almost 6.3 million Haitians could not meet their basic needs and 2.5 million could not even cover their food needs.

3. **This Systematic Country Diagnostic seeks to identify the most important constraints to and opportunities for inclusive and sustainable growth in Haiti.** To identify the key constraints to Haiti's growth and shared prosperity, an extensive review of the literature (from both within and outside the World Bank) was first carried out. Economic and sector work on Haiti produced in 1980s and the early 1990s had already identified most of the country's challenges and demonstrated that better functioning institutions, stronger human capital, and improvements in infrastructure were all needed for Haiti's economic growth and shared prosperity. Rather than listing these again, this report attempts to provide some prioritization and identify the most binding constraints, both quantitatively and through a series of consultations with stakeholders and the country team.

Country Profile: What Makes Haiti Haiti?

4. **A social contract is missing between the State and its citizens.** While overall income growth is a necessary condition for increasing shared prosperity, it is not sufficient. Growth that is inclusive of the poor requires additional mechanisms such as a pro-poor fiscal regime, as well as targeted social programs and expenditures, not only to redistribute resources towards the poor but also more importantly to ensure that the less well-off are an integral part of the process and that opportunities improve for all. Previous reports have noted, however, that Haiti has never had a tradition of providing services to the population or creating an environment conducive to sustainable growth. Haiti's tax system generates limited resources for the government and tends to be regressive. Furthermore, public spending in health, education, and social protection remains limited, constraining the government's ability to provide services and offer equal opportunities to its citizens. In the absence of government, basic services such as health and education are mainly provided by non-government actors, placing a substantial financial burden on households and delivering achievements closely linked with household income.

5. **The reliance on non-government actors has also weakened public investment management.** Haiti's public investment management exhibits a number of distinctive features and practices common to countries that are aid-dependent, including weak appraisal capacity and reliance on donors to design good projects, hampering the effective use of public resources. Sectoral strategies to guide the prioritization of projects are lacking. This leads to a Public Investment Program composed of projects that are neither fully assessed nor prioritized. Furthermore, there is no effective ex-ante control on disbursements based on the physical progress of projects against plans. While progress is being made in fiscal reporting by rolling out the use of a single treasury account, domestically-funded capital expenditures are not yet properly accounted for, tracked and reported, creating an environment conducive to a lack of transparency and accountability.

6. **The structure of the private sector shows signs of high degrees of concentration, hampering the entry of new actors and resulting in high prices for consumers.** From the beginning of the twentieth century, autocratic leaders in Haiti have traded political support from the elite for economic advantages to this elite. Though publicly available information on privately held businesses is limited, many of the same families who dominated the Haitian economy during the era of Duvalier in the 1970s and the 1980s seem to remain in control of large segments of the economy today, resulting in high concentration in a number of key industries, distorted competition, and non-transparent business practices in many instances. Several of the most important food products in the Haitian consumption basket are sold in concentrated markets, and a preliminary analysis indicates that the prices of these products are on average about 30 to 60 percent higher in Haiti than in other countries from the region. This translates into limited opportunities for a substantial expansion of the formal private sector across most sectors. Few of Haiti's established private firms have modern capital and governance structures with professional management, limiting their access to long-term financing.

7. **Political violence has occurred regularly throughout Haiti's history, leading to instability.** At Independence in 1804, Haiti was at the forefront of history, being the first nation to abolish slavery. Since then, however, with some exceptions such as the 30-year period of autocratic rule under Francois Duvalier (Papa Doc) and his son Jean-Claude Duvalier (Baby Doc) (1957-1986), Haiti has known a succession of short-lived governments. Lacking sufficiently long periods of stability, the country has struggled to develop the institutional mechanisms and policy fundamentals essential to economic development and the rule of law. Disenfranchised and without effective channels to voice needs and demands, citizens have taken to the streets in protest, sometimes violently. While violent airing of grievances in Haiti's early history generally took place in the rural areas, contemporary unrest tends to break out in the cities, reflecting the country's demographic evolution and urbanization over the years. Against this backdrop, the post-earthquake period has been comparatively stable.

8. **Furthermore, the Haitian population is one of the most exposed in the world to natural disasters—hurricanes, floods and earthquakes.** Between 1971 and 2013, Haiti's economy has been subjected to natural disasters almost every year with adverse effects on growth. The country has a higher number of disasters per km² than the average of the Caribbean countries. In 2008, tropical storms and hurricanes caused losses estimated at 15 percent of GDP. The earthquake on January 12, 2010 killed 220,000 people, displaced 1.5 million people, and destroyed the equivalent of 120 percent of GDP.

9. **In this unfavorable environment, migration has become a key avenue for Haitians seeking a better life.** Substantial internal migration is taking place, particularly from rural to urban areas, as people seek better economic opportunities and better services. In addition, for both political and

economic reasons, large numbers of Haitians have emigrated throughout the twentieth century building an important diaspora. A vast majority of Haitians who continue to emigrate now seem to do so because they cannot find work opportunities in Haiti. This large diaspora is a significant source of remittances: remittances received by Haiti are the highest among LAC countries in terms of GDP and the fourth highest in the world in terms of export earnings.

Trends and Profile in Poverty and Shared Prosperity

10. **While remaining high, poverty has declined in Haiti.** Recent findings indicate that extreme poverty has declined in Haiti from 31 percent of the population in 2000 to 24 percent in 2012. Progress was mainly concentrated in urban areas, however. This trend is confirmed by both monetary and non-monetary poverty indicators, with the biggest non-monetary progress recorded in education. All school-age children go to school in about 90 percent of the households compared to about 80 percent in 2001. Immunization rates are also up.

11. **Recent evidence suggests that this decline in extreme poverty was driven by labor income, private transfers, and aid.** Non-agricultural labor income increased by about 3½ percent on average per year, especially among men, with expansions in construction, telecommunication and transport, all concentrated in urban areas. Formal employment remains small (13 percent of the labor force) with agriculture and urban informal sectors still providing most of the employment with about 40 percent and 47 percent of the labor market, respectively. Workers' transfers from abroad have represented more than a fifth of Haiti's GDP in recent years, and the percentage of households receiving private transfers (domestic transfers or remittances from abroad) in Haiti increased from 42 percent to 69 percent between 2000 and 2012. Furthermore, the 2010 earthquake resulted in unprecedented aid flows in the form of money, goods and services. These external flows have also contributed in reducing poverty over the period, especially in the metropolitan area which attracted most of the assistance (in large part because Port-au-Prince was hit hardest by the earthquake).

Trends and Drivers of Growth

12. **Overall, Haiti's growth performance in the last four decades has been disappointing.** From 1971 to 2013, GDP growth averaged 1.2 percent a year, much lower than the average of the LAC region (3.5 percent) and the average of economies at the same level of development (3.3 percent). The few periods of positive growth were short-lived, often followed by a contraction in economic activity. Furthermore, in light of the country's important demographic growth, the level of GDP per capita even fell by 0.7 percent per year on average between 1971 and 2013. Whereas Low Income Countries (LICs) have on average seen their GDP per capita taking off since the mid-1990s, Haiti was left behind.

13. **Political instability and natural disasters have taken a toll on growth.** Despite investment and increases in the labor force, Haiti's growth performance has remained weak, reflecting the natural disasters and political instability the country has experienced. The departure of Jean-Claude Duvalier initiated a period of intense political instability in Haiti. Between 1986 and 2014 the country had 18 changes of president and important changes in regime. Such political instability has often been accompanied by violence and a continuous weakening of state institutions, the rule of law, and the investment climate, undermining investor confidence. Uncertainty as to whether investors can obtain returns from their investments represents one of the main constraints to growth in Haiti. Political instability has also resulted in a trade embargo in the first half of the 1990s that crippled private sector activities.

14. **Haiti's business environment is hampered by institutional weaknesses.** Although governance indicators have improved, Haiti still ranks lowest in the region in control of corruption or government effectiveness. Efficient mechanisms for international arbitration and mediation are lacking. Guarantees for the protection of investors' private property rights are insufficient. Legal and regulatory frameworks are fragmented and dysfunctional. In particular, a real property cadaster and land registry system is needed. Furthermore, access to finance is challenging for both, households and medium- and small-sized enterprises.

15. **Haiti's infrastructure also falls short.** Island economies are extremely dependent on the quality, frequency and cost of the means of transport that link them to markets which represent both outlets for their products and supply sources for the needed imported goods. The efficiency and effectiveness of transport, whether by road, by sea, or by air, therefore strongly affects their competitiveness. The quality of transport and logistics services in Haiti is low, however, with large parts of the territory still poorly connected. Recent evidence indicates, for instance, that only 40 percent of people living in rural areas have access to all-weather roads. Haiti is also less integrated into the global shipping line network than many developing countries, and the costs of loading and unloading a standard container at Port-au-Prince are by far the highest of the Caribbean ports.

16. **In particular, the provision of electricity is problematic.** The supply of electricity covers only a small proportion of the country, with rural areas being particularly neglected. Only 35 percent of Haitians have access to electricity (11 percent in rural areas). The provision of electricity in Haiti is also unstable and there are frequent power cuts and surges, which can result in serious damage to industrial equipment. Business owners cite the lack of reliable electricity supply as the most binding constraint to private sector development. Despite this poor service, the cost of electricity is among the highest in the region. Furthermore, per capita consumption of electricity in Haiti is substantially lower than in other Caribbean countries, for example, it is only two percent of the level observed in the Dominican Republic.

17. **Surveys also point to the lack of qualified labor.** One major constraint faced by enterprises in Haiti is the difficulty to find technicians that are well qualified, particularly in new technologies and trained managers for middle management. This forces the country to position itself as a low cost producer for goods and services requiring limited skills. The level of education among the adult population remains low: 45.7 percent of the adult population (60.5 percent of households' heads) have never attended school or have not completed primary education. Not mastering basic skills such as literacy and numeracy when starting work represents a major impediment for their insertion in the labor market and, more importantly, for their ability to absorb post-school training either on or off the job, and to adapt to changing job requirements.

18. **The constraints discussed above seem to be particularly present in the agriculture and the non-agriculture informal sector, where most Haitians are likely to continue working for the foreseeable future.** The formal manufacturing and service sectors have the potential to be an important source of employment, but because they hire such a small share of the labor force, even with very high growth rates, they will not be able to absorb more than a fraction of the new entrants. The agriculture sector in Haiti has been declining for many years, the result of neglected rural infrastructure, weak research and extension, poorly defined land tenure, limited access to credit, and under-investment in human capital. With regard to the informal non-agriculture sector, empirical evidence suggests that a little investment in years of education or remedial training for skills acquisition among people who have been out of the school system for a long time, as well as improved access to inputs, such as electricity and water, are associated with substantial increases in income.

Sustainability

19. **Urbanization is increasing Haiti's vulnerability to natural disasters.** As a safety valve, migration probably contains poverty and provides relief to many families through private transfers. However, moving to urban areas is putting pressure on the environment, and leading to the settlement of large populations in vulnerable places. Urban areas have experienced an explosive expansion in the past two decades with a near total absence of urban planning and growth regulation. This unplanned urban growth has created vulnerabilities for both the physical environment and those who live in it. Furthermore, settlers tend to occupy areas that are not only prone to risk from disasters, but are also sometimes nature's protection from risks such as coastal ecosystems. Slow degradation of the environment in such areas in turn increases the country's vulnerability as a whole to natural disasters.

20. **Rapid urbanization could also be feeding greater violence.** Youth violence is often expressed as a reaction to perceived social and economic exclusion – grievances that can easily be mobilized by political interests. Rapid migration to urban neighborhoods, associated with poverty, unemployment, political and social marginalization, limited access to services, and weak governance, could fuel the formation of gangs that engage at-risk youth and draw them in. Evidence suggests that migration is associated with greater violence, as social ties erode. New migrants are likely to have less access to local social networks which provide economic and social support. These grievances have also contributed to intergenerational conflict, undermining social cohesion and hindering the capacity of many communities for productive collective action.

21. **Macroeconomic stability has been maintained in the aftermath of the earthquake.** Haiti's macroeconomic environment has significantly improved over the past decade. Inflation was brought down to single digits and international reserves built up to adequate levels. Between 2009 and 2011, Haiti's stock of external debt drastically shrank following debt relief. In addition to benefiting from the HIPC and the MDRI initiatives, Haiti received additional debt cancellation in the aftermath of the 2010 earthquake. The real effective exchange rate remained aligned with fundamentals.

22. **Budget constraints are becoming tighter, however, and could put at risk some of the recent progress achieved in human development.** The country has taken the opportunity of its greater borrowing space to contract loans on concessional terms with Venezuela through the Petrocaribe agreement. While the availability of this concessional financing has allowed higher levels of public investments and spending on social programs, it has also allowed a widening of Haiti's twin fiscal and current account deficits, increasing the country's level of indebtedness, although keeping it at a sustainable level. The decline in aid and in international oil prices (which affect the availability of Haiti's concessional resources) is reducing the country's fiscal space. These tighter constraints could put at risk some of the recent progress achieved in poverty reduction and human development, making the country's balancing act between developmental needs and fiscal sustainability even more challenging.

Priorities

23. **A quantitative approach would suggest a policy mix including higher investment in human and physical capital, which would also support greater political stability.** Faster economic growth alone will not be enough to bring significant improvements in the living standards of most Haitians. Without any change in the income distribution, reducing extreme poverty to 3 percent by 2030 would require a two- to three-fold acceleration in Haiti's growth rate with respect to its best performing years: a very ambitious outcome. Policies to ensure more inclusiveness are thus needed to allow the incomes of the

bottom 40 percent to grow faster than the average. In this regard, estimations suggest that the bottom 40 percent of the income distribution would see their incomes grow faster than the average if Haiti were to invest in health, education, and infrastructure, as well as achieve greater political stability. In turn, simulations for Haiti indicate that political stability could be increased – or more broadly conflict risk reduced – through higher welfare spending (education, health, and social protection).

24. **Qualitative research based on consultations brought additional important insights.** Broad consultations were carried out with stakeholders and the country team. In this regard, the general story line was validated, but in addition the consultations highlighted that:

- Maintaining the stability of the macroeconomic environment called for immediate attention. The decline in donor assistance – returning to pre-earthquake levels – and lower availability of concessional financing following the drop in international oil prices raised concerns about the sustainability of many social programs and of the recent progress in improving access to some basic services. In this regard, greater mobilization of own fiscal revenue and improved efficiency in public expenditure management were seen as critical.
- Turning to more medium-term challenges, progress needs to be made simultaneously on several fronts. For Haiti to break from its past and achieve meaningful progress towards poverty reduction, a piecemeal approach to reform focusing on one sector only would not work.
- State capacity needs to be strengthened. Poor governance and the need to strengthen the State were generally viewed as the most important constraints. The lengthiness of the process should not deter immediate action, but call for more realistic expectations. In this regard, many stakeholders perceived that donors bypassing the Haitian government in favor of non-State actors, while providing perhaps a quick and short-term response, continued to undermine the public sector and could not bring a long-term solution to the lack of government capacity.
- Restoring the social contract was flagged as particularly important. Most modern democracies use fiscal revenue to finance the State, regulate private activity, and redistribute wealth. In return for these revenues, the State is expected to provide key services and a level playing field for the private sector. In Haiti, both sides of this contract are very weak – few people or businesses pay taxes, and the State struggles to provide services and appropriate regulation.
- Barriers to market entry need to be removed, competition enhanced, and small private sector actors supported. Representatives of the established private sector recognized the lack of competition existing in Haiti's economy, a reflection in their view of the country's unfavorable business environment. In this regard, civil society expressed concern about the higher prices and the possible lack of innovation that limited competition implied.
- There was not only a need for more jobs, but also for better jobs. It was pointed out that the private sector in Haiti was not only limited to a couple of large enterprises. Most people in Haiti were occupied in a less visible private sector: in the agriculture and informal sectors, two sectors that had been neglected so far.
- The importance of reducing vulnerabilities was also stressed. In the face of recurring shocks and vulnerability, better risk management strategies and better targeting in social protection should be a priority to protect households and individual livelihoods. Disaster risk management should be strengthened. Risks need to be identified and understood better, as well as reduced in the

future through greater awareness when investing. Financial protection needs to be designed in case risks materialize.

- Finally, the consultations made it clear that there was limited evidence to inform planning and targeting of programs and policies. Discussions with stakeholders, as well as discussions with the country team confirmed that it is difficult to carry out effective development policies without appropriate statistics or analytics.

25. **Policy packages – or buckets – rather than independent activities in sectors were thus recommended.** The SCD points out five broad themes around which activities need to be organized in order to ignite a process whereby Haiti could set itself on a new development path: (i) balancing macroeconomic stability with developmental needs; (ii) improving statistics and analytics; (iii) creating greater economic opportunities and better jobs, including through infrastructure and human capital; (iv) (re)building the social contract; and (v) reducing vulnerabilities and building resilience. Progress on all these themes is needed simultaneously. In light of the tighter budget constraints facing the government, maintaining the stability of the macroeconomic environment, and improving knowledge and statistics to increase the effectiveness of public policy (including more transparent fiscal reporting) call more particularly for immediate attention.

CHAPTER 1 : COUNTRY PROFILE

A. HAITI HAS OPPORTUNITIES AND A VISION

1.1 **Haiti's geography, resources, and history provide it with opportunities.** Haiti occupies the western, smaller portion of the island of Hispaniola, which it shares with the Dominican Republic. Both by area and population, Haiti is the third largest Caribbean nation (after Cuba and the Dominican Republic), with 27,750 square kilometers and an estimated population of 10.4 million people. The country has comparative advantages, including its proximity and access to major markets; a young labor force and a dynamic diaspora; and substantial geographic, historical, and cultural assets.¹ There is a pent-up demand and many untapped markets that the private sector can explore. Areas of economic opportunity for Haiti include in agribusiness, light manufacturing and tourism. Furthermore, Haiti possesses mineral potential. According to the World Economic Forum, Haiti's economic fundamentals could allow the country to become a vibrant economy and grow by 6-8 percent a year if adequate policies were in place.²

1.2 **Building on these opportunities, the country has a vision to become an emerging economy by 2030.** In May 2012, the Government of Haiti issued a Strategic Development Plan (PSDH), building on the Action Plan for the Recovery and Development of Haiti (PARDH) prepared following the 2010 earthquake. The PSDH details the PARDH's vision and strategic plan for the country's long-term development, and four major areas of work for the recovery and development of Haiti: territorial reform, economic reform, social reform and institutional reform. The Plan aims at building a new modern, diversified, resilient, competitive and inclusive economy, respectful of its environment and in which people's basic needs are met. This objective would require ambitious double digit growth rates, a significant break from the past, based on an expansion of agriculture, construction, manufacturing, and tourism.

1.3 **Overall, Haiti's growth performance in the last four decades has been disappointing, however, and poverty remains endemic.** A history of vested interests, political instability, and natural disasters has prevented the country from realizing up to now its aspirations, trapping it in a low equilibrium and keeping it as one of the poorest and most unequal countries in the world. GDP per capita fell by 0.7 percent per year on average between 1971 and 2013. As a result, the overall poverty headcount amounts to about 59 percent and extreme poverty to 24 percent in 2012, indicating that almost 6.3 million Haitians cannot meet their basic needs and 2.5 million cannot even cover their food needs.

B. ... HAMPERED UP TO NOW BY A BROKEN SOCIAL CONTRACT

1.4 **While overall income growth is a necessary condition for increasing shared prosperity, it is not sufficient.** Growth is not a cure-all, but it is essential to allow Haitians to escape poverty. Unfortunately, Haiti has yet to achieve a sufficiently strong growth momentum. However, even the modest resources the country has generated in the past have not been distributed in an inclusive manner. Growth that is inclusive of the poor requires additional mechanisms such as a pro-poor fiscal regime, as well as

¹ Haiti has traditionally enjoyed substantial preferential market access to the United States and Canada, but has not succeeded in fully exploiting this advantage. For example, the country has not been able to fill its quota for exports to the United States under the Hemispheric Opportunities through Partnership Encouragement II (HOPE II) initiative or under the Haiti Economic Lift Program (HELP) Act. These laws allow Haiti to assemble textiles, whatever the origin of the imported fabrics, and to export them to the United States duty free and tax free but are due to end in 2020, unless renewed.

² World Economic Forum (2011)

targeted social programs and expenditures, not only to redistribute resources towards the poor but also more importantly to ensure that the less well-off are an integral part of the process and that opportunities improve for all.³

1.5 **A social contract is missing between the State and its citizens.** Haiti is not very inclusive. The Bank's 1998 Poverty Report noted that "Haiti has never had a tradition of governance aimed at providing services to the population or creating an environment conducive to sustainable growth." A number of Haitian and international observers broadly agree that the Haitian State remains ineffective and delivers little to its population. To a large extent, this results from the particular winner-takes-it-all nature of Haitian politics and economics which creates little incentive for broad-based coalition building. "Haitian institutions have never provided justice, education or healthcare to the majority of the population" (Lockhart and Forman, 2013). Instead, a small economic elite has supported a state that makes only negligible investments in human resources and basic infrastructure (World Bank, 1998). "Governance and state capacity to effectively formulate and implement sound policies, and to deliver core public services to the population, are weak. The state is present largely in the major urban centers and has been unable to provide basic services or infrastructure to large portions of the population" (Buss, 2013).

1.6 **Haiti's tax system generates limited resources for the government and tends to be regressive** (Figure 1.1). Despite recent improvements in tax collection, Haiti collects fewer domestic revenues in terms of GDP than comparable countries in the Latin America and Caribbean region (LAC). Furthermore, Haiti's tax revenues rely heavily on indirect taxes which affect consumers independently of their income level. The ratio of direct to indirect taxes stood at about 30 percent in 2011, a level inferior to that of most countries in LAC and to the average of Low-Income Countries (LIC): a fact largely explained by the sizable share of Haiti's revenues coming from international trade. Tax systems relying relatively more on direct taxes tend to be more progressive because in such systems the burden of taxes weighs differently on economic agents of varying income levels.

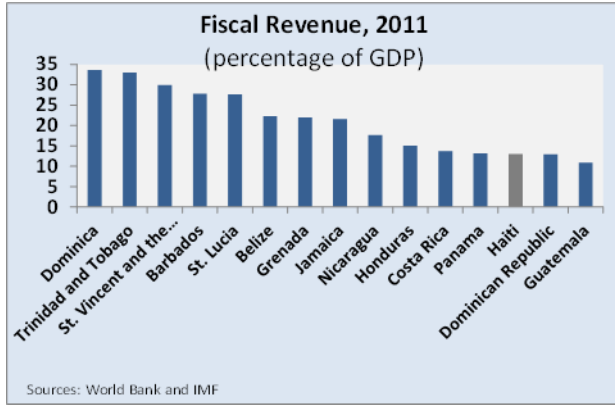
1.7 **Furthermore, social spending remains limited and the delivery of basic services strongly inequitable.** Public spending in health, education, and social protection amounts to 5 percent of GDP, below comparator countries, limiting the government's ability to offer equal opportunities to its citizens. At the same time, many large spending items such as fuel subsidies clearly favor the rich. In this regard, the rise in fuel prices in October 2014, as well as the recent decline in international oil prices, could be conducive to more inclusiveness in public spending. In the absence of government, basic services such as health and education are mainly provided by non-government actors. Eighty to ninety percent of primary school students attend non-public schools, placing a substantial financial burden on households and delivering achievements closely linked with household income. Outcomes are equally unfavorable to the poor in the health sector: in 2012, infant mortality was 62 per 1,000 live births for the richest quintile compared to 104 for the poorest quintile.⁴

³ For a discussion on the policies needed to greater inclusion, see for instance Narayan et al. (2013).

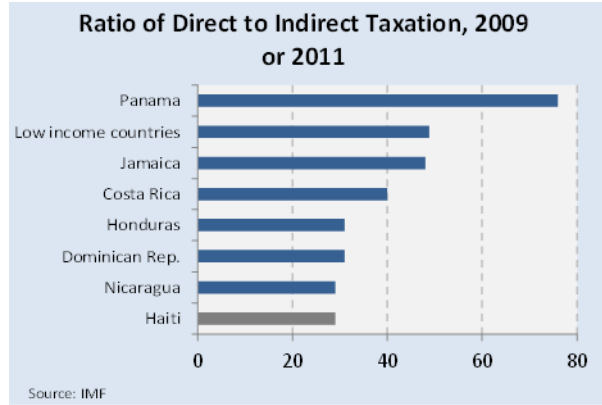
⁴ DHS 2012-13.

Figure 1.1 : Inclusiveness

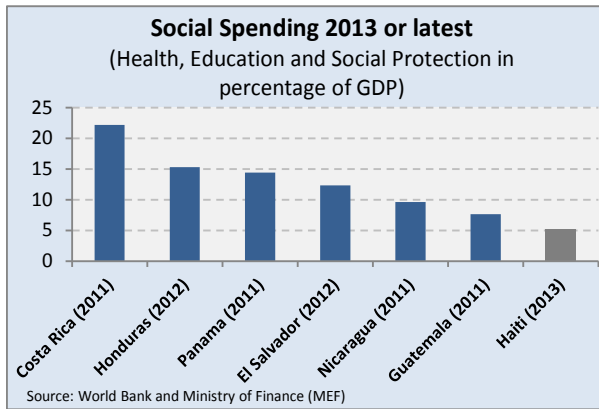
Fiscal revenues are low ...



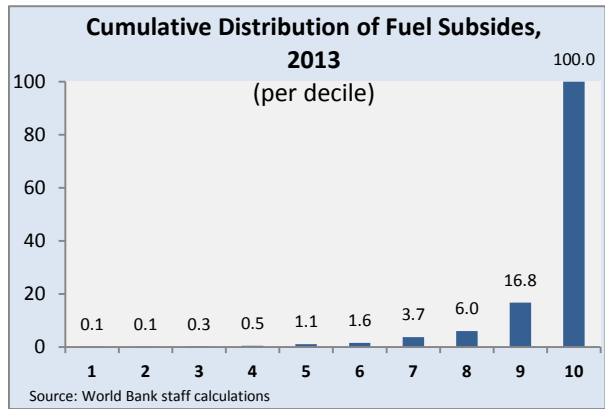
...and taxation could be made more progressive



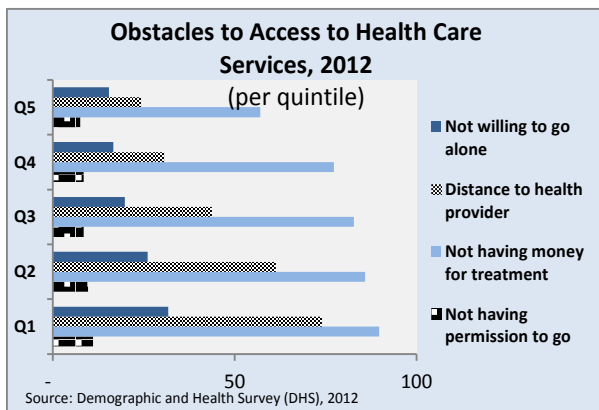
Social spending remains limited...



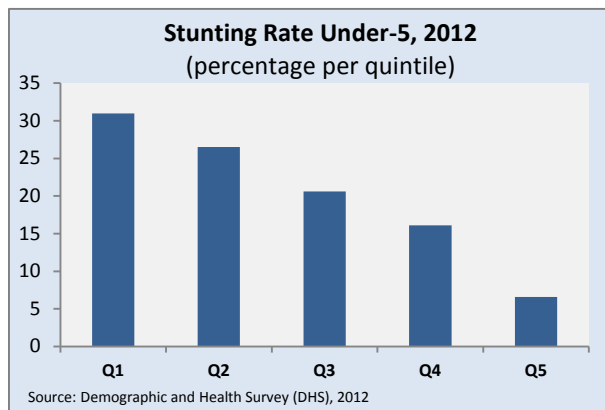
...and some major expenses favor the richer households



Money remains the main obstacle to access to many basic services such as health care...



...leading income groups to experience differences in health and other human development indicators



1.8 **In the absence of public services, non-State service providers have stepped in.** In response to limited government services, foreign assistance – as well as a growing number of international NGOs since the 1950s – has provided a broad range of dispersed public services. In many remote rural areas, the State has extremely limited delivery capacity, and NGOs provide services to the population. Their services are also important among the urban poor. In health, about 50 percent of total health expenditure is provided by NGOs, which for the most part deliver primary health care services and NGOs or private, for-profit institutions run over 80 percent of all primary and secondary schools. In water and sanitation, while the National Water and Sanitation Directorate (DINEPA) has greatly improved its presence in remote rural areas by creating, training and supporting local water committees, interventions are often funded through NGOs. These non-state actors are largely disconnected from the state system and fragmented among themselves, leading to highly uneven service provision.

1.9 **The reliance on non-State actors, particularly donors, has also weakened public investment management.** Haiti's public investment management exhibits a number of distinctive features and practices common to countries that are aid-dependent, including weak appraisal capacity and reliance on donors to design good projects. These hamper the effectiveness of public investments (Box 1.1). While the government's Strategic Development Plan (PSDH) provides broad guidance on government priorities, sectoral strategies to guide the prioritization of projects are lacking. This leads to a Public Investment Program (PIP) composed of projects that are neither fully assessed nor prioritized. Furthermore, there is no effective ex-ante control on disbursements based on projects' physical progress against plans. More importantly, although progress in fiscal reporting is being made by rolling out the use of a single treasury account, domestically-funded capital expenditures are not yet properly accounted for, tracked and reported, creating an environment conducive to a lack of transparency and accountability, as well as to mismanagement of scarce public resources. Finally, even though the existing legal framework is acceptable for the management of public investments, its requirements are rarely respected, with numerous processes and procedures that, when not redundant, are excessively elaborate.

Box 1.1 : Common Features of PIM in Donor-Dependent Countries

PIM systems in donor-dependent settings tend to exhibit the following distinctive features:

Investment guidance, project development and preliminary screening: government strategy documents, such as a Poverty Reduction Strategy Paper (PRSP), tend to be directed towards the donors, rather than covering both external and domestic investment in an integrated and coherent manner. They are at a level of generality that limits the extent to which they can provide a basis for preliminary screening of projects, and are often not supported by effective sector strategies.

Formal project appraisal: there is a reliance on donors to conduct appraisal, with a serious lack of appraisal capacity within government; and a lack of guidance on defining the project preparation process and on how to appraise domestically-financed projects and PPPs. Donor capacity-building on appraisal tends to be agency-specific, with little or no domestic training capacity.

Independent review of appraisal: reflecting reliance on donors, there is a lack of capacity for independent review, either of donor projects or domestically-financed projects.

Project selection and budgeting: the budget is divided into a recurrent and a development budget, with weak integration between the two and substantial off-budget aid. The use of PIPs remains quite common, but these can be poorly connected to fiscal policy and the budget. In practice, a PIP tends to be more a coordination tool than a tool to manage the project portfolio strategically or to help enforce review of individual project proposals before they can be considered for budget funding. Agreement by a donor to finance a project is tantamount to the project being included in the budget – subject to basic screening for consistency with a PRSP (which is not difficult given their generality) and any required counterpart financing being affordable.

Project implementation: unpredictability of donor funding (especially budget support) interrupts project implementation due to lack of alternative financing. Weak project management capacity induces donors to set up multiple Project Implementation Units (PIUs) within implementing agencies that initially help to speed implementation and compliance with fiduciary standards, but which cut across and negatively impact on in-line capacities and accounting and reporting systems. Procurement is undertaken by PIUs or donors to donor standards rather than national procurement standards.

Project adjustment: reliance on donors to trigger review of any projects that are off-track. No similar mechanism for domestically-financed projects.

