

Haiti: Joint Staff Advisory Note of the Annual Progress Report on Implementation of the Poverty Reduction Strategy Paper

The attached Joint Staff Advisory Note (JSAN) of [the Annual Progress Report on Implementation of] the Poverty Reduction Strategy Paper for Haiti, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Annual Progress Report on Implementation of the Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF HAITI

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper

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

Approved by Gilbert Terrier and Dominique Desruelle (IMF)
Pamela Cox (IDA)

June 3, 2009

I.	Overview.....	2
II.	Background.....	2
III.	Poverty Trends and Characteristics	3
IV.	Macroeconomic Framework.....	4
V.	Governance and Public Sector Reforms	6
VI.	Structural and Social Sector Reforms.....	7
VII.	Process and monitoring and evaluation	10
VIII.	Conclusions, Risks and Suggested Issues for Discussion.....	10

I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the first Progress Report of the Poverty Reduction Strategy Paper (*Rapport Annuel de la Mise en Oeuvre du Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté, RA-DSNCRP*) prepared by the Government of Haiti.** The DSNCRP, covering the period 2007–11, was approved by the Government and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on November 30, 2007. The annual progress report was submitted to IDA and the IMF on April 23, 2009.

2. **The DSNCRP was prepared through a participatory process consisting of consultations with civil society, Government officials, and development partners.** The overall strategic priorities are structured around three pillars: (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 through agriculture and rural development, tourism, and infrastructure. The DSNCRP also emphasizes the importance of a stable macroeconomic framework and sound management of public resources.

3. **This first Annual Progress Report (APR) of the country's DSNCRP covers over a year of implementation.** However, much has changed since the DSNCRP document was approved in 2007. In 2008, Haiti experienced its worst humanitarian disaster in decades, considerably altering the DSNCRP implementation and priorities.

II. BACKGROUND

4. **Haiti experienced a series of unexpected and devastating shocks that threatened macroeconomic stability, hindered growth, and delayed the DSNCRP implementation.** In April 2008, Haiti experienced riots over rising food and fuel prices which prompted the resignation of the Prime Minister and led to a five-month political stalemate that severely constrained government operations, including the approval of key economic legislation and the FY 2009 budget. Subsequently Haiti was also hit by four back-to-back hurricanes and tropical storms in August-September, which have caused extensive food shortages with 60 percent of the fall harvest destroyed. Distribution networks, transportation, and housing were badly destroyed and damage to infrastructure is estimated at about 15 percent of GDP. With the assistance of the international community, an Emergency Post Disaster Assessment (PDNA) was prepared and estimated the post disaster needs at US\$763 million.

5. **As a result of the shocks, macroeconomic outcomes in FY 2008 were weaker than anticipated in the DSNCRP.** Official estimates indicate that real GDP growth slowed to 1.2 percent from 3.4 percent in FY 2007. Twelve-month inflation peaked at 19.8 percent in September 2008, up from 7.9 percent a year earlier, but declined to 10.1 percent by end-December and to 1 percent by end-March 2009, owing to rapidly falling international food and fuel prices. After some small depreciation earlier in the year, the real effective exchange

rate appreciated by about 5 percent during the last quarter of FY 2008, while the Gourde remained broadly stable against the U.S. dollar. Overall performance against Poverty Reduction and Growth Facility (PRGF) program targets at end-September 2008 was generally satisfactory.

6. **In order to reflect new strategic imperatives in the aftermath of the 2008 food and fuel prices and hurricanes shocks in the context of a severe global economic downturn, the government launched an Economic Recovery Program in March 2009.** Framed within the DSNCRP and the PDNA, the program seeks to maintain stability, safeguarding the progress already achieved, and to ensure that the country continues on a path toward economic security. To this end, it calls for immediate measures to: (i) balance public finances, (ii) reduce vulnerability to natural disasters, (iii) stimulate the economy to create jobs rapidly; (iv) maintain access to basic services (health and education), and (v) rehabilitate infrastructure. The program was endorsed by Haiti's development partners at the occasion of the April 2009 donors' conference in Washington.

