

## Haiti: a new paradigm

### 1. Introduction

Haiti has made considerable strides towards economic recovery and political stability since democratic elections were held in 2006. In 2008, the rise in food and oil prices hit the Haitian population disproportionately and led to social unrest and political crisis. Subsequently, the country was hard hit by a succession of hurricanes and storms that left a trail of devastation, destroying livelihoods and infrastructure with damages estimated at 15 percent of GDP. Now, the global recession poses further threats to the country's stability through declining export earnings and remittances.

To address these challenges, the Government of Haiti has embarked on a focused action plan to safeguard the gains already achieved and ensure that the country continues on a path towards economic security. The immediate priorities in order to maintain stability are to address the US\$125m financing shortfall in the budget mainly for the reconstruction process from the devastation caused by the last four hurricanes and storms. If the global situation does not stabilize over the budget cycle and fiscal receipts decline, this gap could be greater. Investments in schools, hospitals and adequate water supply, along with measures that promote food security, form the necessary foundation of any forward looking strategy and are indispensable for social cohesion. Reconstruction is still underway and concrete measures need to be taken prior to the 2009 hurricane season to avoid a new humanitarian emergency and to decisively reduce the population's vulnerability to natural disasters. However, while first-order priorities, reconstruction and bridge financing alone will not suffice.

At the heart of the government strategy is a plan to create 100,000 – 150,000 new jobs over two years to raise incomes and lay the foundations for social peace. The majority of new jobs will initially be created in the construction sector through targeted infrastructure projects that lay the groundwork for rapid employment generation in agriculture and manufacturing. Given that each paid worker in Haiti supports, on average, four dependents these new jobs will directly impact up to 600,000 people. The strategy rests on a new partnership between the Government, the private sector and the international community.

The heightened interest in Haiti, brought about partly by the tragedies of 2008, not only showcased the challenges and setbacks, but also the genuine economic potential the country offers. The Hope II Act for example offers a time-bound window of opportunity to garment exporters to access the U.S. market on preferential terms that are exclusive to Haiti. The Haitian Authorities, in frequent consultation with the private sector, prospective investors and independent experts, have identified two sources that can yield significant results quickly: (i) raising productive capacity in agriculture and (ii) harnessing the full employment potential of

manufacturing. These pillars are firmly aligned with the priorities of the National Growth and Poverty Reduction Strategy Paper (NSGPR) and the National Post Disaster Assessment (PDNA).

A delayed recovery and deviation from the path of stability and economic security would have severe consequences and come at great social costs. The international community is therefore urged to support the Government's efforts. The creation of 150,000 jobs requires concerted action in four areas, namely: 1) strategic infrastructure investments in transport, export zones, electricity and ports, 2) targeted measures to improve economic governance and the business environment, 3) improved provision of basic services, especially in the areas most affected by the 2008 hurricane season, and 4) environmental sustainability.

## **2. Engines of job creation:**

### Towards higher productivity in agriculture

Approximately 60% of all Haitians live in rural areas and most of them derive a portion of their livelihoods from agriculture, although it now accounts in the aggregate for less than half of their household income. Instead they have had to rely increasingly on other sources such as family remittances, occasional labor, construction and petty commerce. Boosting the productivity and sustainability of agriculture in Haiti cannot provide improved livelihoods for all the rural population, but sustainable agriculture has two fundamental roles to play in the national economy. The first role entails the protection of natural resources and the population from erosion. The second role enables rural producers to increase their productivity and household income.

The Government has identified strategic interventions in irrigation, agricultural inputs, including distribution of improved seeds, and transportation infrastructure. A proposed US\$40m program significantly improves irrigation in areas that have most potential and where a tangible impact on yields, employment and food security can be achieved. US\$30m is earmarked to invest in catchment ponds that store rainwater and mitigate the risks of floods. Catchment ponds contribute to productivity as they act as reservoirs for farming and help prevent damages to land and crops from excessive rains.

Haiti is one of the most densely populated countries in the world with more than 300 inhabitants per square kilometer, double that of the Dominican Republic. Population pressures on land area contribute to soil erosion and undermine environmental sustainability. Creating viable economic opportunities in manufacturing or sustainable agriculture is thus an important part of the solution. However, the Government of Haiti recognizes that strategic investments and supportive legislation that address vulnerability need to bear fruit in the very short term.

Amongst proposed investments US\$160m focus on riverbed clearing and on developing a priority list of watersheds upstream from some of the country's most vulnerable areas. Haiti has only 3 percent of its land covered by trees and is uniquely exposed to flooding. Raising the productivity and value of agriculture, especially tree crops such as mangoes and avocados, will aide reforestation by providing incentives to plant. Better regulation, such as the proposed limitations on the use of charcoal and viable alternatives to its use, complement the government's framework on promoting environmental sustainability and ensuring that gains in agriculture and other sectors are viable in the long-term and are resilient to natural disasters.

