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Report No. 1243-HA

Current Economic Position and Prospects of Haiti

(In Two Volumes)

Volume I: Main Report

December 7, 1976

Latin America and the Caribbean Regional Office

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Currency Equivalents

Currency Unit = Gourde (G)

US\$1 = G5.00

G1 = US\$0.20

G1 million = US\$200,000

Fiscal Year

October 1 - September 30

CURRENT ECONOMIC POSITION AND PROSPECTS OF HAITI

Latin America and the Caribbean Regional Office

This Report is based on the findings of an economic mission which visited Haiti in April 1976. The mission was led by Alexandre Nowicki and included the following members: Alberto Eguren (Economist), Jean-Paul Pinard (Economist), Laszlo Garamfalvi (IMF - Public Finance) and Michael Zuntz (OAS - Balance of Payments). The mission also benefitted from the brief assistance of Gerardo Soto (Agriculture).

CURRENT ECONOMIC POSITION AND PROSPECTS OF HAITI

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ECONOMIC INDICATORS ^{1/}GROSS NATIONAL PRODUCT IN 1975ANNUAL RATE OF GROWTH (% , constant prices)

	US\$ Mln.	%	1960 -67	1967 -72	1972-1975
GNP at Market Prices	870.5	100.0	0.1	2.9	3.0
Gross Domestic Investment	98.0	11.3	-3.0	18.5	12.5
Gross National Saving	55.1	6.3	-16.5	44.2	-23.0
Current Account Balance	-2.8	-0.3	.	.	.
Exports of Goods, NFS	118.3	13.6	-2.2	9.2	-1.2
Imports of Goods, NFS	154.4	17.7	0.2	7.0	11.0

OUTPUT, LABOR FORCE AND
PRODUCTIVITY IN 1975

	Value Added		Labor Force		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	398.3	45.4	..	..	..	..
Industry	150.0	17.1	..	..	..	..
Services	329.0	37.5	..	..	..	..
Unallocated						
Total/Average	877.3	100.0	..	100.0	..	100.0

GOVERNMENT FINANCE

	General Government ^{2/}			Central Government		
	(G Mln.)	% of GDP		(G Mln.)	% of GDP	
	1975	1975	1974-75	1975	1975	1974-75
Current Receipts	489.4 ^{3/}	11.2 ^{3/}	10.5 ^{3/}	475.4	10.8	10.2
Current Expenditure	456.4 ^{4/}	10.4 ^{4/}	9.8 ^{4/}	452.6	10.3	9.8
Current Surplus	33.0	0.8	0.7	22.8	0.5	0.4
Capital Expenditures ^{5/}	288.4	6.6	5.7	213.9	4.9	4.1
External Assistance (net) ^{6/}	206.3	4.7	3.1	182.0	4.1	2.8

MONEY, CREDIT and PRICES

	1970	1971	1972	1973	1974	1975
		(Million	G outstanding	end period)		
Money and Quasi Money	198.2	251.2	321.1	408.4	530.7	595.5
Bank credit to Public Sector ^{7/}	189.2	202.5	215.3	244.7	331.6	415.6
Bank Credit to Private Sector	65.3	78.5	92.1	170.6	310.6	451.3

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	9.7	11.3	13.8	14.4	14.8	13.6
General Price Index (1965 = 100) ^{8/}	109.8	112.8	116.2	145.8	164.3	201.6
Annual percentage changes in:						
General Price Index	3.3	2.8	3.0	25.5	12.7	22.7
Bank credit to Public Sector ^{7/}	-2.1	7.0	5.4	13.7	35.5	25.3
Bank credit to Private Sector	9.9	20.2	19.6	85.2	82.0	45.3

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

^{1/} Data refers to fiscal years ending September 30

^{2/} Consolidated Accounts of the Central Government and Public Enterprises

^{3/} Includes net operating surpluses of public corporations

^{4/} Includes net operating deficits of public corporations

^{5/} Includes technical assistance expenditures

^{6/} Net loans and grants

^{7/} Includes IDB and IDA credits to the public sector channeled through the National Bank

^{8/} GDP deflator

.. not available

. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS ^{1/}

BALANCE OF PAYMENTS

	1973	1974	1975
	(Millions US \$)		
Exports of Goods, NFS	78.0	115.2	118.3
Imports of Goods, NFS	95.7	134.9	154.4
Resource Gap (deficit = -)	-17.7	-19.7	-36.1
Interest Payments (net)	-0.6	-0.6	-0.5
Other Factor Payments (net)	-3.8	-5.3	-6.3
Net Transfers	19.1	26.9	40.1
Balance on Current Account	-3.0	1.3	-2.8
Direct Foreign Investment	7.0	7.9	2.6
Net MLT Borrowing			
Disbursements	3.2	8.4	22.4
Amortization	-6.1	-4.8	-6.2
Subtotal	-2.9	3.6	16.2
Other items n.e.i	-2.2	-32.7	-39.5
Increase in Reserves (+)	-1.1	-19.9	-23.5
Gross Reserves ^{2/}	20.1	14.7	12.8
Net Reserves ^{2/}	19.3	-0.6	-24.1
Fuel and Related Materials			
Imports	4.3	12.4	11.2
Exports	-	-	-

RATE OF EXCHANGE

Through - 1971	Since - 1971
US \$ 1.00 = GS.0	US \$ 1.00 = GS.0
G 1.00 = US \$ 0.20	G 1.00 = US \$ 0.20

MERCHANDISE EXPORTS (AVERAGE 1973-75)

	US \$ Mln	%
Coffee	21.0	25.8
Sugar	4.7	5.8
Essential Oils	5.0	6.1
Sisal	3.0	3.7
Bauxite	7.9	9.7
Small Industries	37.9	46.5
All other commodities	2.0	2.4
Total	81.5	100.0

EXTERNAL DEBT, DECEMBER 31, 1975

	US \$ Mln
Public Debt, incl. guaranteed	62.0
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	62.0

DEBT SERVICE RATIO for 1975 ^{3/}

	%
Public Debt, incl. guaranteed	5.7
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	5.7

IBRD/IDA LENDING, (Sept. 30, 1976) (Million US \$):

	IBRD	IDA
Outstanding & Disbursed	-	10.3
Undisbursed	-	32.5
Outstanding incl. Undisbursed	-	51.8

^{1/} Data refers to fiscal years ending September 30.

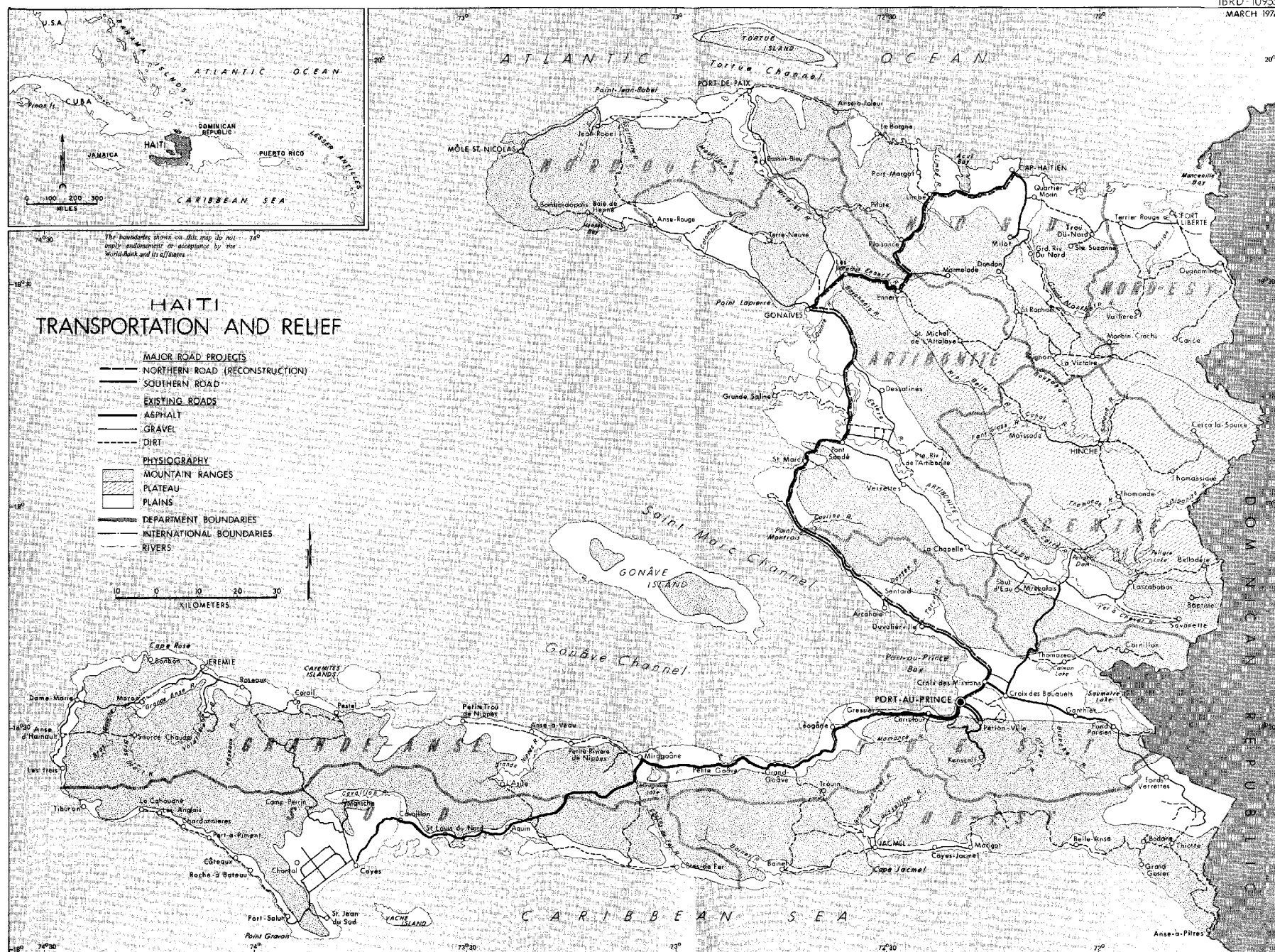
^{2/} September 30

^{3/} Ratio of Debt Service to Exports of Goods and Non-Factor Services.

. . not available

. not applicable

Country Programs I
Latin America and the Caribbean
Regional Office
October 26, 1976



SUMMARY AND CONCLUSIONS

1. Haiti is at present among the thirty or so poorest countries in the world - overpopulated, with limited arable land, scant proven and commercially exploitable mineral resources and largely illiterate population. The rift between the cities and the rural areas, resistance to technical progress and to the need to modernize administration, long periods of insecurity and the existence of an elitist system of education are factors which explain the country's inadequate development.

2. During the last five years of the new Haitian administration, some major positive departures from the practices of the recent past have taken place. In particular the country became open to foreign expertise and direct foreign investment and sought to obtain substantial concessionary financing for new and important projects.

3. In spite of these favorable indicators, a number of constraints to economic and social development persist. Chief among these constraints is the slow growth in agriculture, which contributes almost one-half of Haiti's GDP and provides a livelihood to 80 percent of its population. The growth of the sector, which was negative during the decade of the sixties partly because of natural disasters, has somewhat accelerated in the seventies, reaching 1.2 percent per annum in 1971-75. As population growth in rural areas was on the order of 1.1 percent per annum there was practically no increase in per capita income in rural areas for a long time. The average income of about 90 percent of the population of rural areas was not more than US\$45 in 1970, a level considered as below the threshold of absolute poverty in Haiti. While this level is calculated to have attained presently about US\$80, this increase could be attributed almost exclusively to the price inflation.

4. The growth dynamics of sectors located in the urban areas provides more reasons for optimism. In particular, the manufacturing and construction sectors while still in their infancy, grew at more impressive rates. The manufacturing sector which presently accounts for only 12 percent of GDP, grew at 6.8 percent per annum since 1971. Besides a few medium-sized plants producing simple goods for the domestic market, it also consisted of about 150 export-oriented small plants assembling imported inputs and largely owned by foreign capital. The construction industry was buoyant. It grew by some 18 percent per annum and catered in the last year or so to the new large infrastructure projects financed to a large extent by foreign assistance agencies, and otherwise to the middle and high income population of Port-au-Prince, who were the first beneficiaries of the urban centered growth of the last few years.

5. Haiti has an open economy. There are no controls on foreign capital flows and on foreign exchange movements. Its domestic currency is fully convertible. With the international community's revived interest in Haiti, the movements of private and public capital accelerated and began to have an impact on the country's economy and social life. Thus, firstly, the net current transfers into the country attained by 1975, a record level of US\$40 million, equal to 4.6 percent of GDP and were sufficient to fill the wide

foreign resource gap of that year. These transfers consisted partly of capital repatriated by returning Haitian residents and partly of grants received from official agencies and private organizations. Secondly, net disbursements of medium and long-term capital, mostly official, amounted to US\$21 million in 1975 and compare favorably with hardly US\$3 million annually during the preceding four years. Thirdly, the borrowing abroad by the Haitian banking system has also been substantial. The net foreign liabilities of the banking system increased by some US\$20 million annually during the last three years. Most of it was used to finance increases in domestic credit, predominantly to the private sector and exclusively on short-term. Fourthly, private direct investment started to establish itself in the country. The amounts were relatively small, never exceeding a total of US\$8 million annually but this investment was widely distributed over low cost equipment installed in many small enterprises.

6. Effects of these capital movements were widely divergent. In the broad sense they substantially increased the resource availability of the country. Thus while the GDP in Haiti grew, according to Mission estimates, by only 2.5 percent annually during 1971-1975, its resource availability grew by 5.2 percent during the same period. This helped to step up the public investment effort and public investment began to grow at 32 percent per annum since 1971. A part of the resources contributed by the foreign sector was also channelled into an increase of consumption, reflecting, no doubt, the fact that some private transfers were destined originally for this purpose. Overall consumption was growing by more than 4 percent annually, and private consumption was growing by more than 5 percent, while at the same time public consumption underwent a steady decline. In turn, practically the entire increase in private consumption accrued to the population of Port-au-Prince, where the per capita annual growth of consumption reached about 10 percent per annum.

7. This contributed to a further polarization of differences between the city and the rural areas. While per capita consumption in Port-au-Prince was twice that of rural areas in 1970, this ratio had increased to 3.2 times by 1975. The number of jobs in productive sectors in the metropolitan area increased since 1971 by some 9,000 in the manufacturing industry and by 12,000 in the construction industry, compared to an increase of about 80,000 in the metropolitan area's labor force during the same period of which over two thirds came from the rural areas. While, outside the above sectors, additional employment outlets were found in the quickly growing services and in marginal activities, the level of open unemployment in the Port-au-Prince area was estimated to be in excess of 16 percent. As much as 60 percent of the city's population resides in quarters where the living space per person does not exceed 8 square meters and where per capita consumption of electricity is limited to 0.4 kw/h per month.

8. The difference between per capita incomes in the lowest and highest income groups in Port-au-Prince is 1:27, with 2.5 percent of the population receiving almost 20 percent of income and 54 percent of population receiving only 15 percent of income. The middle income group, which in Haitian conditions represented income brackets of US\$240 per capita per annum in 1970, was

growing quickly. It is composed to a large extent of middlemen and employees in various services in the capital city. A rapid injection of wealth into the Port-au-Prince area and its unequal distribution spilled over in the import bill and the highest and middle income groups accounted for substantial imports of non-essential consumer goods.

9. While the difference between the lowest and highest incomes is considerable, unlike in other developing countries, the number of those who receive annual average incomes from labor of about US\$1,200 (1970) is small -- about 4,000 persons in all, of whom three-quarters are in the capital city. As they get a relatively small fraction of the entire income of the country, policies aiming to redistribute incomes could alleviate the lot of the poor only if the revenue from increased taxation of luxury consumption is used to assist the rural sector in increasing agricultural production.

10. The balance of payments situation is precarious. Firstly, the net current transfers consist of temporary components, such as donations of private organizations and repatriation of Haitian capital from abroad, and it cannot be expected in future that these components could be maintained at the high level of the last year. Secondly, the growth of profits in industrial and construction activity and the increasingly divergent domestic and foreign price trends, make it both possible and profitable for Haitians to place their capital earnings abroad. The balance of payments residual item of unrecorded transactions, while a rather imperfect measure of this phenomenon, might be considered as an indicator of this trend. They increased markedly from around US\$9 million annually in the early 70's to over US\$40 million annually in the mid-70's.

11. Recent trade trends make the balance of payments situation even more vulnerable. Haiti's volume of exports of traditional goods--coffee, sugar, cocoa and sisal--was declining or, at best, remained stagnant. The parallel increase in industrial exports contributed only to slow down the decline in overall exports to some two percent annually in real terms since 1971. Exports of light manufactures, assembled from imported inputs, grew from US\$13 million in 1971 to US\$38 million in 1975, but only one half of these exports could be considered as domestic value added, of which a part of the profit was also often transferred abroad. Conversely, Haiti's imports grew quickly, at 9.1 percent per annum in real terms during 1971-75, and the elasticity of imports to GDP reached a high level of 3.6. A substantial part of these imports, about one half of the total, were consumer goods, of which about 45 percent were of non-essential type. Imports of non-essential goods, equal to US\$30 million in 1975 and destined predominantly for consumption in Port-au-Prince, exceeded imports of capital goods by a wide margin.

12. Generally, the country's economic administration needs to be strengthened if the important economic problems accumulated over a long period of time are to be solved. This required improvement of public administration cannot be achieved unless the recent decline in the salaries of public servants is arrested and reversed so that the public sector can attract and retain qualified personnel. The influence of the public institutions

in their respective areas of economic activity is unclear, whether because it has not been redefined for a long time or because centrally-taken decisions cut across these areas, or, finally because of inadequate flows of information available at the highest levels of economic decision-making. There were only 200 civil servants in Haiti receiving salaries in excess of US\$400 per month in 1972 and incomes of the preponderant majority of civil servants were about 40 percent below the average labor income in Port-au-Prince. The Ministry of Finance holds accounts of and exerts control over only 47 percent of revenues collected by its agencies and over 32 percent of total public current and development expenditures. The Planning Agency (CONADEP) directly controls about one-tenth only of total public investment expenditures; not unrelated to this is the fact that investment targets set by it for the key goods-producing sectors, mainly for agriculture, were achieved only to an extent of 52 percent during 1971-75.

13. The key to Haiti's immediate future lies in the development of agriculture. This development should help the Haitian economy along the way toward regaining an equilibrium between imports and exports at first by halting the tendency of increasing food imports and later by providing additional agricultural products for exports. It should also help in restoring a proper balance between urban and rural incomes and consequently between urban and rural consumption levels. If these objectives are to be achieved, development expenditures in agriculture must increase substantially from their low 9 percent share of total development expenditures during the 1973-75 period. The Government declared in mid-1975 its intention of raising the share of agriculture to an average of 20 percent of development expenditures during the 1976-81 period.

14. An equally important task for Haiti is to restore the leading role and effectiveness of public administration. At present about US\$48 million or more than one-third of total public expenditures is made outside the system subject to official recording and accounting. It is desirable that a large part of this expenditure return to the official budget during the forthcoming period, so that it be at least partly utilized to increase public servants' salaries and to provide adequate funds for investment maintenance, the absence of which provoked disrepair of major irrigation and road networks of the country.

15. The international agencies have already committed or are about to commit substantial credit funds to Haiti. These funds are expected to amount to US\$60 million annually - US\$41 million in credits and US\$18 million in grants - contributing the major part of US\$87 million necessary for the public sector to finance investment, technical assistance and to provide transfers to private agriculture and industry. To assure that savings of the public sector reach an annual average of US\$28 million during 1976-80 up from the level of about US\$7 million attained during the last two years, a substantial effort will have to be undertaken by the Haitian administration to increase custom duties, the imposition and collection of which are lagging behind the trend of quickly growing imports.

16. A Joint Commission representing the Haitian Government and foreign aid agencies was created last year to coordinate implementation of foreign assistance to Haiti. The Haitian authorities attach considerable importance to the operation of this Commission and in turn, the participating foreign agencies maintain a close contact between one another. Also, the highest authorities of the Haitian Government seem to be increasingly aware of the country's urgent priorities and may decide to undertake necessary action aimed at designing and implementing new policies, hopefully along the lines suggested above.

CHAPTER I

INVENTORY OF RESOURCES FOR GROWTH

1. Haiti is the poorest country of the Americas and one of the thirty poorest countries in the world. It is also an overpopulated country. With a total area of only 27,750 square kilometers and a population of about 4.6 million inhabitants in 1975, the average population density is about 170 persons per square kilometer, comparable to that of the most densely populated countries in the world. The scarcity of arable land worsens the situation of Haiti's population. Arable land hardly accounts for one-third of total land and, if this is taken into account, the average density of Haitian population would amount to about 515 inhabitants per square kilometer, compared to 445 persons per square kilometer of arable land in El Salvador, the second most densely populated country in the Western Hemisphere.

2. The country's proven mineral wealth is limited both in scope and extent. Bauxite, the most plentiful mineral, has been mined since 1957. About 700,000 tons of bauxite are exported annually. Copper ore--sedimentary and in veins and usually found in Haiti associated with gold and molybdenum--has been mined since the early 1960's and exported in small quantities. Further copper exploration by two major international copper mining concerns is being carried out at present as well as off-shore oil prospecting. Commercial exploitation of these resources would most probably begin at the end of this decade. In various parts of the country moderate quantities of limestone, sand, gravel, clay, building stone and salt are intermittently extracted for local consumption. Lignite deposits are extensive and there are some manganese deposits, but both remain undeveloped.

3. Agriculture was and remains the exclusive source of livelihood of four-fifths of the Haitian population. The principal food crops are rice and corn, which account, together, for 40 percent of the value of agricultural production. The main export products, coffee and sugar cane, account for another 30 percent of production. Agricultural yields are strikingly low. The soil suffered much from erosion, as trees were cut down to be used for charcoal. Agricultural methods used are those of the past century. With the average farm size estimated at no more than 1.4 hectares and with 88 percent of the peasants still illiterate, there was hitherto little inducement nor, indeed, possibility for modernization of agriculture. The average value of annual crops is about US\$290 per hectare at present, and with two-thirds of the rural population holding on average 0.64 hectares per family, average annual income per capita on these small holdings is about US\$45 (in 1975 prices) or about one-fourth of the country's GNP.

4. The existing productive capital in Haiti and the country's infrastructure are both scant and underutilized. During the last two decades, 1955-75, the incremental capital output ratio for the entire period amounted

to 5.2. Given the length of time, for which this ratio has been calculated, the integral capital-output ratio may be very close to the incremental one. This compares rather unfavorably with the capital-output of 3.2, calculated for developing countries for the 1950-64 period. 1/

5. The country has about 2,300 miles of roads, of which only 350 miles are paved. Of these, the main highway linking Port-au-Prince with Cap Haitien - the northernmost port - accounts for 170 miles. To travel this short distance, a seven hours' trip is necessary. There was no major highway construction since the mid-1950's until 1974 and in the meantime the road network has deteriorated badly because of an almost complete lack of maintenance. The country's inventory of transport equipment is low. There are, for instance, three passenger cars per 1,000 inhabitants. Of a number of Haitian ports, which in the past assured coastal and international connections, only the port of Port-au-Prince is, at present, being expanded. Despite the increase in the number of cruise ships which might call at Haitian ports and even though coastal shipping accounts for 18 percent of all freight, Cap Haitien, the second largest port and the principal tourist attraction, can harbor only one ship at a time.

6. Fixed capital in the manufacturing industry is distributed among a few medium sized plants--a cement plant, a flour mill, one large and two small sugar refineries, and a cotton ginning mill. Some amounts of fixed capital were invested in numerous small-size enterprises producing consumer goods (soap, footwear, clothing) and in assembly shops, assembling export goods from imported inputs.

7. Electrical energy capacity is still at its inception, about 70 MW in all. This includes 47 MW of installed hydroenergy, with the remainder distributed among old diesel plants. National average of per capita electricity consumption is at present 32 kwh, about one-third of the consumption level in India. The telecommunication network is scant, with only 14,500 telephone lines, of which all but 500 are situated in the metropolitan area.

1/ The incremental capital-output ratio for 1960-70, calculated for 37 LDC's was 3.2, according to Hollis B. Chenery and Nicholas G. Carter in the "Internal and External Aspects of Development Plans and Performance, 1960-70, Table 6, Development Policy Staff Working Paper No. 141, World Bank, Washington, D.C., February 1973. While it is clear that the marginal capital-output ratio depends on the rate of growth of the economy, and while the latter does not depend exclusively on capital but on such exogenous factors as influence of weather on crops or influence of international market situation on a country's exports, it is also true that the capital-output ratio calculated for the group of 13 countries showing the slowest growth rates was still as low as 4.0, far more favorable than the Haitian ratio. Of all 37 countries only two (Ghana and Argentina) show a capital-output ratio comparable to that of Haiti.

In per capita terms there is one line per 45 inhabitants in the Port-au-Prince area, compared with one line per 7,200 inhabitants in the rest of the country. While there are 16 active broadcasting stations, and a 2-channel TV station, availability of receivers amounted to only 17 radios per 1,000 persons in the early 1970's, one-seventh of that in Guatemala or El Salvador.