Facility operation: formal hand-over procedures on completion of donor projects, but inadequate asset registration systems; and inadequate funding for operations and maintenance, in part due to weak integration of recurrent costs of donor projects in fiscal policy and budgets.

Basic completion review and evaluation: reliance on donors to undertake reviews and evaluations of their projects. Otherwise, little or no systematic basic post-project review, let alone evaluation, and little systematic use made of findings from donor evaluations to improve future project design and implementation.

Source: Rajaram et al., (2010)

C. ... VESTED INTERESTS

1.10 **Haiti is reported to have been one of the richest colonies.** At the end of the eighteenth century, on the eve of its independence, Saint-Domingue – as the territory was then known – was considered the world’s richest and most productive colony. It was also reputed to be the most violent, with the majority of its population working as slaves in plantations (Acemoglu and Robinson, 2012; Dubois, 2013). Brutal punishments were common, and slaves died at staggering rates. In 1804, Haiti emerged from 13 years of

revolution as the second nation in the Western Hemisphere to attain independence from a European colonial power (after the United States).

1.11 Independence did not lead, however, to the development of inclusive institutions. The country's successful revolt left the new republic isolated on the international stage, as evidenced by the early lack of diplomatic recognition from Europe and the United States. This had a negative impact on willingness of foreigners to invest in Haiti. It is also argued that there were insufficient checks and balances on the power of post-independence leaders who set themselves up as a new elite, exploiting Haiti's people through the very means as the French had earlier. Furthermore, to gain recognition, Haiti had to agree to compensate France for the property losses faced by colonial planters during Haiti's revolution (1791-1804). Payments began in 1825 and only stopped 122 years later, in 1947, draining the economy of much needed capital.

1.12 An elite, often of foreign descent, build important economic interests. Beginning in the mid-nineteenth century, Haiti's economy had grown increasingly dependent on imports, and wealth was accumulating in the families of importers. With looser restrictions on foreign merchants in the mid-1840s, migrants primarily from Britain, France and Germany began to establish themselves on the island to meet the demand for European goods. The migrants typically stayed in Haiti as resident aliens to maintain the protection of foreign governments, but often married into elite Haitian society to circumvent restrictions on foreign ownership of Haitian property (Plummer, 1988). These families of mixed Haitian and European descent were followed beginning in the 1890s by Syrian and Lebanese immigrants. By the early turn of last century, these immigrants owned the major trading houses, as well as transportation and communication systems (Plummer, 1988).

1.13 From the beginning of the twentieth century, autocratic leaders in Haiti have traded political support from the elite for economic advantages to this elite. During the 1910s, presidents began floating domestic loans that were largely subscribed by the foreign commercial community (Rotberg, 1971). Plummer (1988) writes that "merchant-bankers had to cooperate with official requests for funds if they wished to continue conducting business unhindered, but they were frequently rewarded for their pains by favors at the customhouses." François Duvalier ('Papa Doc') continued this tradition of cutting deals with the economic elite. In 1958, for instance, following a first abortive coup attempt, Duvalier demanded "displays of loyalty -- especially from wealthy businessmen, who made the first of many special contributions to the defense of the realm" (Rotberg, 1971). The practice was continued in the early 1960s, when Haiti was simultaneously hit by an economic slump and cut off from U.S. aid. "Foreign-owned companies and men of wealth with important stakes in the country shared the burden: they were encouraged to contribute to the stability of the regime by subscribing to national bonds, government lotteries" (Rotberg, 1971).

1.14 In return, statutory monopolies and exclusivities were usually granted for cooperative economic elites. A long list of industries became monopolies by presidential decree during the 1950s and 1960s: "mineral and petroleum exploration and exploitation, the construction and operation of television stations, the planting and processing of sesame, the processing of guano, the manufacture of chocolate, a fertilizer industry, the development of casinos and hotels, the construction of a sugar factory, the improvement of the telephone system..." (Rotberg, 1971). By 1985, some 19 families held almost exclusive rights to import many of the most commonly consumed products in Haiti, as detailed in Table 1.1. Another twenty to thirty families held import licenses for another 92 items (Fass, 1990). Though publicly available information on privately held businesses is limited and import quotas has been

dismantled, many of the same elite families who dominated the Haitian economy during the era of Duvalier in the 1970s remain in control of large segments of the economy today.

Table 1.1 : Import Quotas for 19 Major Families, 1984-1985																			Total	Total	
																			Share	Importers	
																			(%)	(%)	
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	(%)	
Household utensils, metal	7	92			48															99	2
Household utensils, plastic	2	2	15	26	49															94	5
Shoes						70														70	1
Slippers	92																			92	1
Nails						65														65	1
V-8 juice	29								71											100	2
Vegetable and fruit juices	48							48												96	2
Toothpaste	3									62										65	2
Liquid disinfectant	11		14					14		39										78	4
Wrapping paper, cardboard	66							16												82	2
Paper and plastic bags	94																			94	1
Irons for pressing clothes		43		28			28													99	3
Paint											44	22	22							88	3
Hand soap	10		18						45											73	3
Candies	65							32												97	2
Textiles													31	12	37					80	3
Milk																	63	28		91	2
Spaghetti, macaroni, etc.	44																		56	100	2

Source: Reveco (1984)

1.15 **Against this backdrop, the structure of the private sector shows signs of high degrees of concentration, hampering the entry of new actors.** The established private sector is dominated by a number of families, resulting in high concentration in a number of key industries, distorted competition, and non-transparent business practices in many instances. In practice, this translates into limited opportunities for a substantial expansion of the formal private sector across most sectors. Few of Haiti's established private firms have modern capital and governance structures with professional management, limiting their access to long-term financing.

1.16 **The open institutions needed to create a level playing field for economic actors and underpin a rule of law based on impersonal exchanges have not emerged.** To prosper, economies need institutional arrangements to resolve disputes among firms, citizens, and governments, to clarify ambiguities in laws and regulations, and to enforce compliance (World Bank, 1997). A State needs to use its coercive power to enforce property rights at low cost without abusing it and exploiting its citizens in

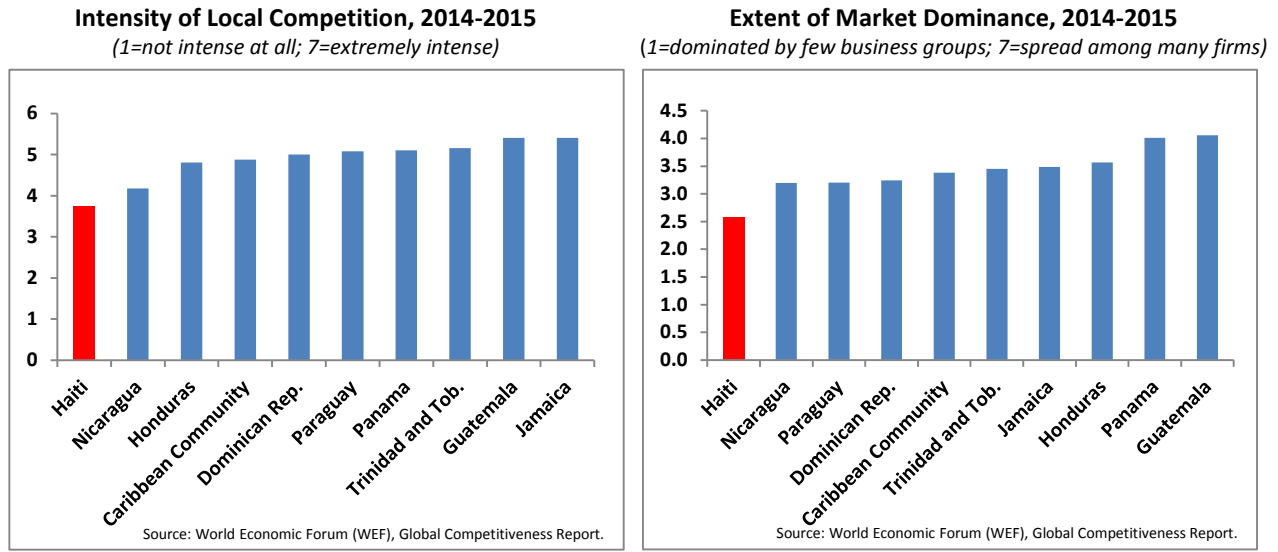
order to develop mechanisms to enforce effectively impersonal agreements (North, 2010).⁵ In such agreements, an economic operator's decision to transact is independent of his partner's personal past history. It is made without knowledge of that partner's past conduct, or the expectation of future transaction with him or her, or the ability to report misconduct to future trading partners (Greif, 2006). In particular, mechanisms of arbitration are required to settle possible disputes between traders and ensure contract enforcement. The inability of the Haitian State to manage its power appropriately has not allowed the emergence of these mechanisms and the established private sector had little incentive to create a level playing field that would have primarily favored new entrants.

1.17 In the absence of effective contract enforcement, economic operators tend to remain within their family or social networks. Without effective legal systems making low cost enforcement of contracts possible, operators have to rely on personal knowledge, reputation, or the possibility of some form of retaliation in selecting their business partners. Family, ethnic or social networks have been shown to be able to impose effective informal sanctions and enforce contracts in weak institutional environments, and thereby foster economic transactions that would otherwise not take place (Greif, 1989, 1993; and Rauch, 2001). Empirically, the presence of migrant networks, for instance, has been shown to compensate for the lack of good institutions and is associated with greater international trade (Ehrhart et al., 2014). While these relationships are useful, they are not conducive to greater inclusion. This social organization tends to undermine collective action by providing alternative, non-collective avenues for ensuring individual and family survival.

1.18 As a result, competition is perceived as low in Haiti. According to the Global Competitiveness Report of 2014-2015, Haiti ranks low in terms of competition: Haiti ranks 140th out of 148 countries in terms of intensity of local competition and ranks 140th in terms of extent of market dominance (a high rank indicates few firms dominate key markets) (Figure 1.2). This suggests that in Haiti, prices, availability and quality of goods and services are perceived to be determined by a small number of firms rather than by market mechanisms and that these incumbent firms appear to face little competitive pressure from new entrants or smaller domestic firms. This situation could be the result of high legal or behavioral entry barriers in the market that prevent new competitors from participating in key markets. These market structures could facilitate tacit agreements among families/groups to allocate markets among themselves, which may harm productivity and incentive to innovate.

⁵ For an example of how such institutions could develop, see Greif (1989, 1993, 2006). The study compares the evolving structure of political and economic institutions of Genoese traders, which ultimately provided the essential institutions for impersonal exchange, and the practice of the Mahgribi (Jewish merchants but in a Muslim culture), who fail to make the necessary institutional adjustments and lose out in the competitive trade of the Mediterranean.

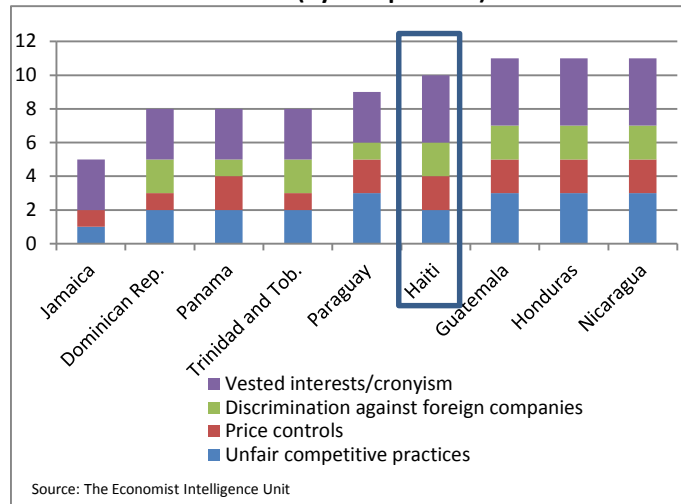
Figure 1.2 : Competition Intensity and Extent of Market Dominance, 2014-2015



1.19 Weak competition contributes to a high degree of operational business risk.

According to the Economist Intelligence Unit’s operational risk model (2013), investors in Haiti perceive that the risks associated with discriminatory policies favoring incumbents and unfair business practices are higher than in other countries in the Caribbean region and only comparable to those in Guatemala, Honduras, and Nicaragua (Figure 1.3). The sources of these risks are mainly related to: a) price control and the control of other market variables that both limit the benefits that firms could obtain by competing effectively and harm the incentives to invest; and b) vested interest and discrimination against foreign firms that appear to play the most important role in generating distortions of the level-playing field, hinder innovation, and preclude more efficient firms from competitively gaining market shares.

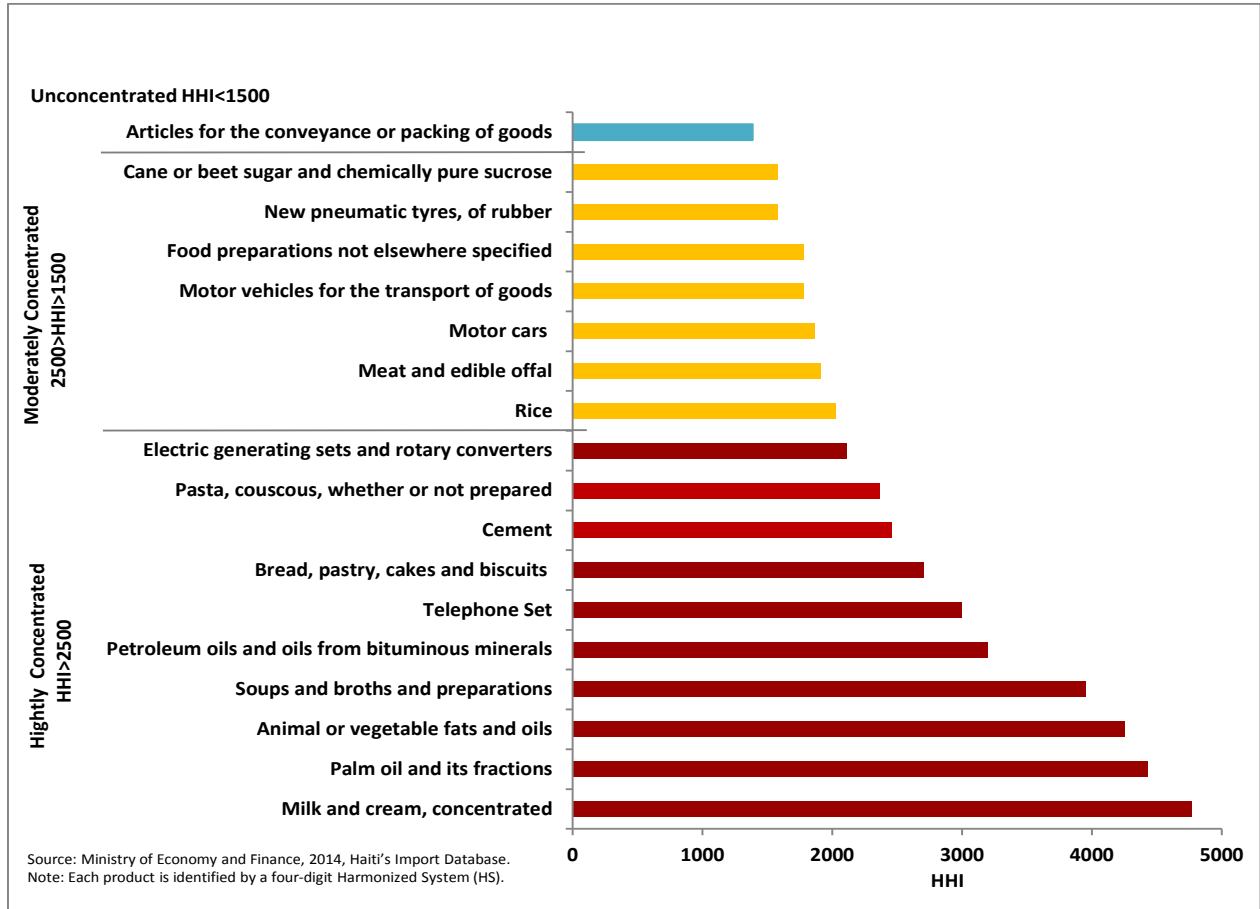
Figure 1.3 : Business Risks Related to Weak Competition Policies (by Components)



1.20 Trade data seem to confirm these perceptions about limited competition. According to a product market concentration analysis based on available import data (see Box 1.2), Haiti imports most of its final products and most of the imported goods sold in Haiti are provided by few large firms. About 70 percent of total imports in value are in goods whose markets are either highly or moderately concentrated according to common thresholds used by the U.S. Department of Justice and Federal Trade Commission (Figure 1.4). While market concentration is not unusual given the size of the economy, high and stable market shares (above 40-50 percent of the market) may increase the potential risks of firm abusive behavior with negative impact on consumers. Highly concentrated product markets (representing around 40 percent of imports with an HHI exceeding 2,500) include petroleum, food and

consumer goods markets (telephone sets, motorcycles). Imported goods in moderately concentrated markets (representing another 30 percent of imports with an HHI between 1,500 and 2,500) include food, consumer goods (electric generating sets, motor vehicles) and cement.

Figure 1.4 : Concentration Levels Based on HHI in the 18 Most Important Haitian Product Markets, 2012



Box 1.2 : Product Market Concentration Analysis⁶

An analysis of product market concentration was conducted jointly between the World Bank and the Ministry of Economy and Finance of the Republic of Haiti with the collaboration of a team of researchers from Harvard and Columbia Universities.

The analysis was based on Herfindahl-Hirschman indices (HHI), calculated using customs import data based on the Harmonized Coding System (HS) disaggregated at a four-digit level. The HS is a multipurpose international product nomenclature developed by the World Customs Organization.

The HHI is a commonly accepted measure of market concentration based on market share estimates for each firm in the market. It is calculated by squaring the market share of each firm competing in a market (showing the relative space they occupy in the specific market being analyzed), and then summing up the resulting numbers for the fifty largest firms (or overall firms if the industry counts fewer than fifty companies). The HHI is preferred to other concentration measures (such as concentration ratio) because it accounts for the heterogeneity in the size of the firms in the market, giving more weight to larger firms.

The HHI can range from close to zero to 10,000. The closer a market is to being a monopoly the higher the HHI. If, for example, there was only one firm in an industry (a monopolist), that firm would have 100 percent market share, and the HHI would be equal to 10,000 (100^2). Conversely, if there were thousands of firms competing in an industry, each firm would have nearly 0 percent market share, and the HH index would be close to zero.

For the purpose of this analysis, the concentration levels based on the Horizontal Merger Guidelines (U.S. Department of Justice and Federal Trade Commission) were used. As such, three HHI levels help identify the characteristics of product market concentration:

- Unconcentrated Markets: HHI below 1500.
- Moderately Concentrated Markets: HHI between 1500 and 2500.
- Highly Concentrated Markets: HHI above 2500.

1.21 The concentrated nature of the Haitian market may be leading to higher consumer prices. The market analysis aims at detecting the market characteristics that favor the existence of market power and its potential risks in terms of abusive practices. For instance, the risk of potential anticompetitive behavior given high market concentration may translate into high prices for consumers, which may be particularly damaging in Haiti where more than half of the population lives on less than US\$2 per day. Several of the most important food products in the Haitian consumption basket are sold in concentrated markets. A preliminary analysis over time of prices for such products seems to suggest that on average, prices in Haiti are approximately 30 to 60 percent higher than in other countries from the LAC region, even taking into account differences in income levels and purchasing power of the population, as well as the cost to import containers and import tariff levels (see Annex 1 for further details).⁷

D. ... POLITICAL INSTABILITY AND VIOLENCE

1.22 Political violence has occurred regularly throughout Haiti's history, leading to government instability. At Independence in 1804, Haiti was at the forefront of history, being the first nation to abolish slavery. Since then, however, with some exceptions such as of the 30-year period of autocratic rule under Francois Duvalier (Papa Doc) and his son Jean-Claude Duvalier (Baby Doc) (1957-1986), Haiti

⁶ Based on a background paper prepared for the SCD jointly by the World Bank (Georgiana Pop, Tanja Goodwin, Martha Martinez Licetti, Lucia Villaran, and Joaquin Zentner) and the Ministry of Economy and Finance (Jimmy Dorsainvil, Clifford Reginald Nau, Edward Nsimba, and Reginald Surin).

⁷ The availability of data to carry out a similar exercise for LICs is limited, but including Kenya and Mauritius in the sample suggests that prices in Haiti are 35 to 50 percent higher.

has known a succession of short-lived governments. Lacking sufficiently long periods of stability, the country has struggled to develop the institutional mechanisms and policy fundamentals essential to economic development.

1.23 **The past decade has been nevertheless comparatively stable.** Over the past ten years, with security provided by a large United Nations Stabilization Mission in Haiti (MINUSTAH), two presidents have been chosen by election and the current President, Michel Martelly, was the first to accede to the Presidency by election from a party in the opposition. However, stability remains fragile, with frequent changes in government and repeated delays in electoral calendars. Such delays led to the lapsing of Parliament in January 2015, leaving the executive to try to broker a deal with the opposition and agree on a transitional government who would organize elections.

1.24 **The distribution of resources seems to feed grievances.** From the early days of independence until the end of the nineteenth century, almost all of Haiti's heads of state granted land to the military and to high profile civil servants, stripping peasants of their land rights (Dubois, 2013). As a result of this history, calls for and conflicts over land redistribution repeatedly emerge as a source of instability and uncertainty, with serious consequences for growth. Many observers agree that Haitians perceive political and economic disputes as a zero sum game with only winners and losers, each with very long memories.

1.25 **Grievances lead to conflicts.** Distributional conflicts arguably have as a corollary inhibited the development of social capital and hampered the building of trust within Haitian society further preventing agreement across groups and the emergence of social cohesion at the national level. Disenfranchised and without effective channels to voice needs and demands, citizens have taken to the streets in protest, sometimes violently. The Bank's 1998 Poverty Report noted "the absence of a culture of democratic decision making and peaceful consensus building ... has generated tensions...and hampered Haiti's rehabilitation effort." While violent airing of grievances in Haiti's early history generally took place in the rural areas, contemporary unrest tends to break out in the cities, reflecting the country's demographic evolution and urbanization over the years.

1.26 **Violence in turn hampers economic opportunities.** A report on governance and social justice in the Caribbean (Dollar, 2000) argued that Haiti is an "extreme case of a country caught in a vicious circle in which unemployment, inequality, and poor education feed into lawlessness and violence, making it difficult for the economy to grow and create jobs, thus perpetuating unemployment and inequality." For instance, the political turmoil of the late 1980s and 1990s, coupled with a US embargo, severely depressed Haiti's exports. Exports of assembled electronic goods virtually disappeared and never recovered. External aid flows have also been highly volatile, responding to political events. All of these elements have negatively affected employment of a very young, and increasingly urbanized and disenfranchised population, the level of public investments, and the overall sustainability of the social and political situation in the country.

E. ... AND NATURAL DISASTERS

1.27 **The Haitian population is one of the most exposed in the world to natural disasters—hurricanes, floods and earthquakes.**⁸ Haiti has a higher number of disasters per km² than the average of the Caribbean countries (Table 1.2). In 2008, tropical storms and hurricanes caused losses estimated at 15 percent of GDP. The earthquake on January 12, 2010 killed 220,000 people, displaced 1.5 million people, and destroyed the equivalent of 120 percent of GDP. These disasters tend to affect disproportionately the poorest and marginal populations settling in flood zones and coastal areas, in particular in the case of tropical storms where almost 50 percent of damages and losses to the productive sectors have been concentrated in the agricultural sector.⁹ Overall, based on available historic data, weather-related disasters are estimated to have caused damages and losses amounting to about 2 percent of GDP on average per year during 1975-2012.¹⁰

Table 1.2 : Frequency and Impact of Natural Disasters, 1971-2014

Country/Group	Number of Natural Disasters	Disasters/ year	Disasters/ land surface ('000 sq. km)	Disasters/ Population (millions)	Deaths/ Population (millions)	Total damage/ GDP
Haiti	137	3.1	5.0	13	23,427	1.776
exc. earthquake (2010)	136	3.1	4.9	13	1855	0.22
Dominican Rep.	60	1.4	1.2	6	311	0.05
Jamaica	34	0.8	3.1	13	102	-
Nicaragua	66	1.5	0.5	11	2363	0.33
Honduras	70	1.6	0.6	9	3298	0.40
El Salvador	51	1.2	2.5	8	687	0.34
Guatemala	82	1.9	0.8	5	1754	0.12
Costa Rica	58	1.3	1.1	12	72	0.04
Panama	46	1.0	0.6	12	80	0.01
Other Caribbean States*	129	2.9	0.3	30	86	0.19

Source: EM-DAT: The OFDA/CRED International Disaster Database

*Antigua and Barbuda, The Bahamas, Barbados, Belize, Guyana, Suriname, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago. Simple average.

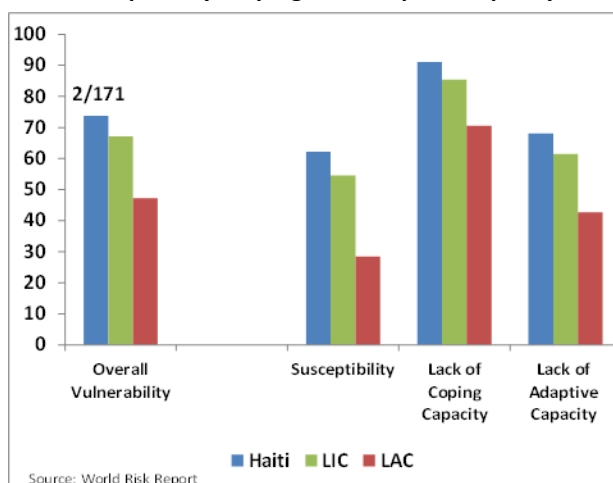
⁸ From 1993 to 2012, Haiti has experienced two droughts, one earthquake, 31 floods and 26 tropical storms/hurricanes.

⁹ Calculations based on existing Post-Disaster Needs Assessments (PDNAs).

¹⁰ Estimations based on EM-DAT and existing Post-Disaster Needs Assessments (PDNAs). According to the probabilistic model used by the CCRIF, tropical cyclones cause an estimated US\$118 million in damages each year, which is equivalent to 1.4 percent of GDP for 2013, while earthquake-related damages average US\$26 million each year (0.31 percent of GDP in 2013). The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a joint reserve mechanism that allows member countries, including Haiti, to quickly access liquidity for infrequent, high-impact disasters. The probabilistic model used by the CCRIF to calculate insurance premiums offered to the countries and reinsurance markets is the MPRES model developed by the Kinanco firm: <http://www.kinanco.com>.

1.28 Moreover, the effects of these natural disasters are much larger in Haiti, indicating higher vulnerability and institutional weaknesses. While Haiti appears to be somewhat more exposed to natural hazards than some countries in the Caribbean, it is also more vulnerable. Even when the earthquake of 2010 is excluded from the statistics, the number of casualties to the population is very large, similar only to Honduras and Nicaragua (Table 1.2). In Haiti, population density and lack of coping capacity have translated into large numbers of people affected by natural disasters (Figure 1.5). In this regard, the comparison between Haiti and the Dominican Republic, both sharing the same island, is instructive. The number of weather-related disasters from 1971 to 2014 has been more than double in Haiti than in the Dominican Republic, mostly because Haiti experienced more than twice as many floods, as a consequence of a storm, and three times the number of drought periods than the Dominican Republic. Floods are one of the most common weather-related events that affect Haiti and are partly related to the country's severe deforestation. Haiti's greater vulnerability is reflected in the consequences of these events in terms of losses, both human and economic, reflecting the inadequacy of drainage, large populations settling in flood zones, and the lack of sound buildings or building codes.

Figure 1.5 : Vulnerability Index, 2013 (Average Score of Susceptibility, Coping and Adaptive Capacity)



F. ... TRANSLATING INTO IMPORTANT MIGRATION

1.29 In this unfavorable environment, migration has become a key avenue for Haitians seeking a better life. Substantial internal migration is taking place, particularly from rural to urban areas, as people seek better economic opportunities and better services. In addition, for both political and economic reasons, large numbers of Haitians have emigrated throughout the twentieth century building an important diaspora (Figure 1.6). A vast majority of Haitians who continue to emigrate now seem to do so because they cannot find work opportunities in Haiti.¹¹ They move mostly to the United States, the Dominican Republic, Canada and France (Figure 1.7).¹² According to the Global Bilateral Migration Matrix, one million Haitians were estimated to be living abroad in 2010. About 540,000 of those were in the United States, 280,000 in the Dominican Republic,¹³ 74,000 in Canada and 42,000 in France.¹⁴

1.30 This large diaspora is a source of significant remittances. Remittances received by Haiti represent a large share of GDP, the largest share among LAC countries, and the fourth highest in the world in terms of export earnings (Figure 1.8). For every year in the period 2000-2009, remittances were larger than official development assistance (ODA), foreign direct investment and the total exports of goods and services (Figure 1.9).¹⁵ Despite the sharp increase in development assistance in the year after the earthquake, in 2012, remittances once again surpassed development assistance, representing the

¹¹ See for instance Orozco (2006).

¹² For a more detailed discussion on these flows see Orozco (2006) and Jadotte (2008).

¹³ Extrapolation from older data and migrant flows suggest that the actual number of Haitians living in the Dominican Republic should be between 380,000 and 500,000 (Wooding and Moseley-Williams, 2004)

¹⁴ For details on the methodology of the estimates see Ratha and Shaw (2007).

¹⁵ All data for remittances and GDP aggregates are from the World Development Indicators (WDI).

equivalent of 20.4 percent of GDP vs. 16.1 percent of GDP for ODA, 13.2 percent of GDP for exports and 2 percent of GDP for FDI.

