

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

HAITI

**Joint Staff Advisory Note (JSAN)
of the Poverty Reduction Strategy Paper (DSNCRP)**

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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	Contents	Page
I.	Overview.....	2
II.	Background.....	2
III.	Poverty Trends and Characteristics	3
IV.	Macroeconomic Framework.....	3
V.	Governance	5
VI.	Structural and Social Sector Reforms.....	6
VII.	Process and monitoring and evaluation	7
VIII.	Implementation Risks	8
IX.	Conclusions.....	8
X.	Issues for Discussion.....	9

I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the Poverty Reduction Strategy Paper (*Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté*, DSNCRP) prepared by the Government of Haiti.** The DSNCRP was approved by the Government and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on November 30, 2007.
2. **The DSNCRP was prepared through a participatory process consisting of consultations with civil society, Government officials, and development partners.** The participatory process involved a series of workshops and forums, including consultations organized in each of Haiti's ten departments with representatives from the country's poorest communities. This process culminated in the organization of a one-day national forum held in September 2007 in Port-au-Prince, which was attended by more than 800 stakeholders.
3. **Overall, the DSNCRP presents a clear and compelling vision for the country, building on existing sectoral strategies, the participatory consultations, and the Interim Poverty Reduction Strategy Paper (I-PRSP) completed in 2006.** The DSNCRP presents the Government's long-term vision to foster growth, reduce poverty, and raise living standards. The document analyzes key challenges to Haiti's development, laying out priorities for accelerating growth and reducing poverty in the period 2007 to 2010. The DSNCRP places greater emphasis than the I-PRSP on economic growth, human development, and public sector performance.
4. **The DSNCRP is structured around three strategic pillars.** These pillars are (i) enhancing human development, with a focus on improving delivery of basic services; (ii) improving security and the justice system; and (iii) promoting vectors of growth. The main vectors of growth identified by the strategy are agriculture and rural development, tourism, and infrastructure. The DSNCRP also emphasizes the importance of a stable macroeconomic framework and sound management of public resources.

II. BACKGROUND

5. **The Haitian authorities have made significant progress in recent years in stabilizing the economy.** Over the past 40 years, the country experienced considerable volatility, with real per capita GDP contracting on average by 0.7 percent per year, resulting from a combination of extreme political strife (15 governments in the last 20 years), external shocks (including commodity price declines, aid volatility, and natural disasters), and unsound macroeconomic policies. Through cautious fiscal and monetary policy, the authorities have reduced inflation from almost 40 percent at end-2003 to single digits currently, the currency has stabilized, dollarization has moderated, and there has been a strong build up of international reserves. Most importantly, economic growth has increased from negative 3.5 percent in FY 2004 to 3.2 percent in FY 2007, implying positive real per capita GDP growth for the first time in several years.

6. **The authorities have made significant progress in recent years in stabilizing the security situation, as well as restoring political institutions and improving governance and transparency in public sector operations.** Democratic institutions have been reinforced through peaceful elections held for the president, parliament and newly-created local governments. The Preval government has been in place since mid-2006, and despite some political tension, the coalition has held together. The President has made security gains and the fight against corruption central to his agenda. Additionally, extensive measures have been taken to promote the transparent and efficient use of public resources, with the objective of improving confidence in the government and the business climate. Stepped up operations by the Haitian National Police and the United Nations Stabilization Mission in Haiti to combat criminal gangs have improved the security situation considerably since end-2006.

III. POVERTY TRENDS AND CHARACTERISTICS

7. **The DSNCRP presents a clear evaluation of the current dimensions of poverty and income inequality in Haiti.** The poverty analysis is based on a wide range of available information, including a living conditions survey (2001), a poverty perceptions survey (2003), Demographic and Health Surveys (1995, 2001, and 2005) and a population census (2003). According to the most recent poverty estimates—based on a 2001 survey—over 50 percent of the population live below the US\$1-a-day poverty line and 76 percent below the US\$2-a-day poverty line. Poverty is particularly high in rural area, where the headcount poverty rate is 69 percent using the US\$1-a-day poverty line and 86 percent using the US\$2-a-day poverty line. Haiti is the poorest country in the Latin America and Caribbean region and amongst the poorest in the world. The 2007/2008 United Nations Human Development Index ranked Haiti 146th out of 177 countries. Based on current trends, it is very unlikely that Haiti will achieve most of the MDGs by 2015. The DSNCRP candidly acknowledges that making substantial progress towards achieving the MDG goals is a challenge. The Haitian government is planning a household survey for 2008 which will be used to update poverty estimates and evaluate progress on the MDG goals, and will also serve as a baseline for the DSNCRP.

