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HAITI: SHORT AND LONG-TERM DEVELOPMENT ISSUES

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I. INTRODUCTION

1. This deliberately brief document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) at the request of the United Nations Stabilization Mission in Haiti. [1] Its primary purpose is to help nurture the domestic debate on long-term development issues. More specifically, while Haitians prepare to engage in an inclusive national dialogue which centers on the upcoming electoral process, the country's long-term development prospects cannot be absent from such a dialogue. On the contrary, it is difficult to have progress without having a broad understanding among the important stakeholders on how to begin to overcome some of the main challenges that Haiti faces today. Most of those challenges fall in the realm of economic and social development. In this regard, a second purpose of the document is to offer the Government of Haiti a framework for a medium term prospective development strategy for Haiti. The document outlines some of the major issues that warrant further discussion, and points in the direction of possible policy orientations.

[1] This study was carried out as part of a project on development and poverty alleviation in Haiti that ECLAC is carrying out with funding support from the Kellogg Foundation.

II. THE IMMEDIATE BACKGROUND

2. The people of Haiti face an unenviable situation in 2005. In spite of a pride born out of having attained its independence in a liberation struggle over 200 years ago, a strong and unique national identity and a rich cultural heritage, the country's history has been marked by adversities in the areas of political governance, economic and social well-being, and the administration of its natural resources.

3. Long identified as the poorest country in the Western Hemisphere due to secular and structural factors, events during the past two decades have only contributed to a further deterioration. Real per capita income has fallen by 50% since the early 1980s; the degradation of the country's natural resources has continued unabated (deforestation, soil erosion, water pollution, urban contamination); the capacity of the State to fulfill its functions in the provision of social services, security, the rule of law and the development of infrastructure has been seriously eroded; and most social indicators show a further decline.

4. Private investment is at a virtual stand-still; the export sector suffered a serious contraction in the 1990s and has still not recovered. The peak of in-bond industries' exports was reached in 1987, with US $134 millions and about 40 000 workers employed. At present, no more than 30 000 workers are occupied in these activities. As production falters, consumption is increasingly supplied by imports, financed in large part by family remittances from Haitians living abroad (in 2004 their amount was equivalent to 25% of GDP) [2], and productive employment opportunities are scarce and static. Two thirds of Haitians live below the poverty line, and half live in extreme poverty. On the other end of the scale, there is a small but influential economic elite. Income inequality and disparity in access to opportunities are very pronounced.

5. Matters are further complicated by the legacy of the events that took place since the end of the notorious 29 years of authoritarian rule under the Duvalier family. While the 1990s started with high expectations generated by the landslide election of Jean-Bertrand Aristide in December of 1990, subsequent events underlined the difficulties experienced in fostering democratic decision-making, consensus-building and economic growth. Among the erratic events that took place, some of the important signposts include:

- The forced removal of President Aristide in September of 1991 by a military coup.
- The United States led intervention to restore his presidency and constitutional rule in October 1994.
- The gradual transformation of the parliamentary system contemplated in the 1987 Constitution into a *de facto* strongly centralized Presidential system.
- The contested local and legislative elections of May 2000.

[2] An in depth analysis of Haiti's recent economic performance and outlook, see ECLAC (2005), *Haití: Evolución Económica 2004 y Perspectivas 2005*.

- ! The disputed Presidential election of November of that year with its exceptionally low turn-out.
- ! The highly unstable second tenure of President Aristide from 2001 to 2004. The latter ended with the creation of a provisional government and a Security Council-sanctioned Multinational Interim Force, soon replaced by a new United Nations peacekeeping and stabilization Mission (MINUSTAH).[3]

6. As summarized by one important international observer, "dysfunctional institutions, poor and corrupt governance, lack of transparency and pervasive crime have exacerbated economic and social instability [in Haiti] for the last decade."[4]

7. The security situation, especially in Port-au-Prince, is a cause for special concern.[5] Its origins are complex. As in many other countries situated in the Caribbean basin, high levels of unemployment and underemployment, and the attendant frustrations, have led many young people to joining gangs, some of which appear to have ties to criminal elements such as drug traffickers, attracted to Haiti due to its secularly deficient law enforcement capacity. All of these factors have had a corrosive effect on the society in general and the Haitian National Police in particular. Since September 2004, organized demonstrations expressing political discontent, in some cases evidently manipulated by different parties, also contribute to destabilize the security situation. Those that stand out include the supporters of ex- President Aristide, pejoratively called the *chimères*, many of them living in the slum areas of the capital. as well as previous members of the army (disbanded in 1995), including those that participated in the revolt against President Aristide in the first months of 2004. The latter are still armed at the time of writing this paper.

8. The high level of insecurity raises a chicken-and-egg dilemma. The conventional wisdom – hard to dispute – is that poverty and unemployment are at the root of political instability. In order to drain people, and especially youth, away from illicit activities, it is therefore indispensable to create an environment of economic reactivation and job creation. On the other hand, it is difficult to contemplate such an environment if the security situation is not brought under control, given its deleterious effects on investor confidence and on the business climate.

