

## Haiti: Restoring Hope, Delivering Credibility

Since 2004, Haiti has improved its economic and social stability, elected a president and parliament, and launched wide-ranging reforms. Nonetheless, the country continues to face huge challenges in its efforts to improve governance, stimulate growth, reduce poverty, control crime and violence, and reduce vulnerability to natural disasters and other shocks. Addressing these challenges will require many years of steady international assistance, as well as massive efforts by the Haitian government and people.

Most of Haiti's 8.8 million people live in acute poverty. In 2001, 54 percent of Haitians lived on less than a dollar a day and 78 percent on less than two dollars. GDP per capita was just US\$728 in 2008. Infrastructure, health, and social indicators are the worst in the Americas, often below averages for Sub-Saharan Africa. Environmental degradation is severe, leaving the country especially vulnerable to floods, landslides and hurricanes.

Country indicators	Haiti FY04* (actual)	Haiti FY09* (projected)
Real GDP growth (%)	-3.5	2.0
Real GDP per capita growth (%)	-5.4	0.3
Consumer price inflation (% end of period)	21.7	1.0
Central government overall balance (%)	-2.5	-4.7
Total public sector debt (% of GDP)	40.8	9.1
Under-five child mortality (per 1,000)	84 (2005)	76 (2007)
Population (millions)	9.3	10.0

Sources: Ministry of Economy and Finance, Central Bank, UN, IMF staff estimates.

\* Haitian Fiscal Year is October 1 to September 30.

The International Development Association (IDA), the World Bank's fund for the world's poorest countries, has supported Haiti with rapid and flexible financial and technical assistance since 2005, providing US\$278 million through 17 operations. Approximately US\$20 million more has come from World Bank-managed trust funds. Working closely with the transitional government and its international partners, IDA was central to formulating and implementing the country's initial needs assessment and recovery program, known as the Interim Cooperation Framework 2004-2006. Since the election of President René Prével in 2006, IDA has supported the government's reform agenda and development strategy, the National Strategy for Growth and Poverty Reduction (DSNCRP), finalized in November 2007.

Overall, IDA has played a pivotal role in coordinating the activities of international donors, while its analysis and recommendations have helped government shape key policies and programs. IDA's parallel aims are to help the government deliver rapid results through jobs and basic services, and to foster the development of credible institutions over the longer term.



## COUNTRY ACHIEVEMENTS

### Haiti has made progress but still faces considerable challenges.

Already devastated by decades of violence and poor governance, in early 2004 Haiti was swept by a wave of riots and political conflict in which thousands died and much public and private property was destroyed.

International aid had already tapered off, as political deadlock since the disputed 2000 election had paralyzed the legislative branch and hindered project implementation. The country had defaulted on much of its foreign debt. In the period through September 2004 (Haiti's fiscal year) the economy contracted by 3.5 percent.

Since then, the country has restored democracy and relative stability and has advanced in consolidating its institutional framework.

Presidential, parliamentary and municipal elections were held successfully in 2006,

and power was transferred smoothly from a transitional government to an elected one. Economic governance reforms have aimed to improve the legal framework, create and strengthen core public institutions, and enhance financial management processes and procedures, notably in national budget formulation, execution, and reporting. With increased revenues and tighter expenditure controls, the overall central government deficit of 2.5 percent of GDP in FY2004 was transformed to a surplus of 0.2 percent in FY2007. GDP growth resumed, reaching 3.2 percent in FY2007.

A series of external shocks hit Haiti hard in 2008, illustrating the country's extreme vulnerability and undermining development progress. High world prices for food and fuel caused widespread hardship, triggering violent protests and political discontent, which prompted the Senate to dismiss Prime Minister Jacques-Edouard Alexis and his Cabinet on April 12. Subsequently, in August and September 2008, Tropical Storm Fay and Hurricanes Gustav, Hanna and Ike dealt fur-

ther severe blows. The combined impact of these storms constituted the country's largest natural disaster in more than a hundred years, with damages and losses estimated at roughly US\$900 million, or around 15 percent of GDP. GDP growth slowed to 1.2 percent in FY2008, while the central government posted a deficit of 2.9 percent.