8. A housing inventory of Haiti shows that there were 908,000 houses in the country, of which 721,000 are in the rural areas. The national average is, therefore, 4.7 persons per house, and this ratio is roughly comparable between urban and rural areas. Most of these houses are small, however, and when converted into a number of rooms, the overcrowding in the country becomes evident by any standards, with 2.3 persons per room (2.5 in the metropolitan area).

9. Squatter settlements proliferate around Port-au-Prince and there are indications that in the early 70's no more than one-fifth of the population was adequately housed. While no quantitative data are available with respect to the material used in housing construction, surveys indicate that both in the countryside and in the working-class urban communities, the most frequently encountered material is "clissage" (wattle), usually covered with a layer of mud or plaster and sometimes whitewashed. Few of the urban and almost none of the rural housing have electricity. A majority of the population relies for lighting on kerosene lamps. Water is obtained from streams or wells in the countryside and, in the cities, many domestic households rely on water vendors.

10. Finally, the health equipment is also grossly inadequate. On average, there is one hospital bed per 1,300 inhabitants. Outside urban centers where district hospitals are located, there are few personnel and facilities available.

11. Labor is probably the most important--and certainly the least utilized--resource of the country. Haiti's population was, in 1975, about 4.6 million. There were 1.9 million people in the country in 1919 and 3.1 million in 1950. Its crude birth rate is high, 3.6 percent, but this is largely offset by one of the highest crude death rates in the world, 1.6 percent, (the rate of infant mortality at 150 per 1000 live births exceeds that of India) and by a 0.4 percent emigration rate. Net population growth is estimated to be 1.6 percent per annum. The age structure is that of a young population, with 42 percent below 14 years of age.

12. Unemployment is rampant, and open unemployment alone was estimated at 12.3 percent in the whole country in 1971 and even higher, 16.2 percent in Port-au-Prince. Almost 80 percent of the active population is employed in agriculture, at a rate of 1.7 laborers per hectare, out of 5 inhabitants per hectare. It is calculated that with the use of appropriate crop rotation method, the real need for labor in agriculture could be reduced to only 0.4 laborer per hectare. While this indicates that some underemployment in agriculture may now be as much as 75 percent of the active rural labor

force, the reality is somewhat less dramatic when one considers that family help has been included in the calculation, that between 10 and 20 percent of farmers have also other occupations beside that in agriculture and that cattle, forestry and fishing could provide 10 to 15 percent of employment not included in the above calculation. But even the most optimistic estimates yield strikingly high rates of open and hidden unemployment equal to some 49 percent for agriculture and to 62 percent for the entire country. 1/

13. Only 19.6 percent of the country's population was literate in the early 70's. While the school enrollment is, at 37 percent, still low, the rate of attrition is high. Only five percent of children entering school reach the end of the primary education. The difficulties in gaining access to education, to support oneself throughout school, to graduate and to find employment afterwards are compounded throughout the process. This notwithstanding, a generally high value is placed by the Haitian people on education. But even while being largely deprived of the benefits of education, Haiti's population is remarkably perceptive, easily trainable and hard working.

1/ From "Haiti - Problèmes de main d'oeuvre et d'emploi, OIT, Genève, 1976," p. 16.

CHAPTER II

LONG-TERM TRENDS

14. If past long-term economic trends were not favorable to Haiti, it was only partly on account of the country's scarcity of proven exploitable resources, soil aridity or over-population. Other reasons of a less immediately perceptible nature existed. They reside in the sociological background of Haiti. This report would be incomplete if these reasons were not, at least lightly, touched on.

Economic Trends

15. The country's present statistical base is still severely inadequate and the information relating to its past is even more so. Suffice it to mention, however, that the production of each of its two principal export crops--coffee and sugar--more than a century ago was as high or higher than it is at present. 1/

16. Comparisons limited to a somewhat shorter period, including only 50 years of the current century, are equally unfavorable. Thus, during the 1916-26 period, Haiti's annual exports were equal to US\$15 million. Since then, prices for Haitian exports grew 3.8 times and its population 2.3 times. Therefore, if per capita exports in real terms were to be maintained, they should have attained in nominal terms some US\$131 million by 1975. Actually, their value was only US\$93 million gross or US\$76 million net. The latter, instead of counting the entire value of sales, includes only the value added of reexported assembled products. The real value of export per capita was declining, depending on the method used, by 0.6-1.0 percent annually during the last half of the century.

17. Success or failure of exports always had a strong influence upon the business cycle of the Haitian economy. Therefore, the slow long term decline of exports combined with cyclical fluctuations resulted in the economy having suffered, during the 36 years between 1921 and 1956, from 8 years of acute crises, 9 years of depression, and 13 years of recession, with only 6 years of relative prosperity. 2/

18. In these circumstances, per capita income could hardly have been expected to increase. There is no reliable quantitative information on the period preceding 1955, except that economic growth took place in only six years between 1921 and 1956. During the following two decades of 1955-75,

1/ Ragatz, L.J. Fall of the Planter Class - A Study in Social and Economic History (New York, 1928. p. 125).

2/ J. Vilgrain, Les fluctuations cycliques de l'economie haitienne: etude econometrique, Port-au-Prince (no date) p. 45.

the Haitian domestic product has been increasing, in real terms, by about 1.7 percent per annum, which implies that there has been practically no increase in per capita income.

19. The main reason for the quasi-stagnation prevailing over this long period of time is the slow development of agriculture. Production of the agricultural sector, which accounted for 49 percent of GDP in 1955 and for 45 percent in 1975, was growing at 1.3 percent per annum during the whole period. The principal compensatory influence came from three sectors--manufacturing, construction and commerce--the combined growth of which was 2.4 percent per annum during the same period. The fruits of growth contributed by these three sectors benefitted principally the urban minority of Port-au-Prince.

20. During the 1955-75 cycle, the long-term growth of exports of goods and non-factor services, calculated at 2.7 percent per annum, was more favorable than that of domestic production. However, it should be recalled that an increasing part of exports in the most recent period consisted of goods assembled from imported components, which inflate the gross value of export figures. The specific export dynamics of other exported products is less impressive. Thus, during 1955-75, 1/ the volume of exported coffee was dropping by 1.8 percent annually, that of sugar by 2.2 percent annually and that of sisal by as much as 7.1 percent per annum. Cultivation of these products which accounted together at the beginning of the 20 years' cycle in 1955 for as much as 88 percent of total exports, benefitted mainly the rural population and exports were therefore, the main growth incentive of agricultural production. The relative importance of these products was displaced by bauxite, and by reexports of products assembled by small scale industries, which, together, accounted for some 45 percent of total exports at the end of this cycle. The assembly of products by small-scale industries benefitted some 20,000 2/ workers employed in Port-au-Prince or if dependents are added, some 80,000 persons in all, compared to some 3.4 million inhabitants of the rural areas who participate in the production of coffee, sisal and sugar cane. It is true that a country should diversify its exports but Haiti is not, and will not for some time, be in a situation where diversification of exports implies a displacement of one item by another. With its labor in abundant supply, the diversification of exports by Haiti should have implied an addition of new items, with existing items continuing their upward trend. This has not happened.

21. During the last two decades or so, the process of urbanization of Haiti became particularly pronounced. The population of Port-au-Prince was

1/ To eliminate the influence of unfavorable crop years, the average of two years was taken at the beginning and at the end of the twenty years cycle.

2/ From "Haiti - Problèmes de main d'oeuvre et d'emploi, OIT, Genève, 1976".

growing at 5.8 percent per annum, compared with the 1.1 percent per annum growth of the rural population. The professional composition of the active population shifted somewhat during this period. The size of the middle class increased modestly. If liberal professions, technicians and office employees are considered as representatives of the middle class, their share in total employment increased from 1.1 percent in 1950 to 1.8 percent in 1971. At the same time, however, the relative share of population aspiring to enter the middle-class--traders, middle-men and persons employed in non-productive and often informal sector-type services--has more than doubled, from 7 percent in 1950 to 16.4 percent of total employment in 1971.

22. There are a few principal reasons for the deterioration of Haitian agriculture and for the related backward position of the peasantry. Among these are, in the first place, the fragmentation of land. The original land distribution took place with independence when plantations were given or sold in small plots of land to former slaves and soldiers. The continued fractioning of land was influenced by inheritance laws based on the Napoleonic Code, and by laws passed by successive presidents of Haiti. President Louis-Felicité Salomon (1879-88) decreed that squatters could receive title to the land if they cultivated certain crops, and President Stenio Vincent (1930-41) decreed the rural family welfare law which provided for government grants of state lands not exceeding 4.9 hectares to farmers who worked the land effectively for at least five years. These developments led to a situation where 95 percent of the agricultural area is now in holdings below 13 hectares, and one-third of it is in holdings below 1.3 hectares each. In these conditions, irrigation and water management are unwieldy. Illiteracy is predominant and agricultural extension services are woefully inadequate, with one extension worker servicing 8,000 farmers, as compared to about 150 farmers, which is considered effective. It is thus almost inevitable that farm management and technology are both antiquated and that the resulting productivity, depending on the crop, could be doubled and often tripled if more progressive methods of cultivation were spread and adopted.

Social Trends

23. An equally important root of deficient economic progress resides in the cleavage between the cities and the rural areas, which goes far back in Haitian history. While Haiti was the first Latin American country to gain independence and the first state in the world to be established by a revolt of slaves, it has also been, for over the century and a half following the 1804 revolution, a country with a rather rigid social structure. Approximately 10 percent of its population were a French speaking, literate elite. The other 90 percent were the illiterate, Creole-speaking masses. The former live in cities, the latter predominantly in rural areas. The education curriculum was, and still is, geared to the needs and preferences of the former. The cleavage between the cities and the rural areas in Haiti has, therefore, not only an economic but also, perhaps above all, a social significance. It is, moreover, aggravated by the physical situation whereby most of the infrastructure of the city-village integrated type (communication, electrical

energy or other) has hardly branched outside Port-au-Prince. The road network, usually the principal part of such an integrating infrastructure, slipped into a state of disrepair.

24. The differences between the urban and rural areas can be assessed best by analyzing the 1970 income distribution pattern (See Table 1.4). Those who were earning less than US\$240 per annum (US\$120 per gainfully employed person on the average) represented 87 percent of the total labor force of the country. They represented, however, as much as 92 percent of the professionally active population in rural areas and 54 percent of that of Port-au-Prince. Their incomes accounted for as much as 72 percent of total income of rural areas, but in Port-au-Prince incomes of those earning less than US\$240 annually represented only 15 percent of total incomes. The average (for all classes of income) annual income per person employed was equivalent to US\$153 in rural areas compared to US\$437 in Port-au-Prince. This difference is somewhat attenuated by the fact that one out of three persons in rural areas has some sort of income, compared with the much lower ratio of one employed in a family of five in Port-au-Prince. In the final account, therefore, the average labor income per head of population, including those who were not employed, was US\$55 in rural areas compared with US\$118 in Port-au-Prince. These incomes exclude income from profit on capital or on intermediation, but include incomes from professional services or the like.

25. The dire inadequacy of these incomes becomes obvious when compared with consumption expenditures in the same year (see Table 1.5). The average annual per capita expenditure on food amounted to US\$43 in rural areas and to US\$48 in Port-au-Prince in 1970. While in Port-au-Prince this still leaves a substantial margin for expenditures other than food, in rural areas such a margin was negligible--US\$12 per annum, of which US\$9 was absorbed by rent and fuel. The situation was worse for those income groups in rural areas where the employed family member was earning, on the average, US\$120, which yields only US\$40 per person, below the average consumption level for food alone. When it is recalled that the average expenditure on food allows for a purchase of only 1,700 daily calories, which is equal to 77 percent of normal requirements in this part of the world, it becomes obvious that 87 percent of the total population--those where one family member out of three earned, on the average, US\$120 per annum--were at, or below the absolute poverty level in 1970.

26. While the extent of poverty in Haiti is overwhelming, much more so than in any other country of the Western Hemisphere, inequality in the distribution of incomes, while it exists, is much less glaring than in most countries. Thus, the population in the higher incomes brackets (1970) while in a clearly better position than the group analyzed above, was not numerous. The medium-income class, where income per family member attained US\$200 annually, represented only 13 percent of total population and received 39 percent of total income in the country. However, this income class represented only 8 percent and 27 percent, respectively, of total population and income in rural areas. The number of those in higher income groups, whose family members benefitted from annual incomes of US\$1,200 per capita, included

in 1970 only 4,000 persons in the entire country--or 13,000 persons if their families are included. Two-thirds of this group reside in Port-au-Prince. While their income per family member does not appear exorbitant, it is 28 times higher than such income earned by the lowest paid and major part of the population. Incomes of the highest paid population strata represent barely five percent of total labor income. 1/

27. The above shows that, because of the small number of relatively well to do people and the comparatively low share of total income held by them, the impact of redistribution of income through income taxation is likely to remain limited and an increase of agricultural production may be the only avenue open for the improvement of the lot of the poor. This, in turn, could only be achieved if a larger part of public revenues is channelled into agricultural investment and agricultural credit. These additional revenues could be obtained through increased taxation of luxury consumption and, therefore, should turn the tide of the deteriorating income pattern.

28. Some possibility exists for setting up domestic production of a few basic consumer goods, provided that the technology involved is of a simple, largely labor intensive type for such items as clothing, soap and detergents that are largely consumed in rural areas. Thus, out of US\$30 million worth of clothing, toiletries and cleaners purchased by the Haitian population in 1970, US\$19 million was purchased in rural areas. This implies again that the only way toward expansion of industrial production supplying the domestic market is through the increase of agricultural production and the resulting expansion of the rural market for these industrial goods. Other possibilities of import substitution are, at present rather scant.

29. The urgency of finding solutions to rural poverty does not imply that the problem of urban poverty could be neglected. This latter exists and in a very acute form. It reflects itself largely in the inadequacy of food, although of a somewhat lesser acuteness than the one observed in rural regions. If the level of absolute poverty in urban regions is set at US\$45 per person per year (at 1970 incomes and prices), at least 58 percent of inhabitants of urban areas are below that level, compared to 72 percent in rural

1/ To this should be added income from capital, although it was insignificant in Haiti. Suffice it to say, that income derived from labor when aggregated, accounts for some 70 percent of the GNP. Capital depreciation accounts for about two-thirds of the remaining 30 percent of the GNP, leaving 10 percent of the GNP for profit. Only a part of these profits, namely, those earned by owners of private enterprises, could be added to incomes in the highest group, who, therefore, even if profits are added, receive a less important part of total income than in most other countries.

areas.^{1/} Furthermore, as much as 60 percent of the population of Port-au-Prince has to confront overcrowding. This population lives in quarters where it is calculated that the available living space per person amounts to about 8 m².

^{1/} It was not possible here to adjust these comparisons by relative price levels in urban and rural areas. While it is known that price differentials are considerable among the regions, there is no price index available which could be applied to such comparisons.

CHAPTER III

RECENT DEVELOPMENTS

30. Since the present Government took power in April 1971, political violence has slowly ceased to be an issue and a climate of confidence has been largely established. The Government has put a stop to a policy of distrust for foreign technical and economic assistance. Foreign experts started arriving in the country in increasing numbers and by 1976 there were 75 United Nations-related experts in the country. This is a high figure when compared to the overall number of upper echelon Haitian civil servants which does not exceed 200. The inflow of foreign private investment increased from an average of US\$2 million annually in the 60's to about US\$5.5 million annually in the 70's. Some Haitians returned from abroad and repatriation of savings was estimated at some US\$22 million in 1975. Bilateral agencies stepped up their grants to Haiti, which are estimated to have reached US\$20 million in 1975. Lending by multinational and bilateral aid agencies increased steeply and in terms of net disbursements reached a record figure of US\$20 million in 1975, compared to largely negative flows from these agencies in the 60's. These figures, while they appear insignificant, become important when set against the backdrop of Haitian development. For instance, public investment in Haiti amounted to only US\$9 million annually during 1965-70 and to US\$22 million annually from 1971 to 1975. A climate was created which should ultimately--if not immediately--favor economic growth and social development.

31. In the shorter run, economic growth during the 1971-75 period represented already some improvement over the past. It amounted to an annual rate of only 2.5 percent or 0.8 percent per capita per annum. This rather unimpressive rate was mainly the result of a still inadequate performance of agricultural production, though during 1971-75 it grew at 1.2 percent per annum ^{1/} compared with only 0.8 percent per annum in the immediately preceding past. While still contributing 49 percent of GDP in 1971, this sector was responsible for only 23 percent of the increment to GDP during the last four years. Smaller sectors, such as manufacturing and construction, contributed each almost as much to the growth of the domestic product as agriculture.

32. The rapid development of manufacturing and construction was related to the newly acquired stability and openness of the country. Thus, most of the newly produced manufacturing goods are assembled from imported inputs at some 150 small plants, set up with participation of private foreign investors and reexported abroad. Construction activity, which was growing at about 18 percent per annum, had three main sources. It consisted firstly of construction related to international assistance, largely directed to rehabilitation of the road network, which by 1975 was responsible for 47 percent of total public investment. It consisted, next, of erecting buildings which were to

^{1/} Mission's estimate. Haitian statistics estimate this growth to have been fractionally higher, revolving around 1.4 percent p.a.

house fixed capital brought in by small foreign investors. Such construction had been mainly financed by Haitian nationals and leased to these investors reluctant to tie up their capital in real estate even though only small amounts of money were involved. Thirdly, a substantial part of construction activity went into building of private homes for Haitians, especially for those who returned to the country with some capital.

33. This structure of growth was unavoidably related more to external flows than to basic domestic financing and production. For this reason it also affected a far smaller fraction of the population than agricultural growth would have. The cleavage between these two trends should be related to the widening of the resource gap between 1971 and 1975, with exports--largely agriculture based--declining in real terms in 1975 by 9 percent compared with 1971 and with imports--largely urban consumption and investment oriented--having grown by as much as 42 percent in real terms. The resource gap has widened considerably during this period from 0.9 percent to 4.1 percent of current GDP and the country's resource availability grew by one-third quicker than the country's GDP (Text Table 1).

34. The emergence of a wide resource gap was accompanied by a number of parallel and related economic phenomena. Thus, while the resource gap increased by 3.2 percentage points of GDP, about two-thirds of it (2.1 percentage points) is attributable to the relative decline in exports. The relative increase in imports, by 1.1 percentage points of GDP, accounted for only one-third of the increase in the resource gap during this period.

35. This picture reflects only the current price calculation because the GDP implicit deflator and the prices of imports and exports were greatly divergent, with the GDP deflator growing by 4.2 percent p.a. and import prices growing by 2.1 percent during 1955-75. The divergence of these trends has become particularly strong since 1972. From that year until 1975, annual growth of GDP, import and export prices was 20.2 percent, 11.9 percent and 22.8 percent, respectively. Therefore, when calculated in constant 1955 prices, dependence on foreign resources appears more acute. The share of imports in GDP grew from 23.8 percent in 1971 to 30.6 percent in 1975, while the share of exports declined from 24.5 percent to 20.3 percent of GDP. During the same period, the improvement of the terms-of-trade is estimated at 5.1 percent of GDP, and the foreign resource gap is shown to have grown by 5.8 percentage points of GDP. As a result of these changes, resource availability expanded at 5.2 percent per annum, twice the rate of GDP growth and Gross Domestic Income grew at 3.8 percent per annum during 1971-75.

36. Both consumption and investment benefitted from the increase in resource availability but to a different extent. Thus, consumption has increased by 4.1 percent per annum during 1971-75 compared with the 13.8 percent growth of investment. However, it is only when these large aggregates are broken down into components that a serious imbalance in the use of resources becomes apparent. Thus, private consumption grew during 1971-75 at over 5 percent per annum, while public consumption declined in the same period, by 6 percent annually, both in real terms. The trends

were also largely divergent for investment components, with private investment growing by only 3 percent per annum, while public investment was growing by as much as 32 percent per annum.

Table 1: BASIC AGGREGATES OF HAITIAN DEVELOPMENT

	Relative Shares (in percent of GDP)						Growth	
	Current Prices			Constant prices of 1955			(in percent per annum, constant 1955 prices)	
	1965	1971	1975	1965	1971	1975	1965-1970	1971-1975
GDP	100.0	100.0	100.0	100.0	100.0	100.0	1.0	2.5
(Agricultural sector)	Unavailable in current prices			(49.3)	(47.7)	(45.4)	(0.8)	(1.2)
Consumption	98.0	92.0	92.9	97.3	89.2	94.9	(0.3)	4.1
Private	(89.0)	(81.8)	(86.1)	(88.5)	(79.3)	(87.9)	(0.1)	(5.1)
Public	(9.0)	(10.2)	(6.8)	(8.8)	(9.9)	(7.0)	(1.9)	(-6.0)
Investment	6.9	8.9	11.2	6.4	10.1	15.4	11.7	13.8
Private	(3.9)	(6.4)	(5.5)	(2.8)	(7.3)	(7.6)	(26.6)	(3.3)
Public	(3.0)	(2.5)	(5.7)	(3.6)	(2.8)	(7.8)	(-9.5)	(32.5)
<u>Resource availability</u>	104.9	100.9	104.1	103.7	99.4	110.3	1.2	5.2
Resource gap	4.9	0.9	4.1	3.6	1.3	7.1	6.2	57.5
Gains from terms of trade	does not apply			0.1	-1.9	3.2	decr.	incr.
<u>Gross Dom. Income</u>	"	"	"	100.1	98.1	103.2	1.3	3.8
<u>Trade</u>								
Imports of goods and NFS	17.6	16.5	17.6	21.6	23.8	30.6	3.9	9.1
(Exports of goods and NFS)	(12.7)	(15.6)	(13.5)	(18.0)	(24.5)	(20.3)	(3.4)	(-2.3)
Import capacity	does not apply			18.1	22.5	23.5	5.0	3.5

37. Private urban consumption, mainly concentrated in Port-au-Prince, has been increasing much more rapidly than rural consumption. Using a reasonable hypothesis that the consumption of the rural population depends narrowly on the growth of agricultural production, one can estimate that the former was growing at 1.2 percent per annum during the past four years. Therefore, even though the population growth in rural areas was much slower than that in Port-au-Prince (1.1 percent per annum compared to 5.8 percent per annum), it appears that the annual rates of per capita growth of consumption during 1971-75 were 0.1 percent per annum for the rural areas and 6.1 percent per annum in the urban areas (see Table 1.5). Furthermore, on the equally plausible hypothesis that private urban consumption growth benefitted exclusively

Port-au-Prince and that the population of other urban centers was growing at a rate only slightly higher than that of the rural population, the implicit per capita annual rate of growth of private consumption in Port-au-Prince becomes as high as 10 percent per annum.

38. This analysis of recent trends leads to a number of tentative conclusions. They relate, firstly, to the unbalanced structure of the growth process, secondly, to the unusual convergence of favorable events making the balance of payments situation temporarily tenable and, thirdly, to the increased polarization of the social situation.

39. Growth. The structure of growth has changed, responding to demand which was mainly financed through injections of foreign exchange. Such was undoubtedly the case of that part of the demand for construction financed by the Haitians who repatriated their savings from abroad. Such might also have been the case of the industrial production fuelled by the demand for products where Haiti already had attained world export records (e.g., for baseball balls, of which Haiti became a leading exporter) and where foreign demand might be soon exhausted. As many of the sources of recent growth may not increase in the future this suggests that the agricultural sector should be considered as a permanent motor of economic growth. If Haiti is to achieve a 3.5-4.0 percent rate of growth, agricultural growth has to be targeted at, at least, 3 percent per annum. Quickening of the pace of agricultural growth should also help to utilize ongoing investment more fully: for instance, the quasi-totality of the present investment in transport and in education is geared to agriculture.

40. A relation between the relative rates of growth of the private and public investment needs to be considered. The past four years were a period when not only the security of private citizens was reestablished, but also when Haitians with their own capital returned from abroad and new branches of foreign private banks were established. Nevertheless, private investment efforts have been weaker in 1975 than in the past few years. This may reflect not so much the lack of confidence of private investors in the economic future of the country as their indecisiveness in the face of soaring domestic prices with imported goods becoming increasingly competitive and their apprehension at the absence of clearly defined economic policies--or the means for their execution--relating, inter alia, to the screenings and approvals of private investment.

41. The fact that public investment more than compensated for the disappointingly slow growth of the private sector investment reflects the presence of relatively lumpy investments recently financed by international lending agencies.

42. Foreign Trade. Haiti's resource gap together with the recent favorable evolution of the terms-of-trade made it possible for the country's resource availability to grow at a rate twice that of GDP (5.2 percent per annum for the former, compared with 2.5 percent per annum for the latter). This situation does not appear to be based on any permanent element. The resource gap was largely closed thanks to positive net financial transfers

which might fluctuate considerably in the future such as the repatriation of savings by Haitians and grants from private organizations. The terms-of-trade were improved, in particular, by the influence of the Brazilian frost on coffee prices. Moreover, oil imports declined temporarily when electric energy started being generated by the new hydroelectric plant.

