

**Testimony by
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Pan American Development Foundation (PADF)
before
The Committee on Financial Services
Subcommittee on International Monetary Policy and Trade**

**Hearing on:
Promoting Small and Micro Enterprises in Haiti
Wednesday, April 28, 2010**

On behalf of the Pan American Development Foundation, I thank Subcommittee Chairman Gregory Meeks, Ranking Member Gary Miller and other members for the opportunity to testify on Haiti in the aftermath of the devastating earthquake of January 12 and the importance of promoting Haitian small and micro-enterprises.

Before beginning I would like to recognize the exceptional leadership of Congressman Meeks in supporting Plan Colombia and ensuring that it addressed the urgent needs of Afro-Colombians and other vulnerable groups. Our Foundation greatly appreciates the number of field visits that you have made to PADF projects in Colombia that are visibly helping to increase the incomes and standard of living of thousands of disadvantaged people who have been overlooked by past programs.

For nearly 30 years, PADF has been involved in projects that generate employment, promote community-driven development, improve rural and urban livelihoods and protect human rights, as well as disaster relief, recovery and reconstruction. We have worked with the Haitian people and civil society to implement agro-forestry projects, to introduce new soil conservation techniques, to strengthen local organizations and to facilitate conflict management and development along the Haiti-Dominican Republic border. Haiti is one of our highest priority countries.

PADF is an affiliate of the Organization of American States established in 1962 to encourage involvement of the private sector in development programs and disaster assistance. In 2009 we helped more than 5.6 million people in 18 countries in Latin America and the Caribbean. Starting in the 1960s, the Foundation pioneered some of the first modern micro-enterprise programs and provided capital and technical assistances to establish national foundations to stimulate their growth and expansion.

Prior to joining PADF, I was a Senior Foreign Service Officer with the U.S. Agency for International Development (USAID), serving as Mission Director in Ecuador, Peru, Honduras and El Salvador. I led the development of numerous small and micro-enterprise programs, especially following major natural disasters. As a result, I am particularly aware of the many questions that this Subcommittee may have regarding Haiti, as well as the challenges USAID, international agencies and the NGO community confront as they respond to the most urgent needs, while simultaneously supporting longer-term sustainable economic and social development.

Based on PADF's longstanding work in Haiti, and my 40 years of international development experience, I would like to share with you some thoughts about lessons learned in promoting small and micro-enterprises. I base them on my service in a number of countries, but especially El Salvador that suffered widespread destruction from a protracted civil war and major earthquakes in 1986, and again in 2001, that seriously impacted its capital city of San Salvador. Because of highly effective Salvadorian leadership, coupled with strong consistent support from the U.S. Congress and USAID, El Salvador was able to rapidly recover and use these tragedies to not only "rebuild better" but to implement major economic and social reforms. El Salvador has important lessons for Haiti, especially in using small and micro-enterprises to democratize its economy, create new jobs and expand popular participation.

I might also add that in prior decades USAID and others supported programs that are particularly relevant in guiding assistance to Haiti's reconstruction, especially for developing small and micro-enterprises. They include initiatives in Central America as well as efforts to support the Dominican Republic's development in the 1960s and 1970s. I urge the Subcommittee to collect

and analyze the important lessons learned from past programs for possible application in Haiti. I will draw upon some of them in my testimony.

Before that, however, I would like to highlight the excellent initiative by the Haitian Private Sector Economic Forum (PSEF) led by Dr. Reginald Boulos, in articulating a vision and roadmap for Haiti's earthquake recovery and reconstruction. I am attaching Dr. Boulos' presentation at the recent Haiti Donor's Conference in New York City and the PSEF document. They provide an important framework for supporting small and micro enterprises and well targeted initiatives to develop entrepreneurship with seed capital and management assistance.

As this Subcommittee knows, small and medium-sized businesses are the engines of job creation and innovation in most countries, including the United States. Prior to the January 12th earthquake, small and micro-enterprises accounted for as much as 90 percent of Haitian employment and 70 -80 percent of the economy.

Nevertheless, this engine of growth has been constrained by decades of political instability and an inability to address numerous policy and institutional weaknesses that have caused arrested development and widespread expansion of the informal sector. As Dr. Boulos indicated to the international donors, any strategy to reactivate the Haitian economy must be built on a vision of creating a large middle class that improves its competitiveness through "the progressive formalization of micro, small and medium enterprises to transform the employment and tax base of the country". He goes on to describe the extreme poverty and lack of capital of most Haitian enterprises that have been made even more dire by the earthquake.

The PSEF stresses that Haiti's path to rebuilding must include financing for small and medium enterprises as key incubators of growth and employment. Indeed, the Forum cites studies that estimate a need for up to \$2 billion in financing and provides specific recommendations for Haitian reconstruction.

The Pan American Development Foundation is particularly fortunate that Dr. Reginald Boulos is one of its Trustees, along with other Haitian business leaders such as PADF Vice President,

Philippe Armand, and Trustee Gladys Coupet, a leading banker in Port-au-Prince. They provide our Foundation with valuable inputs on measures that can be taken to encourage small businesses and micro and community enterprises.

As a complement to the work done by the Haitian public and private sectors, allow me to summarize additional issues that the Subcommittee may wish to consider in formulating a comprehensive effort to encourage small and micro-enterprises. They are:

- **Recognize the Overriding Importance of Political Leadership & Stability:** In promoting small and micro-enterprises, or any businesses for that matter, the overriding importance of a stable business climate, with well-defined rules of the game, cannot be underestimated. The Haitian people are renowned for their resiliency, creativity, imagination and entrepreneurship. No one can travel in Haiti and not be amazed at how quickly micro and small businesses have re-established themselves after the worst disaster in the history of our hemisphere, including repeated hurricanes and civil strife that would challenge even the most enterprising individuals anywhere in the world.

While much of the private sector in Port-au-Prince and surrounding areas has been seriously disrupted and de-capitalized by the earthquake—and large infusions of well-targeted funding are urgently needed—we should be encouraged by the enterprising nature of Haitians and the potential economic and employment growth that can be generated if political leaders address the most critical stabilization and reform measures. As has been so often stated, it will be Haitian leaders who determine the country's destiny. The recent reconstruction plans produced by both the public and private sectors are excellent first steps and should be used by international donors in formulating new initiatives.

- **Encourage Sound Macro-Economic & Regulatory Reforms:** While much of the discussion on promoting small and micro-enterprises often focus on innovative mechanisms for providing credit, guarantees, technical assistance and training, these inputs should be seen as necessary but not sufficient by themselves. Enterprises cannot flourish in a policy and regulatory environment that discourage investment, restrict property ownership, lack

In his regard, I direct the Subcommittee's attention to an IMF Working Paper titled, "The Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?" (2007) by Laura Jaramillo and Cemile Sancak. It shows that in 1960 both countries had the same per capita GDP. During the past 50 years the Dominican Republic's per capita GDP more than tripled whereas Haiti's remained stagnant. The authors of this paper conclude that despite the similarities of these countries, economic policy decisions are the key determinants explaining their growth divergence.

In my career, some of the most effective technical assistance for improving macroeconomic policies has been provided by leading economists from Chile. As you move forward with your deliberations, I urge that successful experiences implementing market-based policy and regulatory reforms, such as in Chile, the Dominican Republic, El Salvador and Peru, be examined for application in Haiti. They have had a proven track record of accelerating sustainable and equitable economic growth that is essential for nurturing small and micro-enterprises.

- **Promote Property Ownership:** Most small and micro-enterprises in Haiti operate in the informal sector, which seriously limits their growth and employment potential, encourage tax evasion and corruption. Likewise, much of the housing in Port-au-Prince and other urban areas are built on public lands and do not have property titles, discouraging mortgage financing and home improvements that are so important in other countries. As has been well documented in a number of studies, including the USAID-funded work in Haiti of Hernando De Soto in the late 1990s, lack of property ownership remains a major constraint to investment and to sound development of small and micro-enterprises and homeownership.

- **Expand Successful Models such as Community-Driven Development:** In discussing Haiti there is an unfortunate tendency among some to believe that most prior development efforts in that country have failed and that the international community must start again with a blank slate. This would be an error. While there have been failures in the past, we should not allow the shock and trauma of the earthquake to blind us to a number of ongoing successes that can quickly be scaled-up to produce immediate results.

In this regard, I would like to highlight the Haitian government's successful Community-Driven Development program, funded by the World Bank, implemented by the Pan American Development Foundation and others in partnership with the Haitian Bureau of Monetization. PADF has obtained important support for it from both the Haitian and international private sector, including corporate donors such as Royal Caribbean International. This program has created more than 500 productive community enterprises in some of the poorest and most unstable areas of Haiti. It has rapidly generated new production and employment, promoted entrepreneurship, provided residents with business training and built social capital that is indispensable for nurturing a market economy and a more stable democracy. It can quickly be expanded to reach an even larger population, addressing some of the most immediate employment disruptions caused by the earthquake.

At the same time, we should recognize that there is not one preferred mechanism for promoting small, micro and community enterprises. For a country as complex and challenging as Haiti, multiple implementing mechanisms should be considered.

Organizations like FONKOZE, called "the Alternative Bank for the Organized Poor", and other local and international NGOs, provide important financing mechanisms for micro and small business enterprises that can be quickly expanded.

Measures should also be undertaken to further encourage private banks to expand their lending to small and micro-enterprises, as Sogebank has been doing through its SOGESOL offices, and Unibank, through its Micro-Credit National (MCN), and other similar actions. The proposal to create a Haitian Enterprise Development Fund, similar to those implemented in Eastern Europe, merits serious consideration. The OAS Young Americas Business Trust is also providing important training for young Haitian entrepreneurs.

Local think-tanks, civil society associations, and business incubators should also be encouraged to continue their work in the promotion of micro, small and medium businesses as part of the economic recovery process. Groups like the Center for Free Enterprise and Democracy (CLED), the Haitian Manufacturers Association, the Haitian-American Chamber of Commerce (AmCham) have done work in these areas that could be built upon and expanded.

Experience from other countries show that there are multiple public and private instruments for promoting small and micro-enterprises—it cannot be done by any one instrument alone. To be effective, there should be an overall strategy that brings them together in a coherent, systematic, coordinated fashion to avoid duplication and needless institutional rivalries.

In examining such proposals, it is not productive for any group to demonize the public, private or nonprofit sectors. Our Foundation has developed a successful model for bringing together the Haitian government, the private sector and local NGOs and community groups. We believe that it is a proven mechanism for building public sector capacity while quickly addressing the most urgent local needs and longer-term development.

- **Recognize the Importance of Remittances and Diaspora Engagement:** Last year, Haiti received more than \$1.6 billion in remittances from Haitians living abroad. It is estimated that during this decade Haiti will receive at least \$20 billion, which is more than twice as much as the total damages caused by the earthquake. More housing will be repaired and rebuilt with remittances than with international aid. Many businesses will be developed with remittances and thousands of Haitian families will educate their children and improve their

Unfortunately, only a small percentage is used for investments, while most remittances go to sustain daily consumption. International agencies should be creative in supporting activities that encourage remittance senders and recipients to invest in their futures through market-based incentives. We urge the Subcommittee to support Diaspora engagement and consider how the growing flow of remittances to Haiti can better promote small and micro-enterprises. Our Foundation would welcome participating in such discussions since we have pioneered community remittance programs with Diaspora groups, including Haitians.

- **Engage the Private Sector as Partners:** As the above examples indicate, the Haitian government and international community should work closely with the Haitian private sector, including Haitians living abroad, as well as foreign investors and not-for-profit organizations.

It is particularly encouraging that the recent donors meeting for the first time invited private sector representatives like Dr. Boulos and representative from the Diaspora community into formal presentations and discussions. As in other countries confronting similar circumstances, these groups can play a key leadership role in promoting small and micro-enterprises.

In addition, there are a number of significant opportunities to work with foreign investors such as Royal Caribbean International that is interested in helping Haiti develop the tourism potential of its north coast. To make this happen, however, the Haitian government, with the support of international donors, need to modernize and repair roads, bridges and other key infrastructure and involve local communities in the planning and implementation of them. These investments have tremendous potential to stimulate hundreds of new small and micro-enterprises. There are excellent examples of how public-private partnerships can be used to promote small and micro-enterprises.

I also want to recognize Congressman Meeks for his leadership in promoting the HOPE legislation that is so important for future growth and employment in Haiti. This initiative can play a key role in stimulating major new investments by foreign and local companies in the garment and *maquiladora* industry that can rapidly create thousands of new jobs. Much of this industry, which began to emerge in the 1980s, was forced to leave Haiti because of the civil strife and insecurity during the 1990s and 2000s. Experiences from the Dominican Republic, Honduras, El Salvador and other countries demonstrate that such industries can stimulate many small businesses and micro-enterprises.

National and international NGOs are playing important roles in providing relief to millions of earthquake victims and should continue to be an essential part in the country's reconstruction and development. Clearly their actions should be undertaken in partnership with the Haitian government in order to enhance its institutional capabilities. While all parties should recognize that only the government can improve the country's overall policy-regulatory environment, and facilitate key enabling infrastructure, it is the private sector that must play an indispensable role in providing essential investments for Haiti's long-term reconstruction and sustained development.

Mr. Chairman, although the earthquake caused massive suffering, and large segments of the population continue to live in unacceptable conditions, the international community has an opportunity to come together with Haitian leaders and communities to build a stronger and better Haiti. All of those of goodwill—especially Haitian public and private sector leaders—must seize this unique moment not just to rebuild what has been lost, but to construct a more equitable and prosperous Haiti.

As I indicated, there are proven models being implemented in Haiti and in other countries that can quickly be expanded and replicated to address this unprecedented crisis. They offer the most effective way to benefit the largest number of Haitians in the fastest way possible, especially through small and micro-enterprises.

Fifty years ago the Dominican Republic was also impacted by political instability and civil strife. It was able to turn a crisis into an opportunity to build a much stronger and more democratic society through effective leadership and policy reforms. Likewise, a century ago, Puerto Rico was one of the least developed islands in the Caribbean and now it has the highest per capita income in the region. With strong national leadership and international support, Haiti too can realize similar progress.

As I conclude, I would like to recall that in 1776, when Adam Smith published his revolutionary work, *The Wealth of Nations*, Haiti was the richest country in the Western Hemisphere. In the 21st century, Haiti does not have to remain the poorest country in our region.

Thank you,

Attachments

- **Vision & Roadmap for Haiti**, presentation to the Government of Haiti by Dr. Reginald Boulos, March 23, 2010
- **Vision and Roadmap for Haiti**, prepared by Haiti's Private Sector Economic Forum, March 23, 2010
- **IMF Working Paper: "Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?"** March 2007

Vision & Roadmap for Haiti

Presented

by

Dr. Reginald Boulos

to the

Government of Haiti

at the

Private Sector Economic Forum

March 23, 2010

Monsieur le Président de la République,
Madame la Gouverneure Générale du Canada,
Monsieur le Secrétaire général des Nations Unies,
Madame la Secrétaire d'Etat Hillary Clinton,
Monsieur le Président Clinton,
Mesdames et Messieurs les Ministres et Ambassadeurs,
Mesdames et Messieurs.

For the first time in the history of donor's conference for Haiti, the voices of several sectors in the country are being heard and I wish to congratulate the organizers for this initiative.

For the first time also in the history of Haiti, a unified and inclusive private sector, organized around the Private Sector Economic Forum (PSEF), has decided to break with the past and formulate a shared vision and roadmap for the sustainable development of Haiti.

For the majority of stakeholders in Haiti, the country's private sector is defined mainly by a few large companies. This analysis is problematic on 3 levels. First, it ignores the key role played by small and medium enterprises, mostly women, as an engine of innovation and job creation. Secondly, it overlooks the investment made over the last 15 years by international investors, such as Trilogy, Digicel, Coca Cola, Royal Caribbean Cruise and others. Finally, its exclusive nature creates a tension with regard to improvements in business climate, as most believe that this kind of initiative only favors a few companies, not society as a whole.

SMEs account for 80-90 % of jobs creation in Haiti and account for 70-80 % of the economy. Therefore, an element of the competitiveness agenda in Haiti must be the progressive formalization of micro, small and medium enterprises to transform the structure of employment and tax base of the country. *The situation of the Haitian private sector is akin to bankruptcy at the top and poverty at the bottom.* 63% of SMEs interviewed suggest that their profits have declined over the past three years based on the survey of over 300 SMEs. Although overall economic conditions are a factor, informality also plays a role.

A recent study by the Winner group suggest that while the total needs for financing of the business community exceed the 2.7 billion mark, 75 % of these needs i.e. 2 billion are for MSMEs. There is

therefore an urgent need for recapitalization with a blending of loans and grants to the informal sector with the needed education, technical assistance and training to transform them into a formal structure creating jobs, spurring entrepreneurial spirit, generating tax revenues for the state and profit for its owners.

We are submitting today 4 Proposals to promote economic inclusion:

1. **Allocate at least 50% of all funds and guarantees** to *formal* SME and micro-enterprise financing
2. **Encourage broad ownership of larger companies** by (a) converting grants and investments into employee equity and profit sharing, with a minimum 5% set-aside (b) offer equity shares to the public
3. **Implement SME and MSME set asides**, especially in the housing and construction sectors to be able to actively participate in Haiti's reconstruction
4. **Support new entrepreneurs with seed capital and management assistance** to unleash entrepreneurship through the creation of (a) quasi-risk capital investment funds, (b) a Diaspora investment fund, (c) incubators and (d) business development services centers

Our vision for the country includes at its core an expansion of the middle class, which can only be done through the creation of tens of thousands of small and medium enterprises motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of barriers to their expansion. Any vision of a prosperous Haiti rests on an economy able to provide jobs, create wealth, and ensure social security for all Haitians. But the Haitian economy must also be:

Diversified,

Green,

Competitive,

Vibrant,

Regionally integrated.

By 2020, we commit to making Haiti a diversified and robust economy open to all, and renowned for its environmental sustainability and modern government.

Five priority principles must guide all actions and decisions during reconstruction:

Leadership and mutual accountability;

Decentralization and equal growth;

Commitment to modernization;

Haitian-led effort;

Independence from international aid;

Achieving this social and economic growth requires a multitude of investments, both in terms of financial and human capital. Five areas in particular deserve significant attention:

JOBS AND SHARED ECONOMIC OPPORTUNITY:

In the near-term, the construction of housing and infrastructure will create hundreds of thousands of jobs for Haitians, but Haiti's long-term economic prosperity must rely on building a productive agriculture and a skills-based economy in globally competitive sectors.

AGRICULTURE AND THE ENVIRONMENT:

Developing this sector offers the opportunity for shared growth and wealth creation across Haiti. It is also necessary from a food security perspective.

HEALTH AND EDUCATION:

Rebuilding the country is dependent on not only providing immediate health services to earthquake victims, but creating a strong national healthcare system that can ensure a healthy population.

HOUSING AND ECONOMIC SECURITY:

It is of the utmost urgency to move Haitians into permanent housing, in order to prevent the creation of slums with abject living conditions. Creating permanent housing is not just providing shelter but creating an asset that leads directly to the creation of a long-term middle class upon which this vision rests.

GOVERNANCE AND INSTITUTIONAL CAPACITY:

Successful and effective reconstruction will require the legitimacy and support of the people. More broadly, it will require a well-functioning civil society and set of institutions.

Building back a better Haiti will require significant investment in infrastructure. The core of this infrastructure investment should be allocated to building the three new Economic Growth Poles in addition to rebuilding and reviving Port-Au-Prince.

NORTH POLE:

Forming a triangle between Labadie, Ouanaminthe and Port-au-Prince, the Northern Economic Growth Pole will focus on Agriculture, Tourism and Garments, create more than 100,000 jobs. Investment required is estimated at over \$1.8B.

CENTRAL POLE:

Investment required is estimated at over \$300m. Successful agricultural development in this area can ensure that the fertile lands of the Artibonite achieve their potential yields in production of staple crops such as rice, maize and potatoes, and improve rural livelihoods.

SOUTH POLE:

The Southern Economic Growth Pole centered around Les Cayes and will support Agriculture, Tourism and Garments. There is the potential to create more than 50,000 jobs and the initial investment is estimated at over \$1.1B to \$1.4B (depending on transshipment port)

To spur private investment and job creation, 1.24 Bn investment in infrastructure is required. This can be public investment or on a PPP model including managed infrastructure or concessions. This should include but not limited to:

2 Airports in Port au Prince and Cap Haitian and the upgrading of Cayes airport;

3 new industrial Parks;

300 kms of New Paved Roads

100 Kms of New Secondary road System

2 New energy plants;

Upgrade or build 3 new ports

Please note that these does not include the social investment in housing, schools and health infrastructures that will be needed to make these pole successful and make the decentralization a reality.

Ladies and Gentlemen,

The devastation wrought in Haiti by the January 12, 2010 earthquake is monumental. However, even before the earthquake, the infusion of billions of dollars of foreign aid over recent years had put Haiti into a “Survival Cycle” where the country is unable to support itself and provide core services to, or economic opportunities for, its people. The challenge for Haiti is to use the reconstruction process to break the Survival Cycle by creating a virtuous cycle of private investment and public-private partnership.

To succeed, we Haitians must form a New Social Compact:

1. The Creation of a large middle class, fulfilling the dream of a better quality of life
2. A responsible elite laying out and implementing a vision of development that benefits all Haitians
3. A business community which fulfill their fiscal obligations, has developed a sense of social responsibility and understand that their main JOB is to create jobs
4. A strong moral leadership with a new culture of responsibility and accountability
5. A strengthening of our public institutions and political system for the effective management of our resources

Ladies and Gentlemen,

We bring today our ideas, our dreams and our energy to support with our proposal the plan that will be presented by our Prime Minister. I am please to be here with a very strong delegation of our enlarged and redefined private sector to say to the world: Haiti will be build back and better.

Thank You.



**FORUM
ECONOMIQUE
SECTEUR
PRIVE**

VISION AND ROADMAP FOR HAITI

**Prepared by
Private Sector Economic Forum**

**FINAL DRAFT Version
*PRESENTED TO GOVERNMENT OF HAITI***

March 23, 2010

About this document

This document is a Consultative Draft to be used for discussion purposes only.

It represents planning efforts led by the Private Sector Economic Forum, with support from Dalberg Global Development Advisors. It includes a broad consultation with more than 150 representatives from the business community, industry associations, regional chambers of commerce, and think tanks, as well as, government, donor agencies and multilateral institutions. The recommendations here within are aligned and consistent with those of the Presidential Commission on Competitiveness. Further information on the Forum members and the consultations can be found in the Annex.

The intent of this Vision and Roadmap is to contribute a representative perspective from the private sector on the Government of Haiti's plan for the reconstruction and development of the country. More broadly, this is an affirmation and commitment of the private sector to contribute to building a new social compact between government, civil society and the private sector.

Introductory memo

March 23, 2010

For the first time in the history of Haiti, a unified and inclusive private sector, organized around the Private Sector Economic Forum (PSEF) has decided to break with the past and formulate a shared vision and roadmap for the sustainable development of Haiti. Under the leadership of President Préval and the management of Prime Minister Bellerive, we re-affirm our commitment to working to create an equitable, fair and opportunity-laden society for all Haitians. Our vision for the country includes an expansion of the middle class, recognizing that this can only take place through the creation of tens of thousands of SMEs motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of impediments to their expansion. Our vision also encompasses the provision of quality social services and social security, to ensure dignity for all Haitians.

We support the efforts of the Haitian government to provide the country with a modern and efficient fiscal administration combined with more transparent and rigorous management of state revenues. This is a necessary precondition for meeting our objectives to increase fiscal revenues from 9% in 2009 to 15% over the next 5 years. We propose to create a **New Social Compact** that involves government, civil society, and the private sector – ranging from the large businesses to the informal traders and smallholder farmers throughout the country – in a partnership built on respect and mutual trust. This partnership will have to include, without any discrimination, Haitians living abroad. The New Social Compact will have at its core the strengthening of democracy and free enterprise, and a commitment to individual freedom, both political and economic.

We seek to create a prosperous Haiti, based on an economy that is diversified, environmentally conscious, competitive, and vibrant enough to bring back Haitians living abroad as well as attract Foreign Direct Investment to Haiti. Above all, this economy must be agricultural and decentralized, spreading across the various economic development poles identified outside Port-au-Prince. Social and economic growth must include all regions of Haiti in order to reduce the extreme poverty in rural Haiti, and allow for effective reconstruction of Port-au-Prince. Growth must also address all sectors and classes of people. To achieve this, the Haitian economy must benefit from the support of the Haitian government across the 5 clusters identified by the Presidential Commission for Competitiveness, namely (i) fruits and vegetables, (ii) animal husbandry, (iii) tourism, (iv) housing and urban development and (v) garments. Significant expansion across these sectors will allow for the creation of hundreds of thousands of new jobs and ensure shared economic prosperity in Haiti. In turn, a stronger and formalized private sector will contribute to strengthening government's capacity and ability to deliver public services.

While thanking the international community for its tremendous solidarity in these difficult moments for the Haitian people, we also extend the wish that it continue to support us in a spirit of capacity building

and creation of opportunity for all Haitians. Haiti must aim to rebuild in a manner such that the new Haiti is less reliant on the donor community for financing and support. Every plan put forward by the international aid community should have an exit strategy or sustainability component.

To succeed we recognize that we must also:

1. Recognize past mistakes and accept that January 12 was at once a natural disaster and a disaster caused by mankind
2. Insist on and contribute to transparent and efficient governance which uproots corruption and establishes a level playing field
3. Accept that it is the responsibility of all citizens and particularly the business community to fulfill our fiscal obligations and replace a culture of fiscal evasion with a culture of responsibility and strong moral leadership
4. Fully commit to the creation of a large middle class, which will allow us to fulfill the dream of a better quality of life for all Haitians
5. Understand that strengthening our public institutions and political system is necessary for the effective management of our resources and ultimately reducing our dependence on foreign aid

Only at this price can we achieve the mutual accountability, respect and dignity necessary for the creation of a stable, prosperous and free society.

In the spirit of these commitments, the Private Sector Economic Forum will take a first bold step by making fiscal compliance a condition of participation for all member organizations.