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[3] The first United Nations Mission in Haiti to help stabilize the country was established by the Security Council through Resolution 867 (1993) and functioned from September 1993 until June of 1996. It was followed by three smaller missions whose role was basically to train and strengthen the Haitian National Police. These were UNSMIH (July 1996 to July 1997); UNTMIH (August-November 1997) and MIPONUH (December 1997 to March 2000); see resolutions 1065(1996), 1123(1997) and 1141(1997), respectively. The current MINUSTAH was established through Resolution 1542 of 30 April 2004.

[4] International Crisis Group, A New Chance for Haiti? Brussels, ICG Latin America/Caribbean Report No. 10, 18 November 2004, p. 1.

[5] By end of May 2005, the International Crisis Group was calling the security situation "explosive, especially in the capital". See: International Crisis Group, Latin America/Caribbean Report No. 13, 31 May 2005, p. 1.

The dilemma consists in identifying which of the two factors – economic and social stress and political instability – should be tackled first.[6]

9. The dilemma is further compounded by the imperative that economic reactivation, consensus-building and a more secure environment should be pursued simultaneously and in a mutually reinforcing mode. Long-term development cannot be addressed in a context of political instability; political instability cannot be addressed if Haitians are not offered the prospect of rising standards of living. This, in fact, is the general thrust of the transitional government's strategy, as reflected in the Interim Cooperation Framework (ICF) for 2004-2006, prepared as the basis of an international pledging conference held in July 2004.[7] The exercise was led by the transitional government, with support from 26 bilateral, multilateral and United Nations agencies.

10. For the short term, the priorities of the ICF are to restore security, to reestablish public services, and to provide economic opportunities for the less-advantaged segments of the population. For the two year period covered by the ICF and beyond, the main priorities are articulated around four strategic axes: strengthening political governance and promoting national dialogue; strengthening economic governance and contributing to institutional development; promoting economic recovery, and improving access to basic services.

11. While it is difficult to take issue with these general areas of priority attention, and even most of the specific actions and policies proposed, the document is rather sketchy on how the different elements that form part of each axis are to be converted into concrete actions and deliverable results, or how to resolve the numerous trade-offs between potentially conflicting priorities. In addition, some important cross-cutting issues that appear to be of particular relevance for Haiti at this juncture, such as those raised in subsequent sections of this document are insufficiently discussed.[8]

12. Now that the country is poised to address the host of issues mentioned in the previous paragraphs, it would be useful to introduce a further discussion of development issues into the national dialogue, with an eye to building a consensus on some of the measures that, regardless of ideological leanings or differing vantage points, need to be implemented. The Interim Cooperation Framework, -as mentioned above- jointly prepared by the transitional Government and the international community, would probably be an indispensable starting point for a Poverty Reduction Strategy Paper, which should be based on the considerable work already undertaken on public policies and actions, and which should reflect the priorities of the Haitian society.

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[6] See C. Moise in "Le Matin" (10-13 June 2005). *Il n'est pas moins vrai que des élections réussies constituent un premier pas vers la normalisation politique qui permette d'aborder nos problèmes de société sur une base plus solide y compris l'insécurité. (..)La solution ne sera pas électorale, mais politique. Dans la mesure où des forces combinées, rassurantes par leurs propositions, par leurs projets et par les équipes dirigeantes redonnent confiance au peuple qui se décidera à prendre le train électoral et à s'embarquer dans le processus de normalisation. Aucune solution de panique n'y parviendra*.

[7] Prepared jointly by the transitional government, the United Nations Organization, the European Commission, the World Bank and the Inter-American Development Bank. For the full text and thematic documents see: http://haiticci.undg.org.

[8] None of these shortcomings diminish the value of an extremely useful document, prepared in a remarkably short time in close consultation between domestic and international players, which, for the most part, offers sensible policy orientations and a framework whereby international donors can all "read off the same page".

13. The idea of putting forward a Poverty Reduction Strategy (PRS) must be welcomed. However, there is an on-going debate on the operational aspects of this process. It is of crucial importance to put forward and to implement a development strategy that will ensure stabilization and economic growth combined with a reduction of poverty and inequality in the medium and long-term. In this regard, it should be recalled that each country's strategy for development is path dependent, and must thus take into account its historical, institutional and geographical characteristics. In the case of Haiti, special attention must be paid to the determinants and magnitude of rural poverty, inequality and deprivation, and how these are molded in interaction with the urban areas. Such analysis would also help to understand the reasons behind the stark regional disparities in Haiti.

14. The question of gender also has to be present in any analysis of Haiti's social and economic situation and prospects. In fact it is recognized in the ICF as one of the cross-cutting issues for Haiti's development. The nation's road to development must be forcefully built on the foundations given by the strong and persistent reduction of the inequity, exclusion and unfair treatment of women and girls in the many phases of social and economic life as well as in their access to justice.

III. THE CENTRAL ARGUMENT

15. Precisely because of the complex and cumulative nature of the problems mentioned above, some international observers have tried to present Haiti as a failed State, doomed to live basically from the proceeds of international humanitarian aid and family remittances from the growing percentage of Haitians living abroad.

16. Yet, strictly speaking, Haiti cannot be described as a failed State.

! Although its institutions are weakened, they are by no means irretrievably lost.

! While conventional indicators of education are dismal, the country does have a large pool of talent, in Haiti proper and among Haitians living abroad and possibly willing to return to the homeland.