43. The transitory nature of these elements is brought into sharper focus when revised against the background of a decline in the real volume of exports (by 2.3 percent per annum) and a rapid increase in imports (by 9.1 percent per annum) during 1971-75. The elasticity of imports to GDP, in excess of 3.6, remained as high as in the preceding period. This high elasticity is only in part related to the increase in the investment rate (from 6.4 in 1965 to 10.1 in 1971 to 15.4 of the 1975 GDP) and to imports of components destined for reexport and is therefore somewhat preoccupying. The share of capital goods and industrial inputs destined for reexport grew from 24 percent of total imports in 1971 to 28 percent in 1975, and, even when these items are excluded, the import elasticity for the remaining, mainly consumer goods still remains at a level of 3.0. The ratio of imports to GDP (1955 prices) stands now at 31 percent or 18 percent in current prices and high elasticity of imports, especially for consumer goods, could be sustainable for only a brief period of time. If continued, it would become a strong constraint on future GDP growth.

44. Private consumption and its social and economic implications. The social equity in Haiti has not improved in the last four years, whether it is assessed in terms of differences between the urban and rural standards of living or in terms of the internal income distribution within each of these groups. Thus, if the average per capita consumption in rural areas was US\$80 in 1970, it seems to have increased by less than 50¢ per capita by 1975. At the same time, the estimated per capita consumption in Port-au-Prince, which was equal to US\$162 in 1970, grew to US\$261 per capita by 1975 (all in 1970 prices). The ratio of per capita consumption between the rural areas and Port-au-Prince changed therefore from 1:2 in 1970 to 1:3.2 in 1975.

45. A further increase of discrepancies between Port-au-Prince and rural areas is hardly tenable. The annual growth in overall private consumption was 5.1 percent per annum during 1971-75. This growth was distributed among rural areas, where annual increases of consumption were circumscribed by 1.2 percent per annum increases in agricultural production, and Port-au-Prince, where overall annual increases in private consumption were of the order of 16 percent per annum--all in real terms. The annual growth of Gross Domestic Income was only 3.8 percent per annum--and one third of this rate was due to a favorable turnaround in the terms-of-trade. While the growth of private consumption in Port-au-Prince was, to some extent, financed thanks to new incomes, contributed by quickly developing manufacturing and construction industries, it was also, and to an even larger extent, financed from the foreign resource gap.

46. In absolute figures, this situation appears even more striking. Thus, during 1971-75 the overall GDP growth amounted to US\$82 million, and the overall resource availability to US\$111 million, all in 1975 prices. During the same period of time, private consumption grew by US\$104 million of which 84 percent (or US\$87 million) went into consumption increases in Port-au-Prince. This was partly financed by the decline of public consumption (by US\$20 million) which brought down the increase in overall consumption to US\$84 million, and partly financed from the resource gap.

Table 2: FINANCING OF PRIVATE CONSUMPTION
(in 1975 prices)

	1971		1975		Increase 1971-75	
	Million Gourdes	US\$ Million	Million Gourdes	US\$ Million	Million Gourdes	US\$ Million
<u>Consumption</u>	<u>3,659</u>	<u>732</u>	<u>4,077</u>	<u>815</u>	<u>418</u>	<u>84</u>
Public	406	81	300	60	-106	-20
Private	3,253	651	3,777	755	524	104
(Port-au-Prince)	(727)	(145)	(4,217)	(232)	(440)	(87)
<u>Investment</u>	<u>355</u>	<u>71</u>	<u>490</u>	<u>98</u>	<u>135</u>	<u>27</u>
GDP	3,978	796	4,386	877	408	82
Resource Availability	<u>4,014</u>	<u>803</u>	<u>4,567</u>	<u>913</u>	<u>553</u>	<u>111</u>
(Resource Gap)	(36)	(7)	(181)	(36)	(145)	(29)

47. Continuation of this trend, which shows that the overall increase in national production is smaller than the increase in consumption in Port-au-Prince is neither desirable nor possible. This situation might have been prevented in the past. The increase of private urban consumption was not taxed enough. Thus import duties and excise taxes, which constitute the main taxes on consumption were declining by 0.3 percent per annum during 1971-75 in real terms at the same time when imports of consumer goods and food products--only part of it essential--were rapidly increasing to reach the figure of US\$69 million in 1975. Of this a substantial portion was channelled into Port-au-Prince consumption.

International Comparisons

48. As noted above, Haitian economic statistics are inadequate and conclusions based on them cannot be other than highly tentative. Nevertheless, comparison between Haiti and other small--and poor--countries points to the same salient features of Haitian development, which were singled out as standing in the way of economic and social development of the country and as being untenable in the longer run. Thus, Haiti's private consumption

is about 11 percentage points above and exports are about 7 percentage points below those of a "standard" country. 1/ Employment in agriculture shows Haiti to be about 14 percentage points above the "standard" country, which, when compared to the relative contribution of primary outputs to GDP, shows that the productivity of Haiti's agriculture was about 10 percent below that of similar countries. Haiti's education expenditures are strikingly below that of a "standard" country--1.1 percent of GDP in the former compared with 3.2 percent of the latter. Finally, tax revenues in Haiti are below those in a "standard" country--12.6 percent of GDP in the former compared with 13.7 percent in the latter.

1/ 75 small countries were chosen for this analysis. Expected values of a "standard" country are those of a country with 5 million inhabitants and with a GNP per capita of US\$100. For more details about the method applied see Hollis Chenery & Moises Syrquin "Patterns of Development," World Bank and Oxford University Press 1975. pp. 3-18.

Table 3: HAITI: BASIC ECONOMIC INDICATORS COMPARED WITH EXPECTED VALUES
(all calculated in % in current price)

	HAITI ^{1/} (GNP/capita in 1964 prices - \$94 Population - 4.4 million Resource gap - 4.1% of GDP)	STANDARD COUNTRY ^{2/} (GNP/capita in 1964 \$ prices - \$100 Population - 5.0 million Resource gap - 5.0% of GDP)
A. <u>Structure of Production</u>		
Primary Output	45.4	42.3
Industrial Output	17.1	14.2
Utilities Output	6.4	6.4
Service Output	31.1	36.9
GNP	100.0	100.0
B. <u>Structure of Expenditures</u>		
Private Consumption	86.1	75.1
Government Consumption	6.8	14.7
Gross Domestic Savings	7.0	7.2
Gross Domestic Investment	11.1	15.1
C. <u>Public Finance</u>		
General Government Revenues	12.6 ^{3/}	15.8
Tax Revenues	10.8	13.7
D. <u>Foreign Trade</u>		
Exports	13.5	20.3
Primary Exports	4.1	14.9
Manufactured Exports	5.6	1.6
Service Exports	3.8	3.3
Imports	17.6	25.5
E. <u>Employment</u>		
Primary (agriculture & mining)	85.0	71.3
% employment in total labor force		
Industrial (manufacture & const.)	7.1	9.4
% employment in total labor force		
Service % Employment in total labor force	7.9	19.4
F. <u>Social Structure</u>		
Education expenditure-current and capital (as % of GDP)	1.1	3.2
Urbanization ratio (urban/total population)	21.3	20.3
Birth rate	44.0	46.0
Death rate	16.3	18.5
School enrollment rate (primary & secondary)	32.0	35.2

^{1/} 1974-75.

^{2/} Derived from regression analysis of 75 small-size countries of below 15 million inhabitants.

^{3/} Includes Régie du Tabac.

CHAPTER IV

MANAGEMENT OF THE ECONOMY

Institutions

49. To understand fully the role Haitian institutions play in managing the country's economy, three factors have to be reviewed. These are, firstly, the lack of permanence in the exercise of public functions, secondly, the inadequate salaries of public servants and, thirdly, the absence of a clear definition of the functions of the principal institutions.

50. There is no public service career in Haiti, because officials and employees are not promoted from within their respective institutions. It is therefore difficult to bring into existence an effectively functioning body of civil servants who would hold a tenure guaranteeing their employment rights and would rise through the ranks according to their merits. 1/

51. Salaries of public servants are low. Thus out of 16,500 public employees in 1973, as many as 16,300 (or 99 percent) were receiving on the average, salaries of US\$120 monthly. Only 200 civil servants, including Cabinet Officers, were receiving gross salaries in the range of US\$400 to US\$1,000 monthly. The preponderant majority (84 percent) of all civil servants were in the US\$55 per month category, which, if calculated on per capita basis, including dependents, yields US\$130 per capita in 1973, or close to the all-country average income per capita for that year (US\$100), and considerably below the average per capita income--in current prices--in Port-au-Prince at

1/ Some side effects of this situation have been pointed out for instance in "Haiti: Mission d'Assistance Technique integree," prepared by the Organization of American States (OAS), Washington, D.C., 1972. p. xi, "The general design of the government, on paper according to the laws, is adequate: however, there is an appreciable gap between this design and the existing operating structures of the government. These structural inadequacies are compounded by an excessive concentration of decision-making authority at the highest levels, and frustrating problems of coordination within the ministries due to the excessive proliferation of their dependencies. Further, the autonomous agencies are too autonomous where their functions are closely related to those of the central government. The public administration is hampered by scarcities of managerial and technical capability, and of operating facilities, on the one hand and a superfluosness of administrative personnel on the other." In 1974 the Government appointed an Administrative Commission in charge of regulating the status of public servants. As of April 1976 the Commission had not yet made its recommendations on this subject.

that time (US\$210). In this situation, the obvious solution for most civil servants was to search for additional sources of income and to invest less time in the exercise of their official duties. This inevitably affected the quality of work, especially at the lower echelons of staff, to an extent that there is often no executing personnel available to whom power--or specific tasks--could be delegated by senior staff.

52. The key institutions responsible for management of the Haitian economy will be discussed below. They were divided into those related to: (i) public finance; (ii) banking, (iii) planning, (iv) statistics, and (v) economic activity.

Public Finance Institutions

53. The Ministry of Finance and Economic Affairs is at the core of the public finance management in Haiti. But, compared to other countries its role is limited. To mobilize resources, it relies on two principal public autonomous agencies; the Administration Generale des Contributions (AGC), and the Administration Generale des Douanes (AGD). Of the two other resource mobilization agencies, the Banque Nationale de la Republique de Haiti (BNRH) and the Regie du Tabac et des Allumettes (RTA), the former acts as a receiving agent of the AGC and AGD while the latter collects resources on its own. Both BNRH and RTA collect a substantial part of the revenue, which otherwise would have been directly collected by AGC and AGD.

54. The AGC is in charge of collecting internal taxes which are earmarked for the current budget, for the development budget and for a number of extra-budgetary accounts. Its counterpart within the Finance Ministry is the Bureau of Public Revenues. This Bureau is required to prepare revenue estimates every year, to submit proposals for modification of existing taxes or for the implementation of new ones. It is, however, limited in its action because it depends on insufficient information received from AGC. The AGC records only the revenues allocated to the current and to the development budget, which, together, represent only a part of overall public revenues collected in Haiti. AGD is an autonomous public agency with responsibility for collecting custom duties. Similar to AGC, it does not record the total amount of taxes collected but only the amount which is earmarked for the budget.

55. Total revenues collected in Haiti by all tax collecting agencies were about 475 million gourdes (US\$95 million) in 1975. Of these the part channelled through the Budget amounted to only 225 million gourdes (US\$45 million) or 47 percent of total revenue collected. While a quasi-totality of the overall revenues has been collected--or at least invoiced for collection--through the AGD and the AGC, available accounts of these two institutions show the collection of 247 million gourdes, the sum of budgetary contributions and resources spent on their own administration. Therefore, almost 50 percent of revenue collected by these institutions remains unreported. Unreported revenue is credited directly to 300 or so special accounts in the National Bank and used for a multitude of unspecified purposes. The Ministry of Finance has neither access to nor supervision over these accounts.

Table 4: PUBLIC REVENUE COLLECTION IN HAITI /a

Revenue Collecting Agencies	Tax Collection (1975 in million gourdes)						
	Total	For the Budget	%	For Extra-Budgetary Accounts	%	Own Expenses	%
Internal Revenue (Administration Generale des Contributions - AGC)	111.1	92.5	83	3.4	3	15.2	14
Customs (Administration Generale des Douanes AGC)	<u>361.7</u>	<u>130.1</u>	<u>36</u>	<u>222.6</u>	<u>61</u>	<u>9.0</u>	<u>2</u>
Total	<u>472.8</u>	<u>222.6</u>	<u>47</u>	<u>226.0</u>	<u>48</u>	<u>24.2</u>	<u>5</u>

/a This table is based on mission's inferences and deductions, because statistical information on extrabudgetary accounts is not available.

56. On the expenditure side the knowledge and influence of the Ministry of Finance are also insufficient. The budgetary expenditures consist mainly of wages and salaries specified in detail in each annual budget. These are practically the only fully budgeted items. The other current expenditures of the budget used for recurrent items could be considered as residuals left after salary expenditures. In turn the entire current expenditure of the budget is also a residual, which remains after total revenues collected are earmarked for extrabudgetary expenditures to be paid out of special accounts in the National Bank. This observation is derived from the fact that the share of extrabudgetary expenditures is increasing and therefore obviously enjoys priority claim on available revenue (See Table 5). Extrabudgetary expenditures represented 34 percent of current expenditures of the Government in 1971, and 55 percent in 1975, leaving respectively 66 percent and 45 percent for current budgetary expenditures. 1/

57. La Regie du Tabac et des Allumettes (Tobacco and Matches Monopoly) has its own tax administration and collection system, and levies taxes called "commissions", on many locally produced and imported goods. Its revenues and expenditures are not made public and consequently can only be estimated (see Table 5). Operations of the Regie are not controlled by the Secretary of State for Finance, and therefore, cannot be included in the planned resource allocation process, although its revenues represent 15 percent of total public revenues and, at least conceptually, should be considered as such. Taxes imposed by the Regie are set without consultation with the Ministry of Finance. The Government has recently created a Commission to audit the Regie and to recommend measures to allocate its revenues to the financing of public sector investment.

1/ Sum of items B i and B iii in Text Table 5. Total current expenditure excludes expenditures of the Regie which, when added, reduce the share of current budgeted expenditures even more, from 56 percent in 1971 to 38 percent in 1975.

Table 5: ROLE OF THE PUBLIC INSTITUTIONS IN THE COLLECTION AND EXPENDITURE OF PUBLIC FUNDS
(in current prices - millions of gourdes)

	1971		1973		1975		Growth 1971-75 (in %)
	Million Gourdes	%	Million Gourdes	%	Million Gourdes	%	
A. Sources							
<u>Total General Govt. Revenue</u>	<u>305</u>	<u>100.0</u>	<u>356</u>	<u>100.0</u>	<u>555</u>	<u>100.0</u>	<u>16.1</u>
i. Accounted for by Ministry of Finance, mainly for budgetary purposes (customs and Internal Revenue)	<u>156</u>	<u>51.1</u>	<u>191</u>	<u>53.6</u>	<u>247</u>	<u>44.5</u>	<u>9.6</u>
ii. Unaccounted for and credited to accounts held by the Central Bank)	<u>107</u>	<u>35.1</u>	<u>112</u>	<u>31.5</u>	<u>228</u>	<u>41.0</u>	<u>23.6</u>
iii. Unaccounted for and credited to account of the Régie du Tabac	<u>42</u>	<u>13.8</u>	<u>53</u>	<u>14.9</u>	<u>80</u>	<u>14.5</u>	<u>17.5</u>
B. Uses							
<u>Total General Govt. Expenditure</u>	<u>353</u>	<u>100.0</u>	<u>373</u>	<u>100.0</u>	<u>746</u>	<u>100.0</u>	<u>20.6</u>
i. Current Budget (current exp.)	<u>152</u>	<u>43.1</u>	<u>172</u>	<u>46.1</u>	<u>204</u>	<u>27.3</u>	<u>7.6</u>
Wages							
Wages & salaries	95	26.7	112	30.0	123	16.5	6.7
Materials etc.	28	7.9	28	7.5	41	5.5	10.0
Transfers etc.	29	8.2	32	8.6	40	5.4	8.4
ii. Development Budget (invest. exp.)	<u>81</u>	<u>22.9</u>	<u>98</u>	<u>26.3</u>	<u>214</u>	<u>28.7</u>	<u>27.5</u>
(a) CONADEP	13	3.7	11	2.9	13	1.7	zero
(b) Other Ministries & Agencies and the Central Bank	68	19.3	87	23.3	201	26.9	31.1
iii. Unaccounted for current extra- budgetary expenditures (pay- ment from Central Bank accts.)	<u>78</u>	<u>22.1</u>	<u>50</u>	<u>13.4</u>	<u>248</u>	<u>33.2</u>	<u>33.5</u>
iv. Unaccounted for Régie du Tabac	<u>42</u>	<u>11.9</u>	<u>53</u>	<u>14.2</u>	<u>80</u>	<u>10.7</u>	<u>17.5</u>
C. Deficit	<u>48</u>		<u>17</u>		<u>191</u>		<u>41.2</u>
D. Memorandum items:							
GDP	2.226		2.844		4.386		18.5
Consumption price index	100.0		135.6		169.7		14.1
Investment price index	100.0		146.2		146.8		10.1

National Bank

58. The National Bank's activity in Haiti is divided into two main parts: The first has to do with the central banking process proper which includes the functions of commercial banking; the second consists of management of the special accounts. It is this function which involves administering of some G 230 million (US\$46 million) in extrabudgetary revenue or 6 percent of GDP which makes the National Bank an influential institution. Its Board of Administration is appointed by the President of the Republic. While the Secretary of State for Finance is the Honorary President of the Board, he has no vote.

59. The extrabudgetary revenue which the National Bank administers is spent without being subjected to any analytical accounting method. There is, therefore, hardly any knowledge as to the specific operational function of these public expenditures and the National Bank's role is limited to checking periodically whether the accounts were not overdrawn.

Planning

60. The National Development and Planning Council (CONADEP) was created by Decree of January 17, 1963 with an aim to "formulate a general policy of economic and social development of the Nation as well as to present the principal planning options." Another law, that of May 15, 1973, imposed a collaboration between the Budget Office and CONADEP. At present, however, this collaboration has not yet fully materialized and in its absence investment projects are not provided with sufficient funds for maintenance and other current expenditures.

61. CONADEP's activity differs from that observed generally in central planning offices. Its sectoral analysis and the global economic framework used do not appear to be very closely related to the factual macro-economic framework of Haiti, partly for lack of an adequate statistical base. Nor does CONADEP's activity come close enough to deciding on sectoral projects, or on their priority to the economy, because these are usually independently elaborated by interested ministries. Consequently, CONADEP's activity is neither able to offer remedies to the imbalances of the country's macro-economic structure, nor is it leaving an imprint on macro-priorities of public projects. 1/ In the latter it is also restricted by the astonishingly small

1/ "National planning and budgetary administration suffers from a lack of a plan containing well-defined objectives, strategies and specified means. CONADEP is caught between an unnecessarily diverse accumulation of functions and a lack of resources. The national statistical system needs improvement in terms of timeliness and accuracy in the production of economic and social data. The budget should be broadened to encompass and consolidate all public sector programs to enhance efficiency in the planning and utilization of internal and external financial resources. Similarly, the public accounting system needs modernization." (OAS Technical Assistance Report, op. cit.).

fraction of public investment for which it is either directly responsible (G 13 million or 4.5 percent of public investment), or whose accounts it maintains (for another 9 percent of public investment). This leaves the remaining 87 percent of public investment outside the direct influence of CONADEP.

Table 6: EXECUTION OF INVESTMENT PLANS

Sectors	Total Investment 1971-75				Degree of Execution of Planned Investment	
	Planned (in million gourdes)		Actual		Weighted	Average of annual Deviations /a
	%	%				
<u>Goods-producing Sectors</u>	<u>213.7</u>	<u>25.3</u>	<u>109.9</u>	<u>15.2</u>	<u>51.4</u>	<u>51.8</u>
Agriculture	150.2	17.8	79.2	11.0	52.7	48.4
Industry	55.9	6.6	25.4	3.5	45.4	44.6
Tourism	7.6	0.9	5.3	0.7	69.7	67.2
<u>Infrastructure</u>	<u>383.9</u>	<u>45.5</u>	<u>399.5</u>	<u>55.3</u>	<u>104.1</u>	<u>117.1</u>
Power	75.0	8.9	97.1	13.4	129.5	134.1
Transport	200.6	23.8	209.2	29.0	104.3	98.4
Telecommunication	55.8	6.6	82.7	11.4	148.2	126.9
Water	52.5	6.2	10.5	1.4	20.2	22.8
<u>Social Sectors</u>	<u>186.3</u>	<u>22.1</u>	<u>162.5</u>	<u>22.5</u>	<u>87.2</u>	<u>89.6</u>
Education	30.8	3.6	41.8	5.8	135.7	111.1
Health	97.3	11.5	68.7	9.5	70.6	77.9
Community Development	54.3	6.4	49.9	5.9	91.9	84.6
Housing	3.9	0.4	2.1	0.3	53.8	98.6
<u>Preinvestment Studies</u>	<u>59.6</u>	<u>7.1</u>	<u>49.9</u>	<u>5.9</u>	<u>83.7</u>	<u>55.3</u>
Total investment	<u>843.5</u>	<u>100.0</u>	<u>721.8</u>	<u>100.0</u>	<u>85.6</u>	<u>83.5</u>

/a This method aims to eliminate the influence of inflation on results.

Statistics

62. The Haitian Institute of Statistics is responsible for the entire statistical work of the Republic. It employs over 70 employees, of whom about 20 are senior staff. Although it is competently managed, it suffers from inadequate statistical inputs partly because of scarcity of funds (its total budgeted current expenditures, net of wages and salaries, amounted to only US\$26,000 in 1975/76), partly because of the unwillingness or incapacity of

other institutions to provide them. ^{1/} Thus, the Institute's information on the public sector is incomplete. This lacuna is a source of many important statistical errors. For instance, the Institute calculated economic growth during 1971-75 to have been equal to 4.6 percent per annum in real terms. However, of some US\$54 million of GDP increment during that period (1955 prices)--US\$23 million--or almost one-half--was attributed to the real growth of the government sector. This was, in turn, explained by an increase of public expenditures which the Institute considered to be tantamount to the material contribution of the public sector to growth. The Mission could find no evidence that the increase in extra-budgetary current expenditures reflected increases in employment by the Government. Consequently, the mission decided to hold the contribution of the public administration to GDP at about the 1971 level. On this latter basis, GDP growth would be 2.5 percent p.a.

63. Similarly, statistical knowledge of the growth of the agricultural sector is scant. Calculations are based on the assumption that at least three-quarters of agricultural growth is geared to the maintenance of per capita consumption of food in rural areas, and, therefore, the growth of agricultural production is smoothed out in statistical series. The Mission used, instead, a representative set of agricultural products and found that agricultural growth has been subjected at times to violent fluctuations, an observation rooted in real life, because the natural disasters in 1973 and 1975, combined with breakdown of the irrigation network, depressed agricultural production.

Economic Administration

64. The Ministry of Commerce and Industry is one of the most important of the economic ministries. This Ministry suffered most from losses of personnel, probably because its highly qualified personnel might not have found it difficult to move into job openings in the quickly growing industrial and commercial sectors when the salaries paid by the administration proved inadequate. Administration of industry is based on laws which the Ministry--because of its lack of personnel--may at times be unable to effectively apply, with an adverse effect on the soundness of new foreign investment. Applicants, domestic or foreign, for important tax incentives are hardly screened. A Foreign Investment Commission exists and convenes weekly, but it has little to base its decisions on, as there is no system of filing or of control. The Ministry is supposed to control imports, so as to induce national production of simple goods. This aim may prove to be outside its reach, partly because importers represent a powerful pressure group in Haiti, and partly because the Ministry does not have enough trained personnel to conduct analyses so as to set the appropriate level of import duties. Inactivity in these fields contrasts with a divergence between price trends, noticeable during the past five years and which particularly accelerated recently when domestic prices grew at 20.1 percent per annum during 1972-75, compared with 8.8 percent

^{1/} In spite of these constraints the Institute has been able to publish important statistical documents in recent years such as the 1970 Socio-economic Survey, the 1971 Statistical Guide, the 1971 Census of Population, Housing and Agriculture, the 1971 and 1974 Demographic Surveys, the 1971 Industrial Survey and a major revision of National Accounts for the period 1955-75.

growth of import prices during the same period of time. Domestic inflation, low import tariffs and easily obtainable duty exemptions combined to make the importing activity an increasingly profitable business.

65. The Ministry of Agriculture has been somewhat revitalized recently, thanks to the creation of a Programming Unit at the DARNDR, 1/ with support from ACDI, FAO, IICA, and other agencies, the strengthening of the Bureau of Agricultural Credit (BCA) by USAID, and the proposed creation of a marketing institute at the DARNDR. However, much more is needed to improve the planning, executing and supporting capabilities of the agricultural agencies, particularly in the fields of rural promotion and extension which are essential to any effort in agricultural development.

66. The proposed agricultural Five-Year Plan acknowledges this need to reinforce the public agricultural sector and attempts to attach some of the main obstacles to agricultural development through a series of programs geared to strengthen and improve agricultural services and rural infrastructure as well as sectoral planning, the introduction of a policy of regionalization and establishment of "development islands" throughout the country. These proposed measures are in direct continuation of previous efforts aiming to reduce some of the constraints in the agricultural sector, including the modification of taxes on exports of coffee and sugar, the elimination of market taxes for domestically traded staples; the passing of a law making cultivation of all arable lands compulsory, and the increase of sugarcane prices to producers. All these measures constitute a significant effort to improve the agricultural sector, and a proof of attention given in recent years to agricultural planning. In view of the large demand of financial and human resources required to implement this ambitious plan, however, a careful determination of priorities among the various programs would facilitate its implementation within the framework of approved budgetary levels and absorptive capacity of the agricultural public sector. Furthermore, the crucial need to reinforce the DARNDR and its related agencies, which is stressed throughout the Plan, is conditional on the development of agricultural education at both the higher and intermediate levels, as well as on the general policy pertaining to salary levels of public servants.