While the outlook for 2009 and beyond is further clouded by the difficult international economic environment, there are still grounds for optimism regarding Haiti's growth and development. Despite recent events, many of the gains made by the country in 2004-2008 have endured. Democratic politics, though strained, have prevailed, with a new Prime Minister now in place and President René Préval remaining as president. Wide-ranging reforms and service enhancements continue, while security has improved. Furthermore, close proximity to US markets, preferential access to these under the Haitian Hemispheric Opportunity through Partnership Encouragement Act II (HOPE II), competitive labor costs, and strong international support present valuable opportunities.

### **A new strategy for growth and poverty reduction.**

The government has assumed leadership of the development program. In November 2007, the Haitian government released its National Strategy Paper for Growth and Poverty Reduction (DSNCRP), which was prepared through a participative process. It has three main strategic pillars:

- Promoting four specific drivers of growth: agriculture and rural development; tourism; infrastructure; and science, technology and innovation.

- Enhancing human development, with a focus on improving delivery of basic services.
- Strengthening democratic governance, particularly by improving security and the justice system.

Total financing needs for implementation the DSNCRP were estimated at US\$3.9 billion, of which roughly half was already covered.

Ahead of a donor conference in April 2009, the government prepared an 18-month priority program based on the DSNCRP but also reflecting new strategic imperatives. The program seeks to maintain stability, safeguard the progress already achieved, escape the current crisis, and ensure that the country continues on a path towards economic security.

### **Haiti's challenges ahead are considerable, and facing them will require vigorous.**

and sustained international support. The security situation remains fragile, despite significant improvements since December 2006, when the UN peacekeeping force and Haiti's police force began direct operations against powerful urban gangs. Public sector institutions remain weak, and corruption is perceived to be widespread. Haiti's government is committed to tackling these problems, but for the foreseeable future Haiti will need to count on strong and stable inflows of funding, as well as broad-ranging technical assistance, from donors including IDA.

### **IDA CONTRIBUTIONS**

IDA has extended US\$278 million in assistance to Haiti since January 2005, almost all through grants. A major element of this assistance has been budget support linked to

economic governance reforms, through the US\$61 million Economic Governance Reform Operation (EGRO) and the US\$33 million EGRO II, backed by two technical assistance grants, for US\$2 million each. There are also 13 investment projects supporting community driven development, transport and territorial development, electricity, rural water and sanitation, education, disaster management, agriculture, and avian flu prevention and control. In addition, at least eight analytical and advisory activities have been completed in areas such as economic analysis, public expenditure review, public financial management and procurement, and audits and accounting.

IDA's strategy in Haiti has two central aims. One is to deliver hope to the population by helping the government deliver quick wins in the provision of basic services and job creation. The other is to restore the credibility of Haitian institutions through reforms that promote long-term good governance and institutional development.

#### **IDA's main contributions have included the following:**

**Responding rapidly and flexibly.** From the start of the transition process, IDA extended advisory and financial support to Haiti. In 2004-2007, IDA mobilized grants from IDA's Low-Income Countries Under Stress (LICUS) and Post-Conflict trust funds. These grants delivered quick results in primary health and immunizations, school feeding, basic infrastructure, and employment generation. LICUS trust fund-financed projects created 200,000 person-days of employment. Daily school meals and additional fortified food were provided for more than 25,000 poor children, with more than 5,000 in Cité Soleil, one of

the poorest and most violent slum areas of Port-au-Prince. In addition, a US\$2.5 million Post Conflict Fund grant to support basic health interventions increased the coverage and effectiveness of basic vaccination and deworming campaigns. In 2008, IDA prepared—under new streamlined procedures—four packages of rapid emergency assistance, with a total value of \$38.9 million, to help Haiti address hurricane damage, rising world food prices, and avian flu.

**Reinforcing country leadership of reform and responding to country priorities.** Since 2007 IDA has assisted the government in the development of an Interim Poverty Reduction Strategy and provided support for preparation of the DSNCRP using a participative process. IDA's program reflects government priorities. A new Country Assistance Strategy was developed in 2008-2009 to align World Bank Group assistance behind the DSNCRP. The new strategy, which covers the FY2009-2012 period, was approved by the World Bank's Board of Directors in June 2009.