Yours sincerely,

Reginald Boulos
On behalf of the Private Sector Economic Forum

Contents

1. Introduction	1
2. Vision 2020.....	1
2.1. Short-term: Provide basic services and spur business activity	2
2.2. Medium-term: Create decentralized and competitive growth poles.....	3
2.3. Long-term: Expand economic opportunity to build a vibrant middle class.....	3
3. Principles.....	5
4. Pillars of Vision 2020	6
4.1. Pillar I: Jobs and shared economic opportunity.....	6
4.1.1. Drive near-term employment for Haitians in construction.	7
4.1.2. Create new competitive economic growth poles around priority sectors.....	8
4.1.3. Involve private sector in provision of critical infrastructure.....	11
4.1.4. Build and formalize micro, small and medium enterprises (MSMEs).....	12
4.1.5. Establish clear and undisputed land ownership.	14
4.2. Pillar II: Agriculture and the environment	15
4.2.1. Kick-start domestic production by integrating into humanitarian projects.	16
4.2.2. Increase food security and improve nutrition.	17
4.2.3. Boost export-led agribusiness by investing around specific value chains.	18
4.2.4. Improve reforestation and soil protection efforts.....	19
4.2.5. Increase and create incentives for renewable energy sources.	20
4.3. Pillar III: Health and education.....	22
4.3.1. Enhance provision of immediate health services to high-need populations.	22
4.3.2. Move from one-off relief efforts to stronger healthcare systems.....	23
4.3.3. Provide immediate and longer-term access for all students.....	25
4.3.4. Improve the quality and oversight of the education system.....	26
4.3.5. Prepare students for economic opportunity.	26
4.4. Pillar IV: Housing and economic security.....	27
4.4.1. Build permanent housing.....	27
4.4.2. Redraw the map of Haiti with housing matching job creation.	28

4.4.3. Build a functioning mortgage market for the middle class.....	29
4.4.4. Create ownership opportunities for the poor.	29
4.5. Pillar V: Governance and institutional capacity	31
4.5.1. Commit to elections and political stability.	31
4.5.2. Expand the fiscal revenue base.....	32
4.5.3. Build a modern government and increase administrative capacity.	32
4.5.4. Create opportunities for sustained public-private dialogue and collaboration.	33
4.5.5. Govern the reconstruction responsibly and effectively.....	33
5. Roadmap.....	35
5.1. Integrated projects in proposed economic growth poles	35
5.1.1. Northern Economic Growth Pole.....	35
5.1.2. Artibonite Valley and Saint Marc Peninsula Economic Growth Pole.....	37
5.1.3. Southern Economic Growth Pole.....	38
5.2. Sequencing of initiatives and investments	39
5.2.1. Three months.....	39
5.2.2. Six months.....	41
5.2.3. Twelve months.....	41
Annex 1: List of organizations consulted	58
Annex 2: Speech by Mr. Francois Guillaume Jr., Executive Director of Haitian-American Chamber of Commerce of Florida at <i>Etats Generaux du Secteur Prive</i>	43
Annex 3: Speech by Mrs. Yanick Mezile, President of the Federation of Small and Medium Enterprises at <i>Etats Generaux du Secteur Prive</i>	45
Annex 4: Speech by Mr. Reginald Boulos, Coordinator of Private Sector Economic Forum, at <i>Etats Generaux du Secteur Prive</i>	48
Annex 5: Closing speech by H. E., President Rene Preval at <i>Etats Generaux du Secteur Prive</i>	53

1. Introduction

The devastation wrought in Haiti by the January 12, 2010 earthquake is monumental. Estimates indicate that over 200,000 people have lost their lives, and hundreds of thousands more are injured and homeless. Three million people have been directly affected, and the country's infrastructure, institutions and economy are crippled. The prospects for long-term recovery and development have been set back drastically. Yet, the opportunity has now arisen to help the nation **build back better**.

We, members of the Private Sector Economic Forum and the private sector more broadly, are committed to partnering with the Haitian government and to committing our own resources for the development of the country. Our vision for the country extends to the creation of a **New Social Compact** for all Haitians where business – from the large businesses to the informal traders and smallholder farmers throughout the country – the public sector, civil society and the international community are acting in concert, with mutual trust and accountability, in the best interest of all Haitians. To achieve this requires the private sector's commitment to full tax compliance and the government's commitment to meeting minimum service levels and managing budgets, decision-making and funding in full transparency. The private sector is determined to adhere to its fiscal obligations within this New Social Compact.

2. Vision 2020

The earthquake has set us on the beginning of a new path. The opportunity exists for all Haitians to benefit from transformative change – creating private-sector led, robust economic growth, accessible high-quality social services, and a well-functioning, high-performing government. This change must be driven with a respect for the dignity of every Haitian.

Our vision for the country includes at its core an expansion of the middle class, which can only be done through the creation of tens of thousands of small and medium enterprises motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of barriers to their expansion.

Any vision of a prosperous Haiti rests on an economy able to provide jobs, create wealth, and ensure social security for all Haitians. But the Haitian economy must also be:

- Diversified, with an agricultural base and opportunities across tourism, light manufacturing and eventually a business process outsourcing industry;
- Green, ensuring all future actions repair, restore and protect Haiti's ecosystem;
- Competitive, with a level playing field working closely with a fully-functioning modern government; and,

- Vibrant, with GDP growing at over 5% per annum and attracting Foreign Direct Investment (FDI) as well as Haitian Diaspora investment and return;
- Regionally integrated, with relations in place with the Dominican Republic, Caricom, Central America and the United States that allow Haiti to prosper.

By 2020, we commit to making Haiti a diversified and robust economy open to all, and renowned for its environmental sustainability and modern government.

Recognizing that this journey will be long and challenging, the following sections detail the priority actions in the short (18 months), medium (3 years) and longer term (5 years) to achieve the vision of a new Haiti. In summary, they include:

- Short-term: Provide basic services and spur business activity
- Medium-term: Create decentralized and competitive growth poles
- Long-term: Expand economic opportunity to build a vibrant middle class

2.1. Short-term: Provide basic services and spur business activity

In the coming 18 months, Haiti's first priority must be recovery, providing basic services of health, nutrition, education and shelter to all Haitians and sustaining the Haitian economy in the face of immediate challenges.

Haiti in the short-term must be one of well-coordinated donor and humanitarian efforts, where basic services are provided quickly and a sense of normalcy is returned as soon as possible: children are back in school, food and healthcare are being provided, and reconstruction is well underway. This reconstruction should be inclusive of Haitians, employing as many local workers as possible, and using local supply chains. An environment has to be created where Haitian businesses can survive this loss of assets and customers, through provision of stopgap loans to cover ongoing debt obligations and well-policed national borders to stop an influx of smuggling.

By the end of the 18 month recovery period:

- 500,000 Haitians will be employed primarily in construction and agriculture with minimum wage levels achieved
- 100,000 permanent housing units will be created
- 30% of humanitarian aid products will be made in Haiti
- The informal sector will be 85% of the economy, from 95% today
- A guarantee fund will have been created to provide short-term stopgap loans to Haitian SMEs, reaching 75% of businesses in need of capital
- Social investments will be made alongside investments in economic development

2.2. Medium-term: Create decentralized and competitive growth poles

As the nation begins to rebuild and reconstruct, the fundamentals for a new, decentralized economy need to be established, both to provide more economic opportunity for Haitians, and to ease the overcrowding of Port-au-Prince that contributed to the magnitude of the disaster.

The Presidential Commission on Competitiveness has identified high priority sectors based on their ability to create jobs and value for the Haitian economy. The private sector should commit to investing in these sectors and to assuming some degree of risk; the government should create economic development zones to facilitate the functioning of the sectors and offer corresponding incentives, as well as ensure that trade agreements and monetary policy favor the development of these sectors.

The competitive growth poles should include the following, in addition to a restored Port-au-Prince:

1. In the North, between Cap Haitien and Ouanaminthe, to support tourism, garments and agriculture;
2. Around Gonaives and La Pierre to link the Artibonite valley and support agriculture and tourism; and,
3. In the South to support agriculture, garments and tourism.

By the end of the 2-3 year reconstruction period,

- 750,000 Haitians will be employed in construction, agriculture, tourism, and garments with minimum wage levels achieved
- Three new economic growth poles will be created, with basic services provided across the poles
- 1 million Haitians will be settled in 250,000 new permanent housing units, primarily in new growth poles and agricultural areas
- The fiscal revenue base will represent 12% of GDP from its current 9%
- A well-managed social security system will be established

2.3. Long-term: Expand economic opportunity to build a vibrant middle class

The earthquake has given Haiti the chance to build a better society for all – a new Haiti. Haiti in the long-term succeeds only with a robust middle class functioning as part of a transformed society, where a culture of entrepreneurship co-exists with a modern, well-functioning government.

In five years,

- 1 million new jobs created with minimum wage levels achieved
- The Haitian government will have passed necessary legal and administrative reforms to rank in the top 75 in the World Bank Doing Business rankings
- SMEs in the formal sector will represent 50% of the economy
- The fiscal revenue base will represent 15% of GDP
- Universal access to primary education will be achieved

- Social security system in place to insure increased access to healthcare
- 10% of land on the Haitian territory will be forested
- 500 million of FDI will have been attracted, and 1 million total jobs created in agriculture, tourism, garments and related service sectors

3. Principles

Difficult tradeoffs will doubtless need to be made in the reconstruction of Haiti, but how we approach the coming period will determine whether or not we can truly transform our country's social, political and economic fabric for the better. The earthquake and dealing with its immediate aftermath has created a new and previously unparalleled solidarity in Haiti across all people, and across the government, private sector and international community. If we fail to adhere to a set of basic principles during the immediate reconstruction period, we will all have squandered a once in a lifetime opportunity to set the country on a new path of social and economic growth.

Five priority principles must guide all actions and decisions during reconstruction:

- **Leadership and mutual accountability:** Strong leadership from, and partnership between, the private, civil and public sectors is required for the country to move forward. Transparency and sustained dialogue are needed to hold each sector to mutual accountability.
- **Decentralization and equal growth:** Social and economic growth must include all regions of Haiti in order to reduce the extreme poverty in rural Haiti, and allow for effective reconstruction of Port-au-Prince. Growth must also address all sectors and classes of people.
- **Commitment to modernization:** Efforts to rebuild the Haitian state must propel us into the 21st century. The private and public sectors must be committed to change and comfortable leaving previous ways of doing business and governing behind. Private delivery of public services can play a significant role in helping the government to increase the quality of its services.
- **Haitian-led:** Recovery and reconstruction programs must respond to the real needs of Haitians on-the-ground and should be directed by Haitian leadership. Aid programs must reinforce state agencies and not weaken them.
- **Independence from international aid:** Haiti must aim to rebuild in a manner such that the new Haiti is less reliant on the donor community for financing and support. Every plan put forward by the international aid community should have an exit strategy or sustainability component.

We must all hold ourselves accountable for adhering to these principles.

4. Pillars of Vision 2020

Achieving this social and economic growth requires a multitude of investments, both in terms of financial and human capital. Five areas in particular deserve significant attention: (i) Jobs and shared economic opportunity, (ii) Agriculture and the environment, (iii) Health and education, (iv) Housing and economic security, and (v) Governance and institutional capacity.

4.1. Pillar I: Jobs and shared economic opportunity

In the near-term, the construction of housing and infrastructure will create hundreds of thousands of jobs for Haitians, but Haiti's long-term economic prosperity must rely on building a productive agriculture and a skills-based economy in globally competitive sectors.

Given the need to create jobs immediately, aid efforts must ensure that they are strengthening and not displacing the Haitian workforce and Haitian businesses. We have been overwhelmed by the generosity and compassion that individuals, corporations and governments outside of Haiti have demonstrated in the aftermath of the earthquake. We now critically need them to be our partners in rebuilding the private sector in Haiti – by ensuring that aid efforts include Haitian manufacturers in their supply chains; by requiring minimum levels of Haitian employment in construction projects; and, by supporting efforts such as 'Plus One for Haiti' to source imports from our country.

More broadly, we support the work of the Presidential Commission on Competitiveness, which has identified the following portfolio of priority sectors: (i) fruits and vegetables, (ii) animal husbandry, (iii) tourism, (iv) housing and urban development and (v) garments. Significant expansion across these sectors will allow for the creation of hundreds of thousands of new jobs and ensure shared economic prosperity in Haiti. Across the board, the development of these sectors will require not simply an expansion in the number of jobs provided, but also an upscaling of activities in Haiti in order to capture higher value. As infrastructure investments are made to support these initially prioritized clusters, new opportunities can also be developed. For example, various light manufacturing options can be successfully developed in Haiti once investments in industrial parks and related energy and port investments come online. A stronger and formalized private sector will contribute to strengthening government's capacity and ability to deliver public services.

Outcomes for this Pillar target priorities in job creation, formalization of the economy and decentralization of competitive economic growth poles. Job creation must be inclusive, and particularly attune to ensuring opportunities to the disabled and handicapped among the Haitian population. Social compliance more generally should be re-enforced across the Haitian private sector.

Outcome	18 months	3 years	5 years
Jobs created	500,000 primarily in construction and agriculture	750,000 in construction, agriculture, tourism, and garments	~1 million, with 300,000 in fruits & tubers, 400,000 in animal husbandry, 120,000 in garments, 75,000 in construction and 17,000 in tourism
Informal sector as percent of economy (Baseline: 95%)	85% of economy	75% of economy	50% of economy
Population settlement and decentralization	500,000 migrated and settled from Port-au-Prince	750,000 million workers and families settled in permanent housing, primarily in new growth poles and agricultural areas	1 million workers and families settled in permanent housing, primarily in new growth poles and agricultural areas

4.1.1. Drive near-term employment for Haitians in construction. Major construction projects are needed in the near term, both to rebuild Port-au-Prince and to develop new economic growth poles across the country. The construction of housing and infrastructure must balance multiple needs: responding to the urgency of the situation, creating business and employment opportunities for Haitians, building for quality, and ensuring provision for maintenance. International construction companies will bring the needed expertise but should be required to employ Haitians, contract local suppliers and be held accountable for reliable construction methods.

To this end, we outline the following initiatives:

1. Create financial, land and import duty incentives to spur mid-level housing development and initiate decentralized low-income housing developments (More detail in Pillar 4 below).
2. Update the construction code (More detail in Pillar 4 below).
3. Mandate a minimum of 70% employment be Haitians, and target 25% of subcontracted business from Haitian suppliers for any construction or infrastructure projects.
4. Devise and implement an automatic linkage between financial resources made available for infrastructure projects and those made available for maintenance.
5. Prioritize modern construction techniques for major roads and infrastructure and mandate labor-intensive techniques for feeder roads, in order to create the maximum jobs in the short term without holding back reconstruction.

Target indicators:

- Jobs created in housing and infrastructure

- Projects initiated and procured
- Percent of employment and budget to Haitians meeting 70% mandate and 20% target

4.1.2. Create new competitive economic growth poles around priority sectors. The development of priority sectors for Haiti must take place through a decentralized economy combined with strong central management of trade policies through the Ministry of Commerce and Industry. While there are many opportunities for economic development, the next 3-5 years should be focused on four economic growth poles, including a reconstructed Port-au-Prince. These include:

1. North: Agriculture, Garments and Tourism. Located between Cap Haitien and Ouanaminthe with an industrial park located in Fort Liberte. The following investments would be required:
 - a. Public investment in an Industrial Park located on government land around Fort Liberte, with appropriate economic zoning. The Industrial Park should be privately managed through contract and ultimately, privatized. Private sector commitment to relocating and creating jobs in industrial parks prior to public investment will help catalyze these investments.
 - b. Deep-water port at Fort Liberte with license and capability to handle containers. The Fort Liberte location, vis-à-vis Cap Haitien, is favorable given available land for storage, staging and growth, as well as distance from city inhabitants and tourism.
 - c. Wholesale market located near Fort Liberte Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)
 - d. Energy investment near industrial park
 - e. International airport in Cap Haitien to serve both tourists and cargo, particularly back-haul of perishable agriculture on passenger flights. The airport should have a runway of 3,000 meters to allow long haul flights to take off.
 - f. Road between Labadie and the UNESCO World Heritage Sites within the National History Park (Citadel, Sans Souci and Ramiers). Roads to be completed by EU and French government and with feeder roads to be built into agricultural areas.
 - g. Development of the National History Park with modern facilities in order to accommodate large numbers of visitors while regenerating natural resources.
2. Artibonite Valley (the breadbasket of Haiti): Agriculture and Tourism. The following investments would be required:
 - a. Feeder roads into agriculture producing regions to link with primary roads to Port-Au-Prince and Cap-Haitian / Fort Liberte.
 - b. Container port in Gonaives, as well as coastal cabotage landing points to increase access to rural cargo loading and unloading.
 - c. Expansion of current 2-lane road from Port-au-Prince to Saint Marc to a 4-lane road while bypassing certain villages and shorelines to reduce transportation time.
 - d. Watershed restoration project to prevent soil erosion and flooding. Significant investments in farmer productivity, as well as storage and collection facilities.

- e. Tourism investments on the Saint Marc Peninsula and nearby islands.
3. South: Agriculture, Garments and Tourism. Located around Les Cayes. The following investments would be required:
- a. Watershed restoration project to prevent soil erosion and flooding.
 - b. Feeder roads into cocoa, coffee and banana producing regions to connect to Port-Au-Prince in the near-term, and to serve a local port in the medium-term.
 - c. Deep-water port in Baie du Mesle with license and capability to handle containers. A regional feeder port should be built, but a trans-shipment port should be explored with international shipping companies – subject to technical and economic feasibility - given potentially favorable location and water depth. The Canal du Vent, which separates the island of Cuba from Haiti, could also be explored as an alternative location for trans-shipment, due to the passage of 34% of international traffic through the canal. A trans-shipment port would reduce shipping costs given increased outbound, and also create additional jobs, but requires both sufficient scale and significant capital investment.
 - d. Smaller coastal cabotage landing points should also be established.
 - e. An international airport near Les Cayes with an extension of the current runway from 1,000 to 3,000m.
 - f. Wholesale market located in Les Cayes for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)
 - g. A tourist resort zone between Aquin and Cote de Fer, with 20km of continuous first-class beaches, as well as tourism investments in Port Salut, Ile a Vaches and Grand'Anse.
 - h. Public investment in an Industrial Park focused on garment assembly located near Les Cayes, with appropriate economic zoning. The Industrial Park should be privately managed through contract and ultimately, privatized.
 - i. Energy investment near industrial park
 - j. Development of a leading agriculture program at the University of Notre Dame's agricultural engineering facilities in Redon.
4. Port-au-Prince: Garment and other Light Manufacturing. The following investments will be required:
- a. Rebuilding and improvement of existing Industrial Parks, completion of 2-3 private investments in proposed new Parks and support to additional investment, including foreign direct investment, for Parks on existing land sites.
 - b. Urban planning and restoration of Port-au-Prince and surrounding areas.
 - c. Rebuilding of international airport.
 - d. Rebuilding of port infrastructure and managed contract for public port.

- e. Wholesale market located near Port-au-Prince Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)

Preliminary estimates of major infrastructure investments for the new economic growth poles are in Section 5: Roadmap. The specific infrastructure investments highlighted are directional and subject to feasibility studies which address technical and environmental considerations.

In order to make these economic growth poles successful, we outline the following initiatives:

1. Create Regional Development Boards around each of the new economic growth poles to develop detailed and integrated plans and oversee the rapid execution of the projects. These boards must include representation from government, private investors, local businesses and donors as well as participation of NGOs and have a direct linkage to the senior-most level at the Haiti Development Authority. We suggest that just one multi-lateral and/or bi-lateral donor should take the lead on each pole to reduce complexity in coordination across multiple donors. These Regional Development Boards will be a critical component for a dynamic planning process with ongoing private sector participation.
2. Invest public funds in Industrial Parks in both the North and South economic development zones, with private management through contract. Given the risk and timing associated with garment tenants, public funding is necessary to catalyze investment in the new economic development zones. These industrial parks should be privatized either on a specific timetable, or on operating metric triggers.
3. Create flexible labor laws, including immediately legalizing the 3x8 work shift to allow increased competitiveness in the garment industry and rapid expansion of capacity for job creation, to be expanded to all public and private sector activities.
4. Integrate public plans for provision of housing and basic services around these new zones and place increased security at strategic locations, particularly to support the proposed expanded work shift. Amend requirements to allow housing within zones.
5. Create managed contracts for the critical infrastructure associated with these economic zones, (Noted below in Section 4.1.3) and establish minimum service level guarantees by the government for housing, water and sanitation, as well as other basic services.
6. Revise and ensure proper application of the investment code, adopt turn-key legislation, and provide or support land concessions, to immediately attract Foreign Direct Investment in Industrial Parks. This will require a strong and structured Centre de Facilitation des Investissements (CFI) able to adequately support foreign investors.
7. Lobby to move from Hope II to Hope III with 250M m3 import allowance and additional 15 years, in order to attract the appropriate firms.
8. Develop urbanization plan overlaid with natural disaster risk map in order to help investors and funders better select locations and evaluate risk.
9. Create targeted programs involving disabled and handicapped in the economy.
10. Ensure ICT solutions are available at competitive rates. In the short-term, this will require legal reform and the modernization of CONATEL. In the medium, new enterprises will need to be

created within the sector and competitiveness increased. In the long-term, technological parks can be considered and would require HR to be developed accordingly.

Target indicators:

- Road construction initiated immediately in North, South and Artibonite Valley
- Regional Development Boards constituted in 3 months
- Infrastructure site feasibility plans completed in 6 months
- Financing and site development plans completed for investments in 6-9 months

4.1.3. Involve private sector in provision of critical infrastructure. Efficient management of infrastructure and public services is critical to allow the effective development of the private sector in Haiti and to ensure that the maximum number of jobs can be created. Currently the management of customs, airports, ports and energy does not lend to a positive enabling environment for businesses in Haiti.

Customs is only collecting approximately 20% of import duties across the Haiti – Dominican Republic border, reducing the competitiveness of local production and the fiscal base of the government. In addition, energy is expensive and unreliable; ports are destroyed almost entirely and need to be rebuilt as quickly as possible in such a way as to correct past errors and ensure a high level of productivity and efficiency; and the international airport in Port-au-Prince is badly damaged. Infrastructure, including ports and airports, is non-existent in the North and South economic growth poles. The management of these areas needs to be overhauled. To do so we propose that the GOH pursue public-private partnerships with managed contracts for each critical infrastructure asset. All contracts should be competitively and transparently bid and open to international and local companies. Private sector commitment to ensuring fair competition and a level playing field with regards to access to critical infrastructure will make the most of these investments.

More specifically, we outline the following guidelines for the managed contracts and concessions:

1. Customs:
 - Customs must be completely revamped. Some collection functions could even be turned over to one or more specialized, private outfits to ensure accountability, with compensation aligned with specific performance targets for duty collection.
 - Customs collection should be automated and require reconciliation between inbound carrier and customs collection records.
2. Energy:
 - Outsource the administration, technical expertise and collection activities for EDH, with a focus on decentralized management. Pre-paid electricity meters should be considered.
 - Amend the energy law to allow Independent Power Producers (IPPs) to operate in the country and supply power to the industrial parks, with transitional arrangements to supply power outside of the industrial parks while internal demand is building up.
3. Water and Sanitation

- Outsource administration and technical expertise with long-term public concessions.
4. Ports:
 - Public port in Port-au-Prince should be reconstructed under private management and financing.
 - Access to the public facility should be guaranteed to all existing and future users.
 5. Airports:
 - Conduct a quick, limited competition to immediately get the international Port-au-Prince Airport fully operational with proper management.

Target indicators:

- Limited competitive bidding process initiated for Port-Au-Prince airport within 2 months
- Competitive bidding process initiated for Energy, Ports management, and some Customs collection functions within 6 months

4.1.4. Build and formalize micro, small and medium enterprises (MSMEs). Micro, small and medium enterprises are a significant source of innovation, and drive economic growth and job creation. The formal and informal enterprises that contribute an estimated 95% of the Haitian economy were especially exposed to the devastation wreaked by the earthquake. The near-term recovery requires assisting these businesses in overcoming the losses incurred. Longer term, the sustainability of the economy and expansion of the fiscal revenue base depends on their success. Women are key contributors to the MSME segment and gender-responsive programs should be developed to allow them to thrive equally with their male colleagues.

More specifically, we outline the following initiatives:

1. Keep loan capital flowing to existing SMEs:
 - a. Support the rapid assessment and payment of insurance claims to provide re-startup capital.
 - b. Create a partial guarantee fund issued through the Central Bank to commercial banks in order to refinance existing loans issued in Port-au-Prince and to extend credit to SMEs to actively participate in the reconstruction; if necessary, provide initial grants to support clearing rubble from land to initiate re-startup and financing process. The required guarantee is estimated at \$350M in order to allow over \$2B of financing. Sector and asset specific strategies will need to be developed for the allocation of the \$350 partial guarantee e.g., financing for education can benefit from more aggressive partial guarantee provisions.
 - c. Establish mechanisms for recapitalization of banks, including the issuing of subordinated debt by banks and creation of a fund or financial entity tasked with purchasing portfolios of insolvent loans, if liquidity becomes a constraint; in the case of the latter solution, the banks themselves should still be tasked with the recovery of loans and be compensated on a commission basis;

- d. Expand the types of guarantees accepted by banks to include purchasing guarantees.
2. Increase loan capital available to micro-entrepreneurs, using similar initiatives as above as well as the following:
 - a. Put in place an insurance mechanism to protect MFIs from risks linked to natural disasters or other external shocks, which have often wiped out MFI's activities in Haiti and significantly reduced operations in areas of the country that are more prone to natural disaster.
 - b. Distribute one-time flexible, financial assistance through MFIs to micro-entrepreneurs that were active in Port-au-Prince such that they can meet immediate needs and be positioned to re-build operations, possibly funded and supported by a fundraising effort targeting the Diaspora.
3. Support new entrepreneurs with seed capital and management assistance, to unleash entrepreneurship:
 - a. Launch investment funds capable of providing both management assistance and risk capital, through quasi-equity instruments, to meet the needs of small and medium-sized enterprises, particularly those without a near-term asset base to use as collateral. Local Haitian private sector co-funding of these investment vehicles will add local knowledge, expertise and commitment.
 - b. Create a minimum of 1 Incubator in each of the 4 economic growth poles to provide seed grants and support to new entrepreneurs.
 - c. Establish Centers for Entrepreneurship targeting Haitian entrepreneurs across prioritized growth sectors, and tasked with providing training courses in basic business skills and modular trainings on specific sectors.
4. Support the formalization of the economy by putting in place requirements and incentives for formalization of MSMEs:
 - a. Simplify formalization requirements and create fast-track processes for SMEs in economic development zones, reducing the burden and cost of compliance.
 - b. Provide funding to the Regional Chambers of Commerce through the Regional Development Boards and with appropriate accountability standards to assist SMEs in becoming formal, including incorporation, registration, accounting and governance support.
 - c. Make formalization a requirement for any MSMEs receiving funding through reconstruction effort, including through NGOs and government. Require proof of business formality (i.e., business license) and possibly tax compliance. Require NGOs to fund and support formalization of MSMEs from whom they source, and to provide quarterly reports of MSME funding and project completion through the Regional Development Boards.