7. **A revised budget for FY 2009 including the updated DSNCRP spending was approved by Parliament at the end of May.** With the exception of infrastructure, spending plans in the FY2009 budget are broadly in line with the DSNCRP. Budget allocations are close to one-third of the three-year DSNCRP spending envelope and for some sectors are well above this level. The budget also includes reconstruction projects identified through the PDNA. In spite of larger spending needs to intensify implementation of the DSNCRP and implement the post-disaster economic recovery program, the authorities were forced to significantly scale back their original spending plans, due to limited resources and external budget support.

8. **Securing the needed financial resources has been challenging and caused delays to both the DSNCRP and the PDNA implementations.** Owing to the disasters, the original DSNCRP cost estimates for the first phase (2007–09) was increased to US\$4.3 billion from US\$3.9 billion but only 51 percent of that amount has been secured and channeled through public investment program, while the remaining 49 percent is yet to be secured. At the April 2009 donor's conference, the economic recovery program received pledges of about US\$353 million when the authorities were seeking about US\$1 billion in external support.

III. POVERTY TRENDS AND CHARACTERISTICS

9. **The Progress Report presents an evaluation of the current dimensions of poverty and income inequality in Haiti using available data.** The poverty analysis is based on a wide range of available information, including a living conditions survey (2001), 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—54.9 percent of the population live below the US\$1.25-a-day poverty line and 72.1 percent below the US\$2-

a-day poverty line. Poverty is particularly high in rural areas. Income inequality is also high, with a Gini Coefficient of 0.59, among the highest in Latin America and the Caribbean.

10. **Haiti is the poorest country in the Latin America and Caribbean region and amongst the poorest in the world.** The 2008 United Nations Human Development Index ranked Haiti 148th out of 179. Based on current trends, it is very unlikely that Haiti will achieve most of the MDGs by 2015, and making substantial progress toward achieving the MDG goals will be a challenge.

11. **The Haitian government is planning a household survey, anticipated for fiscal year 2010, which will be used to update poverty estimates and evaluate progress on the MDG goals.** The household consumption survey is essential to update poverty measures since the last survey was conducted in 2001. The APR does not provide an update of the preparation of the household survey nor identifies obstacles to its completion. Funding had been secured through an IDB project, supplemented by funds from the Paris 21 initiative, to carry out the survey in 2008, but the survey was delayed, first by the political stalemate and later by hurricanes and tropical storms, and the funds are no longer available. The absence of the survey implied that the World Bank could not produce a poverty assessment as planned. The household survey would also provide baselines for several indicators to measure progress on the DSNCRP. Staffs recommend that the Government ensure the survey is completed in a timely manner and their results used to target future policy. Bank staff are currently pursuing funding for the survey through a trust fund.

12. **The Progress Report presents the Government's original analysis of changes in subjective welfare, based on surveys conducted by Vanderbilt University's Latin American Public Opinion Project in late 2006 and early 2008.** This analysis shows a substantial decline in welfare, in large part as a consequence of extremely high food prices in 2008. For example, in late 2006, 22.5 percent of Haitians said their income was insufficient to cover basic food consumption. This percentage had increased to more than a third of Haitians (34.1 percent) in early 2008. Because the 2008 data was collected before the tropical storms of August and September, it does not reflect the further deterioration of conditions that took place that year. As a whole, it is very likely that, due to tropical storm damage and the surge in food prices, and despite the government's efforts and modest economic growth, the average Haitian is now worse off in material terms than in 2007.