**Supporting the national budget.** For Haiti to attain long-term stability and economic growth requires a transparent and legitimate state that can effectively deliver public goods and services (including law enforcement) to its citizens. Expanding the national budget, while strengthening budget and public financial management processes, is central to this. IDA has therefore made budget support a major component of its assistance to Haiti.

**Providing intellectual leadership and strong analysis.** IDA draws on its extensive sectoral expertise and the lessons of its experience in fragile states to inform its activities in Haiti. Extensive country analysis since 2004 has deepened IDA's understanding of the devel-

opment issues facing Haiti, underpinning policy dialogue and assistance, as well as providing direct input into government policy and the design of other donors' operations. IDA has provided critical advisory assistance on economic governance issues and reform needs. The Public Expenditure Management and Financial Accountability Review of 2006, prepared jointly with the Inter-American Development Bank (IADB), has helped set the government's economic governance reform agenda.

**Coordinating, harmonizing, catalyzing.** IDA has played an active role in donor coordination and harmonization particularly at the international level, in support of the government. While IDA is only the fifth largest of Haiti's main traditional donors (behind the United States, Canada, the European Union and the Inter-American Development Bank), it has been able to catalyze additional support for Haiti, both from trust funds administered by the World Bank and project co-financing from other donors.

#### **IDA's impact in Haiti spans many sectors:**

**Economic governance.** IDA support—mainly through Economic Governance Reform

Operations I and II and technical assistance grants—has been critical for the implementation of key reforms of the national budget system, public procurement, human resource administration, public infrastructure management, anti-corruption efforts, and civil society monitoring of reform. These reforms have helped to increase transparency and efficiency in the use of public resources and external assistance and to improve the policy environment for greater effectiveness of IDA and other donors' resources.

#### **Increased Transparency and Accountability**

Results in the area of budget formulation, execution and reporting have been particularly notable:

- budgets for FY2005-2008 were presented before the start of each fiscal year;
- information on key allocations and execution has been published regularly;
- a computerized budget management system has been expanded from five to 36 government units;
- spending through discretionary ministerial accounts was slashed from 62 percent of non-salary current public expenditures in the first half of FY2004 to less than 10 percent since September 2004; and
- the difference between budgeted and actual expenditures has been reduced.

#### **Community-driven and rural development.**

A US\$46 million Community-Driven Development (CDD) project supported by IDA has improved access to basic social services and created income-generating opportunities for poor people living in vulnerable rural and peri-urban areas. The project works through direct transfer of resources to community based organizations, promoting increased citizen participation in decision-making and building social capital and cohesion.

To date, 549 projects have been completed in 59 communes in all 10 regional departments. Basic or social infrastructure sub-projects include rural road rehabilitation, small irrigation systems, soil conservation, and water supply. Productive initiatives financed include grain and cassava mills, community input outlets, and livestock improvement. Over US\$15 million already has been invested at the community level. Over 4,000 community-based organizations are participating actively in democratically-elected communal councils.

A further US\$16 million project was approved by IDA in June 2008 to expand the successful CDD approach to violence-prone urban areas. In addition, the Transport and Territorial Development Project (US\$16 million, approved in 2006) will finance improvements of key roads and other infrastructure to increase the market access of isolated areas and promote rural growth.

**Education.** IDA is playing a central role in a multi-year, multi-donor effort in support of the government's drive to increase access to primary education, improve the quality of instruction, and strengthen sector governance. A US\$25 million Education for All project, approved in 2007, is working to put 100,000 poor children aged 6-12 into school (roughly a fifth of the estimated total currently excluded) over 2007-10 while improving equity, quality and governance in the sector. A further US\$6 million project, approved in May 2008, strengthens teacher training, while a \$5 million project approved in March 2009 is rebuilding schools damaged in the 2008 storms.

**Electricity, water, and sanitation.** In line with the multi-donor support strategy for the electricity sector, an Electricity Loss Reduction Project (US\$6 million) approved by the World Bank's Board of Directors in 2006 supports the restructuring of the state electrical utility EDH, with a focus on improving operational, financial, and customer management performance. Another project (US\$5 million), approved in January 2007, increases access to drinking water and sanitation in rural communities while strengthening the management capacity of the national potable water service, SNEP. A State and Peace Building Fund grant for \$5 million expanded the project's activities in 2008. Prior to this project, three

rural water systems were rehabilitated under a LICUS grant.