! In spite of the serious environmental deterioration inflicted on its territory, the country still disposes of the natural resources – actual and potential, through improved management of those resources – to sustain a viable economy.

! Although the structural factors put in place during Haiti's founding decades still prevail (these have defined economic and social evolution ever since), they are not unyielding to potential reforms.

! On the other hand, the strong and unique national identity alluded to earlier and a history which is marked not only by setbacks but also by inspiring events,[9] constitute important legacies to address current and future challenges.

17. Thus, the question facing Haitians is not whether its economy can become viable. Rather, the question that must be asked is what steps need to be taken and what requirements have to be met in order to build a viable economy, in the context of the undeniable constraints that have been hampering efforts to achieve economic growth, productive job creation and social welfare for the majority of the country's population. [10] The response to this rhetorical question cannot be limited to the field of economics. It spills over into the political, cultural and social spheres. As correctly pointed out in the ICF it involves, among many other aspects, fostering the institutions of democratic governance and consensus-building. But in trying to articulate a response to the rhetorical question, it would be extremely useful to dispose of a long-term development strategy, which would offer a framework for the discussion. Clarifying the content, scope and thrust of such a strategy requires further dialogue and a broad consensus.

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[9] An example of such events can be found in the ultimately successful revolution of Toussaint Louverture and its abolishment of slavery even before the country's independence in 1804. The work of the *Commission du Bicentenaire*, created in 2004 and to be still in operation in 2005-06, seems to be oriented in this direction.

[10] For a recent analysis of some of these issues -from the perspective of the whole Latin American region- see ECLAC (2002) *Globalization and Development*.

18. The dialogue itself involves changes of attitudes and a greater culture of compromise among Haitians than has been apparent in the recent past.[11] It is to be hoped that the effort underway to foster a national dialogue offers a vehicle for bringing development issues and strategies into the broader context of some type of national accord. Some of the major issues that would frame the dialogue in the economic and social sectors are discussed in the following sections.

[11] Still, there have been incipient signs that some sectors of civil society do seek dialogue and conciliation, as witnessed in the formation of the *Initiative de la Société Civile* and the coalition of civil and grassroots organizations formed under the umbrella of the "Group of 184".

IV. THE ROLE OF THE INTERNATIONAL COMMUNITY

19. One important issue that appears near the surface but is rarely discussed openly refers to the role of the international community in Haiti's long-term development. The dim view held by some observers and described in preceding paragraphs regarding the country's prospects in achieving a workable system of political governance and a viable economy usually leads the same observers to recommend the setting up of some type of long-term international protectorate.[12] This notion, however, points in the opposite direction of a constructive relationship between Haitians and the international community.

20. In fact, the Haitians are a proud people, and show a strong desire to take charge of their own destiny. Further, there is a rather unfortunate legacy of foreign interventions, including, in the Twentieth Century, the United States' occupation in 1915 to protect perceived U.S. interests, an occupation which persisted until 1934. While the recent United States interventions of 1994 and 2004 – both sanctioned by the Security Council –[13] were due to very different motivations, they were not uniformly applauded by the Haitians themselves. In addition, stop-and-go financing from the donor community in the 1990s,[14] and high levels of conditionality were additional sources of friction.[15] Today the international community is once more deeply involved in Haiti.

21. Clearly, the role of the donor community and the United Nations Stabilization Mission in Haiti is designed to help Haitians achieve their goals of stability, peace and democratic governance, as well as to adopt their own policies and strategies for sustainable development. Far from becoming some type of protectorate or of exercising tutelage over Haitian affairs, the international community must be mindful and respectful of Haiti's sovereignty. In other words, while the international community is committed to supporting Haiti, it clearly cannot and should not act on its behalf. Rather, it should strive to help Haitians create an environment in which a productive and constructive partnership can be undertaken.

22. This vision is widely understood and shared among the inter-governmental bodies and the staff of the United Nations and the multilateral financing institutions, as well as bilateral donors. However, not all Haitians are aware of it. Many domestic actors, based on real or perceived grievances of the past, may view the international presence with some degree of suspicion and

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[12] See, for example: Don Bohning, "Nation in Chaos: An international protectorate could bring stability to Haiti", The Miami Herald, 22 November 2004, p 23A, and Andres Oppenheimer, "Make Haiti a U.N. Protectorate, But Don't Call it That", The Miami Herald, 2 December 2004, p. 18A.

[13] Security Council Resolution 940 (1994) of 31 July, 1994 and 1529 (2004) of 29 February 2004.

[14] First, unbridled enthusiasm in 1990, then an economic embargo in 1992-93, followed by a renewed spurt of financing in 1994-95, only to evolve into donor fatigue and frustration in the following years, and then a virtual withdrawal in 2000-03, until the donors conference of July of 2004.

[15] This phenomenon is recognized by the main donors in a sort of *mea culpa* which appears in the Interim Cooperation Framework for 2004-2006, paragraphs 18-22, page 5. Also see: World Bank, Transitional Support Strategy for the Republic of Haiti, Report No. 30541, December 10 2004, p.19 on "lessons learned from past assistance to Haiti".

skepticism. Nor has the international community done much to dispel the apprehensions caused by its presence.[16] It is important, therefore, that both the international community and Haitians do their part to work for the alluded constructive partnership. Clearly, in such a context, it is the Haitians themselves who must responsibly assume full ownership of their future. Indeed, it is important for all parties concerned – Haitians (government, civil society and the business sector), the donor community and the United Nations – to make sure that Haiti be put in the proverbial "driver's seat" in setting development priorities and strategies.