Target indicators:

- SME loans refinanced
- MFI customers and loans
- New loans and investments in SMEs
- SMEs supported by Incubators
- SMEs formalized
- Accountability ensured through Regional Development Boards

4.1.5. Establish clear and undisputed land ownership. The lack of clarity in land ownership has long been a barrier to private sector investment in Haiti and currently discourages banks from making mortgages available. While multiple plans have been developed to address land ownership issues in Haiti, the political will has been lacking to execute on these plans. While the first obvious step is to salvage existing records, the reconstruction effort creates an unparalleled opportunity to once and for all provide clarity on land ownership and adjudication procedures, and to implement a special adjudication process with enforcement under the aegis of MINUSTAH.

More specifically, we outline the following initiatives:

1. Establish a Special Land Adjudication Court in partnership with the GOH and Haiti Development Authority.
2. Establish land cadastre and simplify title registration procedures.
3. For dispute-free government land: (a) Immediately award and register land titles to individual owners who have maintained and improved the land; and, (b) Award concessions or long-term leases for commercial use in the reconstruction effort and for productive improvement, including for Industrial Parks and Commercial Farms (to support out-grower schemes).
4. For disputed land, adjudicate claims, with a focus on special fast-track procedures for new economic development zones outside of Port-au-Prince. Establish clear deadlines for claims to be filed, as well as either minimum fees or community involvement to discourage frivolous claims.
5. Establish strong penalties for land title fraud going forward.

Target indicators:

- Adjudication court and land titling procedures established in 3 months
- Land titles awarded
- Percent of land titled and undisputed

4.2. Pillar II: Agriculture and the environment

Agriculture plays a critical role in the Haitian economy and in the lives of the Haitian people, 60% of whom live in rural communities. Developing this sector offers the opportunity for shared growth and wealth creation across Haiti. It is also necessary from a food security perspective.

Developing export agriculture goes hand-in-hand with increasing domestic food production since it will allow input supply chains to develop – creating access to fertilizer, seed and micro-irrigation technologies – as well as spearhead the development of extension services and financing solutions for agriculture. “Anchor” commercial farming operations with a focus on out-grower schemes will allow sufficient scale to justify investment in roads and transport which can link rural areas with urban markets in Haiti, and with ports and airports for export. Feeder roads developed around this core infrastructure and linked to an emerging coastal cabotage network can increase market access for the majority of Haiti’s rural population. With the country’s landmass being 80% mountainous, sustainable mountain agriculture practices will need to be developed and enforced, whereas urban expansion into the few plains more suitable to traditional agriculture will need to be managed. Agricultural zones must clearly be drawn into the new map for Haiti. Protection and rehabilitation of the fragile watershed areas will also need to be prioritized.

Gender responsive strategies must be developed in agriculture both because women are key operators across agricultural value chains and because improving women’s incomes can have significant impact on social welfare. Studies have shown that improving women’s incomes improves child health and welfare to a far greater degree than men’s (up to 11 times more in Cote d’Ivoire) and investments in women produce the majority (~55%) of reductions in child malnutrition – more so than actual food availability (~26%) or improvements in health provision (~19%)¹.

Environmental concerns must be a core tenet of economic development in Haiti to make the agriculture sector sustainable, especially in the long-run. But these concerns extend far beyond the agriculture sector: massive deforestation has led to extensive soil erosion and significant damage to Haiti’s water tables, top soils and aquifers, which has only increased the vulnerability of the Haitian people. Fragile watershed areas will need to be protected and rehabilitated, and environmental sustainability closely managed within Haiti’s agricultural development strategy. However, that by itself will not be enough for restoring our ecosystem.

Haiti’s energy strategy must address environmental sustainability. We must quickly eliminate the use of charcoal products and shift from fossil-fuel based products to renewable energy options. A greener Haiti – both through reforestation and increased use of solar power technologies – will bear rewards not

¹ The Unfinished Agenda, IFPRI, 2001

simply for our environment but also for our positioning on the global stage, contributing to Haiti's competitiveness across all prioritized sectors and attractiveness as a tourist destination.

Outcome	18 months	3 years	5 years
Agricultural imports as % of production	75%	70%	65%
Number of smallholder farmer households benefiting from increased incomes	Number to be determined	Number to be determined	Number to be determined
Average income lift for farmers affected	25%	50%	50%
Malnutrition rates	3% acute 16% chronic	0% acute 8% chronic	0% acute <5% chronic
% forest land	5%	8%	10%
Evolution of charcoal consumption	Reduced by 10%	Reduced by 20%	Reduced by 50% (to ~165M tones from ~330M today)
% of energy from renewable energy sources	2%, primarily from housing	5%, from housing and industrial parks	15%, from housing and industrial parks

4.2.1. Kick-start domestic production by integrating into humanitarian projects. The delivery of food aid offers not only a lifeline for the populations devastated by the earthquake, but also a market opportunity for agricultural populations. The Revised Humanitarian Flash Appeal unveiled on February 18 includes \$475M in food aid. WFP will be coordinating interventions in this area, including school feeding programs and the provision of micro-nutrient enriched supplementary foods to children and lactating and pregnant women. Domestic agricultural production should be integrated into these humanitarian projects through (i) substitution of food imports with domestic products and (ii) creation of programs to immediately increase food security in rural regions.

We support the Ministry of Agriculture's recommendations in this area (estimated at \$12.5M) and recommend that the GOH and international donors articulate a clear strategy that integrates domestic production and humanitarian aid. We outline the following initiatives:

1. Involve private sector in creation of 10 modern storage and treatment facilities in the major production areas of Haiti by:
 - Putting in place long-term contracts for private sector providers to create hubs and manage provision to the hubs with domestic produce. This will require that minimum volumes be agreed in advance by GOH and WFP.
 - Ensuring funding for the logistics and distribution of products from hubs to vulnerable populations and school feeding programs by GOH and WFP.
2. Roll out stop-gap programs at the local level that support rural populations in rapidly bringing to harvest high-nutrition produce (e.g., Haitian spinach, eggplant, sweet potatoes,

beans, corn and peanuts). Areas with the biggest flow of displaced populations should be prioritized.

Target indicators:

- Strategy in place for integrating domestic production and humanitarian aid
- Modern storage and treatment facilities completed
- Percentage of humanitarian aid from domestic supply

4.2.2. Increase food security and improve nutrition. Today, Haiti is a food insecure country, dependent on imports for approximately 75% of its needs, according to the U.S. Department of Agriculture. 9% of children under the age of five suffer from acute malnutrition and 24% from chronic malnutrition. When combined with the high population density which will only be aggravated by population growth, Haiti's ability to produce all the food needed for its population will continue to be strained. As such, a focus on a mid-to-long term solution to food security is critical. These solutions require a three pronged approach which increases the amount available for consumption, addresses malnutrition through targeted fortification of foods and provides targeted support to vulnerable populations. Achieving this requires an integrated national market.

To effectively address the food security issue, we outline the following initiatives:

1. Develop strong farmer cooperatives to provide inputs and credit, as well as aggregate supply of extension services and ultimately farm output. Well-functioning cooperatives will increase the amount of food produced in Haiti and result in increased margin capture by the farmers themselves.
2. Implement targeted fortification of foods such as milk, flours, oil and salt. WFP can play an important role in catalyzing fortification of foods in Haiti by making fortification mandatory for all suppliers of humanitarian programs.
3. Increase consumption of fruits and vegetables by linking produce that does not meet export-market standards is circulated in the local market for consumption.
4. Revamp the dairy and poultry industries to increase consumption of milk and eggs, which are important sources of proteins. This is estimated to cost \$179M and create 400,000 jobs²
5. Establish a permanent Irrigation Infrastructure Maintenance Authority (IIMA) to assure efficient use and delivery of water for farm production and aqua-culture for increased domestic food security.
6. Consider investment in greenhouses within new urban centers, with the help of technical support from the Dominican Republic or Latin America. Public investment may be needed for the initial development, with transfer to cooperatives or private enterprises after initial period.

² Competitiveness Working Group estimates \$179M in costs which includes: investments in 2 incubators / hatcheries (\$1.52M), 12 feed mills (\$65M), 12,925 farms (\$56.4M), 1 slaughterhouse (\$40M), 25-50 new dairy cooperatives (\$2.5M), as well as investments in training, sales and marketing. The latter investments include: an animal husbandry training institute (\$5M over 5 years), a comprehensive sector strategy (\$400K), an animal husbandry laboratory (\$500K), product standardization and quality monitoring capability & ongoing system (\$7.5M over 5 years).

7. Create an insurance mechanism against surge in the prices of staple crops which can bring additional strain to an already vulnerable situation. The World Food Program could take a lead role in creating such a mechanism.

Initiatives to increase domestic food production should all be prioritized around export-led agribusiness initiatives (described in 4.2.3. below) so as to leverage the same infrastructure and supply chain investments.

Target indicators:

- % of children under 5 suffering from acute malnutrition
- % of children under 5 suffering from chronic malnutrition

4.2.3. Boost export-led agribusiness by investing around specific value chains. Agri-business represented just 26% of GDP in 2008 versus 35% in 1994. Haiti has significant potential to expand the role of agriculture as an income generator. Micro-climates, combined with proximity to the US means there is potential for production of tropical fruit (such as mango, banana and avocados which employ 450,000 smallholder farmers) as well as targeted counter-cyclical production of high value products such as fresh produce. Coffee also presents a significant potential for job creation as well as positive environmental effects. Today, more than 200,000 smallholder farmer households are coffee growers. Potential exists to significantly increase coffee yields from 350kg / ha to 1,200 kg / ha and significantly impact smallholder farmer livelihoods with appropriate financing, inputs and market access interventions.

The Competitiveness Working Group estimates that a \$175M investment in fruit & tuber value chains alone can generate 300,000 jobs over the next 5 years³. While a processing base already exists and can be built upon to ensure additional value is captured in Haiti, the private sector will further invest in agribusiness if effective infrastructure can be developed. In agri-business, we outline the following initiatives:

1. Invest in commercial farming operations and greenhouses located on the road between Port-au-Prince and Cap-Haïtien and on the road between Saint-Louis-du-Sud and Port-au-Prince in order to take advantage of back-haul capacity of aircraft for export of high value produce, as well as port infrastructure.
2. In the North where private land is contested, lease government land for commercial farming in exchange for commitments such as developing targeted out-grower schemes to involve

³ Competitiveness Working Group costed investments include investments in product development, training and sales & marketing. In product development: higher value processing and export facilities (\$10M), creation of 200 post-harvest centers at \$35,000 each (\$8M over 5 years), establishing TCI mango plantations in 3 priority zones (\$15M), establishing 2,500 hectares of SME accessible ferti-irrigation banana production (\$90M), establish Crop Insurance capability (\$10M). In training, sales & marketing: using the post-harvest centers as delivery points, establish farmer to post-harvest center capacity building program (\$27.5M over 5 years), creating a brand and marketing strategy (\$150k), organizing two way FAM trips (\$1.25M over 5 years), preparing and financing a large-scale marketing campaign (\$5M over 5 years), controlling watershed in key ag priority regions (\$7.8M), investing in product standardization & quality monitoring capability & ongoing system (\$5M over 5 years)

small-scale farmers, and allocating a minimum percentage of land to tree crops to ensure reforestation of the Haitian territory.

3. Fix the post-harvest supply chain (where over 40% of produce is lost) through investments in an integrated national market linked to export infrastructure, with an emphasis on increasing farm-gate prices to producers. This would require:
 - Public and private investments in wholesale markets located near major ports which can act as central hub for triage of produce between export and domestic markets, as well as between processing and fresh consumption;
 - Development of collection, transportation and information networks around these wholesale markets. Renewable energy (e.g., solar powered refrigeration storage) may be appropriate here;
 - Investments in roads and infrastructure to link major producing regions with major consuming regions and export infrastructure.

4. Make financing options available at favorable interest rates and with appropriate re-payment terms at all levels of high-potential agricultural value chains, including fruit and coffee. A combination of the following options may be necessary here, many of which will extend beyond export value chains but should be prioritized in those instances:
 - Financial products that go down to the farmers in high-value supply chains;
 - Grants and technical assistance to support the initial formation of farmer cooperatives;
 - Creation of new micro-finance institutions in rural areas;
 - Development of mobile banking solutions that link rural farmers with families located in urban centers or abroad;
 - Developing savings cooperatives;
 - Creating targeted quasi-equity solutions for SMEs involved in agriculture;
 - Two-step loans, similar to model used in Dominican Republic for rice.

5. In the case of coffee, support increased value-capture in Haiti through:
 - Funding of coffee processing centers across major coffee producing regions of Haiti to increase quality of coffee (approximately 20 centers @ \$100,000)
 - Supporting market linkages particularly with high-value niche markets but also by normalizing trans-border coffee trade to meet Dominican Republic coffee deficit. In both cases, value addition in Haiti is essential.

Target indicator

- Volume of exports (metric tons)
- Financing available to agribusiness

4.2.4. Improve reforestation and soil protection efforts. Extreme deforestation exposes Haiti and its agriculture sector to significant risk given the resulting soil erosion and pressure on water-towers.

Likewise, Haiti has a significantly under developed LPG industry, compared to neighbors such as the Dominican Republic (20,000 tonnes a year in Haiti vs. 750,000 tonnes per year in DR). We outline the following initiatives to address this critical issue:

1. Integrate environmental considerations into agriculture strategy by prioritizing tree crops on agricultural land to encourage reforestation of the Haitian territory and investing in watershed management. Covering a surface area of 100,000 ha, coffee ecosystems represent practically the biggest area of tree coverage in Haiti. The protection of these ecosystems is necessary for the preservation of the environment. Promote alternative sources of energy and eliminate use of charcoal and firewood by
 - Regulating against commercial use of charcoal and introducing a subsidy for alternative sources of energy such as Liquefied Petroleum Gas (LPG) products. This should include a legal framework and regulation to ensure stringent safety norms in the production, distribution and use of LPG cylinders;
 - Creating incentives for use of solar lanterns and solar power for lighting;
 - Expanding electricity at affordable prices;
 - Putting in place and implementing penalties for cutting down trees.
2. Integrate basic techniques against soil erosion into all extension service programs, including radical terracing for hill-side agriculture; planting of cover crops; and, development of gabions in key valleys.
3. Adopting tree replanting programs. Petroleum companies in particular can invest in such programs.
4. Tap carbon credit markets for carbon sequestration through reforestation. This would be attractive for large-scale forests developed, particularly when coupled with timber supply. It also has the potential for additional income for small scale farmers.

Target indicator

- Percentage land forested
- Carbon consumption (tons)

4.2.5. Increase and create incentives for renewable energy sources. We can put in place measures that encourage use of renewable energy resources and increase Haiti's energy security. The reconstruction effort offers an unparalleled opportunity to build green on a large scale. The private sector can launch renewable energy businesses provided the right incentives are in place. To do this we outline the following initiatives:

1. Immediately creating tax incentives for duty-free import of renewable energy technologies, particularly solar energy.
2. Subsidizing use of solar panels and green technology in construction of new housing units, which could potentially be supported by the United Nations Environmental Program (UNEP).

Target indicator

- Percentage of energy from renewable sources

4.3. Pillar III: Health and education

Health

With the lowest healthcare spend in the Western hemisphere and a high rate of disease, Haiti's health system was already stretched and ineffective prior to the earthquake. Yet rebuilding the country is dependent on not only providing immediate health services to earthquake victims, but creating a strong national healthcare system that can ensure a healthy population is available to contribute to economic activity and society at large. With over 80% of health services delivered by NGOs and the private sector, a clear management, governance and regulation system needs to be put in place, one that balances control and standards, with flexibility and innovation in delivery.

Outcome	18 months	3 years	5 years
Incidence of communicable diseases	Rates of air and water-borne communicable diseases have returned to pre-earthquake levels	Rates of air and water-borne communicable diseases reduced by 33%	Rates of air and water-borne communicable diseases reduced by 75%
Infant mortality rates	At pre-earthquake levels	Rate reduced by 20%	Rate reduced by 50%
Maternal mortality rates	At pre-earthquake levels	Rate reduced by 20%	Rate reduced by 50%

4.3.1. Enhance provision of immediate health services to high-need populations. The earthquake has left hundreds of thousands of people in dire need of healthcare services and continuous care for physical and psychological injuries. Prevailing poor and cramped living conditions make the outbreaks of communicable diseases a constant and major threat. To address this urgent need, we outline the following initiatives:

1. Launch an emergency communicable disease surveillance system (Early Warning Alert and Response Network) that monitors, identifies and rapidly responds to disease outbreaks. This should be particularly focused on the IDP camps where water and airborne diseases can spread rapidly, particularly with the impending rain season. A central command and response center that leverages existing infrastructure supporting the camps is therefore required to note any upticks in infections noted, and then able to marshal an appropriate response. A national public health campaign on simple measures of control (e.g., washing hands) should be launched to support these efforts.
2. Implement group methodologies of post-traumatic stress support, given the low number of trained professionals who can conduct one-on-one sessions. Beyond providing required health services to the population, special attention should be given to psycho-social counseling and support to the range of victims. Support will be required to meet the 300,000 injured and 650,000 in shelters today.

3. Provide dedicated support to maternal and child health initiatives such as child delivery and vaccines. Women and children are always the most affected populations as a result of catastrophes such as the earthquake.

Target indicators:

- Surveillance system and number of camps covered
- Number received psycho-social counseling and support

4.3.2. Move from one-off relief efforts to stronger healthcare systems. As the crisis subsides and the multitude of relief efforts fades, the existence of a cohesive healthcare system is critical for Haitians to receive adequate care in the medium and long terms. The GOH needs to begin planning for this transition by focusing on key areas across the healthcare system. We outline the following initiatives:

1. Human Resources for Health – Build Haiti’s health care human capacity:
 - a. Support the expansion of the community health worker model that Haiti has been on the leading edge globally. The model provides critical leverage to existing cadres of health care workers, creates local employment and increases general knowledge of medicine within the community.
 - b. Retain local medication practitioners and re-establish training schools to develop more. Already in an unfavorable position before the earthquake, Haiti will face the dual challenge of brain-drain for its trained medical staff as well as limited training capacity given damage to existing facilities. Funding for these institutions should be a priority, and the private sector could play an important role in developing for-profit models and scholarship programs.
 - c. Develop a certification/verification and oversight capability at the Ministry of health for external medical professionals and organizations coming to practice in Haiti. Ensure that clear efforts are made for knowledge and technology transfer to local Haitians.
2. Financing – Expand health care financing through insurance and private investment:
 - a. Create a health insurance scheme for all Haitians. Begin with a phased roll-out to first include captive sections of the population, (e.g., civil servants) and then expand out to include other populations. Utilize private management to drive cost effectiveness (and thus preventative medicine), quality provision and provider competition, particularly in urban areas. (Note: Rwanda *mutuelles* system may serve as model)
 - b. Develop and pilot test a Pay-4-Performance health model, based on purchasing agreements with providers for achieving minimum coverage rates with quality. The model recognizes the significant proportion of health service provision already being done by non-government entities (NGOs, private sector).
 - c. Increase government budgetary allocation for health to WHO standard 10-15% and use it transparently.

3. Governance: Improve governance by creating a strong coordination mechanism between government which primarily provides oversight and regulations; NGOs and private sector who provide services to the population; and, donors who finance both on- and off-budget health service delivery.
4. Supply chain – Integrate private provision and local manufacturing in supply chains:
 - a. Establish and select private sector delivery and management of medical products, and encourage and give preference to local manufacturers and suppliers of medical products. Private provision will support efficiency.
 - b. Establish government regulation and oversight procedures to ensure quality, access and equity of private provision.
 - c. Develop an aggregation mechanism that allows for consolidated buying of supplies, such as essential medicines. Procurement is currently fragmented amongst government, donors, NGOs and private sector actors, eliminating opportunities for economies of scale and savings for all actors.
5. Infrastructure – Build and establish basic care services with strong referral mechanisms that can escalate cases up to secondary and tertiary facilities. Link facilities with emerging nuclei of economic activities, particularly the industrial parks and economic zones, where private or employee-focused clinics can also serve the surrounding public.
6. Health Information – Building on the early warning system developed in the post-earthquake recovery, extend information gathering and management system. Ensure analyses and recommendations generation at the local level. (Note: Tanzania’s *TEHIP model* may serve as model)

Target indicators:

- Number of community health workers
- Medical practitioners trained
- Population served by facilities

Education

The education sector faced significant challenges even before the earthquake: limited early childhood education available; only half of school-aged children enrolled in classes; and, barely 1% of Haitians attending tertiary schools. Approximately 70% of students fail national tests, and those that pass are not necessarily prepared to be productive participants in the economy. Similar to the health sector, less than 20% of education services are provided by the Government, with the largely unregulated private sector and NGOs dominating.

With children not in schools, the need for action is urgent and immediate. The private sector, donors and public sector must immediately inject financing and contributions to get schools operational and structures rebuilt. Haiti needs to rebuild the estimated 2,500 to 3,000 schools that were damaged. More fundamentally, Haiti must overhaul the education system to increase access and affordability, improve quality and provide a pathway to productive roles in the economy.

Outcome	18 months	3 years	5 years
Access	National student enrollment in primary schools reaches pre-earthquake levels	National student enrollment in primary schools at 75%	National student enrollment in primary schools at 100%
Quality	Number of students passing national exams at pre-earthquake levels	Number of students passing exams at 50%	Number of students passing national exams at 75%

4.3.3. Provide immediate and longer-term access for all students. There is a lack of facilities and infrastructure to get students back in school. Facilities need to be reconstructed or developed, and quickly. Fees are still prohibitive to enable broader student access, particularly girls. We therefore outline the following initiatives:

1. To support reconstruction efforts in the immediate term, identify large-scale prefabricated options that can help the schools re-establish their physical infrastructure. Prioritize and fund rubble removal on former school locations and provide temporary public locations to make land available for temporary schools.
2. Develop a voucher system to improve enrollment and achieve universal basic education. These vouchers – and all other government benefits – should be distributed in the more efficient way possible, namely through a pre-paid card system such as those used in Brazil and India.
 - a. In the near term, the voucher system will provide the basis for a demand-driven approach to getting students immediately back in school. Schools with collected vouchers can receive concessional financing or grants to procure basic supplies and start re-establishing programs immediately.
 - b. In the medium-term, the voucher system will create a competitive market that favors quality schools and potentially reduces cost of education per student, helping to address gender balance. Partial vouchers requiring student and institutional co-pay will maintain performance incentives and allow targeting of least able to pay.
 - c. Local Haitian private sector investment, and possibly management of educational institutions, will help build capacity, improve quality and scale high-performing institutions.
3. In new economic zones outside Port-au-Prince (e.g., the industrial parks), integrate schools as part of the services available to the population.

Target indicators:

- Schools re-established and re-built

- Students in classrooms
- High performing schools expanding enrollment

4.3.4. Improve the quality and oversight of the education system. Haiti's education system requires improving teacher and institutional quality and adding appropriate incentives and accountability. More specifically, we outline the following initiatives:

1. Under the Reconstruction Development Agency, establish an Independent Service Authority (ISA) to set performance standards, evaluate institutions, license institutions and provide direct funding. Student performance on national tests can be tracked to specific institutions providing information on institutional quality. Enforce closure as appropriate, and reward high-performing institutions to support scale and replication.
2. Provide support to improve the teacher training and certification programs, with a focus on rebuilding and improving Port-au-Prince teacher programs.
3. Revisit curriculum and national tests to ensure alignment with country and economic needs. Involve private sector in curriculum review committee.

Target indicators:

- Curricula and tests revamped
- Teachers enrolled in training and certification programs
- School and teacher evaluations performed

4.3.5. Prepare students for economic opportunity. The Haitian economic vision outlines globally competitive industries in agriculture, garments, construction, tourism and eventually business process outsourcing. To meet the needs of those industries will require significant skills, particularly at the middle to upper management ranks.

1. Create vocational institutes as critical parts of each economic growth pole. Fund programs through specific sector tax (e.g., 2% Taxe d'Apprentissage) or through private employers, and develop curriculums in consultation with industry to ensure graduates have the requisite skills to meet job requirements. Locations include:
 - Agriculture satellite programs in Artibonite Valley
 - Garments around North, South and Port-au-Prince industrial parks
 - Tourism school in the North

Target indicators:

- Vocational schools established
- Graduates employed

4.4. Pillar IV: Housing and economic security

The GOH aims by May 31st to have coordinated donor efforts and ensured that each Haitian is living in a very basic shelter (tents, water-resistant tarps, etc). It is of the utmost urgency to move Haitians into permanent – and safer, with the rains and hurricane season approaching – housing, in order to prevent the creation of slums with abject living conditions and to discourage Haitians from remaining in Port-au-Prince. Building housing outside of Port-au-Prince, matched with job creation, is critical for the success of decentralization.

As new housing structures will be one of the greatest asset reserves for most Haitians, constructing clear plans to translate housing into economic security is needed for Haitians to fully benefit from the reconstruction efforts. Creating permanent housing is not just providing shelter but creating an asset that leads directly to the creation of a long-term middle class upon which this vision rests.

Another important strategy for the inclusion of Haitians within the financial system rests on bringing increased numbers into the banking system, and allowing them to develop financial histories. The use of pre-paid card systems for the distribution of any housing benefits can successfully link an increased number of Haitians to bank accounts. Mobile banking solutions should also be encouraged for their significant potential to increase the number of bank accounts at low-cost.

Outcome	18 months	3 years	5 years
Housing provision (with access to basic infrastructure)	100,000 permanent housing units built; 25% of salvageable structures rebuilt	250,000 permanent housing units built; 75% of salvageable structures rebuilt	400,000 permanent housing units built; 100% of salvageable structures rebuilt
Land rights	50% of land parcels have clear titles and deeds	100% of land parcels have clear titles and deeds	100% of land parcels have clear titles and deeds
Ownership	80% of housing units are owned with mortgages	80% of housing units are owned with mortgages	80% of housing units are owned with mortgages
Employment	500,000 jobs in construction	500,000 jobs in construction	500,000 jobs in construction
Regionalization	80,000 units of new housing created outside PaP	180,000 of new housing created outside PaP	250,000 of new housing created outside PaP
Environmental sustainability	20,000 new housing units created with green building features	50,000 new housing units created with green building features	80,000 of new housing created with green building features

4.4.1. Build permanent housing. The goal of the government is to provide safe, secure and plentiful housing for displaced Haitians. After the 150,000 most at-risk are given tents and tarps, and the further

150,000 relocated to the suburban areas of Port-au-Prince, the government will have to provide permanent housing for over 1.2 million people, which is estimated at approximately 250,000 units. Of these, 80% or 200,000 will be low-income housing and will cost approximately \$2B (at \$10,000 a unit). The remainder is estimated at \$1.8B (at \$36,000 a unit). The government will have to pay significant costs in land development and infrastructure provision, and will need donor support in the short term. Besides the cost of housing construction, an additional \$700M is estimated for community infrastructure and \$45.1M for strengthening institutions, providing training and encouraging local firm participation⁴. In order for this housing to be built as quickly and safely as possible, we outline the following initiatives:

1. Establish clear land rights and adjudication system (as outlined in section 4.1.5).
2. Work closely with private landowners to get housing development initiated. Establish fair value, but immediate transactions for government to take ownership and develop public housing and create tax and financing incentives for private development, with a requirement for mixed middle class housing and public-subsidized poor housing. With limited government-owned land near Port-au-Prince, it is a priority to get land ready for housing development.
3. Establish building codes that correlate to the seismic and hurricane-prone conditions of the country to ensure safe housing, adopting the codes from countries facing similar conditions in order to speed the process. Additionally, ensure the code incorporates “green” environmental sustainability.
4. Identify the builder of record when giving land titles, construction permits or mortgages. Builders should be held accountable for the quality of construction with clear penalties for violating construction code. A government corps of inspectors should be charged with enforcement.
5. Offer incentives to build in an environmentally sustainable way. Incentives might include: (a) preferential financing terms; (b) import duty exemptions; and /or, (c) subsidies financed by donors, possibly OPIC and the EXIM bank.
6. Reduce transaction costs associated with notary and other fees, which are currently set as a percentage of total transaction, and place a cap on the maximum amount.