Figure 1.6 : Migrants International Comparison, 2010 (In Percent of Total Population)

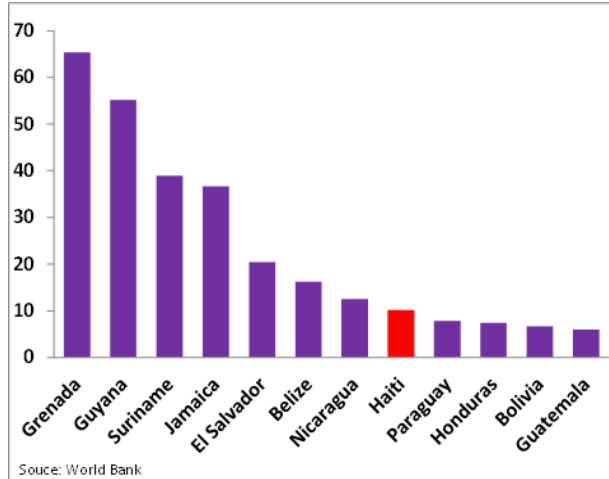


Figure 1.7 : Migrants by Destination Country, 2010 (Thousands)

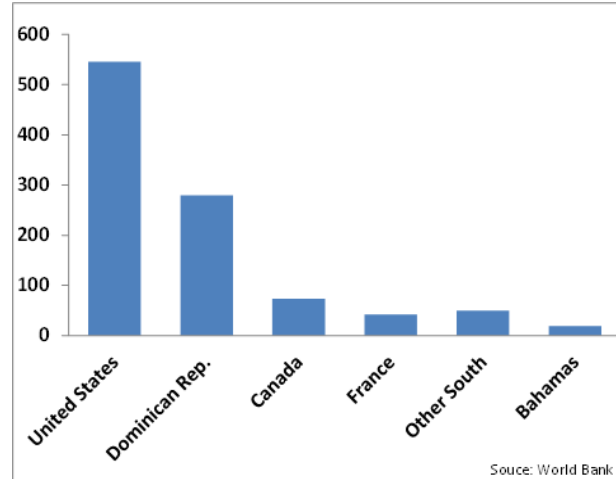


Figure 1.8 : Remittances, 2012 (Percentage of Export Earnings)

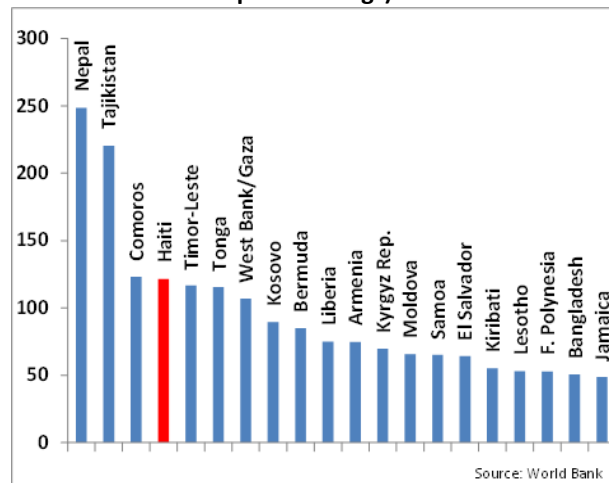
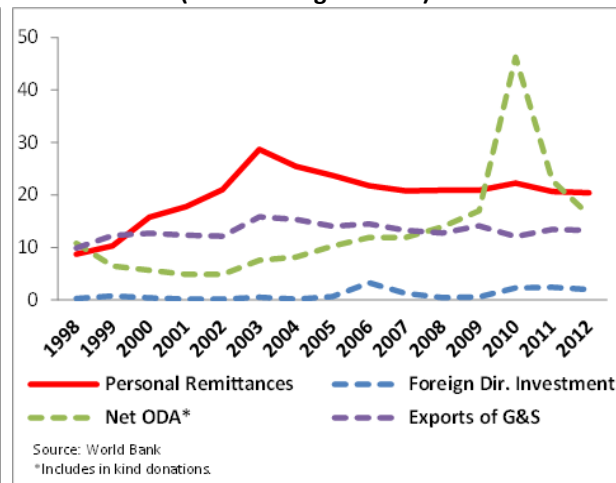


Figure 1.9 : Foreign Flows, 1998-2012 (In Percentage of GDP)



1.31 **Remittances are, however, predominantly an urban phenomenon and migrants tend to be better educated.** Emigration is relatively costly and accessible mainly to urban and wealthier families. While for the country as a whole, about a third of all households receive remittances, this share reaches over 35 percent for urban households and drops to 20 percent for households in rural areas. Migrants tend also to be better educated, representing an important “brain drain”.¹⁶ Overall, the profile of Haitian migrants is very similar to those of the average Caribbean migrant. However, individuals with advanced education represent only 3 percent of the resident population in Haiti compared for example

¹⁶ For more evidence on the education attainment of Haitians migrants in the US (in the city of NY, more specifically), see the survey on remittance senders discussed in Orazco (2006).

to almost 20 percent in the Dominican Republic and Bahamas. These figures suggest that over 45 percent of Haitians with a college degree currently live outside of the country.¹⁷

Figure 1.10: Effects of Aid and Transfers on the Trade Balance, 1980-2013 (Percentage of GDP)

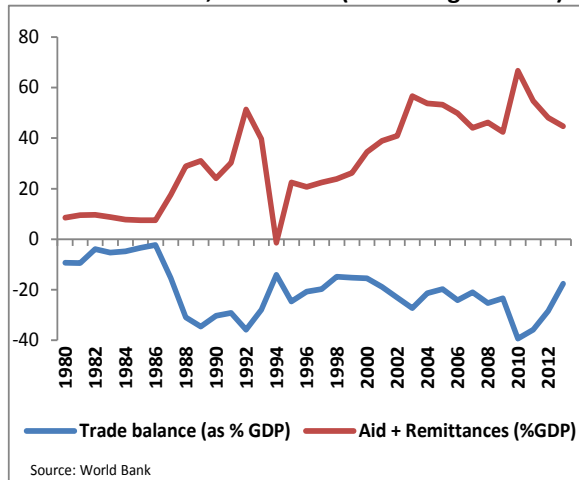
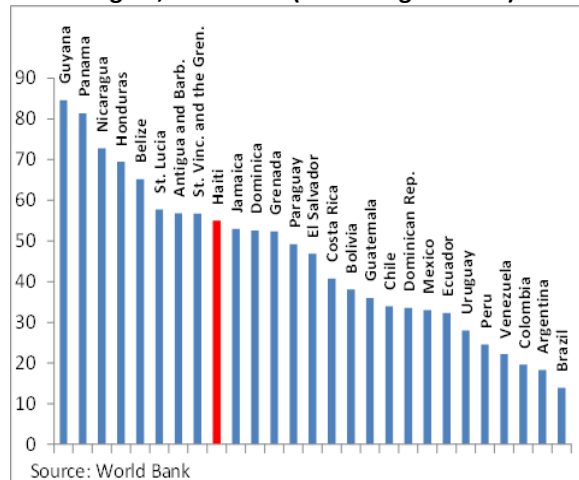
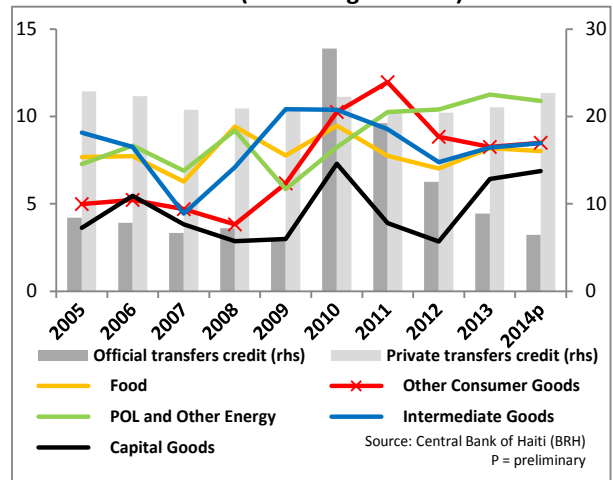


Figure 1.11: Imports of Goods and Services – LAC Region, 2011-2013 (Percentage of GDP)



1.32 Remittances have tended to finance the consumption of foreign goods. Remittances represent an important source of livelihood, amounting to about 20 percent of household income. Controlling for a set of household characteristics, remittances have been shown to be positively associated with higher expenditure on food, education and health.¹⁸ On the macroeconomic level, however, data would suggest that this consumption falls mainly on imports. The continuous increase in remittances – and aid – observed over the past has been associated with an expansion of imports and a widening of the trade deficit, making Haiti one of the countries that import the most in terms of GDP (Figures 1.10 and 1.11). Import increased from about 30 percent of GDP in the early 1980s to more than 50 percent in the early 2010s, largely consumption goods financed by international aid and remittances. Major items imported by Haiti are food (representing around 35 percent of total imports over the past decade), manufactured goods (around 18 percent of imports), machinery and transport equipment, fuel, and raw materials (Figure 1.12).¹⁹

Figure 1.12: Merchandise Imports, Aid and Remittances, 2005-2014 (Percentage of GDP)



¹⁷ This estimate considers the share of college-educated residents from ECVMAS 2012; OECD data for education attainment of migrants as of 2010-2011 and estimates for education of Haitians living in the Dominican Republic. Niimi and Ozden (2006), based on data from Docquier and Marfouk (2006) and Barro and Lee (2000), reported that 80 percent of Haiti born people with college degrees lived abroad as of 2000. This result is driven by the estimates that only 0.7 percent of Haiti residents had college degree in that year.

¹⁸ Econometric analyses carried out for the 2014 Poverty Assessment tend to show that a 10 percent increase in remittances would be associated with an 8 to 13 percent increase in spending on education and health, and a 5 percent increase in food expenditures.

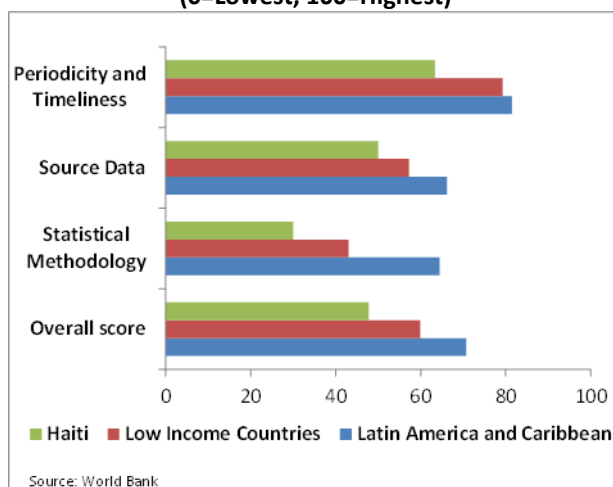
¹⁹ An estimated 60 percent of food consumed in Haiti is imported.

G. ... AND LIMITED DATA

1.33 There is limited evidence to inform planning and targeting of programs and policies.

According to the Statistical Capacity Indicator (SCI), a composite index that takes into account statistical methodology, source data and periodicity, Haiti ranks below comparator countries (Figure 1.13). As a result and despite the progress that has resulted from surveys such as the Demographic and Health Survey (MDPP, 1994, 2000, 2005-06, 2012-13), Haiti is still characterized by a dearth of data and reliable statistics. The census is being continuously delayed, for instance. Notwithstanding improvement in recent years data provision has serious shortcomings that severely hamper IMF surveillance (IMF, 2014a). The most affected areas are the national accounts, fiscal data, and external sector statistics. In particular, constant price GDP data are still being published using a base year of 1986-1987, which does not adequately reflect the structural economic changes resulting from the various civil conflicts and natural disasters Haiti has experienced over the recent decades, and thus introduce major uncertainty in policy analysis. Equally problematic are estimates of the informal sector and no labor statistics are disseminated.

Figure 1.13: Statistical Capacity Indicator, 2014
(0=Lowest, 100=Highest)



CHAPTER 2 : TRENDS AND PROFILE IN POVERTY AND SHARED PROSPERITY²⁰

A. WHILE REMAINING HIGH, POVERTY HAS DECLINED

2.1 **Recent findings would suggest that extreme poverty has declined in Haiti over the past decade** (Figure 2.1). Extreme poverty decreased in Haiti from 31 percent in 2000 to 24 percent in 2012 (World Bank and ONPES, 2014).²¹ Progress was mainly concentrated in urban areas, however. The share of extreme poor has declined from 21 percent to 12 percent and from 20 percent to 5 percent in other urban and metropolitan areas, respectively, while it has stagnated in rural areas.²² This trend is confirmed by both monetary and non-monetary poverty indicators, with the biggest non-monetary progress recorded in education (Table 2.1). All school-age children go now to school in about 90 percent of the households compared to about 80 percent in 2001. Immunization rates are also up. While data is not available to assess trends in moderate consumption poverty, it is also expected to have improved in the last decade.

Table 2.1 : Access to Basic Services - Coverage Rates (2001-2012) (In Percent)

Indicator	National		Urban		Rural	
	2001	2012	2001	2012	2001	2012
School-age children in school	78	90	84	93	74	87
Under-5 mortality (per 1'000 live births)	137.7	92	111.7	88	149.4	99
Children (12-23 months) fully vaccinated	33.5	45.2	33.6	44.5	33.5	45.6
Access to improved drinking water sources						
WHO definition ^a	—	53	—	55	—	52
Access to tap water (in house)	7	11	13	18	3	5
Expanded definition ^b	—	73	—	91	—	56
Treated water (purchased)	—	20	—	36	—	4
Access to energy ^c	32	36	62	63	11	11
Rate of open defecation ^d	63	33	44	11	76	53
Access to improved sanitation ^e	—	31	—	48	—	16
Habitat, nonhazardous building materials	48	60	71	81	33	41

Sources: ECVH 2001; ECVMAS 2012; World Bank and ONPES (2014). Note: — = not available. WHO = World Health Organization.

- According to the international definition (WHO), access to improved drinking water is the proportion of people using improved drinking water sources: household connection, public standpipe, borehole, protected dug well, protected spring, rainwater.
- The expanded definition includes the international definition (WHO), plus treated water (purchased).
- Includes electricity, solar, and generators.
- Rate of open defecation refers to the proportion of individuals who do not have access to improved or unimproved sanitation. This indicator is part of the Millennium Development Goals (MDG) and is a key element of discussion for the post-2015 agenda.

²⁰ All statistics in this section come from ECVMAS 2012 and ECVH 2001, unless otherwise indicated.

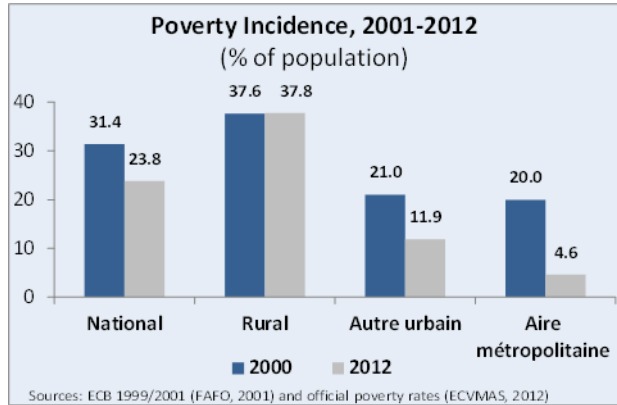
²¹ Pedersen and Lockwood (2001) based on the 1999/2000 Budget and Consumption Survey. As a point of comparison, Azevedo et al. (2013) studies 16 countries having substantially reduced poverty over broadly a decade, ranging from a 10 percentage points decline (Costa Rica) to more than 40 percentage points (Romania).

²² Although not completely comparable, the monetary poverty indicator from 2000 was calculated using a methodology similar to the new official one, including the use of a national food poverty line against per capita household consumption. The reduction in consumption poverty is also confirmed by trends in non-monetary well-being indicators. Income based measures of moderate poverty suggest that it declined from 77 percent in 2001 (ECVH 2001) to 72 percent in 2012 (ECVMAS 2012). Consumption based poverty measures are considered the most accurate in capturing welfare levels, especially in countries with high levels of rural poverty and significant income volatility. The new official Haitian poverty measure is consumption based.

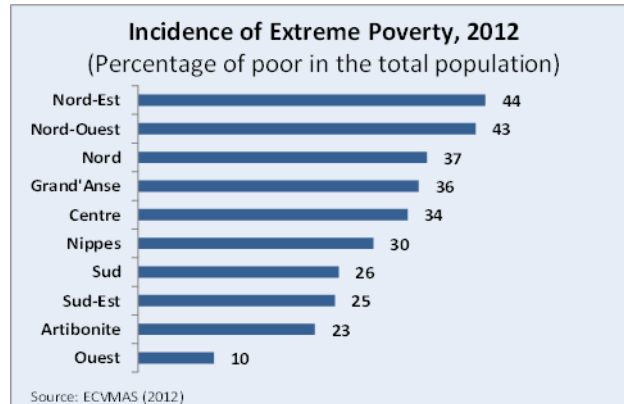
e. Improved sanitation is access to a flush toilet or an improved public or private latrine.

Figure 2.1 : Trends in Poverty

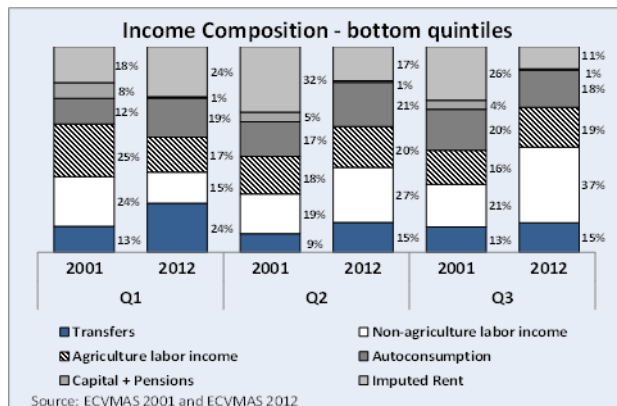
Extreme poverty has declined, especially in urban areas...



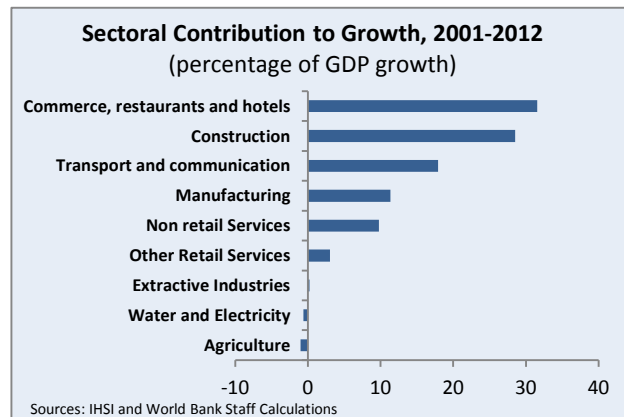
... But strong regional disparities remain...



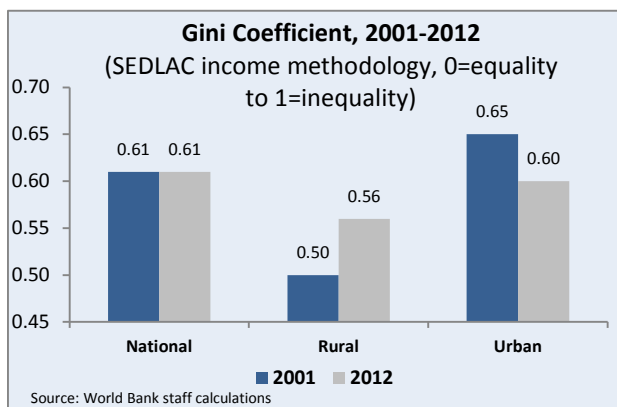
Driven by private transfers and labor income...



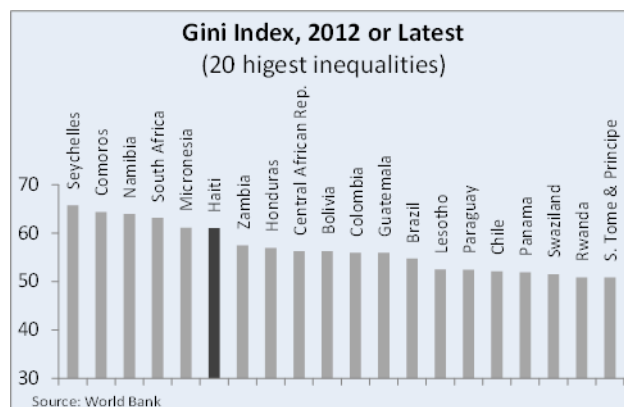
... Particularly in commerce and construction



Inequality is nevertheless important...



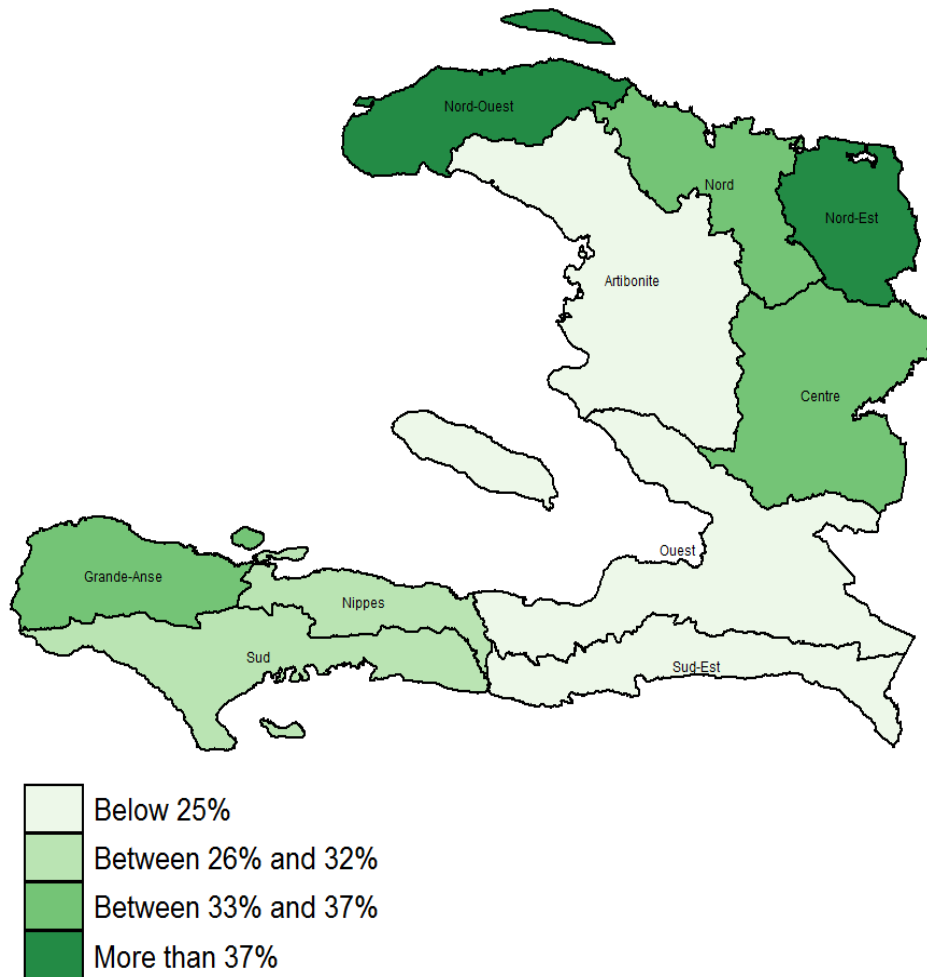
... And one of the highest in the world



2.2 Poverty remains, however, endemic in Haiti and varies widely. Haiti is the poorest country in Latin America and among the poorest in the world in terms of per capita GDP and human

development.²³ The overall poverty headcount amounts to about 59 percent and extreme poverty to 24 percent in 2012, indicating that almost 6.3 million Haitians cannot meet their basic needs and 2.5 million cannot even cover food needs.²⁴ Geographically, poverty and extreme poverty are considerably higher in rural areas. More than 80 percent of the extreme poor live in rural areas, where 38 percent of the population is not able to satisfy its nutritional needs, compared to 12 percent in urban areas and 5 percent in metropolitan areas (i.e. the capital city). The poorest regions are the furthest from the capital city and the most isolated. The poorest departments are geographically concentrated in the northern region of the country where the extreme poverty rate exceeds 40 percent in the North East and North West, compared to 5 percent in metropolitan area of Port-au-Prince (Map 2.1).

Map 2.1 : Extreme Poverty Rates by Department, 2012



Sources: ECVMAS 2012; World Bank and ONPES (2014).

2.3 Furthermore, income inequality is the highest in the region and has widened in rural areas. The Gini coefficient stagnated at about 0.6 between 2001 and 2012. This result hides, however,

²³ Haiti's GDP per capita amounted to USD 1,575 (PPP) in 2013 and ranked 161 out of 186 countries in the UNDP Human Development Index.

²⁴ These rates are based on per capita consumption and were calculated using the 2012 official Haitian moderate and extreme poverty lines of 82.2 HTG (US\$1.98) and 41.7 HTG (US\$1), respectively.

important regional disparities: while inequality widened in rural areas (from 0.49 to 0.56), it narrowed in urban areas (from 0.64 to 0.59). Preliminary evidence would suggest that increases in labor income and private transfers could have contributed to the narrowing of inequality in urban areas. On the other hand, the contraction in agricultural production caused by repeated weather-related shocks could explain the widening of inequality in rural areas, reducing earnings for agricultural labor and increasing the prices of food, both factors affecting the poorest disproportionately. As a result, in 2012 the top one percent of the population lived on almost 50 times the resources of the bottom 10 percent.²⁵ This result makes Haiti the most unequal country in Latin America and one of the most unequal in the world.

2.4 Despite improvements in access to basic services since 2001, the poor still face significantly larger barriers. Poverty is an important barrier to both school enrollment and health service utilization, for instance. According to the most recent household survey, cost is the main reason for keeping children out of school or not consulting a doctor if they are sick in 83 percent and 49 percent of cases, respectively.²⁶ As a result, in 2012, while 87 percent of 6- to 14-year-olds in poor households were in school, this ratio reached 96 percent for non-poor households. In turn, this more limited access to education perpetuates poverty: the poor live in households in which the heads have an average of three times fewer years of education, and as many as 61 percent of the heads of poor households are illiterate, compared with 34 percent among non-poor households (Table 2.2). The poorest also have limited access to maternal health services and are more likely to die during delivery, with fewer than one woman in ten in the lowest quintile benefitting from assisted delivery (compared to seven out of ten among the better off).²⁷ These obstacles are even greater in rural areas, where the supply of services is more limited.

2.5 Most of the poor work, but their earnings are insufficient to lift them out of poverty. Almost 70 percent of poor households have heads holding jobs (against 73 percent among the non-poor). However, among the former, 61 percent work in agriculture, where average earnings are less than 20 percent of the earnings in the formal sector. Among the remainder, 35 percent work in the informal sector, where earnings are less than half those in the formal sector. As a result, more than half of poor households undertake two or more income generating activities. This underscores the urgent need to create higher labor productivity jobs.

²⁵ Based on per capita income data.

²⁶ According to the 2012 demographic and health survey (DHS), 7 in 10 women aged 15–49 years do not seek medical support for lack of money, while 43 percent do not do so for lack of transport (see chapter 3).

²⁷ In 2012, the coverage of deliveries within institutions was 8.4 times greater among the highest income quintile (76 percent) than among the lowest quintile (9 percent).

Table 2.2 : Basic Sociodemographic and Socioeconomic Characteristics of Poor, Extreme Poor and Nonpoor Households, 2012

Variable	National			Urban			Rural		
	Non poor	Poor	Extreme poor	Non poor	Poor	Extreme poor	Non poor	Poor	Extreme poor
Household size, number ^a	3.9	5.3	6.2	4.1	5.7	6.4	3.6	5.1	6.2
Age of the head, years	44.7	46.7	48.9	43.1	44.1	43.8	48.2	48.9	50.0
Under-5-year-olds, % ^a	0.3	0.7	1.0	0.4	0.7	1.0	0.3	0.7	1.0
Dependency ratio ^a	53.8	88.4	114.0	53.6	79.0	115.2	54.2	95.2	113.7
Head, man, %	56.8	56.0	59.6	53.5	49.6	48.1	63.9	61.1	62.0
Education, head, years ^a	6.3	3.5	1.7	7.5	5.0	3.2	4.1	2.5	1.4
Literacy, heads w/>5 years of education, %	65.8	38.5	19.6	74.2	54.1	34.5	47.6	26.1	16.5
Employed head, %	73.2	67.8	72.9	68.7	59.8	53.2	82.8	74.2	77.1
Unemployed head, %	15.8	18.3	11.9	20.1	28.7	32.1	6.4	10.1	7.7
Inactive head, %	11.0	13.9	15.2	11.2	11.5	14.7	10.7	15.7	15.3
Employed household members, number ^a	1.4	1.5	1.6	1.3	1.3	1.2	1.6	1.6	1.7
Head employed in agriculture, %	25.5	49.1	77.5	6.1	16.3	41.1	60.7	70.2	82.7
Head employed in the formal sector, %	17.5	6.1	1.6	24.6	9.5	2.2	4.7	4.0	1.6
Head employed in the informal sector, %	57.0	44.7	20.9	69.3	74.3	56.7	34.5	25.8	15.7
Households receiving private transfers (excluding remittances), %	58.58	60.56	58.23	57.56	64.14	64.81	60.5	58.84	56.91
Households receiving remittances, %	37.76	18.21	13.83	40.72	25.72	14.87	32.13	14.59	13.62
Average per capita consumption, G	58,372	22,335	10,300	60,989	23,360	11,322	52,657	21,520	10,086
Average food share in total consumption, %	46.7	57.5	62.4	42.4	48.9	47.2	56.0	64.3	65.5
Access to improved sanitation, %	49.6	23.2	11.1	57.9	35.4	24.9	31.3	13.4	8.2
Access to tap water, %	15.3	10.6	5.4	18.4	18.1	17.8	8.6	4.6	2.8
Access to a sustainable source of energy, %	58.3	28.2	7.9	73.0	51.3	32.4	26.1	9.8	2.8
Dwellings made w/nonhazardous materials, %	80.7	57.1	28.6	88.2	75.8	53.6	64.3	42.2	23.4
Food security rate, %	88.2	72.2	43.4	88.0	71.9	33.7	88.6	72.5	45.5

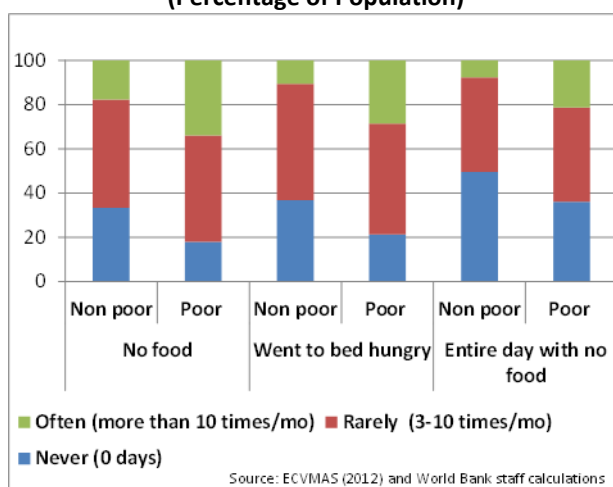
Sources: ECVMAS 2012; World Bank and ONPES (2014).

Note: The estimates for the poor exclude the extreme poor. Variables reflect the percent share of individuals.

a. Share of households relative to the average household.

2.6 The poor suffer from poor nutrition early in life and from food insecurity. Food insecurity is significant in Haiti, at 28 percent nationwide and 34 percent in rural areas.²⁸ Poor household members are much more likely to report frequent hunger or lack of food at bed time relative to members of nonpoor households (Figure 2.2). Households with children under the age of 5 are much more likely to experience repeated food shortages.²⁹ As a result, one-fifth of under-5-year-olds are chronically malnourished (DHS 2012). This is a particular cause of concern because proper nutrition in early life is crucial for brain development and subsequent life outcomes (Alderman and King, 2006).

**Figure 2.2 : Food Insecurity, 2012
(Percentage of Population)**



2.7 The poor in Haiti are particularly vulnerable and access to social safety nets is limited. A typical Haitian household faces multiple shocks annually: nearly 75 percent of households suffer economic consequences following a shock (e.g. natural disaster or health-related). Households in poverty are even more vulnerable, particularly those in extreme poverty: among poor households, 95 percent experience at least one economically damaging shock per year. The poor and vulnerable have limited access to public support, given the low capacity of the State.³⁰ Most assistance arrives to them in the form of remittances or support from churches, other nongovernmental institutions, and donors. Despite recent efforts to expand social assistance provision under the EDE PÈP framework since 2013, the programs remain too fragmented, too small, and not targeted enough to make a significant difference. The majority of the poor continue to lack access to formal safety nets that could allow them to smooth their consumption over time, prevent irreversible loss of human capital, and avoid destitution.

2.8 Coping strategies perpetuate poverty. In the absence of formal instruments to manage risk effectively, the poorest households are unable to cope with shocks and adopt coping strategies that damage human capital. Overall, 23 percent of households in extreme poverty changed their nutritional profile in response to a major shock. In particular, if the shock hits the entire community, a staggering 56 percent of households in extreme poverty change their nutritional behavior, as opposed to 37 percent of resilient households. The extreme poor are also more likely to remove their children from school, particularly if the household is experiencing a change in composition (such as the birth or death of a household member) or a decline in the monetary support from outside the household, which is often used to pay school fees.

