

BTI 2008 | Haiti Country Report

Status Index	1-10	4.08	# 99 of 125	
Democracy	1-10	4.40	# 79 of 125	↑
Market Economy	1-10	3.75	# 109 of 125	↗
Management Index	1-10	4.50	# 86 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Haiti Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

Key Indicators

Population	mn.	8.5	HDI	0.48	GDP p.c.	\$	1,479
Pop. growth ¹	% p.a.	1.4	HDI rank of 177	154	Gini Index		59.2
Life expectancy	years	53	UN Education Index	0.50	Poverty ³	%	78.0
Urban population	%	38.8	Gender equality ²	-	Aid per capita	\$	60.4

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The realization of presidential, parliamentary and local elections during the course of the year 2006 marks a historic step toward a reinvigorated and sustainable democratic transformation in crisis-ridden Haiti. The re-establishment of a legitimate political order provides the necessary *marge de manoeuvre* to implement substantial economic improvements for the impoverished majority. However, a high level of violence still threatens the political stability that the return to constitutional order in 2006 established. National and international efforts to control this situation so far have met with only partial success. Official documents recorded more than 530 armed-violence-related deaths during 2006.

Contrary to the preceding transitional government, new President Rene Preval and Prime Minister Jacques Edouard Alexis enjoy a high degree of acceptance and credibility with large sectors of the population, as well as foreign governments and multilateral agencies engaged in Haiti. The latter is important, since the Haitian authorities rely heavily on continued international aid, which has resumed since the transition. However, the international community's failure to meet agreed timelines for the disbursement of pledged funds has sparked tensions with the Haitian government.

In November 2006, the government was approved for debt reduction under the Heavily Indebted Poor Countries (HIPC) initiative, which will free substantial state resources to improve security and implement socioeconomic programs. In this context, the final drafting of an Interim Poverty Reduction Strategy Paper (I-PRSP) could additionally serve as a basis to install a coherent government program for the coming years. The final passing in U.S. Congress of a trade preference bill known under the acronym HOPE (Haitian Hemispheric Opportunity through Partnership Encouragement) in December 2006 is considered another important event. It bears the potential to boost the assembly sector that has suffered under political instability and rising insecurity in

recent years, reducing the number of businesses from 90 in the late 1990s to a mere 15 in 2007, and would thereby create thousands of new job opportunities. A good degree of financial discipline as well as conducive macroeconomic factors have together provided a good basis for economic transformation.

History and Characteristics of Transformation

The breakdown of the Duvalier regime in February 1986 represents the starting point of a long and enduring process of democratic transformation in Haiti. After a period of political transition that was marked by several coups d'état leading to military and provisional governments, the first free and democratic elections were held in 1990, out of which Jean-Bertrand Aristide emerged victorious. Ten months later, another coup d'état interrupted the process of democratization, forcing Aristide into exile and installing a three-year military regime (1991 – 1994).

The return to a constitutional order in 1994 – enforced by an international military intervention under U.S. leadership – triggered substantial economical progress. Accompanying factors such as increased external aid, the adoption of an urgency plan to stimulate the economy and to an increase of money transfers by Haitians living abroad stimulated this surge forward. Haiti witnessed valuable improvement of its economic indicators during that time. Nevertheless, the program of structural adjustment that the Aristide government introduced, which provided reforms like liberalization of commerce, privatization of public enterprises and a modernization of the public sector, was halted two years later due to growing protests denouncing its negative social effects. President René Préval (1996 – 2001) reintroduced the reforms during his first mandate only to face another rupture after Prime Minister Rosny Smart resigned in 1997.

By this time, the conflict between Aristide and a reformist wing of the Lavalas movement represented by the OPL (Organisation du Peuple en Lutte) had escalated so far that it ultimately split the Lavalas movement, which resulted in a near complete paralysis of the political administration. In the context of a political crisis triggered by controversial parliamentary elections in 2000 and an increasingly difficult relationship between the opposition and the Fanmi-Lavalas Party, Jean-Bertrand Aristide was elected president for the second time the same year. The political crisis combined with the blockade of international financial aid programs put the Aristide and his government (under the leadership of Prime Minister Yvon Neptune) in a very awkward situation. The application of his social and political program became increasingly difficult. The oppositional parties, frustrated by Aristide's second electoral victory, tried to deter his party from expanding its hegemony over the Haitian political system any further, and acted vehemently against the government's mandate. Long-lasting

negotiations between the government and the opposition did not lead to a solution of the political crisis; rather, it intensified to the point of violence. At the end of February 2004, an armed rebellion assembled by former militaries of the Haitian Armed Forces that Aristide had dissolved in 1994 and rebels linked to armed gangs coming from the north of the country instigated the breakdown of Aristide's government and his departure on 29 February 2004. Supreme Court Chief Justice Boniface Alexandre was designated as provisional president. Following the recommendations of a Council of Wise Men, composed of seven eminent personalities and in charge of charting the country's transition, Gerard Latortue was appointed to the position of interim Prime Minister. He formed a transitional government charged with creating the conditions for effective and democratic presidential and legislative elections, restoring macroeconomic stability, improving economic governance and laying the foundations for the rehabilitation of the weak national economy. This program was supported and fostered by the international community under the so-called Interim Cooperation Framework (ICF). The UN Security Council authorized the deployment of a Multinational Interim Force (MIF) in order to re-establish stability in the country until the arrival of the UN Peacekeeping Mission (MINUSTAH) in June 2004.

In April 2004, a political pact was signed between the transitional government, political parties and civil society in order to create viable conditions for the organization of democratic elections and the transfer of power to a newly elected government in February 2006. The pact was boycotted by Aristide's Fanmi-Lavalas party. Civil unrest marked the tenure of the transitional government, which revealed the deterioration of the state's capacity to guarantee the rule of law and maintain its monopoly on the use of force.

After several delays due to organizational and security problems, presidential and parliamentary elections were finally held in February 2006. Former prime minister and president Rene Garcia Preval was declared winner with a total of 51% after the first round. Preval's party Lespwa is the largest party in the Senate and the Chamber of Deputies, but does not hold a majority in either house – it holds one-fifth of the seats in the House of Deputies and one-third in the Senate. Jacques Edouard Alexis was chosen as Prime Minister and formed a coalition cabinet with the participation of six different parties from a broad spectrum. These agreements are widely recognized as an important step towards political stabilization and the prospects for further democratic and economic development in the country.