IV. MACROECONOMIC FRAMEWORK

8. **The DSNCRP baseline macroeconomic scenario is broadly consistent with targets and structural measures contained in the authorities' macroeconomic policy program, supported by the Poverty Reduction and Growth Facility (PRGF).** Staffs feel the DSNCRP reflects well the balance of promoting growth while maintaining macroeconomic stability. Particularly, staffs welcome reiteration in the DSNCRP of the commitment to avoid central bank financing of the central government deficits, a practice that led to high inflation levels in the past.

9. **A key challenge of the macroeconomic program is to increase domestic revenue mobilization to help support the higher levels of public spending for investment and basic services.**

- On the revenue side, the DSNCRP identifies measures aimed at increasing domestic revenues through improved tax administration and broadening of the tax base.

Diligent implementation of modernization strategies and action plans for the internal revenue service and customs, elements of which are included in the PRGF-supported program, will be important in this respect.

- The success of DSNCRP implementation will depend largely on expanding the capacity to execute high quality public sector spending. Higher levels of spending have been impeded by cumbersome procedures, a lack of capacity in the spending ministries, and a limited number of domestic firms available to bid on projects. Staffs welcome the measures already underway to accelerate execution, including to: strengthen spending capacity in key spending ministries; review how the new public procurement law is being implemented; and encourage foreign firms to bid in public tenders to alleviate domestic supply bottlenecks.

10. **It will be important in the near term that the authorities prioritize further the DSNCRP to respect existing capacity constraints and to guide donors, while in the longer term spending capacity is expanded.** Fully enacting the sectoral strategies of the DSNCRP would require an extremely ambitious increase in expenditure capacity that goes beyond what is foreseen in the macroeconomic framework. The sectoral strategies were developed as a result of a bottom-up needs assessment in each sector, and, subsequently, resource requirements for three years for the sectoral strategies were determined. The aggregate level of expenditure this implies (15 percent of GDP the first year and more than 20 percent per year thereafter) far exceeds historical rates of execution and financing. Even if achievable, this level of scaling up would require careful analysis of its macroeconomic impact, particularly on domestic prices and external debt sustainability.

11. **The authorities are currently working to ensure that the budget reflects DSNCRP priorities.** For the current fiscal year, the authorities are developing a supplemental budget – which they plan to discuss with donors in the coming months -- to reprogram existing budgetary resources in line with identified DSNCRP priorities. The authorities have identified 60 priority investment projects in the existing budget whose implementation already supports DSNCRP objectives. The intention to move to a Medium Term Expenditure Framework, as outlined in the DSNCRP, should improve alignment of macroeconomic policy, DSNCRP sectoral strategies, and the budget in the medium term.

12. **As the costing strategies and the DSNCRP are further refined, staffs encourage the authorities to consider the following:**

- defining an institutional framework for local governments to clarify financing of their operations, taking into account capacity constraints, and their relationship with the central government: local support of DSNCRP implementation will greatly enhance its chances for success;
- ensuring that efforts already underway to encourage more financial sector lending -- e.g. reduce intermediation costs through lower reserve requirements, reduce high fees for real estate transactions, and provide better legal protection for creditors -- support the private-sector led growth objectives of the DSNCRP; and

- providing that lending schemes, including for the agricultural sector, are market-based, given that the experience with state guarantees and directed credit in developing countries has been quite mixed and could entail fiscal risks; and
- improving debt management, including through centralizing debt information, to ensure debt sustainability as external assistance is scaled up to finance higher spending and the domestic debt market is developed.

V. GOVERNANCE

13. **The DSNCRP gives substantial attention to governance issues, particularly improving public management and governance in the justice and security sectors.** A Governance and Anticorruption (GAC) diagnostic was completed in 2006 by the World Bank Institute at the request of the Government. Although the GAC diagnostic is not incorporated in the DSNCRP, some of the key governance weaknesses identified by the GAC process—a poorly functioning judicial system, poor management of basic service provision, and lack of basic security—are addressed in the strategy. Staffs suggest that the Government consider incorporating governance and anticorruption indicators in the monitoring and evaluation of the strategy. Additionally, staffs encourage the Government to incorporate the anticorruption commission into its governance strategy.