2.9 Women and girls are particularly vulnerable. Although poverty does not differ by gender, despite sizable progress in both education and health outcomes, adult women are still less well educated than adult men and are more likely to be illiterate. Their use of health services is also still very

²⁸ According to the National Food Security Coordination Unit, the food insecurity rate was 28 percent nationwide and 48 percent in rural areas in 2011. To measure food insecurity, the unit uses a composite indicator composed of both quantitative and qualitative measures. The numbers contained in this chapter, on the other hand, refer exclusively to the food security indicator of the Food and Agriculture Organization of the United Nations, which is based on food intake.

²⁹ World Bank and ONPES (2014)

³⁰ Only about 8 percent of the Haitian population received non-contributory social assistance benefits (such as scholarship, food aid, or other transfer) in 2012 (World Bank and ONPES, 2014).

limited. Women in Haiti are also significantly less likely to be employed and earn significantly less than men (Box 2.1). Finally, gender-based violence and low participation in the public sphere are widespread in Haiti.

Box 2.1 : Gender Inequalities in Haiti

Women and girls in Haiti still face greater obstacles to attend school. Despite progress in school enrollment among younger cohorts, adult women are still worse educated than adult men and are more likely to be illiterate. Adult men have, on average, two more years of education than women and are over 10 percentage points more likely to be literate. Early withdrawal from school can have lifelong consequences. Underage marriage and teen pregnancy, for instance, represent additional risks for girls who do not attend school: 17 percent of Haitian women are married in adolescence, compared with 2 percent of men, this number dropping among girls with higher education (Cicmil, 2013).

They deal with greater health challenges. Maternal mortality, at 380 deaths per 100,000 live births, is still five times higher than the regional average (WHO, 2014)³¹, partly because a high percentage of birth deliveries take place outside a health care facility (65 percent). Poor nutrition is a threat for both children and mothers: according to the DHS 2012, 22 percent of children are stunted or too short for their age, while nearly half of women aged 15–49 have anemia. The prevalence of HIV/AIDS is higher among women (2.7 percent) than men (1.7 percent), reflecting both knowledge differentials among other factors: only 15 percent of young women have correct information on how to prevent sexual HIV transmission compared to 28 percent of young men (Boesten and Poku, 2009).

Women are significantly disadvantaged in the labor market. Holding constant several social and demographic characteristics, one finds that women are 20 percentage points more likely than men to be unemployed and, if working, 6 percentage points more likely to be in the informal sector. Wages among women are also 32 percent lower than wages among men. Over two-thirds of this difference is unexplained by observable characteristics, suggesting that discrimination could play a role.

Gender-based violence is widespread. Gender-based violence is a chronic problem: according to the DHS 2012, 13 percent of Haitian women have experienced sexual violence, and 29 percent of women who have ever been married have experienced spousal violence, whether emotional, physical, or sexual. Vulnerability is particularly high among internally displaced people in camps and areas affected by the 2010 earthquake: a survey in 2011 indicated that 64 percent of interviewed pregnant adolescent girls had become pregnant after being raped (PotoFi, 2012).

Female participation in the public sphere is low. Only 4 percent of all parliamentary seats were occupied by women in the most recent legislature, placing Haiti well below the regional average of 26 percent and among the countries with the lowest rate (136th out of 142 countries). At the national level, as of April 2014, 8 of 23 ministers and 3 of 20 secretaries of state were women.^a At the local level, women account for only 12 percent of all mayors. The government has taken steps to expand women's representation, including by creating the Gender Equality Office in Parliament and amending the Constitution to stipulate a quota of at least 30 percent women in all public offices, but enforcement is problematic.

a. *CEPALSTAT (database), Statistics Division, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp?idioma=i.*

³¹ This number is not recognized by the Ministry of Public Health and Population (MSPP).

B. ... DRIVEN BY LABOR INCOME, PRIVATE TRANSFERS, AND AID

2.10 Recent findings suggest that the decline in extreme poverty was partly driven by rising non-agricultural labor income. Labor income increased by about 3½ percent on average per year, especially among men. GDP data suggest that the sectors that grew the most over the recent past were construction, telecommunication and transport, all concentrated in urban areas, partly explaining the improvements of urban living conditions. As a result, employment probably experienced a structural shift over this period towards non-agriculture activities, contributing to better living standards: the average monthly salaries in the formal or informal sectors are two to four times higher than in the agricultural sector (ECVMAS, 2012).³²

2.11 Most of the labor force remains employed in the agriculture and urban informal sectors. Reliable data on employment in Haiti are scarce. Available employment and household surveys would suggest, nevertheless, that since 2007 the share of formal employment in total employment has increased by about 3 percentage points, driven mainly by jobs in the administration and NGOs (Figure 2.3).³³ Despite this expansion, formal employment remains small with agriculture and urban informal sectors still providing most of the employment with about 40 percent and 47 percent of the labor market, respectively (Figures 2.4 and 2.5).³⁴ While wages have tended to increase in the small formal sector over that period, they have stagnated in agriculture and in the informal sector, and overall 70 percent of workers still earn less than the minimum wage.

Figure 2.3 : Change In Composition of Labor Market, Workforce Ages 15+, 2007-2012 (Percentage Points)

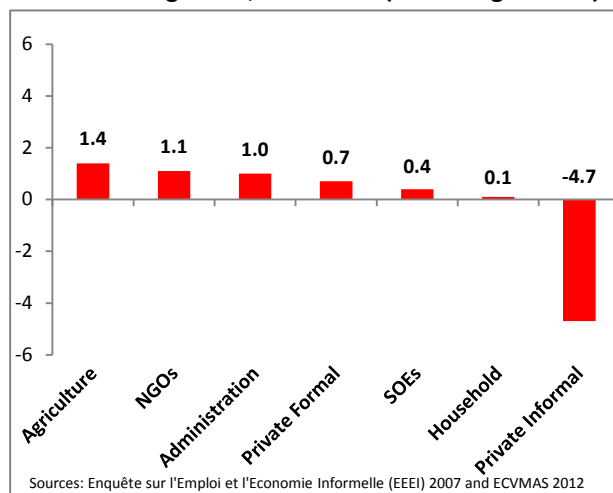
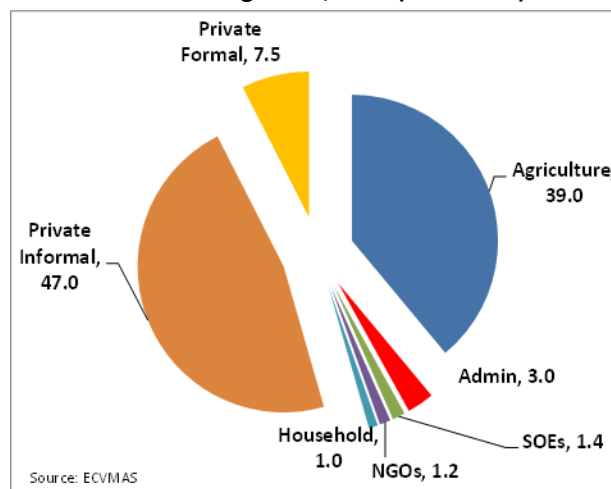


Figure 2.4 : Composition of the Labor Market, Workforce Ages 15+, 2012 (In Percent)

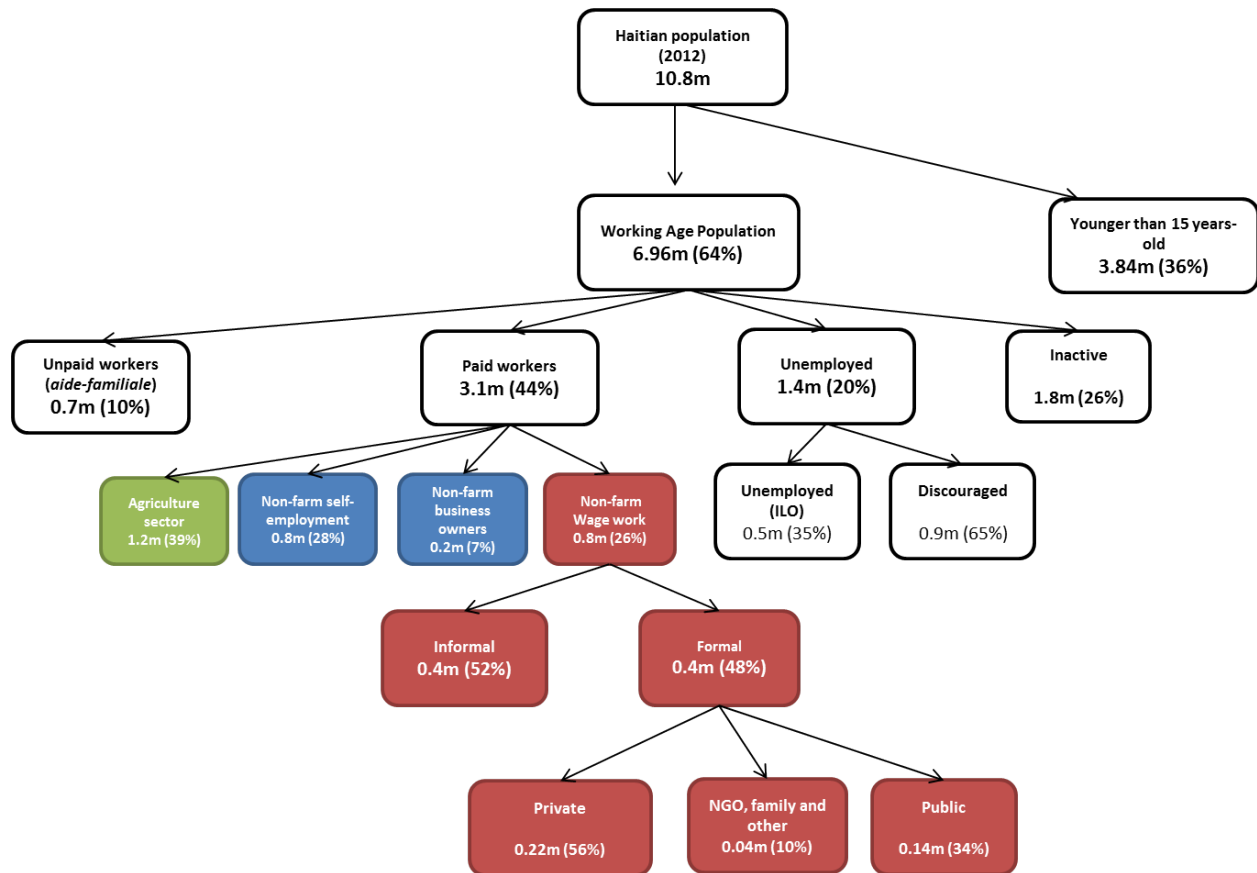


³² The informal sector is defined by the International Labor Organization as unincorporated enterprises (household businesses) that are not registered, do not keep formal accounts, and are not in the primary sector (agriculture).

³³ The increase in the share of employment in agriculture stems from a rise in family aid. The intuition would be that in dire times, young people and women who would not have worked were called into the labor force.

³⁴ The private informal sector in Figure 2.5 includes non-farm self-employment, non-farm business owners, and the informal non-farm wage work in Figure 2.6.

Figure 2.5 : Breakdown of Haiti's Population by Labor Status (2012)



Source: World Bank Calculation, ECVMAS 2012

2.12 **The persistence of rural poverty reflects households' reliance on a low-performing agricultural sector.** Rural livelihoods are highly dependent on agriculture: almost 80 percent of households engage in farming. Moreover, for half the households, farming is the sole economic activity. Unfortunately, the returns to agriculture are low and unreliable, and the activity resembles a subsistence strategy rather than reliance on a productive economic sector.³⁵ Labor productivity is particularly low among the poor with only 20 percent of them using fertilizers and pesticides. Moreover, even though the area of cultivated land is only slightly smaller among the poor than among the non-poor (1.2 hectares versus 1.6 hectares, respectively), the poor spend two to four times less on fertilizers, pesticides, seeds, and labor. Increased productivity is correlated to greater access and use of inputs, as well as crop diversification for both poor and non-poor agricultural households (World Bank and ONPES, 2014).

2.13 **Participation in the nonfarm sector would seem critical to emerge from poverty in rural Haiti.** Engaging in the nonfarm sector in rural areas reduces the probability of being poor by 10 percentage points. The typical nonfarm job in rural areas is a one- or two-person shop engaged in small retail.

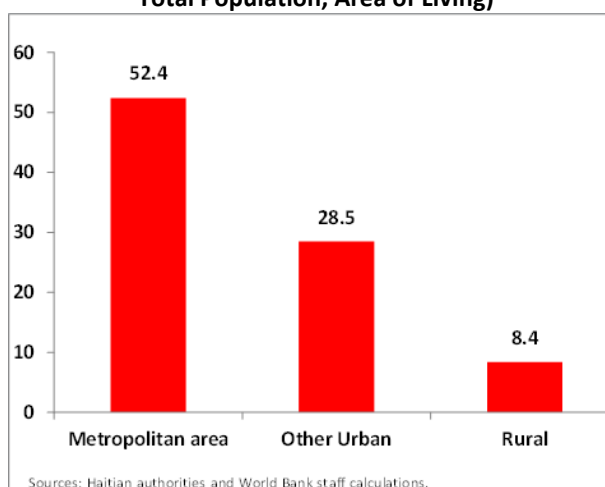
³⁵ Since 2000, the sector has performed poorly, contracting by 0.6 percent annually as a consequence of repeated adverse climatic shocks. In 2012, agricultural production narrowed by 1.3 percent following a series of droughts, heavy rains, and hurricanes, which generated crop and seasonal income losses of 40 to 80 percent. See "Haiti Food Security Outlook" (October 2012–March 2013), Famine Early Warning System Network, Washington, DC, <http://www.fews.net/central-america-and-caribbean/haiti/food-security-outlook/october-2012>.

Although still low paying, this type of activity yields better returns than those accruing to farming. About 40 percent of non-poor households participate in the nonfarm sector, a participation rate that is 1.5 times higher than the participation rate among the poor.

2.14 **Private transfers and international aid, have also contributed to the decrease in poverty.** The percentage of households receiving private transfers (domestic transfers or remittances from abroad) in Haiti increased from 42 percent to 69 percent between 2000 and 2012. Workers' transfers from abroad have represented more than a fifth of Haiti's GDP in recent years, and originate mainly from the United States and the Dominican Republic (DR). While remittance flows from the U.S. are larger, transfers from the DR are more likely to reduce poverty since they tend to benefit poorer households located in rural areas. Furthermore, the 2010 earthquake resulted in unprecedented aid flows in the form of money, goods and services. These external flows have also contributed in reducing poverty over the period, especially in the Metropolitan area which attracted most of the assistance (in large part because Port-au-Prince was hit hardest by the earthquake).

2.15 **In addition to migration abroad, domestic migration is highly prevalent, with a clear bias towards urban areas.** While one million Haitians are estimated to live abroad (see Chapter 1), almost two million Haitians have migrated internally. Indeed, 24 percent of the population has moved from their place of birth (compared to 20 percent in 2001).³⁶ In terms of areas of residence, it is clear that the flow of migrants has an urban bias, and especially the *Aire Metropolitaine*. Over half of the current population of the Metropolitan area is composed of migrants, against less than 30 percent in other urban areas and less than 10 percent in rural settings (Figure 2.6). In terms of departments, 65 percent of the total migrant population now resides in the Ouest, followed by 9 percent in Artibonite and 8 percent in the Nord. This pattern suggests the attraction of migrants to urban centers: Gonaïves in Artibonite and Cap Haitien in the North are the two largest centers after Port-au-Prince.

Figure 2.6 : Born Elsewhere, 2011 (In Percentage of Total Population, Area of Living)



2.16 **Migrating, both domestically and abroad, seems to be a profitable income generation solution for many households.** In many developing countries, households turn to migration as a way to increase available income, in a context of limited economic opportunities or returns to education. In particular, the decision of a household to educate or send one of its members abroad can be seen as an investment: families incur upfront costs (such as education fees, transport tickets, seed money, network mobilization, visa) in order to reap future income gains from better labor opportunities.³⁷ Data suggests a strong link between schooling and mobility in Haiti (Figure 2.7). If the initial costs of international migration are too high for poorer households, moving *within* the country represents a second-best

³⁶ Enquête des Conditions de Vie en Haiti (ECVH 2001) and Enquête des Conditions de Vie des Ménages Apres le Séisme ECVMAS 2012).

³⁷ Clemens (2011) estimates that unskilled Haitian farmers migrating to the US could increase their annual incomes by a factor of 20.

option: when controlling for individual and households characteristics, educated migrants in urban areas earn on average between 20 and 30 percent more than their counterparts in rural areas.³⁸

2.17 People have been moving to urban areas also to seek better public services. The State being absent in many places outside the main urban centers (as discussed in Chapter 1), people have been migrating to the Metropolitan areas and to other urban areas to seek better access to services. Although, the quality of sanitation remains low (only 31 percent of the population had access in 2012 to improved sanitation), the ratio for rural areas is even much lower (16 percent).³⁹ Access to improved sources of drinking water is similar in urban and rural areas, at 55 and 52 percent, respectively. However, most of the remainder of the urban population (36 percent) purchases safe water directly from vendors, while most of the remainder of the rural population (44 percent) does not have this option and uses unimproved water sources (river water or unprotected wells) with a high probability of contamination. Access to energy (electricity, solar, or generators) expanded only slightly because of gains in urban areas, accompanied by stagnating levels in rural areas, which remained at 11 percent.

Figure 2.7 : Schooling of Adults Living Outside Department of Birth (15+), 2012 (Percentage of Total Population)

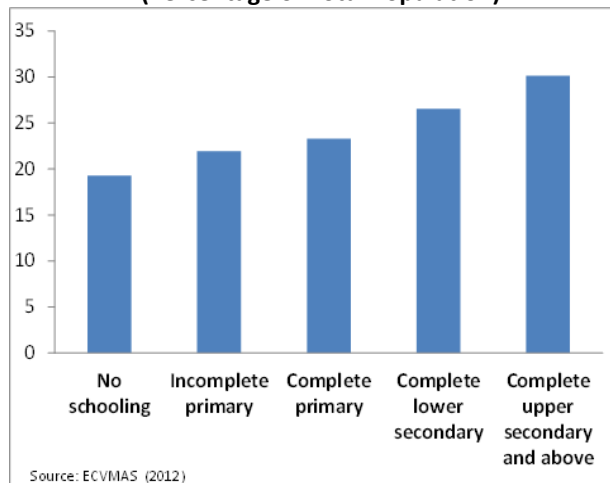
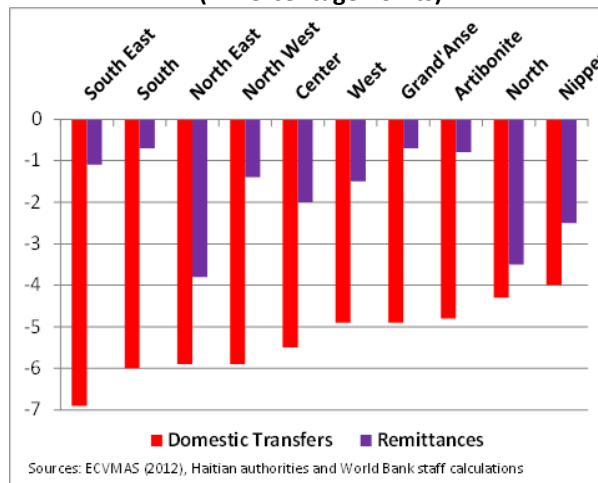


Figure 2.8 : Contribution to Extreme Poverty Reduction (In Percentage Points)



2.18 Private transfers have played an important role in supporting households' income in Haiti. Larger private transfers coming from domestic and international migrants have played a significant role in raising income in urban areas, together with more nonagricultural employment opportunities. The share of private transfers in total household income has increased from 20 to 42 percent in the first and from 15 to 20 percent in the second quintile of the income distribution. In rural areas, where poverty has stagnated and inequality increased, the share of private transfers also rose for the bottom 40 (from 10 to 15 percent in the first quintile and from 7 to 12 percent in the second).

2.19 Private transfers are associated with lower poverty levels. Since over 60 percent of poor and extreme poor households rely on some kind of transfers, excluding those has a sizeable effect on

³⁸ Clemens (2014) gathers evidence that migration tends to *increase* with income until a certain threshold, suggesting that poorer households would like to migrate, but do not have the means to afford it.

³⁹ Improved sanitation includes flush toilets and improved latrines. According to the United Nations Children's Fund and the World Health Organization, an improved sanitation latrine is one that hygienically separates human excreta from human contact.

poverty headcounts.⁴⁰ If private transfers were to stop flowing, extreme poverty would increase 5 points (from 23.8 percent to 28.9 percent), and moderate poverty would rise 4 percentage points (from 58.5 percent to 63 percent). As poor households have less access to remittances, excluding them from the total budget has a smaller impact on poverty rates: extreme poverty rises to 25.4 percent and moderate poverty to 60.3 percent.⁴¹ Some regions like the South East or the South benefit particularly from private domestic transfers, while in the North, the North East, and the Nippes remittances from abroad play a greater role in reducing poverty (Figure 2.8).

⁴⁰ Official poverty rates are based on consumption, not on income. The exercise above consists on subtracting transfers from total *consumption* and recalculating poverty rates, thus relying on the assumption that households consume all of income received from transfers (no savings).

⁴¹ Acosta et al. (2006) use the 2011 ECVH to estimate the effect of remittances on poverty. Using an income-based welfare measure and the international poverty lines of U\$ 1 and U\$ 2 a day for extreme and moderate poverty, respectively, they find that excluding remittances increased extreme poverty from 53 percent to 60 percent and moderate poverty from 71 percent to 76 percent.

CHAPTER 3 : TRENDS AND DRIVERS OF GROWTH

A. GROWTH HAS BEEN DISAPPOINTING

3.1 **Overall, Haiti's growth performance in the last four decades has been disappointing.** From 1971 to 2013, GDP growth averaged 1.2 percent a year, much lower than the average of the LAC region (3.5 percent) and the average of economies at the same level of development (3.3 percent) (Figure 3.1). The few periods of positive growth were short-lived, often followed by a contraction in economic activity. Furthermore, in light of the country's important demographic growth, the level of GDP per capita even fell by 0.7 percent per year on average between 1971 and 2013. While Haiti's GDP per capita has expanded in line with the average of LAC during the 1970's, it has lost ground ever since (Figure 3.2). Even Low Income Countries (LIC) have on average seen their GDP per capita taking off since the mid-1990s, leaving Haiti behind.

Figure 3.1 : GDP, 1970-2013 (1970=100)
(Constant 2005 US\$)

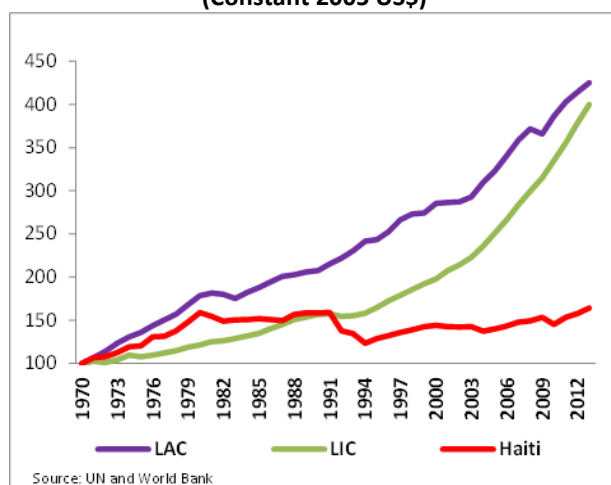
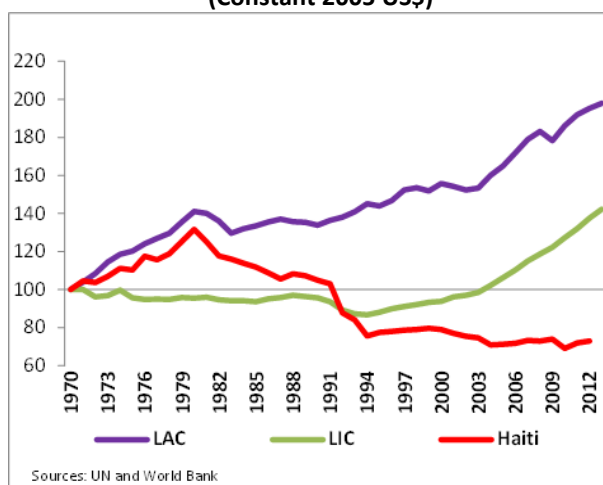


Figure 3.2 : GDP Per Capita, 1970-2013 (1970=100)
(Constant 2005 US\$)



3.2 **Haiti's growth has been largely driven by an expanding labor force.** Looking at the factor decomposition of Haiti's growth, one notices that labor has been the main driver of the country's economic expansion (Table 3.1). Increases in life expectancy and reductions of fertility rates (from 5.7 births/woman in 1971 to 3.2 in 2012) have contributed to the increase in the share of the working age population: population ages 15-64 represented in 2012 59 percent of the total population, up from 54 percent in 1971. Capital accumulation, although timid for most of the period, has been picking up since 2000. Even if overestimated, capital accumulation is likely to have been lifted by the re-engagement of donors and the aid flows following the 2010 earthquake to rebuild lost infrastructure.⁴² Access to concessional borrowing has also financed a higher level of public investment (Box 3.1).

⁴² There are reasons to believe that investment figures in Haiti are over estimated. Both treasury financed and donor's financed projects have a significant share of current expenditures recorded as investment.

Table 3.1 : Contributions to Growth ($\alpha = 40\%$) † (Percentage Points)

	1970-2012	1970-1981	1981-1995	1995-1999	1999-2012
Capital Stock	0.3	-0.2	0.1	0.3	1.0
Labor	1.3	1.2	1.2	1.6	1.3
Human Capital per Labor	0.5	0.4	0.6	0.4	0.3
Total Factor Productivity	-1.0	2.5	-3.2	0.3	-1.8
Real GDP	1.1	4.0	-1.3	2.6	0.8

Source: Bank staff calculations

Box 3.1 : Petrocaribe and Haiti

The Petrocaribe initiative, created in 2005, has 18 members.⁴³ The agreement aims to promote cooperation among state energy operators, in terms of technology, energy policy, joint exploration, refining, sales and investment in the energy sector. The most relevant aspect of the Petrocaribe agreement is the stable supply of oil from Venezuela to other members, at favorable financing conditions. Through the agreement, Venezuela commits to providing oil to the members based on quotas established bilaterally at international market prices. Haiti joined the initiative in March 2007 and started benefiting from the agreement in October 2007, with a quota of 14 thousand barrels per day (b/d). However, only a fraction of the bill needs to be paid in cash, the remaining is financed on concessional terms (Table 1 below).

Price per Barrel (dollars)	Share of Financing (% of total)	Repayment Period (years)	Grace Period (years)
150	70	23	2
100	60	23	2
80	50	23	2
50	40	23	2
40	30	23	2
30	25	15	2

Source: BMPAD

The sale of these oil products in the domestic market creates considerable resources for the government. Since 2008, the Petrocaribe flows have amounted cumulatively to 25 percent of GDP. An autonomous agency of the Ministry of Finance (the *Bureau de Monétisation du Programme d'Aide au Développement*, BMPAD) manages these resources on behalf of the Haitian government. BMPAD plays an intermediary role between Haitian fuel purchasers and the Venezuelan supplier.

Petrocaribe resources have been used to finance investment and social projects, as well as support the electricity sector. Whenever the government decides that new projects will be financed using these resources, it publishes a resolution listing these projects and the amounts to be financed in the official gazette. Disbursements into the projects are reported in BMPAD's webpage on a regular basis. These projects suffer nevertheless from the same shortcomings than the rest of the public investment program, notably a lack of proper assessment, prioritization and monitoring (see Box 1.1). A recent audit of these investments by the CSCCA highlights serious shortcomings in the procurement and supervision of contracts, including over-priced infrastructure and abandoned projects.

3.3 The economy's performance has, however, been held back by negative productivity shocks. Real GDP growth in Haiti during the period was disappointing, despite increases in the factors of

⁴³ Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Venezuela.

production, implying negative total factor productivity (TFP). This negative contribution could reflect the natural disasters and political instability Haiti has experienced.⁴⁴ Only during a limited period of time after the return to democracy (1995-1999), growth in TFP was positive. During these episodes, improvements in productivity could have stemmed from the reallocation of factors towards economic sectors with higher productivity, higher “quality” of inputs (labor and capital) or the adoption of new technologies (IMF, 2004).

3.4 Natural disasters have indeed hampered Haiti’s economic performance over the last forty years. Between 1971 and 2013, Haiti’s economy has been subjected to numerous shocks with adverse effects on growth. While natural disasters have occurred almost every year during this period (Figure 3.3), the extent of the economic consequences depends on the nature of the disasters: the effects of floods tend to be limited to certain areas, with fewer people affected, while those of hurricanes tend to be more widespread (Figure 3.4). In 2008, for instance, Haiti was hit by four hurricanes, causing a contraction in agricultural production by more than 7 percent. The 2010 earthquake was also destructive and led to a significant loss of human life and displacements, as well as damage to infrastructure, dwellings, and, to a lesser extent, jobs. In 2012, the country was hit by two hurricanes (Isaac and Sandy) and one drought, leading to negative growth of 1.3 percent in the agricultural sector.

Figure 3.3 : Annual GDP Growth vs. Occurrence of Natural Disasters, 1971-2013

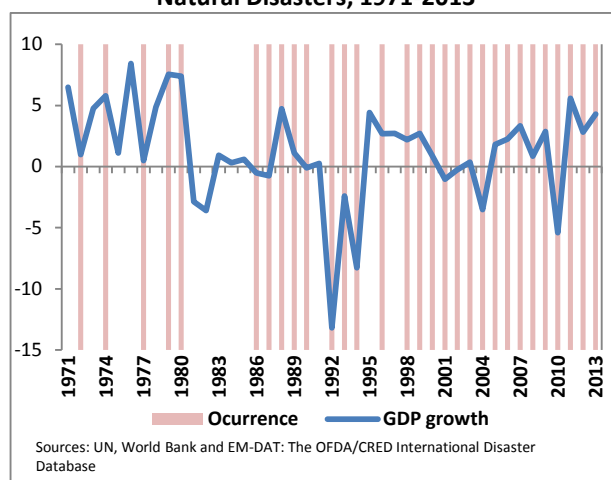
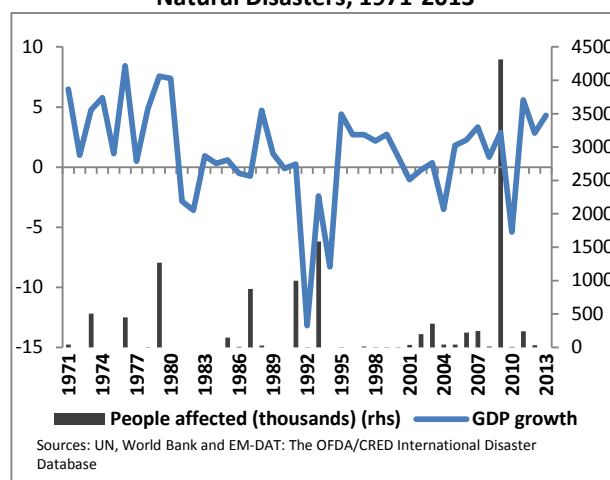


Figure 3.4 : Annual GDP Growth vs. People Affected by Natural Disasters, 1971-2013



3.5 Political instability has also taken a toll on growth. The departure of Jean Claude Duvalier initiated a period of intense political instability in Haiti (Figure 3.5). Between 1986 and 2014 the country had 18 changes of president and important changes in regime (Table 3.2). In addition, according to the Cross-National Time Series data archive, there were 20 major cabinet changes in Haiti from 1986 to 2006 (meaning a change of Prime minister or 50 percent of the cabinet posts are assumed by new ministers). Empirical investigations have shown that such cabinet changes are detrimental to growth (e.g. Aisen and Veiga, 2013). Their results imply that Haiti would have grown by 1.2 percentage points faster if it had achieved an average level of political stability.⁴⁵

3.6 Persistent and growing urban crime has also hampered investment and growth. Although the Haitian countryside has historically been relatively safe, the country’s homicide rate doubled between

⁴⁴ A simple regression would suggest that natural disasters and Cabinet changes could account for 60 percent of the variance in TFP.