Transformation Status

I. Democracy

1 | Stateness

The state cannot assure its monopoly on the use of force effectively over the entire territory. The transitional government, effective until May 2006, failed to fully establish its authority in most provinces, where various armed groups and ex-members of the dissolved Haitian Armed Forces acted unlawfully as security providers. The gang warfare and general insecurity that characterize several districts of the capital Port-au-Prince have reached alarming levels. Factions sympathetic to former President Aristide manipulate many of the armed groups in poor neighborhoods, while others lay under the influence of anti-Aristide groups, drug-traffickers and other criminal organizations as well as elements of the national business elite. The state's capacity to respond to this phenomenon is weak. Since the dissolution of the Armed Forces of Haiti (FAd'H) in 1995 the National Police (PNH) represents the only security force in the country. But this entity of about 6,000 members so far shows a low level of performance and does not have the logistical means to effectively cover the entire territory of the country. The UN Stabilization Mission (MINUSTAH) deployed in the country since June 2004 is playing a vital –though widely criticized – role in stabilizing the country and helping the state to gain back its monopoly on the use of force. The implementation of a much more robust mandate since December 2006 has shown considerable results in the joint effort with the government to reinstate control over the entire territory. The installation of the National Commission for Disarmament, Dismantlement and Reintegration (CNDDR) in August 2006 also marked an important step. DDR activities aim to facilitate the negotiated disarmament and reinsertion into civil society of members of gangs and other armed groups. Late 2006 showed the first positive results in the implementation of the DDR-strategy.

Monopoly on the use of force

Haiti has no relevant ethnic diversity. Nevertheless, significant social cleavages tied to culture, language and religion divide the country. Historically, the peasants that represent the majority of the Haitian population have been considered as

State identity

“not-full-citizens” and have thus been prevented from exercising their civil and political rights. The widespread demand for democracy expressed by the rural population since the beginning of the transformation process reflects the legacy of a centuries-old fight for their civil rights. Even today nearly 40% of the Haitian population do not have their identity titles, without which they cannot exercise their civil rights or position themselves within the nation-state.

Religious dogma does not play an important role in the legitimacy of the state and the definition of the legal order in Haiti. Nevertheless a considerably high presence of religious institutions of either Catholic or different protestant denominations can be seen in political affairs. These religious organizations have managed to have considerable impact on the political negotiations through participation in such institutions as the Provisional Electoral Council (CEP). Still, religious actors play a more facilitating than strategic role; that is, they do not seek through their influence to impose a religious dogma on the state.

No interference
of religious
dogmas

The administrative system is highly deficient; it is centralized in the capital Port-au-Prince and other smaller urban centers. It cannot distribute public resources efficiently nor satisfy the basic needs of the majority of the population. Most rural areas do not dispose of any administrative structure at all. NGOs and international aid only compensate in part for the weakness of infrastructures and delivery of basic services caused by the scarcity of state resources and increasing corruption; their interventions are incoherent and are not coordinated by the state.

Basic
administration

2 | Political Participation

Since the beginning of the democratic transformation process, rulers have generally been determined by free and fair elections – though there are serious shortcomings. The period of investigation has seen the preparation and organization of general elections (president and the totality of the two chambers of Parliament), which were finally realized in February 2006. After President Aristide’s departure in February 2004 and the nomination of a transitional regime, the elections were necessary to return to a constitutional order and re-establish a democratically legitimized executive and legislative. Considerable organizational and logistical weaknesses marked the process as well as political confrontations within the Provisional Electoral Council (CEP) that had been named by the transitional government in 2005. The OAS (Organization of American States), responsible for the process of voter registration and the issuance of identity cards for all citizens who had registered to vote, denounced the lack of cooperation and political will to realize the elections. MINUSTAH was responsible for security, the transport of sensitive materials and provision of technical electoral assistance. With the failure of local agencies, the role of the UN rapidly expanded. By the end of the registration process in November 2005 official numbers reflected the

Free and fair
elections

registration of around 80% of potential voters. Despite these initial problems, the day of the first round of the elections passed without major incident or signs of fraud and with a voter participation of around 60%. As for the presidential elections, the lack of a clear winner between the 34 candidates led to instability. National electoral law requires an absolute majority for a candidate to win in the first round, but none of the candidates received more than 50%. Due to the fear of civil unrest and violent outbreaks the CEP and the international community negotiated a settlement: Rene Garcia Preval, who had received most votes, was – despite accusations of unconstitutionality and fraud – declared the winner. The second round of parliamentary and senatorial elections for a total of 30 seats in the Senate and 99 in the Chamber of Deputies were held in April 2006 with much lower participation but generally undisputed outcomes. The president was installed in May 2006 and the two newly convoked chambers of parliament approved a coalition government under the leadership of Prime Minister Jaques Eduard Alexis the same month. In December 2006, local elections were held in accordance with the constitutional laws regarding territorial administration. The results of these elections were widely disputed in several parts of the country; re-elections had to be held and final results were published only in March 2007.

Generally rulers emerging from elections in Haiti have the power to govern. But because of the strong polarization of the society and a predominant culture of confrontation within the political class, real governing power is restrained. The army, which traditionally represented a strong veto power, was dissolved in 1995, but other forces, such as the private business sector or the traditional political elite show a strong capacity to impede and isolate the executive and legislative. The government installed in May 2006 encompasses a broad spectrum of political parties and is widely considered a national unity government that tends to integrate spoilers into the process of political stabilization rather than seeking confrontation. As all major political players recognize the necessity of reconciliation and national dialogue to improve the economy, they share a commitment to cooperation.

Effective power
to govern

The Haitian constitution protects the right of independent political and civic groups to associate and assemble freely. However, in the context of political confrontation and polarization that dominated the past few years this principle was de facto disregarded. Various political and civic groups suffered persecution and acts of violence. In the aftermath of the 2006 elections, the situation has ameliorated considerably and there are currently no constraints on free association and assembly of political and civic groups.