IV. MACROECONOMIC FRAMEWORK

13. **Despite the severe shocks in 2008, Haiti made progress in implementing the macroeconomic policies set out its DSNCRP.** The authorities succeeded in preserving macroeconomic stability in extremely difficult circumstances by implementing prudent policies in line with the PRGF-supported program. But the macro framework envisaged in the original DSNCRP is no longer applicable and DSNCRP implementation has been delayed. It would have been useful if the progress report clearly showed performance relative

to the objectives set in the original DSNCRP and clarified whether and how the underlying macro assumptions are being changed for FY 2009–11 to facilitate future monitoring.

14. **In light of the severity of the exogenous shocks and global downturn, staff growth projections are more conservative than those presented in the APR for FY 2009–11.** The report rightfully notes that greater progress could have been achieved had Haiti not suffer a series of major exogenous shocks since FY 2007/08. But against the severity of these exogenous shocks and the global downturn, staff projects that domestic demand is likely to weaken further between FY 2009 and FY 2011 and result in lower GDP growth than envisaged.

15. **Despite falling international prices in FY09, inflation is projected at a higher level than both the PRGF program target and the initial DSNCRP projection.** Falling international prices have helped lower inflation, but base money growth has continued to be higher than targeted in the program. Staff concurs with the policy objective of the central bank as noted in the report which is to control inflation by controlling base money growth. Staff would encourage the central bank to monitor core inflation and monetary aggregates more actively, improve liquidity management through enhanced coordination with the Ministry of Finance and sterilize as needed the higher central bank financing to the government through issuance of BRH bonds or foreign exchange sales.

16. **A discussion of the impact of the international financial crisis would have helped to better understand possible contagion channels.** Because of its low degree of financial integration, Haiti has not experienced the impact of the crisis through the direct financial channel but the slowdown in the United States and Canada is already affecting Haiti through lower export demand and fewer remittances, and through the impact of lower international commodity prices on fiscal revenue. While Haiti's export sector is relatively small (less than 10 percent of GDP), private consumption is highly dependent on remittances (about 19 percent of GDP in 2008). So far, however, the drop in remittances has been limited to 3 percent for the second quarter of FY 2009. If the global slowdown were to persist, and the unemployment rate to worsen in the United States and Canada, remittances could decline by about 7 percent by end-FY 2009, affecting poor households. Rapidly declining prices for Haiti's food and fuel imports are driving down inflation, but at the same time are causing a significant shortfall in fiscal revenue. Staffs encourage the authorities to accelerate ongoing efforts to enhance revenue collections in order to protect priority spending.

17. **Staff found the discussion on external sector very useful and concur with the assessment that net international reserves are comfortably above the program floor.** However, the report could have usefully highlighted the risks to the reserves position if the financial crisis were to last longer than currently anticipated. One of the underlying assumptions in the original DSNCRP is a sustained level of private transfers of 20 percent of GDP but, looking forward, the downturn in the United States and Canada may lead to a sharper than expected decline in remittances which may put pressure on the external reserves

position. On the other hand, the impact of lower commodity prices on imports implies a small improvement in the external current account position.

18. **Although government spending to date has been broadly adjusted to the lower revenue collections, spending could catch up in the second half of FY 2009 following approval of the budget.** Spending is budgeted in FY 2009 to be higher than in previous years to address reconstruction needs as well as intensified DSNCRP implementation, which will continue to guide fiscal policy in the medium term. The FY 2009 budget allocates substantial resources to social sectors and infrastructure. In line with DSNCRP priorities, total investment outlays focus on transport, lodging, employment, health, and food security.

19. **Finally, in light of all the external shocks that Haiti faced since March 2008, a reassessment of the various risks and challenges to Haiti macroeconomic stability as discussed in the original DSNCRP report would have been useful.** Such reassessment of risks would have been timely and would have helped guide the projections for the year. First, a more fragile political and social situation following the April senatorial elections with run-offs in June and ongoing tensions between the executive and the legislative branches may cause further delays to key reforms and DSNCRP implementation. Second, the fiscal situation is likely to remain under pressure as long as the domestic and external resources remain scarce, and spending needs for reconstruction and poverty reduction remain high. Third, the downturn in the U.S. and Canada may lead to a sharper than expected decline in remittances, affecting poor households, and credit risks in the financial sector may materialize; and finally, Haiti remains highly vulnerable to natural disasters.