Target Indicators:

- Number of permanent housing units created
- Number of housing titles with clear ownership distributed

4.4.2. Redraw the map of Haiti with housing matching job creation. Although the nearest-term priority for housing revolves around the immediate at-risk populations in Port-au-Prince and those displaced, the foundations for decentralization should be laid with housing as soon as possible. To this end, we outline the following initiatives:

⁴ Competitiveness Working Group costed initiatives include building advocacy capacity of AHEC (\$350K), subsidizing memberships in regional and international associations (\$100K), upgrading capacity of technical schools (\$1M), providing vouchers for training school (\$10M), encouraging OTJ training through strategic subcontracting (\$5M), putting in place a financial guarantee fund and reducing bonding requirements (\$25M), establishing equipment leasing program (\$500K), small businesses set asides (\$100K), requirements for local firms and labor (\$100K), FDI campaign to attract specialized anchor firms (\$500K), development of zoning plans (\$1.5M), elaboration of construction standards and norms (\$250K), “Haiti home” design competition (\$250K).

1. Require that permanent housing be constructed in the new industrial zones in the north and south, and outside of Port-au-Prince as they are developed, and reduce taxes for companies willing to build housing for their workers. The private sector can play a role in providing housing for employees and planning for that housing in tandem with business-related developments.
2. Provide financial support to those Haitians who have taken in displaced people from Port-au-Prince, and provide the internally displaced persons with access to permanent housing in the regional cities and provinces as it is rolled out.

Target indicators

- Number of housing units outside Port-au-Prince created

4.4.3. Build a functioning mortgage market for the middle class. Housing will likely be the most significant asset for the majority of Haitians. Developing financing mechanisms for as many Haitians to access housing as a home-owner should be a top priority. With 65% of Haitians paying either mortgage or regular rent before the earthquake indicates that a majority of the population may be able to participate in housing financing schemes, if constructed appropriately. In order to make this a reality, we outline the following initiatives:

1. Establish the fundamentals for a mortgage market: clear land titles, simple and further reduced-fee registration procedures, enforced build codes and regulated insurance providers.
2. Initiate government-led or public-private partnerships to develop properties, including land development, basic infrastructure, roads, water and sanitation.
3. Provide financial products, and potential guarantees financed by donors and GOH bank for mortgages, for the middle class, lower-middle class and civil servants who can take on a partial mortgage.
4. Develop, in consultation with the commission of engineering and financing experts, a menu of prefabricated, expandable housing choices (ranging from a 14 square meter structure costing 14,000 USD to a 2 bedroom, 43 square meter house costing 30,000 USD with additions possible). Develop associated mortgage plans for the middle classes to choose from to finance these houses.
5. Encourage Diaspora investment in new housing units by (a) changing the law to allow ownership (Noted in Pillar 5 below); and, (b) creating financial products in the US (through international banks or Haitian banks with a U.S. presence) to secure local mortgages for families with limited current assets or payment ability.

Target indicators

- Number of new mortgages issued
- Amount of Diaspora investment attracted

4.4.4. Create ownership opportunities for the poor. A significant number of Haitians have lost their homes, assets and livelihoods. Any housing program will require developing publicly-supported options for those who have limited or no potential for current payment. Nonetheless, where possible,

ownership and some payment should still be a priority to ensure maintenance of buildings, create economic opportunity and more broadly preserve the integrity of a housing market. Monthly financing of an \$8,000 unit amortized over 20 years with zero interest rate amounts to \$33 a month, or 33% of the monthly revenue of a family with minimum wage earnings of \$5 a day. We outline the following initiatives:

1. Create clear rules, incentives and financial arrangements for availability of subsidized housing. Priorities should include: minimizing distortion in the housing and mortgage markets, creating incentives and requirements for private development of mixed middle and lower class housing; setting fair financial arrangements with a focus on ownership; and, avoiding conflict with the rural poor who may have been displaced by previous disasters and seek government-financed housing. To ensure appropriate integration of middle class and social housing, developers can reserve a portion of land allocated to each housing development project to social housing supported by government subsidy.
2. Secure donor commitments to finance the construction of permanent shelters for those who cannot afford their own. Where land is available, most likely outside of Port-au-Prince, develop 1 room, pre-fabricated houses, which have the ability to be expanded at a later date. As Port-au-Prince is rebuilt, develop multi-story, multi-family buildings.
3. Provide opportunities for home ownership recognizing current financial position of potential occupants:
 - Provide housing for those currently unable to pay, but track occupants and establish a reasonable monthly payment in a lease-to-own model when a source of income is identified, either through remittances or a job.
 - Allow the option for residents to assist in the construction of pre-fabricated homes – assembling structures under the supervision of a construction company – in exchange for a down-payment or full ownership.
4. Create a rental voucher system for housing outside of Port-au-Prince. Monthly vouchers, in full or partial, will create incentives for decentralization and stimulate private development for rental properties. Similarly to education vouchers, housing vouchers should be distributed through a pre-paid card system linked to a bank account to ensure maximum efficiency and bring more Haitians into the banking system.

Target indicators

- Percentage of most vulnerable housed
- Percentage of most vulnerable on track to ownership (with payment plan or lease-to-own program)

4.5. Pillar V: Governance and institutional capacity

Successful and effective reconstruction will require the legitimacy and support of the people. More broadly, it will require a well-functioning civil society and set of institutions. Haiti has made considerable progress and a solid commitment to free and fair elections. Yet, political stability and security, supported by MINUSTAH, is at risk of eroding after the earthquake. The government has lost an estimated 10% of civil servants, as well as a significant amount of the physical government buildings. The fiscal revenue base needed to administer the government has disappeared as well.

Despite these challenges, there is a unique opportunity to fundamentally reform the relationships and dialogue that underpin our society. We believe that it is critical that a **New Social Compact** emerge that broadly involves government, civil society, and the private sector – from the large businesses to the informal traders – across Port-au-Prince and throughout the country. At its core, the New Social Compact will support free and fair elections, free enterprise and a commitment to individual political and economic freedom. Only then will we be able to have the mutual trust, respect and dignity to create a society with government accountable to the people, and a private sector serving the people.

Outcome	18 months	3 years	5 years
Elections	Free and fair elections	NA	NA
Fiscal Revenue Base	9% of GDP	12% of GDP	15% of GDP

4.5.1. Commit to elections and political stability. The earthquake has created significant electoral challenges. Voters have been displaced, finding themselves in new electoral zones, and many have lost their voting cards. The registration process has been disrupted and new voters turning 18 have not been added to the voter roll. Nonetheless, while the earthquake has delayed parliamentary elections, we believe it is imperative to maintain free and fair elections in a timely manner. Presidential and Parliamentary elections should proceed in due course, with MINUSTAH support, by the end of 2010 or at the latest by early 2011.

More specifically, we outline the following initiatives:

1. Build a general consensus in the country to avoid creating a provisional government, and specifically to refrain from government decrees and to avoid impeachments of ministers before elections.
2. Fund and reconstitute the Electoral Council to immediately begin preparing for elections.
3. Hold election by the end of 2010, or at the latest by early 2011, using pragmatic means for a free and fair election:
 - a. Allow voter registration where voters currently reside, in order to accommodate displaced persons.
 - b. Provide a provisional voting card to be collected at polls.
 - c. Use finger dye to ensure integrity of vote.

4.5.2. Expand the fiscal revenue base. In order to move from aid dependence and provide the public services required to achieve our vision, Haiti must develop a sustainable fiscal revenue base that is broad, fair and equitable. Currently, the fiscal revenue base is 9% of GDP, when a reasonable target is estimated at 16-18%. To achieve this target will require a renewed climate of accountability and transparency from both the government and the private sector. This mutual accountability should be centered around the private sector's commitment to full tax compliance and the government's commitment to meeting minimum service levels and managing budgets, decision-making and funding in full transparency.

To fulfill that commitment, we outline the following initiatives:

1. Immediately reconstitute revenue collection with the capacity to administer, collect and enforce appropriate taxes and duties, potentially creating an e-payment system which channels payment of taxes through private banks to the BRH.
2. Initiate a new tax contract between government and the private sector. The plan should be guided by the following principles: creating a level playing field, ensuring no unfair competition, providing an appropriate and specific time period for adjustment, and managing fiscal obligations transparently and responsibly. In order to achieve full compliance and an expanded fiscal revenue base within 5 years, a special monitoring procedure with penalties for non-compliance, as well as a program to support formalization of businesses, should be instituted.
3. Reduce corporate income tax level from 30% to 20% and create a flat tax rate. Lower taxes will stimulate more investment for job creation and economic growth, and a simpler tax code will improve declaration, enforcement of taxes and allow the significant current cost of preparation to go to the government.
4. For SMEs, where feasible, provide estimated taxes based on revenue or product sales in order to begin to encourage a culture of compliance and commitment to government support.
5. Reduce the gap between imports across the Dominican Republic border and duties collected, currently at an estimated 20%, through revamping customs administration and collection.
6. Set, monitor and make public government service levels, possibly through a website. Public awareness of improved service levels, particularly in health and education, will improve private sector commitment and confidence in expanding the fiscal revenue base.

4.5.3. Build a modern government and increase administrative capacity. Building a modern government requires both fundamental legal reform and increased administrative capacity to serve a new Haiti. We outline the following initiatives:

1. Fund and support Parliament in order to increase the public discourse and deliberation over specific proposals. Funding should be allocated to:
 - Provide technical support to Parliament in order to conduct technical research on issues;
 - Provide frequent, public hearings, including make sure they are public accessible through television and other media;

- Allow testimonies to provide open dialogue with the public; and,
 - Support independent think tanks and institutions to submit reports and briefs to parliament.
2. Recognizing that a comprehensive constitutional reform is a significant undertaking, focus on building a general consensus around two specific issues:
 - Allow dual citizenship to enable voting, elections and land ownership and more broadly, to bring the resources and expertise of the Diaspora back to Haiti.
 - Change the electoral cycle to every 5 years instead of every 2 years, in order to enable the elected to fulfill their roles appropriately and with continuity, and to reduce expenses.
 3. Reform and rethink government to focus resources and improve services. Specific actions include:
 - Consolidate and refocus ministries where appropriate.
 - Institute a Results-Based Management initiative in critical ministries, setting clear service level targets and holding leadership and staff accountable.
 - In exchange for Results-Based Management, increase pay and training to make civil service a more attractive and professional career path. Involve the private sector, civil society and donors in defining, delivering and financing the training of civil servants to create regular interaction points and learning opportunities.
 4. Decentralize government functions, such as the Central Bank and Revenue Authority, to match the new regionalization of Haiti. In particular, increase the resources and capacity of the local Delegates.

4.5.4. Create opportunities for sustained public-private dialogue and collaboration. A New Social Compact must have a commitment to accountability and transparency from government, civil society and the private sector. Sustained dialogue will be a critical part of building that trust. Dialogue can be reinforced by specific opportunities for collaboration and working together. We outline the following initiative:

1. Representation on oversight boards. Where possible, government and the private sector should serve together on oversight boards of public organizations, including among others:
 - Social Security: private sector to represent their contributions to their employees' pensions.
 - Regional Development: private sector to contribute investment expertise in the economic development poles.
 - Independent Service Authorities (ISAs) for health and education: private sector to provide oversight.

4.5.5. Govern the reconstruction responsibly and effectively. We support the creation of the Interim Haiti Recovery Commission (IHRC) and the Haitian Development Authority (HDA), as proposed by the international community. We believe the following principles are important guidance for the final governance and organizational design:

- Haitian ownership and leadership
- Legality under Haitian law and constitution
- Broad representation, including the private sector
- Regionalization, not just nationalization
- Sustainability of efforts beyond the donor response
- Focused donor efforts not broad efforts
- Capital and risk sharing between public and private sectors

With these principles as guidance, we outline the following considerations for the governance, organization and operation of the IHRC and HDA:

1. Private sector representation on the board
2. Multi-donor trust fund managed by trusted international institution
3. Mandate to include:
 - a. Land adjudication;
 - b. Solicitation of managed contracts for critical infrastructure with national and international bidders; and,
 - c. Oversight of health and education private providers through Independent Service Authority (ISA);
4. Establishment of Regional Development Authorities – consisting of local Delegate, local chambers of commerce, private sector, civil society and donors – as advisors to IHRC board and local administrator of HDA;
5. Upon end of mandate, transition HDA to Autonomous Economic Development Agency to continue coordinated national and regional planning and implementation of government policy.

5. Roadmap

5.1. Integrated projects in proposed economic growth poles

Building back a better Haiti will require significant investment in infrastructure. The core of this infrastructure investment should be allocated to building the three new Economic Growth Poles in addition to rebuilding and reviving Port-Au-Prince.

Outlined below are initial estimates for the core infrastructure investments required to build a decentralized and competitive new Haiti. These are based on very preliminary estimates for investment by stakeholders involved in each sector, and do not reflect detailed feasibility studies. These investments also do not address the significant investments required in national programs – including health, education, institutional reform, SME investment and guarantee funds – necessary to support Haiti’s reconstruction and development.

The infrastructure investments outlined below have significant investment and economic return potential. Many of the investments may be driven by private investment with public participation or risk mitigation; the most significant of which, housing, may have returns from individual mortgage or rental income. Together, these investments create a new Haiti with strong potential for economic growth and significant job creation.

5.1.1. Northern Economic Growth Pole

Forming a triangle between Labadie, Ouanaminthe and Port-au-Prince, the Northern Economic Growth Pole has significant potential to support rapid economic growth and employment focused on Agriculture, Tourism and Garments. There is the potential to create more than 100,000 jobs and improve the livelihoods of hundreds of thousands in agricultural supply chains. Investment required is estimated at over \$1.8B, not including the basic service delivery that must accompany the economic development investments.

More specifically,

- To the South and West of Cap Haitien exists a tremendous tourism potential around the Labadie beach resort – leased and managed by Royal Caribbean Cruises – and the proximate UNESCO World Heritage Sites located within the National History Park. These resources have the potential to attract 1 million visitors per year generating thousands of jobs in tourism and related cultural, music, dance, art and artisanal areas.

- On the road between Cap Haitien and Port-au-Prince lie some of Haiti’s most fertile lands within the Plateau Central, with the mid-point located 3 hours away from either end-point. Commercial farming operations and greenhouses can be developed in the Plateau Central for both export and domestic markets. Potential employment and improving livelihoods estimated in the hundreds of thousands in agricultural supply chains.
- The area East of Cap Haitien and through to the border with the Dominican Republic is well-suited for the expansion of the garment industry, which currently employs just 10% of the total quota allowance under HOPE II (25,000 in 2009 versus a potential 250,000). An existing industrial park investment located in Ouaname can be expanded and a new industrial park added in the North. The Competitiveness Working Group estimates that 120,000 new jobs can be created in the garment industry over the next 5 years with a \$257M investment⁵. The majority of these new jobs can be housed in the Northern Economic Growth Pole to leverage synergies with Tourism and Agriculture.

The following table summarizes investments needed for the development of the Northern Economic Growth Pole, estimated at more than \$1.8 billion.

Investment requirement	Estimated investment
<i>International airport</i> In Cap Haitien to serve both tourists and cargo, particularly back-haul of perishable agriculture on passenger flights. Runway of 3,000 meters to allow long haul flights to take off.	\$35M
<i>Deep-water port</i> At Fort Liberte with license and capability to handle containers	\$140M
<i>Industrial park</i> Investment in Fort Liberte on government land	\$140M
<i>Energy investment</i> Near Industrial Park	\$20M
<i>Construction of gravel road</i> Linking Labadie to Milot and the Citadelle via Acul du Nord, with a dock at l’Acul du Nord	\$1M
<i>Renovation of road</i> Between Labadie and Cap Haitien [Assumes 100,000 per km for 10 km for gravel road]	\$0.7M
<i>Development of the National History Park</i> With modern facilities to accommodate large numbers of visitors	TBD
<i>Housing development</i> For 100,000 units around industrial zones and tourism, including 80,000 low-income units [Assumes 80,000 units at \$10,000 each and 20,000 units at 36,000 each]	\$1.5B

⁵ Competitiveness Working-Group costed investments include: 3 new industrial parks including investment or operating incentives (\$300M), re-build existing firms, and covering losses (\$36.8M), supporting the establishment of full-service product development firms, such as TC2 or Astralis (\$5M), establish 2 new training institutes capable of training 200-400 persons every 8 wks, possibly with Senai-CetiQ (\$10M), re-opening CHF / USAID training institute, launching a full-scale marketing campaign to attract business to Haiti (\$5M over 5 years), improve laws regarding truck transit from DR to Haiti (\$150k), revising labor laws to allow for more flexibility with shifts (\$150k).

Wholesale market and related investments Central hub located near Fort Liberte Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation and information networks).	TBD
Irrigation, rural infrastructure, and watershed management projects In Plateau Central, particularly around road between Cap Haitien and Port-au Prince [Assumes 20% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 20% of total watershed management costs estimated at ~\$250,000 by IDB]	\$20M

Some of these investments have already been funded and are under development. For example the road linking Labadie to Milot and the Citadelle is being built by CHF and MarChE, with USAID funding, and is expected to be completed by summer 2010. But all outlined investments must take place in order to take advantage of the significant synergies offered by the combination of the agriculture, tourism and garment clusters in the Northern economic growth pole.

5.1.2. Artibonite Valley and Saint Marc Peninsula Economic Growth Pole

The Artibonite Valley and Saint Marc Peninsula offers the potential to transform Haiti's Agricultural production as well as create thousands of jobs in the Tourism industry. Investment required is estimated at over \$300m, not including the basic service delivery that must accompany the economic development investments.

More specifically:

- The Artibonite Valley is Haiti's breadbasket as well as the most protected from natural disasters due to the distance from the Northern and Southern fault lines and protection from hurricanes. Successful agricultural development in this area can ensure that the fertile lands of the Artibonite achieve their potential yields in production of staple crops such as rice, maize and potatoes, and improve rural livelihoods.
- The Saint Marc peninsula offers pristine beaches just 75km from Port au Prince.

The table below summarizes some of the primary infrastructure investments needs for the development of the Artibonite Valley and Saint Marc Peninsula Economic Growth Pole.

Investment requirement	Estimated investment
Expansion of road From Port au Prince to Saint Marc to 4 lanes. [Assumes \$1M per km on 100km stretch]	\$100M
Housing units 10,000 units related to tourism and agro-business [Assumes 8,000 units at \$10,000 each and 2,000 units at 36,000 each]	\$152M
Irrigation, rural infrastructure, and watershed management projects	\$50M

[Assumes 50% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 50% of total watershed management costs estimated at ~\$250,000 by IDB]	
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5.1.3. Southern Economic Growth Pole

The Southern Economic Growth Pole centered around Les Cayes has the potential to support rapid economic growth and employment Agriculture, Tourism and Garments. There is the potential to create more than 50,000 jobs and improve the livelihoods of hundreds of thousands in agricultural supply chains. The initial investment is estimated at over \$1.1B to \$1.4B (depending on transshipment port), not including the basic service delivery that must accompany the economic development investments

More specifically:

- The Les Cayes area benefits from land availability and significant rainfall of 2,000mm per year, and has been one of the leading areas in Haiti for the production of premium coffee, maize and fruit. The area around Jeremie is one of the few with agricultural surplus in Haiti, but currently isolated from national infrastructure that would allow effective transfer of surplus to consumption centers.
- Strips of non-stop world-class beaches to the South of the Peninsula, including a 20km strip between Aquin and Cote de Fer could attract hundreds of thousands of visitors and offer an extension of the cultural tourism offered in the North and an add-on for visitors of Port-au-Prince.
- The South may offer the highest potential for a trans-shipment port given the limited deviation from neighboring countries, which would drop rates and provide a strong advantage in terms of industrial development. An economic export zone with 1 one or 2 industrial parks could employ 50,000 or more in the garment industry around Les Cayes.

The table below summarizes some of the primary investments needs for the development of the Southern Economic Growth Pole.

Investment requirement	Estimated investment
Deep water port At Baie du Mesle. Possibility of a trans-shipment port with significant benefits to local shipping costs and job creation.	\$140M [\$400M]
International airport Near Les Cayes, including extension of runway from 1,000 to 3,000 meters.	\$75M
Industrial Park Investment near Les Cayes. Location to be determined	\$100M
Energy investment Near Industrial Park	\$20M
Housing development	\$760M

50,000 units around industrial zones, tourism and agri-business. [Assumes 40,000 units at \$10,000 each and 10,000 units at 36,000 each]	
<i>Gravel roads</i> Between Jeremie and Miragoane to link areas with agricultural surplus with national and export infrastructure [Assumes \$100,000 per km for 250km]	\$25M
<i>Wholesale market and related investments</i> Central hub located near Baie du Mesle Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation and information networks).	TBD
<i>Irrigation, rural infrastructure, and watershed management projects</i> [Assumes 20% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 20% of total watershed management costs estimated at ~\$250,000 by IDB]	\$20M

5.2. Sequencing of initiatives and investments

A successful Haiti in the long-term depends on swift and coordinated action in the short-term. While the outcomes of the proposed strategies have been split into 18 month, 3 year and 5 year horizons, government and private sector action must take place much more quickly to make these outcomes a reality. Because many of the recommended initiatives are interdependent and will take time to take effect, we've sequenced the priority actions that must be undertaken in the next 3, 6 and 12 months. In principle, the immediate priorities must be job creation and financing the entities that make that possible. After business has been initiated, planning for and financing the next wave of investment that will lift the Haitian economy in the long-term will become the focus.

Investment in the Economic Growth Poles will also need to be sequenced to ensure that job creation can rapidly be generated beyond construction, with immediate jobs created in agriculture and targeted investments to ensure that jobs in garments and tourism can be created within the next 1-3 years. The Northern Economic Growth Pole should be prioritized as an integrated package since it has the highest potential for job creation across all sectors, as well as existing infrastructure to build on. Investments in the Artibonite, where costs are lower, should also be initiated to ensure job creation in agriculture. The Southern Economic Growth Pole can begin with investments to better link with Port-au-Prince, while the full package of investments in ports and airport can follow later.

5.2.1. Three months

The only way for decentralization to occur, normalcy to return and the economy to recover is to prioritize all actions leading to job creation and satisfying immediate human needs. If we as a country do nothing else, we must accomplish the initiatives laid out in this section.

1. Job creation rests on helping businesses recover immediately so that they replenish inventories, rehire workers, and stimulate the economy. Immediate priorities are:

- (i) Keep loan capital flowing to existing SME through immediate set up of guarantee, insurance payouts and recapitalizing banks
 - (ii) Recapitalize and distribute microfinance to MSMEs and individual entrepreneurs as rapidly as possible
 - (iii) Pass legislation that allows for immediate job creation, such as the 3x8 legislation that will expand garment employment
 - (iv) Facilitate foreign direct investment in turn-key garment industrial parks, supporting private transactions as necessary
2. Food security must be linked to the immediate humanitarian efforts as a way to keep the agricultural market functioning, and anchor displaced people and the rural communities outside of Port au Prince.
- (i) Finalize arrangements with WFP to integrate food production into humanitarian efforts
 - (ii) Provide immediate financing for inputs in order to stimulate production through grants or microfinance institutions
3. In health and education, the spread of disease must be stopped and a return to normalcy for Haitian children prioritized.
- (i) Put in place the health Early Warning Alert and Response Network to better manage disease outbreaks
 - (ii) Provide immediate post-disaster medical services, including counseling and vaccines for women and children
 - (iii) Re-open schools immediately, providing supplies and temporary public land; prioritize and fund rubble removal at schools; initiate immediate rollout of the voucher system in order to create demand-driven approach to re-finance schools and maximize enrollment as soon as possible
4. Construction and housing will be a major short-term effort as an engine of job creation and decentralization. As long-term housing in the regions will coincide with the medium-term creation of industrial zones across the country. Immediate priorities are:
- (i) Undertake demolition and rubble clearing in Port au Prince, continuing the work-for-food programs
 - (ii) Establish fair value, but immediate transactions for government to take ownership of land for housing; provide private land concessions for commercial farming expansion
 - (iii) Facilitate private financing and management to bring the port serving Port au Prince back online as quickly as possible to facilitate import of construction and other material
 - (iv) Construct labor-intensive feeder roads that align with the planned economic growth poles in the North and Artibonite
5. Finally, executing on these priorities require immediate governance changes.
- (i) Create the Interim Haiti Recovery Commission (IHRC) as well as Regional Economic Development Boards to start planning and investment in each region

- (ii) Rebuild the Revenue Authority to begin rebuilding the fiscal revenue base
- (iii) Reconstitute and fund the Electoral Council to enable elections by end of 2010 or latest, early 2011
- (iv) Establish special adjudication court for land rights with a focus on addressing large tracts for economic development opportunities

5.2.2. Six months

As the economy begins to recover with short-term initiatives, the government must begin the hard work of planning for the future, and constructing the enabling environment for investment to flow into the country. Land rights need to be addressed more broadly for home ownership and human capital investments need to be made.

The Regional Economic Development Boards must turn their attention to planning the industrial park in each economic development zone, with an emphasis on bringing the North online as quickly as possible. Priorities include:

1. Ensure a cadastre is created and land is available and titled; and adjudication court is operational, with specific emphasis on agricultural land and industrial parks
2. Finalize planning and feasibility studies for large infrastructure investments for each region as outlined above (i.e., ports, airports, etc)
3. Start farmer cooperative and organization development
4. Initiate turn-key Pay-4-Performance health models to fill current service gaps
5. Begin training of community health workers and teachers
6. Establish Independent Service Authorities for health and education with the mandate to begin the creation of systems, coordination and oversight
7. Begin the construction of permanent urban housing

5.2.3. Twelve months

In the six to twelve months after instituting the recovery plan, training and planning should be nearly complete, and the focus should be on executing investments and human services projects. The government must make sure financing is available for all medium and long-term initiatives, so plans can be realized and investors successfully attracted.