Association /
assembly rights

The Haitian constitution proclaims and guarantees the right to freely express opinions as well as the freedom of the press. Again, in the climate of radical political confrontation that reigned in Haiti during the past few years these rights were severely restricted and several people – including a number of journalists –

Freedom of
expression

suffered from acts of violence for opinions expressed in public. The majority of these crimes still have not been persecuted. But it should be mentioned that the media themselves contributed significantly to the situation of confrontation and polarization, as they are often overtly politically biased and uncommitted to providing an interest-free, information-oriented journalism. In early April 2007 President Preval expressed his concern regarding the freedom of the press because of a growing tendency towards “auto-destruction” due to lack of journalistic professionalism, and spoke in favor of the creation of an ethical code for journalists and media workers.

3 | Rule of Law

The constitution guarantees the balance between the executive, legislative and judicial power. However, implementing and maintaining this balance has proved a challenge since the beginning of the democratization process. The problematic collaboration between the executive and the legislative has been one of the main sources of institutional instability in the country. Parliamentarians seem to believe that the power of their office places them above being held accountable to their electorate. The ratification of the budget, international treaties and important laws for economic, social and political transformation are often postponed and treated with a nonchalance, revealing a lack of professional capacity. There are no adequate institutional mechanisms to push parliamentarians to do the work the constitution and the people demand. Since the installment of the new government in 2006, interference of the executive with the legislative has been reduced considerably. However, the majority of the members of the newly elected lower chamber of parliament have yet to prove a sufficient level of professional ethics and capacity. The Senate, the pre-eminent player in the political system, enjoys a nearly unlimited veto right. Over the last 15 years, this has led to parliamentary anarchy and deadlock. In order to prevent authoritarianism, the constitution of 1987 checked presidential power with a strong parliament composed of two independent chambers. With the coming to power of the newly elected president and the prime minister, an administrative department has been created to facilitate communication between the executive (the presidency and the prime minister) and the legislative (the presidents of the two chambers of the parliament). Still this institutional arrangement contains a risk if it has to deal with uncompromising parliamentarians. The constitution of 1987 introduced a distinction between the president of the republic, as chief of state and the prime minister, as head of government in order to limit the power of the president. Haiti’s strong tradition of presidentialism however makes it very difficult for the Prime Minister to lead the governmental affairs. Nevertheless, recent developments have shown considerable amelioration of this constraint on the working separation of powers.

Separation of
powers

The judicial system is weak and widely dysfunctional due to a lack of resources, infrastructure – much of which was destroyed in the wake of the departure of ex-President Aristide – professionalism and qualified judges, as well as to the high costs of judicial procedures and a strong dependence on the executive. This latter point is clearly visible in the politicization to which the judiciary was exposed during the last years. The arbitrary imprisonment of leading Fanmi Lavalas figures during the mandate of the transitional government provided yet another indicator of this deeply ingrained malaise. Under-payment of judges has led to widespread corruption, which and has fueled the popular belief that a party's capacity to pay bribes determines justice in both civil and criminal cases. Widespread impunity from prosecution also contributes to the general loss of confidence in jurisprudence. As in all former French colonies, Haiti has inherited the five classic Napoleonic Codes. The penal and criminal procedure codes have been left almost unchanged from the early 1800s. These antiquated provisions are yet another cause for the lamentable state of justice. In 2006 a Conseil Supérieur de la Magistrature (Judicial Council) has been created in order to enhance judicial independence and integrity. But despite singular efforts and much donor support, the national judicial system does not adhere to democratic standards and is in no way prepared to confront the challenges posed by an acute rise in criminality, the proliferation of armed groups, the uncontrolled transnational drugs and arms trade and the corruption of state institutions. In general, the lack in prioritization, strategic planning, donor coordination and political will has mired substantial progress towards a modernization of the system. As of now, the judicial system places severe constraints on the rule of law.

Independent
judiciary

Corruption is perceived by the population as widespread and nearly endemic to all administrative structures of the state. The so-called *politique du ventre* – the struggle for the acquisition of personal wealth through conquest, plundering and misuse of state offices – is well established within the political tradition of the country. According to the UN Office on Drugs and Crime, 90% of entrepreneurs and 60% of households believe that corruption has increased in recent years. Recognizing the importance of moralizing public affairs in Haiti, in 2004 the transitional government created the Unité de Lutte Contre la Corruption (ULCC). The ULCC was to be a semi-autonomous body under the Ministry of Finance charged with taking the lead in helping to establish a broad-based national strategy to promote good governance and combat corruption. As a first step, an investigation in allegations of corruption and mismanagement by the Aristide administration was conducted but results were long withheld from publication for fear of political reappraisals. All major actors of the government elected in 2006 and key civil society sectors in Haiti today agree that corruption is a manifestation of multi-faceted, systemic weaknesses and is sapping the country's capacity for economic development. Only a broad program of governance, public sector reform and broader accountability throughout Haitian society and

Prosecution of
office abuse

government can address this problem. Although wide public debate and stigmatization of officeholders usually accompany the recurrent corruption scandals, the system of enforcement of legal and/or political penalties for those who abuse their position is still underdeveloped, leaving impunity as the general rule.

Several fundamental civil rights are systematically violated. Contempt for due process represents one of the most salient examples. The National Ombudsman's Office (Office National Protecteur du Citoyen) stated in 2006 that approximately 92% of the detainees held in the 17 prisons currently functioning are being held in prolonged preventative detention. More than a few have been in jail longer than the maximum sentence of the crimes for which they were charged (or for which they have been detained but not yet charged). The judicial system in Haiti does not guarantee counsel for indigent criminal defendants. As the majority of the population cannot afford legal services, this constitutes a severe restriction regarding access to justice and equality before the law. In addition, Haiti has neither a witness protection program nor security in courtrooms, which leaves testifiers vulnerable to intimidation and thus interferes with their exercise of civil rights.

