

HAITI

Pathways to responding to recurrent crises and chronic fragility

*Systematic Country Diagnostic
Update June 2022*



WORLD BANK GROUP

© 2022 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given. Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

Table of contents

<i>Acknowledgments</i>	<i>ii</i>
<i>Abbreviations and Acronym</i>	<i>iii</i>
<i>Map</i>	<i>iv</i>
<i>Executive Summary</i>	<i>v</i>
1. Poverty and Equity	1
1.1 Trends in Poverty Reduction and Shared Prosperity	2
1.2 Livelihoods of the poor	4
1.3 Limited and Unequal Access to Basic Services	5
1.4 Impact of crises and COVID-19	8
2. Growth Challenges and Opportunities	9
2.1 Trends of Growth	10
2.2 Challenges to competitiveness	11
2.3 Quality of governance and institutions	13
2.4 Main Drivers and dynamics of fragility	14
2.5 Transforming crisis into opportunity	18
3. Sustainability	21
3.1 Macroeconomic and Fiscal Sustainability	22
3.2 Social Sustainability	23
3.3 Environmental sustainability and disaster resilience	25
4. Priorities Ahead	27
4.1 Approach to prioritization	28
4.2 Priority areas	29
References	34
Annexes	
Annex 1: Selected economic indicators	37
Annex 2: Geographic challenges posed by natural disasters and accessing services	39
Annex 3: Gender and Labor market gaps in Haiti	40
Figures	
Figure 1.1: Poverty has deteriorated since 2018 reversing earlier marginal gains	3
Figure 1.2: School enrollment has increased in past decade, but urban-rural gaps persist	3
Figure 1.3: Child malnutrition rates were declining, but the trend has reverted	6
Figure 1.4: Despite improvements more than a third of Haitians lack access to basic sanitation	6
Figure 1.5: Despite improvements more than a third of Haitians lack access to basic sanitation	7
Figure 2.1: GDP per capita growth has trailed peers and remains 25 percent below 1982 level	10
Figure 2.2: GDP has contracted, driven by a decline in investment and private consumption	10
Figure 2.3: Growth has been driven by factor accumulation and negative productivity shocks	10
Figure 2.4: Political instability is the main challenge faced by firms	10
Figure 2.5: Institutional quality has deteriorated across most dimensions in the last decade	12
Figure 2.6: ODA has declined steadily	18
Figure 3.1: Energy sector subsidies have been a fiscal drain, crowding out social expenditures	22
Boxes	
Box 1: Progress despite the odds – preserving Haiti’s development gains	19

Acknowledgments

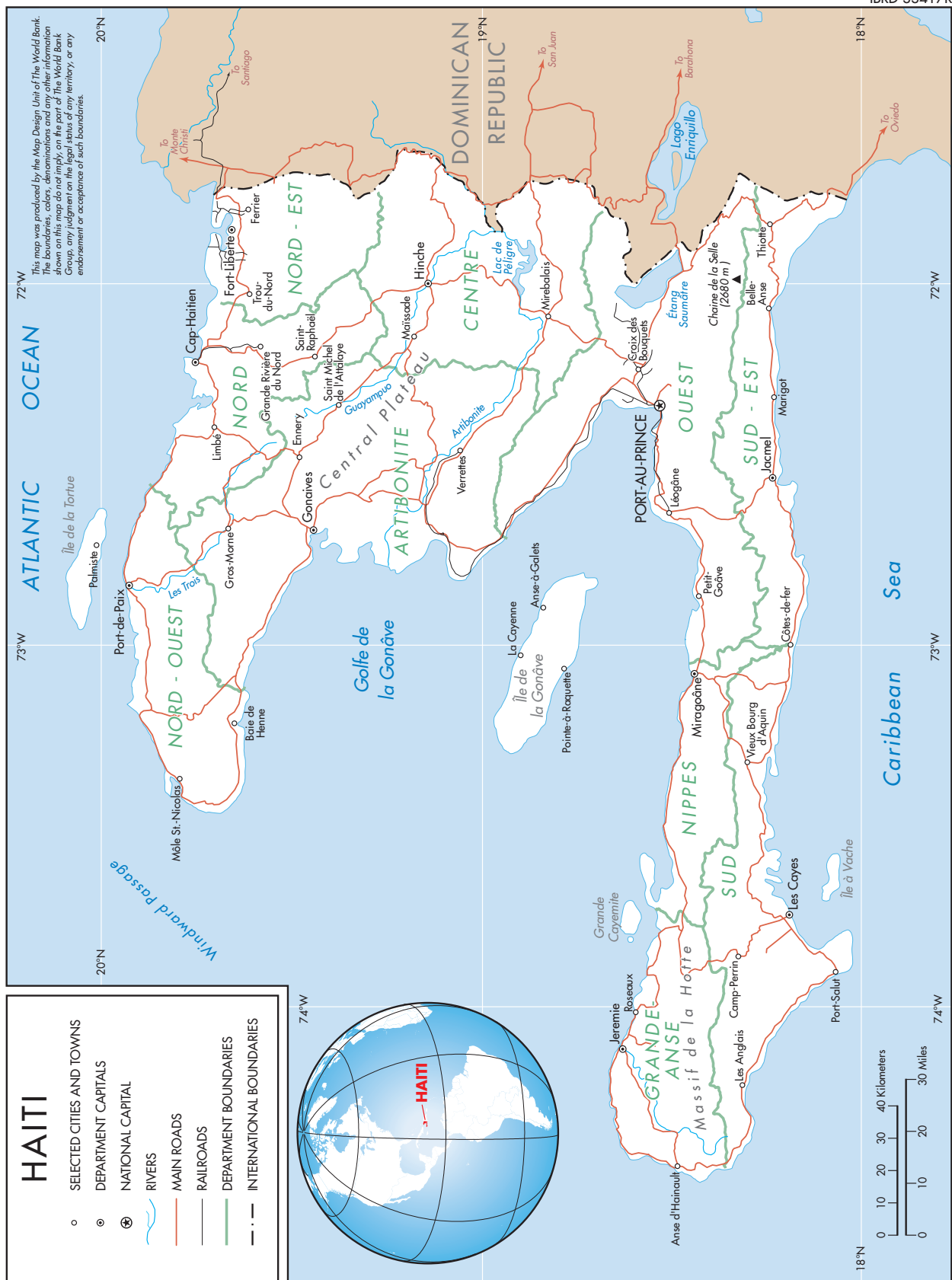
This Systematic Country Diagnostic Update for Haiti is the work of a team led by Spyridon Demetriou (Senior Operations Officer, GTFSI), Timothy Johnston (Program Leader, HLCDR), and Javier Suarez (Program Leader, ELCDR) under the guidance of Lilia Burunciuc (Country Director, LCC3C) and Laurent Msellati (Country Manager, LCCHT). The SCD team benefited from consultations in Haiti with key public institutions, civil society associations, private sector associations, and academia during the period 2018-2021, including in the context of the preparation of Country Private Sector Diagnostic (2021) and the Risk and Resilience Assessment (2019).