67. Until decisions are taken to carry out the extensive effort required to strengthen the public agricultural sector, the sector will continue to depend mainly on the relative success of on-going projects. The impact of these projects might become limited by the constraints, frankly recognized in the development plan.

Money and Prices

68. Prices. Price inflation was relatively unknown in Haiti before 1972. During the 1967-72 period the GDP implicit deflator and the consumption price index 2/ marked an annual increase of only 1.6 and 2.4 percent

1/ Departement d'Agriculture, des Ressources Naturelles et du Developpement Rural.

2/ Calculated for Port-au-Prince only.

respectively. This period was succeeded by a sharp acceleration of inflation during 1972-75 when the GDP deflator and the consumption price index were increasing at 20.3 and 17.6 percent annually. Consumer price index increases averaged 17.6 percent during the same time and, when considered alongside private consumption increases in Port-au-Prince averaging about 16 percent annually in real terms, suggests the influence of a rapid increase of demand on consumer price inflation.

69. Consumer prices in Haiti reflect mainly price changes in food and clothing which constitute respectively 69 percent and 20 percent of the price index. The sharp acceleration of domestic food prices was due in part to the substantial increase of the prices of imported food, which averaged 35 percent annually during 1972-75. Additional pressure on food prices resulted from the sluggish domestic food supply, with the production of four main products (corn, millet, beans and bananas) declining or stagnating, and with imports having to supplement inadequate production of other products (milk, rice, dried fish, fat and oil).

70. Other domestic prices followed. After having remained unchanged for more than 10 years, minimum daily wage rates were increased by 30 percent, from US\$1.0 to US\$1.3 in January 1974 to compensate for the increased in food prices which took place during the preceding year. Price of construction was increasing by 16 percent annually, and that of clothing by 21 percent. While the statistical evidence is weak, the sequence of events tends to suggest that the unrestricted and quickly growing private demand in Port-au-Prince exerted pressure on domestic food supply and spilled over into imports of food. As foreign market prices for the latter were rising steeply during the last three years, this appears to have been one of the major factors behind the steep increase in Haitian prices since 1973 (Text Table 7). 1/

1/ A linear regression with Port-au-Prince's Consumer Price Index and the Index of International Inflation shows a high correlation:

$$\begin{aligned} y &= \text{Consumer Price Index} \\ x &= \text{International Inflation Index} \end{aligned}$$

$$y = 5.4 + 0.9 x$$

$$R^2 = 0.976; \quad t = 19.2$$

Number of observations: 20

Table 7: MONEY AND PRICE MOVEMENTS

(Annual growth, in %)

	<u>1967-72</u>	<u>1972-75</u>
<u>GDP</u>		
Nominal Growth	4.6	23.9
Implicit Deflator	1.6	20.3
<u>Prices</u>		
Consumption	2.4	17.6
Food	2.9	18.5
Clothing	5.3	21.0
Housing	-1.5	11.6
Investment	-3.5	15.9
Imported Equipment	-5.7	12.3
Construction	-0.7	16.1
Imported Food <u>/a</u>	6.2	35.2
International Price Index	5.0	16.9
<u>Money and Credit</u>		
Money and Quasi Money	18.7	22.9
Money	16.0	10.2
Quasi-money	25.3	43.8
Net Domestic Credit	8.0	44.0
Public Sector	6.0	24.5
Private Sector	10.4	70.0

/a Selected food imports constituting about 80 percent of food imports during 1975.

71. Money. Contrary to other countries in the Western Hemisphere, monetary expansion appears to have had little influence on prices. The money supply increased during 1972-75 at 10.2 percent per annum, while prices rose at about twice that rate; during the preceding five-year period, when the money supply grew by 16 percent annually, prices were almost stable. Thus, prices were increasing at lower rates when monetary expansion was highest and vice versa. Monetary expansion was also much lower than the annual average increase in nominal GDP during 1972-75, while in the preceding five years

the reverse was true. From constituting 6.6 percent of GDP in 1967, the money supply reached a peak of 9.5 percent of GDP in 1972 and then progressively declined until it reached 6.7 percent of GDP in 1975 (Annex Table 6.4).

72. Sluggish monetary expansion during a period of sharply accelerated price increases was possible because of a gradual decline of transactions demand for cash balances, i.e., a fast increase of the velocity of money.

Table 8: TRANSACTIONS DEMAND FOR MONEY

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Transactions Demand	0.095	0.093	0.086	0.067

A principal reason for the decline in transactions demand was the attempt of depositors to protect the real value of financial assets from the effects of inflation through the shift of cash balances into interest-bearing deposits which were further stimulated by an increase in interest rates for time and savings deposits from 2-4 percent to 6-8 percent.

73. The private sector has been the main recipient of net domestic credit during 1973-75 and accounted for about 64 percent of the total credit increase. The demand for credit by the private sector accelerated during these years partly in response to the acceleration of price inflation.

Table 9: SOURCES OF FINANCING OF THE NET DOMESTIC CREDIT OF THE BANKING SYSTEM
(increases over the period in millions of gourdes)

	<u>1971-72</u>	<u>1973-75</u>
Net Domestic Credit	53.1	562.0
Net Foreign Assets	<u>69.8</u>	<u>-</u>
Total	<u>102.9</u>	<u>562.0</u>
Financing:	<u>102.9</u>	<u>562.0</u>
Money	76.9	74.5
Quasi-money	46.0	199.9
Net Foreign Liability	-	287.6

If the substitution of cash balances for interest bearing deposits had been the only reason for the decline in the transactions demand for money, an

additional G 288 million would have materialized as an increase of the money supply and not as an increase in foreign liabilities. Recipients of credit were thus using part of the funds obtained from the banking system to finance operations abroad and, in order to adjust to this leakage, had to increase the turnover of their cash balances.

74. The use of this credit was at least threefold. Firstly, it was used as normal short-term credit for internal commercial operations. Secondly, it was related to a very steep increase in imports and, in particular, in import prices. Imports of goods and non-factor services were increasing during the last three years at 24 percent per annum in current prices, with the increase of import prices growing from 1.8 percent annually during 1967-72 to 11.8 percent during 1972-75. The banking system had therefore to increase credit for import financing and a much larger share of the increase in net domestic credit was used to finance imports. Thirdly, a part of this credit might have spilled into unrecorded private capital outflows and imports which amounted to some US\$82 million during 1973-75.

Public Finance

75. The influence exerted by central public institutions in the mobilization and use of funds in Haiti is limited. This, in turn, circumscribes too narrowly the role of the operational budget in allocating resources to current expenditures and in enhancing the efficiency of the public sector. Current expenditures of the Budget have declined in real terms by 5.7 percent per annum during the last four years. Public revenues increased considerably slower than expenditures and the Central Government deficit more than doubled in real terms reaching 4.3 percent of the GDP in 1975.

76. Central Government revenue increased by 15.9 percent per annum during the period 1971-75, a lower rate than that of the nominal GDP. As a result, the Revenue/GDP ratio declined from 11.8 in 1971 to 10.8 in 1975 (Text Table 13). During the same period, growth of expenditures constantly outstripped the growth of revenues and annual deficits increased from G 47.2 million in 1971, to G 191.1 million in 1975. All three components of total expenditure, namely budgetary, extrabudgetary and development expenditures followed widely different patterns during the period. There has been a steep increase in development expenditures, which accounted for almost one-half (45 percent) of the increase in total expenditure. Of the remaining 55 percent of the increase, the overwhelming share (40 percentage points) is attributable to the increase in extrabudgetary current expenditures, and only a small fraction (15 percent of the total) is due to increases in budgetary current expenditures.

Table 10: CENTRAL GOVERNMENT: SOURCE OF EXPENDITURE GROWTH
(in million of gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	Incre- ments 1971-75	Rate of growth % p.a.
<u>Total expenditure</u>	<u>310.7</u>	<u>326.3</u>	<u>328.7</u>	<u>440.5</u>	<u>666.6</u>	<u>355.9</u>	<u>21.0</u>
Current expenditures <u>/1</u>	<u>256.8</u>	<u>264.2</u>	<u>263.6</u>	<u>328.6</u>	<u>452.6</u>	<u>195.8</u>	<u>15.2</u>
Budgetary	152.3	159.9	171.8	176.8	204.3	52.0	7.6
Extrabudgetary	104.5	104.3	91.8	151.8	248.3	143.8	24.2
Development expenditures <u>/2</u>	<u>53.9</u>	<u>62.1</u>	<u>65.1</u>	<u>111.9</u>	<u>213.9</u>	<u>160.0</u>	<u>41.1</u>

/1 Total expenditure less development expenditure.

/2 Figures based on data provided by CONADEP. For the years 1971, 1972 and 1973 it is assumed that the Central Government financed two-thirds of the public sector investment. For the years 1974 and 1975 available data was used.

77. Toward the second-half of the 1971-75 period annual increments in current expenditures became 1.6 - 3.6 times larger than increases in current revenues. The increase in the deficit during 1974 and 1975 was on the order of 166 million gourdes, almost equal to the increase in total revenues in the same period. To cover this deficit, Haiti was able to use grants donated by official external agencies and foreign private organizations. The importance of these grants was larger, until recently, than the importance of foreign borrowing.

Table 11: CENTRAL GOVERNMENT DEFICIT AND ITS FINANCING
(in million Gourdes)

	1971	1972	1973	1974	1975	Annual Increments			
						1972	1973	1974	1975
Total Revenue	263.5	278.8	303.4	334.7	475.4	15.3	24.6	31.3	140.7
Total Expenditure	310.7	326.3	328.7	440.5	666.5	15.6	2.4	111.8	226.0
<u>Deficit</u>	<u>-47.2</u>	<u>-47.5</u>	<u>-25.3</u>	<u>-105.8</u>	<u>-191.1</u>	<u>0.3</u>	<u>-22.2</u>	<u>80.5</u>	<u>85.3</u>
Net External Borrowing	-6.6	19.1	-15.1	-12.7	63.6	25.7	-34.1	2.4	76.3
Net Internal Borrowing	24.3	5.7	9.3	61.4	8.1	-18.6	3.6	52.1	-53.3
Grants	29.5	22.7	31.1	57.1	119.4	- 6.8	8.4	26.0	62.3

Source: Mission's estimates based on BNRH statistics.

Table 12: CONSOLIDATED PUBLIC SECTOR SAVINGS 1974-1975 1/
(in Millions of Gourdes, Current prices)

	1974			1975		
	Central Govern.	Public Enterpr.	Consolidated Public Sector	Central Govt.	Public Enterpr.	Consolidated Public Sector
1. Total Revenue	334.7	14.6	349.3	475.4	14.0	489.4
2. Current Expenditures	328.6	0.5	329.1	452.6	3.8	456.4
3. Apparent Savings	6.1	14.1	20.2	22.8	10.2	33.0
minus-expenditures on technical assistance	36.6	---	36.6	40.7	---	40.7
4. Real Savings (Deficit)	-30.5	14.1	-16.4	-17.9	10.2	-7.7
minus-loss of the real value of current expenditures	-34.9		-34.9	-45.0		-45.0
5. Hypothetical Savings (Deficit)	-65.4	14.1	-51.3	-62.9	10.2	-52.7
minus -5% annual Increase in real public expenditures	-34.7	---	-34.7	-39.5	---	-39.5
6. Ultra Hypothetical Savings (-Deficit)	-100.1	14.1	-86.0	-132.4	10.2	-122.2
7. Fixed investment 2/ expenditures	75.3	51.3	126.6	173.2	74.5	247.7
8. Overall Savings (-deficit)						
-real (=apparent)	-105.8	-37.2	-143.0	-191.1	-64.3	-255.4
- ultra hypothetical	-175.4	-37.2	-212.6	-305.6	-64.3	-369.9
9. GDP			3,576			4,386
10. GDP/apparent savings(%)			0.56			0.75
11. GDP/real deficit (%)			-0.46			-0.02
12. GDP/ultra hypothetical deficit			-2.4			-2.8
13. GDP/overall real deficit (%)			-4.0			-5.8
14. GDP/overall ultra-hypothetical deficit (%)			-5.9			-8.4

1/ Excludes the Régie du Tabac

2/ Excludes expenditures on technical assistance

78. Savings of the public sector were low, hardly above 0.7 percent of GDP. Moreover, some expenditures, such as those on technical assistance, were considered as related to capital rather than to current expenditures, which also contributed to overstate the level of public savings. The ambiguity in the calculation of public savings is illustrated through introduction of their four different versions: (a) as they appear directly from available accounts; (b) as they would have really been, had expenditures on technical assistance been considered as current, rather than as capital expenditures; (c) as they might have hypothetically become had the real value of current budgetary expenditures been maintained at the 1971 level, instead of declining and (d) as they might have become, had the real value of current budgetary expenditures been growing at 5 percent per annum since 1971 (see Table 12). The level of public savings becomes negative as soon as the first of these adjustments is made.

Public Revenue

79. The level of taxation of Haiti, measured by the ratio Total Revenue/GDP has declined from 11.8 percent in 1971 to 10.8 percent in 1975. 1/ Compared with roughly similar countries, Haiti's ratio is close to the level which might be considered as normal. A "standard" country with a GNP per capita and a size comparable to Haiti, shows a level of public revenues higher by one-fifth than that of Haiti (Text Table 3). Most Central American countries are even closer to Haiti's level.

Table 13: REVENUES IN PERCENTAGES OF GDP

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
GDP	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Total Revenue <u>/1</u>	11.8	12.0	10.6	9.3	10.8
Budgetary Revenue <u>/1</u>	7.0	7.5	6.7	5.7	5.1
Extra-budgetary Revenue <u>/1</u>	4.9	4.6	4.0	3.6	5.7
Regie du Tabac-Revenue	1.9	2.0	1.9	1.8	1.8
<u>Total Revenue including Regie</u>	<u>13.7</u>	<u>14.0</u>	<u>12.5</u>	<u>11.1</u>	<u>12.6</u>

/1 Central Government.

80. Total Revenue grew annually by 15.9 percent in nominal terms (Table 17). This average rate is somewhat misleading because it includes a 42 percent increase in 1975, due to a large delayed payment of taxes on bauxite. In real terms, the growth of public revenues would have been negative if this extraordinary contribution were excluded.

Table 14: GROWTH OF CENTRAL GOVERNMENT REVENUE,
1971-75 IN PERCENTAGES PER ANNUM

	In current terms			In real terms		
	<u>1971-</u> <u>1974</u>	<u>1974-</u> <u>1975</u>	<u>1971-</u> <u>1975</u>	<u>1971-</u> <u>1974</u>	<u>1974-</u> <u>1975</u>	<u>1971-</u> <u>1975</u>
<u>Total Revenue</u>	8.3	42.0	15.9	-4.1	20.4	1.5
<u>Budgetary Revenue</u>	9.7	9.4	9.6	-2.8	-7.3	-4.0
<u>Extra-budgetary Revenue</u>	6.2	94.1	23.5	-5.9	64.6	8.2

81. The totality of public revenues is derived from taxes, in which customs revenue continues to play a dominant role.

Table 15: COMPOSITION OF TAX REVENUES (In Percentages) /1

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Tax Revenue</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Customs Revenue</u>	<u>56.3</u>	<u>52.6</u>	<u>49.0</u>	<u>51.8</u>	<u>50.5</u>
Import Duties	41.7	40.7	38.4	39.1	35.9
Coffee Export Taxes	12.3	10.1	8.7	10.2	9.7
Other Export Taxes	1.1	0.7	0.6	0.7	4.3
Other	1.2	1.2	1.4	1.9	0.6
<u>Income Tax</u>	<u>10.7</u>	<u>12.0</u>	<u>15.1</u>	<u>16.9</u>	<u>20.1</u>
Enterprises	8.5	9.8	12.7	13.9	16.6
Individuals	2.2	2.2	2.4	3.0	3.6
<u>Excise Taxes</u>	<u>19.2</u>	<u>22.0</u>	<u>22.5</u>	<u>15.4</u>	<u>13.0</u>
Flour	8.2	8.6	10.5	5.7	3.2
Sugar	4.8	5.3	4.6	2.9	3.2
Cigarettes, Oil and Other	6.3	8.3	7.5	6.9	6.7
<u>Other Tax Revenues</u>	<u>14.0</u>	<u>13.6</u>	<u>13.6</u>	<u>16.0</u>	<u>16.6</u>
Identity Cards	1.7	1.7	1.7	1.8	1.9
Mortgage Registry	1.2	1.5	1.8	2.1	2.3
Vehicles	1.5	1.5	1.7	1.8	1.7
Stamps	2.9	2.9	3.0	3.4	3.4
Other	6.9	6.2	5.5	7.1	7.4

/1 Central Government Budgetary Revenues

Source: Ministry of Finance.

82. The evolution of import duty collections, when set alongside the rapid increase in imports shows that the ratio of import duties to imports has been consistently declining and that, therefore, import duties as a source of revenue is probably underutilized. A partial explanation is that this decline was largely due to the increase in duty-exempt imports during this period, whose share in total imports grew from 28 percent in 1971 to 40 percent in 1975. However, even after taking into consideration the effect of exemptions, there still remains an important--at least until 1974--and unexplained difference between the growth rate of imports and of import duties.

Table 16: CUSTOMS DUTY COLLECTIONS
(in millions of gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Import duties	114.2	117.6	127.5	148.7	212.8
Imports	296.2	329.2	383.3	556.6	680.8
Import duties/imports (%)	47.9	35.7	33.3	26.7	31.3
Duty-exempt imports	82.2	99.4	93.7	203.7	274.8
Taxable imports	214.0	229.8	289.6	352.9	406.0
Duty exempt imports/total imports (%)	28.0	30.0	24.0	36.0	40.0
Import duties/Taxable imports (%)	53.4	51.2	44.0	42.1	52.4

83. There exist at least three possibilities to use custom duties more efficiently. The first is a strict enforcement of ad valorem rates. Haitian authorities have estimated that had ad valorem rates been enforced more strictly revenue from import duties would have been 14 percent higher in 1975. No data is available for other years but it is not unreasonable to assume that this percentage is also valid over time. The second source could be sought in reduction of import duty exemptions which in 1975 affected 40 percent of imports, and this despite the fact that only 16 percent of imports were inputs destined for re-export. A third source of possible increase would be a selective increase of import duty rates which in many cases appear to be too low (see chapter on the Balance of Payments). The use of these three measures could have yielded a 36 percent increase in import duties in 1975 equal to 77 million gourdes. This would have added 16 percent to the total revenue collected in this year, and would have reduced the overall Central Government deficit by 41 percent in that year.

Actual import duties in 1975	212.8 million Gourdes
Strict application of <u>ad valorem</u> rates	29.8 " "
Selective increase of duty rates	42.6 " "
Elimination of some exemptions	<u>4.3</u> " "
Total	289.5 " "

84. Two other sources of customs revenue are export taxes, consisting mainly of coffee taxes and, recently, the tax on exported bauxite. The share of coffee export taxes in customs revenue decreased substantially from 21.4 percent in 1971 to 7.8 percent in 1975 mainly as the result of a 22 percent drop in the volume of coffee exports during that period and to large increases in the revenues collected from the export tax on bauxite. Since 1974 the

latter became an important source of customs revenue and largely compensated for the decline in coffee taxes. Dues for fiscal year 1973/74 amounted to G 35.8 millions but were paid only in 1975, together with G 24.7 millions paid out of 1975 dues. Thus, the 1975 revenue from taxes on bauxite was equal to 13 percent of total revenue collected.

85. The relative share of income taxes in budget revenue doubled within the past five years, increasing from 10.7 percent in 1971 to 20.1 percent in 1975. This increase is apparently the result of an important tax collection effort undertaken during the past few years. It is believed that 90 percent of all income taxes due are effectively collected. Authorities seem to continue to concentrate their efforts on tax collection, although an effort to collect the remaining 10 percent may prove to be expensive. The decrease in excise taxes since 1973 is a result of detaxation measures applied to essential goods in order to check the increase of domestic prices. The share of other tax revenues seems to fluctuate around an average of 15 percent (Text Table 15).

86. The weak revenue mobilization performance and the increasing overall (current and capital) expenditures resulted in a situation where the ratio of the overall deficit to total revenue has doubled within a relatively short time, from 18 percent in 1971 to 40 percent in 1975.

Table 17: CENTRAL GOVERNMENT REVENUE AND DEFICIT
(in millions of gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Rate of Growth % p.a.</u>
Total Revenue	263.5	268.8	304.4	334.7	475.4	15.9
Overall Deficit	47.2	47.5	25.3	105.8	191.1	41.8
Overall Deficit/Total Revenue (%)	18	17	8	32	40	

Current Expenditures

87. During the 1971-75 period total Central Government expenditures were increasing annually by 21 percent in current terms or by 6 percent in constant terms, with extrabudgetary expenditures increasing substantially quicker than this average, at the expense of budgetary expenditures. As a result, the share of budgetary expenditures fell from 49 percent in 1971 to 31 percent in 1975. Measured in constant prices, the yearly salary of a civil servant in 1975 was at three-fourths of its 1971 level, and there has been a continuous decrease in expenditures for all other purposes as well.

Table 18: CENTRAL GOVERNMENT BUDGETARY CURRENT EXPENDITURES BY FUNCTION

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total	100.0	100.0	100.0	100.0	100.0
General Public Services	22.0	21.3	23.0	23.3	30.5
Defense	30.9	31.7	28.7	25.8	22.6
Education <u>/1</u>	12.9	12.6	14.1	14.2	12.3
Health	14.3	14.2	14.1	15.1	14.9
Community and Social Services	2.4	2.3	2.3	2.2	2.0
Economic Sectors (Agriculture, Public Works, Transport, Communication, Industry and Trade)	17.0	17.2	17.3	17.4	17.7
Supplementary Credits	0.5	0.6	0.6	2.0	-

/1 Excludes expenditures channelled for that purpose by the Ministry of Agriculture.

88. Extrabudgetary expenditures are becoming an increasing part of total Central Government expenditures, with their share rising from 51 percent to 69 percent of the total. They are classified in the following categories: Non-fiscal accounts, Development budget, Other Special accounts, Special Sinking Funds and Other accounts. The designation of two of these accounts, Development Budget and Special Sinking Fund, gives a fair indication of their contents. Other Special Accounts, the more important of all accounts, include a great variety of accounts such as: Fonds d'Urgence, Fonds Special de Construction et Reparation des Routes, Compte Special Accord International sur le Cafe, Compte de Reserve et Autres Comptes du Gouvernement. In order to ascertain the proportion of extrabudgetary expenditures whose economic nature cannot be clearly identified, development expenditure calculated as a sum-total of sectoral capital investment and technical assistance carried out by the Central Government and special sinking funds are subtracted from the total.

Table 19: CENTRAL GOVERNMENT EXTRABUDGETARY EXPENDITURES -
DEVELOPMENT AND CURRENT
(in millions of gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Extrabudgetary Expenditure</u>	<u>120.60</u>	<u>116.60</u>	<u>130.60</u>	<u>167.80</u>	<u>313.40</u>
Nonfiscal accounts	3.00	1.90	4.40	5.10	2.90
Development budget	8.00	31.60	29.40	27.90	41.60
Other special accounts	85.40	62.50	77.30	90.80	192.60
Special sinking funds	14.80	10.90	11.50	11.40	10.60
Other accounts	9.40	9.70	14.00	32.60	65.70
plus:					
<u>Other Extrabudgetary Expenditure</u>	<u>37.80</u>	<u>49.80</u>	<u>26.30</u>	<u>95.90</u>	<u>148.80</u>
<u>Total Extrabudgetary Expenditure</u>	<u>156.4</u>	<u>166.4</u>	<u>158.9</u>	<u>263.7</u>	<u>462.2</u>
minus:					
Development expenditure <u>/1</u>	53.9	62.1	65.1	111.9	213.9
Special sinking fund	14.8	10.9	11.5	11.4	10.6
equal:					
Non-identifiable expenditure	87.7	93.4	82.3	140.4	237.7

/1 Only development expenditure of the Central Government. Investment expenditures made by public enterprises are excluded.

89. There is no information which would allow to ascertain the function or the economic nature of non-identifiable expenditures. The National Bank has only primary statistical information on the current daily operations made through these accounts but no attempt was made to consolidate or to regroup them into economic and functional categories. To indicate the importance of these non-identifiable expenditures, the wage and salaries' bill paid out from the Budget, amounted, for some 17,000 civil servants, to only 122 million gourdes in 1975, compared with 238 million gourdes of unidentified extrabudgetary expenditures.

90. Budget for Education. During the period 1971-75, the share of total expenditures allocated to the Ministry of Education increased somewhat from 6.1 percent in 1971 to 6.6 percent in 1975.