Civil rights

4 | Stability of Democratic Institutions

During the period under review, substantial constraints have hampered the performance of democratic institutions. As there was no effective legislative during the mandate of the interim government (03/2004 – 05/2006) the country was ruled by presidential decrees without any means of democratic checks and balances. This situation has also affected the functioning of the administrative and judicial system in so far as regulation and control were only exercised in limited degrees. The realization of general and local elections during the course of 2006 allowed for the return to a democratically legitimized order. In order to strengthen the level of performance of democratic institutions, steps toward decentralization must follow.

Performance of democratic institutions

The transitional government under Prime Minister Gerard Latortue has not contributed to an increase in the popular acceptance of democratic institutions. The judicial system is a fine example for this failure. Measures taken by the Ministry of Justice reinforced the general belief that the transitional government applied a partisan justice, such as the detention without judgment of former dignitaries of the Lavalas government and of Aristide partisans and the poorly prepared court cases against perpetrators of human rights violations, members of the rebel army and their affiliates. Another important institution for the improvement of democratic transformation in Haiti is the Electoral Council. While the constitution of 1987 envisioned the creation of this council as a

Commitment to democratic institutions

permanent institution in charge of the organization of elections, 18 years later it has yet to take root. Instead, a succession of provisional electoral councils have sparked political controversies and allegations of partisan instrumentalization through their work as well as the definition of their procedures and composition.

5 | Political and Social Integration

The traditional Haitian party system is characterized by a low degree of institutionalization and coherence and does not mediate the interests of state and society. Generally, parties do not focus on the integration of the population, nor do they pay it any mind except during intensive moments of mobilization before, during and after elections. This creates a rather authoritarian and paternalistic image of parties and their role within the process of democratic transformation. Political parties in Haiti work like a veto-club of personalities interested in pursuing their own interests (more often than not, purely financial) and mainly serve as a means to satisfy clientelist networks. For the parliamentary elections in 2006, more than 40 parties presented candidates for the 30 seats in the Senate and the 99 seats in the House of Representatives, numbers indicating the extent to which the party system suffers from fragmentation as well as volatility. Most of these parties have never had a legislative mandate. Few parties have programs known to the public, and only very few have a nationwide structure and representation.

Party system

A variety of popular organizations, labor unions and peasant groups had a strong impact on the political system at the beginning of the democratic transformation process. However, partisan politicization, the integration and absorption of leaders of these groups into the system created by Fanmi Lavalas and the emergence of new, influential players like the private business sector has steadily decreased influence of traditional cooperative associations and interest groups on the political system in recent years. The transitional government confronted the particular interests of diverse groups (police, former military and students) all trying to take advantage of its weak social basis and political legitimacy. One of the main tasks during the term of President Preval and the new government will be to repair the social fabric, which events of recent years have badly damaged. Political polarization, deepening antipathies between the majority of the population and the elite, worsening poverty and a generalized sense of hopelessness have weakened and silenced civil society structures that might otherwise have provided viable mechanisms to mediate between society and the political system.

Interest groups

Even though there generally is consent to and acceptance of democracy and its norms and procedures, the disillusionment of the population regarding members of the traditional political class and office bearers within the state's administrative

Consent to democratic norms

structure constitutes an obstacle to democratic transformation. Ongoing efforts of social and political integration are questioned by some sectors of the political and economic elite that consider the actual crisis of the country to be a consequence of the increased political participation of popular groups in the spheres of power since the breakdown of the Duvalier regime in 1986. These forces hope to maintain a political system that ignores the basic social needs of the population and its desire to participate in the democratic and economic transformation of the country. They fight for the restoration of a strong political regime and for the reestablishment of the army, which traditionally has been used to suppress the poor majority. This polarization reflects a nation historically divided into two parts still unable to overcome this cleavage to establish an emancipative democratic and economic order.

Haiti does not lack social resources but rather the ability and will to capitalize on those resources. The aggravation of general living conditions in Haiti during recent years (reflected in overall negative socioeconomic indicators) has led to a new massive movement of migration – internally towards the metropolitan area of Port-au-Prince and internationally toward the adjacent Dominican Republic, the United States or other countries in the Caribbean. This high mobility and accompanying high potential turnover in the labor force has deterred investment in social capital. Most strikingly, this wave of migration proceeds from the marginalized rural areas as well as from the urban middle class – two key sectors for future progress in the process of democratic and economic transformation. Cooperative and associative mechanisms of self-organization do exist – both in the rural and urban context – but their economic potential and impact remains underdeveloped.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

The key indicators show a low level of development for Haiti that obstructs the majority of its citizens from adequate freedom of choice. Resources and power are heavily concentrated in the hands of a few in Haiti; poverty-based exclusion and marginalization, as well as a considerable education gap are evident. Income inequality is among the highest in Latin America and the Caribbean region. Nearly half of the national income goes to the richest 10% of the population. Political instability and the high level of violence in recent years have contributed

Socioeconomic
barriers

to a net decline in socioeconomic development. The 2006 United Nations Human Development Index ranked Haiti 154th out of 177 countries. An estimated 78% of the population lives below the poverty line (on less than \$2 a day) while approximately 54% live in abject poverty (on less than \$1 a day). Rural areas are the worst affected, with close to four fifths of Haiti's extreme poor living outside the cities. But the slum areas of the capital Port-au-Prince also house large pockets of urban poverty. Haiti has the worst social indicators in the region for all sectors. Only 55% of children aged 6 to 12 are enrolled in school. Gender differences in access to education are apparent. Whereas up to the age of 10 the percentage of females attending school is higher than for males, the ratio turns between the ages of 14 and 24. Only 39% of adult women are literate, compared to 53% of adult men. Access to and quality of health care is very limited, which has resulted in dire health conditions for Haiti's marginalized poor and rural populations. Infant and maternal mortality is the highest in the Americas. According to UNAIDS 5.6% of the adult population is HIV positive. The country's enormous social and economic inequalities reflect a history of neglect of secondary cities and rural areas. The result is a significantly underdeveloped and impoverished rural sector where basic public goods – notably physical infrastructure, law enforcement, judicial institutions, basic services, environmental protection and regulatory frameworks – are almost entirely absent.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	3,419	2,935	3,822	4,268
Growth of GDP	%	-0.1	-0.6	-2.2	2.0
Inflation (CPI)	%	9.9	39.3	22.8	15.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.2	0.3	0.2	0.2
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-87.6	-45.3	-54.3	54.1
Public debt	\$ mn.	1,066.3	1,208.8	1,225.4	1,276.4
External debt	\$ mn.	1,251.0	1,344.0	1,264.6	1,323.4
External debt service	% of GNI	0.8	1.8	2.6	1.4
Cash surplus or deficit	% of GDP	-	-	-	-