⁴⁵ Calculations based on a background paper prepared for the SCD by Kassia Antoine, Raju Singh, and Konstantin M. Wacker.

2007 and 2012 from 5.1 to 10.2 homicides per 100,000 inhabitants.^{46 47} Criminal activity has been especially widespread near the industrial areas of Port-au-Prince and in urban slums, forcing businesses to absorb high security costs and periodically shut down or move their operations. The effects of violence are felt most deeply on the most vulnerable members of the population. Residents of poor, marginalized neighborhoods are 40 times more likely to be murdered than other urban dwellers.

Figure 3.5 : Annual GDP Growth vs. Changes in Government, 1971-2013

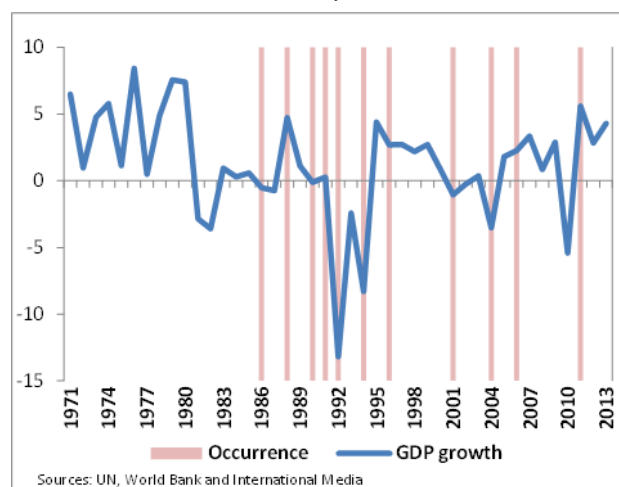


Figure 3.6 : Economic Structure, 1970-2012 (Percentage of Value Added)

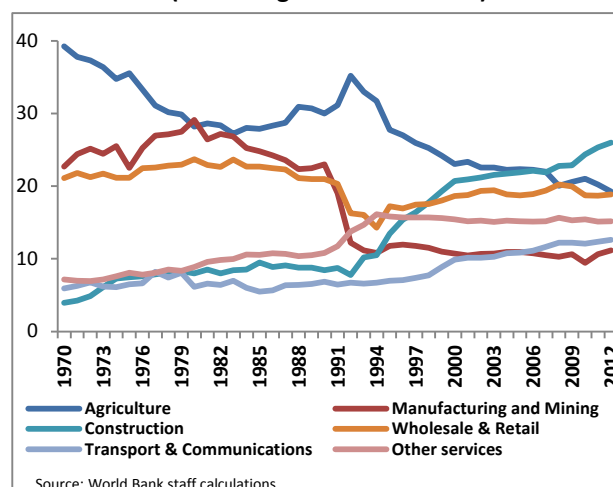


Table 3.2 : Haiti's Governments, 1971-2014

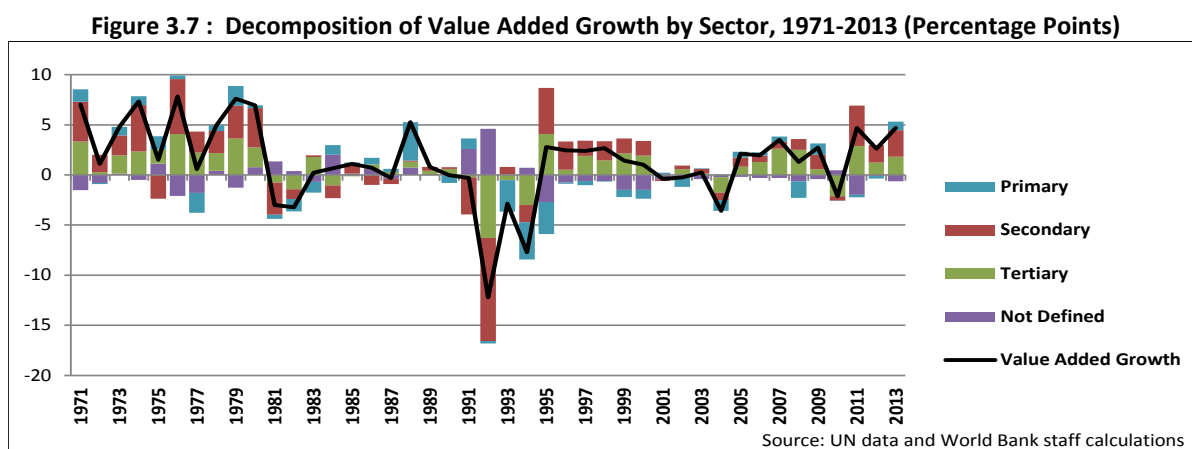
ADM.	POSITION AND NAME	PERIODS SERVED	TIME SERVED
1	President Jean Claude Duvalier	4/1971 to 2/1986	15 years
2	President Henri Namphy (civilian-military junta)	2/1986 to 8/1988	2 years
3	President Leslie F. Manigat	2/1988 to 6/1988	4 months
4	President Henri Namphy (military junta)	6/1988 to 9/1988	3 months
5	President Prosper Avril (military junta)	9/1988 to 4/1990	20 months
6	President Hérard Abraham (military junta)	3 days in 4/1991	3 days
7	President Ertha Pascal Trouillo	4/1990 to 2/1991	10 months
8	President Jean-Bertrand Aristide	2/1991 to 9/1991	7 months in Haiti
9	President Joseph C. Nérette	10/1991 to 5/1992	7 months
10	No de-facto president		
12	President Emile Jonassaint	6/1994 to 9/1994	3 months
13	President Jean-Bertrand Aristide	10/1994 to 2/1996	16 months
14	President René Préval	2/1996 to 2/2001	5 years
15	President Jean-Bertrand Aristide	2/2001 to 2/2004	3 years
16	President Boniface Alexandre	2/2004 to 5/2006	2 years
17	President René Préval	5/2006 to 5/2011	5 years
18	President Michel Martelly	5/2011 to date	

Sources: World Bank and International Media

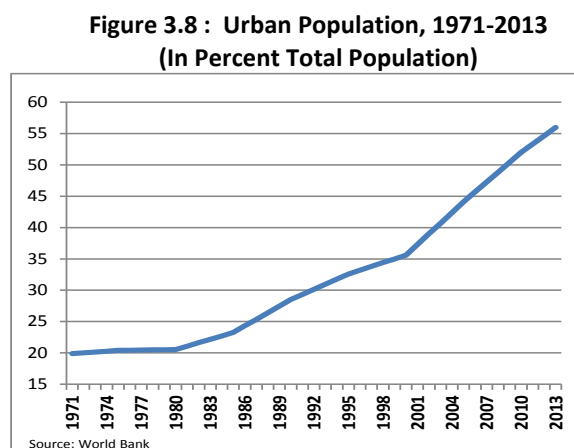
⁴⁶ UNODC Homicide data.

⁴⁷ The main state penitentiary collapsed following the earthquake, allowing most of the criminals to escape. Combined with a still weak law enforcement and justice system, this event enabled criminal gangs to grow, as well as political assassinations, carjackings, and kidnappings to continue.

3.7 These events have significantly reshaped the structure of the Haitian economy over the last four decades. The US embargo (1991-1994) triggered a strong decline in manufacturing (Figure 3.6). This sector represented 18 percent of GDP in 1990, shrunk to 10 percent in 1994 when the embargo ended, and never returned to pre-embargo levels afterwards.⁴⁸ In the beginning of the 1970, agriculture was the most important sector, representing almost 40 percent of the value added, but fell to less than 20 percent in 2012. Authors have argued that the embargo, because it hampered access to important inputs such as seeds, contributed to the decline of productivity in the sector (IICA 1997). High fragmentation of land, low levels of technology applied in the sector, and soil deterioration have also constrained agricultural productivity. As seen above, the sector is also very vulnerable to natural disasters. Some of those factors have also contributed to the great volatility in the contribution of the agricultural sector to GDP growth while construction and services have been more steady drivers of growth, especially since the earthquake. (Figure 3.7).



3.8 The decline of agriculture has been accompanied by an acceleration of urbanization (Figure 3.8). An increase in population concentration in the cities has also pushed the demand for services. Together, the activities of transport and communication, commerce and other services currently represent almost half of the value added in Haiti. Another sector that has risen in importance is construction, also driven by urbanization. Growth in construction was the main driver of the rise in the share of secondary activities in GDP.



B. ... HAMPERED BY WEAK STRUCTURAL POLICIES AND INSTITUTIONS

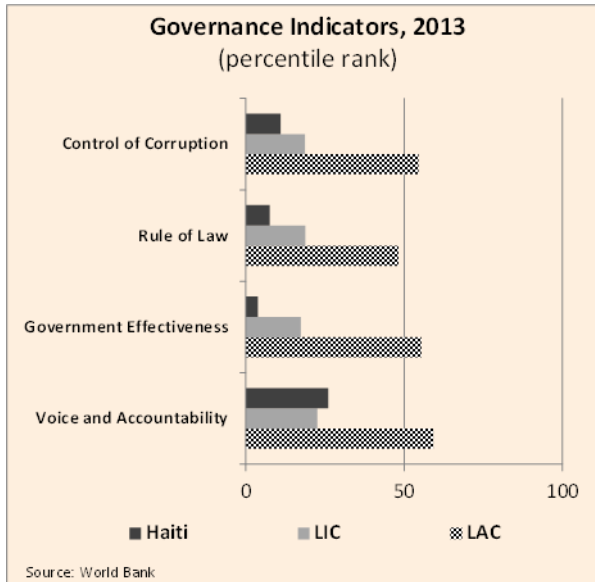
3.9 Weak structural policies and institutions seem to continue to be at fault (Figure 3.9). Poor governance and political instability have been identified in previous assessments as the major

⁴⁸ IDB (2009) mentions for instance that in 1984 the vast majority of U.S. baseballs were assembled in Haiti. The same seems to have been true for the Rubik's Cube. 125,000 workers were employed in the sector at the time and the embargo brought this number close to zero ten years later.

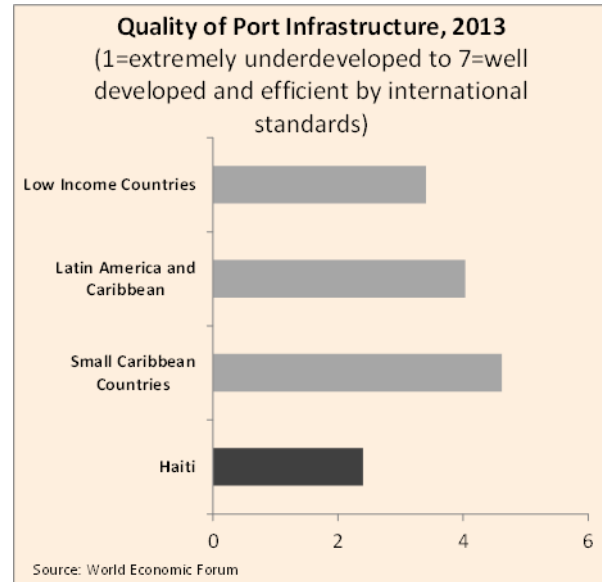
impediments to sustainable development, along with weak public sector capacity and accountability, followed by low levels of education and badly deteriorated infrastructure.⁴⁹ Doing Business Indicators rank Haiti at 174 out of 185 countries, while the 2013–2014 Global Competitiveness Index (GCI) ranks it 143 out of 148 countries. According to these indicators and the investors’ survey of the GCI, the major constraints in Haiti’s business environment include poor infrastructure and limited access to finance, as well as cumbersome administrative procedures to start a business and comply with tax obligations.

Figure 3.9 : Obstacles to Growth

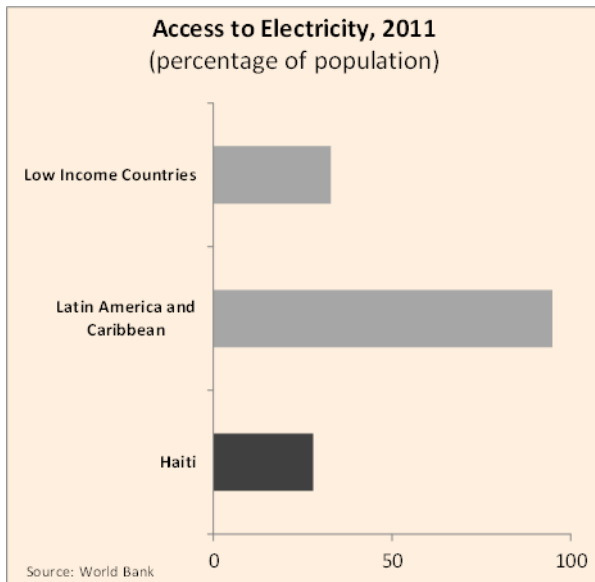
Governance is a concern...



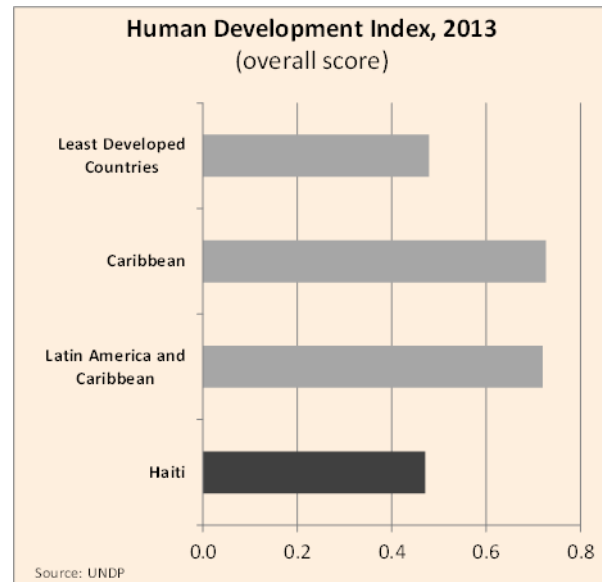
... Infrastructure inappropriate ...



... As well as access to electricity ...



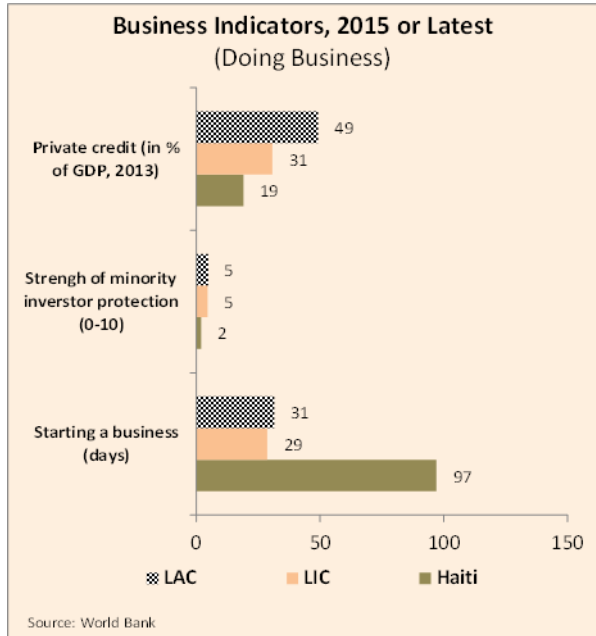
... Human development is low...



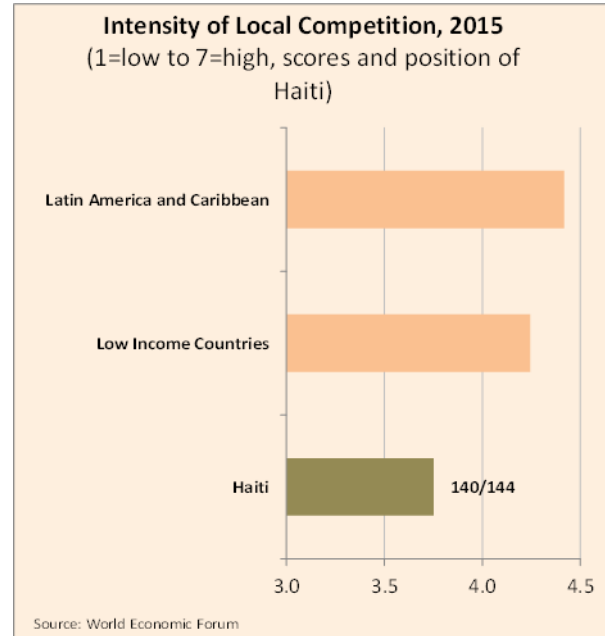
⁴⁹ See for instance World Bank (2002).

Figure 3:9: Obstacles to growth (continued)

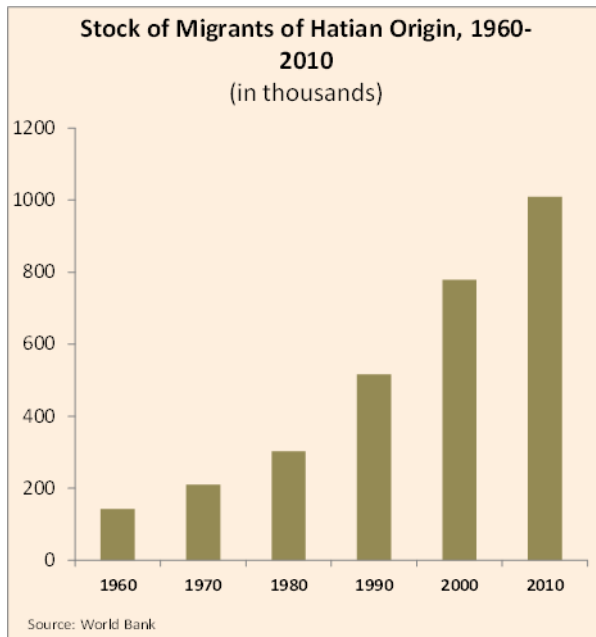
... And the business climate unfavorable...



... Restricting competition and opportunities...



... And encouraging the population to seek its future abroad...



... Or in low paid jobs

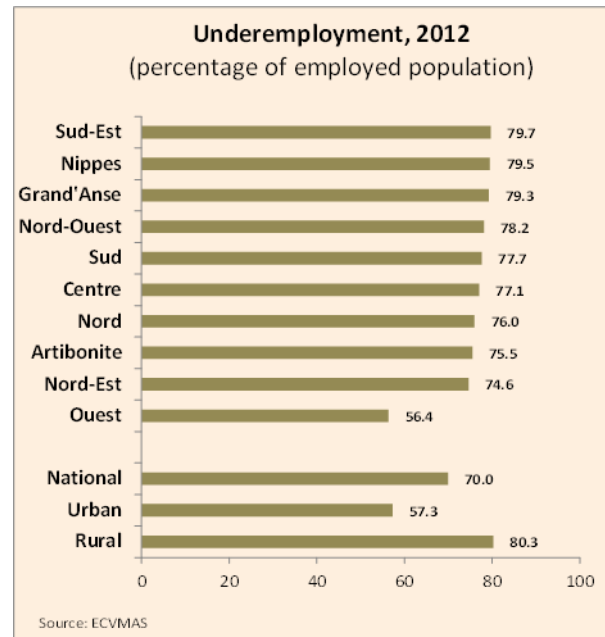
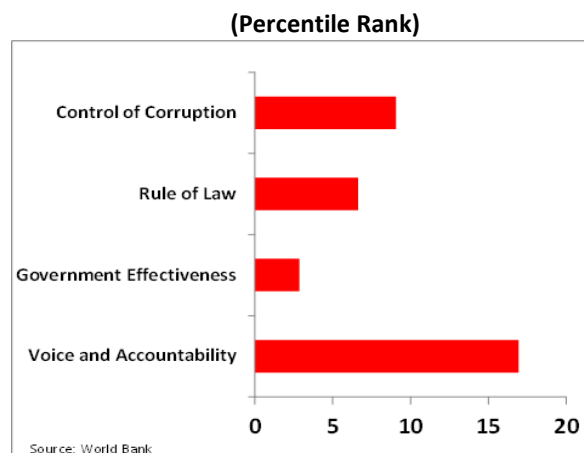


Figure 3.10: Change in Governance Indicators, 2004-2013

3.10 Although governance indicators have improved, they remain low.

The increase in political stability after the low-point of 2004 came with an improvement in a number of governance indicators (Figure 3.10). The implementation of the Automated System for Customs Data (ASCUYDA) was stepped up, for instance, after the earthquake.⁵⁰ Indicators for control of corruption, rule of law, government effectiveness, as well as voice and accountability have all registered improvements in Haiti over that period, although remaining low compared to the average of the LAC region and to that of low-income economies (Figure 3.9). Haiti still ranks lowest in the region in control of corruption or government effectiveness.

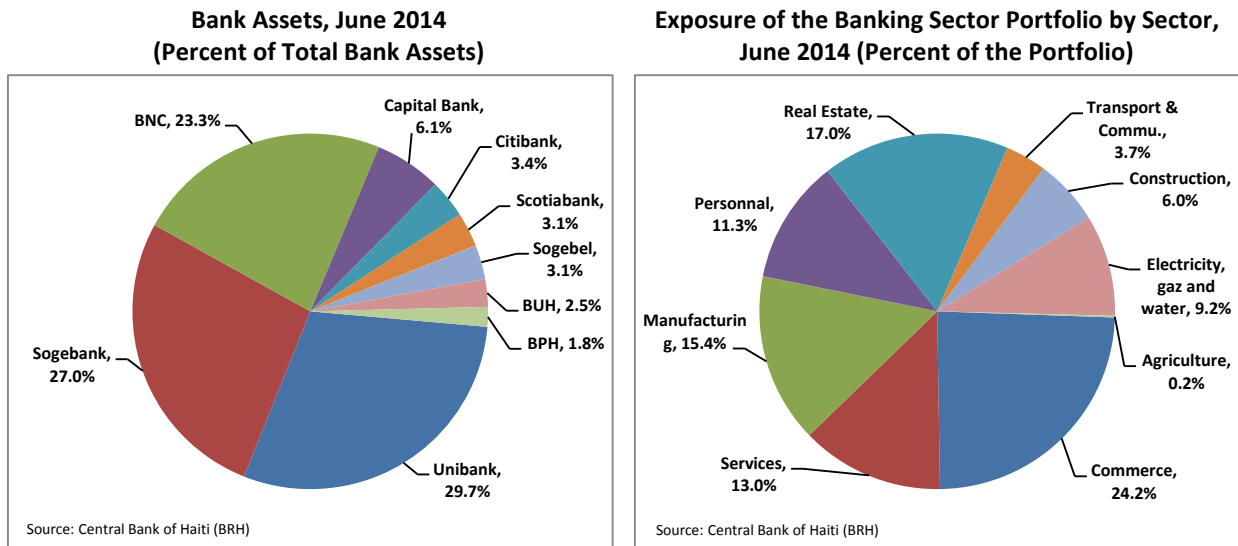


3.11 In particular, a real property cadaster and land registry system is needed. Less than five percent of Haiti's land has been surveyed, and more than 75 percent of rural land contracts are drawn up according to traditional procedures and are not officially registered. The situation is just as complicated in urban areas. The courts are clogged by numerous land disputes. Increased legal security of land rights is essential to protect both individual households and investors (who hesitate to engage in investment projects that might end up being challenged in court), and to develop and maintain a real estate market. Several attempts have been made at the national level to develop a registry system, without success.

3.12 Access to finance is challenging for both, households and medium- and small-sized enterprises. The very small number of branches and service points of formal institutions in the country (6.35/100,000 inhabitants) results in a low level of usage of financial services. Today, only 27 percent of all adults in Haiti have an account at a formal financial institution (compared with 45 percent in LAC). Coupled with limited credit information availability, unclear property rights and weak contract enforcement, access to credit is problematic, particularly for small- and medium-sized enterprises, limiting their capacity of taking advantage of opportunities, growing their operations and generating employment. Furthermore, competition to provide financial services is limited. The sector is highly concentrated, with close to 80 percent of bank assets being held by the three largest banks, and – according to the 2008 FSAP – 10 percent of individual borrowers receiving approximately 80 percent of total loans. Roughly 40 percent of total credit is extended to commerce and services activities, whereas agriculture receives less than 0.2 percent (Figure 3.11).

⁵⁰ Customs provides about 30 percent of budget resources. In addition to fraud prevention, the customs department also has the responsibility of stopping unfair competition and unwarranted earnings, while at the same time facilitating fluid and transparent trade transactions. The main entry point for individuals and merchandise is Port-au-Prince. The customs services situated at the port and the airport of Port au Prince cover respectively more than 90 percent of imports and 70 exports of the country. They also generate 84 percent of customs receipts. In addition, eight customs posts are situated around the perimeter of the country and there are also mobile brigades.

Figure 3.11: Credit by Sector, as of Q2 of 2014



3.13 **Haiti’s infrastructure also falls short.** Island economies are extremely dependent on the quality, frequency and cost of the means of transport that link them to markets which represent both market outlets for their products and supply sources for the needed imported goods. The efficiency and effectiveness of transport, whether by road, by sea, or by air, therefore contribute to the competitiveness of these countries. The quality of transport and logistics services in Haiti is poor, however, the country ranking 144th out of 160 countries on the World Bank’s logistics performance index (LPI) in 2013 and trailing behind its competitors (Figure 3.12).⁵¹ The road network in Haiti is in poor condition and many parts of the territory are not well connected: 60 percent of people living in rural areas do not have access to main roads during the rainy season.⁵² Haiti is also less integrated into the global shipping line network than many developing countries.⁵³ Furthermore, the costs of loading and unloading a standard container at Port-au-Prince are by far the highest of the Caribbean ports (Figure 3.13).⁵⁴

⁵¹ The LPI is based on six core dimensions of trade-related services, including customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness.

⁵² The sharp deterioration of Haiti’s road network, the inadequate packaging of fruit and vegetables and the use of vehicles unsuited to the transport of agricultural goods are responsible for considerable commercial losses. In the North West, for instance, transport costs for a stem of bananas from the farm to the primary market are estimated to represent 25 percent of the sale price or 45 percent of the profit margin (World Bank, 2013).

⁵³ According to UNCTAD’s liner shipping connectivity index (LSCI), Haiti ranks lower than the main players in the Caribbean: Haiti’s score of 5 is much lower than scores by Jamaica (21) and Bahamas (27), and the Dominican Republic (23) that host transshipments ports. The liner shipping connectivity index (LSCI) is made up of five components: 1) the number of companies that provide services from/to a country’s ports; 2) the size of the largest ship providing services from/to a country’s port (measured in Twenty foot Equivalent Units--TEU); 3) the number of services that connect the country’s port(s) to other countries’ ports; 4) the total number of ships operating from/to the country’s port; and 5) the total container carrying capacity of those ships.

⁵⁴ According to a 2009 study mandated by the Haitian Chamber of Commerce, costs in Port-au-Prince are five times higher than in the ports of the Dominican Republic (World Bank, 2013).

Figure 3.12: Logistic Performance Index, 2014
(1=lowest, 5=highest)

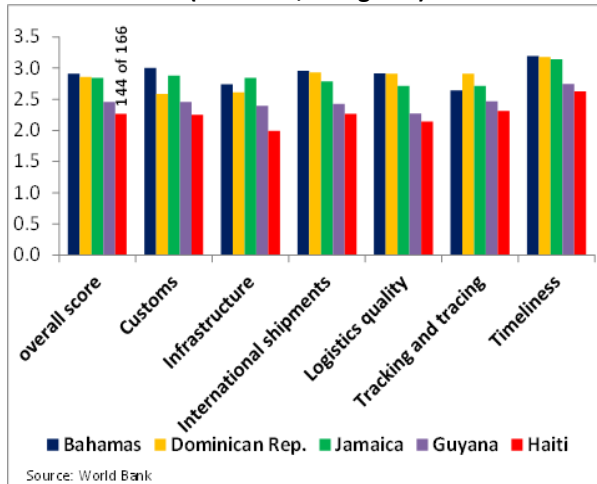
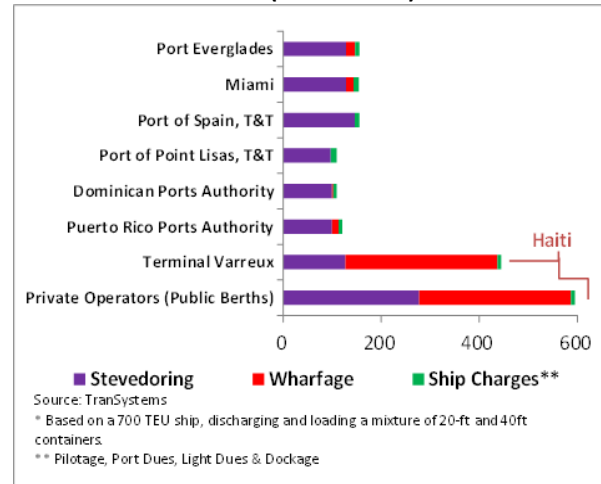
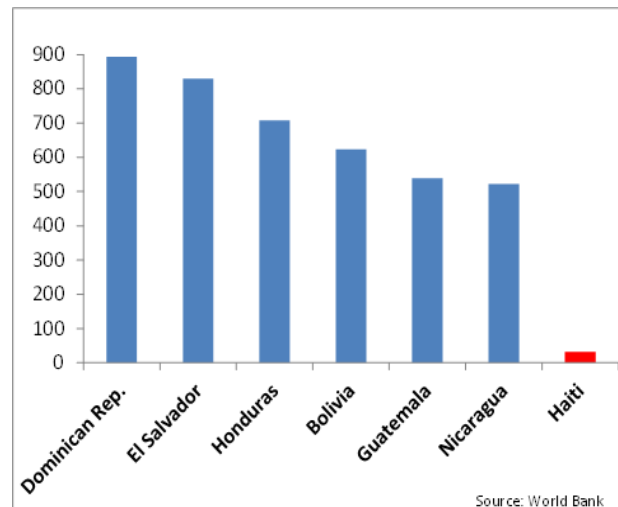


Figure 3.13: Port Tariffs Estimated Cost Per TEU*, 2009 (In US Dollar)



3.14 In particular, the provision of electricity is problematic. The electricity current is unstable and there are frequent power cuts and surges, which can result in serious damage to industrial equipment. Despite this poor service, the cost of electricity is among the highest in the region. In 2011, industry was charged \$0.32/kWh, compared to \$0.18 in Nicaragua, \$0.17 in the Dominican Republic and \$0.06 in Bangladesh.⁵⁵ These countries are Haiti’s competitors in light manufacturing and apparel industry. Since reliability is low, Haitian industries must have backup power sources, generally diesel generators. Furthermore, the supply of electricity covers only a small proportion of the country, with rural areas being particularly neglected. Per capita consumption of electricity in Haiti is substantially lower than in other Caribbean countries, for example, it is only two percent of the level in the Dominican Republic (Figure 3.14).