Table 20: EXPENDITURES ON EDUCATION /1
(in million gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total Expenditures of the Central Government	<u>310.7</u>	<u>326.3</u>	<u>328.7</u>	<u>440.5</u>	<u>666.6</u>
- Current	256.8	264.2	263.6	328.6	452.6
- Developmental	53.9	62.1	65.1	111.9	213.9
Total Expenditures of the Ministry of Education	<u>19.0</u>	<u>19.6</u>	<u>29.0</u>	<u>28.3</u>	<u>44.1</u>
- Current	16.8	17.3	19.8	21.4	22.9
- Developmental	2.2	2.3	9.2	6.9	21.2
Share of Education (%)					
- in total expenditures	<u>6.1</u>	<u>6.0</u>	<u>8.8</u>	<u>6.4</u>	<u>6.6</u>
- in current expenditures	<u>6.5</u>	<u>6.5</u>	<u>7.5</u>	<u>6.5</u>	<u>5.1</u>
- in development expenditures	4.1	3.7	14.1	6.2	9.9

/1 Excludes expenditures channelled through the Ministry of Agriculture.

91. Expressed in constant prices the current budget of the Ministry of Education was decreasing by 5.4 percent annually, during the period when total current expenditure (including extrabudgetary outlays) was increasing by 6 percent annually. Among functions entrusted to the Ministry, primary education is probably the most important one. 1/ During 1971-75 the budget for primary education increased from G 9.5 million in 1971 to G 13.1 million in 1975. Expressed in constant prices there has been a yearly decline of 3.2 percent. The structure of current expenditure shows that expenditure allocated for teaching and other materials was practically non-existent.

1/ The Ministry of Education is in charge of the schooling of urban children. Expenditure allocated for schooling of rural children is included in the budget of the Ministry of Agriculture.

Table 21: CURRENT EXPENDITURES ON PRIMARY EDUCATION
(In thousand gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Wages and Salaries	8,788	8,784	10,979	11,229	12,312
Materials	182	182	182	182	201
Other	562	570	570	570	582

92. Expenditures for materials amounted to 2 percent and operating expenditures (materials and other) to about 6 percent of current expenditures of the Ministry. Together, they added up to some US\$157,000 in 1975 which is inadequate for schools to operate effectively. In 1973/74 there were 161,400 pupils enrolled in public and private urban schools. About 80 percent of these were enrolled in public schools which are under the Ministry of Education. Consequently, the expenditures on materials per pupil enrolled and per year were about G 1.4 or US\$0.28. In the same year 3,624 persons were employed in primary education, with an average annual salary of G 3,098 or US\$619.7. Public expenditure on education amounted in 1973/74 to only 0.9 percent of GDP. 1/

93. Budget for Public Health. Expressed in real terms current budgetary expenditures of the Ministry of Health were decreasing annually by 4.3 percent during 1971-75. While the operating expenditures are apparently at an adequate level (22 percent of current expenditures) some indicators show that these expenditures are still far from being sufficient. Operating expenditure, which includes mostly medicines, medical supplies and food for hospitalized persons was, per person treated and/or hospitalized, extremely low, amounting, in 1974, to barely G 3.7 or US\$0.74.

1/ According to Comparative Education Indicators no other country spends a lower percentage of its GDP on education (From "IBRD, Appraisal of a First Education Project - The Republic of Haiti, February 1976.")

Table 22: EXPENDITURES ON HEALTH
(in millions of gourdes)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total Expenditures of the Ministry of Health	<u>27.9</u>	<u>32.5</u>	<u>36.8</u>	<u>35.0</u>	<u>44.7</u>
- Current	18.6	19.5	19.7	22.6	27.8
- Developmental	9.3	13.0	17.1	12.4	16.9
Share of Health (%)					
- in total Central					
Government expenditures	<u>9.0</u>	<u>10.0</u>	<u>11.2</u>	<u>7.9</u>	<u>6.5</u>
- in current public					
expenditures	7.2	7.4	7.5	6.9	5.9
- in developmental					
expenditures	17.2	20.9	26.3	11.1	7.9

Table 23: HEALTH EXPENDITURES
(in gourde thousands)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Operating Expenditures	4,009	4,022	4,193	3,804	5,747
Number of Persons Treated or/and Hospitalized ('000)	1,078	963	1,081	1,023	n.a.
Operating Expenditure/ Person (in gourdes)	3.7	4.2	3.9	3.7	n.a.

Development Expenditures

94. Public development expenditures have been rising very fast for the past two years. From averaging about US\$18.0 million during the period 1970-71 to 1972-73 they increased to US\$32.6 million the following year and reached US\$57.5 million in 1974-75. The table which follows shows how these expenditures were financed during the 1974-75 period.

Table 24: FINANCING OF PUBLIC SECTOR DEVELOPMENT EXPENDITURES
(in US\$ million)

	1974	1975	Annual Average 1974-75	Percentage Shares		
				1974	1975	Annual Average 1974-75
Development Expenditures <u>/1</u>	<u>32.6</u>	<u>57.5</u>	<u>45.2</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Financing	<u>32.6</u>	<u>57.5</u>	<u>45.2</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Saving	4.0	6.6	5.3	12.4	11.4	11.7
Net internal borrowing <u>/2</u>	19.9	9.2	14.6	60.9	16.0	32.3
(Monetary authorities)	(16.3)	(8.8)	(12.6)	(50.0)	(15.3)	(27.9)
(Private banks)	(3.8)	(-1.0)	(1.4)	(11.6)	(-1.7)	(3.1)
(Private sector)	(-0.2)	(1.4)	(0.6)	(-0.7)	(2.4)	(1.3)
Net foreign disbursements	-2.7	17.6	7.5	-8.3	30.5	16.6
(Gross disbursements)	(0.4)	(21.0)	(10.7)	(1.2)	(36.4)	(23.7)
(Amortization)	(3.1)	(3.4)	(3.2)	(9.5)	(5.9)	(7.1)
Foreign Grants	11.4	23.7	17.5	35.0	41.1	38.7
Statistical discrepancy	-	0.4	0.3	-	1.0	0.7

/1 Includes Technical Assistance.

/2 Excludes IDB and IDA credits channelled through the BNRH to the public sector.

Source: BNRH and consolidated public sector accounts (includes Central Government, CAMEP, TELECO, EDH, Administration Portuaire).

95. The most significant change in the structure of financing during 1975 was the sharp decline in borrowing from the Haitian banking system from 61.6 percent in 1974 to 31.0 percent in 1975 and the increase in net disbursement and grants from abroad. The increase in foreign grants compensated for the reduction of US\$12.3 million in net credit from the banking system. The share of apparent public saving in financing development expenditures also declined, from 12.4 in 1974 to 11.4 percent in 1975, although their absolute volume increased from US\$4.0 to US\$6.6 million.

96. The increase in net foreign disbursements was mainly due to a significant increase of gross disbursements from official sources which attained US\$21.0 million in 1975 as compared to US\$0.4 million the year before. About 58 percent of these disbursements were destined to finance construction of the

Northern and Southern Roads and 26 percent for the expansion and improvement of the water supply system and port installations in Port-au-Prince. These four projects accounted for 84 percent of total official gross disbursements, of which two-thirds came from IDB and the remaining one-third from IDA. Foreign resources including foreign grants financed 72 percent of total development expenditures in 1975, compared with only 27 percent in 1974.

97. Despite some increase in apparent public saving (see Table 12), the public sector deficit almost doubled, from US\$28.6 million to US\$51 million. The increase in apparent public saving was able to finance only 10.4 percent of increase in development expenditures, and the public sector deficit rose from 4 percent of GDP in 1974 to 5.8 percent in 1975. This change was mainly due to the increase of public development expenditures from 4.6 percent of 1974 GDP to 6.6 percent in 1975. Consequently, the public sector had to step up its net borrowing.

Table 25: FINANCING OF THE PUBLIC SECTOR DEFICIT /1

	<u>Annual flows</u>		<u>GDP share</u>	
	<u>1974</u>	<u>1975</u>	<u>1974</u>	<u>1975</u>
	(US\$ million)		(%)	
Development Expenditures	32.6	57.7	4.6	6.6
Public Savings <u>/2</u>	4.0	6.6	0.6	0.8
<u>Public Sector Deficit</u>	<u>28.6</u>	<u>51.1</u>	<u>4.0</u>	<u>5.8</u>
Internal Borrowing <u>/3</u>	19.9	9.2	2.8	1.0
External Sources	8.7	41.9	1.2	4.8
<u>Deficit Financing</u>				
(in %)				
<u>Financing</u>	<u>100.0</u>		<u>100.0</u>	
Internal Credit	69.6		18.0	
External Credits and Grants	30.4		82.0	

/1 The "public sector" as treated throughout this report, is inclusive of public enterprises, while the "Central Government" accounts exclude these enterprises. Aggregated information on the "Public Sector" was calculated for only two years, 1974 and 1975. For other years accounts of public enterprises were not available.

/2 Apparent.

/3 Includes statistical discrepancy.

Source: Table 24.

BALANCE OF PAYMENTS

An Overview and Recent Trends

98. Over the course of the last decade the annual contribution of exports to GNP has been only ten to fifteen percent. On a per capita basis this contribution was never more than US\$20, lower than any other country in the Western Hemisphere.

99. But Haiti depends even more than any other country in the Hemisphere on the growth of the external sector for the improvement of economic conditions. The smallness of the Haitian market, both because of the country's size and because of its low per capita income, rules out to a larger degree than in other developing countries, the possibility to set up reasonably efficient domestic production of most consumption and investment goods now imported by Haiti. Because of limited import substitution possibilities, unemployment remains acute. Yet, the very abundance of labor holds the promise of creating new outlets for productive employment in the external sector. If appropriate agricultural improvements are introduced, labor-intensive cultivations should develop and add to the volume of a few selected products with fairly favorable export prospects. Proximity to the U.S. and the availability of labor whose adaptability has been proven are two premises that should make possible an expansion of export of assembled goods from imported components, where labor-intensive methods of production are used. At a later stage feasibility of the manufacture of articles with a larger share of domestic value added than the present assembly industries and more conducive than the latter to the economic transformation of the country could, no doubt, also be established. Furthermore, given the proximity to the U.S., the availability of manpower employable in service industries, a favorable climate and a most interesting cultural background should, together, contribute to a considerable expansion of the tourism sector. Finally, copper mining as well as petroleum, where explorations are currently being carried out, might provide with time other exportable products.

100. Institutional obstacles explain the failure of Haiti to have taken advantage of this potential. If no appropriate action to expand exports is taken, foreign exchange receipts will not increase. Measures are also required to stem capital flight and a waste of foreign exchange on non-essential imports of luxury-type consumer goods.

101. During 1970-1974, the current value of exports grew rapidly, at 20.5 percent per annum, while imports of goods and net non-factor services grew only fractionally faster. As a result, until 1974 the unfavorable merchandise trade balance and the resource gap rose at a moderate rate. The situation changed drastically in 1974, with stagnation of exports and continued rapid growth of imports. The resource gap reached about US\$35 million in 1975, equal to approximately 4 percent of GDP, compared with 1 percent in 1971. However, an attenuating factor was that net transfers to Haiti also rose quickly, which helped keep the current account deficit at a moderate level.

Table 26: HAITI: SUMMARY BALANCE OF PAYMENTS
Millions of U. S. \$

<u>Year</u>	<u>1960</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
1/							
Merchandise Exp. FOB	38.1	44.4	52.2	46.7	57.6	93.6	93.2
Merchandise Imp. FOB	43.4	44.5	50.7	56.4	65.7	97.1	115.7
Trade Balance	-5.3	-0.1	+1.5	-9.7	-8.1	-3.5	-22.5
Balance of Non-Factor Services	-1.5	-7.9	-5.7	-5.1	-9.6	-16.2	-13.6
Balance of Goods and Non-Factor Services-Resource							
Gap (-) or surplus (+)	-3.8	-8.0	-4.2	-14.8	-17.7	-19.7	-36.1
Net Factor Income	-4.1	-3.6	-3.7	-4.5	-4.4	-5.9	-6.8
Net Transfers	9.2	21.9	18.4	34.1	19.1	26.9	40.1
Current Account Balance	+1.3	10.3	10.5	14.8	-3.0	+1.3	-2.8
Private Direct Investment	0.1	2.8	3.4	4.0	7.0	7.9	2.6
Net Medium and Long Term Borrowing	1.3	-0.1	1.3	7.7	0.4	3.3	20.9
2/ Short Term Capital Net	-0.1	-9.1	-8.1	-17.8	-5.5	-32.4	-44.2
SDE Allocations		2.5	2.0	2.1			
Change in net Reserves (- : increase)	-2.6	-6.4	-9.1	-10.8	1.1	19.9	23.5
2/ Capital Acct. Balance	-1.3	-10.3	-10.5	-14.8	+3.0	-1.3	+2.8

1/ This differs from the amount calculated by the BOM. It reflects a higher value of small and assembly line exports (calculated by the Ministry of Commerce and Industry) than that registered by the Customs authorities.

2/ Includes errors and omissions.

Source: Appendix Tables 3.1 and 3.2

Current Transfers

102. Net current transfers increased substantially from US\$27 million in 1974 to US\$40 million in 1975. They consisted, in practically equal shares, of private and Government transfers. The former are accounted as sales of foreign exchange to the banking system, declared as remittances by Haitians residing in foreign countries. They increased from US\$25 million in 1974 to US\$61 million in 1975, while foreign exchange purchased for reverse foreign transfers increased during the same period from US\$11 to US\$41 million. The sizable inflow of foreign

exchange in 1975 could represent savings brought back either by Haitians recently returned to the country or by those who expatriated their capital in the past. Government transfers from abroad, increased in 1975 to US\$20 million, compared with US\$14 million in 1974. A part of these were grants in technical assistance offered by official agencies. These rose from US\$3.7 to US\$9.3 million. The remainder consists of increased food relief donations in part from private organizations, responding to the effects of the 1975 drought.

Exports

103. Exports of goods doubled from US\$44.5 million in 1970 to US\$93.2 million in 1975. However, more than one-fourth of this increase is attributable to an increasing share of imported and locally assembled and re-exported inputs.

Table 27: GROSS AND NET EXPORTS 1970-75
(\$ Millions - current prices)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total Exports	44.4	52.2	46.7	57.6	93.6	93.2
Less						
Foreign Inputs into Assembly Exports	<u>4.6</u>	<u>6.5</u>	<u>5.9</u>	<u>16.2</u>	<u>19.7</u>	<u>18.1</u>
Net Exports	39.8	45.7	40.8	41.4	73.9	75.1

104. Most of the increase was due to world price movements. In real terms, traditional agricultural, forestry, and fishery exports as a group have declined since 1971. Mining showed a considerable decline as the rise in bauxite exports was not sufficient to make up for the loss of copper exports. On the other hand, small assembly industries, and other non-traditional activities show a strong increase and now account for roughly one-third of total exports.

105. Coffee: The value of coffee exports which traditionally has accounted for one-third of export earnings, declined by one-fourth (from US\$24 to \$18 million) between 1974 and 1975 alone. Over the course of the last decade the internal price and demand for domestically consumed crops have steadily increased. While world market coffee prices also have risen, the return to small Haitian coffee producers has not kept pace with returns on other crops. In part this could be attributed to the monopsonistic position of middlemen and exporters, in part to a heavy and progressive export tax which, up to 1973, applied to coffee but not to other crops, distorted the relative profitability of coffee cultivation.

106. A beginning has been made in an attempt to reverse the long-term decline in the profitability suffered by small producers. The Government of Haiti, with the assistance of AID financing and technical assistance, has embarked on a threefold program, intended: (a) to help small growers to

improve coffee cultivation and processing; (b) to establish a "parallel" market under the auspices of the Coffee Institute which should ensure fair prices to small producers; and (c) to extend credit to farmer cooperatives for purchasing fertilizer and improving marketing procedures. Field agents and financial resources already have been mobilized in pilot project areas. Although this should make coffee production more profitable to small farmers and induce them to expand its cultivation, it will not be sufficient to guarantee success unless continued strong field support, expected to be given by 150 agents of the Haitian Coffee Institute, fully materializes. This, in turn, depends on further strengthening of Haiti's Ministry of Agriculture.

107. As much as 366,000 bags of coffee had been exported by April 15, 1976 and preliminary figures show that another 100,000 bags were exported since that date compared with no more than 330,000 bags for the entire preceding year. This is considered at least in part as a proof of the initial success of the above program. If fully successful, the program should assist in increasing the volume of exports from the average annual level of about 330,000 bags in the last few years to 480,000 bags by 1980. Quality improvements should add further to Haitian coffee export earnings, so that coffee export receipts in real terms could double by 1980 compared with 1975, provided the program is successfully implemented.

108. World market price prospects could additionally help in reversing the declining trend of coffee exports. Forecasts until 1980 are consistently for prices above the 1975 unit value of Haitian coffee exports in constant terms. The benefit of this improvement should be further enhanced by the fact that, thanks to the inherently superior quality of Haiti's coffee types and, through anticipated improved processing and marketing, the price fetched by the country's coffee could be made to rise even faster.

Sugar

109. After a prolonged period of decline, sugar exports recovered in FY1975 when sugar prices attained a record level in the world market. 1/ However, primitive production methods are still used by small farmers, who also incur high transportation costs. Seed selection and fertilization are rarely practised. Irrigation systems are in need of rehabilitation. Some mills are antiquated or inefficiently operated.

110. The domestic price signals are not appropriate. For instance, farmers are not given the incentive of premium prices for high sucrose content cane upon delivery. Though cane prices were considerably increased in 1974 they are significantly less than in other countries. 2/ The largest mill is under obligation to sell for local consumption all sugar for 15¢ per pound, a

1/ Record level was reached during the last calendar quarter of 1974.

2/ The price paid to Haitian farmers was raised from US\$4.50 to US\$9.00 per ton, compared with \$12.00 per ton in the Dominican Republic.

price nearly 50 percent below that prevailing in the world market during most of the last two years. Wrong price signals are also reflected in improper production choices. Much of the land suitable for sugar also can be used for the production of foodstuffs. Given the present restraints on profitable cane and sugar production imposed by heavy excise duties, foodstuffs yield a better return to the farmer, especially since prices of domestically produced and consumed food crops have risen rapidly in recent years.

111. Haiti will have to introduce modern technology, generally used in other countries to: (a) increase yields; (b) lower production costs, and (c) improve transportation. Furthermore, it will be necessary to eliminate most flagrant distortions between prices of sugar or cane and that for alternative products. Even partial progress toward these objectives would require changes which would break with tradition and which also may deprive the Regie du Tabac of some of its sources of revenue. The price of sugar to domestic consumers may also have to be increased.

112. Oils: Essential oils are the only traditional export for which foreign exchange receipts have consistently increased in recent years. This is largely the result of the near doubling of world market prices of vetivert and lime, Haiti's two foremost types of exports of essential oils. Domestic marketing problems and antiquated equipment in processing plants prevented the volume of exports from rising by more than one-third between 1971 and 1974. Because of the drought, this volume declined in 1975.

113. While no long range studies of market prospects of lime oil and vetivert are known, these might be expected to be favorable because world demand for soft drinks and toiletries which use these essential oils, should continue to grow. To expand such exports, modernization of processing plants is a foremost requirement.

Sisal

114. Exports of sisal steadily declined over the last five years, for several reasons. Synthetics made rapid inroads into the sisal string market until 1973/74 when skyrocketing petroleum prices reversed this trend and boosted the demand for sisal. Most recently, the world recession offset much of this increase in demand. These adverse external effects have been compounded by the overcutting of leaves done by farmers in 1974 and by the competition for land use by food crops.

115. The prospects for expansion of exchange earnings from greater exports of sisal are not favorable. Demand for agricultural bailing materials, traditionally the main use of sisal, is expected to grow, but prices cannot rise rapidly since the cost of synthetic string acts as a ceiling. Haiti faces an additional problem, because it must compete with a number of large countries--Mexico and Brazil among others--which have support programs for farmers to produce sisal. The largest Haitian exporter is exploring the

possibility of using sisal in combination with synthetics to make attractive, new types of carpets, wall hangings, and other stylish products for which markets in foreign countries are likely to grow.

116. Cocoa: Cocoa exports were once of considerable importance for Haiti but they have largely declined in recent years. ^{1/} The reasons are partly the same as those for the fall of coffee exports. Small growers are preponderant in cocoa production. They use primitive production methods and are obliged to sell to a single exporter. Producers also have to cope with a rat infestation of trees which has greatly reduced yields. Given these difficulties the rise of the world market price for cocoa, observed in recent years, has not been sufficient to reverse the declining trend of production in Haiti.

117. In view of the fairly good outlook for cocoa prices in coming years, it might be possible to reverse the declining trend of cocoa exports by having recourse to a program similar to that initiated for coffee. However, no over-all program to expand cocoa production is under consideration.

118. Beef: Beef exports, which had risen rapidly earlier in the decade, declined strongly after 1972, in response to declining prices in the U.S. for Haitian utility type meats and as a result of the 1975 drought.

119. World beef prices over the course of the next decade are expected to rise in real terms by about 4 percent annually or by 50 percent above the 1975 level by 1985. More efficient practices of breeding, feeding and maintaining the health of animals can be introduced in Haiti to increase the quantity and quality of beef production without substantial investment. If exports do not increase, a beneficial effect on the balance of payments would still be felt through substitution for presently imported meat.

120. Bauxite: The volume of bauxite export showed little annual variation between 1971 and 1974 but declined greatly in 1975, due to the world recession. However, the value rose strongly in 1975 as a result of higher prices. The only bauxite mining company operating in Haiti expects to export about 600,000 tons annually during the foreseeable future, or slightly below the last decade's average. Price trends should ensure higher earnings, both in current and in real terms than in the past.

Traditional vs Non-traditional Exports

121. Favorable world market prospects for traditional Haitian exports combined with improved government policies should help improve the balance of payments situation, relieve underemployment, and increase income of farmers producing coffee, cocoa, essential oil and sugar. But increased

^{1/} According to Table 7.1 (Production of Selected Agricultural Commodities), cocoa production declined by 15 percent between 1970 and 1974 and remained at the 1974 level in 1975.

agricultural exports may not create many new jobs. Expanding mining exports--copper and bauxite--also can offer very little additional employment. Only the expansion of non-traditional, labor-intensive exports is capable of reducing unemployment.

Industrial Exports

122. Exports of small industry products have increased almost fourfold between 1970 and 1974. Even during the 1975 recession, they declined by 5 percent only. The term "small industries" covers traditional Haitian handicrafts, small industries using predominantly Haitian materials, as well as all the export activities that consist of assembling or further processing of certain imported components for re-export.

123. Assembly for export accounts for the largest share of exports growth. 1/

1/ Analysis of small export industries is based on information provided by the Department of Commerce and Industry. According to this source, the value of these exports appears much larger than that from the customs statistics on which the balance of payments calculation of the National Bank is based.

Table 28: SMALL INDUSTRY EXPORTS, INCLUDING ASSEMBLED COMPONENTS

(Thousands of Gourdes, Current Prices Unless Otherwise Specified)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Annual Rates of Growth 1970-75</u>
<u>Gross</u>							
Based on Local Raw Materials	16.774	12.120	13.976	32.540	39.169	32.062	13.8
Based on Mixed Raw Materials (Foreign and Domestic)	18.839	27.494	25.788	77.242	88.086	90.844	37.0
Based on Imported Raw Materials	19.105	27.090	23.827	62.501	78.832	67.672	28.8
Gross Total (Gourdes '000)	54.718	66.704	63.591	172.283	205.569	190.579	28.3
(\$ '000)	<u>10.944</u>	<u>13.340</u>	<u>12.718</u>	<u>34.456</u>	<u>41.114</u>	<u>38.115</u>	<u>28.3</u>
<u>Net</u>							
Minus Re-exports							
Foreign Inputs used in:							
a. Exports made of mixed materials	7.535	10.988	10.315	30.896	35.227	36.338	37.0
b. Exports made of foreign materials	15.284	21.672	19.062	50.000	63.065	54.138	28.8
Net Total: (Gourdes '000)	31.899	34.034	34.214	90.387	107.277	100.103	25.7
(\$ '000)	<u>6.377</u>	<u>6.806</u>	<u>6.843</u>	<u>18.277</u>	<u>21.455</u>	<u>20.021</u>	<u>25.7</u>

124. Exports by small industries in 1974 and in 1975 were approximately US\$40 million in each year, or about 40 percent of total exports. They surpassed coffee as the primary export in 1973. Their net value could be evaluated at about US\$20 million, about one-half subtracted from the above for import of re-exported components. Even this amount gives an exaggerated impression of the benefits because a part of the value added, namely the foreign entrepreneurs' profits, is likely to be transferred abroad.

125. Under the assumption that assembly industries will continue growing at annual rates of 10 to 15 percent by 1980, there would be: (a) additional employment for 15-20,000 persons; (b) almost doubling of the present wage bill to Haitians to US\$4-US\$7 million; and (c) a doubling of net exchange receipts (i.e., after subtraction of imported inputs) by US\$20 million. From this amount, about one-half should be subtracted for repatriation of profits, leaving about US\$10 million for the country's net additional resource availability. These benefits are considerable although they also carry social costs and lead to increased concentration of economic activity in Port-au-Prince.

126. Investment in industries which use primarily Haitian inputs should contribute more to development. With the completion of the northern and southern routes and reconstruction of irrigation systems it should become possible to establish agro-industries to service export and domestic markets. A private industrial group envisages construction of a vegetable and fruit canning plant in the southwest of Haiti, to supply Port-au-Prince. It should also be possible to export canned fruits and vegetables to the U.S., and possibly to the Jamaican market.