**Disaster mitigation.** A LICUS grant financed emergency reconstruction in the Fonds Verrettes area, affected by floods in 2004. An ongoing US\$19 million Emergency Recovery and Disaster Management Project aims to support the rehabilitation of areas affected by recent disasters and strengthen the country's capacity to manage disaster risks and respond to emergencies at the national and community levels. The project has supported capacity enhancement by reviving communal civil protection committees and strengthening the Civil Protection Directorate (DPC). The DPC's augmented disaster-management capabilities were demonstrated in its response, particularly in terms of early warning and evacuation, to the severe storms of 2007 and 2008. A further US\$20 million project, approved in November 2008, is rebuilding key bridges and further strengthening the disaster management system.

IDA is also helping Haiti to insure itself against the macroeconomic impact of large natural disasters by financing its participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which provides governments with immediate liquidity if hit by a major hurricane or earthquake. In March 2007, IDA approved a US\$9 million grant to finance Haiti's CRRIF entry fee and annual insurance premium for three years.

## **PARTNERSHIPS**

IDA was central in the formulation and implementation of the Interim Cooperation Framework (ICF), with which most development agencies aligned their assistance strategies for 2004-2007. IDA took the lead in early

donor coordination at the international level. It co-hosted the July 2004 donors' pledging conference in Washington, DC. IDA has led the sector coordination group for economic governance reform and has participated actively in the Joint Committee for the Implementation and Monitoring of the ICF. In addition, it provided critical input in the follow-up donor conferences in Cayenne, Montreal, Brussels, Brasilia, and Madrid and assisted the government in organizing the July 2006 Pledging Conference in Port-au-Prince. In March 2007, the World Bank hosted a technical meeting for donors in Washington which sought to strengthen Haitian-led structures for aid coordination. Along with other main donors, IDA participated in the preparation of the 2009 donor conference at the headquarters of the IADB. At the conference, donors pledged US\$324 million in new funds to support the government's program, in addition to the US\$2-3 billion already committed for the DSNCRP, Haiti's development strategy mentioned above.

IDA's US\$25 million Education for All project is co-financed by the Caribbean Development Bank (for \$10 million) and the Canadian International Development Agency (for \$6.2 million). An upcoming policy-based grant operation in FY2010 (estimated US\$12.5 m. IDA) will use a common policy matrix being developed by the government and other main donors providing budget support, including the IMF, the IADB and the EU.

## **CHALLENGES AHEAD**

**Despite the progress achieved, Haiti continues to face daunting challenges in improving governance and security, stimulating growth, and reducing poverty.**

**State building.** Haiti needs to continue to construct a legitimate, participative, effective, and transparent state that can fulfill the basic functions of providing public services, protecting property, and maintaining order. Building institutions will require sustained efforts from the government and donors to achieve police and judicial reform, stronger economic governance and revenue collection, public sector modernization, more effective service delivery, and stronger parliamentary oversight and legislative capacity. Comprehensive measures and strong governance are required to combat corruption, which continues to be a challenge despite efforts by the current administration. (Haiti ranked 177 out of 180 countries in Transparency International's Corruption Perception Index for 2008.) State building is a political as well as technocratic endeavor requiring continued progress toward reconciliation and democratic consolidation.

**Enhancing security.** While the situation has improved since the Haitian National Police and the UN Mission for the Stabilization of Haiti (MINUSTAH) launched direct operations against major gangs in December 2006, Haiti's rates of murder, kidnapping, and other violent crime remain high, with serious impact on human welfare, economic activity, and the implementation of donor projects. In the medium term, controlling crime and violence requires significant institutional change to strengthen the rule of law, in particular accelerating the reform and expansion of the police force and judiciary.

**Delivering visible results, especially to the urban poor.** Combating crime and violence is not just about better security. It also requires targeted interventions at the community

level to address the poverty, unemployment, and desperation that contribute to causing crime and violence in the first place. Haitians, particularly the poor in volatile urban shanty towns such as Cite Soleil, Bel Air, and Martissant, need to see a peace dividend in the form of jobs and better services, to instill hope and build confidence in the government and its international partners. President Préval launched a Program for Social Pacification (Programme d'Appaisement Social), later built into the DSNCRP, which is designed to deliver visible improvements to living standards in urban shanty towns. Donor support for this program and other initiatives of this kind will be needed to enable the government to produce quick, tangible benefits that can bolster support for longer term and more far reaching reforms and promote political and social stability.