The SCD team included the following staff and consultants: Pascal Jaupart, Caroline Tassot, Cornelia Tesliuc (Social Protection); Roy Katayama (Poverty); Julie Ruel Bergeron, Nicolas Collin dit de Montesson, Alejandra Mia Garcia-Meza, Angelica Lopez Hernandez, Ludovic Queuille, Marvin Ploetz, Sunil Rajkumar, Isabelle Simeon (Health); Claudia Lopez, Quynh Nguyen, Vincent Perrot (Education); Jean Nicolas Arlet, Amadou Dem, Nicholas Smith, Marijana Vijil (Finance, Competitiveness and Innovation); David Cal MacWilliam, Evans Jadotte (Macroeconomics, Trade and Investment); Gustavo Bacarreza, Marlen Botero, Isis Gaddis (Gender); Paula Cadavid, Naraya Carrasco, Sophie Chanson (Disaster Risk Management and Urban); Farah Dorval, Veronique Verdeil (Water and Sanitation); Sophie Anne DeVries Robbe (Climate); Axel Perez, Marolla Haddad (Digital); Jose Francisco Perez Caceres, Dana Rysankova (Energy); Soulemane Fofana, Christophe Grosjean, Benjamin McDonald (Agriculture); Kevin McCall (Environment); Bruce MacPhail (Social Development); Malaika Becoulet, Xavier Espinet Alegre Fabian Hinojosa (Transport).

The team would also like to thank the advice and guidance received from Martin Rama (former LAC Chief Economist, LACCE), Denis Jordy (LC3 program leader for Infrastructure and Social Development) and the peer reviewers: Sara Batmanglich (Senior Operation Officer, GTFSI), Xubei Luo (Senior Economist, DFCII), and Maryanne Sharp (Manager, LCROS).

Abbreviations and Acronyms

CERC	- Crisis and Emergency Risk Communication
COVID-19	- Coronavirus Disease 2019
DHS	- Demographic and Health Survey
ECVMAS	- <i>Enquête sur les Conditions de Vie des Ménages après le Séisme</i>
EMMUS	- <i>Enquête Mortalité, Morbidité et Utilisation des Services</i>
ENUSAN	- <i>Enquête Nationale d'Urgence sur la Sécurité Alimentaire et Nutritionnelle</i>
FAO	- Food and Agriculture Organization
FDI	- Foreign Direct Investment
GBV	- Gender-Based Violence
GDP	- Gross Domestic Product
GNI	- Gross National Income
GOH	- Government of Haiti
GVC	- Global Value Chains
HCI	- Human Capital Index
HFS	- High-Frequency Surveys
ICT	- Information and Communication Technology
IDA	- International Development Association
IHE	- <i>Institut Haïtien de l'Enfance</i>
ILO	- International Labor Organization
IMF	- International Monetary Fund
IOM	- International Organization of Migration
IT	- Information Technology
LAC	- Latin America and the Caribbean
MINUSTAH	- <i>Mission des Nations Unies pour la Stabilization en Haïti</i>
MoF	- Ministry of Finance
MPI	- Multidimensional Poverty Index
MSPP	- <i>Ministère de la Santé Publique et de la Population</i>
NEET	- Not in Education, Employment, or Training
NPL	- Non-Performing Loans
ODA	- Official Development Assistance
PEFA	- Public Expenditure and Financial Accountability
PFM	- Public Finance Management
SCD	- Systematic Country Diagnostic
SDG	- Sustainable Development Goals
SIMAST	- <i>Système d'Information du Ministère des Affaires Sociales et du Travail</i>
TFP	- Total Factor Productivity
UN	- United Nations
UNICEF	- United Nations Children's Fund
UNDP	- United Nations Development Programme
UNFPA	- United Nations sexual and reproductive health agency
US	- United States
USAID	- United States Agency for International Development
USD	- United States Dollar
WB	- World Bank
WBG	- World Bank Group
WDI	- World Development Indicators
WEF	- World Economic Forum
WFP	- World Food Program
WGI	- Worldwide Governance Indicators
WHO	- World Health Organization





Executive Summary



Haiti's economic and social development continues to be hindered by political instability, corruption, and fragility.

Haiti remains the poorest country in the Latin-American region and among the poorest countries in the world. The persistent legacy of political and economic elite capture, and the inability of the state to guarantee security and the rule of law, compounded by the absence of institutional mechanisms and policy fundamentals essential to inclusive development, have resulted in extreme welfare inequality and socio-economic exclusion of the vast majority of Haitian people, which is fueling grievances and cyclical unrest and violence.

The fundamental drivers of fragility in Haiti have remained unchanged for decades and continue to pose significant structural obstacles to development and economic growth. These include: (i) systemic capture and concentration of power and resources at all levels and a patronage-based system of governance and redistribution that drives inequality, corruption and grievances and prevents the development of inclusive institutions; (ii) inherently unstable political settlements characterized by recurrent cycles of conflict over power, social mobilization and unrest; (iii) high levels of political and inter-personal violence, insecurity and the absence of effective security and rule of law; and (iv) recurrent destabilizing shocks due notably to natural disasters and climactic events.

The lack of progress towards increased shared prosperity and eliminating poverty is a consequence of this fragility, but also exacerbates and perpetuates its dynamics, locking the country in a crisis/fragility trap. The corollaries of

Haiti's fragility include: recurrent macroeconomic imbalances, low and highly unequal growth, and limited poverty reduction; limited private sector competition, firm growth, and job creation; weak and exclusionary institutions; endemic crime, gang violence, and gender-based violence; low human capital development and limited public services; low physical capital accumulation; low agricultural productivity, limited access to markets and food insecurity, environmental degradation; high rates of urbanization and emigration; and high exposure and vulnerability to natural disasters and climate change. Over time, the economic, social and institutional toll of fragility in Haiti have in turn reinforced and exacerbated its dynamics, generating 'closed' feedback loops between fragility, crisis and under-development.

Deteriorating conditions since 2015 and the tragic events of 2021 have brought profound uncertainty and heightened risks of instability and crisis. Following contested national elections in 2015, Haiti entered a cycle of increased social unrest, rising insecurity, and macroeconomic and political instability, which accelerated in mid-2018 against a context of steadily declining Official Development Assistance (ODA) since 2010 and the withdrawal of the United Nations peacekeeping force (MINUSTAH). The assassination of the President in July 2021 epitomizes this continued political and institutional deterioration and has deepened political uncertainty. Escalating levels of armed violence and criminality are also contributing to instability. Recent exogenous shocks, including the COVID-19 pandemic and the August 2021 earthquake, further compound these risks by exacerbating negative growth, increasing poverty, and reducing human

capital, while fueling social grievances and further eroding trust in government.

The international community, despite significant support following major crises, has not been able to help Haiti ‘break’ these closed feedback loops.