127. There also appears to exist a growing foreign market for textiles. Haitian labor costs are the lowest in the Western Hemisphere and workers' ability to produce and embroider high quality denim clothing for the European and U.S. market is now proven. Denim work clothing perhaps could also be sold in the U.S. and neighboring Caribbean countries. But U.S. quotas limit the growth of sales to that country, on the average, to 7 percent a year. 1/ Market sizes limit export possibilities to other Caribbean countries. Also, Haitian sanforizing facilities would have to be expanded. Thus, a potential for exports seems to exist for just a few industries, mainly textiles and food products.

128. Haitian handicrafts, paintings, and sculpture presently sold to tourists find their way into neighboring countries where they often are sold as national handicrafts or exported. It is generally believed that because of their quality, special character, and price competitiveness, exports of such products, if properly organized, could find a much larger bona fide foreign market.

1/ Although the small quota placed by the U.S. on textiles imported from Haiti was not met in 1975, the ceiling was reached for some particularly sub-categories.

Exports of Services

129. Foreign exchange receipts are mostly from tourism. Over the course of the last three years tourist arrivals and receipts were estimated as follows:

Table 29: TOURISM: SOME INDICATORS OF TRENDS, 1973-1975

<u>Year</u>	<u>Tourists</u> (<u>'000</u>)	<u>Expenditures</u>		<u>Excursionists</u> (<u>'000</u>)	<u>Expenditures</u>		<u>Total</u> <u>Expenditures</u> (<u>\$'000</u>)
		<u>Total</u> (<u>\$'000</u>)	<u>Per</u> <u>Capita</u> (<u>\$</u>)		<u>Total</u> (<u>\$'000</u>)	<u>Per</u> <u>Capita</u> (<u>\$</u>)	
1973	43.7	13,962	319	143.1	2,805	20	16,767
1974	47.5	15,893	334	188.0	2,593	14	18,486
1975	47.5 (est.)	17,492	368	188.0	4,352	23	21,844

Source: Haitian National Tourist Office.

130. Haitian authorities estimate that the import content of goods and services provided to tourists is low--about 15 percent. This may be an underestimate. But even if that percentage should be twice as high, the annual balance of payments benefit during 1973-1975 was about US\$13 million. The tourist industry is considerable. It employs about 6,000 persons ^{1/} and provides livelihood to some 30,000 inhabitants mainly in Port-au-Prince. This accounts for about 7 percent of total recorded employment in the capital city.

131. The number of tourists, the duration of their stay, and consequently, the economic benefit from tourism, is small compared with that of other Caribbean islands, even though the country's natural beauty and unique culture should make it at least as attractive. Among the reasons are that few if any Haitian hotels live up to first class standards, though charges are not much less than those in other Caribbean islands. Also, air fares from the U.S. are so high as to deter mass tourism. The mobility of tourists is limited by lack of adequate roads. Good beaches and other tourist attractions are not easily accessible at present. Consequently, the average tourist stay in Haiti is only of four to five days. Tourism grew more slowly than in neighboring countries and stagnated between 1974 and 1975 because of the worldwide recession. Prospects for future earnings depend more on improving the attractiveness of vacations in Haiti than on income trends in visitors' countries.

^{1/} The number of hotel beds is estimated to be about 2,500, and employment is calculated at a rate of about two to three jobs per hotel bed.

132. To enhance Haiti's attractiveness, to induce tourists to stay longer and to convince a larger number of tourists to come to Haiti, strong efforts are required. An infrastructure that will permit easy travel to the attractive sites and beaches outside Port-au-Prince must be created. The quality and competitiveness of Haitian tourist facilities will also have to be enhanced.

133. The National Tourism Office (NTO) envisages a number of steps to expand tourism. 1/ But neither the financing nor availability of staff to implement these steps have ever been seriously considered by the Tourism Office.

Imports of Goods

134. Merchandise imports grew at an increasingly rapid rate during the last five years, but particularly during 1973-1975, when they nearly doubled. The growth in real terms was uneven but still rapid.

Table 30: MERCHANDISE IMPORTS /1

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	Rates of Growth <u>1970-75</u> (% p.a.)
1. Current Values (million \$)	51.9	59.2	65.8	76.7	111.3	136.2	21.3
2. Current value Growth over Prior Year (%)		14.0	11.1	16.6	14.7	22.4	
3. Constant Values (million \$)	51.9	54.2	56.8	68.4	70.2	83.9	10.1
4. Constant Value Growth over the Preceding Year (%)		4.4	4.8	20.4	2.6	19.5	

/1 CIF.

135. To analyze the causes of import trends, data have been divided into development imports and consumer imports.

1/ The most important of these are: several road projects to complement the highways now under construction and giving access to facilities outside Port-au-Prince; a number of marine and port projects near Port-au-Prince and Cap Haitien; the construction of supervised markets for art and handicrafts; and the rehabilitation of the old city of Cap Haitien.

Table 31: Imports by Large Groups of Products

	1970			1973			1975			Rates of Growth 1970-75 (% p.a.)
	Million Gourdes	Million \$	%	Million Gourdes	Million \$	%	Million Gourdes	Million \$	%	
1. Capital Goods <u>1/</u>	79.8	16.0	31	117.0	23.4	30	243.1	48.6	36	25.0
2. Inputs into Export Industries	22.9	4.6	9	80.9	16.2	21	90.5	18.1	13	31.6
3. Development Imports (1+2)	<u>102.7</u>	<u>20.5</u>	<u>40</u>	<u>197.9</u>	<u>39.6</u>	<u>51</u>	<u>333.6</u>	<u>66.7</u>	<u>49</u>	<u>26.6</u>
4. Food Products	54.1	10.8	21	95.6	19.1	25	194.4	38.9	28	29.1
5. Other Consumer Goods	105.0	20.6	39	39.8	18.0	24	152.8	30.6	23	8.2
6. Consumer Imports (4+5)	<u>157.1</u>	<u>31.4</u>	<u>60</u>	<u>135.4</u>	<u>37.1</u>	<u>49</u>	<u>347.2</u>	<u>69.4</u>	<u>51</u>	<u>17.2</u>
7. Total Imports	259.8	51.9	100	383.3	76.7	100	680.8	136.2	100	21.3

1/ Includes raw materials, intermediate and capital goods proper

Development Imports

136. Raw Materials: Imports of raw materials 1/ while quadrupling between 1970 and 1975, represent only 8 percent of Haiti's total imports compared with a much higher share in other developing countries. This reflects most vividly the weakness of Haiti's manufacturing capacity, contrary to the many small and still poor countries where it became an important source of new value added. Duties on most of these raw materials are in the 30 percent range, similar to tariffs on most finished products.

137. Mineral Fuels: Over the entire 1970-1975 period, the volume of imports rose only by 11 percent. The impact of the rise in oil prices on Haiti was therefore smaller than in most other developing countries. One of the principal reasons for the slow growth in volume of fuel imports was the completion of the Peligre hydroelectric plant. Its capacity is now nearly fully utilized, and further energy demand will induce oil imports to increase much more rapidly.

138. Chemicals: In terms of current dollars, imports of industrial chemicals more than doubled during the last five years. However, the real increase has been quite moderate.

1/ Under this heading are shown items classified by Haitian customs authorities as raw materials other than minerals, materials to be further processed, and non-specified materials.

139. Capital Goods: Only three-quarters of the import value of machinery and transport equipment are capital goods proper. The remainder are private automobiles, air-conditioners and other appliances primarily for household use. Producer good imports, represented in 1975 about one-sixth of all imports (15.1 percent). The particularly large increase of capital imports in 1975 is largely due to imports of machinery and vehicles as components of IDA and IDB road projects.

Table 32: HAITI: CAPITAL GOODS IMPORTS

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Rates of Growth (% p.a.)</u>
1. Current value of "Machines & Transport Materials" (million \$)	10.44	11.44	13.97	18.09	27.48	27.4
2. Of which 75% represent capital goods proper:						
(\$ million current)	7.83	8.58	9.83	13.57	20.61	27.4
(\$ million constant)	7.83	8.36	9.67	11.00	14.07	15.8
3. Of this:						
Non-automotive capital goods in constant prices (million \$)	(5.22)	(5.64)	(6.55)	(7.45)	(9.43)	15.9
Automotive capital goods in constant prices (million \$)	(2.61)	(2.72)	(3.12)	(3.55)	(4.64)	15.5

140. Development imports, including import of components for assembly and re-export, increased threefold between 1970 and 1975, and their share in all imports rose from 40 to 49 percent. The value of imports in this group reached US\$67 million in 1975, of which only US\$21 million, or US\$4.7 per capita, were capital goods proper. Economic growth at a satisfactory rate would probably require a substantial increase in imports of producers goods, which might become possible if the imports of non-essential consumer goods, now reaching \$30 million, or US\$6.8 per capita, are reduced considerably.

141. Food Products: Food imports rose rapidly during recent years. The large increase in 1975 reflects the impact of the recent drought. The additional costs of emergency food imports were largely financed through foreign donations. As these occurrences are exceptional, analysis of the 1970-1974 period is more instructive. It shows that the value of all types of food imports grew from US\$11 to US\$26 million, from 21 percent to over 24 percent of total imports. Production of basic foods which could be produced in Haiti should be given highest priority. The exception is wheat which cannot

be cultivated in this country and imports of which increased from US\$2 million in 1970 to US\$16 million in 1975. Indigenous staples, such as rice, beans and corn, cannot substitute for wheat; and savings in imports will have to come from other sources.

142. The rapid growth of "non-essential food" imports 1/ could be halted or even reversed without creating great hardships. A substantial increase in tariffs on many of these products may be advisable. Most of the "luxury foods" pay an ad valorem duty of less than 30 percent. Given the high cost of producing many of these items in Haiti, a doubling or even a quadrupling of these duties will still not lead to setting up inefficient domestic enterprises, and imports might decline only slightly, while tax revenue should increase steeply and would make the fiscal system more equitable.

143. Imports of beverages and tobacco doubled between 1973 and 1974 but increased little in more recent years, partly because of the stagnation of tourism. These are luxury imports which could largely be replaced by local items if production were encouraged through appropriate policies. An excellent rum is produced in Haiti and large-scale production of a Virginia-type leaf is now being developed which might allow the country to become completely independent of tobacco and cigarette imports, and even open new export opportunities. The present low tariffs could be raised significantly.

144. Other Consumer Goods: Their value has increased from approximately US\$20 million in 1970 to over US\$30 million in 1975 and now amounts to about one-quarter of all imports. An important component of this class are soap, detergents and toiletry, where it would be advisable to increase tariffs and simultaneously reduce import duties on raw materials needed for their domestic production.

145. Another large component consisted of manufactures classified by material. 2/ Except for those used as inputs for re-exports, most were consumed by urban middle- and higher-income groups. Import duties on only a few of these items exceed 40 percent.

1/ A preliminary examination of Haitian statistics indicates that such imported food products as fresh meat, canned fruits and vegetables, confectionery items, and others clearly identifiable as luxuries have been in excess of US\$4 million, or equal to about 5 percent of all imports. Numerous other items such as canned and powdered milk also hide significant luxury imports.

2/ Most of these were paper and textile products; furnishings, finished clothing and durable consumer goods made up the rest, with building materials standing out prominently.

Table 33: ESTIMATE OF NON-ESSENTIAL IMPORTS

(In Million of Gourdes)

	<u>1974</u>	<u>1975</u>
Non-essential Foods	21.3	22.4
Beverage and Tobacco	12.9	13.2
Soap and Toiletries	10.1	10.5
Passenger Cars and Household Appliances for Personal Use	50.0	50.0
Other Manufactures Used by Population in High Income Brackets	47.1	55.2
<u>Total in:</u>		
Million Gourdes	141.4	151.3
Million \$	28.4	30.3
Percentage of Total Imports	25.4%	22.2%

The Capital Account

146. Direct Private Investment: The National Bank estimates direct foreign investment during 1975 at US\$2.6 million, a strong decline compared with 1973-1974 when they were estimated at US\$7-US\$8 million annually. ^{1/} Reasons for this decline are, firstly, international recession and the decline or stagnation of demand for exports of goods, assembled in Haiti, which attracted in the past foreign investment. Secondly, some business opportunities formerly financed by foreign capital may now be undertaken by Haitian repatriates. Thirdly, the Haitian economy has failed so far to develop new opportunities attractive to foreign investors. Only two foreign mining companies, to whom the Government granted concessions for the exploration and eventual export of copper, are known to have made investments of some significance during 1975, so far for exploratory purposes only.

147. The problem of attracting foreign direct investments appears to be one of finding projects capable of yielding larger economic benefits to the country than the assembly-type industries. Outside of mining, this field is

^{1/} These estimates might contain a margin of error, because in the absence of exchange controls or capital registration, a good part of foreign investment may remain unrecorded.

very limited at present. Some export oriented agro-industries and tourist ventures situated outside the capital city might offer such opportunities. The responsibility of attracting foreign investments is vested in the Ministry of Commerce and Industry which does not seem to pursue it strongly enough.

Public Capital Movements

148. Capital inflows of the official non-financial sector rose very steeply during 1975, largely as a result of major disbursements by foreign assistance agencies. Repayments--mostly on short-term private credits--rose much less (see Table 3.2). The net outflow of long-term public capital, which amounted to US\$1.2 million in 1974, was followed by a net inflow of about US\$20 million in 1975. The upward trend should continue in the near future, with drawings on credits from official external agencies estimated to reach US\$33 million in 1976 and US\$52 million in 1977. Amortization of official credits will continue to be negligible for a number of years.

149. Repayments so far entirely apply to suppliers and other private credits granted to the Central Government and to public sector enterprises in the recent past on relatively short terms. Unless the Government contracts more credits of this type, the debt service burden of the public sector should not become a problem in the foreseeable future.

150. Financial Sector Transactions: To meet demand for foreign exchange the National Bank borrowed abroad and drew on foreign exchange deposits and on the IMF facilities (US\$5.3 million) in 1975. The net international liquidity position of the National Bank deteriorated by US\$13.1 million (see Table 3.11). Banks operating in Haiti--mostly foreign banks--increased their foreign indebtedness by US\$11.6 million, and increased their deposits abroad by only US\$1.2 million. Their liquidity position deteriorated by US\$10.4 million.

151. The combined deterioration in the external liquidity position of the National Bank and the banking system amounted to US\$23.5 million in 1975. The loss of reserves is substantial for Haitian conditions, considering that the 1975 resource gap was US\$36 million and that net long-term public development capital inflows were about US\$20 million. The deterioration of the liquidity position was equal to 2.5 months of imports. It is even more striking when it is compared with the improvement in liquidity which could have been expected from the combined effect of current account transactions and of registered capital movements. These flows should have brought an improvement of the liquidity position of Haiti by, on the average, about US\$17 million annually since 1970. However, considering that the reserves were declining by US\$3 million annually on the average, average outflows of unregistered transactions are estimated to have amounted to about US\$20 million annually. At the end of FY75, the negative level of reserves amounted to US\$24.1 million.

Table 34: CAPITAL MOVEMENTS AND RESERVE POSITION
OF THE BANKING SYSTEM OF HAITI

(US\$ Millions)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
1. Current Account Balance	+10.3	+11.0	+14.8	-3.0	+ 1.3	- 2.8
2. Private Direct Investment and M & L Public Capital	+ 2.7	+ 4.7	+11.7	+7.4	+11.2	+23.5
3. SDR Allocations	+ 2.5	+ 2.0	+ 2.1	--	--	--
4. Total of Registered Transaction	<u>+15.5</u>	<u>+17.7</u>	<u>+28.6</u>	<u>+4.4</u>	<u>+12.5</u>	<u>+20.7</u>
5. Change in Net Reserves						
Increase (-)						
Decrease (+)	- 6.4	- 9.1	-10.8	1.1	+19.8	+23.5
6. Errors, Omissions and Unrecorded Capital Transactions	<u>- 9.1</u>	<u>- 8.6</u>	<u>-17.8</u>	<u>-5.5</u>	<u>-32.4</u>	<u>-44.2</u>
	<u>-15.5</u>	<u>-17.7</u>	<u>-28.6</u>	<u>-4.4</u>	<u>-12.5</u>	<u>-20.7</u>

152. Several explanations of this decline could be offered. Firstly, exporters frequently fail to surrender a part of their foreign earnings, which creates an outflow of private capital. Secondly, the National (Central) Bank had to meet large amortization payments on a credit to one of the enterprises of which it is a majority shareholder, the State Telecommunications Enterprise (TELECO). Thirdly, there is a strong possibility that a part of errors and omissions is the result of statistical traps in calculation of exports and imports in Haiti. For instance, a preliminary estimate--not confirmed by official figures--tends to indicate the existence of a larger trade deficit than now calculated, attributable to a value of imports higher than those officially reported. This latter possibility may indicate that the capital flight was smaller than calculated above, which however does not affect the basic conclusion of this report on foreign currency outflows. It simply implies that the foreign exchange taken out from the country did not take a form of a financial investment abroad but returned to the country as mainly non-essential imports (capital goods imports having been recorded with some exactitude probably still correspond to the value estimated above). The issue of the balance-of-payments leakages is therefore not, as in some other countries, the matter of expectations of major economic shifts in the near future, but depends on investors' feelings as to the existence of profitable investment opportunities inside the country.

153. These investment opportunities might not have been revealed or made available, and very large declines of foreign reserves have actually taken place. Net reserves now stand at a negative level, which points to a grave structural problem in Haiti's balance-of-payments.

V. STRUCTURE OF THE ECONOMY

154. A sectoral analysis of the Haitian economy reveals that large investment requirements exist in almost all sectors. Infrastructure needs are enormous, the productive sectors, primarily agriculture, mining and light manufacturing, have a growth potential, and finally the social sectors would easily absorb large amounts of fixed capital. However, the efficiency of investment will continue to be small in the absence of necessary institutional, organizational and financial reforms. The analysis of sectors, which follows, attempts to outline the prerequisites necessary to make capital investment in these sectors more effective.

Good Sectors

155. Agriculture is responsible for about 45 percent of GDP and employs more than 80 percent of the active population. All technicians involved in Haitian agriculture agree that the level of agricultural production could be significantly raised through the introduction of more modern agricultural techniques. Therefore, agriculture deserves much more attention than it has been receiving hitherto. However, it is felt that even an optimistic forecast of future production may show that it will not be adequate to provide the rural population with sufficient income to prevent the continuation of the strong migratory movement to Port-au-Prince.

156. The acuteness of the problem is compounded by the worsening of the living conditions in Port-au-Prince. Therefore, as capital investment in Port-au-Prince increases in order to meet its dire needs in electrical energy or water, a strong emphasis upon the need to decentralize the infrastructure and therefore facilitate a regional development is equally justifiable and urgent. Such development should preferably rely on industries linked with agriculture (agro-industries, light mechanical equipment, production of fertilizers). This is easy to justify on economic and cultural grounds. Haiti is traditionally a rural country; communal structures exist, even if informal. Development of production communities is essential but would require substantial effort. The urban poverty problem in Port-au-Prince which has become acute during the last decade should, in any case, be considered in the perspective of agricultural development, because without the latter, it would tend to deteriorate further.

Agriculture

157. The re-establishment of an atmosphere of relative confidence in Haiti since the early 70s has largely contributed to the recovery of the economy. The agricultural sector, however, was only marginally affected by this movement and grew at an annual rate of 1.2 percent during 1971-1975, compared with population growth of rural areas estimated at 1.1 percent per annum during the same period. ^{1/} While the growth of agriculture was by one-

^{1/} This rate is calculated by the Ministry of Agriculture to have been slightly higher at 1.4 percent p.a.

half higher than in the preceding five years, when it amounted to only 0.8 percent p.a., the standard of living of the rural population has been nonetheless practically stagnant.

158. The main characteristics of Haitian agriculture have been of old standing. For the most part they date back to the early days of independence when land distribution was initiated. Later, inheritance laws based on the Napoleonic Code fostered further land fragmentation. The assurance of at least a small plot of land for everyone may be one of the reasons why today as much as 80 percent of the population still depends upon agriculture for its livelihood. Haitian agriculture is characterized by heavy demographic pressure on arable land 1/ and the extreme smallness of land holdings not exceeding 1.40 ha on average.

159. While excise or export taxes on agricultural products contributed to the overall public revenue, only a small share of this revenue returned to the agricultural sector, either in the form of extension services in rural areas or through financing of development expenditures in agriculture. This is evidenced by the inadequate agricultural budget amounting to only 9.3 percent of the total development budget in 1975. All this influenced farmers to shift their production over the years from industrial or export crops to staple production, which was traded in local markets and therefore largely escaped government control. The result was a net loss for the economy, because the country was slowly losing valuable sources of exchange earnings as well as inputs into potential industries.

160. The country's arable land endowment is very scant. Indeed, because of a rather rugged topography only 30 percent of its total area is cultivated. As technology or credit were unavailable, productivity of land remained low and the increasing demand for food had to be met by over-cultivating land at the cost of rapid soil exhaustion and by bringing mountainous and wooded areas under cultivation. The latter entailed a dubious process of turning valuable trees such as mahogany into charcoal and triggered off a disastrous process of soil erosion which in some areas could very well prove irreversible.

161. Production technology has remained very primitive and operations are almost entirely manual with hoes and machetes as the main tools. Although part of the alluvial plains representing 5.4 percent of the country's total area is suitable for irrigation, only 70,000 ha or 2.5 percent are included in the irrigation systems. Besides inadequate maintenance, insufficient water supply and poor drainage makes many of these irrigation networks ineffective. The use of fertilizer is very limited. It amounted to only 3,400 tons in 1974. Reasons for the little use made of this and other commonplace agricultural inputs should be sought in limited technical information and promotional efforts, inadequacy of the marketing system, high costs of transportation, and substantial profits obtained by middlemen on their sales to farmers which considerably reduce the latter's possible benefits and therefore interest in their use.

1/ Average agricultural population density is in excess of 4 persons per hectare of arable land.

162. The shortage of funds available to farmers is further aggravated by the almost total absence of agricultural development credit. Non-institutional credit is very common in Haiti; a large number of farmers borrow from intermediaries against future crops and prevailing interest rates in rural areas are reported to be as high as 100 percent per year. However, there is no evidence that these loans are used by farmers for anything else than for consumption purposes. Credit for agriculture is provided by two government controlled agencies: the Agricultural and Industrial Development Institute (IDAI) and the Bureau de Credit Agricole (BCA). While their credit was increasing by 41 percent per annum during 1971-1975, total credit extended by these two institutions did not exceed US\$600,000 in 1975, about 0.2 percent of the value of agricultural production. Net credit to agriculture represents an insignificant share (0.3 percent) of total net domestic credit.

163. A gradual shift in cultivation of export or industrial crops (mostly coffee and sugar-cane) to staple crops (corn, beans, manioc), entailed a substitution of labor-intensive subsistence crops for relatively land-intensive export crops in response to growing demographic pressure. Government price and/or tax policies, probably unwittingly, also encouraged this process. This does not imply, however, that on-farm consumption increased. Agricultural production in Haiti remains to a large extent cash oriented, and local specialization is guided by comparative advantage.

164. The final effect of these structural shifts was a significant drop in production of crops vital to the Haitian economy such as coffee, sisal and cocoa. Had industrial crop prices been allowed to follow the increase in prices of food crops and had resources been made available to finance increased productivity, production of export and industrial crops would not have been curtailed while food crop yields could have grown enough to meet the increase in domestic demand.

165. Successes of agricultural production in neighboring countries imply that a possibility exists of increasing present production levels in Haiti by two to five times, depending on the product. This would necessitate improved cultivation techniques. Most of the proposed courses of action call for a more intensive use of water; therefore, priority should be and already seems to be given to the rehabilitation of old irrigation systems in the alluvial plains where most of the rural population is concentrated. It is generally accepted that some additional 77,000 ha of land could be irrigated, so as to increase the irrigated area to 5 percent of Haiti's total area. In addition, the use of appropriate fertilizer mixture, pesticides and herbicides and the promotion of better seed varieties should prove to be highly beneficial.

166. Implementation of these objectives encounters financial impediments. Clearly, a reasonable development of agriculture would require far larger resources than are presently made available. Fixed investment in agriculture amounted to only US\$3.1 million (15.5 million Gourdes) in 1975. In addition, a substantial technical assistance component is essential. In 1975 technical assistance accounted for more than 40 percent of total development expenditures on agriculture, amounting to some 11.2 million Gourdes.

167. The effectiveness of government efforts and external assistance could be seriously improved by organizing farmers into community groups. Producer organizations (combites, escouades, societies) were always characteristic of Haitian rural culture but little effort was made hitherto to integrate existing traditional work associations in rural development projects. Excessive fragmentation of land tenure created, long ago, a need for these informal organizations. Whenever possible, they should be organized into more effective groups, possibly with a legal status, and should then be integrated into regional organizations as has been done in the Artibonite Valley.

168. Encouraging the rural communities would give a solid support to the expansion of such services as marketing of final products, distribution of inputs, spreading of technical knowledge, maintenance of equipment and increase of rural credit. Some production cooperatives already exist but only a few of them have been operating properly because of harsh economic conditions, insufficient financial incentives and poor management. Also, the BCA has been sponsoring some small credit unions (Societes Agricoles de Credit - SAC) grouping 7 to 15 members which apply jointly for BCA credits and are jointly responsible for their repayment. The SAC have proved to be a successful experience, although limited in its extent.