V. GOVERNANCE AND PUBLIC SECTOR REFORMS

20. **In the area of economic governance, recent advances have been made to increase transparency and efficiency in the use of public resources and external assistance.** These include changes in the legal framework for budget formulation and execution, the setting up of critical institutions and agencies, and efforts to disseminate basic information as well as engage civil society in monitoring the implementation of economic governance reforms.

21. **Some improvements were made in public financial management.** Actual expenditures for fiscal years 2006–07 and 2007–08 are generally in line with the approved budget, and the introduction of a functional classification of expenditure allows for monitoring of poverty reducing spending. Progress also been made by the Supreme Audit Institution (*Cour Supérieure des Comptes et du Contentieux Administratif*) in the completion of some audit reports and their submission to Parliament. Although not reported in the APR, staffs also consider important the adoption of a budget preparation and execution manual, as well as the deployment of public accountants and financial comptrollers to line ministries. Nonetheless, public financial management processes and controls, and resource management are still weak, and the overall fiduciary environment is risky. A key challenge is ensuring the implementation of the new legal framework by building the capacity of central government

agencies for revenue, expenditure, procurement, and human resource management and then gradually extending coverage to offices handling financial management and planning functions in sector ministries. On the procurement side, the new procurement law has only recently been sent to Parliament. However, some improvements in procurement have been made at the administrative level, and a new system for debt management is being implemented.

22. **Despite reform efforts, public institutions remain weak and are not capable of effective sector oversight.** The criminal justice system functions only minimally, and corruption is perceived to be widespread. Despite Government efforts, existing control mechanisms are not strong enough to combat corruption and enforce the rule of law. The obstacles to improvement are significant. These include a shortage of financial and material resources; shortages of skilled staff; and insufficient salaries and other incentives to motivate them. Staffs recommend continuing the efforts to strengthen governance, with an emphasis on justice and security.

VI. STRUCTURAL AND SOCIAL SECTOR REFORMS

23. **The DSNCRP has three main pillars: (i) poverty reduction through growth driven by agriculture, tourism, infrastructure and technology, (ii) human development actions aimed at broadening coverage of social services, and (iii) strengthening democratic governance, with emphasis on the judicial sector and security.** These three pillars are complemented by transversal actions in ten areas, including gender, environmental protection, AIDS, youth and sports, culture, disaster risk management, public sector management, urban development, land management, handicapped people, and food security.

24. **Some progress was made in advancing reforms in these areas, although the priorities shifted midway through implementation due to the need to implement emergency actions after the hurricanes.** In the growth pillar, the report mentions that the main achievements in the agriculture sector have been: (i) rehabilitation of irrigation systems, (ii) watershed management, and (iii) distribution of agricultural inputs and machinery. Staffs welcome the government efforts to rehabilitate irrigation systems and watershed management. Subsidizing agriculture inputs and machinery may be justified given the food crisis and natural disasters. Nevertheless, staffs recommend improving the way these subsidies are targeted and passed on to producers by (i) targeting the fiscal resources to those producers and areas that need them the most; (ii) reducing the administrative costs of delivering subsidies; (iii) avoiding crowding-out of the private sector and distortion of farmer's production decisions through high subsidies rates; and (v) avoiding providing goods at no cost, as adoption rates are drastically reduced when there is no counterpart from farmers. Staffs recommend the government continue efforts to improve land management and support off-farm income generating activities.