Major initiatives to be pursued in this execution phase are:

1. Create financial, land and import duty incentives to spur mid-level housing development and initiate decentralized low-income housing developments.
2. Prepare bidding for managed contracts of critical infrastructure (i.e., energy, ports, airports and potentially specialized customers collection processes)
3. Make financing available for targeted agricultural value chains

4. Create incentives for renewable energy and tree planting
5. Initiate construction of housing units in line with industrial park plans in the regions
6. Ensure mortgage programs and guarantees are in place to encourage home purchase and equity creation
7. Hold a national election to ensure legitimacy and that there are no legislative bottlenecks
8. Make funding available for building a modern government with Parliament support

Annex 1: Speech by Mr. Francois Guillaume Jr., Executive Director of Haitian-American Chamber of Commerce of Florida at *Etats Generaux due Secteur Prive*

The Haiti Earthquake of January 12, 2010 brought to global attention a broken social system brought to its knees by a natural disaster. We, as members of the Haitian Diaspora having attended the Sustainable Haiti Conference in Miami which occurred on March 17th to March 19th, present the following resolutions and framework of principles to the Private Sector Economic Forum's Vision and Roadmap, and seek your collaboration in our mutual goal to achieve long-term, sustainable growth in Haiti.

Haiti, an unthinkable unfortunate victim of the earthquake, has also suddenly entered a narrow window of amazing opportunity as it begins its efforts to rebuild all aspects of Haitian life. We are positioned to become a cutting edge model of environmentally sustainable innovation supporting the prosperous rebuilding of urban and rural Haiti, focusing on sustainable infrastructure and meeting the needs of all Haitian citizens. Also, Haiti has an opportunity to be a competitive, international partner in the development of environmentally sustainable technology, including innovations that address the needs for energy, food security, health care, housing, education and clean water and air.

In order to manifest this vision, we commit to collaborating on the following resolutions that were expressed during the Sustainable Haiti Conference:

1. Focus on the development of Entrepreneurship and investment in local ideas and the creation of Haitian infrastructure.
2. Involve the many diverse voices of Haiti in the creation of a new Haiti, especially the small farmer private sector.
3. Provide mentorship and support to local young entrepreneurs where needed.
4. Create a Haitian Diaspora Fund with lending practices that make Haitian businesses viable quickly and with minimal debt.
5. Develop formal job creation initiatives as a means to sustainable job growth and the enhancement of a viable tax-base for the government.

Further, we choose to achieve these resolutions using the following framework of principles:

1. Transparency and Accountability of stakeholders, the Haitian Diaspora, international donors and Haitian private and public sectors.

2. Inclusion and participation of Haitian-American organizations in the manifestation of the above resolutions.
3. Partnership with private Haiti-based firms.
4. Awareness and acknowledgement of government and private sector reconstruction plans.
5. Sustainability as a basic requirement for all projects.
6. Ongoing communication and engagement between all stakeholders who will remain engaged in this creation of a new Haiti.

We must seize this moment because it provides the opportunity to address a “Triple Bottom Line” of economic profit, social equity, and environmental preservation for Haiti. In supporting our beloved Haiti to become the best possible version of itself, we have the opportunity to honor our lost loved ones, and to provide hope and comfort to our surviving fellow Haitians.

On behalf of the Haitian-American Chamber of Commerce of Florida and the Diaspora as a whole, please receive the assurances of our highest consideration.

Annex 2: Speech by Mrs. Yanick Mezile, President of the Federation of Small and Medium Enterprises at *Etats Generaux du Secteur Prive*

Son Excellence Monsieur René Préval, Président de la République
Son Excellence Monsieur le Premier Ministre Jean Max Bellerive
Mesdames et Messieurs les membres du Gouvernement
Distingués Sénateurs et Députés membres du Corps Législatif
Monsieur le Dr RÉGINALD Boulos, Président de la Chambre de Commerce et d'Industrie d'Haïti et
Coordonnateur du Forum Economique du secteur Privé
Mesdames s et Messieurs les représentants, Présidents et membres des différentes Chambres de
Commerce, Associations et Organisations Patronales,
Mesdames et Messieurs les membres de la Fédération Haïtienne des Petites et Moyennes Entreprises
Mesdames, Mesdemoiselles et Messieurs,

S'il est vrai qu'en ce jour du 21 Mars, je me sens flattée et honorée de prendre la parole devant cette auguste assemblée, je n'en suis pas moins affligée par ce terrible séisme qui a frappé en plein cœur la capitale économique de notre pays. Ma présence ici devrait témoigner de la volonté du secteur privé haïtien, dit formel, d'ouvrir ses rangs, sans exclusion, au secteur des Petites et Moyennes Entreprises.

Déjà fragilisée par le passage en août 2008 de ces trois ouragans, Gustave, Anna et Ike, qui ont affecté plus de 165.000 familles, laissant derrière eux un bilan consolidé faisant état de 793 morts, 548 blessés et 310 disparus, Haïti devait le 12 Janvier connaître un autre fléau dont le nombre de morts s'évalue déjà à plus de 250 mille personnes.

S'il est vrai que le bilan des désastres enregistrés lors du passage de ces trois cyclones avait été évalué à 897 millions de dollars US, soit 14, 6 % du Produit Intérieur Brut du Pays, aujourd'hui nous parlons d'un refinancement de l'économie nationale au plus bas mot à hauteur de 14 milliards de dollars américains.

Dans cet ordre d'idée, nous avons au niveau de la Fédération des Petites et Moyennes Entreprises suivi avec un grand intérêt les travaux réalisés par le Forum Economique du Secteur Privé, entité à laquelle nous appartenons aussi grâce à notre affiliation à la Chambre de Commerce et d'Industrie d'Haïti (CCIH). Nous avons compris combien, conscient de sa mission, le Forum a entrepris de procéder à une large consultation des différentes associations et chambres de commerce avant de présenter au gouvernement un plan qui pourrait nous conduire à bon port.

C'est d'ailleurs pourquoi nous appuyons sans réserve cette initiative qui ne peut et ne saurait avoir que des retombées positives sur notre économie.

Nous appuyons d'autant plus cette démarche que le secteur qui a été le plus touché par cette catastrophe est celui des Petites et Moyennes Entreprises déjà décapitalisée avant ce séisme par l'absence de structures facilitant les crédits à des taux simulables aux crédits bancaires traditionnels aux Petites et Moyennes Entreprises et la limitation des capacités de risque par les organismes bancaires existants. Cette absence de facilité de crédit s'ajoute à la limitation des programmes de formation pour nous, entrepreneurs comme tous les autres, mais marginalisés par des conditions de travail difficiles, en témoigne l'état de d'insalubrité et le manque de sécurité au niveau de nos marchés publics.

Depuis plusieurs années, nous dénonçons le principe permettant de surévaluer le montant des marchandises en douane appelé principe de la valeur en douane de Bruxelles. Aujourd'hui, sans crier gare, la catastrophe naturelle est venue nous frapper de plein fouet au cœur même de nos activités.

Cependant, si nous avons été si violemment atteints, notre esprit d'initiative et de combat n'en est que plus vivifié. Comme disait Corneille dans le Cid : A vaincre sans péril on triomphe sans gloire. Aussi, ce défi nous exhorte à nous resserrer les coudes et à engager ensemble ce combat qui est désormais le nôtre, ensemble entre nous, ensemble avec nous.

Face à cette globalisation des marchés qui transforme tout pays en un vaste marché, il est important que leurs agents économiques et plus particulièrement les membres du secteur des affaires s'unissent en un seul front pour pouvoir répondre de manière optimum à l'offre et à la demande sur le marché international.

Je me refuse à appuyer les motifs de cette unité sur le fait que la décapitalisation de la Classe Moyenne si elle n'est pas refinancée de manière responsable ne peut conduire qu'à la faillite économique de notre pays. Mais je préfère aujourd'hui parler d'un nouveau contrat social où l'on ne parlera plus du Secteur des Affaires composé de membres du secteur formel et informel, mais d'entrepreneurs à chiffre d'affaires importants et moins importants.

Bien sûr, cela va exiger des efforts d'organisation et de formalisation du secteur dit informel. En ce sens, je suis heureuse de vous informer que, grâce à la collaboration dont fait montre la Chambre de Commerce et d'Industrie d'Haïti, la Banque Interaméricaine de Développement a accepté de financer un projet visant au renforcement de la Fédération Haïtienne des Petites et Moyennes Entreprises et à l'identification de ses membres à hauteur de 284 mille dollars américains.

Suite à ces efforts, et conscients des défis qui nous sont lancés, nous voulons espérer que tout sera mis en place pour permettre aux institutions financières, moteurs de développement de toute économie, de mettre en place des facilités de crédit dans des conditions et termes acceptables favorisant l'expansion de nos activités et l'épanouissement de nos entreprises qui auront rejoints alors, sans discrimination le secteur des affaires. La baisse des taux d'intérêt qui freinent nos activités constitue la pierre angulaire de nos exigences. Suivant à une étude préliminaire réalisée par l'USAID, il semblerait que qu'au niveau du secteur des petites et moyennes entreprises seulement il y aurait des besoins de financement à

hauteur de 770 millions de dollars contre plus de 47 milliards de dollars pour tous les secteurs confondus.

Le fonds de garantie, proposé par la BRH ET LE Ministère de Finances, et les ajustements appropriés portés aux règles prudentielles devraient permettre aux banques commerciales de s'ouvrir aux Petites et Moyennes Entreprises sans augmenter les risques pour les institutions financières haïtiennes. Bien entendu, une politique fiscale réduisant le barème de l'impôt sur le revenu ainsi qu'une politique d'investissement clairement définie par le Gouvernement en la circonstance, devra favoriser la formalisation de ces PME.

Comme vous le comprendrez tous le défi est ici de taille et il est de notre devoir de laisser nos différents, nos objectifs personnels, et faire en sorte que le bateau arrive à bon port. Je laisserai ici le soin à tous nos grands techniciens de débattre de la complexité des problèmes à résoudre et d'y apporter des solutions adéquates c'est à dire au bénéfice du plus grand nombre.

Je tiens à leur dire qu'ils sont le pilier de notre nouvel Haïti. Nous sommes ici la porte parole non seulement de ces nombreuses associations affiliées à notre Fédération mais aussi de toutes ces familles qui ont été décapitalisées et qui se retrouvent à présent sans emploi, sans abri et sans perspectives pour demain. C'est pourquoi je vous le demande, chers techniciens, de garder à l'esprit la portée et la dimension de la mission qui vous est confiée aujourd'hui. N'oubliez pas que vous êtes l'appui sur lequel se reposent l'espoir et le rêve de toute une Nation. Aussi je vous dirai : Hatez vous dans votre tâche mais accomplissez le avec intégrité et sérieux.

A nos amis financiers, je dirai de prioriser la rentabilité du nombre à la rentabilité du prix. Vous avez des possibilités d'affaires à hauteur de 47 milliards de dollars de portefeuille de crédit. Alors, pensez-y.

A nos chers entrepreneurs, je dirai que nous avons combattu de grands combats, mais que seulement l'unité dans la diversité aura raison de ce grand fléau. C'est probablement l'occasion de comprendre qu'il n'existe plus plusieurs classes d'affaires mais des entrepreneurs à chiffres d'affaires élevés, moyens et faibles, c'est-à-dire des entrepreneurs tout court, travaillant ensemble à une augmentation du Produit Intérieur Brut qui n'est autre que la somme des valeurs ajoutée de nos entreprises.

Aux membres et Amis d'Haïti, nous voulons d'ores et déjà vous remercier pour tout l'appui que vous nous avez déjà donné. Nous voulons vous dire que nous apprécions cette collaboration et comptons toujours sur votre appui qui, nous le savons, vise à renforcer notre économie presque moribonde.

Finalement, je veux m'adresser à vous tous, car entrepreneurs ou pas, nous sommes tous Haïtiens, pour vous dire qu'aujourd'hui, la mémoire de ces deux cents mille morts doit nous interpeller pour nous rappeler que nous nous devons de réussir. Oui le défi est grand mais faisons tous de ces difficultés nos marchepieds pour crier ensemble sur le sommet de l'espoir, de l'espérance et de la délivrance : Non HAITI NE MOURRA PAS.

Merci

Annex 3: Speech by Mr. Reginald Boulos, Coordinator of Private Sector Economic Forum, at *Etats Generaux du Secteur Prive*

Son Excellence Monsieur le Président de la République,
Son Excellence Monsieur le Premier Ministre,
Mesdames et Messieurs les Ministres,
Monsieur le Représentant Spécial du Secrétaire General des Nations Unies,
Mesdames et Messieurs les Parlementaires,
Mesdames et Messieurs les Membres du Corps Diplomatique,
Mesdames et Messieurs les Présidents et Membres des Chambres départementales de Commerce ;
Mesdames et Messieurs les Présidents et Membres des Associations et Organisations Patronales,
Mesdames et Messieurs les Présidents et Membres de la Fédération des Petites et Moyennes Entreprises,
Mesdames et Messieurs les membres du secteur privé des affaires tant de l'étranger que de l'intérieur,
Chers Amis de la Société Civile,

Mesdames et Messieurs,

Je tiens d'abord à remercier tous les membres du secteur privé pour une journée de travail bien remplie. Vos idées, nos discussions et vos commentaires sont venus enrichir un travail entamé depuis plus de 4 semaines par le secteur des affaires pour établir une vision et une feuille de route en vue de soumettre à l'exécutif Haïtien des propositions pour enrichir le plan national qui devra être soumis à New York le 31 Mars.

Monsieur le Président,
Monsieur le Premier Ministre,

Votre présence ce soir traduit l'engagement de votre gouvernement à faire du partenariat public privé et du dialogue initié avec les différentes composantes du secteur des affaires un outil précieux dans la construction et la reconstruction du pays. D'ailleurs, nous pouvons affirmer que nous ne sommes pas à notre coup d'essai puisque le dialogue entamé entre le secteur ouvrier, le secteur patronal, les parlementaires et votre Excellence ont permis l'année dernière de sauver l'industrie de l'exportation dans le cadre du débat sur le salaire minimum. Aujourd'hui plus d'un réalise que ce secteur qui travaille à plus de 80 % de sa capacité a montré une résilience et une résistance aux dégâts du tremblement de terre.

Mesdames et Messieurs,

Pour la première fois dans l'histoire de notre pays, un secteur des affaires uni, inclusif et modernisant a décidé de rompre avec les pratiques du passé et de formuler une vision et une feuille de route pour un développement durable du pays.

Cette feuille de route s'est enrichie aujourd'hui d'un débat critique mais constructif tout au long de la journée. Les conclusions de ce débat que nous remettons ce soir au Président de la République reposent principalement sur un élargissement de la classe moyenne, élargissement qui devra se traduire par la création de centaines de milliers de petites et moyennes entreprises animées par un esprit entrepreneurial, bénéficiant de l'accès au crédit et de l'élimination des barrières à l'épanouissement et au fonctionnement des entreprises

Notre vision pour le pays inclut des services sociaux de qualité, une sécurité sociale pour tous et un gouvernement fonctionnel à haute performance.

Nous rêvons d'une Haïti prospère basée sur une économie **Diversifiée, Verte, Compétitive et Vibrante,**

- **Diversifiée**, basée principalement sur une agriculture moderne et productive et offrant des opportunités à travers le tourisme, l'industrie marchande tant nationale que tournée vers l'exportation.
- **Verte**, faisant en sorte que toutes les démarches futures servent à réparer, à restaurer et à protéger l'écosystème du pays.
- **Compétitive**, basée sur des institutions performantes, une main d'œuvre qualifiée et un état moderne dans son fonctionnement et sa structure ;
- **Vibrante**, avec une croissance de 5% par an du PIB qui attire tant les étrangers que la diaspora à investir avec l'assurance d'un retour sur leurs investissements.

Cinq principes prioritaires doivent orienter toutes les actions et décisions à prendre durant cette période de reconstruction.

- ***Leadership et responsabilité mutuelle de reddition de compte*** : Il faut un leadership ferme et un partenariat solide entre les secteurs privés, civils et publics pour permettre au pays d'aller de l'avant
- ***Décentralisation et croissance équitable***: La croissance sociale et économique doit inclure toutes les régions du pays, tous les secteurs et toutes les couches sociales afin de réduire l'extrême pauvreté dans les zones rurales d'Haïti.

- **Engagement à la modernisation:** *Les secteurs privé et public doivent s'engager et être prêts à laisser de côté les façons de faire des affaires et de gouverner du passé.*
- **Renforcement des capacités étatiques :** *Les programmes de relance et de reconstruction doivent être menés à bien par un leadership haïtien. Les programmes d'assistance doivent renforcer les administrations de l'Etat au lieu de les affaiblir.*
- **Indépendance de l'aide internationale :** *Haïti doit viser à se reconstruire de telle sorte que la nouvelle nation soit de moins en moins dépendante de la communauté des bailleurs pour son financement et son soutien*

La réalisation de cette croissance sociale et économique repose sur cinq piliers :

- les emplois et les opportunités économiques partagées ;
- l'agriculture et l'environnement ;
- la santé et l'éducation ;
- le logement et la sécurité économique ;
- la gouvernance et les capacités institutionnelles.

Il faut créer un environnement où les entreprises haïtiennes soient capables de surmonter la perte de leurs actifs et de leur clientèle en leur fournissant des prêts palliatifs pour couvrir leurs obligations immédiates. Cette action doit cibler principalement les Petites et Moyennes entreprises, communément appelées secteur informel. L'étude réalisée par le projet winner a montré que plus de 75 % des pertes du secteur privé, estimées aujourd'hui à près de 2 milliards de dollars, se retrouvent au niveau des PME, structurées et non structurées. Cette assistance devra aussi inclure un effort de formalisation élargissant l'assiette fiscale du pays afin d'augmenter les recettes fiscales.

L'agriculture joue un rôle vital dans l'économie haïtienne et dans la vie du peuple haïtien dont 60% vit dans les communautés rurales. Le développement de ce secteur offre une opportunité de croissance partagée et de création de richesses à travers tout le pays

Cette économie doit être avant tout agricole et décentralisée, soutenue par des centaines de milliers de PME ; elle devra être répartie dans les pôles géographiques de développement et de production identifiés ; elle devra bénéficier de l'appui de l'Etat Haïtien dans les 5 filières proposées par la Commission Présidentielle sur la Compétitivité, et supportées par le Président de la République et son gouvernement, soit l'agriculture, l'élevage, le textile, le tourisme et le logement et le développement urbain.

Notre programme comprend aussi un volet important sur l'éducation où tous les enfants auront accès à une école de qualité, tous les ouvriers auront reçu une formation professionnelle et où tous les haïtiens auront appris à aimer leur pays/

Si il est important que le secteur dit informel retrouve la voie de la régularisation, le secteur prive formel doit de manière formelle prendre l'engagement solennel de respecter les lois du pays et de faire face a ses responsabilités citoyennes et fiscales. Cet engagement doit être aussi supporte par une gestion transparente des ressources de l'état et la reddition des comptes.

Cet effort doit être complété par une bonne couverture policière et douanière des frontières nationales, des ports et des aéroports en vue de mettre fin à la pratique de la contrebande. Nous estimons que la sous évaluation et la contrebande coutent au pays plus de 250 millions de dollars par année.

En ce sens, nous appuyons les efforts du Gouvernement haïtien de doter le pays d'une administration fiscale moderne et efficace, avec une gestion plus transparente et plus rigoureuse des revenus de l'Etat. C'est la seule condition pour que nous puissions retrouver nos objectifs de faire passer la pression fiscale de 9 à 15 %. En ce sens, le secteur privé institutionnel travaillera à ses côtés pour promouvoir le respect des lois du pays et encourager toutes les entreprises du pays, des plus petites aux plus grandes, à faire face à leurs responsabilités citoyennes et fiscales. Nous profitons a ce sujet pour vous annoncer que l'exemple commencera par le Forum qui fera du plein respect des obligations fiscales une condition de participation de ses membres. Dans le même ordre d'idées, nous nous proposons de travailler avec le gouvernement pour une modernisation et une simplification du code fiscal, en se rappelant que trop d'imports tuent l'impôt.

Le partenariat **Social** que nous proposons aura à cœur de soutenir le renforcement de la démocratie, la libre entreprise et un engagement envers la liberté politique et économique individuelle. Aussi Permettez nous, Monsieur le Président, de vous dire, qu'a 10 mois de la fin de votre mandat, vous avez aujourd'hui une responsabilité historique de mettre ce pays, notre pays sur la voie de la démocratie en réussissant avec **crédibilité et légitimité** la mise en place des conseil d'administration des collectivités territoriales, d'un parlement fonctionnel et d'une passation de pouvoir réussie, qui renforce la stabilité et le climat de paix, condition essentielle a l'investissement et a la création d'emplois.

Aujourd'hui, il est urgent pour tous les secteurs du pays de :

- 1) Reconnaître mutuellement nos erreurs du passé et accepter que le 12 Janvier tout en étant une catastrophe naturelle et en fait un désastre créé par l'homme. Un séisme ne tue pas ; c'est l'effondrement des immeubles mal construits qui est bien la cause de tant de morts.
- 2) Travailler avec vous en vue de garantir la poursuite de la mise en place d'une gouvernance transparente et efficace dans un combat sans merci contre la corruption et l'application des règles du jeu égales pour tous ;
- 3) Accepter que c'est un devoir pour tous les citoyens et surtout les hommes d'affaires de remplir avec rectitude leurs obligations fiscales ;

- 4) Reconnaître que, durant plus de deux siècles, nous avons vécu un cercle vicieux de corruption, d'exclusion et de mauvaise gouvernance emmenant avec elle une culture d'évasion fiscale qui devra être remplacée par une nouvelle culture de responsabilité, de reddition de comptes et de solidarité inclusive;
- 5) Comprendre que le renforcement de nos institutions publiques, politiques et civiques est non seulement une responsabilité mais aussi une condition essentielle pour une gestion adéquate de nos ressources en vue de la provision des services sociaux de base soutenables par nos propres moyens et réduisant au bout de compte notre état de dépendance.

Ce n'est qu'à ce prix que nous pourrons avoir la confiance mutuelle, le respect et la dignité nécessaires à la création d'une société stable, prospère et harmonieuse.

Monsieur le Président,

Nous vous apportons nos idées, notre énergie, nos rêves pour enrichir celui de votre gouvernement en vue d'aboutir à un plan de développement national, réaliste et révolutionnaire. Nous sommes disposés, dans un partenariat solide et fait de respect mutuel, à vous apporter notre coopération en vue de réussir non seulement la démarche de recherche du support international mais aussi et surtout la mise en place de structures qui renforcent l'intégrité et le résultat de nos actions.

Je vous remercie.

Annex 4: Closing speech by H. E., President Rene Preval at *Etats Generaux du Secteur Prive*

Mesdames, Messieurs, chers amis,

Je suis heureux d'être avec vous ce soir et je remercie le Forum Economique du Secteur Privé de son aimable invitation et de l'occasion qui m'est offerte de vous dire quelques mots. Je serai bref, car d'après ce que j'ai cru comprendre, vous avez passé une journée entière à travailler, un dimanche de surcroit ; vous devez être fatigués.

Monsieur le Coordonnateur,

Mesdames, Messieurs les membres du Forum Economique,

Je vais prendre connaissance, avec beaucoup d'attention, de votre document de vision et de votre feuille de route. Je vous félicite de cette initiative qui augure bien du partenariat Public-Privé pour lequel beaucoup d'entre vous ont déjà tant travaillé.

Je ne vous rappellerai pas les statistiques que vous avez, toutes et tous, entendues à satiété. Vous êtes, je le sais, conscients de l'ampleur de la tâche à accomplir, du défi que nous avons à relever : Haïti est a genoux, il faut que nous la remettions DEBOUT !

Cependant, il ne s'agit pas de la remettre debout comme elle l'était avant le 12 janvier mais plutôt de bâtir, ensemble, un meilleur Pays, de profiter de ce moment unique pour mettre en place de solides bases pour sa REFONDATION. Le peuple haïtien mérite une économie rutilante, créant de la richesse, créant des emplois stables et durables, croissant, de façon régulière et soutenue, solidement ancrée sur des entreprises performantes, modernes, compétitives, fiscalement et socialement responsables.

Nous voilà à dix jours de la tenue de la Conférence pour la reconstruction d'Haïti qui se tiendra à New York au siège des Nations Unies. Ce sera l'occasion pour nous de redire au monde entier que la reconstruction de notre pays doit avant tout être un effort national, juste reflet de la solidarité démontrée tout de suite après le tremblement de terre par toutes les couches sociales haïtiennes. Oubliant leurs drames personnels, les familles haïtiennes se sont attelées à secourir, avec les moyens du bord, ceux qui étaient prisonniers des décombres, à panser les blessés, à partager leur cour, leur nourriture, leurs vêtements, le peu qui leur restait avec leurs frères et sœurs qui avaient tout perdu lors de cette catastrophe.

Aussi, New York sera l'occasion pour le gouvernement haïtien d'être le porte-parole de toute une nation, unie et solidaire, présentant d'une seule voix sa vision, ses choix et les orientations stratégiques

qu'elle a décidé de suivre pour sa reconstruction. Ce sera aussi le moment de préciser les grands chantiers que nous comptons mettre en place, reflétant les priorités retenues à partir de l'évaluation des dommages et des pertes conduites par les différentes équipes techniques qui se sont déployées sur le terrain.

Notre Vision se résume ainsi:

Nous Refonderons la Nation haïtienne en transformant la catastrophe du 12 janvier 2010 en une opportunité pour qu'Haïti devienne un pays émergent d'ici 2030.

Cette refondation se matérialisera en :

Une société équitable, juste, solidaire et conviviale, vivant en harmonie avec son environnement, sa culture, une société moderne où l'État de droit, la liberté d'association et d'expression et l'aménagement du territoire sont établis,

Une société dotée d'une économie moderne, diversifiée, forte, dynamique, compétitive, ouverte, inclusive, et à large base territoriale,

Une société où l'ensemble des besoins de base de la population sont satisfaits en termes quantitatif et qualitatif,

Une société apprenante dans laquelle l'accès universel à l'éducation de base, la maîtrise des qualifications dérivant d'un système de formation professionnelle pertinent, et la capacité d'innovation scientifique et technique nourrie par un système universitaire moderne et efficace, façonnent le nouveau type de citoyen dont notre pays a besoin pour sa refondation.

Tout ceci, avec l'encadrement d'un État unitaire, fort, responsable, garant de l'application des lois et de l'intérêt des citoyens, fortement déconcentré et décentralisé.