The international community has responded with significant political, security, humanitarian and development aid following major political crises and natural disasters, spanning the 1998 and 2004 crises, the earthquake of 2010, Hurricane Matthew in 2016 and most recently the 2021 earthquake. This assistance has supported provision of key services and infrastructure, with some notable examples of progress through specific sectoral or local engagements. At the same time, these responses, and development assistance more generally, have not translated into meaningful stability, growth or development due, in part, to the widespread corruption and misallocation of resources, the inconsistency of the engagement, the mismatch between the volumes of aid flow and the absorptive capacities, and the fragmentation and lack of coordination among stakeholders. Recurring disasters (including earthquakes and climate events) have generated repeated crises requiring significant levels of humanitarian assistance which have been maintained over time due to the absence of institutional capacities to reduce acute vulnerability and ensure sustainable recovery. Similarly, security assistance and interventions by the international community (notably the UN peace and justice operations since 2004¹) have contributed to short-term improvements in security but have not resulted in significant strengthening of the state’s capacity to provide security for citizens.

Haiti has capacities and resources with which to chart a different path. Despite deteriorating conditions over the past years, Haiti has achieved progress in some key development priorities, including strengthened disaster risk management and civil protection (e.g the 2021 earthquake response) and management of health-related shocks; improved infrastructure at decentralized levels (including roads, water, off-grid renewable electricity); improved digital connectivity; improved local governance, including at the municipal level; progress in developing information systems to improve monitoring and accountability for basic services, including a national social protection

registry; and modest improvements in budget management and transparency. These achievements highlight significant capacities developed in certain institutions at national and local levels, as well the ability of national and international partners to jointly innovate and produce meaningful results despite the challenging context. These achievements and the capacities that underly them must not only be preserved, but also utilized as foundations and examples for reforms and programs in other areas.

Haitians have also demonstrated incredible resilience in the face of chronic fragility and recurrent shocks. Although not uniform, elements of civil society, community networks and the private sector comprise capacities, organizations and stakeholders that have been critical over the years in providing services, jobs and livelihoods in the near absence of the state and in a highly unstable and volatile context. The diaspora and the significant flow of remittances to Haiti is another source of resilience, both as a means to help communities and households cope in adverse conditions, but also as an important source of capital for economic growth. Leveraging these sources of resilience within broader systemic approaches to enhancing economic conditions and governance is essential both from the perspective of breaking Haiti’s fragility/crisis trap, and to protect and safeguard what is in essence invaluable, but still fragile, social and economic capital that can be undermined by continued negative stresses and shocks.

Priorities have not fundamentally changed since 2015, however the deteriorating environment requires a pragmatic, flexible and risk-informed approach, contingent on whether the situation in the near term stabilizes or continues to deteriorate. The main priority areas are: (i) restoring macro-economic stability and strengthening core governance systems; (ii) preserving basic services and human capital; and (iii) fostering economic recovery and better jobs opportunities. Strengthening resilience against multiple risks is a cross-cutting priority, which encompasses the overall resilience of the economy and institutions; resilience of human capital, households, and basic services to shocks; resilience of physical infrastructure and connectivity; resilience of food production systems, the environment, and water resource to natural disasters and climate change; and strengthening overall disaster risk preparedness

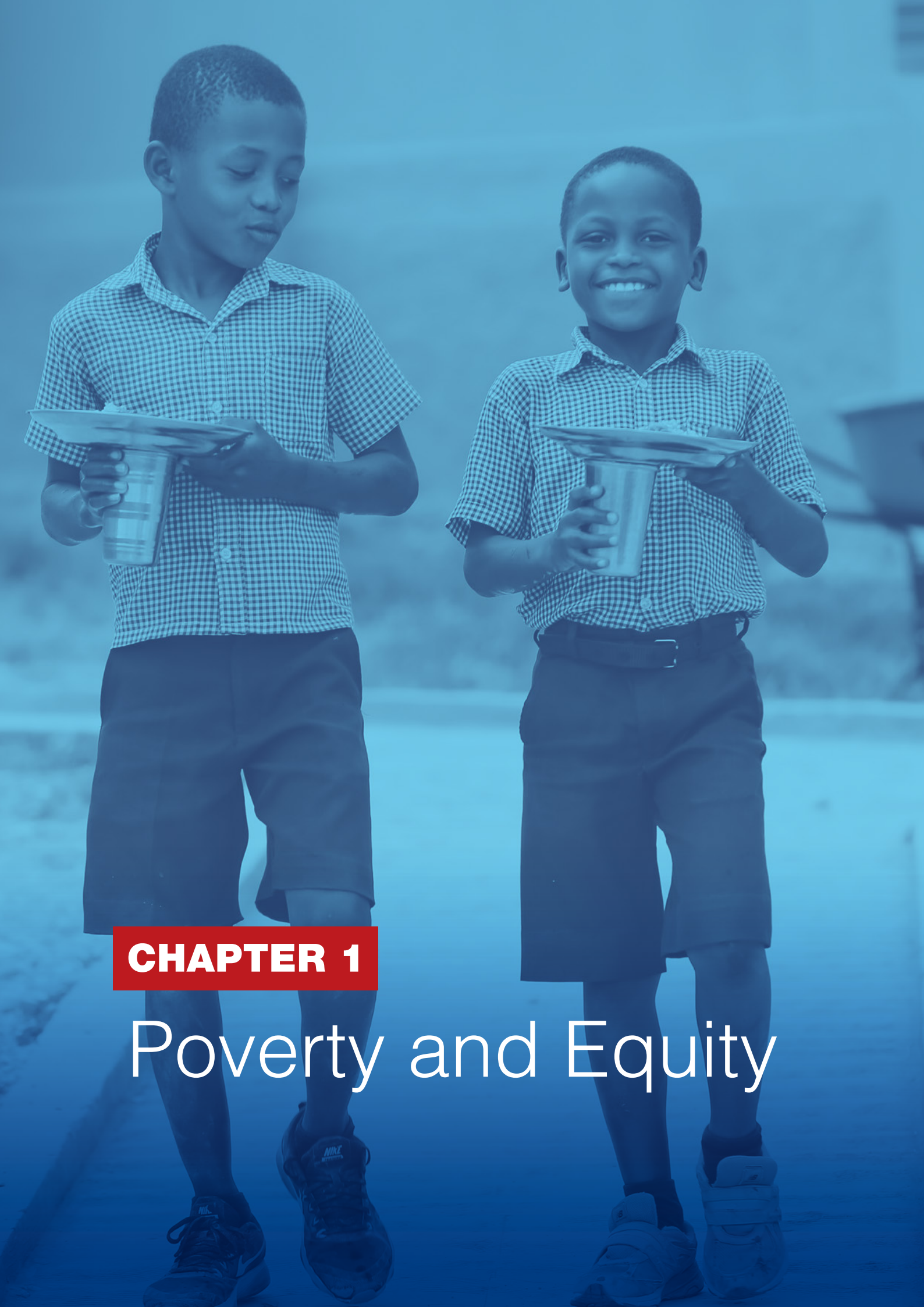
1 These comprise the UN Stabilization Mission in Haiti (MINUSTAH) between 2004-2017, the UN Mission for Justice Support in Haiti (MINUJUSTH) between 2017-2019 and the UN Integrated Office in Haiti (2019 to present).