[16] In this regard, it is interesting to note that in its Resolution 1608 (2005) adopted on June 22, 2005 to extend and strengthen MINUSTAH's mandate, the Security Council "urges MINUSTAH to urgently develop and implement a proactive communications and public relations strategy…" (operative paragraph 16).

V. HAITI AND THE GLOBALIZED ECONOMY

23. A second issue that is rarely debated in an explicit manner, but does appear in tangential discussions, refers to the degree of openness of the Haitian economy. These discussions revolve around questioning the wisdom of having embraced trade liberalization too rapidly and too aggressively in the early 1990s, to the point that, as is frequently mentioned, Haiti has the lowest tariff structure in all of the Caribbean. Some would argue that the rapid and aggressive trade liberalization, inspired by international lenders, was detrimental to some productive activities – rice is often offered as an example – which could have remained internationally competitive (i.e. without acting to the detriment of the Haitian consumer) had producers benefited from a longer period of adjustment.

24. Be that as it may, its privileged geographical location combined with its limited domestic market strongly suggests that Haiti should pursue a strategy based on "openness". This is not a matter of doctrine, but of practicality in today's global economy. Haiti must develop its comparative advantages, to the extent that these exist or can be developed, within the constraints of an intensively competitive international economy. To do otherwise would be at the peril of being able to provide sustainability to economic growth. As a general proposition, Haiti will have to pursue a regime of relatively low tariffs on goods and services, adherence to the rules of the World Trade Organization (it has been a contracting party since January 1996), as well as the rules of the Caribbean Community, (CARICOM) to which Haiti belongs (although at the time of writing it is temporarily banned for reasons that are well known). Over and above the liberalization of its capital account –already achieved years ago- the country needs to be able to attract direct foreign investment in competitive conditions with its neighboring states of the Caribbean basin, although the exact scope and content of the most appropriate policies to meet this goal need to be worked out.

25. Haiti is already one of the most open economies in the world, both in the current and the capital account. Nevertheless, its productive structure is in general far from competitive in international markets. [17] Pursuing an export-oriented strategy is by no means limited to eliminating restrictions on trade and capital flows. As is noted in the following section, a more pro-active stance on the part of the State to promote development is fully warranted. In this context, a modest and temporary level of protection in some limited sectors of the Haitian economy might have to be considered, especially with regard to food security. It should be noted that simply adopting the common tariff applied by CARICOM countries would, for many specific goods, allow a modest upward adjustment on tariff rates. Further, special attention will have to be given to exchange rate policies, to avoid any serious over-valuation of the gourde as the levels of official development assistance and especially family remittances tend to increase. Transaction costs, inordinately high at present, can also be reduced in key areas such as electrification, highway transport, communications, information technologies, ports, storage

[17] On the challenges that Latin America currently faces in its quest to modernize and expand its productive capacity see ECLAC (2004) *Productive Development in Open Economies*, Santiago de Chile.

facilities and airports, in order to contribute to the international competitiveness of Haitian goods and services.

26. It should also be noted that "openness" per se would not be sufficient for improving the competitiveness of Haitian goods in international markets. Trade policy must be complemented by a combination of temporary, transparent and goal-oriented selective policy measures on certain agro-industrial products and manufactures to boost domestic output and employment based on revitalizing the internal market. Any future strategy of development should examine whether there are any policy measures or regulatory changes that need to be applied to increase the production and availability of basic-products for the majority of the population. In any case, special consideration must be given to assess the likely impact of such measures on the availability and market price of the goods that make up the basket of basic needs in order to compensate any short-term adverse effects they may have on the poorer sectors of the population. In the same vein, liberalization of the capital account may have facilitated direct foreign investment but by no means suffice as a policy instrument to increase private capital flows.

27. The main point to be made to those that chafe at the "neoliberal model", the "Washington Consensus" or the paradigm that gained credence in the 1980s and 1990s in Latin America and the Caribbean (and is now increasingly under assault for not delivering on its initial promises), is that while there is some leeway in designing alternative policy responses to improve the country's insertion into the international economy, especially through the application of selective micro and meso-economic policies such as those discussed below, there is no alternative to imagining Haiti's long-term development as a function of economic globalization. Even fostering production to supply domestic demand should be approached in that context; i.e., domestic production should be close to competitive with similar goods originating in international markets.

28. There is another issue related to "openness", and that is the potential benefits for Haiti to belonging to the CARICOM. Although invited to join in 1997, Haiti did not do so until July 2002, and, as noted above, has been temporarily banned since March 2004. It cannot be held, therefore, that Haiti has derived important benefits from its association to CARICOM so far.[18] However, the potential benefits can be considerable, in the areas of trade, joint investment, access to the Caribbean Development Bank and participation in the numerous initiatives of the Community, while, given its low tariff structure, it is hard to imagine that joining the Community would entail significant costs for Haiti, measured in terms of trade diversion. Rather, as pointed out earlier, Haiti could contemplate a modest but selective increase in its tariff structure to harmonize same with the rest of CARICOM.