25. **Regarding infrastructure, some progress towards the original DSNCRP goals is reported in the APR, although the net effect on the total infrastructure stock remains uncertain and many of the actions originally envisaged gave way to emergency recovery actions that took priority.** Some new road construction was achieved, but other major transport infrastructure (bridges, sections of national road No.1) have been severely damaged or destroyed. Three new electricity generators with a total capacity of 60 megawatts were installed, and the two main airports were rehabilitated and modernized. Additional emergency actions included road repairs, the rehabilitation of irrigation systems, school reconstruction, and the building of fords and temporary overpasses where bridges have been destroyed. Progress was made on few medium to long-term infrastructure needs, and access to electricity and piped water remains limited, particularly outside Port-au-Prince.

26. **Staffs concur with the Government's shift of attention and resources towards emergency actions and recommend renewing the high priority for basic infrastructure and increasing the focus on maintenance.** Progress on reforms in the electricity sector is a priority, as the sector continues to weigh heavily on public finances. In particular, staffs encourage the Government to focus on improving the efficiency of the electricity utility through the reduction of non-technical losses, the strengthening of the management capacity of the firm, improved governance (monitoring of the Power Purchasing Agreements and the transfers from the State to the electricity sector) and diversification of generation sources. Improvements in information and communication technology can contribute to achieve many of the goals of the DSNCRP. Staffs recommend removing remaining monopolies in the telecommunications sector, in particular in access to international communications infrastructure to make information and communications more affordable. In staffs view, the steady enlargement of the road network should also be a priority. Although the Road Maintenance Fund (FER) has now reached substantial institutional capacity and is funded from the proceeds of earmarked taxes, the true implementation of a road maintenance strategy is still pending. The last hurricane season demonstrated that the best maintained infrastructures are the most resilient to natural disasters. More broadly, a strategy is still needed to effectively reduce the vulnerability of critical infrastructure and improve emergency management procedures, particularly in the most vulnerable areas like Gonaives. The lack of coordination of Haitian institutions in charge of infrastructure management is hampering the effectiveness of the Government's interventions.

27. **The APR reports on the significant progress made in implementing a satisfactory mechanism transferring tuition waivers (subsidies) to schools.** The tuition waiver program, which started in school year 2007–08 in two departments, financed tuition waivers for children previously not enrolled in primary school. In school year 2008–09, the program has been scaled up in 6 additional regional departments to cover an estimated 80,000 children. This is being verified under an independent audit with results due mid-2009. The APR also reports that the Ministry of Education has made progress with the teacher training program and has increased the number of school inspectors. New inspectors have been trained and deployed to the ten departmental offices, although the inspection results are

not yet available. Staffs congratulate the ministry on this achievement and encourage them to rapidly put in place the monitoring system required to document school inspections. Finally, the APR reports that more than 20 percent of the recurrent budget was allocated to the education sector.

28. **Although not indicated in the APR, there is encouraging progress regarding school infrastructure.** The Haitian Government has made safe schools a national priority in response to growing evidence of the extreme vulnerability of the country's school infrastructure, and it has committed US\$4.5 million for emergency school reconstruction and rehabilitation. To support this commitment, the World Bank provided a US\$5.0 million grant for the *Haiti Emergency School Reconstruction Project* to help the government to develop a National Plan of Action for Safe Schools, amongst other objectives.

29. **In health the APR reports modest advances.** Some health infrastructure was rehabilitated, five new health centers were built and equipped, and equipment was reinforced in another 11 health centers. Vaccine coverage during the 2007 campaign reached 68 percent for DTP and 70 percent for BCG, while the share of medically assisted births increased from 24 percent in 2006 to 30 percent in 2008.

30. **In the staffs' view, malnutrition is a serious concern in Haiti, with an estimated one in four children under five chronically malnourished.** The food and fuel price shocks and worldwide economic downturn have likely reduced caloric consumption and raised malnutrition. The National Coordination for Food Security (CNSA) reported that 2.5 million Haitians needed food aid in April 2008. In September, after the storms, the number had increased to 3.3 million, a third of the population.