169. A policy of regionalization is beginning to be implemented. Each agricultural region is related to assistance of a different foreign aid agency. The present effort of the Federal Republic of Germany assistance is focused on Gonaives; that of the Canadian assistance on Petit Goave; the United Nations Development Program operates in Trois Rivieres and Les Cayes. The proposed involvement of the USAID in the Southeast, of IDA in the North and of the IDB in the Cul-de-Sac and the Artibonite Valley, as well as the possible involvement of French or Canadian assistance in the Central Plateau clearly indicate a pattern of agricultural development based on separately sponsored regional units. Such a policy can be successful provided that it is accompanied by a strengthening of the Central Government agencies dealing with agriculture to provide the necessary local support and continuity for the regional development efforts. Also, some degree of coordination should be maintained among objectives of each individual development project. Finally, domestic agencies might choose to concentrate their efforts on spreading the experience, gained in the foreign-sponsored projects, throughout the other regions.

170. Coffee: Coffee is undoubtedly the most important single commodity produced by the Haitian economy both as provider of income for a broad part of the population and as supplier of foreign exchange earnings. Indeed, it is the major source of income for 1.5 million of the rural population and its exports amounted to 20 percent of merchandise exports in 1975. There are approximately 389,000 coffee producing units covering some 132,800 ha, i.e., 16 percent of all cultivated land. Yields are very low, averaging 250 kg/ha, considerably below the average of 1,000 kg/ha obtained in many coffee-producing countries.

171. Because of its important contribution to the economy, the down-trend of coffee production during the last fifteen years is a cause for concern. Even though production seems to have been picking up during the last year or two, production in 1975 was still 18 percent below its 1960 level.

172. The coffee distribution network can be best described as an oligopsony (few buyers and many sellers) which almost by definition militates against the economic interest of the producers. The effect of the specific tax rate prevailing until October 1973 combined with the steady deterioration of world prices during the 1950s and 1960s depressed the growers' income. Haitian coffee is reportedly smuggled across the border to the Dominican Republic where no taxes are levied on coffee.

173. Another discouraging effect on the volume of production should be sought in the lack of technical assistance and the underdevelopment of infrastructure. All this notwithstanding, overall coffee output remains relatively high. Coffee trees are considered by farmers as permanent assets and even when they are not maintained, they still yield a minimal crop at almost no operating cost. Newly planted trees yield additional returns only after four to seven years, and therefore coffee production has to respond to long-term growers' price expectations rather than to short-term cyclical price swings as applies for most other crops. Therefore, while poor returns to coffee growers were experienced for the last twenty years, production declined only in the late sixties. There is, however, still ample scope for increasing coffee yields and, considering poor soil conditions as well as the receptivity of Haitian farmers for innovating, coffee production is liable to be increased considerably through modern farm inputs and technical assistance.

174. The possibilities for investment are therefore large. They include technical assistance in techniques of planting coffee trees, fertilizer distribution and provision of irrigation credit, etc. It is estimated that coffee yields could be tripled if a new variety of coffee trees were introduced and if fertilizers were more widely used.

175. The coffee Institute (IHPCADE) was created to promote coffee production and to help small growers to improve coffee cultivation techniques and processing. It was also expected that IHPCADE would extend credit to farmer cooperatives for fertilizer purchases. However, its efforts have been limited so far because of insufficient financial resources at its disposal.

176. Finally, it is urgently necessary to improve the feeder road network which would facilitate the more rapid and cheaper transportation of coffee and other agricultural products to markets and also facilitate extension work and delivery of inputs necessary to improve productivity. Because of the need of rapid transportation to market, the lack of basic road infrastructure is

largely responsible for the very low export share of premium washed coffee, despite special tax incentives provided to stimulate production of this type of coffee, which is hampered in addition, by the inadequacy of washing installations.

177. Some recent USAID-financed projects (Small Farms Project/Feeder Roads Project) indicate that steps in the right direction are now being taken. It is not clear, however, to what extent this could induce the Haitian authorities to allocate a larger amount of public funds to the coffee sector.

178. Sugar: Sugar cane is the second most important industrial crop after coffee and one of the major sources of foreign exchange earnings to the Haitian economy. A total of 82,600 ha or 10 percent of all cultivated land is under sugar cane. However, only some 19,000 ha are used for production of centrifugal (industrial) sugar. Production from the remaining three-fourths of the cane growing area is channelled into semi-artisanal "mills" and distilleries (guildives) producing mainly raw brown sugar (rapadou) and alcohol (clairin), both consumed locally.

179. Although cane is scattered throughout the country, the greatest concentrations appear to be in the alluvial plains. Soils of these areas are suitable for this production although some of them (Plaine de Cul-de-Sac in particular) had severe salinity problems because of the inadequately drained irrigation network.

180. Average yields of cane per hectare vary from 49 tons in the Plaine de Cul-de-Sac which benefits from partial irrigation, to about 35 tons in the other non-irrigated alluvial plains. Yields in upland areas are much lower. These comparatively low yields could be attributed to the lack of or the inadequate functioning of irrigation systems, to the absence of fertilization, and to the cultivation of poor varieties of sugar cane. Improved conditions could promise yields of the order of 110 tons per ha with irrigation and about 90 tons per ha without it.

181. There are three commercial sugar mills located in the main producing areas. Their estimated total production capacity is about 130,000 tons of raw sugar. A fourth plant is now being built near Leogane with an additional capacity of about 19,000 tons. With the addition of this last facility, Haiti will be able to process about 1,700,000 tons of sugar cane annually. Recovery rates are very low, averaging 9 percent, because of the low sugar yield of the cane grown and of the inefficiency of the transportation system which results in a high proportion of cane getting stale. Also since the price paid for cane is based on weight rather than on sugar content, there is little incentive to producers to improve the quality of their production.

182. The need to encourage sugar production is evident. Recent years have shown that, at an unchanged level of production, the double role of sugar -- that of a calorie-provider for domestic consumption and that of foreign exchange earner -- are no longer compatible with each other. A major increase of production is necessary and could be achieved by improving plant efficiency

and increasing yields on sugar cane plantations. Sugar manufacturing is still profitable because sugar cane prices remain low. The major constraint to increased production is insufficient supply of cane. Yields are low by world standards, and could at least double through use of fertilizer and irrigation. Cane producers also suffer from high transportation costs and therefore often prefer to supply at least part of their production to local distilleries which strongly compete with industrial producers. Improvement of the transportation network and better yields in sugarcane production should, both, help to improve the cost-price relation to cane producers and induce them to supply increasing proportions of their crops for industrial uses.

Manufacturing

183. The manufacturing sector has been one of the most dynamic of the Haitian economy during the last few years. Its value added grew at an average annual rate of 6.7 percent since 1971 and contributed 11.7 percent of GDP in 1975. The production structure of the sector points to the very early stage of Haiti's industrial development. A large share of the industrial activity consists of the production of basic consumption goods (foodstuffs, clothing) and of construction materials (cement). They benefitted from a rapidly growing urban demand. While these industries grew quickly, most of the growth of the sector originated in the expansion of the assembly industries producing for export.

184. The public sector of industry, with the notable exception of the flour mill, is controlled by the Societe d'Equipeement National (SEN). Public enterprises are financially independent from the Government and investment expenditures are met through internal resource generation or from domestic and foreign private participation.

185. Impressive growth has been achieved in the production of flour and cement. Production of flour averaged an annual 42 percent growth since 1971. Wheat was imported entirely from Canada and imports grew at similar rates. The flour mill is owned jointly by the Haitian Government (60 percent) and a Canadian enterprise (40 percent). Its capacity increased from half a million bags (of 200 lbs) to 1.5 million bags during the last five years. A further expansion which would double the present capacity is now contemplated. Fixed capital expenditures are financed from short-term suppliers' credits provided by the Canadian Government on wheat sales. The price of flour, now at US\$20 per bag, is much higher than in other Caribbean countries (US\$13-US\$14) or Canada and U.S. (US\$10). This discrepancy may to a large extent result from the inclusion in the flour mill's payroll of redundant personnel.

186. The cement industry benefitted directly from the recent prosperity in Port-au-Prince. Private construction flourished and induced the consumption of cement, further bolstered by road construction projects. Production of cement was growing at an annual rate of 22 percent during 1971-74. The capacity of the cement plant in which the Haitian Government owns 16.5 percent of equity through SEN ^{1/} increased from 80,000 tons to 300,000 tons recently

^{1/} Most of the remaining 83.5 percent of equity are held by a French enterprise.

at the reasonable cost of US\$74 per ton of capacity. Total investment expenditures amounted to US\$16 million and were financed by a capital increase of US\$2 million and from medium-term private loans. This development was encouraged by the highly remunerative price of cement prevailing on the Haitian market (around US\$50 per ton compared to US\$30 elsewhere in the Caribbean).

187. Output of the other public enterprises (the cotton ginning plant at Gonaives for instance) and of the small private plants working for the domestic markets did not show anything comparable to this progress. The reason for such an uneven rise in output of various industries should be sought in limited investment credit. Local banks are not willing to grant medium- and long-term loans to domestic plants, because their activity is much more remunerative -- and less risky -- if limited to short-term credits extended to local traders or importers. This is also why the only enterprises capable to expand and to benefit from the recent affluence in Port-au-Prince were those with connections with foreign capital.

188. Since the early seventies, export industries limited to consumer manufactures, have become a prominent sector of the Haitian economy. The improved political climate and an open economy with full convertibility and no control of capital transfers, stimulated domestic and foreign private capital investment in this sector. Of the newly established manufacturing firms, over 150 are American and about 80 Haitian-owned.

189. New activities consist mainly in the assembly or processing of imported components. Its final products are almost entirely re-exported. Most of the trade is with the United States. Production ranges from textiles, baseballs and softballs to basic electronic and mechanical assembly. Exports of these products increased at an average annual rate of 30 percent between 1970 and 1975. Since 1971, they have provided 9,000 additional jobs and a livelihood to 45,000 inhabitants of Port-au-Prince.

190. Different factors contributed to this rapid expansion. First, the availability of abundant and cheap unskilled labor located in the proximity of the US market favored sub-contracting in Haiti of labor-intensive industrial activities. ^{1/} While in many developing countries with a similar potential, the sub-contracting process is often discouraged through bureaucratic obstacles or institutional barriers, policies of the Haitian Government have been quite favorable to it and all new plants benefit from a free-zone status. No income tax is levied during the first five years of operation, after which the exemption is progressively eliminated. Plant sites in the new industrial development zone of Port-au-Prince have been provided to new investors on favorable terms. Sub-contracting by American firms was fostered by the US Tariff provisions for Offshore Assembly enacted in 1965, exempting US-made components of imported manufactures from import duties.

^{1/} Legal minimum daily wage rate in Haiti is US\$1.30 and the average daily wage paid to unskilled labor is US\$1.70.

191. The impact of the new assembly industries on the development of the economy has remained limited. So far, international sub-contracting created an enclave with no forward and backward linkages with other industries. As work is limited to a low artisan level (sewing, embroidering, packing, etc.) with the exception of some activities in electronics, increase in the several levels of skills may be limited.

192. The promotion of export industries which would use a larger part of their physical inputs of Haitian origin will require a greater coordination of the industrial sector. The case for import substitution cannot be argued, considering the thinness of the domestic market. However, several products, mostly foodstuffs, textiles or agricultural hand tools, could be efficiently produced in Haiti. Some of these are already produced but, at the same time, also imported mainly because of a lack of storage facilities (dairy products) or because of consumer preferences for foreign products.

193. The existence of quality control is a prerequisite to the development of export industries using local inputs, and to the development of a limited import substitution process. Moreover, the existence of a development bank capable of appraising projects and granting medium and long-term loans is another important prerequisite.

194. Most of the existing infrastructure equipment (power, water supply, international airport) is situated in Port-au-Prince and, consequently, the recent development of industrial activity was limited to the metropolitan area only. This deepened regional imbalances and accelerated migration from rural areas to the capital. Wages, fixed at a level twice as high as rural incomes, provided an additional incentive. ^{1/} The population of the city increased during the same period by 145,000 persons, of whom only 45,000 can be explained by urban demographic growth and the rest by migration. It was the promise -- often an illusion -- of jobs in the new small-scale industries in Port-au-Prince which could be held responsible for a shift from rural under-employment to, often, urban unemployment. The new small industrial firms became important clients of transportation, water supply, sewerage and power. However, as they do not pay income taxes, and as most infrastructure services are underpriced a part of overhead costs they generated is now financed by the public.

195. Industrial development of the regions will have to follow only after the regional infrastructure, which the Government intends to set up during the next five years (rehabilitation of main connecting roads, water supply in provincial towns, a second industrial development zone in Cap Haitien) is completed. New firms may be set up in the regions but granting of exemptions and other benefits should depend on the expected contribution of these firms to regional economic activity. The 1963 and 1969 industrial laws specify conditions for granting free-zone advantages to new industries but they do not seem to have been implemented.

^{1/} Average salary paid to unskilled labor is around US\$500 yearly. The 400,000 smaller farmers' yearly income does not exceed US\$250 on average.

Infrastructure

196. Infrastructure absorbed the largest part of the public fixed investment during the last few years (as much as 74 percent in FY75). Except for the road network, most of the ongoing or planned projects such as for water supply, electric power and telecommunications, are located in the Port-au-Prince metropolitan area.

197. While it is true that inadequate equipment constitutes a serious bottleneck to economic development, the lack of determination of private capital to initiate investment in goods-producing sectors might lead to underutilization of this equipment. Therefore, parallel conditions stimulating investment in goods-producing sectors -- through credit or institutional change -- may be necessary.

Transport

198. Internal transport in Haiti is limited mainly to carrying passengers and agricultural products. Deficient product marketing and input distribution arrangements are important impediments to agricultural development which could be partly solved through a more adequate transportation system.

199. Goods and passengers are moved primarily by land and it is estimated that road transport accounts for 80 percent of the entire transportation activity. Man and animal-pulled transport play an important role in a situation where motor vehicle traffic is limited and underemployed labor is abundant. Coastal shipping is quite prominent, especially among regions inaccessible by land (Jeremie, Ile de Gonave, and Ile de la Tortue), and accounts for 18 percent of all freight. Seventy-five percent of it is by sailboats. Costs of coastal transport are low but time of transport is necessarily long, which limits its potential. Coastal transport also suffers from inadequate harbor facilities and lack of credit for repair of vessels.

200. An adequate transportation system is a prerequisite to the economic development of Haiti, and large public investments and foreign assistance have been allocated to this sector in the past few years. In 1975 total transport investments amounted to US\$28 million, i.e., 48 percent of the development budget. The main projects currently in execution are the rehabilitation of the Northern road from Port-au-Prince to Cap Haitien (IDA), the Southern Road from Port-au-Prince to Les Cayes (IDB) and the road from Port-au-Prince to Jacmel (French Government Grant); also, the port facilities in Port-au-Prince are being improved and expanded (IDB).

201. The bad condition of most roads is the result of inadequate or in-existent maintenance in past years. Therefore, maintenance should become the Government's primary responsibility and highest priority should be attributed

to it. An autonomous agency (SEPRRN) ^{1/} has been created especially to look after this problem. It organizes mechanized road brigades and is currently benefitting from foreign assistance (USAID) mainly to acquire equipment.

202. Maintenance outlays will clearly grow with the rehabilitation of the road network and SEPRRN's needs are planned to grow from US\$1.2 million in 1976 to US\$3.4 million in 1981. The resources of this institution come from taxes on gasoline and diesel oil which the Government has decided to fully allocate, beginning in 1976, for construction and maintenance. Revenues available for the latter would be expected to increase from US\$1 million in 1976 to only US\$1.2 million in 1981. Therefore, further increases will be required so as to ensure regular financing of the growing maintenance needs.

203. A transport sector survey has been recently conducted to determine the needs of the sector. It focuses on the competition between the development of adequate road network and the promotion of coastal shipping. In many instances, application of both strategies is possible because most regional towns are located on the coast. Practically all of the regions could be linked by sea with the notable exception of the Central Plateau. The question is whether it would be justifiable to build, in the future, paved roads to townships such as Port-de-Paix, Mole St. Nicolas, or Jeremie instead of connecting them by sea. A road-oriented strategy would foster the development of areas along the roads and facilitate fast accessibility to the major towns. On the other hand, a coastal-oriented strategy would favor the autonomous development of the provincial cities which could be used as outlets through which regional production could be channelled. This would encourage the development of direct export activity at least in the larger towns, an experience which proved to be fruitful in the past.

204. Surveys reveal that lower transportation costs generate direct increases of agricultural production. The urgent need to improve the network of agricultural feeder roads in Haiti is a consequence of the existence of a multitude of very small holdings. Although the construction of feeder roads has become a component of each regional development project ^{2/} lack of roads will most likely remain for a long time a serious constraint to agricultural development.

Telecommunications

205. The telecommunications sector enjoyed strong public support in the past. TELECO, the telecommunications enterprise, is almost fully owned by the National Bank. Large investments were planned for the last Five-Year Plan

^{1/} "Service d' Entretien Permanent du Reseau Routier National"

^{2/} The Government has identified seven regions which could be developed in the framework of an integrated development project. Total investment would amount to US\$317 million between 1977 and 1981, of which US\$24.5 million would be devoted to road improvement.

(1971-1976) and, in contrast to most other sectors, the implementation rate has been quite good, and real investment was far above the planned one. Its investments amounted to US\$5.9 million in 1975. Prompt actions taken and substantial investments made, while benefiting the sector, could be also considered as evidence of a lacuna of economic policies in Haiti. Little if any analysis has been made, either of the priority of the investments--a prerogative of the Office of Planning (CONADEP), or of the form and volume of credit granted to finance the operation--which was a prerogative of the National Bank. The latter might have considered, instead, the alternative availability of concessionary credit compared to suppliers' credit provided on commercial terms, from which this operation was financed.

Water Supply and Sewerage

206. Lack of potable water in Haiti is cited as one of the main causes of high death rate, particularly affecting children. The uneven distribution of fresh water amongst regions of the country is, in turn, a characteristic of the general regional imbalance. In late 1975 some 12 percent of the total population was supplied with potable water. The urban sector was covered to the extent of 51 percent whereas in the rural sector only 3 percent of the population had access to potable water. The disparities are even wider with respect to house connections. In urban areas 20 percent of the population is supplied with house connections in contrast with only 0.1 percent in the rural areas.

207. Water supply system management is shared between the Centrale Autonome Metropolitaine d'Eau Potable (CAMEP) for the Port-au-Prince area and the Services Hydrauliques (SH) and the Cooperative pour l'Amelioration en Eau Potable (COALEP) for the rest of the country. In fact, these last two services only provide limited fresh water to some thirteen provincial towns.

208. To date, CAMEP received most of the resources allocated to the provision of water supply. In particular, it benefitted from two successive loans from the IDB. A third one is expected for 1977 to finance the final stage of a program designed to satisfy the needs of the metropolitan zone for potable water up to 1980. In reality, CAMEP never succeeded to keep pace with the increase in demand and basically the same volume of water is offered today as fifteen years ago, while the number of consumers increased from 3,000 to 25,000. CAMEP suffers more from lack of water than from lack of equipment, as the output of water springs dropped sharply with the severe deforestation of local mountains. This leads to the conclusion that the water supply potential has decreased while the number of water consumers rises. At present, only half the city inhabitants benefit from some kind of water supply. A survey of local water resources which would require some drilling and testing experiments is urgently needed. Yet it appears that available investment funds are rather spent on distribution equipment to provide water for future industrial uses.

209. Regional services are hampered by an almost complete lack of resources. Improvements of the water supply in provincial cities should be given a high priority within investment resources allocated to infrastructure. The present budget of the Services Hydrauliques does not allow it even to maintain the already very old water distribution systems. An IDA credit is being considered to help extend and improve SH services to ten towns and a Rural Development program, also financed with IDA funds, includes a water supply component that will benefit 25,000 families.

210. There are no sanitary sewerage systems in the country. However, Port-au-Prince and Cap-Haitien, the main urban centers, are served by a limited piped drainage system to which many illegal sewerage connections have been made. These systems are inadequate to meet the needs of the population. Many pipes are obstructed and the lower part of these cities are flooded during heavy rains. Septic tanks and latrines are in common use in the cities and are frequently a source of contamination to piped and private water systems.

Social Sectors

211. Health. Health conditions in Haiti clearly reflect the low standard of living of its population. Life expectancy at birth does not exceed 50 years. A crude death rate of 16 per 1,000 and an infant mortality rate of 150 per 1,000 children born provide further evidence of the urgency of the health situation. The quality of public health services is very low: on average there is one doctor and ten hospital beds per 13,000 inhabitants.

Table 35: HEALTH INDICATORS IN SELECTED COUNTRIES

	1973 Per capita GNP (US\$)	Life Expectancy at birth (yrs.)	Crude Birth rate (per 000)	Crude Death rate (per 000)	Infant Mortality (per 000 live births)
Haiti	130	50.0	35.8	16.3	150
India	120	49.2	38.0	16.0	120-140
Honduras	320	52.7	49.3	14.6	118
Guatamala	500	52.4	42.8	14.1	84
Dominican Repub.	520	57.8	47.5	13.5	103

212. Health standards could be improved more by raising the standard of living and improving socio-economic conditions than by expanding medical care. It is the poverty of Haiti, expressed in inadequate nutrition and unsanitary living conditions, which is at the root of health problems of its population. Malnutrition and lack of hygiene affect particularly infants and explain the large proportion of child mortality in total deaths (70 percent).

213. Widespread protein and caloric malnutrition contribute to the severity of health problems. The average daily nutritional intake in Haiti is estimated

at 39 grams of protein and 1,700 calories. 1/ This suggests that minimum daily requirements are not satisfied for a large majority of the population. Seventy percent of children of less than five years of age are suffering from malnutrition.

214. Unsafe water, absence of sewerage systems and overcrowded housing conditions lead to a high incidence of waterborne communicable diseases which account for a large proportion of all deaths. In particular, infectious diarrhea are the primary cause of child mortality.

215. The fertility rate in Haiti is high -- 225 per 1,000 for the 20-34 age group. The relation between high death rates and high fertility rates is clearly apparent because families want to assure themselves that at least some of their offspring would survive. Therefore, family planning should be related to efforts to eliminate the causes of child mortality, particularly through nutritional programs.

216. Another cause of high infant mortality may be found in the extensive participation of women in economic activity at the sacrifice of breast feeding. 2/ This is particularly true in rural areas where the tradition of having women assume the commercialization of agricultural production has been maintained.

217. Migration from rural to urban areas is responsible for about 70 percent of the population increase in Port-au-Prince and involves a large proportion of women whose number in the capital exceeds the male population by 33 percent. Similar experiences in other countries suggest that this process, which is likely to accelerate in the future might further aggravate the already precarious infant health situation because the rate of breast feeding will continue to decline.

218. The only significant impact on the general health standards of the population was generated by the activities of the National Service for Communicable Disease Control (SNEM), engaged in malaria eradication since 1962. As in most tropical countries, malaria used to be one of the major causes of mortality. Lack of resources and the recent decision to expand the SNEM's activities to include the control of other diseases (mainly tetanus and tuberculosis) prevented this agency from reaching its initial goal of totally eradicating malaria, although success was practically at hand in the mid-sixties. A resurgence of malaria occurred during the last few years and the positive reaction rate was reported at more than 7 percent of the sample investigated in 1974 after having been as low as 0.4 percent in 1966 and 1967. However, malaria today is no longer a major cause of death in Haiti.

219. An analysis of the national health situation in Haiti conceals very large regional disparities across the country. While the death rate is 16 per 1,000 in the rural areas, it drops to 11 per 1,000 in the provincial

1/ Daily nutritional requirements in Central America have been estimated at 50-70 grams of protein and 2,000-2,500 calories.

2/ It is estimated that 45 percent of jobs in Haiti are held by women.

towns and to 7 per 1,000 in Port-au-Prince. ^{1/} Approximately 70 percent of the country's physicians work in the capital. The same uneven distribution also characterizes the health infrastructure.

220. A regionalization project aiming at reduction of the concentration of health facilities in Port-au-Prince is underway. The present 11 health districts will be organized into five decentralized regions. Each of the five regions will be provided with a district hospital and a group of health centers and dispensaries. IDB provides funds for the restructuring and equipment of two of the five regions.

221. The Government's genuine intention to improve health standards might be difficult to implement. Even if in the next years substantial resources provided mainly from foreign assistance, are allocated to health care centers across the country, operational requirements such as adequate salaries for medical personnel and equipment maintenance will still have to be financed from local resources. The Government expects the physician-patient ratio to increase from 0.8 to 1.9 per 10,000 population by 1980, which would require a two and a half times increase in the number of physicians. Such increase might prove possible if the number of medical school graduates who emigrate declines from the present 60 percent of all newly graduated physicians to only 10 percent. The probability of such a sharp and immediate decline is low. Moreover, the incentives to practice medicine in the rural areas, where it is most needed, are not strong. It would also be necessary that additional important resources be allocated to the Budget of the Ministry of Public Health, now one of the less favored (see para. 97), to overcome the present geographical imbalance.

Education

222. The need to improve the education system is clear. In its present form the system is hardly contributing to economic development. Education in Haiti is at present both insufficient in its coverage, especially in the rural areas, and often inappropriate in its content.