and response systems. Improving security, including through strengthened and sustained support by the United Nations and other international partners to the national police, is a precondition for progress across all priority areas, while sustaining development efforts will require political stability and more inclusive, transparent and accountable governance. In the short term, opportunities for major structural reforms and changes are likely to remain limited. At the same time, entry points exist for mitigating deepening vulnerability and exposure to shocks while also strengthening and building on existing sources of resilience and development gains. The current fast-moving and volatile context in Haiti challenges the preservation of development gains. This is both a challenge and an opportunity requiring thought on how short-term actions can simultaneously serve as anchor points for longer term pathways for reducing fragility and promoting growth and development. Within a fragile context, the “how” is as important as the “what”; in order to increase the chances of successful implementation, the design of interventions needs to overcome weak capacity, entrenched interests, uncertainty, and take into consideration the needs and voice of citizen and communities.

The current situation could be an inflection point that may provide opportunities for meaningful dialogue on changes needed to begin addressing core fragility challenges. Times of deep uncertainty,

crisis and risk—as temporary disruptions in the political and social status quo—also provide openings and opportunities for dialogue and change, and the emergence of new actors, voices and agendas. Addressing core drivers of fragility and development constraints in Haiti is a multi-generation endeavor. Nevertheless, the current context could provide an opportunity for dialogue and building consensus and political will around key priorities for preventing further deepening of vulnerability, protecting essential institutions and preserving hard-won development gains, while also establishing foundations for inclusive institutions and a new social contract and enabling sustainable private sector-led economic growth.

This Systematic Country Diagnostic (SCD) Update draws on existing and new analysis, publications, and extensive consultations and ongoing dialogue with public and private sector stakeholders in Haiti. Throughout the discussions, there was broad consensus on the diagnosis of challenges, in particular the country’s weak governance, as well as the priorities ahead. The document is structured as follows: the first chapter examines trends in poverty and shared prosperity in Haiti; Chapter 2 analyzes growth trends and challenges; Chapter 3 identifies risks to the sustainability of development; and the final chapter takes stock of these elements and identifies priorities ahead, building on those identified in the 2015 SCD.



CHAPTER 1

Poverty and Equity

1.1 Trends in Poverty Reduction and Shared Prosperity

Haiti remains the poorest and among the most unequal countries in the region. In 2012, the last year for which official poverty data was produced, the overall poverty headcount amounted to about 59 percent and extreme poverty to 24 percent. The estimated Gini coefficient was 0.61 in 2012, with the richest 20 percent of the population holding more than 64 percent of the total income of the country, against barely 1 percent held by the poorest 20 percent.

While Haiti made marginal progress in poverty reduction until 2018, the combined effect of the political crisis, the deterioration of the economic and security conditions, and the COVID-19 pandemic and the August 2021 earthquake has reversed this trend and erased earlier gains. Projections based on the trend of per-capita real gross domestic product (GDP) growth suggest that monetary poverty slightly declined over the period 2012-2018, from 59 to about 56 percent of GDP (Figure 1.1). However, adverse conditions for agricultural production, increased inflation—particularly food price inflation—and the deteriorating economic and security situation since mid-2018 have led to a worsening of the living conditions of the population, and the national poverty rate in 2020 is estimated at close to 60 percent. The surge in inflation and depreciation of the national currency resulted in a marked increase in the cost of the national reference food basket

(its value in gourde doubled between January 2018 and August 2020), disproportionately impacting the welfare of the poor. Food inflation also contributed to an increase in food insecurity, especially for the poor who typically live in households with larger dependency ratios. Through February 2022, an estimated 4.3 million individuals (more than a third of the population) are expected to experience high levels of acute food insecurity, requiring urgent food aid.² Reduced employment opportunities and the resultant loss in household income also contribute to worsening food insecurity. In July 2021, nearly 70 percent of households reported a decline in household incomes compared to pre-pandemic levels, and 66 percent of households reported having run out of food at least once in the preceding month.³

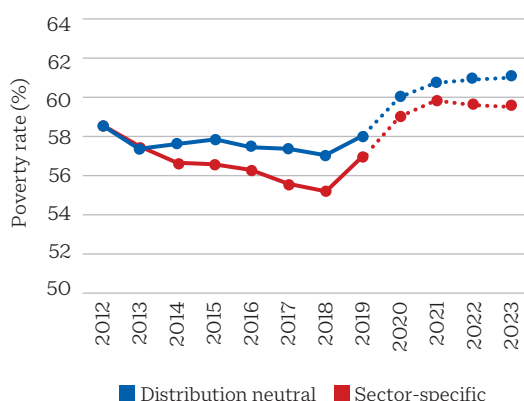
Non-monetary dimensions of poverty showed similar trends, with a slight improvement recorded through 2017, followed by a deterioration over the past couple of years. Non-monetary poverty indicators, especially for health, education and access to basic services (water, sanitation, electricity, transport) improved slightly over the period 2012-2016/17.⁴ Overall, 41 percent of the population was multidimensionally poor in 2016 according to the global Multidimensional Poverty Index (MPI), against 49 percent in 2012. Serious shortcomings persist in the quality of education and healthcare, contributing to poor learning and health outcomes. Declines in both external and budgetary financing for social sectors—from low levels—together with persistent weaknesses in sector governance and

2 Coordination Nationale de la Sécurité Alimentaire (CNSA) and IPC Technical Working Group (2022).

3 High Frequency Survey (2021).

4 IHE and ICF (2012), IHE and ICF (2018).

Figure 1.1: Poverty has deteriorated since 2018 reversing earlier marginal gains

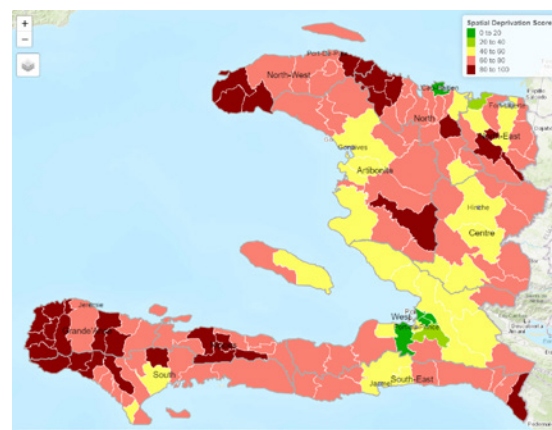


Source: World Bank staff calculation based on ECVMAS 2012 and MPO.

spending efficiency and equity, have undermined further progress in service quality and access. The deterioration of the socio-economic and security environment since mid-2018 have led to a worsening of non-monetary poverty indicators, notably with respect to personal safety, education and food security. The proliferation of gangs has led to a surge in abductions and an increase in homicides (1380 reported by the police in 2020). A large number of schools have been shut down during the academic year 2019-2020 because of the insecurity associated with civil unrest.