		2002	2003	2004	2005
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	8.7	8.0	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.0	2.9	2.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The market in Haiti operates under a weak institutional framework with hardly any regulatory mechanisms. Over the last 20 years, the informal sector in Haiti has grown considerably. This sector – like all informal markets – generates a high degree of insecurity, as markets clear rapidly and prices and incomes can fluctuate substantially over short periods. Structures that could support and protect those operating in the informal setting are absent. Careful estimates show that there are some 300,000 informal micro enterprises in Haiti, which are mainly concentrated in the trade and service sector. Some 36% of these businesses belong to women. To a high degree, Haitians engage in informal business on a day-to-day basis in order to ensure their survival.

Market-based competition

The inherent trend towards monopolistic and oligopolistic practices in Haiti is not sufficiently controlled. The weak institutional framework and a general lack of set rules of the game smooth the path for powerful economic stakeholders to develop unregulated rent-seeking strategies.

Anti-monopoly policy

Haiti is one of the most open economies in the world, having significantly liberalized its economy in the 1980s and 1990s. The tariff structure has been simplified and rates greatly reduced because of broad structural adjustment measures applied in a very short period. This has led to local markets being flooded with cheaper imported goods, which has facilitated the demise of local production. Haitian producers simply have not been able to compete against imports, given the agricultural sector's pre-existing (and continuing) low levels of productivity and high vulnerability to natural risk. The rice sector is an exemplary case for this development. Whereas in the 1980s, Haiti used to import only 8% of the rice it consumed, nowadays between 60 and 68% of rice – which represents

Liberalization of foreign trade

the basis of the daily diet of the majority of Haitians – is imported. As of 2006, 45% of food necessities were provided by local offerings, 50% by importations and 5% by international (and to lesser extent national) food aid.

Even though the Haitian banking system has seen significant modernization in recent years and applies most of the precautionary measures of the Basel Accords it still lacks overall stability and trustworthiness. The surveillance of the banking system by the central bank will be further reinforced through the envisaged passing of a new banking law aimed at strengthening the central bank's powers as regards corrective measures and the enforcement of prudential rules. There are currently ten commercial banks and two foreign banks operating in the country. In June 2005, two banks, accounting for 11% of banking assets, lost around a third of their deposits. In order to stabilize the situation, the BRH has acquired a majority stake in the larger bank, and injected around \$43 million (1% of GDP), mostly in liquidity support. The smaller bank has been sold to a large local bank. Unfortunately, a corruption scandal involving members of the senate and the lower house of the parliament tainted the whole procedure, producing – once again – mistrust in the population concerning the transparency of monetary politics.

Banking system

8 | Currency and Price Stability

The newly elected government and the Ministry of Economy and Finance are continuing a consistent policy on inflation and currency introduced by the preceding transitional government. Tight fiscal and monetary discipline, a strengthening exchange rate, lower international oil prices and a slight improvement in local food production have produced and show potential to sustain the current downward trend of inflation.

Anti-inflation /
forex policy

The fiscal policy of the new government involves a strong boost to revenue and enhancement of budgetary management (at central and local government level) to allow for more spending and investment, particularly as an effort to reduce poverty. With the planned establishment of effective customs control throughout the country and increase in direct and indirect tax revenue, there will be room to reorient government expenditure from transfers and subsidies to public-sector enterprises toward spending in key areas such as health, education and security. As a result of increased revenues and tighter expenditure controls, the central government's overall deficit was reduced to 1.4% in 2006. This eliminated recourse to Central Bank financing of the deficit. An Organic Budget Law has been passed and, unlike previous years, the budgets for FY05, FY06 and FY07 were approved before the start of each fiscal year and key budget allocations and execution information were disseminated to the public on a regular basis.

Macrostability

9 | Private Property

The Haitian constitution guarantees private property and assigns to the state the duty of protection and promotion of private entrepreneurship. Haiti is a signatory of the international conventions on patents and trademarks. Private companies can generally act without restrictions. The only limitation is the complicated registration of enterprises, which involves long administrative procedures. Taking into account the importance of the peasant population, problems of land ownership are very important in rural areas. The peasants working the lands rarely have rights of land titles and the state does not facilitate their acquisition of those titles. This has led to violent land conflicts throughout the country's history. The agrarian reform initiated during the first mandate of Rene Prével (1996 – 2001) was not sustained by the following administrations and consequently there have been no subsequent developments of note.

Property rights

Though private companies represent the majority of actors on the national market, public enterprises occupy strategically important sectors such as telecommunication, electricity, ports and airports. Of the nine state enterprises which have been targeted for privatization in the context of the structural adjustment programs introduced in the second half of the 1990s, two have been privatized: the state-owned flour mill (Minoterie d'Haiti) and the construction materials plant (Ciment d'Haiti). These privatizations have had very negative results. Prices for these products have increased, and there has been no improvement in their distribution to the masses. This, for many, remains a pressing issue for current officials to address. It is especially urgent that the announced process of privatization of TELECO, the main communications provider and a major revenue generator, follow global guidelines of privatizations.

Private enterprise

10 | Welfare Regime

A basic system of social security exists, but it excludes the majority of the Haitian population as it is bound to the formal labor market represented by public and private institutions. Networks of traditional solidarity like the family generally manage social risks. But the economic crisis, increasing poverty and migration have seriously eroded this kind of social security net. The most important contribution to the social safety nets and compensation for social differences in Haiti comes from Haitians living abroad. In 2006, remittances from Haitians living in the United States, France and other countries exceeded \$1 billion (21% of the GDP). Initiatives of NGOs and of international organizations engaged in Haiti also play an important role in compensating the gross social differences. The newly elected authorities have planned to implement compensation measures

Social safety nets

for public sector employees improperly dismissed by the interim government in the aftermath of the events in February 2004, as well as for ex-members of the Armed Forces of Haiti (Forces Armées d'Haiti - FAd'H) dissolved in 1994.