223. That enrollment ratios are insufficient is evidenced by a 1971 estimated rate of 32 percent for the 6-15 age group, which is included in compulsory primary schooling. Moreover, this figure conceals the strong imbalance between the urban and rural areas; while the enrollment ratio is as low as 22 percent in the countryside, it approaches 64 percent in the urban areas of the country. Although sociological and economic impediments to school enrollment and attendance are likely to be more important in rural

^{1/} In the absence of disaggregated data on life expectancy, comparison on the basis of crude death rates can be considered as a fairly good proxy as the age structures in Port-au-Prince and in the rest of the country are comparable, with the notable exception of the 10-30 age bracket affected more than proportionately by the migratory movement.

areas than in towns, the children/teacher ratio in primary schools also shows that the quality of education may be uneven between areas. This ratio averages 32 in the urban areas and 53 in the rural areas. Moreover, considering that many primary schools are private, most often denominational, and that these provide better facilities, the situations in public schools may be even more critical than suggested by the previous figures. It is calculated that there are, on average, 73 children per teacher in the rural public schools.

224. Not surprisingly, retention rates are very low. Of 100 children entering primary school, only about 17 reach the level of literacy (after three years) and only 5 reach the end of primary schooling.

225. In addition to limited coverage attributable primarily to inadequate budgetary appropriations, the present education system suffers from excessively formal teaching methods and poorly qualified teachers. This, to a large extent, reduces the effectiveness of the system in providing the economy with the skilled manpower it urgently needs.

226. The administration of the education sector is exceedingly involved. Two ministerial agencies are responsible for education: the Ministries of Agriculture (DARNDR) and of National Education. Basically, education in urban areas (primary, secondary, teacher training and university) falls under the Ministry of Education; rural education (primary and normal schools) and Agricultural Colleges under the Ministry of Agriculture. There was, for some time, hardly any coordination between these various agencies. Consequently, no homogenous education policy could have been conceived until recently. A coordination and planning unit (under CONADEP's auspices) has recently been established within the Ministry of Education with the task of elaborating consistent education planning. To date, however, education planning proved to be an impossible task as insufficient funds prevented any hope for improving the system in size or in quality. Limited funding is also responsible for inadequate professional qualifications of the teaching and administrative staff and for the scarcity of school equipment (paras. 90-92).

227. Comparison of primary school budgets across the country reveals that urban schools receive 66 percent of the budget and rural schools only 34 percent. This imbalance in the resource allocation process would be even more noticeable if private contributions which go mainly to urban areas were to be taken into account.

228. The inadequacy of the education system lies also in its inability to satisfy the country's real requirements in knowledge or skills. The present dichotomy of the system perpetuates social stratification and therefore cannot be used as an effective tool for development. Primary education is characterized by excessively formal curricula, with teaching oriented towards coaching pupils along the way toward a higher education. This does not appear justifiable in a situation where only 5 percent of the pupils will gain access to secondary education. Further, beginning from the lowest grades and

inclusive of rural areas, no subject is being taught even partly in Creole while practically the entire rural population speaks only Creole. Some experiments in teaching methods conducted in small towns in the Leogane area during the past few years have shown that the use of Creole may enhance the quicker and better understanding of subject matters taught in first grade in rural schools. 1/

229. Some positive steps are now being taken by the Haitian authorities to improve the appropriateness of the education system. Teaching methods used in primary schools are being revised. An Institute of Education (Institut Pédagogique) has been created with the assistance of the French education mission to conduct research and training activities. Curricula are being redesigned; in particular, foreign language methods are being introduced to improve French language teaching methods.

230. A Five-Year plan was elaborated by the education planning unit to improve the primary school system. The enrollment rate is planned to increase from 64 to 66 percent in the urban areas and from 22 to 29 percent in the rural areas. Also, the children/teacher ratio would be lowered from 73 to 53 in rural areas. This would require hiring of some 3,000 additional teachers and the construction of some 1,500 classrooms. Fixed investment expenditures would amount to an average of G 7 million each year and foreign assistance would be requested. Additional current expenditure requirements would amount to some G 7.2 million at the end of the five-year period, implying an increase in the current budget allocated to education by 27 percent in real terms. There is no assurance that this requirement could be met from domestic resources.

231. To train skilled workers and technicians, new institutions have been created -- a National Vocational Training Institute (Institut National de Formation Professionnelle - INFP) and a pilot Vocational Training Center (Centre Pilote de Formation Professionnelle - GPFP). The pilot center should serve as a model for the rehabilitation of existing professional training schools. Insufficient financial resources make the proposed actions less than certain.

232. Expansion of the formal education system would remain moderate for a long time because of major financial constraints. However, a strong emphasis placed on informal education programs could prove most beneficial. Rural development operations based on community centers depend heavily on the availability of local leadership and investments in education may take a form which would encourage the participation of the local population in the development process. This would require the construction and equipping of community centers in rural areas which might be achieved within the structure of the National Literacy and Community Action Office (ONAAC). So far, the ONAAC has

1/ These experiments were conducted by the "Centre Haitien d'Investigation en Sciences Sociales" (CHISS).

been concentrating its efforts on a literacy program, which reached about 150,000 persons. It now envisages giving technological content to its teachings.

233. Also the regional programs such as ODVA in the Artibonite Valley proved to be quite efficient. Past experiences revealed that excessive centralization had a rather negative effect on rural development efforts, and therefore a national program of informal education may not be desirable. Instead, regional, loosely coordinated programs should be encouraged. Such programs can benefit from education research, staff training, and financial assistance of a central agency.

CHAPTER VI

FUTURE PROSPECTS

234. The Haitian economy is still a dual economy with a deep rift between the cities and the rural areas. It has recently experienced a series of abrupt shifts. Public investment and foreign lending increased dramatically straining the administrative capacity of the public sector. Foreign private investment developed the export assembly industry but local private investment slowed down. Economic growth accelerated but was concentrated in Port-au-Prince. The supply of agricultural products lagged behind the rapid growth of urban private consumption thereby contributing to the increase in the external resource gap and exacerbating inflationary pressures. To disregard these shifts in order to build a coherent model of Haiti's economy in the future would be an academic exercise. To project these shifts into the future would be equally meaningless because some of them are untenable even in the medium term.

235. There are, however, three issues which appear to be crucial for the immediate future of the Haitian economy. The first is the organization of public finance and of related institutions. Any increase in the role of the public sector in the future, improvement in productivity of its investments, even an effective coordination of foreign aid could hardly be envisaged without a major improvement in the financial management of the public sector.

236. The second major problem is the need to develop the agricultural sector and to reverse the situation observed in recent years when the preponderant share of overall increases in income went to Port-au-Prince. If the economy is to grow by 4 percent within the 1976-80 period and possibly at a higher rate afterwards, agricultural production has to underpin this growth. This should slow down the recent rapid rise of food imports and increase exports which are heavily dependent on agricultural output.

237. The third major issue is that of public investment and its financing. The history of the last years shows that, while domestic counterpart funds to foreign financing were forthcoming, they were drawn from low public savings. In turn, even these low savings were achieved at the expense of public current expenditures, and servicing of the installed fixed capital had to suffer accordingly. The possibility and the desirability to continue to mobilize counterpart funds in such a way also are subject to serious doubts. There will be, in the immediate future, an increasing demand for both domestic counterpart funds and for current expenditures, and this will call for a more energetic and a better organized mobilization of public savings.

Reorganization of Public Finance Management

238. The two principal prerequisites for the reorganization of financial management in Haiti are the introduction of full clarity both in the public revenue flows and in the allocation of this revenue to current and development expenditures. To achieve this, it will be necessary to reorganize 300

extrabudgetary accounts kept in the National Bank. While these accounts will probably have to continue to exist for some time to come, they might have to be subjected to periodical analyses by the Ministry of Finance and, in the case of development expenditures, also by CONADEP in order to verify whether these expenditures are justifiable. To make such analyses possible, these expenditures will have to be classified along the lines of a common economic pattern, such as wages and salaries, purchases of material, development expenditures, and along functional lines, by principal sectors of activity. Such analyses should lead to operational conclusions, by the Ministry of Finance and by CONADEP, which should ultimately be authorized to include these resources in the Budget and the Development Plan and to have a leading role in decisions pertaining to their allocation.

239. A well-structured and up-to-date flow of fiscal information needs to be designed. Such a flow should be broken into three basic components: current revenues, current expenditures, and investment expenditures. The proposed basic organization of such a flow is presented in the Annex Chart and Table 10.6. Next, close cooperation will have to be instituted between the Ministry of Finance, specifically its Budget Bureau, and CONADEP. As the Ministry of Finance will be expected to have a firmer grasp of total public revenues collected by its agencies, it will also have to introduce strict control over current and development expenditures, the latter jointly with CONADEP. A closer cooperation between the Ministry of Finance and CONADEP should permit that sectoral and project priorities established by CONADEP, discussed with the ministries and incorporated in the Plan, are effectively supported by the Ministry of Finance in its allocation of revenues for maintenance, for counterpart funds and for other development purposes. Such close coordination should permit CONADEP to familiarize itself with the entire area of public finance so as to be able to ascertain whether public savings would be adequate for domestic currency financing of the investment program.

240. Finally, a close relation will have to be established between the financial management institutions and the Haitian Statistical Institute. The Institute could play here a role of an independent analyst, and through its quarterly or annual reviews of public revenues and expenditures, combined with its increasing knowledge of the dynamic framework of the national economy, should be able to assess--and to consult the Government on its fiscal performance.

Investment Requirements

241. Investment priorities are reviewed in the sectoral analysis. In some of these sectors--industry and agriculture in particular--a part of investment consists of a multitude of small projects and, although it will have to be privately financed, it should be supported by an extended credit network. An increase in the volume of credit is included in financial requirements calculated in the present chapter. The trend in private investment is expected to be related to the leading trend of public investment, because private capital would, no doubt, realize the benefits it could derive from the expanding public infrastructure. Some such benefits are calculated in the Annex Tables 10.2 and 10.3.

242. Economic growth during the next five years (1976-80) may reach 4 percent annually, a slight progress over the 3 percent average growth rate prevailing during the last three years. Per capita income should, therefore, increase by 13 percent for the entire period. Small as these improvements may appear, they would still require a substantial increase in the volume and in the productivity of new investment.

243. As a number of pre-investment studies were recently completed, they should help in enhancing the productivity of future investment. This is also predicated on improvement of economic management and on better maintenance of installed capital. Both, but in particular the latter, should be made possible when increases of budgetary allocations for better qualified personnel and for maintenance are decided. The gestation period of recent investment projects may also be completed soon. For all these reasons, the marginal capital-output ratio, which averaged 5.0 between 1971 and 1975, is expected to drop to 4.0 during 1976-80. This improvement notwithstanding, total investment would have to increase to some 16 percent of GDP compared to an average of 13.2 percent between 1971 and 1975 (Annex Table 10.4).

244. As far as the composition of investment is concerned, it is suggested that a shift takes place during the next five years, from the previous emphasis on infrastructure sectors (transport, telecommunications) to an increasing emphasis on productive sectors and, in the first instance, on agriculture. Investments in agriculture and increase of credit to farmers will necessarily depend on the more active role of the public sector. One of the main reasons for this suggested active posture of the public sector is that private capital has clearly abstained from venturing into agriculture and may continue to stay away from it in the future, at least until such public investment as the irrigation network and feeder roads are well advanced. As a result the contribution of the public sector to total investment may continue to increase during the next five years, so as to reach about 46 percent by 1980, compared to 36 percent during the past five years. Annual fixed investment expenditures of the public sector would, in such case, average US\$66 million during 1976-80 compared to US\$22 million between 1971 and 1975 (Annex Table 10.5).

245. Public Investment. The Government's Five-Year Development Plan for 1977-81 was in the process of elaboration when the Mission visited Haiti in April 1976. Sectoral priorities had been identified but no public investment program had been defined. The Mission made its own estimate of public investment requirements by taking into consideration projects which foreign assistance agencies intend to finance during that period. To this have been added presently ongoing projects whose financing will still continue in the future. As the most urgent infrastructure requirements were or are currently met, it is considered that the main emphasis should be placed on the major productive sector, firstly and foremostly on agriculture.

246. The priority allocated to agriculture in the future development plan could be justified by a number of overlapping and inter-related reasons: the need to spread the fruits of economic progress more widely so that they

benefit also the rural areas, to lift the income of the rural population from the predominant level of absolute poverty, in particular by improving the deficient nutrition, to reduce the growing bill for imported food, to rehabilitate the cultivation of valuable export crops and, finally, to create conditions which should help in slowing down the migratory movement towards Port-au-Prince.

247. Between 1971 and 1975 the production of food grew at an annual rate of only 1.2 percent. During this period private consumption grew at an annual rate of more than 5 percent and induced a sharp increase in the demand (2.3 percent per annum) for foodstuffs. The disparity between the growth of private consumption and that of food consumption implies that a large part of new consumption demand was that of recipients of higher incomes, whose demand elasticity for food was low. The effective gap which emerged between domestic supply and demand was closed through increases in foodstuff imports (by 10.9 percent per annum) and through a shift of domestic production from exports to local consumption.

248. Urban consumption grew at a rate of 10 percent per annum (Annex Table 10.1). As consumption per head in rural areas practically did not change between 1971 and 1975, there is no reason to believe that the percentage allocated to food decreased, while the share of food in expenditures of the urban population must have dropped from 50.6 percent to 40.6 percent. Hence, there was a significant deterioration in the agricultural trade balance determined by the difference between total supply (domestic plus export) and the domestic demand. The surplus of agricultural products still stood at about US\$13 million in 1975 compared with US\$21 million in 1971. However, if present trends continue, the surplus will quickly decline and, by 1980, there will be an agricultural deficit of about US\$16 million. (All in 1971 prices--see Annex Table 10.1.) Future levels of exports and imports will depend upon the performance of the agriculture sector, the growth in urban incomes and, in the final account, on the share of domestic resources allocated to foodstuffs.

249. Clearly, agriculture has to follow a growth path close to that of the economy as a whole. For technical reasons it may prove impossible for the agricultural sector to match the growth rate of the economy from the very beginning of the forthcoming period. Haitian agriculture is land-constrained, it has to rely on increases of yields per hectare, and this can be influenced only by introducing technical progress and increasing investment, both rather difficult to promote and use quickly. However, it is considered possible that a 3 percent per annum growth of the agricultural production could be attained by the end of the five-year period. The draft agricultural plan, prepared recently by the Government, assumes that growth could reach some 9.4 percent p.a., which is unprecedented and could not be considered as realistic within the immediate future. But even a much more modest growth should accelerate the overall growth of the domestic economy in the subsequent period.

250. Improvements in agricultural production can be obtained both through the aggregative approach, consisting of the development of integrated rural projects, to rehabilitate ill-functioning irrigation, and through disaggregated programs such as rehabilitation of coffee cultivations now sponsored by USAID. Dependence of the rate of growth of agriculture on the volume of investment is based on a crude evaluation of outcomes of these two alternatives. It is based on yields which are expected from the adoption of improved cultivation techniques, 1/ and on estimates of fixed investment costs, 2/ additional development expenditures, 3/ and expected increase of production per unit of land (Table 10.2). This was used to calculate the amount of capital resources needed to attain a 3 percent growth rate in agriculture by 1980, 4/ which would call for a 51 percent annual increase in public investment in agriculture (Table 10.3). In absence of any savings in the rural areas, all additional (mainly current) expenditures will have to be financed from credit which would have to increase to about US\$11 million by 1980 compared to US\$0.7 million in 1975.

251. Total financial requirements calculated above are of a magnitude (at least until 1978) similar to that which is presently intended to be financed by foreign assistance agencies. This suggests that such program is financially feasible. An important but inevitable drawback of such investment program is the strong concentration of its benefits. Thus, rehabilitation of irrigation systems which are at present in a state of disrepair is the most efficient way to achieve substantial gains in agricultural production; however, benefits from these systems are reaped by farmers situated within a limited geographical area and are likely to favor comparatively well-to-do farmers and to cause a redistribution of land holdings pattern toward large holdings. This would unavoidably be accompanied by land price speculation. In the absence of a land cadaster, the Government may not be able to control this undesirable phenomenon. By way of contrast, the coffee program should, by enhancing production of coffee on small land holdings, encourage a more equal spread of resources and consequently, a more equal income distribution.

1/ Possible yields have been estimated by the 1973 FAO/BID agricultural mission in Haiti--see "Possibilites d'investissement et developpement du secteur rural en Haiti," BID, Washington, D.C. February 1974.

2/ Irrigation costs for the aggregated approach and planting of new coffee trees for the disaggregated one.

3/ Mostly fertilizer, pesticides, tools, water and seeds.

4/ Food crop production grew in the past at the annual rate of 1.1 percent, i.e., at the growth rate of the rural population. This is taken as a "natural" growth rate of agricultural production which apparently can be achieved, thanks to minor increases in labor productivity and without any additional investment. Investment requirements are geared to closing the gap between the target growth rate of 3 percent per annum and the "natural" growth rate of 1.1 percent.

252. General Investment: Public investment in industry is likely to remain minimal. The remaining development expenditures will therefore be distributed among the non-productive sectors with the largest share going to infrastructure (Table 10.5). This distribution is predicated on the first priority being attached to agriculture and on the fact that financing for a number of infrastructure projects has been already committed by international aid agencies. The allocation to the social sectors will remain unchanged compared with the preceding period, unless the international agencies step up their commitments. It was argued before that, for the proper operation of these sectors, it is crucial to increase firstly and foremostly their current expenditures. This increase, by 6 percent per annum in real terms, has been built into the financial program outlined in this Report.

Table 36: PUBLIC INVESTMENT

(in millions of 1975 gourdes)

	<u>Annual Averages</u>	
	<u>1973-1975</u>	<u>1976-1980</u>
Goods Producing Sectors	20.2	54.8
Infrastructure Sectors	95.9	166.7
Social Sectors	49.6	52.6
Total	<u>165.7</u>	<u>274.1</u>

253. Of the non-productive sectors, infrastructure may be expected to receive the larger share of total development expenditures averaging 62 percent during the next five years. Most of the projected outlays are already part of ongoing or committed projects (roads, Port-au-Prince thermal power project, Port-au-Prince harbor, etc.). However, some other investment requirements are still to be met. Sufficient water supply to Port-au-Prince and to provincial towns is certainly one of the more urgent needs. Also, rehabilitation of coastal harbors should prove beneficial.

254. In addition to investment expenditures, public contribution includes cost of technical assistance and credit to the private sector. Inclusive of these two components, average public investment requirements amount to US\$87.3 million annually during the next five years. The recently prepared Five-Year Plan, which was completed after the Mission's departure and which has not yet been made available, is reported to have set the average annual investment requirements at US\$104 million. Comparison between Mission's proposals and Government's targets is not possible in the absence of the knowledge of the analytical method underlying the Government target.

Financing of Public Investment

255. The public investment program necessary to meet the target of 4 percent annual growth and of a 3 percent annual growth of agriculture during 1976/80 was calculated at US\$87 million annually, of which fixed investment represents US\$66 million and technical assistance and credit US\$21 million,

all in current prices. This compares with annual overall development expenditures of US\$58 million in 1975, also in current prices. Calculated in current prices, average annual public investment will have to double in 1976/80, compared with the 1971-75 period. However, an inflation index of 7.5 percent per annum is built into the forecast, and the annual average investment during 1976/80, calculated in 1975 prices, would amount therefore to some US\$72 million, an increase of only 24 percent above the public investment carried out during 1975.

256. Public investment in 1975 was financed in 30.5 percent by net disbursements from abroad, which were US\$17.6 million in that year (see Table 24). These net disbursements are expected to reach US\$42.3 million annually during 1976/80, and will therefore finance about 48 percent of public development expenditures. Approximately, 94 percent of the expected net disbursements would come from IDB, IDA and AID, with, respectively, 47 percent, 31 percent and 16 percent shares in the total (see Table 10.16 of Statistical Appendix).

257. Of the remaining 52 percent of financing requirements, current grants are expected to finance two-fifths while the remaining three-fifths (US\$28.1 million annually, or 32 percent of total financing) would have to come from public savings. This calculation rules out borrowing abroad on commercial terms and the expansion of domestic banking credit to the public sector. It is also calculated that surpluses of public enterprise (EDH and the Port Administration) could constitute 24 percent of public savings during the period 1976/80.

258. During 1974-75, current expenditures of the Central Government increased by about 37.8 percent. Extrabudgetary current expenditures increased at an even faster rate of 63.7 percent. Since there is no evidence that this increase in extra-budgetary expenditures corresponded to increases in operating expenditures of the public administration and of the autonomous agencies, it was assumed that the latter remained constant in real terms at their 1970 level. Secondly, about US\$4.7 million (G.23.5 million) of non-identified development expenditures were imputed to extra-budgetary accounts. On this basis, a balance of about US\$21 million of extra-budgetary expenditures in 1975 could be considered as non-essential outlays which would not recur in the future. These expenditures would have to be drawn back into the circuit of normally scrutinized public expenditures, and ultimately would have to be included in the budget.

259. Both budgetary and extrabudgetary expenditures are estimated to increase at 6.0 percent in real terms during the next five years, with the budgetary expenditures regaining their 1970 real terms level by 1979. If tax revenues during 1976-80 continue their past trend, they are calculated to attain for the entire period only US\$595 million, in which case the tax burden would decline from 10.8 percent in 1975 to 9.2 percent by 1980. But, considering the necessary increase in current expenditures, a decline of the tax burden below 10.5 percent during 1976-80 would be inconsistent with Haiti's minimal development needs. New tax measures will therefore be required.

260. As indicated in the concluding paragraphs of the section on public finance, import duties constitute a potential source of additional tax revenues. Through strict enforcement of ad valorem rates, reduction of import duty exemptions and a selective increase of import duty rates, about US\$15.0 million of revenues could have been additionally collected during 1975. If such measures are taken promptly and are implemented during 1977, at least US\$60.0 million of additional revenues could be obtained during 1977-80 to finance public sector expenditures and the possibility of running a current deficit will be largely reduced.

261. Table 37 below shows the amount of public sector savings for the period 1976-80 under two different assumptions. If no additional tax measures were taken to increase tax returns, public savings would attain about US\$94 million during those years. If such tax measures were taken they would amount to approximately US\$141 million.

Table 37: PUBLIC SECTOR FINANCE, 1976-80

(in US\$ million)

	Additional Tax Measures	
	<u>Not Taken</u>	<u>Taken</u>
Central Government current revenues	595.4	642.4
Central Government current expenditures	<u>524.6</u>	<u>524.6</u>
Central Government savings	70.8	117.8
Savings of public corporations	33.5	33.5
Minus interest payments on external debt	<u>10.8</u>	<u>10.8</u>
Public sector savings	93.5	140.5

262. If the additional tax measures are not taken, public sector borrowing of about US\$47 million over and above the borrowing from foreign assistance agencies and grants from abroad would be required as shown in Table 38 below. While one could easily envisage a possibility of an internal borrowing of this amount, the Mission has considered that recourse to internal borrowing to finance public expenditures should be avoided. The reason for this is mainly the need for stepping up considerably credit to the private sector. The latter's investment has been markedly lagging in the past and it may lay claims on the entire amount of internal credit which would be prudent to release in the coming few years without increasing the foreign indebtedness of private banks.

Table 38: FINANCING OF DEVELOPMENT EXPENDITURES OF THE PUBLIC SECTOR: 1976-1980

(in US\$ million)

	Additional Tax Measures	
	<u>Not Taken</u>	<u>Taken</u>
Development expenditures	436.7	436.7
<u>Financing:</u>	436.7	436.7
Net foreign disbursements and grants	<u>296.2</u>	<u>296.2</u>
Remains to be financed by the Government	140.5	140.5
Public sector saving	<u>93.5</u>	<u>140.5</u>
Residual borrowing requirements	47.0	-

263. Counterpart funds requirement for projects financed by official external agencies during the 1976-80 period would amount to approximately US\$60.0 million (Table 10.11). Usually in Haiti the availability of counterpart funds is taken for granted when they can be financed from tax revenues earmarked for such purpose. This, however, becomes less apparent when public savings are considered as their legitimate source, instead of tax revenue. Indeed, earmarking procedures should not conceal the fact that domestic financing (including counterpart funds) of past investment did not entirely originate from public savings but also from external grants and internal borrowing. Hence, aggregate public savings--and these could be calculated in various ways, as shown in text Table 12 and on para 78--should be considered as the true measure of domestic effort rather than the availability of counterpart funds.

Table 39: Public Savings Requirements
(in US\$ million)

	<u>1976-80</u>	<u>Annual average</u>	<u>Percentage share</u>
Public Investment	357.7 ^{1/}	71.5	81.9
Technical Assistance	<u>79.0</u>	<u>15.8</u>	<u>18.1</u>
Total Development Expenditures	436.7	87.3	100.0
<u>Financing:</u>	<u>436.7</u>	<u>87.3</u>	<u>100.0</u>
1. Net Disbursements	207.2	41.4	47.5
(Gross Disbursements)	(223.0)	(44.6)	(51.1)
(Amortization of External Debt)	(15.8)	(3.2)	(13.6)
2. Grants	89.0	17.8	20.3
3. Savings Requirements	140.5	28.1	32.2

^{1/} Of which US\$330 million fixed investment, US\$21.6 million for agricultural credit and US\$6.1 million for industrial credit

Source: AID, IDB, CONADEP and mission estimates.