29. On the other hand, it should be noted that the Dominican Republic, a country with which Haiti has much deeper links of economic interdependence[19] than with any other country in the Caribbean, is not a member of CARICOM. Deepening links between Haiti and the Dominican

[18] Having said the above, the proactive role of the Caribbean Community in trying to resolve the political crisis of the first months of 2004 has been the source of some controversy within Haiti, as has been the decision to ban the country from the Community.

[19] Haiti is the third trade partner of the Dominican Republic; importing around US $100 million annually not taking into account *maquiladoras*.

Republic should not be incompatible with deepening links with the rest of CARICOM countries, But, at least in the short run, these hold even greater potential benefits for Haiti, given the capability to engage in more mutual benefit cross-border activities, such as those contemplated at the Ouanaminthe Industrial Park.[20] If approached properly, such activities could go a long way in resolving a secular conflictive relationship between both countries, where migratory aspects are crucial.

30. When considering Haiti's role in the global economy, the phenomenon of migration and its effects cannot be ignored. Indeed, migration and remittances have become marked traits of Haiti's socioeconomic dynamics. Each year, large numbers of Haitians feel compelled to migrate in search of better job prospects and economic conditions abroad. In due course these migrants send back foreign remittances to their families. The total volume of such flows has by now become the most significant entry item in the current account of the balance of payments. Although these migrations have also produced well known perverse effects, they have represented for many poor families the difference between absolute poverty and more dignified socioeconomic conditions. In the long run, a successful economic development strategy will, most likely, cut down the incentives to migrate. But in the short and medium terms, such migration flows will continue. Support should be tailored to ensure Haiti that its human capital will not be depleted (such as happened, for example, with the Special Visa Program for qualified migrant offered by Canada in 2001-2002). These matters should be particularly explored at the highest level of political representation of Latin America, (in particular with the Dominican Republic, Haiti's most significant trading partner) as well as with the United States and Canada.

[20] See *Connaître la frontière*, Laboratoire des Relations Haitiano-Dominicaines, LAREHDO, juin 2002.

VI. THE BALANCE BETWEEN STATE AND MARKET

31. There is general agreement among development economists today that a judicious balance between the State and the market is needed to achieve sustainable development. But there still is a great deal of debate on what "judicious" means, and how much State-intervention is desirable at any given time in any particular country. One of the few things that can be said with certainly is that there are no prescriptions that are valid for all situations.

32. Current conventional thinking on the matter recognizes that the State is only one of the institutions which interact with other of society's institutions involved in collective and non-collective actions, such as the private sector, civil society, non-governmental organizations or grass-roots organizations. Rather than dwell on the unique functions that only the State can carry out, more emphasis tends to be placed on identifying how all these institutions can complement each other. Further emphasis is given to insuring that each one of the institutions enhances its capacity to perform well. In other words, rather than a philosophical debate on the merits of public interventions and the "magic of the market", complementarities are sought between both, and the capacity of both public and private institutions to do so is highlighted.[21] In a phrase, rather than seeking a minimalist or maximalist State, the trend today is to seek an effective State.

33. This discussion is particularly relevant in the Haitian context. Some activities which in most countries are largely entrusted to the State, such as primary education, are provided to a very high degree by private schools, and with little normative and regulatory supervision on the part of the State. On the other hand, public services which have largely been privatized in most countries, such as the production of electricity and the provision of telecommunications are provided by State-run companies. At the present time, most observers agree that the provision of public services is inefficient and the capacity of the State to regulate those services is seriously flawed.[22] In addition, lack of transparency and accountability appears to be widespread.[23] More to the point, the public administration is notoriously weak, constraining the government's ability to fulfill an effective role in areas such as provision of social services, law enforcement, ensuring the rule of law, developing physical infrastructure, and, in general, offering an acceptable level of management of public sector activities. Part of the problem resides in a weak and poorly paid (scantly motivated) civil service.[24]

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[21] See, for example: World Bank, 1997 World Development Report "The State in A Changing World" (Washington, D.C., 1997)

[22] "Economic management is weak and under-resourced." The Economist Intelligence Unit, Haiti: Country Profile 2004 www.eiu.com, p. 19. Also see: International Crisis Group, A New Chance for Haiti?, ICG Latin America/Caribbean Report No. 10, 18 November 2004, pp. 20-23.

[23] "For a number of years, the non-transparent management of public finances and procurement and weak financial controls have lent themselves to widespread corruption and impunity." World Bank, Transitional Support Strategy for the Republic of Haiti, Report No. 30541, December 10 2004, p. 18.

[24] See. International Monetary Fund, Haiti: Selected Issues, IMF Country Report No. 05/205, June 2005, pp. 16-23. Among other aspects, the Fund reports that public sector employment in Haiti is extremely modest, that public sector salaries appear to be significantly below private sector averages, and that the ability of the Government to deliver essential public services is seriously curtailed.