As socioeconomic indicators show, there is no equality of opportunity. An estimated 78% of the population lives below the poverty line (on less than \$2 a day) while approximately 54% lives in abject poverty (on less than \$1 a day). Income inequality is among the highest in Latin America and the Caribbean region. Nearly half of the national income goes to the richest 10% of the population. The Préval-Alexis Administration introduced in July 2006 a so-called Program for Social Appeasement (Programme d'Apaisement Social - PAS) as one of its main priorities. The PAS will fund a host of small development projects in sectors with potential to generate jobs and improve living conditions, including infrastructure, education and agriculture at the level of the country's administrative communes. The government plans to implement these small projects as soon as possible, although they will cost a total \$50 million over five years. The projects are intended to address the immediate needs of the poorest members of the population.

Equal opportunity

11 | Economic Performance

Since taking office, the new authorities have made concerted efforts to continue the progress achieved by the transitional government. As a result, economic growth is estimated to have reached 2.5% in 2006, inflation has fallen to around 12% and central bank reserves were increased to \$126 million, all exceeding expectations. Similarly, fiscal discipline was sustained, there was no reliance on central bank financing and use of ministerial current accounts remained limited.

Output strength

12 | Sustainability

Haiti faces serious environmental degradation which has negative social and economic effects and increases its vulnerability to natural disasters. Twenty-five of Haiti's 30 watersheds are without natural cover. The remaining forests – currently covering only about 1% of the territory – are not able to play any significant environmental or protective role. Deforestation and land degradation in concert with the high level of poverty, weak infrastructure and a general lack of investment in risk reduction activities exacerbate Haiti's already high vulnerability to natural disasters. There have been considerable efforts to strengthen the national capacities in natural resource protection and natural disaster management; however, these efforts fall short of mitigating the macroeconomic impact of large natural disasters or integrating environmental issues into broad economic and political planning.

Environmental policy

The Haitian education sector suffers most acutely from the deterioration of its service quality. The state's lack of regulatory capacity, exacerbated by the influx of private service providers, is a major cause of this deterioration. Available statistical data (2005) indicate that 92% of schools are run by institutions other than the state (national and international NGOs, religious missions etc.), which causes considerable problems regarding efficiency, accountability and equity. Around 70% of schools lack accreditation and 60% of teachers are unqualified or underqualified. A National Education Plan was introduced in 1997, but during the first ten years of its existence, the level of advancement remained low and public expenditures in the sector remained static at around 2% of the GDP. Access to higher education remains a big problem in Haiti and thus represents a further serious obstacle to a sustainable progress in democratic and economic transformation. Every year approximately 100,000-150,000 students obtain their baccalaureate. Of this total only 10 to 15% can continue their education in any meaningful way. Lack of financial means to pay for fees and tuition represents a major constraint, but also the paucity of available institutions offering a solid higher education. The state-run Université d'État d'Haiti is the largest university in Haiti with some 15,000 students. Together with other private institutions, a total of 25,000 students pursue higher education in Haiti. The majority of higher education institutions are concentrated in the capital, which increases inequality of opportunity in terms of access. An additional 2,000 young women and men pursue higher education in the United States, Canada or European countries. Seven thousand students have directed themselves to the well-established higher education system in the Dominican Republic. Another constraint in this field is the near-total absence of specialized institutions in technical formation, which could serve as a base for self-contained national research and product development.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The structural constraints on governance are massive. The long economic crisis that has continued for more than a decade, the high level of poverty afflicting the majority of the population and the collapse of the infrastructure under accelerated population growth make the transformation difficult. Add to these hardships the weakness of democratic tradition, the exasperation of the political struggle marked by continued confrontation and violence and the weak implantation of directionless political parties. The weak capacity of the state to satisfy the basic needs of the population in terms of education, security, and public health has exacerbated civil society's distrust with the state.

Structural
constraints

Haiti has rich civil society traditions at the local level, but many of its formally organized groups have been co-opted and manipulated by political and economic elites in recent years. Generally, organizations have little capacity to influence national policies due to a lack of open channels for participation and a lack of administrative and financial management capacity. The participation of a large number of organizations in the massive manifestations against former President Aristide was initially seen as a positive sign for a growing civil society. However, it is obvious that Haitian civil society is still highly fragmented and split along religious, social, political and cultural lines, which considerably reduces the contribution that the civil society can make to the economic and social transformation of the country.

Civil society
traditions

Although Haiti is not marked by significant ethnic or religious cleavages, social conflicts are an inherent part of the country's history and have impeded progress in the process of democratic and economic transformation. The blatant exclusion of large sectors of the population and the continuing enrichment of the powerful political and economic elite have deeply divided Haitian society, and both sides favor violence over dialogue.

Conflict intensity

II. Management Performance

14 | Steering Capability

The political leadership that came to power with the 2006 elections pursues long-term aims and objectives that advance democracy and market economy, but it faces the challenge of reconciling the pursuit of those goals with the provision of short-term solutions to the immediate needs of the population. This approach might result in friction, but it is coherent with the government's prioritization plan in its political program. The envisaged integration of the Program for Social Appeasement into the framework of a long-term Poverty Reduction Strategy is a viable example of this two-pronged approach. The authorities still must prove their capacity to maintain these strategic priorities with regard to potential spoilers both within the administrative system and outside it (e.g., those engaging in undemocratic practices in the interest of political bargaining or office-seeking).

Prioritization

During the period of investigation, the authorities have shown greater commitment to the implementation of reform policies. In contrast, the reform process initiated under the transitional government of Prime Minister Gerard Latortue lacked democratic legitimization and consistent efforts to gain popular approval. President Preval and the newly elected government dispose of much greater popular support and have reached out to all strategic sectors of the society and the international community in order to proceed with the implementation of their initial reform policy. Their biggest challenges are to keep this level of support, to overcome the public administration's shortcomings and to engage all territorial entities of the state in a common approach.