31. **The APR reports notable progress in reducing the incidence of HIV/AIDS, which has fallen roughly by half over the last decade.** Nonetheless, 2.2 percent of Haitian adults are HIV-positive, the highest national rate outside sub-Saharan Africa. Staffs encourage the Government to pursue their efforts to improve the health status of the Haitian population in these areas and others included in the National Strategic Plan for Health Sector Reform, 2005–10, by concentrating on the effectiveness of public expenditure management and by reinforcing partnerships with the private sector.

32. **Regarding the cross-cutting areas, significant attention was devoted to disaster risk management, following the series of 2008 storms and hurricanes.** The Ministry of Planning and External Cooperation established a vulnerability reduction unit charged with preparation of a national vulnerability reduction strategy and its integration into sectoral strategies and programs, and the monitoring and evaluation of the country's recovery and reconstruction program. This unit will also be involved in the revisions of the approved DSNCRP to acknowledge changes in the priorities. In addition, a Country Note and Action Plan were prepared to guide the significant scaling up of the World Bank's Disaster Risk Management program in Haiti.

VII. PROCESS AND MONITORING AND EVALUATION

33. **The Government initiated the implementation of the DSNCRP in January 2008.** The first steps included adopting an institutional framework of responsibilities, agreeing to a list of priority operational actions under each pillar in coordination with beneficiaries and civil society organizations, agreeing to a results framework including the choice of specific indicators, and allocating resources in accordance with those priorities under the draft 2008–09 public investment budget.

34. **Staffs commend the government for the participatory and inclusive nature of their monitoring mechanisms, under the leadership of the Ministry of Planning and External Cooperation.** The participatory monitoring structures described in the report include a wide range of stakeholders, and the qualitative instruments used are valuable. Staffs recommend making implementation more agile by streamlining the numerous implementation structures within the government.

35. **Continued work will be needed to improve monitoring and evaluation.** The main challenge is the generation of statistics, whose paucity explains why baselines and data sources for indicators are not specified. There is still a need, already noted in the JSAN of the DSNCRP, to link indicators to specific priority actions so that progress towards achievement of objectives can be monitored continuously and authorities can have clear guidance to change course when actions are not attaining their objectives.

36. **The household consumption survey is essential to update poverty measures since the last survey was conducted in 2001.** The absence of this survey implied that the World Bank could not produce a poverty assessment in 2008 as planned. The household survey would also provide baselines for several indicators to measure progress on the DSNCRP. Staffs recommend that the Government ensure the survey is completed in a timely manner and their results used to target future policy actions under the DSNCRP.

VIII. CONCLUSIONS, RISKS, AND SUGGESTED ISSUES FOR DISCUSSION

37. **The first Annual Progress Report gives a generally fair assessment of progress achieved and challenges encountered in implementing the DSNCRP.** The report takes into account many comments made in the Joint Staff Advisory Note on the 2007 DSNCRP. Staff commend the government on the steps accomplished under difficult circumstances, in particular for the adoption of an institutional framework of responsibilities, the agreement on a list of priority actions in coordination with beneficiaries and civil society organizations, the agreement on a result framework, and for the allocation of resources in line with the draft 2008–09 public investment budget priorities.

38. **Aside from unforeseen external shocks, there remain a number of challenges to Haiti's successful implementation of its strategy.** First, while mobilizing the needed financing is the cornerstone of the strategy, full financing has yet to be secured. Second, the strategy focuses squarely on the ability to increase the Haitian government's capacity to

spend and to spend well. Third, the fragile political and social situation may delay key reforms and DSNCRP implementation.

39. **In future reports, the government may wish to better reconcile the budget and the sectoral costing strategies** to clearly identify the additional resources needed, to keep track of DSNCRP spending execution and to report progress on a small subset of key indicators in each sector.

40. **Do Executive Directors agree with the staffs' assessment that the Haitian authorities have made reasonable progress in implementing the DSNCRP under the difficult circumstances they faced? Do they agree that they have taken sufficiently proactive actions in shifting their priorities as a result of those circumstances?**