Réaliser cette vision demande que nous, Haïtiens et Haïtiennes, établissions ensemble les principes que nous allons adopter et respecter :

- La reconstruction de notre pays est avant tout un devoir pour chaque Haïtien et chaque Haïtienne, résidant en Haïti ou faisant partie de notre Diaspora ; devoir de participer et d'apporter sa contribution : cette reconstruction doit être avant tout un processus haïtien, inclusif, sans parti pris, sans préférence, sans clientélisme de quelque nature que ce soit ;
- La reconstruction de notre pays sera une réussite si nous travaillons à réduire les clivages qui alimentent les injustices sociales et économiques, à éliminer la méfiance coutumière de l'un envers l'autre : elle doit aboutir à l'élimination des barrières qui paralysent la mise en commun de nos idées et empêchent notre avancement ;

- La reconstruction de notre pays passe et doit passer par une réduction significative de la pression de notre capitale, « la fameuse République de Port-au-Prince », sur le reste du territoire, et ce à tous les points de vue : elle doit s'inscrire dans un rééquilibrage spatial soutenable et durable visant une valorisation de toutes nos potentialités, la recapitalisation de nos ressources humaines et de nos actifs économiques, la remise en état d'un système institutionnel à la mesure des enjeux et défis que nous avons et aurons à relever;
- La reconstruction d'Haïti veillera à mieux définir le rôle de tous les acteurs économiques et sociaux de la société haïtienne, à les organiser pour jouer leur rôle et interagir vers le but commun que décrit notre Vision, dans le cadre d'un dialogue permanent, structuré et organisé d'où émergeront les grandes idées sur lesquelles s'appuieront nos choix d'orientation stratégique de l'Haïti de demain ;
- La reconstruction de notre pays ne peut se faire sans le respect de nos lois et règlements administratifs qui protègent notre liberté individuelle et nos droits de Peuple, mais aussi sans un réexamen attentif et judicieux des lois et règlements obsolètes qui entravent la dynamique d'une gouvernance démocratique efficace.
- La reconstruction de notre pays se fera avec l'appui de tous ceux qui veulent participer à cette entreprise exaltante: elle se fera sous le leadership haïtien, ouvert et prêt à tirer profit des expériences et des compétences de notre diaspora et de l'expertise internationale, organisé pour recevoir l'appui financier bilatéral et multilatéral en donnant toutes les garanties de transparence et de reddition des comptes.

Pour donner vie et réalité à cette Vision de notre nouvelle Haïti, depuis plus de deux mois, des acteurs politiques, intellectuels et économiques du pays se sont mobilisés pour définir, avec l'Etat haïtien, ce que devraient être les voies et moyens à adopter pour la refondation de notre pays.

Aussi, pour assurer une bonne cohérence de nos interventions, le gouvernement, en s'appuyant sur les différentes propositions reçues, a établi le cadre de la reconstruction qui s'articulera autour de quatre (4) grands chantiers :

1. La refondation territoriale, qui passe par l'identification, la planification et la gestion des nouveaux pôles de développement, la stimulation du développement local, la reconstruction des zones affectées, la mise en place des infrastructures économiques nécessaires à la croissance (routes, énergie et communication), la gestion du foncier garantissant la protection de la propriété et facilitant l'avancement des grands projets ;
2. La refondation économique, qui avec la valorisation des secteurs clés, doit viser la modernisation du secteur agricole dans ses composantes offrant un potentiel exportable comme les fruits et tubercules, l'élevage et la pêche avec comme objectif la sécurité alimentaire, le développement d'un secteur de la construction professionnelle, doté des lois et règlements antisismiques et anticycloniques et des structures d'application et de contrôle, la poursuite des activités de l'industrie manufacturière, l'organisation du développement touristique ;

3. La refondation sociale priorisant en tout premier lieu un système éducatif garantissant l'accès à l'école à tous les enfants, offrant une éducation professionnelle et universitaire en adéquation avec l'exigence de modernisation de notre économie, un système de santé assurant une couverture maximum sur tout le territoire, une protection sociale pour les salariés ;
4. La refondation institutionnelle qui immédiatement s'attaquera à la remise en fonctionnement des institutions étatiques en priorisant les fonctions les plus essentielles, la redéfinition de notre cadre légal et réglementaire pour mieux l'adapter à nos besoins, la mise en place de la structure qui aura le mandat de gérer la reconstruction, l'établissement d'une culture de transparence et de reddition de comptes qui rende la corruption impraticable sur notre territoire.

L'atteinte des objectifs à long terme à travers ces 4 grands chantiers que je viens de décrire va passer par l'adoption de décisions et la définition d'actions programmées selon trois grands moments choisis pour la reconstruction : les 6 prochains mois qui couvriront la fin de la période d'urgence, les dix huit mois qui suivront et qui verront la mise en place de toute cette transformation que nous recherchons ensemble pour notre pays, et ce troisième temps que sont les 8, 10, 20, ... années à venir qui verront la concrétisation, l'exécution et la consolidation des acquis de la reconstruction et de la refondation.

Après avoir passé la phase immédiate, l'urgence doit s'atteler à améliorer les conditions d'hébergement des sans-abris, à retourner les élèves à l'école et les étudiants à l'Université et aux centres de formation professionnelle, à préparer la prochaine saison cyclonique de l'été , à poursuivre les efforts pour redonner une normalité à la vie économique notamment en garantissant la stabilité du système financier et l'accès au crédit aux micro, petites et moyennes entreprises, à continuer la réorganisation des structures de l'Etat. Durant cette période, nous devons travailler sur les stratégies et plans de développement des nouveaux pôles que nous avons choisis, poursuivre les actions en faveur de l'équipement des zones d'accueil des populations déplacées par le séisme, mettre en place le processus électoral pour éviter tout vide constitutionnel.

Ce sera aussi la période de préparation des dix-huit mois qui suivront dont parmi les attentes les plus importantes, sont en priorité l'identification de projets déclencheurs pour cette Haïti de demain et la mise en place du cadre d'incitation et d'encadrement à l'investissement privé sur lequel est fondé le choix de croissance économique que nous avons fait. Comme le prévoient les différentes analyses et évaluations, les investissements privés, dans l'économie comme dans le social, vont constituer la colonne vertébrale de la refondation de notre pays. Parmi les engagements pris avec les donateurs, il a été retenu d'accompagner le développement du secteur privé, tout le secteur privé, pour le doter des capacités nécessaires pour remplir ce rôle.

Aussi, est-ce avec joie que j'accueille ces propositions que vient de me remettre le Coordonnateur du Forum Economique du Secteur Privé.

A la rencontre de Santo Domingo, deux enveloppes spécifiques ont été contemplées :

- Un appui budgétaire de 350 millions de dollars américains pour finir l'exercice fiscal en cours et combler ainsi le manque à gagner enregistré au niveau des ressources internes à cause des pertes enregistrées par le secteur privé et qui sont estimées à environ 60% du total des dommages évalués;
- Une enveloppe de 3.8 Milliards de dollars nécessaires pour financer les besoins identifiés par le PDNA, pendant les 18 mois à venir, à partir du 1er octobre 2010. Ces besoins ont été priorisés et des propositions sont en cours d'élaboration. Pour aider les donateurs à mieux définir leurs programmes d'appui à Haïti ou de voir les possibilités d'aller au delà de ce qu'ils ont déjà identifié comme champs d'investissement, il sera urgent pendant cette semaine que les équipes techniques du gouvernement et du secteur privé se rencontrent pour identifier les points de convergence et travailler sur les synergies et complémentarités qu'il faut développer pour finaliser la programmation de cette période.

Mesdames et Messieurs du Secteur publique et du Secteur privé,

Il est indispensable que nous disposions d'un document final qui intègre les intérêts manifestés par le Secteur privé, ainsi que ceux de tous les autres secteurs et qui nous amène à New York avec un plan unique à proposer aux donateurs.

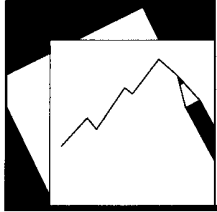
Je vous remercie

Annex 5: List of organizations consulted

In March 2010, more than 150 representatives from the following organizations were consulted as part of the development of the Private Sector Economic Forum Vision and Roadmap for Haiti. In addition, input was sought during the Private Sector Consultation on Reconstruction hosted by the Inter-American Development bank at Indigo Club on March 15, 2010, and again during the Etats Generaux of the Private Sector Economic Forum held at Karibe Convention Center on March 21, 2010.

Organizations consulted in Haiti include:

1. AGACORP
2. Association de Professionnels de Banque (APB)
3. Association des Commerçants du Secteur Informel (ACSI)
4. Association des Industries d'Haïti (ADIH)
5. Association Haïtienne des Architectes et Urbanistes (ASSHAU)
6. Association Maritime Haïtienne (AMARH)
7. Association Nationale des Exportateurs de Mangues (ANEM)
8. Association of Private Hospitals in Haiti (AHPH)
9. Association Touristique d'Haïti (ATH)
10. Banque interaméricaine de développement (BID)
11. Centre pour la Libre Entreprise et la Démocratie (CLED)
12. Chambre d'Agriculture Biologique (CHAAB)
13. Chambre de Commerce et d'Industrie d'Haiti (CCIH)
14. Chambre de Commerce et D'industrie Haïtiano-Canadienne (CCIHC)
15. Chambre Franco-Haïtienne de Commerce et d'Industrie (CFHCI)
16. DIGICEL
17. Development Activities and Services for health (DASH)
18. Fédération Haïtienne des PME (FHPME)
19. Fondation Nouvelle Haiti (FNH)
20. Forum Economique du Secteur Privé (FESP)
21. Groupe Coles
22. Groupe de Travail sur la Compétitivité (GTC)
23. Haitian-American Chamber of Commerce (AmCham)
24. Jeune Chambre Internationale
25. MINUSTAH, Représentant Spécial du Secrétaire Général des Nations-Unies pour Haïti
26. On The Frontier (OTF)
27. UNIBANK
28. USAID



WP/07/63

IMF Working Paper

Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?

Laura Jaramillo and Cemile Sancak

IMF Working Paper

Western Hemisphere Department

**Growth in the Dominican Republic and Haiti:
Why has the Grass Been Greener on One Side of Hispaniola?**

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Abstract

The Dominican Republic and Haiti share the island of Hispaniola and are broadly similar in terms of geography and historical institutions, yet their growth performance has diverged remarkably. The countries had the same per capita real GDP in 1960 but, by 2005, the Dominican Republic's per capita real GDP had tripled whereas that of Haiti had halved. Drawing on the growth literature, the paper explains this divergence through a combined approach that includes a panel regression to study growth determinants across a broad group of countries, and a case study framework to better understand the specific policy decisions and external conditions that have shaped economic outcomes in the Dominican Republic and Haiti. The paper finds that initial conditions cannot fully explain the growth divergence, but rather policy decisions have played a central role in the growth trends of the two countries.

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Table of Contents

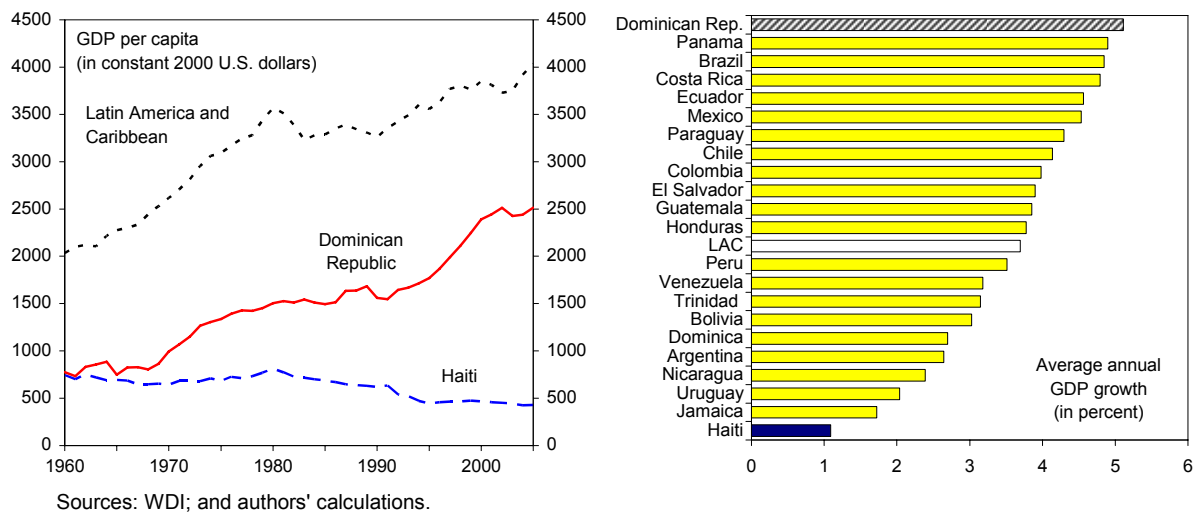
I. Introduction	4
II. Literature Review	5
III. Initial Conditions	5
A. Geography	6
B. Historical institutions	7
IV. Analysis of Policies Pursued	9
A. Growth accounting	9
B. Empirical Endogenous Growth Model	10
Loayza, Fajnzylber, and Calderón (2005)—LFC Model	12
Improving the fit of the LFC model	13
Institutional quality	13
Macroeconomic stability	15
Panel regression	17
C. Growth Determinants	17
Dominican Republic	19
Haiti	21
V. Conclusions	23
Figures	
1. GDP per capita, and real GDP growth rates in Latin America	4
2. Population density	7
3. Settler mortality and ethnolinguistic fragmentation	8
4. Contribution to GDP per capita growth	10
5. Endogenous growth model	10
6. Actual vs. LFC projected changes in growth rates	13
7. ICRG institutions index	14
8. Magnitude of regime changes	14
9. LFC stabilization policies	15
10. Indicator of macroeconomic instability	16
11. Actual vs. LFC and JS projected changes in growth rates	17
12. Dominican Republic: Changes in growth rates by component	19
13. Trade openness	20
14. Haiti: Changes in growth rates by component	21
Tables	
1. Variables used in the LFC model	12
2. Results of panel regression on real per capita GDP	18

Box	
1. Literature survey.....	11
Appendices.....	24
I. Chronology of political events	24
Dominican Republic	24
Haiti.....	26
II. Variable definitions and sources	28
III. List of countries included in the panel regression	30
References.....	31

I. INTRODUCTION

The Dominican Republic and Haiti present a quasi-natural experiment; the two countries share the island of Hispaniola and are broadly similar in terms of geography and historical institutions, yet their growth performance has diverged remarkably since 1960. In 1960, the Dominican Republic and Haiti had the same per capita real GDP at just below US\$800. However, by 2005, the Dominican Republic's per capita real GDP had tripled to about US\$2,500, whereas that of Haiti had halved to US\$430 (Figure 1). Accordingly, the Dominican Republic and Haiti have been at opposite ends of the spectrum within Latin America and the Caribbean (henceforth LAC) in terms of growth rates over the past 45 years, with the Dominican Republic achieving one of the highest average real GDP growth rates at above 5 percent and Haiti the lowest at about 1 percent (Figure 1).

Figure 1. GDP per capita, and real GDP growth rates in Latin America, 1960-2005



What explains this divergence in per capita real GDP of the two countries? The paper seeks to answer this question by examining two main issues: (i) to what extent the divergence is the inevitable result of disparities in initial conditions, and (ii) to what extent it is the result of differences in the policies pursued in each country since 1960. Drawing on the growth literature, the paper addresses these issues through a combined approach that includes a panel regression to study growth determinants across a broad group of countries, and a case study framework to better understand the specific policy decisions and external conditions that have shaped economic outcomes in the Dominican Republic and Haiti. To examine policy decisions, the paper uses growth determinants from the literature and introduces alternative variables of institutional quality and stabilization policies to help better explain the income divergence between the two countries. Furthermore, to facilitate comparisons, Latin America is used as a reference point throughout the paper.

When examining initial conditions, namely geography and historical institutions, we find great similarities between the Dominican Republic and Haiti, implying that initial conditions cannot explain their divergence in per capita real incomes. Moreover, based on the panel

regression and case study, we find that policy decisions since 1960 have played a central role. In particular, the Dominican Republic has consistently outperformed Haiti and the rest of Latin America in terms of structural measures and stabilization policies, while Haiti has been subject to numerous political shocks that have severely affected its growth performance.

The paper is structured as follows. Section II reviews findings in the growth literature on the Dominican Republic and Haiti. Section III examines the initial conditions, in particular geography and historical institutions. Section IV analyzes the policies pursued in the two countries, framing the discussion by an empirical endogenous growth model. Section V summarizes the findings and concludes.

II. LITERATURE REVIEW

Only a few studies have compared the growth performance of the Dominican Republic and Haiti, and these studies have provided mostly qualitative discussions. Among the well-known is the chapter in Jared Diamond's book "Collapse" (2005). Although Diamond focuses on environmental policies, it can be inferred from his arguments that higher population density and lower rainfall have been the main factors behind the more rapid deforestation and loss of soil fertility on the Haitian side of Hispaniola, with adverse consequences for agricultural production and therefore growth performance. Similarly, Lundahl (2001) argues that Haiti is the poorest country in the western hemisphere because of the interplay between population growth and the destruction of arable land. He explains that the increase in the rural labor force has led to an expansion of subsistence food crops to the detriment of export crops, in the context of decreasing international food commodity prices.

Other studies have found that economic performance in the Dominican Republic has been favored by political and macroeconomic stability. Bulmer-Thomas (2001) finds that, for the Caribbean in general, improvements in per capita GDP are linked to higher exports per capita, the quality of institutions, and stability of the macroeconomic framework. The World Bank (2006b) also argues that the Dominican Republic experienced a more enabling environment for private investment than Haiti due to political stability and stable macroeconomic conditions over prolonged periods that allowed it to follow a more diversified and outward oriented growth strategy. In addition, IMF (2001) argues that growth in the Dominican Republic during the 1990s was anchored by capital formation and strong productivity growth, while trade liberalization encouraged private investment and output growth.

III. INITIAL CONDITIONS

We examine two initial conditions that the growth literature highlights as the most likely to influence long-term growth performance: geography and historical institutions. While the absence of national accounts prior to 1960 does not allow us to determine exactly at what point in time the Dominican Republic started growing faster than Haiti, this analysis helps us determine if the divergence started long before 1960.

A. Geography

Geography plays a direct role in shaping a country's growth performance. It determines the quality of natural resources, the productivity of land, the public health environment, and the extent to which a country can become integrated with world markets. We find no substantial differences between the Dominican Republic and Haiti on these grounds, from which we can infer that that geography cannot explain the growth divergence between the two countries.

- Gallup, Sachs, and Mellinger (1998) argue that: (i) tropical regions are hindered in development relative to temperate regions; (ii) coastal regions are strongly favored in development relative to the hinterlands; and (iii) high population density is favorable for economic development in coastal regions with good access to trade. However, these factors do not explain the divergence between the two countries as they have the same location, ocean access, and climate, while Haiti has historically had twice the population density of the Dominican Republic.²
- As explained in the literature review, Diamond (2005) argues that rapid deforestation, caused by lower rainfall and higher population density, has led to lower growth in Haiti compared to the Dominican Republic. However, a 1941 study on rainfall in Hispaniola did not find evidence that Haiti had lower rainfall than the Dominican Republic. Based on data for an average of 11 years, the study reveals that rainfall was comparable in the two countries.³ Likewise, even if lower rainfall had in fact been an issue for Haiti, it did not appear to be an obstacle to agricultural production in the 18th century when Haiti was one of the richest colonies in the French empire.⁴ Moreover, deforestation on the Haitian side can be considered a more recent phenomenon as, even as late as 1960, the amount of arable land in both countries was comparable at about 20 hectares per person.⁵
- Diamond's argument about population density runs contrary to cross-country evidence about the potential benefits of higher population density, such as that found by Gallup et al. (1998) and Klasen and Nestmann (2004) who argue that population density generates the linkages, infrastructure, demand, and effective market size for technological innovations that fuel growth. Figure 2 illustrates the relationship between population density and growth. Between 1960 and 2005, many of the countries with the highest per

² Haiti is about half the size of the Dominican Republic, but has roughly the same population.

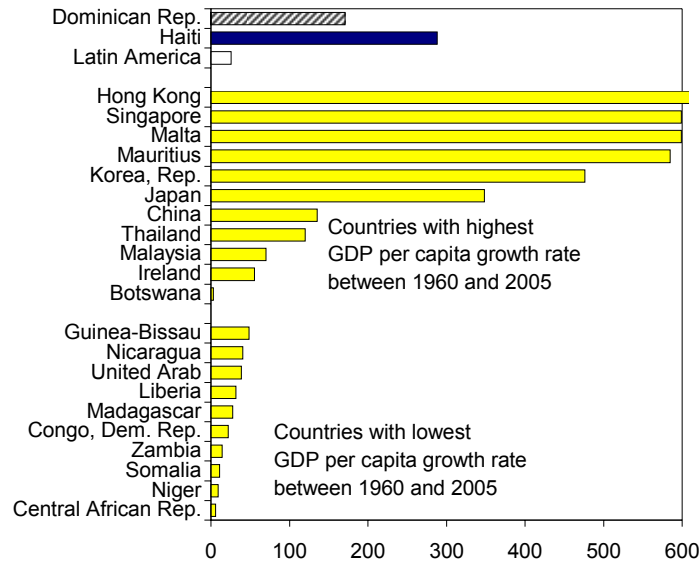
³ See Alpert (1941).

⁴ In the 1780s, Haiti, nicknamed the "Pearl of the Antilles", produced about 40 percent of all the sugar and 60 percent of all the coffee consumed in Europe.

⁵ Looking at GDP growth by sector over the period 1960-2000 reveals that performance of the primary sector did not drive overall growth results in either country. In the Dominican Republic, the primary sector explains about 12.5 percent of the total average growth rate, while the secondary and tertiary sectors explain 32.5 percent and 55 percent respectively. Similarly, in Haiti, the primary sector explains less than 10 percent of the total average growth rate, while the secondary and tertiary sectors explain about 45 percent each.

capita real GDP growth had high population densities—in some cases even higher than in Haiti—while countries with the lowest per capita real GDP growth had low population densities.

**Figure 2. Population density, 2000
(people per square kilometer)**



Sources: WDI; and authors' calculations.

B. Historical institutions

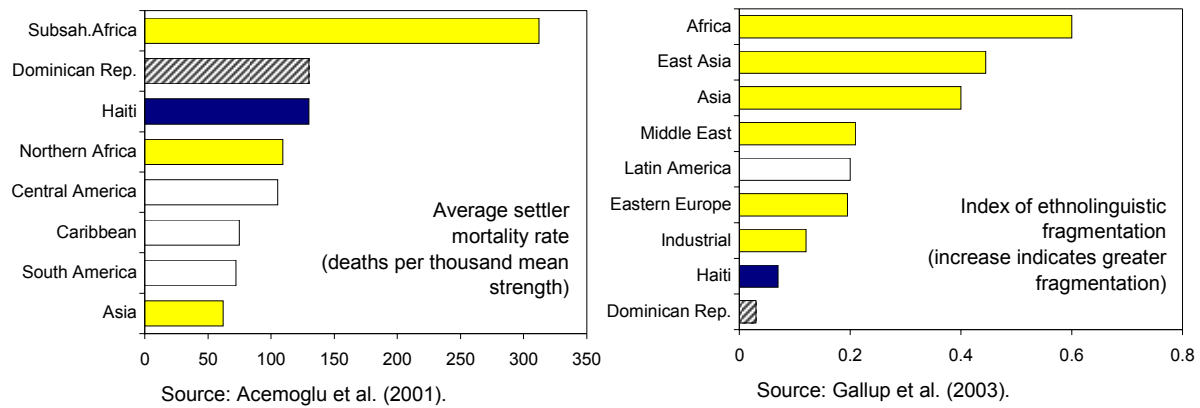
A growing body of literature argues that institutions are important for initiating and sustaining economic growth. While institutions are clearly endogenous and evolve with economic performance, in this section we focus on the influence of historical institutions to understand if economic performance since the 1960s has been driven mainly by historical legacies or rather by more recent policy developments. We find that the historical institutions of the Dominican Republic and Haiti were very similar, implying that this cannot fully explain the growth divergence.⁶

- Acemoglu, Johnson, and Robinson (2001) argue that colonial origin matters for growth. They argue that Europeans were more likely to set up extractive institutions in places where they faced high mortality rates and could not settle, resulting in poor institutions, which have persisted to the present. However, the Dominican Republic and Haiti had the same settler mortality rates as estimated by these authors, therefore it would be expected that both countries had equally extractive institutions (Figure 3).

⁶ Appendix 1 provides a chronology of political events for both the Dominican Republic and Haiti.

- La Porta, et al. (1998) find that countries that are poor, close to the equator, ethnolinguistically heterogeneous, use French or socialist laws, or have high proportions of Catholics or Muslims exhibit inferior government performance. Yet, there are no differences between the Dominican Republic and Haiti on these fronts: both have low ethnolinguistic fragmentation, both use French law, and both have mainly Catholic populations (Figure 3).

Figure 3. Settler mortality and ethnolinguistic fragmentation



- In terms of the impact of the colonial power, the literature does not provide evidence of significant differences between Spanish and French colonial rule. Several studies have used dummy variables for French, British, and Spanish colonies to try to explain growth, corruption, and policy volatility, but have found only the British dummy variable to be significant.⁷
- The quality of institutions was poor in both countries until early in the 20th century—at the time of the U.S. military occupation—with arguably greater political instability in the Dominican Republic. Between independence in 1804 and the U.S. military occupation in 1915, Haiti had 33 heads of state, with an average time in power of 3.4 years. Meanwhile, between independence in 1844 and the U.S. military occupation in 1916, the Dominican Republic had 61 heads of state, with an average time in power of only 1.2 years. Furthermore, although serving U.S. interests, the U.S. military occupation of the island was linked to internal struggles and violence in both countries.⁸ Prior to U.S. occupation in 1916, the assassination in 1911 of president Cáceres in the Dominican Republic led to various revolutions, economic chaos, and a near-collapse of government institutions.

⁷ Acemoglu et al. (2001) add British and French colony dummies to their regression. The French dummy was not significant, implying that French colonies were no different from the omitted group. Treisman (2000) and Sirimaneetham (2006) add French, British, and Spanish colony dummies in their studies on the effect of colonial heritage on corruption and policy volatility. In both papers, only the British dummy was significant.

⁸ U.S. expansion into the Caribbean Basin—at a time when the United States was pursuing the construction of the Panama canal—was supported by the Monroe Doctrine, originally intended to keep European nations out of Latin America, and Theodore Roosevelt's corollary to this doctrine, which stated that the United States had a moral mandate to enforce "proper" behavior among Latin American countries.

Similarly, preceding U.S. intervention in 1915, six different Haitian presidents since 1911 had been killed or forced into exile, with revolutions leading to economic disorder and growing external indebtedness.