Figure 3.14: Electric Power Consumption, 2011 (kWh Per Capita)



3.15 Access to clean water and improved sanitation in Haiti also remains limited. Access to quality water is a significant challenge in rural areas and small towns of Haiti (Table 2.1). Rural areas are generally served through water points equipped with hand pumps, while small towns are served with gravity-fed piped systems from which water is delivered through stand posts, kiosks and household connections. A substantial portion of the system is not operational, however, for lack of sufficient funds for operation and maintenance, and less than ten percent are equipped with chlorination devices.⁵⁶ Sanitation is equally a challenge with only 16 percent of households having access to improved sanitation in rural areas. Both urban and rural populations mostly rely on individual on-site sanitation

⁵⁵ IFC (2011)

⁵⁶ DINEPA’s performance monitoring system, which monitors roughly half of the water supply systems, estimates that 41 percent of the stand posts and 45 percent of the kiosks do not deliver water.

solutions, as sustainable collection and treatment of sewage are practically non-existent. Due to low access to improved sanitation facilities, open defecation is frequent. In this fragile environment, facilitated by flooding and heavy rain, cholera broke out and rapidly spread through Haiti in 2010.

3.16 Surveys also point to the lack of qualified labor.⁵⁷ One major constraint faced by enterprises in Haiti is the difficulty to find technicians that are well qualified, particularly in new technologies. This forces the country to position itself as a low cost producer for goods and services requiring little skills. An opaque labor market may be at fault, with no institutional mechanism to enable the exchange of information between labor demand and supply. More generally, the level of education among the adult population remains low: 45.7 percent of the adult population (60.5 percent of households' heads) have never attended school or have not completed primary education. Not mastering basic skills such as literacy and numeracy when starting work represents a major impediment for their insertion in the labor market and, more importantly, for their ability to absorb post-school training either on or off the job, and to adapt to changing job requirements.

3.17 Against this backdrop, light manufacturing is a success story, but with challenges. The apparel industry has expanded rapidly since 2009 with exports especially to the US market helped by preferential access agreements. These exports have been growing at 18 percent per year. The industry is estimated to employ about 30'000 workers at present and is expected to expand further in the future. It is by far the largest formal employer. Wages remain, nevertheless, low, while rapid migration and informal housing settlements around these firms can rapidly create developmental challenges due to limited infrastructure and government services to meet workers' needs. Nonetheless, apparel wage-earners have a vested interest in stability, and could be a source of poverty reduction and shared prosperity. However, as long as port and electricity costs remain high compared to its competitors, Haiti's comparative advantage rests on cheap labor, which will force wages to remain low.

3.18 Tourism has a long way to go, but could contribute significantly to growth. Haiti's potential in tourism is rich, not only because of beautiful nature and beaches, but also because of its world-class cultural and natural heritage, such as the Citadelle, Palais Sans Souci, and Ramiers, classified as World Heritage sites by UNESCO. Demand for tourism services is growing with close to one million visitors registered in 2013 according to the World Tourism Organization. Most of these visitors are from the Haitian diaspora in the US and cruise ship visitors, with overnight visitors in some of the emerging tourist resorts and high-end hotels representing a much smaller number, thus limiting the economic impact of tourism so far. 24,000 people arrive by cruise ship every week, but there are no excursions within Haiti organized. Haiti's performance also pales in comparison to its neighbor, the Dominican Republic, where 90 percent of its more than five million visitors annually stayed overnight and expenditure amounted to about 8 percent of GDP in 2013. Overall, while the potential is significant, Haiti's tourism industry has a long way to go, including overcoming the image of a dangerous country, marred by violence and cholera, and, once again, its weak transport and electricity infrastructure.

3.19 Mining holds potential, but comes with social and environmental challenges. Haiti shows significant potential in mineral and metal mining. Based on preliminary exploratory activities, Haiti is expected to have substantial deposits, especially in gold, silver, copper, and aluminum bauxite. Given the limited information available, determining the economic potential of mining in the country has to be approached with caution. Estimates suggest a reserve value of about US\$ 5-6 billion at current market prices. Successful exploitation of this wealth will, however, require a much more concerted effort by the government to put in place the appropriate policy, regulatory and institutional framework. At present,

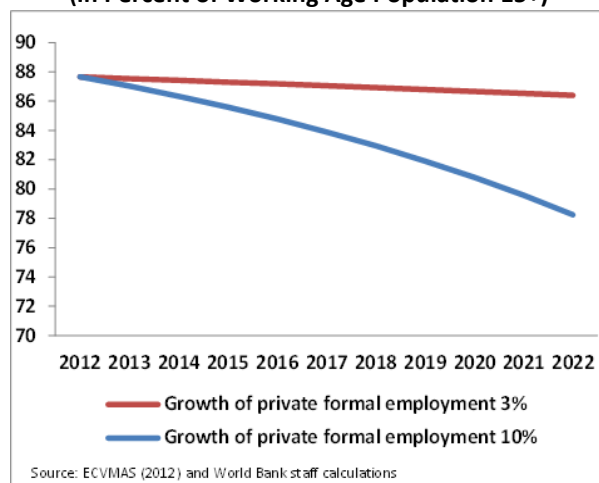
⁵⁷ See for instance ILO (2010)

the framework for awarding exploration and exploitation licenses suffers from a lack of transparency, leading some larger mining companies to halt their exploration work. Most importantly, managing the environmental and social impact of mining will need to be addressed, including through an open and transparent community and stakeholder engagement mechanism to ensure that local communities affected by these operations can help shape these operations and benefit from them.

3.20 How could the earnings of the underemployed and those employed in the informal sector be improved?

The formal manufacturing and service sectors have the potential to be an important source of employment, but because they hire such a small share of the labor force, even with very high growth rates, they will not be able to absorb more than a fraction of the new entrants. Figure 3.15 simulates the share of the labor force in the informal and agriculture sectors. Even with a ten percent annual growth rate – in line with the strong job creation observed over the past five years, implying about 30,000 new formal jobs a year – formal employment would only account for about 20 percent of the labor force in a decade. Most Haitians are thus likely to continue working in low-productivity agriculture and non-agriculture informal sector activities over the foreseeable future. The challenge is thus to enhance the productivity – hence the earnings – of those already employed, while at the same time creating more formal jobs.⁵⁸

Figure 3.15: Informal Employment, 2012-2022 (In Percent of Working Age Population 15+)



3.21 The constraints discussed above seem to be particularly present in agriculture. Haiti’s agricultural potential has yet to translate into commercial agribusiness. Notwithstanding the fact that 40 percent of jobs in Haiti are in agriculture, the country is far from developing a commercial agribusiness sector. The agriculture sector in Haiti has been declining for many years, the result of neglected rural infrastructure, weak research and extension, poorly defined land tenure, limited access to credit, and under-investment in human capital. Even in potentially successful niches such as coffee, cacao or mangoes, the vast majority of agricultural production continues to be related to low-productivity subsistence farming. There has been a general shift out of long cycle towards short cycle production (annual cereal cultures and vegetables). These factors, along with high population growth, have contributed to shrinking parcel sizes; complex, informal tenure systems that discourage long-term investment; and cultivation of marginal lands with steep slopes, encroaching on forests, destroying watersheds, and aggravating the tenuous environmental situation.

3.22 Limitations in logistics are particularly constraining for agriculture supply chains. Firms in the agriculture sector do not get to choose where to set up shop and need to transport their products to the markets. Supply chains analyses carried out on six products showed that transport-associated losses could be extremely high.⁵⁹ For informal products, loss levels could be in the range of 40 percent.

⁵⁸ For an early discussion of these themes, see for instance Delatour and Dnggleby (1993).

⁵⁹ Supply chain analysis shows how the effects of constraints (costs, times and losses) are distributed throughout the logistics chain. In case of Haiti, surveys and semi-structured interviews have been conducted with government officials, shipping companies, exporters for three formal supply chains: mangoes (Artibonite, Gros-Morne), rice (Estère, Pont Sondé, Desdunes, Verrettes, Artibonite) and vetiver (Les Cayes, Sud). In

Transport services are often unavailable, and Haiti's two rainy seasons often make roads impassable. When factoring in mangoes that spoil in the field before they can be transported, one exporter estimated that losses could reach up to 50 percent. In production zones with poor accessibility, producers and traders are forced to transport goods on horseback or by foot. The first segment of transport, from the farm to the first point of collection, is the most costly in terms of actual and implicit transport costs and losses. Lastly, poor storage conditions reduce the shelf-life of produce, making producers anxious to sell at any price and cutting the season down to its minimum time range.

3.23 Regarding the informal sector, improvements in skills and access to inputs could enhance income prospects. Most of the nonfarm enterprises in Haiti operate on a small scale and are in the informal sector. Nonfarm businesses are micro in nature and have an average of 1.5 workers, including the owner. An analysis of correlates of successful self-employed performance was carried out, using three measures: revenues per worker (in log), revenues per worker in the top 30 of the distribution, profits per worker in the top 30 of the distribution (results are presented in Annex 2). With the caveat that this exercise indicates a conditional correlation rather than a causal relation, the analysis helps nevertheless identify the characteristics and inputs that could be significantly more relevant to improve understanding of what will it take to elevate productivity and generate jobs in the self-employed and small business sector. The results suggest that human capital (experience, skills), and access to physical capital such as electricity and water, are associated with higher returns.

addition, three informal supply chains have been examined: mangoes (Carice and Capotille, Nord-Est), and coffee and avocados (Central Plateau Region – Savanette, Baptiste – Centre).

CHAPTER 4 : SUSTAINABILITY

A. URBANIZATION IS PUTTING THE ENVIRONMENT UNDER PRESSURE

4.1 **Urbanization is increasing Haiti's vulnerability to natural disasters.** As a safety valve, migration probably contains poverty and provides relief to many families through private transfers. However, moving to urban areas is putting pressure on the environment, and leading to the settlement of large populations in vulnerable places (Figures 4.1 and 4.2). Their settlement in urban areas takes place usually in the cheapest, less accessible, and least serviced land, more often than not, in disaster-prone areas. Floods, hurricanes and earthquakes have considerable intensity in urban areas that make the precarious and informal urban dwellers particularly vulnerable. In terms of the number of communes, urban areas are the most prone to suffer floods. Twenty-seven communes lay within the highest risk of flood-prone area. The severity of hurricanes seems also to be more acute in urban areas. Two-thirds of urban communes and over 70 percent of urban population are affected by hurricanes with medium to high impact.

Figure 4.1 : Population Living in Flood Prone Areas (In Percent of Population)

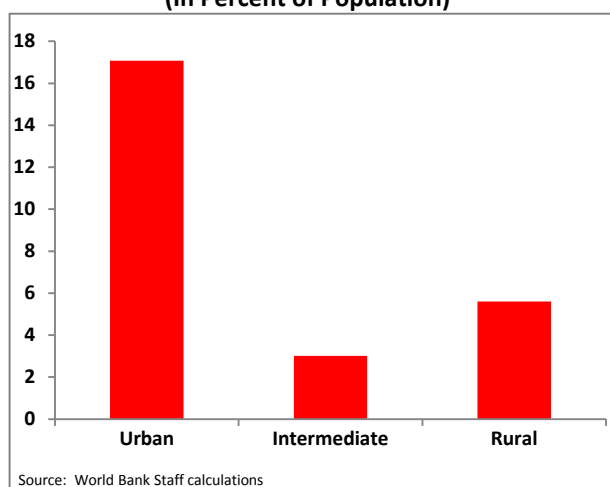
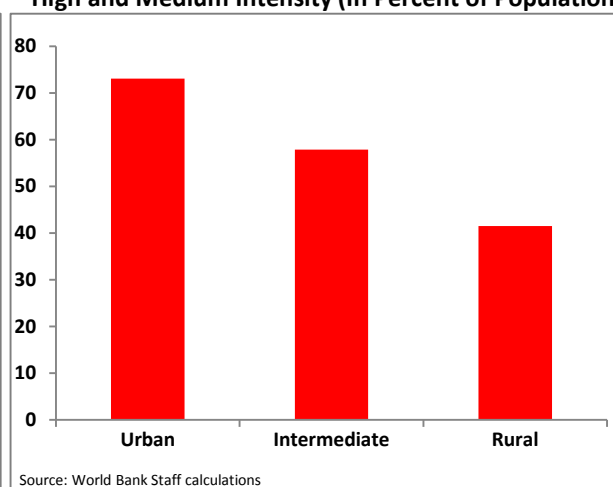


Figure 4.2 : Population Exposed to Hurricane Damage – High and Medium Intensity (In Percent of Population)



4.2 **This unplanned urban growth has created vulnerabilities for both the physical environment and those who live in it.** Settlers tend to occupy areas that are not only prone to risk from disasters, but are also sometimes nature's protection from risk. Coastal cities are throughout the world seeing an increase in shoreline retreat, which exposes them to a greater risk of flooding partly due to degraded coastal ecosystems by human activity (Sanchez-Reaza and Carletto, 2013). This slow degradation of the environment in turn increases the country's vulnerability as a whole to natural disasters. The metropolitan area of Port-au-Prince, for instance, is a coastal plain surrounded by the mountain chain *Morne l'Hôpital*, which severely limits the availability of land for growth. However, the urban area has experienced an explosive expansion in the past two decades with a near total absence of urban planning and growth regulation, much of it on precarious terrain. The trees and other vegetation that used to cover the *Morne* have now almost completely disappeared, giving way to a spontaneous and anarchic urbanization occurring on both state-owned and private land.

4.3 **Furthermore, natural disasters imply significant fiscal costs.** Work was carried out jointly with the Ministry of Economy and Finance (MEF) to develop several hypotheses regarding contingent liabilities for the government in the event of disasters. The results suggest that the annual average fiscal cost for the government can be estimated at around one percent of GDP. This estimated cost was based on modeling used by the CCRIF, and is linked to damages caused by tropical hurricanes (0.8 percent of GDP) and by earthquakes (0.2 percent of GDP). In the absence of a financial strategy to manage this risk and provide appropriate fiscal buffers, natural disasters will require reallocating public funds and involve high opportunity costs.

4.4 **Less frequent, higher-impact events can pose a real threat to the sustainability of public finances.** While frequent, low-impact events constrain fiscal space, less frequent, higher-impact events can imply significant fiscal shocks and pose a real threat to the sustainability of public finances. Although with large opportunity costs as discussed above, the government can mobilize a portion of its financing with respect to low-impact events through budget reallocations or the use of its deposits. However, these funds will not be sufficient to address major events that give rise to costs that far exceed the government's financing capacity. The fiscal shock associated with a hurricane that occurs once every 50 years, for instance, is estimated at about 10 percent of GDP, representing a much greater risk for fiscal sustainability and macroeconomic stability.

B. ... FEEDING SOCIAL TENSIONS

4.5 **Rapid urbanization could also be feeding greater violence.** Youth violence is often expressed as a reaction to perceived social and economic exclusion – grievances that can easily be mobilized by political interests.⁶⁰ Rapid migration to urban neighborhoods, associated with poverty, unemployment, political and social marginalization, limited access to services, and weak governance, could fuel the formation of gangs that engage at-risk youth and draw them in. These grievances have also contributed to intergenerational conflict, undermining social cohesion and hindering the capacity of many communities for productive collective action.⁶¹

4.6 **Violence in Haiti tends to be predominantly an urban phenomenon.** Looking at the number of politically violent events across arrondissements between 2000 and 2010, one observes that urban centers are by far the arrondissements with the largest number of conflict events per capita (Figure 4.3). This observation is confirmed using the MINUSTAH data for the most recent period covering criminal events (Figure 4.4). Even when controlling for relevant variables, our empirical work suggests that the share of urban population in the arrondissement is positively and significantly correlated with conflict intensity (Box 4.1).

⁶⁰ See World Bank (2010) and for a more detailed analysis of the data Willman and Marcelin (2010).

⁶¹ See Marc et al. (2012).

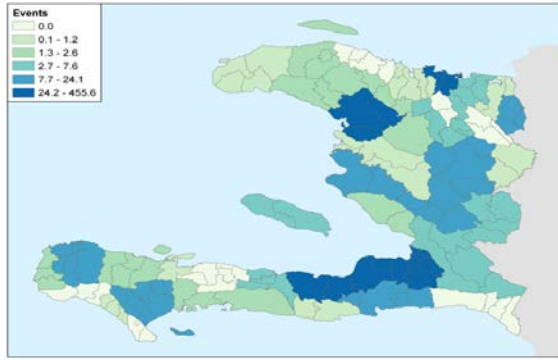


Figure 4.3 : Political Violence, 2003-2006
(Per 100,000 Inhabitants)

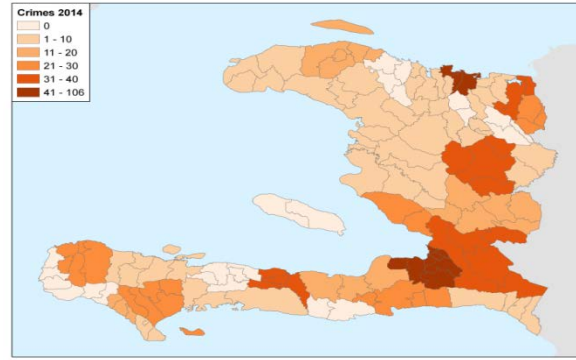
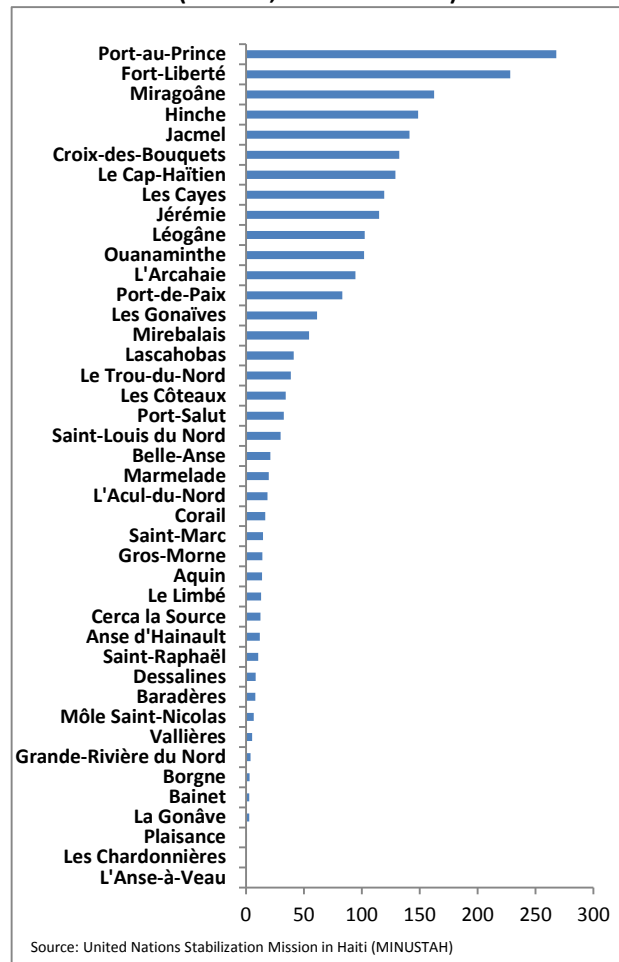
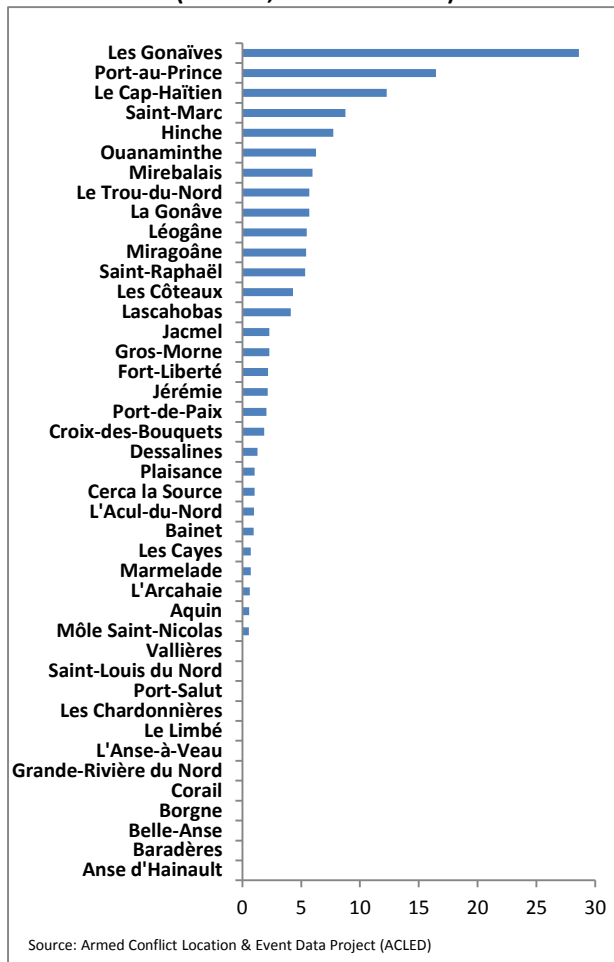


Figure 4.4 : Criminal Activity, 2010-2014
(Per 100,000 Inhabitants)



4.7 **Migration is associated with greater violence, as social ties erode.** The share of immigrants in the arrondissement's population is also positively correlated with conflict intensity. New migrants are likely to have less access to local social networks which provide economic and social support in case of negative shocks. Such buffer mechanisms are an effective way to reduce tensions in Haiti. Controlling for the presence of extended families confirms this interpretation. Given the dearth of data at the arrondissement level on such measures, we resort to the 2001 household survey which enables us to construct department-wise share of 'extended families' and 'extended kinship' combined. The former is

a household composed of more nuclear families and the latter is a network of more families not necessarily linked by blood relations. Adding this variable to the regression explains the migration variable away: a denser social network can help prevent or resolve disputes through non-violent means.

Box 4.1 : Drivers of Conflict in Haiti - An Empirical Analysis⁶²

In order to understand better the role of various socio-economic factors in explaining the ebbs and flows of conflict across Haiti in the 2000s, a cross-sectional analysis across the 42 Haitian arrondissements was run. This strategy has the advantage of allowing us to control for national level factors that may not be properly observable in cross-country analyses and may be endogenous to conflict. In addition the within-country analysis relies on a more homogenous definition of conflict events than a cross-country analysis, although coming at a cost of not allowing for the investigation of the role of factors that do not vary across spatial units or over the period of analysis, such as the political regime and the oligopolistic nature of the economy.

We used data on conflict events from the Armed Conflict Location & Event Data (ACLED) Project, which collects and codes media reports on civil and communal conflicts, militia interactions, violence against civilians, rioting, and protests across various countries since 1997. In the case of Haiti the data is available between 1997 and July 2010. We aggregated the individual conflict events at the department and sub-department (“Arrondissement”) level to construct time varying conflict intensity measures at our unit of analysis.

We complement these data with data on crimes collected by MINUSTAH mainly on the basis of Haiti National Police (HNP) reports. These data are more recent, covering the period 2010 to September 2014, although not strictly comparable with the conflict events data as they include a broad variety of criminal activities, such as robberies, thefts, homicides, rapes, illegal possession of firearms. Most of these events are not related to political violence or political actions as it is the case for the events recorded by ACLED. Nevertheless, they provide a useful additional dimension and allow us to gauge the latest developments in violence in Haiti.

The results of our analysis suggest that violence in Haiti in the last decade tends to be predominantly an urban phenomenon. Both political violence and criminal activities are concentrated in urban centers. A higher share of immigrants from other areas of the country is also associated with higher conflict intensity. This result is mainly driven by the fact that a higher migrants’ share is associated with a lower presence of social networks (measured as extended families and kinship), which reduce conflict. The analysis would also indicate that past conflict and land ownership are all important correlates of violence.

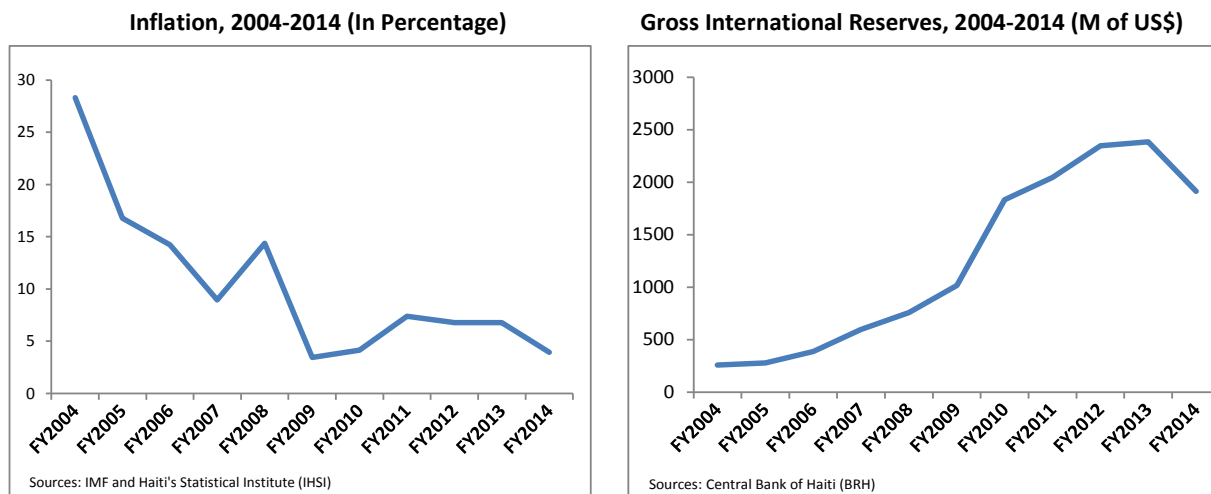
In addition, the results suggest that economic shocks matter a great deal in explaining the pattern of conflict in Haiti. In particular, increases in remittances are associated with a reduction in conflict intensity, consistent with the idea that by raising incomes they raise the opportunity cost of participating into violent activities. Finally, the evidence suggests that election periods amplify the effect of economic shocks on conflict.

C. ... WHILE DECLINING AID AND OIL PRICES PUT INTO QUESTION MACROECONOMIC SUSTAINABILITY

4.8 Macroeconomic stability has been maintained. Haiti’s macroeconomic environment has significantly improved over the past decade, as was noted in the most recent IMF ex post assessment (IMF, 2014c). Inflation was brought back to single digits and has remained contained at these levels since 2009, reaching 4.5 percent at end-FY14 (Figure 4.5). International reserves have been built up and maintained at an adequate level, covering about 5 months of imports. Domestic revenue mobilization has also improved, although it is still low by regional standards (13 percent of GDP in 2012). Between 2009 and 2011, Haiti’s stock of external debt drastically shrank following debt relief. In addition to benefiting from the HIPC and the MDRI initiatives, Haiti received additional debt cancellation in the aftermath of the 2010 earthquake. As a result, total external debt fell from 29.4 percent of GDP to 8.9 percent of GDP in 2011.

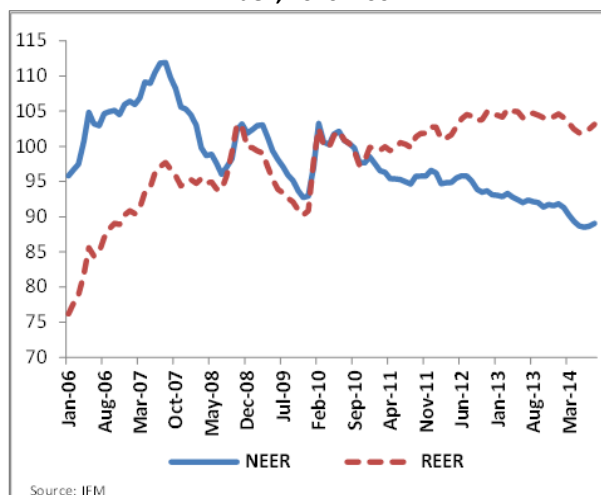
⁶² Based on a background paper prepared for the SCD by Babatunde Abidoye, Massimiliano Cali, and Evans Jadotte.

Figure 4.5 : Macroeconomic Environment



4.9 The IMF in its most recent assessment estimated that the exchange rate remains broadly in line with its medium-term fundamentals. The real effective exchange rate appreciated by about 23 percent during 2006-14, against the background of large remittances and external aid inflows (Figure 4.6). IMF Staff analysis accompanying the 2007, 2010, and 2013 Article IV Consultations concluded that, on balance, the Haitian gourde was not misaligned with fundamentals, and that the economy experienced an equilibrium response to large external aid and private remittance inflows. Since 2010, a moderate depreciation of the nominal effective exchange rate coupled with inflation above that of key trade partners has led to a gradual real appreciation of the Haitian currency. Enhancing competitiveness in Haiti is predicated on structural reforms to boost productivity through improving infrastructure and the business environment, as discussed later on.⁶³

Figure 4.6 : Effective Exchange Rate, 2006-2014, Index, 2010=100



4.10 Haiti's twin fiscal and current account deficits have, nevertheless, widened. The fiscal deficit averaged 2.2 percent of GDP during 2006-2009, but widened to 7.1 percent and 6.3 percent of GDP in 2013 and 2014, respectively (Figures 4.7 and 4.8). This widening fiscal deficit mainly reflected transfers to the public electricity company (EDH), which amounted to about 1.5 percent of GDP in 2013, and the fuel retail price freeze that had a fiscal cost of almost 2 percent point of GDP (Box 4.2). The counterpart of the rising fiscal deficit was a rising external current account deficit. Both deficits are largely financed by concessional external borrowing. Despite this steady accumulation of debt, the latest joint Bank-Fund Debt Sustainability Analysis concluded that Haiti's debt profile faced only a moderate risk of debt distress (IMF, 2015).

⁶³ Haiti's exchange rate system is classified as a crawl-like arrangement, under which the exchange rate is market determined, with the central bank intervening to smooth out excess volatility.

Figure 4.7 : Central Government Fiscal Balance, 2004-2014 (Percentage of GDP)

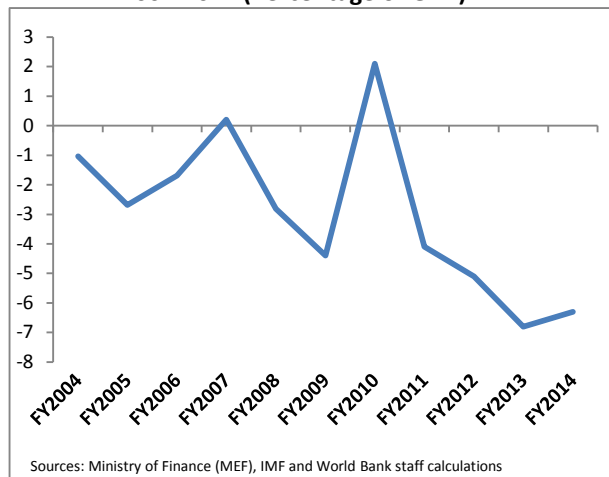
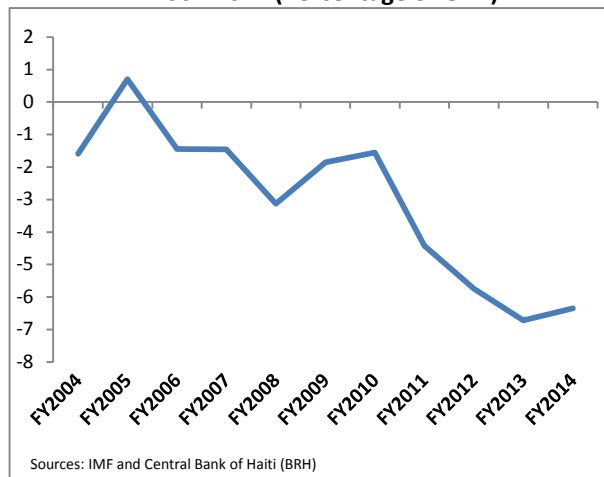


Figure 4.8 : Current Account Balance, 2004-2014 (Percentage of GDP)



Box 4.2 : Electricité d’Haïti (EDH)

Due to poor management, the performance of the national, vertically integrated electricity utility *Electricité d’Haïti (EDH)* has deteriorated over time. Worsening commercial performance has led to a lack of infrastructure maintenance and has rapidly deteriorated the quality of electricity service, including frequent service interruptions and large voltage fluctuations. The sector’s institutional framework is obsolete (e.g. not allowing EDH to tap into important renewable energy potential), sector policies are out of date, planning and monitoring of sector activities is inadequate, and vested interests have hampered reform efforts. The effect of the earthquake on power generation, transmission, and distribution further aggravated EDH’s weak performance by delaying key modernization activities (e.g. new billing system and the rehabilitation of the Peligre hydropower plant). In 2015, EDH’s losses stood at 57 percent of the electricity generated (of which commercial losses represented nearly 35 percent).