34. Thus, a key element that must be clarified refers to enhancing the capacity of the State to carry out effectively and efficiently whatever activities are entrusted to it. Certainly, an effective State is needed to enable markets to develop – including the provision of physical infrastructure – to count with normative and regulatory structures to oversee private entities (including financial institutions) and especially to address social issues. An effective State is also necessary to pursue policies aimed at reducing the wide disparities in social and economic conditions that persist among the rural and urban areas, as well as between the various regions in Haiti. There is no single optimum way to distribute responsibilities between the State and markets, but in Haiti's present context of a greatly debilitated capacity of public institutions, it is in the interest of all parties to strengthen them through incentives to improve delivery and restraints on arbitrary and corrupt behavior.[25]

[25] See: World Bank, *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* (Washington, D.C. November 2000).

VII. POTENTIAL ENGINES OF GROWTH

35. The discussion of a judicious balance between State and market also raises the question of trying to identify the probable "engines of growth" of a re-invigorated Haitian economy, under the assumptions that the more severe constraints of security and governance can be overcome. Some will argue that the main objectives of the State should be to insure a stable and secure environment and sound macroeconomic management, and that the market will identify those opportunities for economic growth. Others will hold that under present and foreseeable circumstances, a more pro-active role would be required on the part of the State to foster promising activities that, at least in their initial stages, would require incentives or public investments (or both) in order to be attractive for the private sector. At any rate, it would be useful to have at least a tentative notion on what the potential "engines of growth" could be.

36. Some serious work has already been undertaken in this regard.[26] Many of the activities that have been identified are those that showed some dynamism in the past, such as the assembly export industries (especially garments), coffee, tropical fruits (mangoes), tourism and agriculture. In other words, the existing studies dwell more on the requisites to recover lost ground and jump start these activities, than in trying to identify new ones, which would presumably build on existing capabilities.

37. Haiti does not have to look further than its neighboring country, the Dominican Republic, to understand the considerable potential that tourism holds. In the short run, it could sustain an important building boom to fuel the expansion of infrastructure, especially in hotels. In the longer run, tourism is a labor-intensive sector. Haiti has the potential conditions to attract both high-end tourists and the back-packer trade. Its unique history and culture, combined with spectacular natural resources, have barely been tapped, in part due to the history of instability, insecurity and poverty that has characterized the country. In addition, tourism has strong linkages to the handicrafts sector and the "nostalgic, ethnic and cultural industries" which have intrinsic growth potential on their own.

38. A sustainable intensification in agricultural production, both for exports and for domestic consumption, also has significant potential. This could be developed by applying technology to the productive process and in the provision of services. Agricultural production should be approached in the broader context of rural development. This, in spite of the dramatic deterioration in the country's natural resource base,[27] subject to severe deforestation and its resultant soil erosion and devastating floods (as witnessed in September 2004). At present, roughly 59% of food consumption is supplied through imports (of which almost 5.6% is linked to food aid grants)[28]. With economic reactivation, the demand for food should increase rapidly. This

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[26] See, for example: Mats Lundahl, Sources of Growth in the Haitian Economy Inter-American Development Bank, Economic and Sector Study Series, RE2-04-004, June 2004.

[27] The aforementioned Report of the International Crisis Group alludes to "an ecological time bomb". Op. Cit., p. 23.

[28] See National Coordination for Food Security (CNSA) report presented at the joint ECLAC-CNSA Seminar on Food Security, held in Port-au-Prince on May 12-13, 2005.

illustrates the potential of supplying an increasing proportion of this growing demand through domestically produced food in competitive conditions. Among the products that appear promising are rice, corn and beans, all staples of the Haitian diet, as well as higher-yielding commodities, such as vegetables and fruit.

39. Food security is a major development issue of its own in Haiti, especially in the light of the relatively high dependence on international humanitarian assistance. It is clear that improving food security requires not only financial resources to support the productive process but also the strengthening of institutions.[29] Consideration could also be given to the production of certain vegetables in suburban and urban areas.

40. The Assembly Industry Sector, based on competitive labor costs, should hold an important potential to create employment opportunities. Although in recent times the bulk of these activities were concentrated in the garment sector (approximately 90% of in-bond industries' total exports), which itself faces considerable competition world-wide, Haiti should be able to preserve a niche of the North American market, especially if the Haiti Economic Recovery and Opportunity Act of July 2004 is finally enacted by the Congress of the United States. Other opportunities should surface in electronics, toys, and call centers linked to francophone markets (Canada and France).

41. A more innovative approach can be found in what Mats Lundahl calls the "formalization of the informal sector", which would strive to increase the productivity and production of the huge number of micro enterprises that exist in Haiti with differing degrees of informality. The initiatives undertaken by the *Centre pour la Libre Entreprise et la Démocratie* (CLED) together with Hernando de Soto's *Instituto Libertad y Democracia* (ILD) deserve consideration in terms of their potential impact on growth and greater equity, although the practical and administrative difficulties of legalizing the property of the poorest segments of the population cannot be underestimated. Other international organizations, including the World Bank, the Inter-American Development Bank, the UN´s Capital Development Fund and ECLAC have accumulated a considerable patrimony of "lessons learned" on fostering micro-enterprises, some of which would be of particular interest for the Haitian context.