Poverty remains predominantly a rural phenomenon, albeit some urban neighborhoods also have a large share of highly vulnerable populations. About three quarters of the rural population is asset-poor compared to less than one-third in Port-au-Prince and about half in other urban areas. The distribution of assets also reveals the large urban-rural gap.⁵ The poor are typically living in households whose heads have limited education and are working in subsistence agriculture or are self-employed and engage in petty trade. Poor households have larger size and their members tend to be younger, two characteristics that reflect the higher fertility rates among the poor. Non-

Figure 1.2: Large geographical disparities in spatial deprivation index



Source: Staff calculation.

monetary poverty is also much higher in rural areas. In 2016, the global Multidimensional Poverty Index (MPI) rates were 58 percent in rural areas against 16 percent in urban areas, and spatial deprivation index shows significant geographical disparities (Figure 1.2).⁶ Moreover, access to basic services is highly correlated with socio-economic status.⁷ Rural areas fare worse in terms of household income loss, food security, access to health services and education, and access to water and sanitation.⁸ Over half of people in the poorest quintile lack access to sanitation and practice open defecation.⁹ However, some urban neighborhoods, like *Cité Soleil* in Port-au-Prince, have a profile of food insecurity close to those of rural areas.

Women and persons with disabilities remain a particularly vulnerable segment of the population, even if there are some signs of improvements for women. While in 2016 literacy rates were higher for men than for women (83 percent against 78 percent), net enrollment rates are now higher for girls than for boys, particularly in secondary schools (41 percent for men against 51 percent for women). As human capital is key for livelihoods, this trend may help increase women's bargaining power. Nevertheless, important strides remain to be made in several

5 In 2018, about half the households in urban areas belonged to the richest asset quintile against only one tenth of households in rural areas (ENUSAN 2019).

6 The spatial deprivation index combines five indicators: lack of access to drinking water, electricity and lack of 4G coverage; food insecurity; high travel times to markets; exposure to hazards; and exposure to violence.

7 In 2016, the fraction of live births taking place in a health facility is less than 25 percent in the lowest two asset quintiles against 79 percent in the highest asset quintile, while the population living in a household with electricity is less than 5 percent in the lowest two asset quintiles against 94 percent in the highest quintile.

8 IHE and ICF (2018) and HFS (2021). Note that rural/urban designation in the HFS was self-reported.

9 IHE and ICF (2018). In 2017, 57 percent of the poorest quintile practiced open defecation (no sanitation facilities at all), which increases risks of illness, childhood stunting, etc.), compared to only 1.2% in the highest quintile.

domains, including the labor market where indicators remain lower for females. In 2019, women across all age groups were less likely to be employed and young women (age 15 to 24) were more likely than male counterparts to not be in education, employment, or training (NEET).¹⁰ There is also some evidence that in the wake of the COVID-19 pandemic, females have been more affected by job loss compared to males and they are also more likely to report increased household responsibilities.¹¹ Labor market integration of persons with disabilities is low, with only half of persons with disabilities reporting having ever worked and only one in six currently working, and few working in the formal sector.¹²

1.2 Livelihoods of the Poor

Subsistence agriculture remains a key source of income for a large part of the population. In 2018, about 50 percent of households engaged in agriculture and 27 percent of households reported agriculture as their main source of income, mostly households whose heads were men. Crucially, agriculture is a key source of income for the poor. In 2012, about 80 percent of households who engaged only in agriculture were poor, far above the 57 percent national poverty rate. Agricultural output and productivity have further declined in Haiti over the last decade, increasing the hardship endured by farmers. Key factors contributing to this decline include negative weather shocks (droughts and hurricanes), soil degradation (erosion and landslides), difficulty to access agricultural inputs (fertilizers or improved seeds) and decreasing available land per agricultural worker. Unsustainable farming practices, driven by population pressure and compounded by farmers' low levels of education and difficult economic conditions, have contributed to the severe degradation of around 85 percent of watersheds, leading to greater risks of food insecurity. Dwindling soil fertility levels continue to have wide-ranging impacts, notably on yields, which in turn further exacerbates pressure on the land, causing more degradation and deforestation.

Non-farm rural jobs remain scarce, pay little and are often unstable. The SCD revealed that non-farm jobs typically pay more than agriculture, however they are mostly in the informal sector and earnings are often not sufficient to escape poverty. Most non-farm jobs are also unstable: in 2018, only 29 percent of households in urban areas reported a member employed with a stable monthly wage (7 percent in rural areas). Persistent poverty is rooted in limited employment and productive opportunities and low human capital. Self-employment in low-productivity sectors such as commerce and construction remain the norm outside the farm sector. Recent data suggest that shrinking employment has been accompanied by an increase in informality. According to the HFS, in July 2021, 36 percent of individuals who had been working in February 2020 were no longer working. Among the employed, about 86 percent reported being in informal employment compared to 79 percent in February 2020 making Haiti the country with the highest reported informal employment rate in the Caribbean.¹³

Deficits in urban infrastructure and services have hindered the benefits of urbanization. Haiti's urbanization has not been accompanied by an increase in income levels, largely due to the lack of adequate infrastructure and basic services, which undermine productivity and livability. Poor connectivity within cities hamper access to economic opportunities. Haitian cities are growing in an uncoordinated and unregulated manner, heightening their exposure to natural risks. Rapid urbanization is also feeding greater violence, as migration to urban neighborhoods—associated with poverty, limited economic opportunities, social and political marginalization, and limited access to services—is fueling the formation of gangs that engage at-risk youth and draw them in. Worryingly, several non-monetary indicators have worsened in the metropolitan area since the last SCD.

Social programs are limited and uncoordinated. Despite efforts to expand social assistance, programs remain limited, fragmented, and poorly targeted, and

¹⁰ International Labor Organization (2019).

¹¹ High Frequency Survey (2021).

¹² . World Bank staff calculations using Social Registry (SIMAST) data including a disability module (based on the Washington Group survey) collected in 2021 among 53,783 persons with disabilities in 50 communes. The survey is not representative but represents the largest database on disability in Haiti. Very low rates of formal employment for the disabled persist despite a law requiring firms with over 1000 employees to employ some disabled persons. <http://haitijustice.com/pdf/legislation/loi-sur-les-personnes-handicapees-haitijustice.pdf>

¹³ Reported average for Latin America and the Caribbean was 39 percent pre-February 2020 and 46 percent in July 2021 (HFS, 2021).

the vast majority of the poor continue to lack access to formal safety nets. Non-state actors have stepped in and provide a broad range of assistance. These non-state actors remain largely disconnected from the State systems, highly fragmented, and provide uneven services. Recent decreases in external and budgetary funding for social services are threatening to worsen access to assistance for the extremely vulnerable population. Haiti has taken important steps toward establishing a social protection system, including adoption of a national social protection policy and development of a social registry that covers one-fifth of the population. However, most of the households identified as vulnerable do not receive any assistance from government. With additional support the registry could become a platform for improved coordination across programs.