EDH’s weak grid infrastructure, poor commercial performance, and inadequate controls over sub-contracted electricity generation by IPPs have led to a financial drain on government resources. Due to its inability to meet electricity demand and in an attempt to expand electricity availability, EDH has subcontracted part of the production of electricity to IPPs.⁶⁴ Unable to cover its operating expenses, including fuel costs and power purchases in part because of low bill collection rates, EDH has relied on fiscal transfers from the Treasury averaging US\$200 million annually in recent years (equivalent to 10 percent of the national budget and 1-2 percent of GDP).⁶⁵

Past governance reforms to preserve the integrity of public resource management in the electricity sector have produced modest results. Achievements to-date include: (i) EDH Commercial Recovery action plans (2012-2013; 2013-2014; and 2014-2015); (ii) a National Directions Paper (endorsed by Cabinet on September 15, 2013); and (iii) a government Energy White Paper (in draft). Since 2014, an active dialogue on the management and reform of the energy sector has been initiated within the government’s Energy Commission and with the strategic partners in the sector.

D. ... AND RECENT PROGRESS IN POVERTY REDUCTION

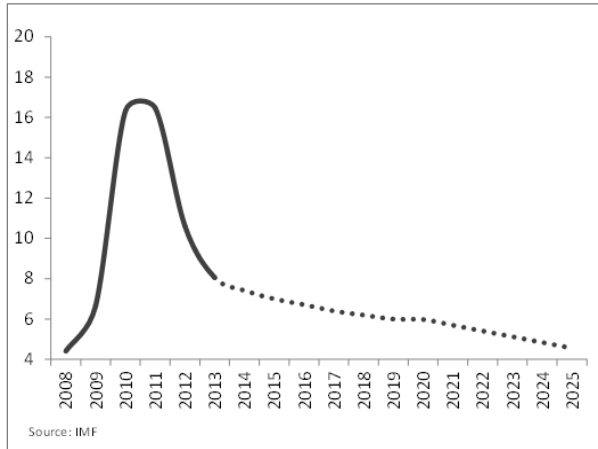
4.11 The exceptional level of aid following the 2010 earthquake is rapidly declining eroding fiscal buffers. Donor assistance has declined from its peak after the earthquake to 7 percent of GDP in 2013 (Figure 4.9). Additional fiscal revenue could not be mobilized or public spending cut to offset fully this

⁶⁴ IPPs provided 60 percent of total electricity generation in 2011.

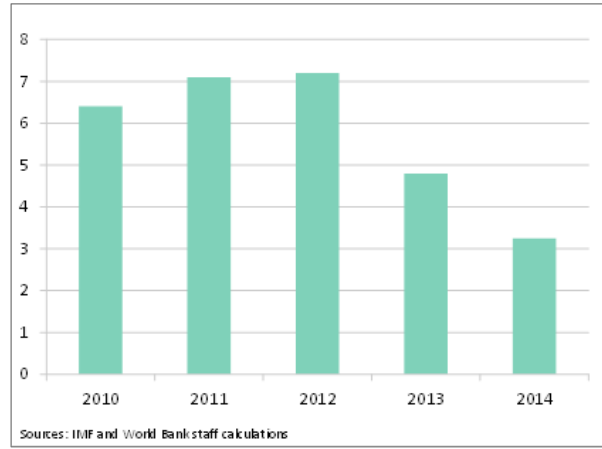
⁶⁵ Electricity transfers are unbundled due to their dependence on international oil prices, electricity supply, unsanctioned theft and bill non-payment, inter alia.

substantial decline in resources and government deposits needed to be drawn down (Figure 4.10). Wider fiscal and current account deficits are also raising concerns about a crowding out of private sector credit with a monetary stance becoming tighter to contain the mounting pressures on Haiti’s currency.

**Figure 4.9 : International Aid, 2008-2025
(In Percentage of GDP)**

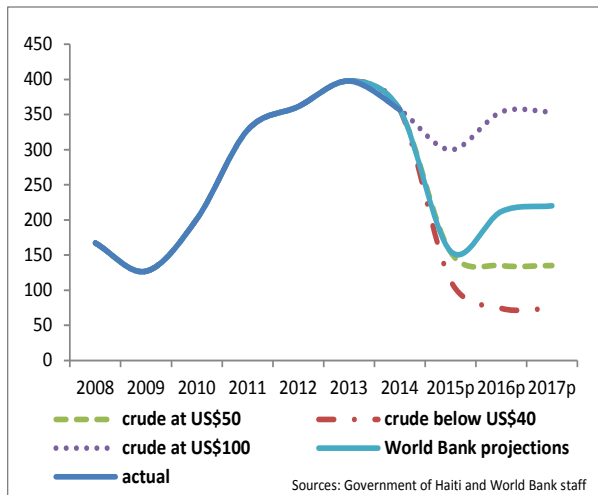


**Figure 4.10: Government Deposits, 2009-2014
(In Percentage of GDP)**

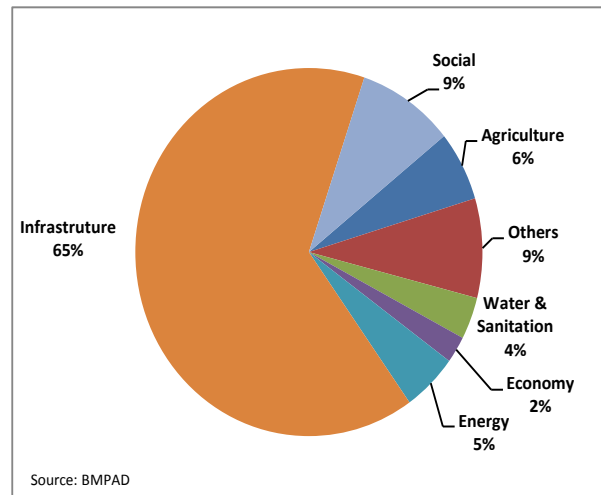


4.12 The recent decline in international oil prices is further tightening fiscal resources. According to the Petrocaribe agreement, lower international oil prices imply a higher payment rate and less concessional financing. With lower international oil prices, Haiti has experienced a substantial decline in the availability of concessional financing. International oil prices are expected to remain low in the near future, making it even more challenging for the country to balance the need to ensure macroeconomic stability while protecting the social and investment spending needed for social cohesion and growth (Figures 4.11 and 4.12).

**Figure 4.11: Petrocaribe Financing, 2008-2017
(Millions of US Dollars)**

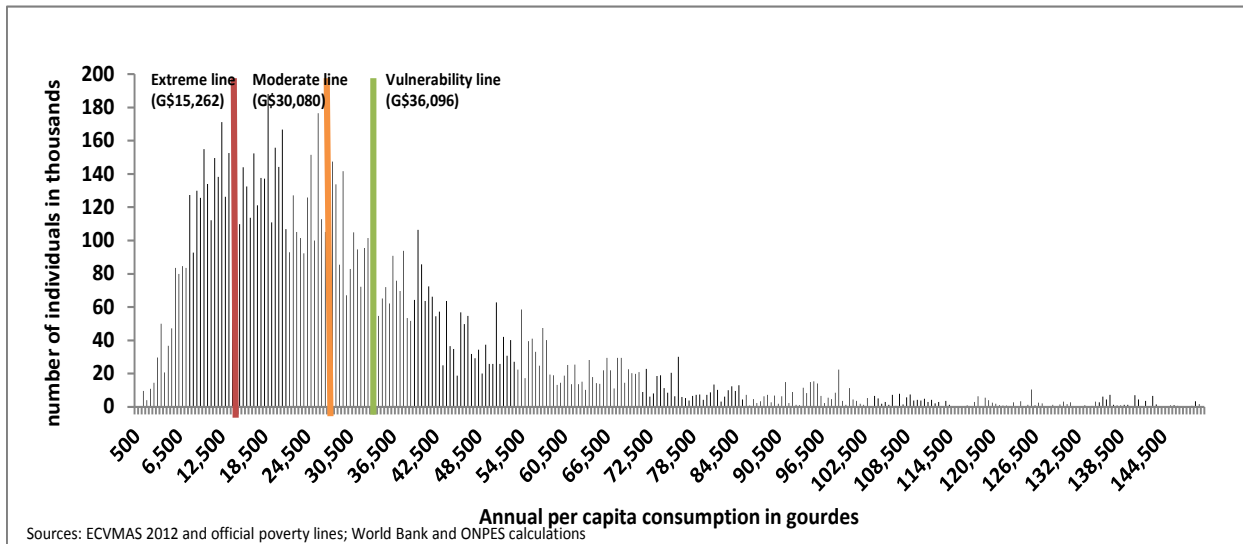


**Figure 4.12: Project Activities Financed by Petrocaribe, 2008-2013
(In Percentage of GDP)**



4.13 **Against this backdrop, poverty could rise again.** As mentioned in Chapter 2, increases in non-agriculture income linked to sectors related to aid or reconstruction have driven part of the poverty reduction observed in Haiti. In 2012, more than 80 percent of the population lived with less than four dollars a day (PPP) and only two percent lived with ten dollars or more. These numbers indicate that most households have a consumption budget close to the poverty line (Figure 4.13). In this context, a decline in activities related to aid and reconstruction could adversely affect the living standards of many vulnerable households, potentially reversing part of the recent gains in poverty reduction. Some progress in service delivery could also be jeopardized, such as in health where almost 80 percent of spending in 2012 was donor-financed.

Figure 4.13: Histogram of Annual Per Capita Consumption, 2012 (In Gourdes)

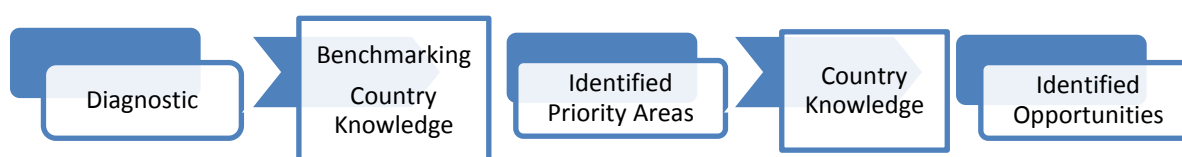


CHAPTER 5 : PRIORITIES

A. PRIORITIZATION PROCESS

5.1 **The SCD seeks to identify the most important constraints to and opportunities for inclusive and sustainable growth in Haiti.** The previous chapters on Haiti's growth performance and lack of inclusiveness, as well as the diagnostic of poverty and growth, are the first steps in identifying priority areas and opportunities to increase growth and welfare. The report now attempts to provide a sense of prioritization and identify the most binding constraints to faster economic growth and greater shared prosperity, both quantitatively and through a series of consultations with stakeholders and the Country Team (Figure 5.1).

Figure 5.1 : Prioritization Process

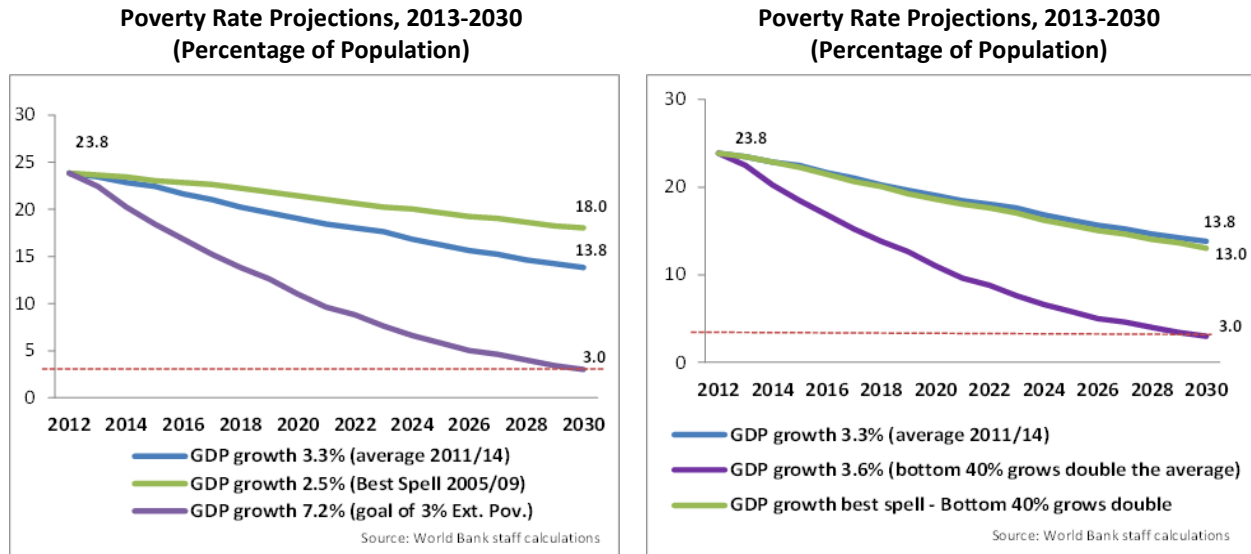


B. A QUANTITATIVE ASSESSMENT CONFIRMS THAT INSTITUTIONAL, PHYSICAL, AND HUMAN CAPITAL ARE THE MOST BINDING CONSTRAINTS

5.2 **While overall income growth is a necessary condition for reducing extreme poverty, it is not sufficient.** The obstacles to faster economic growth and greater poverty reduction have been described above, but faster economic growth alone will not be enough to bring significant improvements in the living standards of most Haitians. Simulations show that if growth in Haiti up to 2030 were to follow its historical performance, poverty would hardly decline. Under the more sustained performance of one percent real per capita growth rate observed in Haiti over the 2005-09, poverty reduction would still fall significantly short of reaching the goal of extreme poverty of 3 percent or less by 2030 (Figure 5.2). Reducing extreme poverty by almost half in 15 years, to about 14 percent, would require an overall GDP growth of 3.3 percent per year, the average growth registered in post-earthquake/reconstruction years (2011-14). Assuming unchanged income distribution, per capita GDP would need to grow by about 7 percent per year for extreme poverty to fall to 3 percent by 2030. This would require a two- to three-fold acceleration in Haiti's growth rate with respect to its best performing years: a very ambitious outcome.

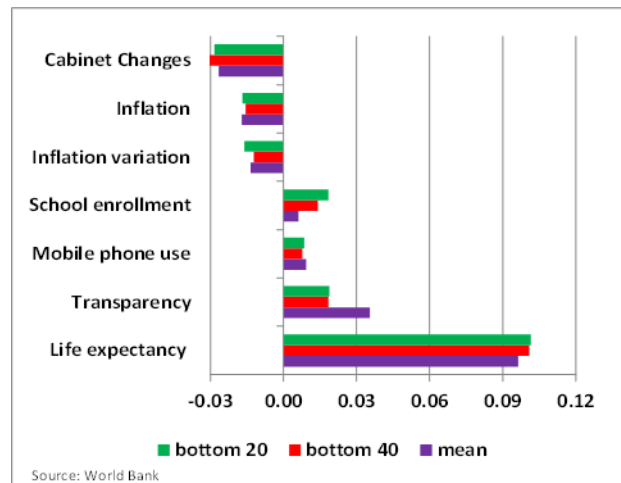
5.3 **Policies to ensure more inclusiveness are needed.** Increasing growth of the bottom 40 percent by around one percentage point more than the best observed average growth rate (2005-09) would add considerable impetus to poverty reduction. In this scenario, per capita real GDP of the bottom 40 percent would grow twice as fast as the mean. Such a performance would cause poverty to decrease by 5 percentage points more than in the distribution neutral growth scenario, coming closer but still falling short from reaching the 3 percent target for extreme poverty by 2030. To achieve the 3 percent target, a combination of faster and more inclusive growth would be needed: a growth of about 4 percent per year with the income of the bottom 40 growing at twice that speed. But what would be the measures needed to deliver this faster growth in lower income groups? Once identified, could they be ranked to assist the setting of priorities?

Figure 5.2 : Extreme Poverty Simulations



5.4 **Human capital and political stability matter more for lower income groups.** First, the correlation between potential drivers of income and the income growth of the poorest 20 and poorest 40 percent of households were estimated, using household data for a sample of 100 countries (Box 5.1). This measure gives us the expected impact of changing one of these drivers on the income growth of the poorest. Second, following Araujo et al. (2014), the standard deviation of each variable is taken to illustrate the magnitude of possible or realistic change one could expect in this variable. A variable with a higher standard deviation would be “easy to change”. Multiplying the two gives a rough estimate of the expected effect of a regular change in a variable for income developments. The analysis finds that health (proxied by life expectancy), as well as education (measured by school enrollment) are important for increasing income generation at the bottom of the income distribution (Figure 5.3). Reasonable changes in political stability (measured by the number of cabinet changes and within-regime instability) matter slightly more to the lower income groups. Infrastructure (measured by mobile phone usage, a common measure in the literature) and transparency, although not disproportionately favoring the lowest income group, are nevertheless important for overall income growth.

Figure 5.3 : Economic Magnitude of Estimated Parameters (In Percentage Points)



Box 5.1 : Benchmarking the Drivers of Shared Prosperity: An Application to Haiti⁶⁶

We estimate economic magnitudes for key correlates of income growth at the mean, the bottom 40 and 20 percent of the income distribution across a set of about 100 countries. While econometric exercises investigating determinants of GDP growth have been numerous, less is known about factors influencing household incomes at different segments of the income distribution. Empirical work by Dollar and Kraay (2002) and Dollar et al. (2013) broadly rejects the idea that other factors than mean income growth would influence incomes of the poor, thus suggesting that growth would be mostly distribution neutral, whereas other studies have attempted to outline key drivers of pro-poor growth (e.g. Bourguignon, 2003; Ravallion and Chen, 2007; Christiaensen et al. 2013). Our results add to this discussion and suggest that some factors indeed allow growth to be more beneficial for the bottom 40 or 20 percent of the income distribution.

Our data set is mainly based on Dollar et al. (2013). The data covers household data from the World Bank's POVCALNET and the Luxembourg Income Study databases. Household income data is organized in "spells," i.e. income changes between two survey years, calculated as average annual log differences.⁶⁷ These are calculated for average income, income at the bottom 20 percent or the bottom 40 percent. We focus on those non-overlapping spells that are at least five years long, providing 299 spells for 117 countries with a median spell length of 6 years, which is also the preferred sample of Dollar et al. (2013). To this data, we add macroeconomic variables, especially measures of political stability or institutions that are of particular interest for Haiti.

Based on a fixed effect estimation, the results confirm that the income at the bottom 20 and 40 percent grow with mean income. The estimated effect is a little smaller than previously thought, although the estimated elasticity around 0.85 is statistically not significantly different from one. We also find that better health and education outcomes, as well as lower political instability, have an economically relevant effect for income growth that goes beyond the effect via mean income (i.e. it is stronger at the bottom of the distribution).

5.5 As an alternative, Haiti's performance in key variables was benchmarked to a reference group.

As a reference group, the average of an aspirational group of countries was taken (Belize, Dominican Republic, Ecuador, El Salvador, Jamaica, Paraguay, and Peru). In terms of income levels, these LAC countries broadly stand today where Haiti aspires to be after 2030, i.e. beyond a threshold of USD 2,310, taken to illustrate economic emergence. Figure 5.4 illustrates Haiti's position relative to its aspirational peers with respect to life expectancy. It shows that the country is in the lowest third percentile of the health distribution and lags behind the group average by approximately ten years. Figure 5.5 does the same for cabinet changes, highlighting that other peers suffered from comparable political instability (especially Peru, Ecuador, and Paraguay).

⁶⁶ Based on a background paper prepared for the SCD by Kassia Antoine, Raju Singh, and Konstantin M. Wacker.

⁶⁷ POVCALNET data is either income or consumption, LIS data is disposable income. We still refer to "income" in our paper.

Figure 5.4 : Life Expectancy at Birth, 2010 (Years)

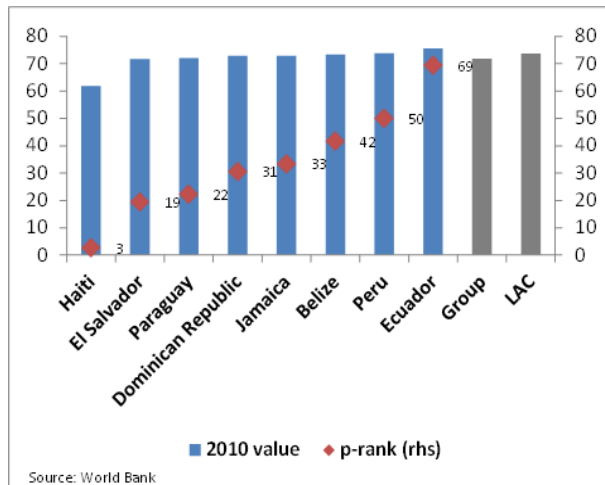
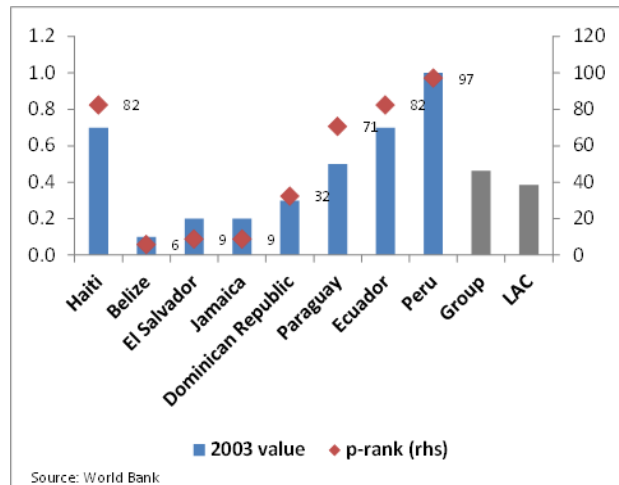
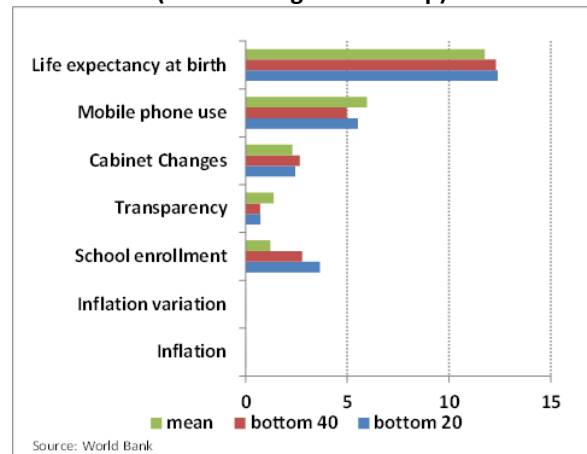


Figure 5.5 : Cabinet Changes, 2003 (10 Years Average)



5.6 Again, closing the gaps in human capital and achieving greater political stability seem to have the highest potential for lower income groups. Multiplying the gap in the indicators between Haiti and the reference aspirational group by the unconditional effects estimated above captures the potential income gains Haiti may experience from closing the gap in these key variables. This idea, based on Araujo et al. (2014), not only highlights the areas where the country lags behind most but implicitly weights this gap by the economic relevance of closing it.⁶⁸ Figure 5.6 shows the income effect from closing the gap relative to the reference aspirational group for different parts of the income distribution. Variables relating to health, education, political stability clearly stand out. Again, closing Haiti’s gap in infrastructure, although not disproportionately favoring the lowest income groups, is important for overall growth.

Figure 5.6 : Income Effects of Closing the Gap (In Percentage of the Gap)



5.7 In turn, political instability – and conflict risk more generally – could be reduced through higher spending on social services and social protection. Security and political instability seems to be taken very often as exogenous factors, but recent international evidence suggests that these factors may at least partly be under the control of policy makers. Common sources of conflict include grievance, injustice, and lack of economic opportunities.⁶⁹ A growing literature on public spending and conflict show evidence that spending on education or health, for instance, could contribute reducing these sources of conflict.⁷⁰ Based on an empirical analysis that covers 148 countries from 1960 to 2009,

⁶⁸ While it is implicitly assumed that a one-unit improvement in closing a large gap demands less effort than an equivalent one-unit improvement in a small gap, this might not necessarily be the case. Our exercise hence does not explicitly take into account the costs or efforts of closing this gap.

⁶⁹ See for instance Cederman et al. (2011) or Wimmer et al. (2009).

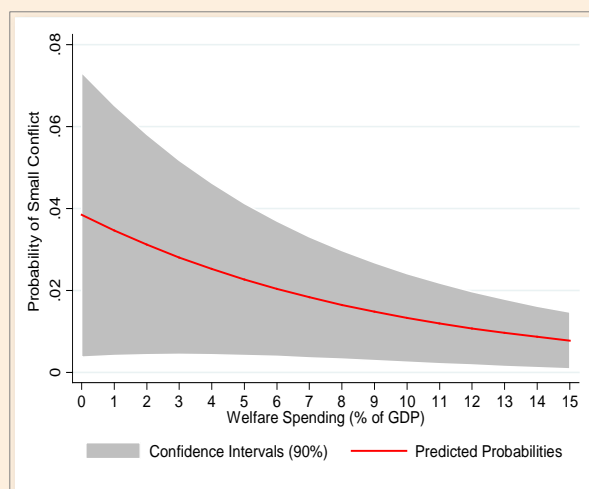
⁷⁰ See for instance Singh et al. (2014).

simulations for Haiti suggest that higher welfare spending (education, health, and social protection) is associated with lower risk of small-scale conflict onset (Box 5.2).

Box 5.2 : Conflict and Welfare Spending in Haiti: What Could We Learn from Cross-Country Evidence?⁷¹

Azam (2001) observed that “the occurrence of civil conflict is intimately related to the failure of government to deliver the type of public expenditure that people want; i.e. with a strong redistributive component such as health and education”. Governments could thus foster their legitimacy, and thereby reduce the risk of conflict, by signaling that they care about their population. This could be done in a variety of ways, such as increased spending for water sanitation, securing basic health needs, or providing a strong system of education (Stasavage, 2005).

Through welfare policies that influence positively the living standards of citizens, governments can outspend the opposition, helping gain support from a broad segment of the population, co-opt political opposition, and decrease the incentives for organizing a rebellion. Social safety nets, transfers and investment in public goods show people that the state cares, and prevents disadvantaged members of society from falling below a certain level of poverty and experiencing absolute desperation. Positive encounters with frontline service officials is argued to provide a source of legitimacy for the state, particularly in fragile and conflict-affected situations where the state was previously mistrusted, or outright feared (Brinkerhof, et al., 2012). Thyne (2006) suggests that education promotes social cohesion by encouraging students to cultivate interpersonal skills and thus learn how to resolve disputes peacefully.



Our empirical analysis covers 148 countries over 1960 – 2009 and uses a random effects logit model with regional dummies and a set of standard control variables to predict the probability of conflict. To measure the onset of violent conflict, we used the Armed Conflict Dataset (ACD) from the Uppsala Conflict Data Program PRIO for years 1960-2009 (Gleditch et al. 2002, Version 4.1.) to generate a dichotomous variable that takes the value of one in years with a new conflict onset and zero otherwise. This dataset has become the standard reference for cross-country analyses of conflict determinants. The onset of conflict was defined with those above a threshold of 25 battle deaths per year.

The results suggest that higher welfare expenditure (education, health and social) is associated with lower risk of conflict. In order to simulate the effects for Haiti, the coefficients of the cross-country regression were taken and all variables in the model set at their average for Haiti with the exception for welfare spending that we let vary. The Figure above illustrates the reduction in the risk on conflict onset associated with higher welfare spending.

5.8 Lack of economic opportunities seems to be driving violence and instability within Haiti. Building on the work presented in Box 4.1, the spatial differences in conflict intensity across Haiti’s territory were examined to shed empirical light on drivers of conflict. The results suggest that economic shocks matter a great deal in explaining the pattern of conflict in Haiti. In particular, increases in remittances appear to reduce conflict intensity, consistent with the idea that by raising incomes they

⁷¹ Based on a background paper for the SCD, prepared by Cristina Bodea, Masaaki Higashijima, and Raju Singh.

raise the opportunity cost of participating into violent activities. Similarly, the study finds that an increase in agricultural and textile exports appear to reduce violence in departments which employ many people in these sectors. At the same time, incidents of violence are also clustered around political events such as elections and transitions, suggesting the combination of economic and political factors contributing to violence.

C. ... WHILE A QUALITATIVE ASSESSMENT WOULD LEAD TO A MORE HOLISTIC APPROACH

5.9 The next step in the prioritization process was a series of consultations with stakeholders and the Country Team. Recognizing the data limitations and the difficulty to untangle association and causality, any quantitative assessment needed to be validated and complemented by a qualitative assessment. The results of cross-country regressions are not to be interpreted mechanically, but serve as a starting point for a discussion about policy priorities. For this purpose, a two-day Country Team retreat was set up. In addition, continued consultations with the authorities and other stakeholders (including representatives of the established private sector and civil society) were carried out.⁷² The Team also reached out to the Haitian diaspora and to beneficiaries of the *Kore Fanmi* program.⁷³ Furthermore, a Bank-sponsored competition of academic papers was launched (“The Twin Goals Awards”) to foster research and debate, as well as identify any issue that may have been over-looked (Box 5.3). These discussions led to the identification of broad themes or opportunities going forward.

5.10 Consultations validated the overall story line. Discussions confirmed that institutions, human capital, and infrastructure all mattered for Haiti’s economic growth and shared prosperity. It was pointed out that economic and sector work on Haiti produced in 1980s and the early 1990s had already identified most of the challenges presented in the previous sections. It was thought already at the time unlikely that much economic progress could be achieved without an improvement in educational quality and access. Infrastructure had deteriorated badly. Migration to urban areas had strained water and sanitation facilities, and increased urban vulnerabilities and people exposures. It was argued that it would be difficult to tackle these problems effectively without first addressing the issue of governance. In addition, the consultations highlighted a number of other dimensions.

5.11 Maintaining the stability of the macroeconomic environment called for immediate attention. There was a broad recognition that progress had been made in restoring macroeconomic stability and this did not seem to be at the moment a constraint to faster growth or greater shared prosperity. This assessment was, however, backward looking and concerns were expressed going forward. The decline in donor assistance and lower availability of concessional financing following the drop in international oil prices raised questions about the sustainability of many social programs and of the recent progress in improving access to many basic services. Even the established private sector expressed concern about the tighter monetary stance being followed.

⁷² These stylized facts, or parts of them, have been discussed with the authorities and various stakeholders, particularly at the Conference on Growth and Employment organized by the Ministry of Economy and Finance in Port-au-Prince on March 17, at the Central Bank’s 37th Anniversary Conference on June 9 and at the launch of the Competitive Industries and Innovation Program Training Program at the Limonade Campus on June 17. These facts were also presented to representatives of the private sector on May 19, at the occasion of the 35th Haitian Business Delegation visit to Washington DC. They have also served to frame the discussions with the government, donors, and the representatives of the private sector during the MD and the RVP’s recent visit to Haiti, July 7-9, 2014.