In summary, strong similarities in the initial conditions in the Dominican Republic and Haiti indicate that these cannot explain the divergence in real incomes of the two countries since 1960. However, this finding does not imply that all conditions were identical going into the 1960s. In fact, by 1960, Haiti was already trailing the Dominican Republic in some social indicators, such as life expectancy and illiteracy rates.⁹ Nonetheless, we find that these differences are likely to have emerged closer to 1960 and were not inherited from the 19th or early 20th centuries. As mentioned earlier, lack of national accounts prior to 1960 does not allow us to determine the exact point in time when the Dominican Republic started to outpace Haiti, but differences are likely to have started to emerge in part as a result of the policies implemented following the U.S. military occupation. In general terms, the outcomes of U.S. intervention in both countries were akin: order was broadly restored; the countries' budgets were balanced and debt reduced; and infrastructure was expanded, including new roads, telephone connections, port facilities, and public health and education services. However ensuing governments in Haiti practiced only rent-seeking behavior without efforts to maintain public infrastructure and social services, while the Trujillo regime in the Dominican Republic promoted agriculture, industry, and public works. The next section looks at the policies pursued in each country since 1960, when national accounts became available, to shed more light on the factors contributing to the divergence in per capita real GDP.

IV. ANALYSIS OF POLICIES PURSUED

To analyze economic performance and related policies in the Dominican Republic and Haiti since 1960, the paper relies on a combination of approaches, specifically growth accounting, panel regressions, and case studies. These approaches are complementary as growth accounting provides a broad overview of economic performance and resource endowments in Haiti and the Dominican Republic, the panel regressions provide a benchmark to compare the performance of the two countries with an “average economy” facing similar shocks, while the case study allows us to capture the heterogeneity in the conditions and processes that have governed the growth experience in each country.

A. Growth accounting

A standard growth accounting exercise shows that total factor productivity (TFP) has been an important factor for both the Dominican Republic and Haiti (Figure 4).¹⁰ In broad terms, the

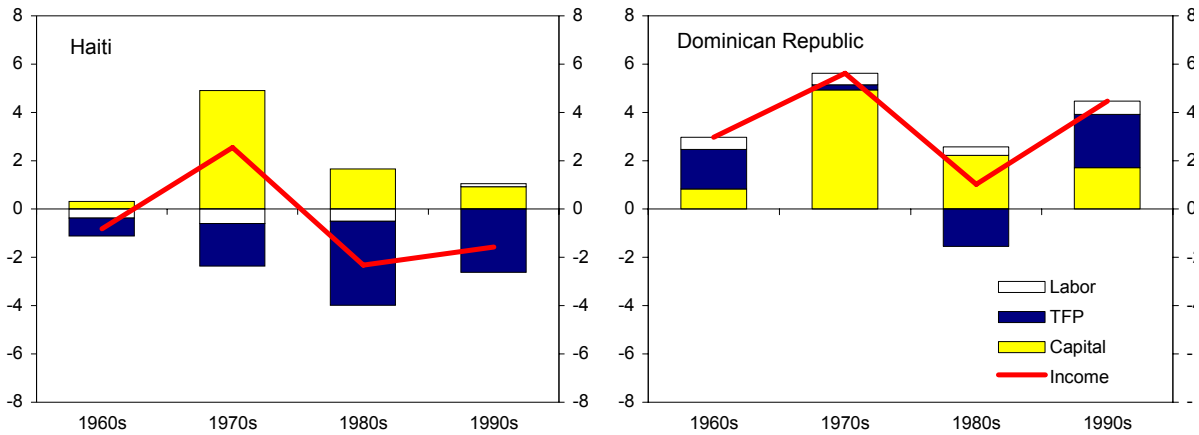
⁹ In 1960, life expectancy at birth was 44 years in Haiti compared to 54 years in the Dominican Republic. The under 5 five mortality rate per thousand children was 253 in Haiti compared to 149 in the Dominican Republic. The adult illiteracy rate above age 15 (data available for 1970) was 78 percent in Haiti and only 33 percent in the Dominican Republic.

¹⁰ The capital stock data were constructed using aggregate investment figures. We use a perpetual inventory method to compute capital stocks, with a share of capital income in national output of 0.4 (different values do

(continued...)

Dominican Republic had favorable growth trends between 1960 and 2000, largely fueled by productivity gains and capital accumulation. In contrast, economic performance in Haiti has been dismal, with negative TFP in all four decades. Real growth in the 1970s, the only period in which Haiti had positive per capita GDP growth performance, was achieved through strong investment efforts. The empirical endogenous growth model explained below will provide greater insight into the factors that underlie both TFP and capital accumulation.

Figure 4. Contribution to GDP per capita growth (annual average over 10-year periods, in percent)

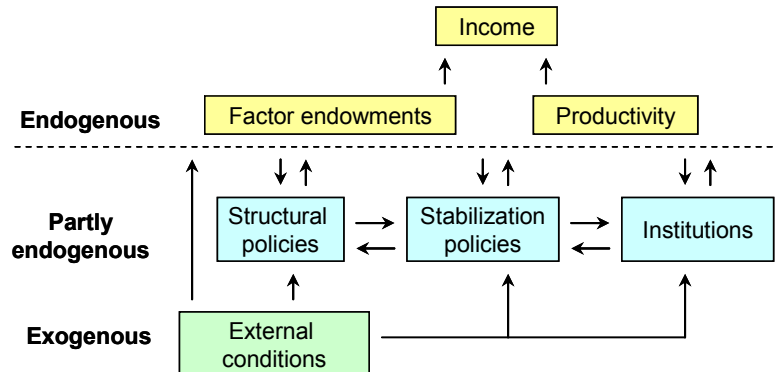


Sources: IFS; WDI; and authors' calculations.

B. Empirical Endogenous Growth Model

The empirical endogenous growth model identifies partly endogenous variables (structural policies, stabilization policies, and institutions) and exogenous variables (external conditions) (Figure 5). Our choice of growth determinants was guided by two criteria: that these variables are widely used in the growth literature and that they capture the diverse aspects of policies and shocks in Haiti and the Dominican Republic (Box 1).

Figure 5. Endogenous growth model



not alter the conclusions). We do not control for capacity utilization or quality of human capital due to data limitations.

Box 1. Literature survey

Below is a brief literature survey of the main reference papers used to guide our choice of explanatory variables.

Stabilization policies. Using regression analysis, Fischer (1993) finds that high inflation, distorted foreign exchange markets, and large budget deficits have a negative effect on economic growth. Inflation reduces growth by reducing investment and productivity growth; large budget deficits also reduce both capital accumulation and productivity growth. Sahay and Goyal (2006) find that on average in Latin America volatility of inflation and devaluation was higher in low growth periods as compared to high growth periods, and fiscal balances were worse and their volatility higher during low growth periods.

Human capital formation. Lucas (1993) finds that the main engine of growth is the accumulation of human capital and the main source of differences in living standards among nations is differences in human capital. Romer (1989) also finds that the growth of total factor productivity depends on the level of human capital, reflecting the idea that more educated and skilled people are more inventive and innovative.

Financial depth. Schumpeter (1934) argues that financial intermediation alters the path of economic progress by affecting the allocation of savings with consequent positive impacts on productivity growth and technological change. King and Levine (1993a, b) find that higher levels of financial development are positively associated with faster rates of economic growth, physical capital accumulation, and economic efficiency improvements.

Trade openness. Miller and Upadhyay (2000) find that trade openness generally benefits total factor productivity by improving the terms of trade, and lowering the real value of the domestic currency. Sachs et al. (1995) find that trade openness fosters growth and Edwards (1997) finds that more open countries have experienced faster productivity growth. Dollar and Kraay (2004) also find that increased trade has encouraged growth and poverty reduction, and has contributed to narrowing the gaps between rich and poor countries.

Political stability. Corbo and Rojas (1993) find that political instability has a highly negative effect on investment rates, by creating an environment of high uncertainty. Barro (1991) sustains that there is a negative relationship between political instability and investment and growth, due to its adverse effects on property rights.

Terms of trade. Findings on the effects of terms of trade shocks are not consistent. Easterly et al. (1993) find that terms of trade shocks play a large role in explaining variance in growth. Perez and Moreno-Brid (1999) find that the terms of trade may not necessarily explain the long-term growth of Central American and Caribbean economies, as terms of trade have been rather stable for these countries, including for the Dominican Republic and Haiti.

Global external conditions. Easterly (2001) finds that worldwide factors such as the increase in international interest rates, the growth slowdown of industrial countries, the rise in the debt burden of developing economies, and the development of skill-based technological innovations explain the marked decrease in developing countries' growth rates in the 1980s and 1990s with respect to the previous two decades.

Based on this framework, a dynamic panel model of per capita real GDP growth is estimated to assess the relative importance of these growth determinants. The reduced-form equation builds on the work by Loayza, Fajnzylber and Calderón (2005), modifying their specification to better explain developments in the Dominican Republic and Haiti, as will be described in detail further below.

Loayza, Fajnzylber, and Calderón (2005)—LFC Model

Loayza, Fajnzylber and Calderón (2005) use the following variation of the standard growth regression:

$$y_{i,t} - y_{i,t-1} = \alpha y_{i,t-1} + \alpha_C (y_{i,t-1} - y_{i,t-1}^T) + \beta' X_{i,t} + \mu_t + \eta_i + \varepsilon_{i,t}$$

where y is log of output per capita, y^T represents the trend component of output per capita, $y_{i,t-1} - y_{i,t-1}^T$ is the output gap at the start of the period, X is a set of additional variables postulated as growth determinants, μ_t is a period-specific effect, η_i represents unobserved country-specific factors, and ε is the regression residual. The inclusion of the initial output gap as an explanatory variable controls for cyclical output movements in order to differentiate between transitional convergence (initial GDP per capita, y_{t-1})—based on the conditional convergence hypothesis—and cyclical reversion to the long-run trend (y_{t-1}^T).

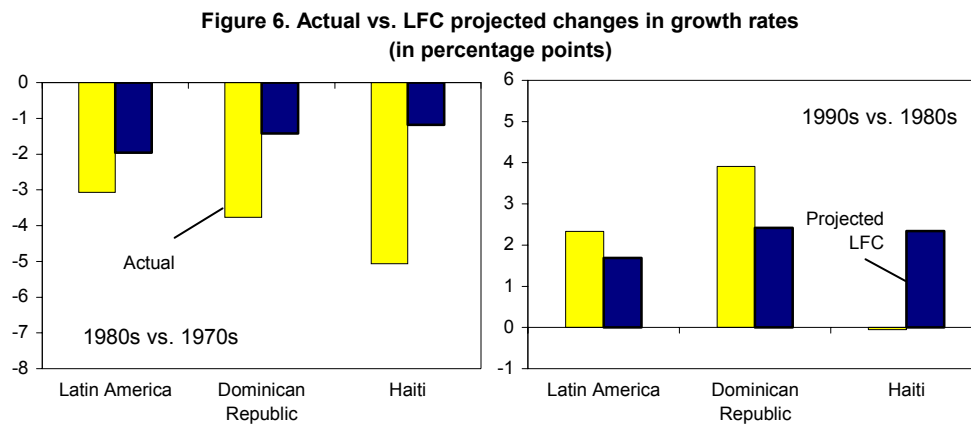
Table 1 describes the growth determinants included in the LFC model, which can be grouped as in the proposed empirical endogenous growth model.¹¹

Table 1. Variables used in the LFC model	
Transitional convergence (initial GDP per capita)	
Cyclical reversion (initial output gap)	
Structural policies	
	Education (secondary school enrollment)
	Financial depth (private domestic credit /GDP)
	Government burden (government consumption /GDP)
	Public infrastructure (main phone lines per capita)
	Trade openness (structure-adjusted trade /GDP)
Stabilization policies	
	Lack of price stability (inflation rate)
	Cyclical volatility (standard deviation of output gap)
	Real exchange rate overvaluation (index of real exchange rate overvaluation)
	Systemic banking crises (frequency of years under crisis)
Institutions	
	Governance indicator (International Country Risk Guide- ICRG)
External conditions	
	Terms of trade shocks (growth rate of terms of trade)
Source: Loayza et al. (2005)	

¹¹ See Appendix 2 for details on definitions and sources.

The LFC model is estimated using a system generalized method of moments (GMM) estimator for a sample of 79 countries over the period 1961-1999.¹² The regression analysis is conducted using five-year, ten-year, and thirty-year averages, but for conciseness we will refer only to the ten-year results.

Figure 6 shows that in broad terms, the LFC model does well in explaining the direction of the changes in growth rates in LAC. The results show that the Dominican Republic, Haiti, and LAC all experienced a decline in their growth rates in the 1980s, while economic recovery in the 1990s was stronger in the Dominican Republic than for the LAC average. However, the LFC model does not perform as well in explaining the magnitude of change, especially for Haiti. Therefore, to improve the fit of the model, we propose some modifications to the LFC specification.



Sources: Loayza et al. (2005); and authors' calculations.

Improving the fit of the LFC model

Looking more deeply into the behavior of the different growth determinants for the Dominican Republic, Haiti, and LAC, we identify variables in the LFC model that can be enhanced to improve the fit of the model. In particular, we propose alternative measures for institutional quality and stabilization policies.

Institutional quality

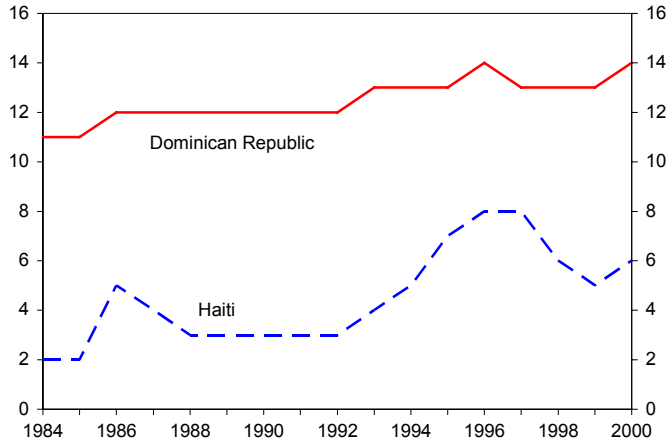
LFC uses an International Country Risk Guide (ICRG) index as a measure of institutional quality that captures the prevalence of law and order, quality of bureaucracy, absence of corruption, and accountability of public officials. However, this variable is not found to have a statistically significant impact on economic growth. This may be the case because the time series is too short, as ICRG data are only available from 1984 onwards, and because the ICRG is a subjective indicator that measures perceptions of change in institutional quality, not the actual change. Furthermore, for the particular case of Haiti, the ICRG indicator does not provide an adequate picture of important political and institutional developments as it

¹² See Appendix 3 for the list of countries included in the panel regression.

shows improvement in institutional quality during the most politically unstable periods, that is, the mid-1980s and early 1990s (Figure 7).

Another factor—directly linked to institutional quality—that has been found to have a negative impact on growth is political instability (Barro, 1991; and Corbo and Rojas, 1993). We propose using changes in political regime as a proxy for political instability. Information on political regimes is drawn from the Polity IV database, which provides a unified polity scale that ranges from +10 (strongly democratic regime) to -10 (strongly autocratic regime) on an annual basis for all countries between 1800 and 2004. We measure political instability as the absolute sum of changes in political regime, as determined by the polity scale. That is, when a country moves from a democratic regime to an autocratic regime (or the reverse), the political instability measure will be higher than if a country faces small variations within a democratic regime (or within an autocratic one).

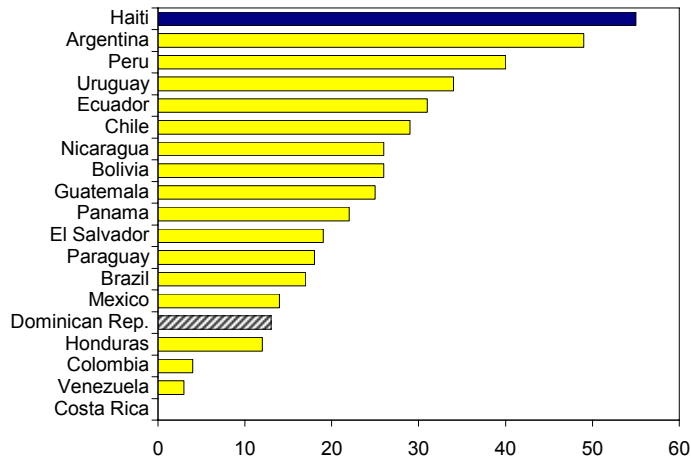
Figure 7. ICRG institutions index
(increase indicates better institutions)



Sources: ICRG; and authors' calculations.

Figure 8 shows the contrast between Haiti and the Dominican Republic in terms of political instability. Haiti has faced much more political instability than the rest of Latin America, with several democratically-elected regimes quickly turned over by coups or elected leaders becoming more authoritarian. On the other end of the spectrum, the Dominican Republic has been among the most stable countries in the region, in particular since 1970 when the Dominican Republic's growth rate began to outpace that of Latin America.¹³

Figure 8. Magnitude of regime changes, 1970-2003
(increase indicates more political instability)

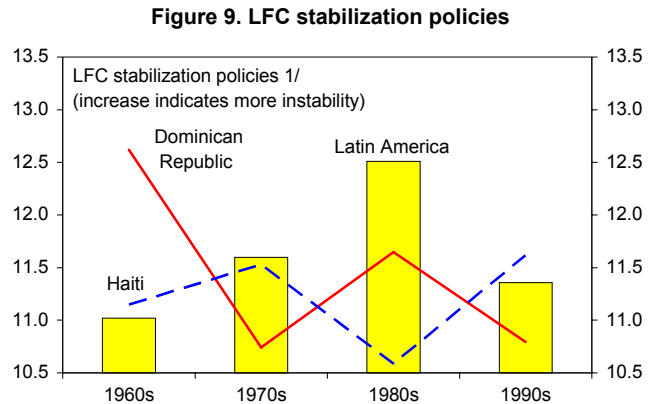


Sources: Polity IV database; and authors' calculations.

¹³ Since 1960, Haiti has experienced numerous regime changes, including following the fraudulent elections of Papa Doc (1961); the death of Papa Doc (1971); the freeing of political prisoners and loosening of control over the press by Baby Doc (1977); the departure of Baby Doc (1986); failed elections and coups d'etat (1988-1991); return of Aristide (1994); the dissolving of Parliament (1999); and irregular elections (2000). Regime changes (continued...)

Macroeconomic stability

We find that the stabilization measures used by LFC have several drawbacks related to measurement difficulties. In particular, a credible estimation of potential output is complex, especially in countries that face structural breaks (through conflict or structural reform), making the output gap difficult to measure. Determining the real exchange rate equilibrium to calculate overvaluation of the exchange rate is also tricky. These issues are evident in the case of Haiti during the 1980s, where continuous poor economic performance resulted in low output gap volatility, implying better stabilization policies according to LFC variables, but clearly contrary to overall developments in the economy (Figure 9).



Sources: Loayza et al. (2005); IFS; and authors' calculations.
1/ Combines inflation, cyclical volatility, and real exchange rate overvaluation for illustrative purposes only. The variables are used independently in the regression analysis.

Alternatively, in order to get an overall picture of the stance of stabilization policies, we propose a measure of macroeconomic instability that combines inflation, the fiscal deficit, exchange rate volatility, and international reserves losses. The need to look at various factors simultaneously to determine the stance of macroeconomic policies has been underscored by Fischer (1993) and Sahay and Goyal (2006). A combined indicator is considered to be more appropriate because any variable taken in isolation provides only partial information. For example, inflation gives a good indicator of the stance of monetary and fiscal policies, but may be biased by price controls. However, price controls would show up as higher fiscal deficits when funds are transferred to price control agencies. Moreover, while price controls might keep inflation down, uncertainty and lack of confidence in financial policies would put pressure on the exchange rate. Exchange rate pressures may not be evident in the context of a fixed exchange rate regime, but the authorities' efforts to maintain foreign exchange stability would show up as changes in international reserve holdings.

More specifically, a macroeconomic instability index (mi) is constructed as the weighted sum of inflation rates and exchange rate volatility, minus reserve accumulation as a percent of base money at the beginning of the period, and minus the fiscal balance as a percent of GDP. Therefore, a higher value for the index indicates more instability. Each variable is weighted by the inverse of its standard deviation. Standardizing the variables ensures that all the components of the index have equal sample volatilities so that movements in the index are

in the Dominican Republic have been few, especially since 1970, and include the death of Trujillo (1961); coup and civil war (1962-63); Balaguer's defeat in the elections (1978); and Balaguer's agreement to cut his term short following rigged elections (1994). See Appendix 1

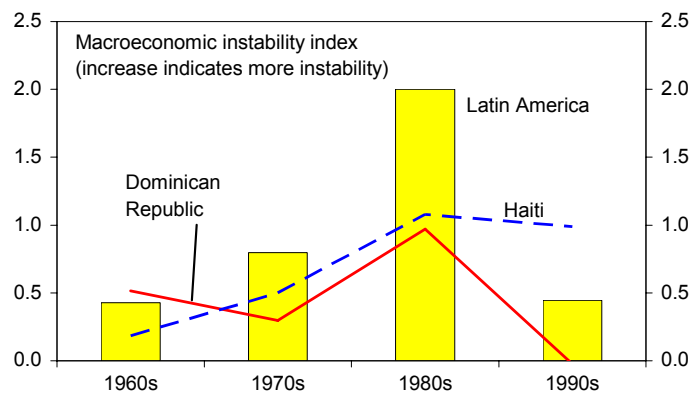
not solely driven by the most volatile component. While the methodology for constructing the mi index draws from indicators of speculative pressure in the crisis literature, to our knowledge, this particular index has not been used elsewhere.¹⁴ The index is constructed as follows:

$$mi_{it} = \frac{\ln\left(\frac{cpi_{it}}{cpi_{i,t-1}}\right)}{\sigma_{cpi}} + \frac{\ln\left(\frac{er_{it}}{er_{i,t-1}}\right)}{\sigma_{er}} - \frac{\ln\left(\frac{res_{it} - res_{i,t-1}}{bm_{i,t-1}}\right)}{\sigma_{res}} - \frac{\ln\left(\frac{fbal_{it}}{gdp_{it}}\right)}{\sigma_{fbal}}$$

where mi is the macroeconomic instability index for country i at time t , cpi is the consumer price index, er is the exchange rate of national currency to US dollar, res is the stock of international reserves, bm is base money, $fbal$ is the fiscal balance, gdp is nominal GDP, and σ is the standard deviation of each variable.

Figure 10 illustrates the behavior of the mi index for the Dominican Republic and Haiti. Since the 1970s, the Dominican Republic has outperformed Haiti and Latin America on average, in terms of stabilization policies. Meanwhile, Haiti's performance in terms of stabilization policies was better than that of the region until the 1990s. This was largely the result of a conservative monetary policy, which consisted of a *de facto* currency board arrangement until 1979 and a tight policy stance during the 1980s with high reserve requirements and high real interest rates.¹⁵ Further details on stabilization policies in both countries are provided in the following section.

Figure 10. Indicator of macroeconomic instability



Sources: IFS; and authors' calculations.

¹⁴ See Eichengreen et al. (1995), Kaminsky and Reinhart (1999), and Herrera and Garcia (1999). Sensitivity analysis indicated that the panel regression results are largely robust to the choice of weighting scheme.

¹⁵ Until 1979, the central bank law stipulated that the amount of currency issued had to be fully covered by foreign reserves in order to preserve the exchange rate parity.

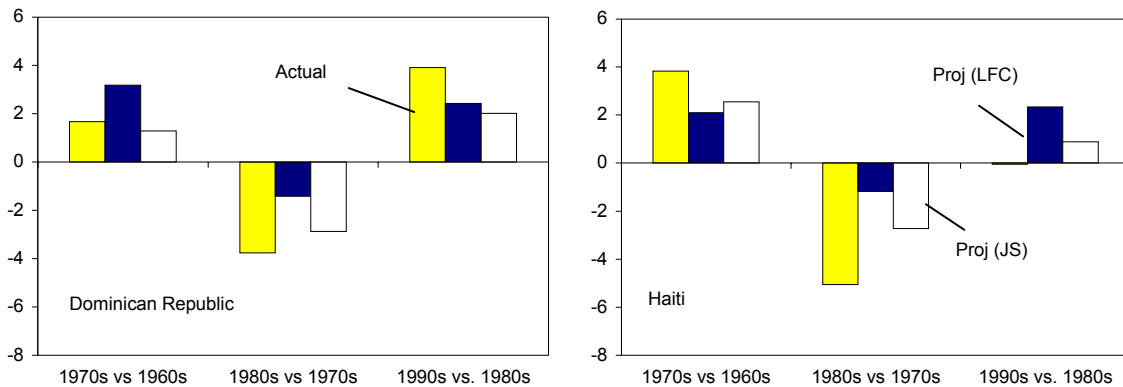
Panel regression

We use dynamic panel analysis to test the significance of the two proposed variables discussed above. We follow the basic approach of LFC, modifying the explanatory variables by: (i) replacing the ICRG index with the regime change variable based on the Polity IV database; and (ii) replacing the four LFC stabilization policy variables (inflation rate, standard deviation of output gap, real exchange rate overvaluation, and systemic banking crises) with the composite macroeconomic instability index (*mi*). We use the same 79 country sample, with five- and ten-year intervals between 1961 and 1999, but discuss only 10-year results for simplicity and conciseness.¹⁶ The panel regression is estimated with a GMM-IV system estimator using lagged levels and first-differences of the variables as instruments, and imposing robust two-step standard errors (Table 2).

C. Growth Determinants

The analysis of changes in growth rates between decades reveals that the model improves the fit for both the Dominican Republic and Haiti, as well as for Latin America (Figure 11). In the case of the Dominican Republic, the model is able to better predict the changes in growth trends in the 1970s and 1980s, though some of the growth boom of 1990s remains unexplained. For Haiti, the model provides a better explanation of developments over the entire period.

Figure 11. Actual vs. LFC and JS projected changes in growth rates (in percentage points)



¹⁶ Both period intervals yield similar results; the coefficients have identical signs and are broadly of the same order of magnitude; however, the significance of these coefficients is lower for the 10-year estimation largely due to lower degrees of freedom.