Private transfers are the major factor of resilience for Haitians, even more so than a decade ago. In the absence of formal insurance schemes, family and community networks have served as a source of resilience and enforcers of social norms. This is particularly true for rural Haiti, but also in urban settings where, in the absence of public services, communities have developed their own system to help maintain people's livelihoods, security, and welfare. Migration, both internal and abroad, remains a major avenue for Haitians seeking a better life, as well as a source of private transfers.¹⁴ Over the past decade, reliance on private transfers has substantially increased. Over 70 percent of Haitian households receive some kind of private transfers and about a third have access to remittances, which have increased in recent years and represented over a third of GDP in 2020 against less than a quarter in 2012. There is evidence that in the wake of the pandemic, many households have experienced a reduction in remittances. In July 2021, 44 percent of households reported having received remittances prior to the pandemic (before February 2020). Among these, 42 percent reported a decline, while 30 percent reported a total loss. International remittances are typically larger than domestic transfers, but remittances mostly accrue to non-poor households, predominantly in urban areas. In July 2021, 49 percent of households in the richest quintile reported receiving remittances compared to 35 percent of households in the poorest quintile, and

households in the poorest quintile were more likely to have experienced a decline in remittances.¹⁵

Natural disasters continue to regularly hit Haiti, with particularly adverse impacts on the poor, yet preparedness remains low. Haiti remains one of the most exposed countries in the world to natural hazards and climate change, and these risks appear to be increasing. The main natural hazards risks are hurricanes, floods, droughts, landslides, and earthquakes. Climate change is expected to compound this exposure through increased frequency of extreme weather-related events and rising sea levels. In 2016, Hurricane Matthew affected over two million people and resulted in over 500 deaths and displaced 175,000 people, with damages and losses equivalent to 32 percent of GDP.¹⁶ On August 14, 2021, a 7.2 magnitude earthquake struck the Southern Peninsula of Haiti, leaving 2,246 casualties and estimated damages and losses amounting to 11 percent of GDP.¹⁷ Disasters tend to affect disproportionately the poor and marginal populations settling in flood zones, coastal areas, and living in vulnerable self-built dwellings. The vulnerabilities are amplified by environmental degradation, uncontrolled and unregulated urbanization, weak regulatory enforcement capacity (e.g. building codes enforcement), and high physical vulnerability of infrastructure, housing, and livelihood activities. Household preparedness remains low. While the impact was less severe than anticipated, about 42 percent of households reported not being prepared for storm Elsa that hit in July 2021 (HFS, 2021).

1.3 Limited and Unequal Access to Basic Services

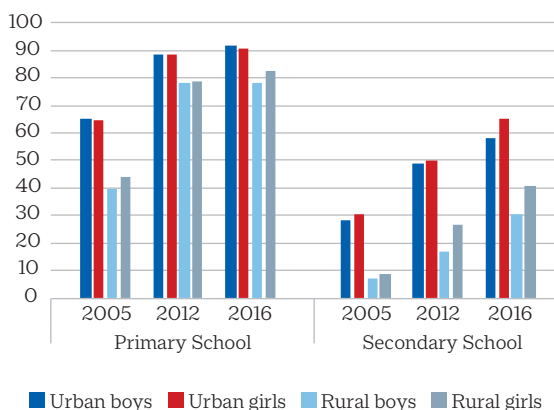
Low government spending on human development and basic services contributes to low levels of human capital and high out of pocket spending by the poor. According to the Human Capital Index (HCI), Haiti's human capital is the lowest in the LAC region, affecting poverty and productivity. A child born in Haiti today will be 45 percent as productive when she grows up as she could be if she enjoyed complete education and full health (World Bank 2020). Government spending on human development

14 In 2019, about 1.7 million Haitians lived abroad, while 2 millions Haitians had migrated internally, mostly towards urban areas (UNDSEA 2019; World Bank World Development Indicators 2020).

15 HFS (2021).

16 PDNA 2016.

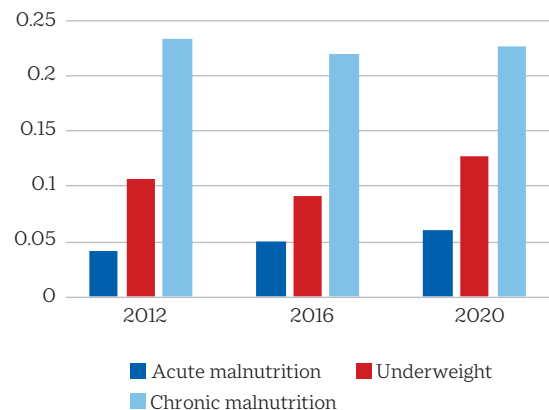
17 PDNA 2021.

Figure 1.3: School enrollment has increased in past decade, but urban-rural gaps persist

Source: IHE and ICF (2005, 2012, and 2018).

(health, education and social protection) is the lowest in the LAC region—only about 2 percent of GDP, or less than half of government spending on fuel and electricity subsidies—and declined in the past five years, before increasing slightly in 2020 due to the COVID-19 response. Low government financing reduces access to and quality of basic services, and results in high out-of-pocket spending for health, education, and water services by poor households (10 percent of income for education alone). The low coverage of formal social safety nets means that economic shocks can force households to sell assets and fall deeper into poverty (World Bank 2016).

Access to basic education has improved, but shortcomings in quality undermine learning, and most children attend private schools. A child in Haiti who starts school at age 4 can expect to complete 11.4 years of school by her or his 18th birthday. Factoring in what children actually learn, however, expected years of school is only 6.1—reflecting shortcomings in education quality, delays and gaps in school attendance, and high repetition rates (World Bank 2020). Net enrollment rates in primary school increased in the past decade, and enrollment in secondary school nearly has tripled since 2005, contributing to increased school completion and literacy rates (Figure 1.3). About 80 percent of children attend nonpublic schools, which are unregulated and often of poor quality. A recent survey found that many second graders lacked basic reading comprehension and word dictation skills (USAID 2018). A number of factors contribute to quality gaps in education and other basic services,

Figure 1.4: Child malnutrition rates were declining, but the trend has reverted

Source: IHE and ICF (2012, 2018); MSPP and UNICEF 2020.

including: inadequate qualifications, training, and motivation of personnel; shortages or inadequate quality of inputs (such as textbooks); inadequate standards and accountability for quality; and limited regulation of nonpublic services. While Haiti has implemented promising approaches with potential to address some of these challenges - including results-based financing in health and education combined with enhanced quality monitoring - they are not yet scaled up nationally.

Despite notable success in controlling cholera, Haiti has experienced mixed progress in improving overall health service access and quality, resulting in limited progress in improving health outcomes.