42. It is true that many obstacles need to be overcome in order to even begin to realize the potential of these and other activities. There are serious issues related to political governance, including the rule of law, property rights, access to credit (especially for micro enterprises), adequacy of infrastructure, environmental degradation, vulnerability to natural calamities and many more, but the fact is that the potential for economic reactivation and sustainable growth is clearly there.

[29] This matter was the subject of a seminar organized by ECLAC and local authorities in Port-au-Prince in May 2005 which facilitated an informed dialogue on the matter between government officials, international agencies and members of civil society.

VIII. MACROECONOMIC MANAGEMENT

43. Another issue that is being debated currently refers to macroeconomic management of the transitional Government, under a Staff Monitored Program of the International Monetary Fund. While it is difficult to disagree with the over-all thrust of policy-making – Haitian policy makers have a very narrow margin of maneuver given the considerable constraints that affect economic performance – questions have been raised regarding the content, scope and intensity of policies in the fiscal, monetary and financial sectors.[30] There does seem to be a contradiction, in effect, between the obvious need to rapidly generate employment opportunities through public expenditures (street-cleaning brigades, maintenance of public buildings, small public works) while at the same time maintaining a surprisingly low budget deficit (an average of 3% of GDP in last five years) and amassing a growing pool of international monetary reserves. In other words, there perhaps was some "overshooting" in meeting goals of budgetary discipline and monetary and credit conditions.

44. On the other hand, it can be said in the transitional government's defense that recent events – political, security, and economic developments as well as the humanitarian disaster caused by the floods of May and September – posed a questionable proposition for attaining rapid financial and economic stability, even under the most favorable circumstances imaginable some months ago. It should also be recalled that budgetary practices in Haiti are among the most opaque in Latin America and the Caribbean. Until quite recently, roughly 60% of public expenditures were earmarked for discretionary spending under the President's Office; reportedly with a very low degree of accountability involved. In addition, tax administration appears to be extremely deficient. High levels of contraband are reported, not so much to escape import duties (as mentioned earlier, tariffs are low) but rather to evade the value added tax (10% *Taxe sur le Chiffre d'Affaires*, TCA) which are collected on imported goods at customs houses. Other important issues in the realm of economic policy-making spill over into political governance. Among these: how to deal in the future with key public sector enterprises, such as the telephone company (TELECO), port (APN) and airport (AAPN) authorities, customs (AGD), water services supply in Port-au-Prince (CAMEP) and outside the capital (SNEP).

45. It could therefore be argued that the steps taken in the past few months have contributed to create a platform on which, assuming a modicum of political stability, higher levels of economic growth can now be pursued without compromising acceptable levels of financial and economic stability that would affect economic agents' expectations regarding long-term growth prospects. But even if this proposition is accepted, there will be an obvious and ample scope for debate regarding the future course of macroeconomic management, especially in the areas of fiscal policy (long-term tax reform, tax administration, budgetary allocations, budget-management, auditing, and procurement), debt management, monetary and financial sector policies, exchange rate policies and external financing policies. While all these matters belong to

[30] "The macro-economic orthodoxy of the transitional government has been so restrictive on government spending that even the IMF has raised questions about the limited boost to economic activity in the government budget". International Crisis Group, Memorandum to the Members of the United Nations Security Council Mission in Haiti, 8 April 2005, p. 4.

the category of short-term policy making, they of course have a decisive impact on long-term economic prospects, and are therefore germane to the on-going debate on development issues. The obvious point should also be made that macroeconomic management cannot be divorced from improving the environment of political governance.

46. The weakness and fragility of fiscal revenues should be recognized as a key obstacle that must be overcome in the medium and long term. There appears to be an ample scope to increase the government's fiscal revenues, in nominal terms and as a ratio of GDP. It is difficult to disagree with the IMF's conclusion that "a broad-based development strategy would require substantially larger government resources, than are currently available, to expand access to social services in the areas of health and education and to develop physical infrastructure." [31]

47. Particular attention should be paid to the implications of the strong dependence of fiscal revenues on foreign donations. It is necessary to acknowledge the challenge that the government and the international donor community and financial organizations face to use effectively and efficiently the large amount of foreign assistance that may be reasonably assumed to flow to Haiti in the short and medium term. The country should identify and avoid the mistakes that characterized previous episodes when large amounts of foreign aid were received, that put pressure on the absorption capacity of the country and were far from being optimally used. The ICF, in fact, may be interpreted as the institutional response to the challenge of coordinating vast amounts of foreign aid in the face of diverse and most urgent needs.

48. The actual problems in the execution of fiscal policy at the level of the Central Government, public enterprises and municipalities should be carefully assessed in order to point out ways to enhance its efficiency and impact through the simplification of administrative procedures and, perhaps, decentralization measures. Such recommendations will help to rationalize the use of scarce human capital and other resources by the public sector. And also to channel more funds to local governments so that, with adequate regulatory measures and incentives put in place, they may be able to better meet social needs and improve the basic infrastructure in poor communities.

49. Another issue that is bound to come up relates to Haiti's capacity to service its growing external debt. As is well know, the country is still not eligible to HIPC treatment, although it presents all the objective conditions that would make it eligible in the future. Indeed, current levels of indebtedness do not appear to be sustainable.[32] The recent decisions adopted by the G-8 to deepen debt relief for the world's poorest countries – but which does not for the moment include Haiti – makes the issue even more pressing.