**Delivering better health and education services.** Statistical measures of health and education in Haiti are the lowest in the region. The World Bank estimates that just 71 percent of children age 6-12 were enrolled in school in 2006, while adult illiteracy was 52 percent in 2003. The quality of education provided is poor. The health service is also characterized by limited access, poor coverage, and low service quality. Infant and maternal mortality rates are more than four times the averages for the Americas. Improving health and education services requires expanding and enhancing state provision. (Public schools serve only 20 percent of the student population; government health services are even weaker.) It also requires more efforts to work with and oversee the private sector.

**Improving infrastructure.** Haiti's infrastructure continues to be in a dismal condition.

Indicators of quality and coverage are the worst in the Western Hemisphere and among the lowest in the world. Less than one-third of households have access to electricity, while only around five percent of roads are in good condition. Only 11 percent of households have piped water. The state electricity and telecom utilities and the national port authority have been externally audited and some organizational improvements have been made. A road maintenance fund has been set up. Further improvement will require concerted efforts over many years to rehabilitate and build infrastructure and strengthen the institutions involved, including underperforming state enterprises and ineffective policymaking and regulatory bodies.

**Protecting the environment and preparing for disasters.** Haiti suffers from severe environmental degradation. Widespread use of wood fuels for cooking, a lack of forestry protection and management, unsustainable agricultural practices, and acute rural poverty are among the factors that have driven deforestation. Vestigial forests now cover just 1 percent of the territory. Deforestation and land degradation exacerbate Haiti's already high vulnerability to natural disasters, particularly hurricanes.

**Responding to higher world prices for food and fuel.** Haiti's poverty and dependence on imported fuel and food mean that the country was hit especially hard by sharp increases in international prices in 2007-08. While prices have subsequently fallen, Haiti and its international partners aim to protect the vulnerable from future price hikes through increased agricultural productivity and strengthened social safety nets.

### **A more focused strategy.**

IDA and the IFC jointly prepared a new Country Assistance Strategy (CAS) for Haiti for FY2009-2012 to align their assistance with the country's national strategy, the DSNCRP. The CAS, discussed by the Board in June 2009, also reflects a strategic reassessment by the government in the wake of the food crisis and severe storms of 2008 and amid the current global economic recession. The CAS has three pillars: promoting growth and local development; investing in human capital; and reducing vulnerability to disasters. Cutting across these is a continuation of IDA's two-pronged approach of delivering quick, visible results along with longer-term institution building.

Total IDA allocations for FY2009-2012, including additional amounts above the basic envelope, are projected at roughly US\$121 million at current exchange rates, an average of US\$30 million a year. Final IDA allocations for future years will depend on relative Country Policy and Institutional Assessment (CPIA) performance and other factors. IDA aims for greater selectivity of focus, to consolidate progress and adjust to a declining IDA envelope. From 2010 onwards, new IDA projects are envisioned in just three areas in which IDA already has a strong program: institutional strengthening (particularly economic governance), education, and community-driven development.

**Economic governance.** Going forward, reforms need to focus on ensuring the full and effective implementation of the recently introduced legal and institutional framework. This will involve continuing to improve policies and procedures in core government agencies as well as promoting further accountability and transparency in the use of public resources and basic service delivery. Future IDA assistance would focus increasingly on the reform of key sectoral ministries and other institutions, including for education, public works and agriculture.

**Education.** IDA estimates that achieving universal completion of basic education would require total donor funding of roughly US\$200 million per year until 2015, which far exceeds amounts currently pledged. IDA plans to prepare its fourth education project for Haiti in 2010-2011.

**Community-driven development.** An additional community-driven development project is envisioned, building on the two already underway. This would engage and strengthen local authorities more directly.

The current portfolio, including FY2009 projects, will continue to give IDA a strong presence in other sectors throughout the CAS period.

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<http://www.worldbank.org/ida>