Maternal mortality and neonatal mortality remain high and have not improved in the past decade, pointing to continued gaps in maternal and children healthcare. Across Haiti, 94 out of 100 children will survive to age five, but only 78 percent of 15-years old will survive until age 60 - reflecting a high burden of communicable and noncommunicable diseases (NCDs), and continued gaps in maternal and children healthcare.¹⁸ About one in five children are stunted—including a third of children in the poorest quintile—and are at risk of cognitive and physical limitations that will affect them for a lifetime. While nutrition outcomes had been improving, both chronic and acute malnutrition have increased in recent years (Figure 1.4). Two-thirds of children suffer from anemia and half of women aged 15–49 are anemic, increasing risks to child health and mortality (IHE and ICF 2018). While the overall use of health services had improved slightly prior

18 World Bank (2020). The estimated maternal mortality rate in 2017 was 480 deaths per 100,000 live births (IHE 2020).

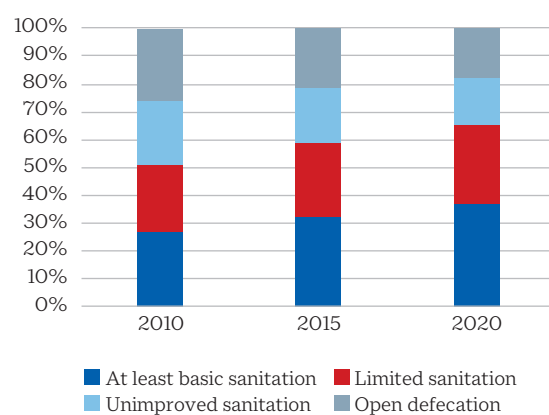
to 2018, the already low percentage of children fully vaccinated further decreased from approximately 40 percent in 2017 to 30 percent in mid-2021. The proportion of births assisted by skilled personnel increased from 37 percent in 2012 to 42 percent in 2016-2017. Skilled birth attendance has increased in rural areas, while declining slightly in urban areas, due to financial and access barriers. Only about half of health services are provided in the public clinics and hospitals, with nongovernmental and private clinics playing an important role in service provision (IHE and ICF 2018). Poor sanitation and hygiene practices—even more than poor quality of water for drinking purposes—contribute to poor health and nutrition outcomes. Haiti has achieved notable success, however, in controlling the cholera epidemic that broke out following the 2010 earthquake, with no new cases reported since January 2019.

Haiti has made progress in improving access to water and other basic services in rural areas and some municipalities, but geography and service gaps remain substantial, while rapid and unplanned urbanization is constraining urban access. The gap in basic service access between rural and urban areas has decreased in recent years, but the rural population continues to face significant challenges in accessing basic services. In rural areas, 40 percent lack access to improved water sources, and 61 lack access to improved sanitation. Lack of access to sanitation in particular poses risks to health and nutrition, with nearly one in five Haitians still practicing open defecation (Figure 1.5). Meanwhile, Haiti's rapid and uncoordinated urbanization has resulted in over-crowded cities with poor livability, inadequate urban infrastructure and limited access to basic services. Between 2000-2016, Haiti's urban population grew 5 percent on average annually. According to national official statistics, half of the population in Haiti resides in urban areas but the number could be nearly two-thirds, making it the 4th most urbanized country in LAC (World Bank 2018b). Only one in ten urban residents benefit from solid waste collection -- the lowest in LAC, and one in five lack access to improved sanitation (IHE and ICF 2018). The 2010 earthquake reduced the share of urban families with access to water connections in Port-au-Prince, resulting in high dependence on private water providers.¹⁹ Despite governance and capacity challenges at the national level, Haiti has made progress in strengthening decentralized

capacity for provision of water and other services at the regional and local level.

Provision of and access to electricity has deteriorated over the past years, leaving gaps that are being partially offset by increased distribution of renewable energy solutions. EDH capacities have deteriorated, with negative impacts on quality and reliability of service (e.g., outside Port of Prince, power is available typically only around 4-6 hours on an unpredictable schedule). The emergence of distributed renewable energy solutions has started to fill in the gap, including in rural areas, due to the entrepreneurial activities of (mostly local) private sector actors, NGOs, communities and donor support. Notably, the GOH has endorsed this development for the first time by developing an enabling policy and regulatory framework and setting up the first national program for mini grids. The few mini grids that operate in Haiti demonstrate that it is possible to achieve a highly reliable service in rural areas, with increased resilience to shocks, as demonstrated by the ability of mini grids in the South to withstand both Mathew and the recent earthquake and remain in operation. Despite some improvements in electricity access, only 4 percent of Haitians have access to clean cooking fuels or technologies, which creates a health risk for women and children, and poses an additional burden on women and girls for collecting wood fuels (ESMAP 2020).

Figure 1.5: Despite improvements more than a third of Haitians lack access to basic sanitation



Source: WHO and UNICEF 2020. Notes: At least basic sanitation = improved facility and not shared; Limited sanitation = improved facility and shared.

¹⁹ World Bank (2017); IHE and ICF (2018). Only 17 percent of urban residents have a private water connection, and only a quarter have access to public piped water services.

Gender equity has improved with respect to basic education, but gaps remain in basic service access for women, the disabled, and other vulnerable populations.

School enrollment has increased significantly in the past decade, with girls' enrollment exceeding boys' enrollment at both primary and secondary levels. Female literacy also has improved significantly in the past two decades, but 30 percent of rural women remain illiterate (IHE and ICF 2018). Women face a range of constraints to maternal and reproductive health services, including inadequate geographic access and transport, financial barriers, shortcomings in quality, and inadequate collaboration among health facilities and traditional midwives (World Bank 2019).²⁰ Haiti ranks among the lowest in LAC with respect to gender equality in the law, which may reinforce gender biases and practices, and in 2019, only 2.5 percent of the seats in the National Parliament were held by women (World Bank 2021a). Gender Based Violence (GBV) represents a significant barrier to women's full engagement in social and economic life. Haiti is characterized by a high level of GBV, in particular domestic violence, where prevalence rates are worrying (UN 2020; IHE and ICF 2020). Persons with disabilities face significant barriers in accessing basic services. Only 5 percent of children with disabilities attend school, resulting in much lower rates of literacy than other members of their household, a difference further exacerbated for women (MENFP 2020). Access to assistive devices is also limited, and disabled persons have been largely omitted from social protection initiatives.²¹

1.4 Impact of Crises and COVID-19

The overall incidence of COVID-19 has been relatively low, but the pandemic—together with socioeconomic crisis and natural disasters—has strained basic services. As of March 2022, Haiti registered nearly 30,400 confirmed cases of COVID-19, and 823 confirmed deaths (MSPP 2022). Despite a relatively low overall incidence of COVID-19 cases, Haiti is undergoing a fourth wave driven by new variants, which among other things threatens to exacerbate the disruptions in the provision of essential healthcare services. Government initially