⁷³ The Community Social Worker Initiative (*KORE FANMI*) is a pilot program of the Haitian Government, established with World Bank financing in partnership with a number of United Nations agencies such as UNICEF. This program seeks to harmonize and improve the provision of basic services to poor and vulnerable families, such as access to education, vaccines, and latrines, with a view to moving away from a national fragmented and unequal system to one of systematic coverage focusing on the rights and needs of families.

Box 5.3 : Bank-Sponsored Competition of Academic Papers

In order to foster research and debate, a call was issued for research papers identifying the most critical constraints and opportunities facing Haiti in accelerating progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The competition was open to all Haitian scholars and was intended to provide a Haitian perspective to the debate, as well as identify any issue that the existing literature may have over-looked.

This proposal and the rules were prepared with the Deans of the universities present in Port-au-Prince. The competition was widely advertised in academic circles and in regular newspapers, and submissions were received from Haiti (Port-au-Prince and Cap Haïtien), Canada and the United States. The papers were reviewed by a panel of World Bank researchers and leading Haitian figures, including the Presidents of the Association of Haitian Economists, the Haitian Arbitration and Mediation Division, and the North-East Chamber of Commerce, as well as professors from the American University and the Autonomous University of Mexico.

The three winners were awarded cash prizes for their contributions and presented their work at a conference at the State University of Haiti in November, 2014. The event was attended by representatives from academia, civil society, government, and the international community. This was an opportunity to discuss issues related to inequality, inadequate competition and economic opportunities, and the absence of a social contract between the State and its citizens which, among other issues, were identified by the participants as impediments to growth.

More particularly, while the papers submitted varied in approaches and emphases, they converged on a common set of themes underscoring Haiti's scarcity of human and institutional capital. Most authors agreed that Haiti's history of violence, exclusion, and foreign interference explained the country's difficulty in developing a shared national vision for its future, as well as the needed institutions and social capital to implement it. All papers argued that aid dependence and the interference of external governmental and non-governmental actors continued to prevent Haiti from developing home-grown solutions and institutional capacity. In this regard, authors stressed the State's ineffectiveness in fulfilling basic functions, such as enforcing the rule of law, collecting taxes, and delivering services. Poor outcomes in education were seen by most as a principal cause of Haiti's poor governance, lack of competitiveness, low productivity, and high unemployment. Urbanization and population growth were identified as major contributors to vulnerability, and the need for a more balanced spatial organization of the country was underscored.

<http://www.worldbank.org/en/news/feature/2014/11/11/young-haitians-rewarded-for-their-work-on-haiti-economy>

5.12 Turning to more medium-term challenges, it was stressed that progress needed to be made simultaneously on several fronts. For Haiti to break from its past and achieve meaningful progress towards poverty reduction, a piecemeal approach to reform focusing on a specific sector would not work. Actions or reforms should not be seen as independent from each other, but needed to fit within a package. Violence and political instability, for instance, are seen as a binding constraint to faster growth and greater economic opportunities. However, both the UN forces and NGOs dealing with gangs recognized that greater economic opportunities were in turn needed to reduce violence. Improving education without better economic opportunities fed greater emigration. Discussions in villages highlighted that improving seeds or production techniques without better transport or access to markets just depressed prices and could make farmers worse off.

5.13 Controlling cholera illustrates the need for a multi-sectoral approach. Cholera control will contribute to improving the health of Haitians, particularly of the poor, and fostering the long-term development of the country. The most effective way to achieve this involves multi-sectoral interventions aimed at improving health care, hygiene, an access to clean water and improved sanitation. Cholera cannot be controlled without addressing primary vectors of transmission of the disease such as the lack

of safe water supply, inappropriate excreta management and the absence of sanitation. Health interventions are critical to eliminate deaths from cholera, but to sustainably prevent new cases of cholera from emerging, these alone will not be enough. Concurrent and substantial improvements in water supply and sanitation coverage, including medium-term investments in this sector targeted at high incidence and high risk zones are essential.

5.14 Building the social contract was flagged as particularly important. Most modern democracies use fiscal measures to finance the State and redistribute wealth. In return, the State is expected to provide key services. In Haiti, both sides of this contract are very weak – few people or businesses pay taxes and the State struggles to provide services. State institutions are needed to provide security and public services, and to write the regulations that will allow a market economy to operate. The established private sector complained about the power surges and outage, the poor road infrastructure, or health conditions that forced it to provide the missing services that it would expect from the State. In line with the results of the 2010 report entitled “Voice of the Voiceless”, there was a feeling that there was a need to foster a greater sense of civic responsibility, overcome social divisions, and establish a more accountable State. There was a very strong social demand for a balanced and coherent development of the country, easier access to public services as well as more job and educational opportunities outside what is often referred to as the “republic of Port-au-Prince”. A very large majority wanted to be able to live near places of origin without having to relocate to the capital to study, make a living or access public services. For this to happen, civil society and representatives of the private sector stressed the need to hold regular elections. There also needs to be more productive citizen engagement, including mechanisms that effectively channel citizens’ voice and demands to the State so that their concerns can be addressed.

5.15 State capacity needs to be strengthened. The most binding constraints are probably also those that would take most time to fix. Poor governance and the need to strengthen the state were generally viewed as the most important constraints. Without improvements in these areas, it was thought that little else could be achieved. Even for the fastest transforming countries, improving institutional quality from the level of a country like Haiti to that of Ghana takes in the range of 15-30 years (World Bank, 2011). Relatedly, Pritchett et al. (2013) find that rates of improvement in measures such as quality of bureaucracy and administrative capacity are typically very low in developing countries, even with substantial donor effort. They conclude that “countries like Haiti or Liberia will take many decades to reach even a moderate capability country like India”. The lengthiness of the process should, however, not deter immediate action, but only call for more realistic expectations.

5.16 In this regard, there was a lot of criticism about the limited aid effectiveness and capacity building. The international community was criticized for not contributing enough to build the needed capacity. There was a recognition that in the immediate aftermath of the earthquake, the Haitian government had very limited capacity as almost all government buildings were destroyed and agencies were operating in a state of emergency. Yet years later, it was observed that donors continued to be reluctant to fund the government. Concerns about the lack of capacity within the Government of Haiti, as well as entrenched systems of patronage, corruption, and inefficiency could be valid. However, government capacity will never be built or improved if donors continue to bypass local institutions in favor of non-State actors. By circumventing the Haitian government, donors were perceived by many as prolonging this process and continuing to undermine the public sector.

5.17 To foster greater competition, barriers to market entry needed to be removed and small private sector actors supported. Representatives of the established private sector recognized the lack of

competition existing in Haiti's economy, a reflection for them of the country's unfavorable business environment. Without proper contract enforcement, business had to be kept between trusted partners, from credit to the whole logistics chain. Civil society expressed concern about the higher prices and the possible lack of innovation that limited competition implied. Consultations flagged thus the importance of supporting domestic informal and smaller private sector actors in strengthening their capacity to add value to the Haitian economy. This included facilitating access to available capital, stronger business management capacity, better linkage of producers to markets and improved infrastructure to support such links. Direct connections with economic partners outside of Haiti were also suggested as an avenue to explore. The need for developing such access for agribusiness, tourism, and manufacturing, among others, outside of Port-au-Prince was underlined as particularly important to encourage growth that would be geographically better balanced and more pro-poor. Such growth could also contribute to reducing migration to overly crowded and vulnerable urban environments, particularly in Port-au-Prince.

5.18 Furthermore, there was not only a need for more jobs, but also for better jobs. There was a call to recognize where people actually worked. It was pointed out that the private sector in Haiti was not only limited to a couple of large enterprises. Most people in Haiti were occupied in a less visible private sector: in the agriculture and informal sectors, two sectors that had been neglected so far. The potential contribution of the formal sector in creating jobs was recognized, but it was not seen as becoming the main employer in Haiti any time soon. Incomes generated in agriculture or in the informal sector are, however, not sufficient to pull people out of poverty. The challenge is thus to enhance the productivity – hence the earnings – of those already employed in agriculture and the informal sector, while at the same time creating more formal jobs. Providing greater economic opportunities was also flagged as a critical factor to reduce criminal or political violence, especially in urban areas, as this would decrease grievances and frustrations while increasing the opportunity costs of joining gangs.

5.19 The importance of reducing vulnerabilities was also stressed. In the face of recurring shocks and vulnerability, better risk management strategies and targeting in social protection should be a priority to protect households and individual livelihoods. Disaster risks need to be identified and understood better. Risks need to be reduced through better awareness when investing. One million people are vulnerable to shocks that could push them into poverty. Despite the significant expansion of social assistance provision within the EDE PÈP framework, the system remains very fragmented and untargeted. Furthermore, it was argued that it would be important to continue strengthening and mainstreaming disaster risk management activities and make sure disaster risk management becomes a core component of a sustainable poverty reduction and economic growth strategy. Financial protection strategies, particularly if they are designed to meet the needs of the population in extreme poverty, can help protect the government and households from the economic burden of shocks and disasters.

5.20 Finally, the consultations made it clear that there was limited evidence to inform planning and targeting of programs and policies. The recently finalized Poverty Assessment conducted jointly by the Bank and the Haitian authorities, as well as the ongoing Public Expenditure Review, are filling some of the knowledge gaps, but many more remain, making the conclusions of this SCD tentative. Discussions with the Country Team and with stakeholders confirmed that it was difficult to carry out effective development policies without appropriate statistics or analytics (see Annex 3 for a list of gaps). For instance, the knowledge and monitoring of the actual situation of WSS services – critical to contain water-borne diseases such as cholera – in Haiti is limited and fragmented, hampering the efficient prioritization and programming of investments.

5.21 Policy packages – or buckets – rather than independent activities in sectors were thus recommended. Consultations identified five broad themes around which activities needed to be organized in order to ignite a process whereby Haiti could set itself on a new development path: (i) maintaining macroeconomic stability, while meeting developmental needs; (ii) improving statistics and analytics; (iii) creating greater economic opportunities and better jobs, including through infrastructure and human capital; (iv) (re)building the social contract; and (v) reducing vulnerabilities and building resilience. Progress on all these themes is needed simultaneously. In light of the tighter budget constraints facing the government, maintaining the stability of the macroeconomic environment, and improving knowledge and statistics to increase the effectiveness of public policy (including more transparent fiscal reporting) call particularly for immediate attention. Further work will be needed to flesh out in more detail what would need to be included in the package of reforms and actions to achieve these objectives, but the possible content of these buckets are spelled out in a bit more detail in the next section.

D. ... LEADING TO FIVE PRIORITY AREAS FOR POLICY ACTION

Short-Term

Maintaining Macroeconomic Stability, While Meeting Development Needs

5.22 Fiscal policy needs to find a balance between contributing to higher and more inclusive growth while maintaining sustainability. Haiti's dependence on external assistance at a time of declining aid is a challenge, but could also be seen as an opportunity for the country to reduce its reliance on the donor community. The reduced availability of concessional financing following the decline in international oil prices has added urgency to this need. In this regard, achieving a greater mobilization of own fiscal revenue will be important as already initiated, as well as identifying options to improve the composition of public spending (reduce fuel subsidies and transfers to the state-owned electricity company) as well as its efficiency (especially public investment).⁷⁴

5.23 More particularly, there is an urgent need to increase tax revenue and to diversify the revenue base away from trade taxes. Despite a rise in revenue of the past decade, Haiti has one of the lowest revenue mobilization ratios in the region. Furthermore, Haiti's tax system also tends to be regressive, relying heavily on indirect taxes. Corporate and personal income tax rates are largely comparable to the regional average. A large share of corporate income tax revenue is, however, lost because of exemptions. Anecdotal evidence suggests a number of taxes that generate little revenue but impose high compliance costs on businesses ("nuisance" taxes) and reducing them would be a better alternative to attract investors. The personal income tax brackets are also not well aligned with the country's socio-economic structure with top income tax brackets only applying to a very small share of taxpayers. Ongoing work to move from the current turn-over tax to a simple VAT is welcome.

5.24 Fuel price subsidies have been eliminated, but could return. The rise in retail fuel prices in October 2014, combined with a decline in international oil prices has allowed the government to eliminate the fuel price subsidies that were burdening the budget (about 2 percent of GDP in 2013). Such subsidies favor the rich, more so than subsidies on food, health or education. International oil prices are, however, volatile and without the introduction of an automatic price adjustment mechanism for petroleum products, fuel price subsidies could return to haunt the budget, this time under tighter financing constraints. Fuel price subsidies are, however, only one dimension of broader development

⁷⁴ This work is being done as part of the ongoing Public Expenditure Review.

challenges: more generally, the overall policy framework to develop urban transport, and promote more sustainable and cost effective energy needs to be strengthened.

5.25 Despite rising public investment, economic growth has not accelerated so far in Haiti. Haiti still performs poorly for selected infrastructure indicators, such as access to electricity, roads or ports. Against this backdrop, high public investment should have been expected to contribute to reducing bottlenecks to faster growth. This paradox is, however, nothing new in Haiti. Several reasons have been put forward, ranging from deficiencies in the country's national accounting system to chronic lack of maintenance or simply the unproductive nature of the investment itself. Poor past donor coordination and the high volatility of external aid have been argued to have affected the impact of investments in Haiti. This disappointing outcome stems also in part from very weak public investment management, hampering the effectiveness of public investments.

Improving Statistics and Analytics

5.26 Statistical and analytical capacities would need to be strengthened. Access to timely and consolidated fiscal data would be important to monitor appropriately public spending, especially with tighter budget constraints. More regular statistical surveys on critical sectors for the Haitian economy will enable better analysis on poverty and growth, as well as allow the government to monitor progress and adopt appropriate policies. In particular, the absence of a recent census hampers the design and costing of policies for basic services such as health or education. Regular monitoring of poverty and living conditions is a necessary step to promoting evidence-based and effective policy making. In this regard, strengthening the national statistical system through investments in this sector will be critical.

Medium-Term

(Re)building the Social Contract

5.27 Rebuilding or building the social contract between Haiti's state and its citizens will require greater transparency and accountability. More resources and time should be devoted to build capacity within the Haitian administration rather than use non-State actors to deliver services. Developing an appropriate fiscal revenue base will require a renewed climate of accountability and transparency from both the government and the private sector. This mutual accountability should be centered around the private sector's commitment to full tax compliance, and the government's commitment to meeting minimum service levels and managing budgets, decision-making and funding in full transparency. More broadly, it will require a well-functioning civil society and set of institutions, including regular elections and greater autonomy at the community level allowing for the emergence of local leadership.

5.28 Greater legitimacy will also be needed, through the provision of basic services across the country. The provision of services for which people do care would enhance the legitimacy of the State and provide more equal economic opportunities. In particular, the public provision of services to increase the human capital accumulation capacity of the poor – such as health or education – will be essential in breaking the vicious circle of intergenerational poverty. Expanding access and the quality of services, while reducing costs among households, will be critical to improving health and education outcomes, particularly among children and women. Achieving universal primary enrollment will also require a short- to medium-term financing plan and an improved coordination with social protection programs. On the health care front, policies should aim at improving the accountability of service providers, increasing service utilization and quality, and expanding preventive health care services to reduce costs. In both sectors, furthermore, the establishment of an information system allowing for

better identification and targeting of vulnerable populations, as well as for services quality control, will be critical in optimizing the use of available resources.

Creating Greater Economic Opportunities and Better Jobs

5.29 **Private economic activities are the engines for faster and more inclusive growth.** More vibrant private economic activities will be critical to create greater opportunities to escape poverty. In this regard, macro-economic stability has to be maintained, as well as vulnerabilities contained and resilience strengthened. More generally, the business environment should be made more favorable. All stakeholders, including the government, the established private sector, and donors, should agree and adhere to a consistent and comprehensive private sector development strategy to maximize the positive role of the private sector in channeling investment into viable and productive sectors to create jobs and generate income.

5.30 **Foreign direct investment, encouraged by a more favorable business environment, could provide new players and enhance competition.** Haiti has had a limited, but broadly positive experience with FDI, especially in infrastructure. The entry of Digicel in the telecommunication sector in 2006 has resulted in widening access to 2.4 million people. The E-Power project introduced a lower cost producer while increasing power generation capacity in Port-au-Prince by 35 percent. These successes are few, unfortunately, hampered by a lack of transparency in existing sectoral policy and regulatory environments, and limited institutional capacity in Haiti's public sector, further compounding the overall difficult business environment.

5.31 **Policies to boost households' income – wherever they work – are essential to sustaining and accelerating welfare gains.** In urban areas, achieving this objective will have to involve the creation of economic opportunities and better jobs. A higher level of education and skills, for example, is correlated with higher labor income. In rural areas, the stagnation of both extreme poverty and income inequality observed between 2000 and 2012 reflects the increasing reliance on the low-productivity agricultural sector. Because 80 percent of the extreme poor live in rural areas, it will be necessary to develop this sector by means of policies that support income diversification. Such a diversification could contribute at spreading risk, strengthening food security, and preserving biodiversity. Furthermore, both in urban and rural areas, it is necessary to promote expanded access to inputs (e.g. seeds, electricity, finance, water) and to product markets (e.g. transport), as well as improve the business environment in order to increase the profitability of employment. Greater economic opportunities and better jobs, especially in urban areas, would contribute in reducing crime and violence, further improving the business climate.

5.32 **To reduce poverty and increase productivity in a more balanced manner across Haiti's territory, a multipronged approach is critical.** Opportunities and advantages presented by various regions outside of the capital should be developed. This approach would aim to broaden the pool of economic actors and support their contribution to productive activities and growth, in an environment encompassing most of the poor and the poorest. Multipronged investments in physical and service connectivity between rural communities and producers, and small and regional town markets and consumers, would add value to the local economy, help limit post-harvest production losses, reduce the isolation of local populations and their disconnection from the State, and stimulate economic activity. If conceived as a set of investments in a given geographical space, together with the productivity support discussed above and the expansion of services discussed below, such an approach would provide an avenue for accelerating growth for the bottom 40 percent, for building greater confidence of the poor in a better future, and, in the medium term, possibly provide alternatives to migration.

Reducing Vulnerabilities and Building Resilience

5.33 Institutional arrangements for emergency preparedness and disaster prevention and mitigation would need to be strengthened. A key initial step toward upgrading the management of disaster risks involves improving the identification and understanding of disaster risks in Haiti by quantifying and anticipating the potential impacts of natural hazards on Haitian society and the economy. It would also be important to reduce existing risks and avoid the creation of new risks by integrating risk awareness in public policies and investments. In light of the vulnerability of agriculture and its volatile contribution to economic growth, efforts to make production more resilient to adverse weather conditions are called for. Given the potential threat natural hazards pose to the sustainability of public finances, developing an integrated disaster risk financing and insurance strategy would also help ensure greater fiscal capacity in the aftermath of a disaster, while managing the volatility on fiscal accounts.

5.34 Progress made thus far in understanding and analyzing urban resiliency needs to be supported. Following the work on urban growth and resiliency recently carried out, more research is needed to document (i) urban demographic trends, (ii) rural to urban migration trends, (iii) urban surface growth and possible sprawl including land tenure, (iv) the determinants of urbanization and the role of secondary cities, (v) urban-rural linkages and the limitations imposed on the rural economy by urban sprawl, (vi) investments and public-service delivery needs for urban areas to address the double-challenge of poverty and risk, (vii) the role of cities in reducing poverty and through which channels it is occurring, and (viii) the link between economic and disaster-risk vulnerabilities i.e. whether the group of people that just came out of poverty are still vulnerable to poverty reversals as a result of future disasters.

5.35 Social protection would also need to be less fragmented and better targeted. The foundational blocks of social protection should be built, starting with a targeting system. Developing a targeting system is an essential step to enhancing human capital accumulation among the poor and vulnerable using, among others, a national poverty map allowing for the identification of pockets of poverty. This would include moving forward with the development of a unique registry of social protection beneficiaries in priority areas. In this regard, the Haitian authorities have developed a national targeting tool and are in the process of establishing a national registry of beneficiaries. Both of these measures will improve the efficiency and effectiveness of social protection programs. In a second stage, the coverage of social safety nets could be increased, especially among households with children, while ensuring sound targeting and improving the quality of relevant programs, particularly those able to enhance human capital.

E. ... AND A NUMBER OF DATA GAPS

5.36 The SCD has highlighted a number of data gaps that would call for attention:

- Consolidation and access to timely fiscal data: tighter financing constraints make it even more urgent to track public spending appropriately. Differences in budget classifications and the absence of an effective single treasury account lead to a fragmentation of fiscal data and prevents a comprehensive monitoring of public spending from budget appropriation to payment.

- A new census: the last census dates back to 2003. Many events have taken place since, and the dynamics and location of people may have substantially changed. Without knowing the size of the country's population and its distribution across the national territory, it is very difficult to design and cost any public policy.
- Employment and labor productivity: a better understanding of the dynamics of job creation and the factors behind low labor productivity is needed, especially in the informal sector.
- Agriculture census: the last census dates back from 2008. A better idea of what is produced where and factors preventing people moving out of subsistence farming is needed.
- Single registry of beneficiaries: the social protection system in Haiti is fragmented and lacks transparency. A single registry of beneficiaries is needed to improve the efficiency of the system through a better targeting of its beneficiaries.
- Survey on governance and corruption: the survey measures the perception of corruption and governance from households, public servants, the private sector, and NGOs, but the last one dates back to 2007.
- Rebasement of the National Accounts and revising the Social Accounting Matrix (SAM): the most recent available SAM dates back to 1986. Haiti's economic structure has evolved and a better understanding of its current inter-sectoral linkages is needed.

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ANNEXES

ANNEX 1 : PRICE COMPARISON ANALYSIS

The price comparison analysis uses three data sources to explore whether food prices in Haiti are higher than other countries from Latin America and the Caribbean region (as well as North America): (a) “Numbeo”, an online database of user contributed data on cost of living, (b) Ministry of Economy and Finance of Haiti and (c) FAO GIEWS Food Price Data.

The first database applies a common methodology in gathering price data across countries, thus strengthening the comparability of price information used in this analysis. However, since price data for Haiti is only available for 2014 at “Numbeo”, this only allows for cross-section analysis. Data provided by the Haitian Ministry of Economy and Finance on Haitian prices for 2010 to 2013 is combined with “Numbeo” data for the panel data analysis. Finally, for additional robustness, the analysis is replicated with prices from the FAO GIEWS database for the available food product (rice).

The baseline empirical specification for the price comparison analysis follows the equation:

$$\ln(\text{Price}_{ijt}) = \beta_1 \text{GDP}_{it} + \beta_2 \ln(X_{it}) + \beta_3 \text{Haiti} + \eta_j + \delta_t + \varepsilon_{ijt}$$

where: $i = \text{country}$; $j = \text{product}$; $t = \text{year}$; X_{it} = GDP per capita, cost of imports, and duties imports (as control variables); and η_j = product fixed effects. The *Haiti* dummy variable captures the relative price levels in Haiti compared to the average across other countries after adjusting for the differences in per capita GDP PPP, import costs, customs duties, and product type as well as time-specific effects.

The food products were selected based on availability across databases, the relevance in the Haitians consumption basket and product characteristics. For example, products were selected that are relatively similar (or homogeneous) across countries in order to minimize the differences associated with product differentiation.

ANNEX 2 : BOTTLENECKS AND CORRELATES OF FIRM PRODUCTIVITY

VARIABLES	Log. Revenue per worker	Successful firm (Revenues in top 30)	Successful firm (Profits in top 30)
Sell transformed products	0.106 (0.105)	0.00585 (0.0351)	0.0295 (0.0360)
Sell non transformed products	0.357*** (0.120)	0.0619* (0.0368)	0.0297 (0.0381)
Age	0.128*** (0.0127)	0.0263*** (0.00350)	0.0241*** (0.00338)
Age square	-0.00144*** (0.000136)	-0.000302*** (3.64e-05)	-0.000280*** (3.53e-05)
Man	0.402*** (0.0949)	0.135*** (0.0307)	0.137*** (0.0312)
Head of household	0.138** (0.0659)	0.0430* (0.0242)	0.0379 (0.0243)
Complete elementary	0.256*** (0.0890)	0.0640** (0.0317)	0.0689** (0.0311)
Complete secondary	0.321*** (0.0898)	0.0602* (0.0333)	0.0528 (0.0331)
Complete tertiary	0.675*** (0.189)	0.168** (0.0653)	0.125* (0.0680)
Access to electricity	0.274*** (0.0763)	0.0745*** (0.0277)	0.0510* (0.0273)
Access to water	0.163* (0.0893)	0.0898** (0.0355)	0.0424 (0.0349)
HH received remittances	0.00656 (0.102)	-0.00287 (0.0354)	-0.00852 (0.0356)
HH received domestic private transfers	0.0116 (0.0653)	0.0224 (0.0224)	0.0299 (0.0222)
Urban area	0.387*** (0.0771)	0.0771*** (0.0271)	0.0662** (0.0271)
Constant	5.428*** (0.319)	-0.424*** (0.0824)	-0.369*** (0.0818)
Observations	1,609	1,642	1,631
R-squared	0.217	0.105	0.096

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Module L-ECVMAS I

Successful firm: Revenues/Profits per worker in top 30 percent of revenues/profits per worker distribution
Estimates control for firm type (own account, household, employer), sector, activity.

ANNEX 3 : MOST SIGNIFICANT DATA GAPS IN HAITI

Sector/Theme	Data Sets/Survey Descriptions	Frequency	Comments
Cross Sectoral Data			
GAP	Population Census	every 10 years	Last Available 2003 – Planned but not budgeted for in 2015.
GAP	Continuous Employment/Labor Survey	Yearly	Last available 2003 - Urban only if nationwide not achievable (should include informal sector)
GAP	Yearly Vital Statistics Report	Yearly	Births, deaths, causes of death and basic demographics - Requires institutional strengthening on collection of data at various institutions
Poverty Data			
Periodic GAP	Poverty Assessment	every 5 years	Last available 2014/2015.
GAP	Poverty headcount by section communale	TBD	Data on poverty at national level exists, but not for each communale section. Important to make spatial link between risk and poverty.
Public Financial and Governance Data			
Ongoing but many GAPS	Regular reporting on government financial data, especially: <ul style="list-style-type: none"> • public investment expenditures commitments, and final payments; • local government financial data • consolidated financial data for State owned enterprises 	Monthly	Supported by a variety of donors, but broadly unavailable.
GAP	Data on special public programs/funds	Yearly	PSUGO, FER, FNE etc.
GAP	Public Expenditure and Financial Accountability Survey (PEFA)	Periodicity TBC	Latest available 2011 (EU)
GAP	Survey on Governance and Corruption	Periodicity TBD	Latest available 2007, 2011 (Government Anti-Corruption Unit)
Economic Data			
GAP	Rebase GDP	Periodic (long term)	
GAP	Social Accounting Matrix Update	Periodicity TBD	Last available 1986

Sector/Theme	Data Sets/Survey Descriptions	Frequency	Comments
Education Data			
GAP	School Census	Yearly	Needs to be of good quality. Current surveys don't meet quality standards needed for adequate use. Must include infrastructure questions for Water and Sanitation and schools characteristics.
Planned	Cartography of all schools	Baseline 2015 Yearly update	Baseline will be started by IDB January 2015.
Health Data			
Periodic GAP	Demographic and Health Survey (DHS) Mini-DHS (in between)	<ul style="list-style-type: none"> • every 5 years • every 5 years 	Last Available DHS 2012
Periodic GAP	Health Facility Census	every 3 years	Last available 2013. Quality needs improvement
GAP	Detailed data set on government and donor programs	TBD	Includes (i) geographical commune level information on programs, (ii) commodities provided, (iii) personnel hired (including type), (iv) spending (per category of spending). Baseline to be developed.
Periodic GAP	Health system indicators collection	TBD	Collected from National Health Information System, SNIS, include inputs (Human Resources, equipment, drugs, etc.), outputs (number of key procedures, consultations, etc.) and intermediate outcome indicators.
GAP	Improved surveillance systems disease control	TBD	Building on cholera surveillance systems to track signs of epidemic outbreaks and enable rapid response.
Data for Disaster Risk Analysis and Prevention			
Ongoing	High resolution digital elevation model	Ongoing - WB financing	Light Detection and Ranging, using an airborne laser techniques to densely sample the surface of the earth and produce highly accurate topographic models
Ongoing	National Emergency Shelter Survey	Ongoing - WB financing	Information needed: functional survey and ad-hoc structural assessment of all the shelters used in case of emergency; Scope Country Wide
Ongoing	Natural Hazards Risk Atlas	Ongoing - WB financing	First Atlas, will summarize all the major risks to non-practitioners with a resolution of 1:100,000 scale
Ongoing	Baseline Assessment of hydro-meteorological (including marine) and climate data	Planned – WB Financing	Estimated available in 2017-2018
Ongoing	Systematic and consolidated meteorological and	System and Baseline	Estimated available in 2017-2018. Will require long term engagement of Government and partners.

Sector/Theme	Data Sets/Survey Descriptions	Frequency	Comments
	hydrological/hydrogeological database	Planned – WB Financing	
Ongoing	Updated return period for select hazards	Planned – WB Financing	Periodicity of storm; wind; storm surge.
GAP	National public and private critical facilities survey and assessment	TBD	Assessment of resilience of schools, hospitals, critical administrative offices such as police station, etc.) to disaster risk (Earthquakes, Floods, Hurricanes).
Financial Sector Data			
Ongoing Baseline Periodic GAP	FINDEX survey on financial inclusion	Baseline Ongoing - WB Financing	
Ongoing	Financial capabilities survey	Planned – WB Financing	
GAP	Enterprise survey	TBD	Survey should provide data about firm financing, covering also the informal sector.
GAP	FinScope surveys	TBD	In depth surveys about demand and use of financial services (e.g. carried out among households and MSMES)
GAP	MixMarket datasets or similar surveys	TBD	Provide financial data about the structure and performance of all financial cooperatives and MicroFinance entities and data on the composition and performance of their loan portfolios.
Agriculture Data			
GAP	Agricultural Census	Every 5 years	Last available 2008 raw data made available recently (FAO). But design and methodology was poor, data is out of date and may not be usable. Survey needs to be consistent across years and digitally collected.
Periodic GAP	Update/Validation of Agricultural Census/Agricultural survey	Yearly	Must use representative samples. IHSI tasked with annual updates but lacks ability to carry out.
GAP	Time-series satellite imagery	TBD	Remote sensing to collect data on crop cover, and crop rotations by seasons and years
GAP	Market Information survey agricultural goods	TBD	Stock and flows of agricultural goods by department, including consumption, imports, exports and goods sold into local markets.
Ongoing	Updated and scaled-up the National Farmer Registry	Ongoing –WB Financing	Completion date baseline tbd.
Water Data			

Sector/Theme	Data Sets/Survey Descriptions	Frequency	Comments
Planned	Comprehensive country baseline for water supply	Planned –WB Financing	Information: boreholes, water networks, household connections, kiosks, etc. and how many people are served by these; Level of detail: community level for the whole territory.
Planned	National Sanitation Baseline Survey	Planned –WB Financing	Information required: open defecation, improved vs non improved toilets, collective vs individual septic tanks, etc. Level of detail: community level for the whole territory.
GAP	Survey for water availability in schools and health facilities	Periodic TBD	Latest available 2009 from Ministry of Education survey of public and private schools. Confirm whether imminent IDB survey of schools includes the water and sanitation.
Transport and Infrastructure Data			
Ongoing	Rural Access Index	Ongoing-WB Financing	Includes condition of the road networks, road density, and provide reliable geo-referenced and structured road network data.