Implementation

The new political leadership still has to prove its degree of flexibility and innovative capacity. Despite improvements in national dialogue and problem-oriented political approaches the inherent traditions of the Haitian national political class have spoiling potential. Polarization and a general lack of disposition toward political compromise as well as the absence of programmatic visions and strategies have historically made policy learning difficult.

Policy learning

15 | Resource Efficiency

Deficiencies in the areas of fiscal management and economic governance have inhibited the efficient use of both domestic resources and external assistance in recent years. The tax revenue of the country is very limited and one of the lowest in the world. Both the transitional government and the newly elected government have attempted to increase the tax revenue by rationalizing the tax recovery system, but these measures still do not suffice to compensate the structural deficiencies of the fiscal administration. The inadequate quality and quantity of human resources have been a primary impediment to public sector efficiency in Haiti. The situation stems both from the scarcity of skilled people in the country (exacerbated by outward migration) and the lack of adequate incentives and accountability system to attract, maintain and motivate civil servants. In 2004 (last available data), public sector employment corresponded to 0.7% of the population, the majority of which were concentrated in the capital Port-au-Prince. The low salaries in public administration encourage corruption practices and disengagement of the officeholders. The lack of public sector capacity represents a serious obstacle to aid absorption, as the state's administration is often ill-equipped to respond to the competing requirements of the different donors. The transitional government and the newly elected government have started to implement a series of measures in order to increase the efficiency in the use of Haiti's scarce human resources.

Efficient use of assets

The formation of a coalition cabinet with the participation of six different parties can be seen as a first major step to enhance dialogue between different political forces and thus advance the administrations capacity in coordinating conflicting objectives. Consent of the majority of the population with the policy of the government is largely bound to rapid and measurable improvements in the living conditions of the marginalized poor. Strategies to impede violence and to regain the state's monopoly on the use of force over the entire territory have to be accompanied – as currently set out – by broad social measures in order to contain these conflicting objectives. The Haitian Government relies heavily on multilateral and bilateral aid flows, and must therefore continuously arbitrate between the resistance of certain sections of the population to the conditionality of aid programs and the frustrations of the donors over setbacks and problems of policy implementation.

Policy coordination

A couple of integrity mechanisms have been implemented in recent years to increase the government's capacity to contain corruption. In the area of public procurement, for example, the institutional framework was strengthened through the creation of a National Commission for Public Procurement (Commission National des Marchés Publics – CNMP) in 2005, which thereby affirmed the use

Anti-corruption policy

of competitive procurement methods as the norm and introduced more effective procurement controls in the public administration. Advances in transparency have also been achieved through the preparation of standard bidding documents, the publication of lists of awarded government contracts and a supplier database. Also, international firms have conducted financial audits of public enterprises (EdH, TELECO, APN) and the government has increased citizen and media access to information through the creation of a public information center hosted by the Ministry of Finance, which provides accounts of the Ministry's activities, expenditures and outcomes of procurement processes. The Anti-Corruption Unit (ULCC) has conducted a comprehensive diagnostic survey of the state of governance and the perception of corruption in Haiti to provide input to the design of a national anti-corruption strategy, and has drafted a law for asset declaration of public sector employees. However, these steps constitute significant advancements the legal framework and judiciary capacity for effective prosecution of corruption remains weak.

16 | Consensus-Building

The majority of influential political and social actors agree on a stable market-based democracy as a goal for reform, although their ideas of how to reach that goal vary considerably. The means and strategies of integration as well as the pursuit of the decentralization process represent major points of dissent. Some political and social actors articulate their skepticism towards the neoliberal impetus of the reform process and criticize – with respect to historical evidence – the lack of ownership.

Consensus on goals

Anti-democratic economic actors can impede democratization and economic reform that would mitigate the country's dramatic socioeconomic inequalities. This economic elite is highly reluctant to establish democratic rules with the overall support of the population and to distribute resources equally. The first steps undertaken by the newly elected government, to reach out to the private business sector, might lead to the establishment of a legal framework that would reduce and/or control the impact of such groups.

Anti-democratic veto actors

The current political leadership has inherited a legacy of political and social polarization that has fostered recurrent armed violence in recent years. It has to overcome the historic weakness of the state's capacity and muster the political will to mitigate the social cleavages.

Cleavage / conflict management

One of the biggest weaknesses of the transitional government was its complete neglect of the civil society within the formulation and implementation of its policy. Even though the ICF (International Cooperation Framework) aimed to seek substantial civil society participation, in reality, it achieved only weak

Civil society participation

compliance. Several organizations on the national and international level have complained about this failure and have urged the newly elected authorities to do better. During the first year of their mandate, there have been approaches to reach out to civil society and integrate various organizations into the consultation process around the development of the national Poverty Reduction Strategy. However, in general, the opportunity for viable civil society participation in the political process is slim, and most civil society organizations lack the capacity to act as a reliable and professional partner.

There has been little effort to halt impunity from legal prosecution for past human rights violations, which taints the Haitian political and social system. The imprisonment without trial of leaders of the Aristide party Fanmi Lavalas during the first months of the mandate of the transitional government contributed to the population's loss of confidence in terms of their political will to initiate a sustained process of national reconciliation. Confronted with heavy political pressure, the newly installed authorities urged for the release in June and July 2006 of the most prominent convicts, including former Prime Minister Yvon Neptune and former Interior Minister Jocelerme Privert. Both men were incarcerated without trial on allegations of participation in the killing of Aristide opponents in La Scierie, Saint-Marc in February 2004. While their release may have been warranted given the state's failure to properly try them, the La Scierie case was never fully investigated and widespread doubts remain over responsibility for the committed atrocities.