The public investments will generate in excess of 10,000 jobs in areas that have been most affected in the devastating 2008 season. In addition, export crops, if grown on a large scale, could constitute a source of foreign exchange and provide further employment.

#### Harnessing the employment potential of manufacturing zones

In 1984, the vast majority of U.S. baseballs were assembled in Haiti. The same is true for the famously intractable Rubik's Cube. 125,000 workers were employed in the sector at the time. Political instability and the ensuing embargoes set this number close to zero ten years later. The Hope II legislation, passed in 2008, contains highly favorable access to the US market and affords an opportunity to revive light manufacturing as a motor for jobs in the short-term and a vehicle for accelerated economic development in the long run. Hope II complements an already skilled pool of labour at competitive rates and close proximity to the U.S.

While the key ingredients are there, investments and political commitment are necessary to help the industry back on its feet. Industrial space that allows for cost reductions through clustering and targeted service provision is in short supply. The government is committed to support the expansion of industrial parks. The parks require access roads, electricity, water, sewerage and security. The Government, with the support of the international community, will provide basic infrastructure in locations that offer the highest economic and social return and where construction can commence in the near term. The Government of Haiti is committed to work with the private sector to seek financing from international institutions and foreign investors to complement the funds Haitian entrepreneurs are able to leverage. The Prime Minister has written to private sector representatives in the run-up to the Haiti Conference to encourage them to present concrete investment proposals and their estimated economic and social impact.

Currently, 29 textiles businesses employ 24,000 workers. From producing basic t-shirts these businesses are increasingly manufacturing men's suits and other products higher up the value chain. If placed in strategic locations two industrial parks could employ an additional 35,000-45,000 workers within the next two years. Even with a significant increase in exports, Haiti's market share in the U.S. would remain comparably small by global standards and as such the impact of the recession should not significantly affect these estimates. An additional 15,000 jobs

could be created through supplier networks, adjacent training centers, hospitality and, in the short-run, infrastructure investments. These crude estimates don't account for indirect employment generation, i.e. by significantly raising the purchasing power in a particular region.

### Investing strategically in competitiveness and market access

Export crops and basic foods, just like men's suits, have to be brought to local and global markets in a fast and cost effective manner. Specific infrastructure measures for industrial zones and higher agricultural productivity necessarily need to be complemented by a functioning national transport network. The Government of Haiti proposes three roads at a cost of US\$300m, of which US\$50m would be disbursed over the next two fiscal years. These roads, National Highway No.1 connecting Port-au-Prince and Cap Haïtien, the road from Miragoane to Petit Trou de Nippe and the road from Gros Morne to Port de Paix, connect high-density population centers. Beyond productivity gains, the road network is vital to integrate the Haitian market and ensure a more stable internal food supply in the face of global price volatility.

An emphasis rests on ensuring proper maintenance of infrastructure. The Government of Haiti is aware that current arrangements in this area need swift attention and is committed to work with partners on devising a sustainable maintenance plan for each of the proposed investments. Improving existing legislation is also in consideration to allow better use of the capacity of private ports while ensuring that proper oversight is in place to create a level playing field among operators and prevent the illegitimate/illegal inflow and transit of goods. The interventions have to be properly sequenced to ensure that the economic returns to these investments are not undermined by spiraling prices of cement and other construction inputs.

Electricity is currently unreliable, expensive and subsidized at unsustainable levels. The Government is committed to work towards ensuring supply at internationally competitive benchmarks. Currently, Haiti can produce 140 megawatts, but can only distribute 80 megawatts. The construction of a sub-station in Tabarre will help address this. A new system of tariff rates for the public electricity company EDH will lessen the burden of subsidies on the budget. The government proposes to raise tariffs for those customers where 24/7 access can be guaranteed, while at the same time removing their need for costly private generation. In regions where this is not yet feasible, proposals are tabled that lift restrictions on the sale of privately generated electricity to enhance viability for operators through economies of scale. Proposed investments in energy total US\$110m.

In addition to productive infrastructure investments, complementary measures will be taken over the next three months to enhance the business environment. Proposals are tabled for decisions that allow for multi-shift operations and greater speed and transparency of customs procedures. Progress has already been made in enhancing the efficiency of port operations in Port-au-Prince.

The shortage of housing and free space particularly in the Port-au-Prince metropolitan area is a bottleneck not only for the expansion of supplier industries for the domestic economy, but also hinders storage for export goods. Several investors consider investing in the construction of warehouses and condominiums. As to the latter, initiatives have been stifled by existing legislation on property rights that prevents owning part of a building structure.

### **3. Securing basic services**

The policy measures and investments that directly support the creation of 100,000-150,000 jobs have to be underpinned by basic services to be viable.