14. **The section on democratic governance presents a forthright analysis and detailed reform program for the justice and security sectors.** The DSNCRP does not, however, discuss the degradation of the political and administrative institutions and the widespread violence in recent decades, which have led to human and financial capital flight and increased poverty. Because the underlying environment of conflict still presents a serious risk to Haiti's stability, reducing the risk of violent conflict will be important to ensuring growth and reducing poverty. Staffs suggest that, if these issues are not to be considered in the DSNCRP, the Government address them in some other context.

15. **Progress on ongoing efforts to strengthen legal infrastructure will be vital to promoting private sector activity, particularly private investment, which is needed for job creation and growth.** These efforts include providing legal protection for creditors, borrowers, and investors. In addition to the aforementioned reforms in the financial sector, the authorities have created a one-stop office to facilitate business start-ups, significantly reducing the time required. Other measures under discussion include creating property registries and introducing laws to allow co-ownership of property and the use of collateral for borrowing.

16. **More transparent and efficient use of public sector resources will improve the climate for private sector activity.** Staffs welcome the inclusion in the DSNCRP of the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR) conducted in 2007 by the World Bank and the Inter-American Development Bank. The recommendations aim to strengthen budget preparation and management, improve execution of project spending, accelerate public procurement reforms, and reinforce managing the budget on a program basis.

VI. STRUCTURAL AND SOCIAL SECTOR REFORMS

17. **The DSNCRP emphasizes agriculture and rural development as one of the key vectors of growth.** The DSNCRP also rightly recognizes the need for measures to support the primary sector, including livestock and fisheries, in order to reignite its growth engine. Staffs recommend that going forward the Government further consider the potential for off-farm income generating activities in rural Haiti. Staffs also welcome the inclusion of environmentally sustainable development as a cross-cutting issue as well as the emphasis on improving land management, which will be critical to addressing environmental degradation.

18. **The DSNCRP places emphasis on upgrading infrastructure, which it identifies as one of Haiti's vectors of growth.** The strategy outlines plans for the transport, electricity, and water and sanitation sectors. Staffs commend the focus on infrastructure and, in particular, note the importance of following through on reforms to the critical electricity sector.

19. **The DSNCRP also identifies tourism as a vector of growth.** Staffs agree that tourism has the potential to drive growth in Haiti but note that attracting substantial foreign visitors and private investment in tourism will require further and sustained improvements in the security situation. Widespread international experience has shown that poor security is a deterrent to visitors and tourism investments. Restoration of infrastructure will also be important.

20. **The education chapter of the DSNCRP appropriately emphasizes the need to focus on providing access to quality schooling to Haitian children.** The diagnostics are consistent with recent analytical work undertaken. The existing sectoral strategy (the recently endorsed *Strategie Nationale d'Action pour l'Education Pour Tous*, SNA/EPT) is reflected in many of the objectives outlined, although the targets and priority actions differ somewhat. The SNA/EPT strategy is currently being reviewed by local development partners with a view to submitting it to the Education for All Fast Track Initiative (EFA-FTI) secretariat, along with the DSNCRP, for inclusion in the EFA-FTI partnership. Staffs recommend that the Government harmonize the SNA/EPT and DSNCRP education programs in order to present the necessary unified vision to the international development partner community reviewing the dossier (including both documents).

21. **With regards to the health sector, staffs broadly support the strategy described in the DSNCRP, which is embedded in the National Strategic Plan for Health Sector Reform, 2005-2010.** The strategy's objectives focus on achieving the health sector MDGs. The strategy appears ambitious given the resources devoted to the health sector. In this context, staffs feel that achieving these objectives is challenging. Improving health outcomes will depend on the effectiveness of public expenditure management in the sector. Success will also be linked to the ability of the public sector to create and reinforce partnerships with the private sector.

VII. PROCESS AND MONITORING AND EVALUATION

22. **The DSNCRP was developed through a wide ranging consultative process with leadership from the Ministry of Planning and External Cooperation, which coordinated inputs provided by other ministries and stakeholders.** As a result, the Government has strong ownership of the strategy. Staffs encourage all stakeholders to recognize that a key purpose of the DSNCRP process is to empower the Government in its discussions with development partners.

23. **Staffs encourage the Government to take several steps in the near term as it begins to implement the strategy.** Of primary importance is better specifying the institutional mechanism and processes for monitoring and evaluating the PRSP.