Reconciliation

17 | International Cooperation

The international community has played a mayor role in Haiti's political and economic transformation process since the beginning. After a period of intensive international support in the aftermath of the return of President Aristide from exile in 1994, relations deteriorated considerably from 1997 on. In 2004 bilateral and multilateral donors developed an international assistance strategy known as the Interim Cooperation Framework (ICF), which was based on four strategic axes for intervention over a transitional period: strengthening political governance and promoting national dialogue; strengthening economic governance and contributing to institutional development; promoting economic recovery and improving access to basic services. A first evaluation of the ICF undertaken by the interim government in October 2005 stated that despite some achievements, progress could only be classified as minimal and positive effects on the quality of life of the population barely perceptible. Bureaucratic procedures significantly delayed disbursements and the national administration lacked coordination both within and with the international community, both of which constitute key factors behind the lack of progress and the waste of funds

Effective use of support

accorded to this exercise. A series of follow-up international meetings barely masked the divergent powers and interests at play. The ICF was initially designed to serve for the transitional period from 2004 to 2006, but its tenure has since been prolonged till the end of 2007. The extended ICF has to be coordinated with the national Social Appeasement Program (PAS) announced in June 2006 by the newly elected government, as well as with the development of a Poverty Reduction Strategy Paper, which will then serve as a new framework for donor coordination.

Despite rising tensions with the donor community over the questions of ownership and participation, the Haitian government will remain heavily reliant on the continuation of multilateral and bilateral aid flows during the years to come. The government has thus made efforts to maintain the support of the governments of the United States, Canada and France, Haiti's main trade partners and aid donors, as well as that of multilateral agencies like the IMF, IDB, UN and World Bank. In addition, the new government has reached out to other countries in the region to diversify support. In May 2006, Haiti was admitted to PetroCaribe, an oil regime established by Venezuela that allows the purchase of this strategic good on conditions of preferential payments. Venezuela has also granted funds to Haiti for the improvement of decentralized airport infrastructure and the strengthening of national waste disposal capacities. President Preval resumed the bilateral cooperation with Cuba he initiated during his first mandate from 1996 to 2001. Cuba is financing scholarships for 800 Haitians enrolled in Cuban medical schools and intensified the deployment of health brigades in rural areas. Currently 400 Cuban doctors and nurses serve to improve access to basic health services for the marginalized rural population.

The agreements for debt relief with multilateral donors reached by the new Haitian authorities reflect overall donor satisfaction and prove that the new government has met necessary conditions in terms of both macroeconomic targets and progress on policy. The preceding transitional government already expended efforts to improve relations with the international community, which had suffered considerably throughout the period political conflict since 1997 when international aid flows to the Haitian authorities were completely frozen.

Credibility

With the coming to power of a new, democratically elected government, Haiti was able to reinstate its membership with CARICOM (it had been suspended since March 2004 as CARICOM refused to recognize the interim government). Although the process of joining CARICOM began in 1997, Haiti was not admitted as a full member until 1999, and the Haitian Parliament only ratified its final accession in May 2002. President Aristide signed the revised Chaguaramas Treaty in July 2003, and trade between Haiti and the other countries of the region officially began on 1 January 2004. After the interruption in this relationship during the Latortue years, interest is now focused on what Haiti's

Regional cooperation

membership of the region's main economic and political body will mean in practice. Haiti is the newest member of the 15-strong organization and has by far the largest population – its over eight million people outnumber the combined total of the populations of the other 14 member states – but it is also the poorest member. It is believed that the creation of a CARICOM single market (CSM) will have important ramifications for Haiti. The CSM is the first component of what, by 2008, will become the CARICOM Single Market and Economy (CSME). It came into existence at the end of January 2006 when six Caribbean states – Jamaica, Barbados, Belize, Guyana, Suriname, Trinidad and Tobago – signed an accord in Kingston. The CSME, which provides for the free movement of goods, skills, labor and services across the region, is regarded by Caribbean governments as the correct response to globalization and its accompanying establishment of mega trading blocs and loss of preferential treatment for regional goods and services on the world market. More immediately, the Caribbean Development Bank (CDB) will allocate \$17 million to fund Haitian government development projects during FY2007.

Strategic Outlook

Despite a high level of difficulty and a multitude of structural constraints during the review period, Haiti has entered into a promising new phase that could actually provide advancements in the process of democratic and economic transformation. The challenge for the new rulers in Haiti is not only to overcome the long history of political and economic mismanagement, but also to provide persuasive and sustainable answers to the many immediate problems of the country. Most urgent action is needed to provide increased economic opportunities for marginalized groups and to combat the surge of organized crime through the sustainable disarmament of gangs and other armed groups as well as the reformation and strengthening of the legal framework and National Police (PNH).

Haiti must provide more elaborate strategies to attract private investment. These should include the fortification of the rule of law and the reformation of the judicial and penal systems, which would create effective mechanisms to combat corruption and public mistrust of these institutions. In all efforts to attract private investment however, special attention should be drawn to the needs of the marginalized rural population in order to stem migration to the capital. Approximately 75,000 people migrate to the metropolitan area of Port-au-Prince every year, where uncontrolled bidonvillisation (ghettoization) contributes to the degradation of living conditions and the growing vulnerability of its population. The additional steady flow of legal and mostly illegal migrants towards the Dominican Republic remains a sensitive topic bound to increase friction in the bilateral relationship between the adjacent countries. Resolving this problem has to be bolstered by common approaches, which should aim both at the amelioration of the situation of migrants in the Dominican Republic (legal status, access to basic services, enforcement and of the anti-discrimination legislation) as well as the containment of migration through investment and provision of income-generating activities in the frontier area.

The new government must maintain a political strategy of facilitating consensus and cooperation between Haiti's key political actors in order to address the manifold challenges. However, this national dialogue should not be left to the parties and better organized civil society organizations based in the capital. Other parts of civil society, particularly peasant organizations and groups representing the marginalized rural and urban sectors of the population must be encouraged and given the means to fully participate in Haiti's democratic and economic transformation. There is urgent need for more international donor coordination with Haiti under the framework of a Poverty Reduction Strategy.

The waste of international aid has been most obvious in the sector of justice reform, where interventions could be described as ad hoc, incoherent and redundant. Here a first step has been taken with the presentation of a comprehensive plan for better coordination of Haitian and international activities by the Ministry of Justice, which should now be put into practice with the demonstration of clear political will. Serious investment in a coherent agricultural development policy is also needed to raise the productivity of small farmers and reduce the alarmingly high levels of poverty in the country. Donors and the government should make agriculture one of their highest priorities within economic recovery approaches and must guarantee the actual disbursement of the funds promised to the sector.