50. The impact of movements in the exchange rate on the domestic prices of key goods that belong to the group of products that form the basic basket of the poor population should be carefully assessed. Potential tradeoffs between maintaining a relative depreciated real exchange rate that may strengthen domestic production vis-à-vis imports or a relatively appreciated one that may cheapen the market price of imported foodstuff is a political decision that must be carefully

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[31] See: International Monetary Fund, Haiti: Selected Issues, IMF Country Report No. 05/205 of June, 2005, pp. 5-15.

[32] International Monetary Fund, IMF Country Report No. 05/205 of June 30, 2005, p. 37.

pondered in Haiti, as in any small open economy whose food security is heavily dependent on imported goods.

51. It should be borne in mind that the dynamics of economic growth, on their own, may generate polarizing trends towards the development of some regions while simultaneously leaving others lagging behind. The contrast in living conditions of the rural and the urban areas is an example. In order to preserve social cohesion, specific policies for regional development may be required to correct these disparities.

IX. A PUBLIC INVESTMENT PROGRAM

52. As mentioned above, the Interim Cooperation Framework contains two axes – to promote economic recovery and to improve access to basic services – which entail, among other policy responses, a considerable amount of public expenditures, the bulk of them for the period 2004-2006. Although part of the criteria in the selection of public investment projects was, correctly, to rapidly generate employment opportunities, most were selected by the transitional Government and the donor community with an eye to re-activating economic growth and improving the provision of social services, especially in the areas of health and education.[33] The public investments contemplated, for which potential external financing has already been committed, include improvement in the country's road network, expansion of the capacity to produce and distribute electricity, irrigation and access roads to increase agricultural production, controlling deforestation and environmental degradation, water and sanitation projects, slum upgrading and improved waste management, as well as financing recurrent costs to improve the delivery of services in health and education.[34]

53. Many of these projects respond to obvious needs, and for anyone familiar with the Haitian economy they certainly meet the test of common sense. For example, only 5% of the country's roads are considered to be in satisfactory shape; and only about 10% of Haitians have access to electricity. In the social sectors, only 20% of children who attend school have access to public education (an additional 500,000 children do not attend school at all). A relatively low percentage of the population has access to potable water, while the incidence of HIV/AIDS in Haiti is the highest in the Western Hemisphere. Under these circumstances, almost anything that is done to mitigate the situations described can be justified.

54. Still, there is a serious problem of priority-setting, within sectors and between sectors. And even though the bulk of the investments are earmarked for 2004-2006, they should be consistent with a long-term strategy or vision that is still not in place.[35] This does not mean that on-going public expenditures should be postponed, awaiting such a strategy, but it does suggest that a long-term strategy is needed in order to bring greater coherence and rationality into the allocation of scarce resources for public expenditures, especially for public investments[36]

55. A key sector to be addressed is Energy, given its impact on the environment and on the productive process. The current use of solid fuel sources, such as wood and vegetable coal, has

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[33] It should also be recalled that the Government of France took the initiative of organizing a Ministerial meeting on the reconstruction of Haiti in Cayenne on March 18.2005, to present, adopt or accelerate the execution of concrete projects selected according to their ability to rapidly disburse funds and to respond to the most urgent needs of the population in such fields as road-building, electricity generation, governance and access to basic services.

[34] Interim Cooperation Framework, Annex 1, pp. 47-82 and the thematic reports.

[35] ECLAC (2005), *Hacia el Objetivo del Milenio de Reducir la Pobreza en América Latina y el Caribe*, examines the degree of advance of Haiti -and Latin America in general- in their quest to achieve the Millenium Development Goals.

[36] In March 2005 the Ministry of Economics and Finance launched the *Programme de Relance Économique* (PROREC) to reactive the domestic economy, with approximately US $30 million in a specific public expenditure plan -in accordance with the ICF- and covering three basic actions: i) infrastructure, ii) intensive employment programs, and iii) provision of financial support to the private sector.

had serious adverse health and environmental impacts, but the substitution of such energy sources for gas and kerosene obviously will have an impact on the balance of payments.[37]

[37] ECLAC is currently undertaking a study on this subject.

X. CONCLUSION

56. As Haitians ponder their next moves to return to a democratically elected Government, they would be well advised to also think of the long-term prospects of achieving a decorous standard of living for all, and the steps that need to be taken to achieve such a monumental goal. Many obstacles and challenges stand in the way, and in trying to address them in the past, frustrations have been building up. On the other hand, lessons have been learned, and the process under way may well offer the opportunity to examine old challenges in a new setting and in a creative mode. Among the numerous issues which cry out for a minimum consensus among the many stakeholders in Haiti, those related to the country's long-term development deserve a special place. Although Haiti is a poor country with depleted natural resources, there is little doubt that a viable and even a vibrant economy can be built. The question is how to go about it, and what a strategic forward-looking frame-work would look like. This document offers some of the preliminary parameters of this pending debate.

57. Two specific points are worth repeating: first, political stability is a requisite for sustained development, but the prospects for sustained development are equally a requisite for political stability. Second, a broad consensus among Haitians is indispensable regarding the main elements of a long-term development strategy.