Table 2. Results of panel regressions on real per capita GDP

Growth determinants	GMM-IV system 5-year periods	GMM-IV system 10-year periods
Transitional convergence (initial GDP per capita, in logs)	-0.0245 [0.023]	-0.0495 [0.089]
Cyclical reversion (initial output gap, in logs)	-0.2273 [0.027]	-0.0167 [0.818]
Structural policies		
Gross secondary school enrollment (in logs)	0.0186 [0.093]	0.0145 [0.483]
Private domestic credit /GDP (in logs)	0.0038 [0.514]	0.0092 [0.118]
Trade /GDP (in logs)	0.0139 [0.139]	0.0101 [0.269]
Government consumption /GDP (in logs)	-0.0208 [0.064]	-0.0031 [0.819]
Main phone lines per capita (in logs)	0.0112 [0.174]	0.0246 [0.002]
Stabilization policies		
Macroeconomic instability index	-0.0024 [0.063]	-0.0021 [0.211]
Institutions		
Polity IV index	-0.0016 [0.004]	-0.0003 [0.620]
External conditions		
Growth rate of terms of trade	0.0197 [0.520]	0.0592 [0.323]
Period shifts		
1966-70	0.0058	
1971-75	0.0038	
1976-80	-0.0010	
1981-85	-0.0227 **	
1986-90	-0.0161	
1991-95	-0.0230 *	
1996-99	-0.0287 **	
1970s		-0.0081
1980s		-0.0288 ***
1990s		-0.0403 **
Intercept	0.0851	0.3010 *
Specification tests (<i>p</i> values)		
Hansen test of overidentifying restrictions	1.000	0.412
First-order serial correlation	0.000	0.065
Second-order serial correlation	0.278	0.159

1. *p* values are in brackets. ***, **, and * denote significance at 1 percent, 5 percent, and 10 percent respectively.

2. Significance of coefficients is lower for the estimation with 10-year periods largely due to lower degrees of freedom. In addition, imposing robust two-step standard errors considerably lowers significance, especially for the estimation for 10-year periods.

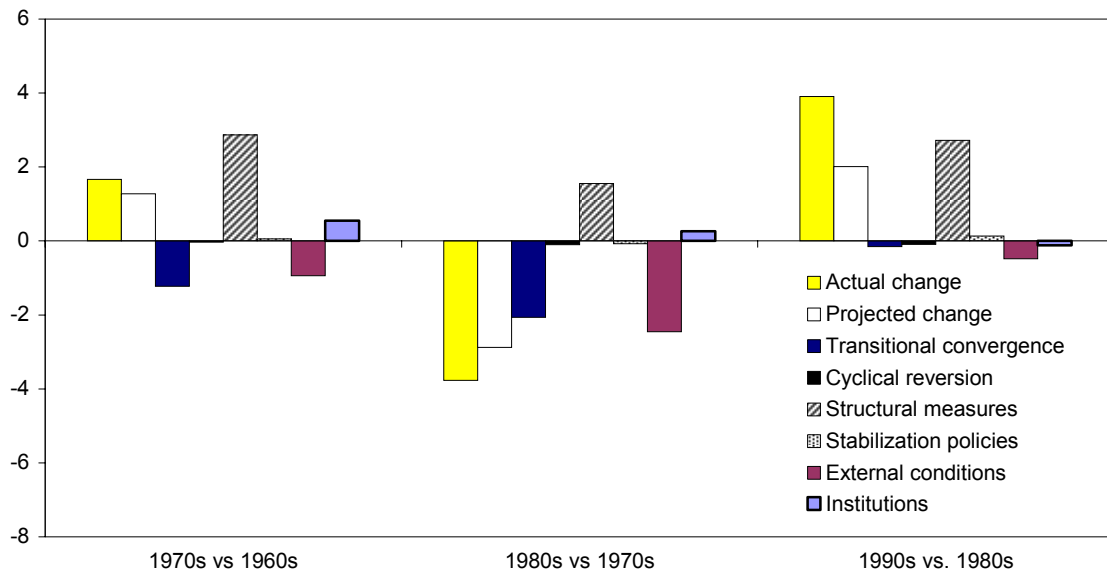
Source: Authors' estimation using Arellano-Bond dynamic panel data estimation with robust two-step standard errors.

Based on these results, the following section identifies the main determinants of growth for each period, for each country, in order to provide a flavor of the specific policies being captured by the model. In general, structural policies have been the key determinant of growth in both the Dominican Republic and Haiti, followed by political stability and stabilization policies.

Dominican Republic

During the 1970s, average GDP per capita growth rates in the Dominican Republic increased to just above 5 percent, from close to 3 percent in the 1960s. The improvement in growth rates is explained in most part by progress made on structural measures, in particular education and credit to the private sector, and by enhanced political stability (Figure 12). This progress took place within a framework of broadly prudent fiscal and monetary policies, favored by a strong balance of payments position in the early 1970s.

Figure 12. Dominican Republic: Changes in growth rates by component (in percentage points)



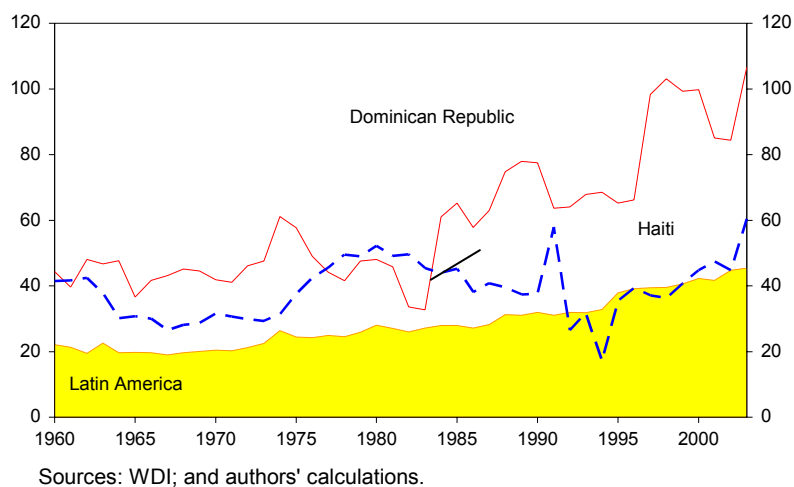
- Improvements in secondary school enrollment outpaced the average for LAC, which allowed the Dominican Republic to “catch up” to the average enrollment levels of the region. Specifically, the government introduced major curriculum reforms at the primary and secondary levels to make schooling more relevant to work life, resulting in improvements in access to education.
- Although still at lower levels than the LAC average, credit to the private sector as a percent of GDP grew more rapidly in the Dominican Republic than in the region. Commercial bank credit received a boost in the late 1960s when effective reserve requirements were lowered. The new system allowed banks to discharge part of their required reserve obligation by lending a certain minimum of their reserve liabilities to “productive” sectors. By end-1973, all banks were under the new system.

- Furthermore, Joaquin Balaguer, the president of the country for most of the 1970s, provided political stability following the years of political unrest in the mid-1960s.

As with most of LAC, the 1980s were years of economic turmoil. Average growth of GDP per capita in the Dominican Republic was basically flat. The sharp contraction in growth rates during this decade can be explained by unfavorable external conditions and by the deterioration of stabilization policies. This took place despite considerable improvements in structural measures, particularly trade openness.

- In the 1980s, large fiscal deficits contributed to monetary expansion and inflationary pressures, which in turn exacerbated the distortions created by extensive price controls. The inconsistency between exchange rate policy and other financial policies generated overvaluations of the peso that resulted in sizeable depreciations, and the central bank steadily lost official reserves.

**Figure 13. Trade openness
(in percent of GDP)**



- The increase in trade openness is explained by improvements in exports arising from greater trade benefits to the U.S. market, as the Caribbean Basin Initiative came into effect in 1983, and by the approval of the 1983 Free Trade Zone Law that provided incentives for export industries, including 20-year tax exemptions (Figure 13).

During the 1990s the Dominican Republic recovered the GDP per capita growth rates of the 1970s, just under 5 ½ percent of GDP. The primary contributors to growth were structural measures, and in particular important improvements in trade and infrastructure, supported by the implementation of corresponding stabilization policies.

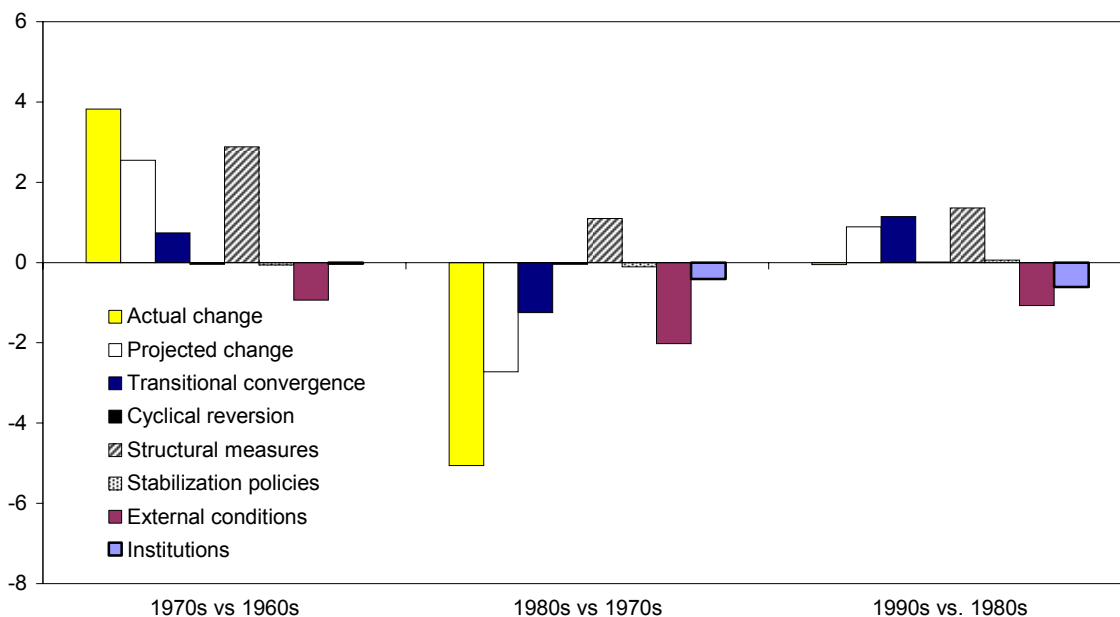
- In the 1990s, the Dominican Republic embarked on a comprehensive economic program that included liberalization of the exchange rate, prices, and interest rates, as well as fiscal consolidation. This led to a sharp reduction in inflation, foreign exchange rate stability, and declining public external debt.
- Trade openness jumped in the mid-1990s, as a result of the elimination in 1993 of export restrictions (such as export licensing and minimum export prices for agricultural products) and all export taxes, as well as the reduction in tariffs. In addition, a new FDI law was approved in 1996 that facilitated operations of foreign firms, reduced sectoral restrictions and liberalized repatriation of capital and utilities. This led to a substantial increase in FDI, in particular in the tourism sector.

- During this period, infrastructure in the Dominican Republic grew at a faster rate than the average for the region. Beyond the expansion of telephone lines (the measure used in the regression), there was a general improvement in infrastructure in the 1990s, with the expansion in electricity generation and construction in tourism resort areas (including an international airport and roads).

Haiti

The 1970s was the only decade when the change in GDP per capita growth rates was positive (Figure 14). From negative growth rates in the 1960s, growth in the 1970s averaged just above 2.5 percent. The main contributors to growth were structural measures, in particular, trade openness, education, and credit to the private sector.

Figure 14. Haiti: Changes in growth rates by component (in percentage points)



- In 1971, Haiti freed exchange transactions for all current payments and capital investment, while eliminating restrictive practices and controls (including the exchange surrender requirement for exports and delays in remittances for service payments). This favored the export environment and the assembly sector in Haiti began to grow.
- In the 1970s, the Haitian government began to reform its educational system, mostly at the primary level. With the 1978 education reform, the government unified educational administration and introduced the use of Haitian Creole as the language of instruction in the first four grades. In addition, school enrollment was boosted by school nutrition programs. Notwithstanding the improvement, Haiti's secondary school enrollment continued to be lower than the average for LAC.
- Credit to the private sector was encouraged by a 1972 reform that gave banks permission to extend medium-term credit to industrial and export sectors.

The economic contraction in Haiti during the 1980s was stronger than in LAC, at an average of -2.4 percent in Haiti compared to -0.9 percent for the region. While external conditions were adverse, growth performance was affected by increasing political instability and a weakening of stabilization policies.

- Political turmoil increased in the early 1980s due to growing discontent with the Duvalier regime. His departure in 1986 was followed by successive failed elections and coups d'état. Between 1986 and 1990, there were six different heads of state.
- In the 1980s, government revenues began to underperform while the government pursued heavy outlays on construction works, defense, and loss-making public enterprises. Extrabudgetary spending continued to expand in the face of civil disturbances, as external concessional assistance declined. The public sector increasingly relied on central bank financing that led to official reserve losses and external payments arrears emerged, putting rising pressures on the exchange rate and domestic prices.

GDP per capita growth in the 1990s continued the same negative trend as in the 1980s, with an average growth rate of -2.4 percent. Growth performance over the period was dominated by a major shock to the economy. Following the coup d'état against Jean Bertrand Aristide, the U.S. and the OAS imposed a trade embargo in 1991, aggravated by a U.N.-sponsored oil embargo in 1993. While the embargo is captured to some extent by the political instability and trade openness variables, the broader effects of this shock are not well represented in the model.

- Political events in the 1990s in Haiti included several failed presidential and parliamentary elections, coups d'état, as well as a U.S.-led military intervention. During this period, there were nine different heads of state.
- In the years prior to the embargo, trade openness was about 40 percent of GDP. During the embargo years, average trade openness fell to an average of 25 percent of GDP, and has been recovering slowly. The assembly sector was severely affected. At the end of the 1980s, Haiti assembled a wide variety of light manufactures, such as baseballs and electrical switches, together with apparel products. With the embargo, the assembly industry collapsed, and following the lifting of sanctions in 1994, only the garment sector reestablished itself. Employment in the assembly sector fell from 46,000 in the late 1980s to just 5,000 in 1995.

V. CONCLUSIONS

This paper tries to explain why the Dominican Republic and Haiti have experienced a striking divergence in growth performance despite their broad similarities in terms of geography and historical institutions. We examine both the initial conditions and the different policies pursued in each country since 1960 in order to identify the factors that may have contributed to this divergence.

When examining initial conditions, namely geography and historical institutions, we find strong similarities between the Dominican Republic and Haiti, implying that initial conditions cannot fully explain the divergence in real incomes of the two countries. While, by 1960, Haiti was already trailing the Dominican Republic in some social indicators, differences were not inherited from the historical legacies of the 19th or early 20th centuries. Although lack of national accounts prior to 1960 does not allow us to determine the exact point in time when the Dominican Republic started to outpace Haiti, disparities are likely to have started to emerge in part as a result of the policies implemented in each country following the U.S. military occupation.

The panel regression and case study approach allow us to conclude that policy decisions since 1960 have played a central role in the growth divergence between Haiti and the Dominican Republic. In general, structural policies have been the key determinant of growth in both the Dominican Republic and Haiti, followed by political stability and stabilization policies. In particular, we find that the Dominican Republic has consistently outperformed Haiti and LAC in terms of implementation of structural measures, stabilization policies, as well as political stability. Meanwhile, Haiti has lagged the region in implementing structural policies, while being subject to numerous political shocks that have severely affected its growth performance.

While this paper identifies the kind of policies linked to growth performance in both countries of Hispaniola, future work would be needed to understand why decision makers in the Dominican Republic chose and were able to implement superior policies to those in Haiti. Further research could also provide insight into the sources of the persistent political turmoil in Haiti, as well as to the circumstances that allowed the Dominican Republic to surmount the political instability of the 19th and early 20th centuries.

APPENDICES

I. Chronology of political events**Dominican Republic**

- 1821-1843 In 1821, the DR gains independence from Spain but is soon after invaded by Haitian leader Jean-Pierre Boyer, uniting the island for the next 22 years.
- 1844 On February 27, 1844 (Dominican Independence Day), Juan Pablo Duarte executes a bloodless coup in Santo Domingo. During the next 16 days all of the eastern towns announce their decision to separate from Haiti.
- 1844-1865 General Pedro Santana Familias and Buenaventura Baez Mendez dominate the political scene. In 1861 Santana agrees to the Dominican Republic's annexation by Spain. However, on March 3, 1865 the annexation is annulled and Spain withdraws its soldiers.
- 1865-1878 Political turmoil and corrupt governments dominate this period.
- 1879-1882 Two dominant parties—the Azules and the Rojos—emerge. For the next three years the Azules control the government.
- 1882-1899 General Ulises Heureaux comes to power. He retains power through fraudulent elections and army control. Heureaux borrows vast sums from U.S. investors at high interest rates. He also replaces the National Bank with the U.S. owned and operated San Domingo Improvement Company. Heureaux is assassinated in July 1899.
- 1900-1905 Soon after Heureaux's death, the Dominican Republic could not repay its debts. The U.S. government intervenes by taking control of the customs houses in 1905, guaranteeing repayment of all loans.
- 1905-1911 Ramon Caceres is elected president. He sets up the railway, improves the postal service, installs telegraph lines, rebuilds docks, funds new schools, and constructs highways. He increases export taxes on Dominican sugar to pay for public improvements, which angers plantation owners. Caceres is shot dead in 1911.
- 1911-1916 Various revolutions follow Caceres' death. U.S. president Woodrow Wilson, concerned about U.S. national security, threatens to send marines if elections are not held. Juan Isidro Jimenez is elected president but is soon impeached before Congress. The U.S. offers support, and though Jimenez only requests weapons, the marines are sent in.
- 1916-1924 The Dominican Republic comes under U.S. control for 8 years. In particular, the Americans control the budget. The American troops leave by 1924, as Woodrow Wilson is no longer in power, World War I is over, and the U.S. is considerably less concerned with the Dominican Republic's strategic importance.
- 1924-1930 President Horacio Vasquez has a progressive government, building roads creating access to the countryside, schools, and irrigation and sanitation services.
- 1930-1961 Rafael Leonidas Trujillo, chief of the National Police (which later became the National Army), forces Vasquez to resign. Trujillo holds an election for which he is the sole candidate. Trujillo rules the Dominican Republic with an iron fist from 1930 to 1947 and indirectly thereafter until his assassination in 1961.

Trujillo uses his government to amass a personal fortune by establishing monopolies that his family controlled. Trujillo carries out programs of public works and construction. He also presses for industrial progress, and scores of factories are opened. Agricultural production improves and the economy flourishes.

- 1962-1966 President Joaquin Balaguer is in office at the time of Trujillo's assassination. Elections are organized. In 1962 Juan Bosch Gaviño is elected, but is toppled in a military coup in 1963. Bosch and a group of supporters who called themselves the Constitutionals take to the streets and seize the National Palace. To reinstate order, 24,000 U.S. soldiers were ordered to the Dominican Republic until new elections were held in 1966.
- 1966-1978 Balaguer defeats Bosch in national elections. Balaguer purges the military and uses the National Police to curtail non-military opposition. His reelections in 1970 and 1974 are mostly accomplished through intimidation.
- The economy expands rapidly, benefiting from favorable world prices for sugar. However, by the late 1970s, plunging sugar prices and rising oil costs bring the Dominican economy to a standstill.
- 1978- 1986 Silvestre Antonio Guzman defeats Balaguer in the elections. He leads a corrupt government. Public-works programs are brought to a halt and the administration borrows heavily from abroad. Guzman's popularity diminishes rapidly. Salvador Jorge Blanco is elected in 1982. Soon after comes the debt crisis and the Dominican Republic enters an IMF agreement. Macroeconomic and structural measures are put in place and slowly the economy picks up and inflation is brought under control.
- 1986-1996 Balaguer is reelected for a fifth term. He runs his government like a dictatorship, intimidating political rivals. He reverses the adjustment program under Blanco, leading to a sharp depreciation of the peso and annual inflation of 60 percent. By 1990, 900,000 Dominicans move to New York, fleeing the economic situation.
- Balaguer rigs the 1990 and 1994 elections. However, in 1994 the military threatens to intervene. Balaguer agrees to cut his last term short and hold elections 18 months later.
- 1996-2000 Leonel Fernandez wins the presidency. He presides over strong economic growth, privatization, and structural reform.
- 2000-2004 Hipolito Mejia becomes president. The events of September 11, 2001 and the ensuing slowdown in the world economy—take a toll on economic growth.
- In 2003, failures of 3 large banks due to accounting malpractices and mismanagement lead to a banking crisis.
- 2004-2006 Fernandez is reelected in 2004. The economy recovers at high growth rates.

Haiti

- 1804 The ex-slaves of the French colony of Saint-Domingue declare independence after defeating the French army at Vertière. They name their new nation Haiti, which means “mountainous” in the language of its original Arawak inhabitants.
- 1804-1820 Jean Jacques Dessalines proclaims himself emperor, but is assassinated in 1806. His death led to civil war between the south under General Pétion and the north under Henry Christophe.
- 1820-1843 Faced with a rebellion by his own army, Christophe commits suicide, paving the way for Jean-Pierre Boyer to reunify the country and become President of the entire republic in 1820. President Boyer invades Santo Domingo following its declaration of independence from Spain, controlling the entire island until 1844.
- In 1938, France recognizes Haitian independence in exchange for an indemnity of 150 million francs to compensate for the losses of French planters during the 1803 revolution.
- In 1843 Boyer flees the country following a revolution to overthrow him from the presidency.
- 1844-1915 Haiti sees 22 heads of state, most of whom leave office by violent means. The U.S. and other slaveholding states do not recognize Haiti until 1862.
- 1915-1934 Concerned about German economic influence in the country and continued political instability, the U.S. military occupies Haiti after the last in a series of short-lived presidents is torn to pieces by a mob. The U.S. marines establish control over customs-houses and port authorities, and create the Haitian National Guard.
- 1934-1956 Once the Americans leave, political instability resumes, with regime changes taking place through military coups.
- In 1937, thousands of Haitians living near the border of the Dominican Republic are massacred by Dominican soldiers under the orders of President Trujillo.
- 1957-1971 Francois Duvalier (Papa Doc) is elected president in the country’s first universal suffrage election. Reelected in fraudulent elections in 1961, he declares himself president for life in 1964 and, until his death, holds on to power as a ruthless dictator with the help of a paramilitary force known as Tontons Macoutes.
- 1971-1986 Jean-Claude Duvalier (Baby Doc) becomes the new president for life after his father’s death in 1971.
- After relatively favorable economic performance in the 1970s, the macroeconomic situation deteriorates sharply in the early 1980s, affected by the recession in the U.S. and economic mismanagement. Social discontent culminates in public protests and violence, and Duvalier flees to France in 1986.
- 1986-1994 Starting in 1986 there are several brief attempts at civilian democracy, each terminated by a military coup.
- In September 1991, Jean-Bertrand Aristide, a popular priest elected in 1990, is forced to flee the country only nine months after taking office. The United States and the Organization of American States respond with a trade embargo, and in 1993 a UN-sponsored oil embargo is imposed. In September 1994, Aristide is reinstalled in office with the help of a U.S.-led military intervention.

- 1995-1996 Aristide disbands the army. Aristide supporters win parliamentary elections. As according to the constitution Aristide cannot serve a consecutive second term, he is succeeded by a close ally, René Préval.
- 1997-1999 Following a period of political deadlock, Préval dissolves parliament and rules by decree.
- 2000-2003 Aristide is reelected president, but the international community criticizes irregularities during the parliamentary elections. Political stalemate with the opposition leads to the freezing of foreign aid.
- 2004-2005 Amid deteriorating economic conditions, growing dissatisfaction with the government culminates in an armed rebellion. President Aristide resigns in February 2004 and leaves the country. A transition government is formed to lead the country to elections and an interim multinational force arrives.
- 2006 Elections are held in February 2006, and René Préval is reelected president.

II. Variable definitions and sources

Symbol	Variable	Source
Variables used in LFC		
Real GDP per capita	1985 PPP adjusted U.S. dollars (in logs)	Penn World Tables
Transitional convergence	Initial GDP per capita (in logs)	
Cyclical reversion	Initial output gap The difference between the log of actual GDP and the log of trend GDP at the beginning of the period. Trend growth is determined using a Baxter-King filter.	
Education	Gross secondary school enrollment (in logs) The gross enrollment ratio is defined as the total enrollment, regardless of age, expressed as a percentage of the official school-age population for a given level. Gross enrollment ratio can be over 100% due to the inclusion of over-aged and under-aged students.	UNESCO and Loayza et al. (2005)
Financial depth	Private domestic credit/GDP (in logs) Ratio to GDP of the stock of claims on the private sector by deposit money banks and other financial institutions.	International Financial Statistics (IFS)
Government burden	Government consumption /GDP (in logs)	IFS
Public infrastructure	Main phone lines per capita (in logs) The number of telephone mainlines per 1,000 people.	World Development Indicators (WDI)
Trade openness	The residual of a regression of the log of the ratio of exports and imports to GDP, on the logs of area and population, a dummy for oil-exporting countries, and a dummy for landlocked countries.	Authors' estimates based on IFS and WDI data
Terms of trade	Change in terms of trade Log difference of the terms of trade. Terms of trade is estimated as customary.	World Economic Outlook (WEO)

Symbol	Variable	Source
Alternative measures		
Political instability	Change in political regime The absolute sum of changes in political regime, as determined by the Polity IV polity scale that ranges from +10 (strongly democratic regime) to -10 (strongly autocratic regime).	Authors' estimates using Polity IV database.
MI	Macroeconomic instability index Weighted sum of inflation rates and exchange rate volatility, minus reserve accumulation as a percent of base money at the beginning of the period, and minus the fiscal balance as a percent of GDP. Each variable is weighted by the inverse of its standard deviation.	Authors' estimates based on IFS data
Inflation rate	Annual percent change in the consumer price index (in logs)	Authors' estimates based on IFS data
Exchange rate volatility	Annual percentage change of the foreign exchange rate (in logs)	Authors' estimates based on IFS data
International reserve accumulation	Annual change in net international reserves as a percent of base money at the beginning of the period (in logs)	Authors' estimates based on IFS data
Fiscal balance	Government fiscal balance /GDP (in logs)	Authors' estimates based on IFS data

III. List of countries included in the panel regression

Algeria	Kenya
Argentina	Korea, Republic
Australia	Madagascar
Austria	Malawi
Bangladesh	Malaysia
Belgium	Mexico
Bolivia	Morocco
Botswana	Netherlands
Brazil	Nicaragua
Burkina Faso	Niger
Canada	Nigeria
Chile	Norway
Colombia	Pakistan
Congo, Democratic Republic	Panama
Congo, Republic	Papua New Guinea
Costa Rica	Paraguay
Cote d'Ivoire	Peru
Denmark	Philippines
Dominican Republic	Portugal
Ecuador	Senegal
Egypt, Arab Republic	Sierra Leone
El Salvador	South Africa
Finland	Spain
France	Sri Lanka
Gambia	Sweden
Ghana	Switzerland
Greece	Syria, Arab Republic
Guatemala	Thailand
Haiti	Togo
Honduras	Trinidad and Tobago
Iceland	Tunisia
India	Turkey
Indonesia	Uganda
Iran, Islamic Republic	United Kingdom
Ireland	United States
Israel	Uruguay
Italy	Venezuela
Jamaica	Zambia
Japan	Zimbabwe
Jordan	

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