In the short term, it is indispensable to bring the education and health systems' service delivery capacity back to at least the pre-hurricane level. Rehabilitating 150 schools, reconstructing 300 others, building two model hospitals and upgrading a medical center, will help achieve this. The delivery system of potable water and sanitation capabilities, which were also severely damaged by the storms, need immediate attention. To maximize impact of available funds, three development poles have been identified: Gonaives, Jacmel and Cabaret. The total cost over two fiscal years is estimated at US\$181m. Constructing a school in Haiti takes an average of 14,000 man-days and provides a job for 100 workers over six months.

The Government of Haiti is committed to avoid the pitfalls of the past and to increase the lifespan of investments in infrastructure by ensuring that (i) the schools and hospitals are built in observance of basic safety standards and are resilient to floods and storms, (ii) they are built on properties free of title disputes and, (iii) they are adequately equipped. Sufficient funds are also required to cover recurrent expenditures and quality control. The Government is currently moving towards greater decentralization and is gradually equipping local administrations with the necessary staff and expertise to monitor standards. Innovative approaches are being discussed to enhance competition among the multitude of private service providers and ensure that the contribution of NGOs achieves maximum results. The Government has set up a task force bringing together the key providers and financiers of basic services with the objective of designing appropriate mechanisms within the next two months.

### **4. Towards a new partnership**

Mounting challenges call for strengthened partnerships and a decisive step forward from the divides of the past. The Government understands that the global recession implies tremendous pressures on public finances everywhere. This means that aid budgets have to undergo an even greater prioritization: more has to be done with less. The role of the private sector and international investors is critical to achieve tangible results over the next two years. The Haitian private sector in particular sees the new economic opportunities and stands ready to make significant contributions. The Competitiveness Committee and a Presidential Committee for the implementation of the HOPE Act are visible examples of this strategic partnership.

The international community continues to provide indispensable assistance. Improved coordination and planning of its assistance as well as a renewed effort to promote national ownership are essential. On February 27<sup>th</sup> 2009 donors have signed an agreement with the Government that acknowledges the important role of budget support as a strong steering tool for government action. A joint committee monitors the implementation of measures that enhance the transparency of the budget process, the government's capacity to account to Parliament and the disbursements of pledged assistance. The Government hopes to see other cooperation partners adhere to this agreement. The Government of Haiti is fully committed to do its part to increase domestic revenues, unblock pledged assistance and achieve the completion point under the HIPC Debt Relief initiative by June 09. Despite numerous external shocks, the Haitian Government ensured that the PRGF program with the IMF remains on track.

#### **5. Tools for delivery: budget support and investment finance**

The maintenance of macroeconomic stability is a key conditionality for budget support. External shocks put intense pressures on public finances. Today, Haiti is seeking firm commitments of US\$125 million in budget support to cover a financing shortfall that would dramatically reduce the Government's ability to undertake productive investments and ensure the delivery of basic services. Of the US\$125m, US\$75m would help maintain the required level of public investment while the remaining US\$50m would cover the repayment of the temporary financing of the budget shortfall by the Central Bank of Haiti as agreed with the IMF. Donors are invited to consider engaging in swap operations by earmarking their support to specific elements in the public investment program in line with the two-year action plan.

Concrete measures to free funds for public investments by strengthening controls and rationalizing expenditures are being taken. For example, the size of personnel at the public telecom and Port Authority companies has been drastically reduced. The public electricity company has in recent years been a drain on budget resources. The new tariff structure to be adopted before the end of April and a renewed call for public entities to honor their monthly bills will free up much needed revenues.

#### **6. Time to act**

A firm mutual commitment between the Haitian Government, international partners and the private sector is vital for success. Speedy implementation of the measures laid out above, designed to improve governance and raise Haiti's competitiveness, is critical. Parliament's diligence in approving proposed legislation is a requisite. There is a growing consensus on what has to be done and an understanding that now is the time to act. In some areas, such as the provision of basic services, further dialogue is needed to devise the best mechanisms of delivery. A task force is to produce a clear road map within the next two months.

This renewed commitment needs to be mirrored by concrete pledges from Haiti's partners. Addressing the US\$125m budget shortfall and completing essential reconstruction in time for the 2009 Hurricane season are now a matter of great urgency. To create 100,000-150,000 jobs in two years both public and private investments have to be stepped up swiftly and be well integrated.

The Government has laid out a plan with clear commitments after consulting widely with partners. Similarly, the international community and the private sector is urged to state clearly ahead of the conference what they will bring to the table and where additional reform is encouraged. The Government will ensure that in each key sector ministry a lead person with direct access to the Minister resolves obstacles to implementation. A forum for periodic dialogue will bring together the lead actors and monitors progress on the basis of mutual accountability.

Swift action with clear objectives is now imperative. This is a decisive time for Haiti. All partners carry responsibility and need to take the step forward to seize the opportunities, create jobs and maintain political, economic and social stability. Making this joint step a success would present a shift of paradigm both for Haiti and its partnership with the international community.