24. **Staffs suggest that the Government complete and fine-tune the action matrices.** These (Annex II) were developed in part through workshops that brought together stakeholders from civil society and Government ministries. To make the action matrices useful as a planning tool, it will be important for them to be as concrete as possible and tied to specific, measurable indicators. It would also be advisable for them to clearly define individuals and/or ministries who are responsible for the actions and to present a timeline for implementation over the next three years. Staffs note that the World Bank can continue to provide technical assistance to facilitate further workshops on request.

25. **Staffs consider the set of primary indicators for measuring the overall impact of the PRSP (Tables 1 and Annex 1) to be reasonable.** However, there is not a clear correspondence between these indicators, the major national objectives listed in Table 7 and the health-related objectives in Table 9. Staffs suggest that work be done to harmonize these indicators.

26. **Continued work will be needed to fine-tune the actual data that will be collected and produced.** Appropriately, the short-term indicators are chiefly budget-related. However, the data source for many of the medium-term indicators is not specified. A three-phase set of household surveys is planned for the first half of 2008; the third survey, financed partially by the IDB and the World Bank, will collect income and consumption data. The surveys will offer the first opportunity to measure poverty measures since a survey was conducted in 2001 and will be essential to provide a baseline for measuring progress on the DSNCRP. Staffs recommend that the Government ensure the surveys are completed in a timely manner and their results used to target future policy actions in the DSNCRP. Largely based on the new household survey data, the World Bank will begin work on a new poverty assessment in 2008. The work will be conducted in collaboration with Government personnel in order to maximize the poverty assessment's utility to the Government in monitoring implementation of the DSNCRP.

27. **The Government has made good use of its website for distributing the DSNCRP and materials describing the participatory process, and staffs encourage the Government to continue to do so and to develop a pro-active communication program to build ownership of the strategy.** Going forward, staffs encourage the Government to

strive for transparency in the implementation of the DSNCRP and to work with civil society in monitoring progress on the DSNCRP.

VIII. IMPLEMENTATION RISKS

28. **Staffs agree with the risk factors outlined in the macroeconomic section of the DSNCRP, which apply to the strategy more generally.** These include political instability, the volatility of external aid, risks to the U.S. economy (including any potential effects on remittances to Haiti), the undiversified export sector, recent developments in oil prices, and natural disasters. To this list, staffs would add weak institutional capacity to implement a broad reform strategy and make effective use of donor assistance and, further, potential deterioration of the security situation. Some of these factors can be mitigated by fostering security and political stability, improving institutional capacity, and making aid more predictable through using medium term budgeting. More exogenous factors cannot be controlled. On balance, however, staffs feel the authorities' proven track record in responding to risk factors bodes well for satisfactory implementation of the DSNCRP.

IX. CONCLUSIONS

29. **Staffs consider the three strategic pillars—human development, democratic governance, and vectors of growth—to be an appropriate focus in light of the challenges facing Haiti.** Addressing these areas can both improve welfare in the short-term and provide the foundation for long-term economic growth. Within the three pillars, the DSNCRP addresses the major improvements needed to increase productivity and spur growth over the long-term. A key ingredient to successful implementation of the strategy will be to increase the government's capacity to spend, and to spend well, and the strategy focuses squarely on this topic. In addition to the services, infrastructure and governance priorities outlined in the DSNCRP, private sector led growth will depend on supporting reforms already underway, including providing better legal infrastructure for doing business, cutting red tape, reducing other costs of doing business, and deepening financial sector involvement. All of these will help to improve productivity and make Haiti more resilient to negative exogenous shocks.

30. **Staffs consider the macroeconomic strategy of the DSNCRP to be broadly sound and consistent with the framework of the PRGF-supported program.** However, staffs urge the authorities to reconcile the budget and the sectoral costing strategies to be consistent with realistic estimates about how much spending can be increased and to make clear to donors what additional resources are needed.

31. **The DSNCRP addresses many of the broad concerns raised in the JSAN for the I-PRSP, and going forward, staffs recommend that the Government continue its work on several elements of the strategy.** Specifically, work is needed to identify a clear set of specific actions for each sector, develop a consistent set of indicators and targets, and ensure that an adequate monitoring and evaluation mechanism is in place. It will be important to link the DSNCRP three year costing strategies into the annual budget process to ensure that sufficient resources can be garnered for its implementation.

X. ISSUES FOR DISCUSSION

32. Do Directors agree with staffs' conclusions regarding (i) priority areas for strengthening the poverty reduction strategy in the DSCNRP; and (ii) areas in which further analysis or adjustments to the strategy are needed for the DSNCRP to provide a framework for future Bank and Fund assistance?