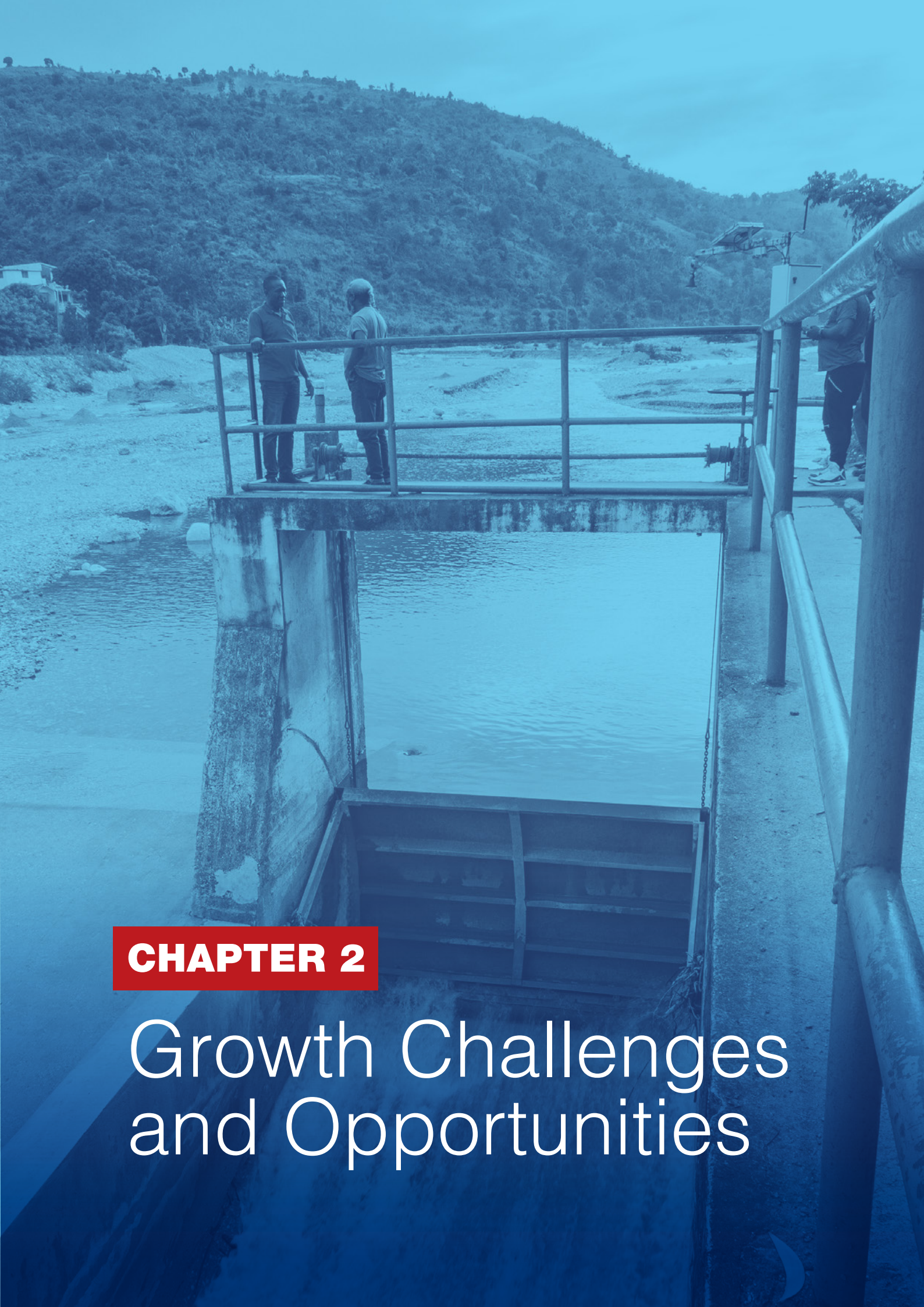
responded with a variety of travel restrictions and lock-down measures, including school closures, which remained in effect until August 2020. Widespread misinformation, high levels of public distrust, insecurity and political instability have hampered the government's response, however, and continue to undermine vaccination efforts. Less than 1 percent of the Haitian population was fully vaccinated as of March 2022, and the over two-thirds of Haitians have expressed unwillingness or hesitancy to receive the vaccine (MSPP 2022; World Bank 2021c).

The combination of increased socio-political instability and COVID-19 has disrupted basic service delivery and undermined human capital development.

The *Peyi Lok* unrest that began in September 2019 resulted in closure of many urban schools through January 2021 and made it more difficult for Haitians (particularly in urban areas) to access health and other basic services. This was followed by lock-downs and school closures (from March to June 2020) in response to COVID-19. Few students were engaged in any type of educational activity during school closures. The COVID-19 pandemic—combined with the deteriorating security and socio-economic context—has caused ongoing disruptions to health service delivery and coverage. In July 2021, outpatient consultations were down by a third compared to the previous year. Increasing levels of violence and insecurity associated with the activities of armed gangs in Port-au-Prince, and increasingly other regions, since 2020, have also resulted in significant disruptions to service delivery, affecting an estimated 1.5 million people as of late 2021.

²⁰ World Bank (2019) A World Bank qualitative study found that traditional midwives are more trusted by Haitian women, particularly in rural areas.

²¹ Social Registry (SIMAST) data including a disability module (based on the Washington Group survey) collected in 2021 among 53,783 persons with disabilities in 50 communes. The survey is not representative but represents the largest database on disability in Haiti. Nearly two-thirds of persons with mobility limitations and not currently using an assistive device reported to need one. Disability criteria are now integrated into the national social registry (SIMAST).



CHAPTER 2

Growth Challenges and Opportunities

2.1 Trends of Growth

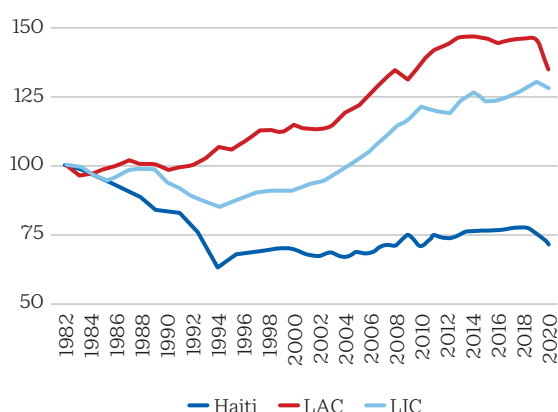
GDP growth has been historically low and volatile, and economic performance has worsened since the last SCD, with growth trailing LAC countries and peers. From 1971 to 2020 GDP growth averaged 1.6 percent per annum, much lower than Latin American and Caribbean (LAC) countries, which grew at 5.7 percent on average, or low-income countries (LIC), that achieved a GDP growth rate of 3.9 percent on average over the same period. On a per capita basis, Haiti's GDP fell by 0.1 percent per annum between 1971 and 2013. This decline accelerated to -0.6 percent on average between 2014 and 2020 amid the protracted political crisis and the decline in external

ODA assistance which depressed public investments.

²² As discussed in the 2015 SCD, key challenges to boost productivity and economic growth include deficient infrastructure, limited human capital, weak governance and institutions, and an unfavorable business environment characterized by uncertainty, under-developed finance markets, and limited market contestability.

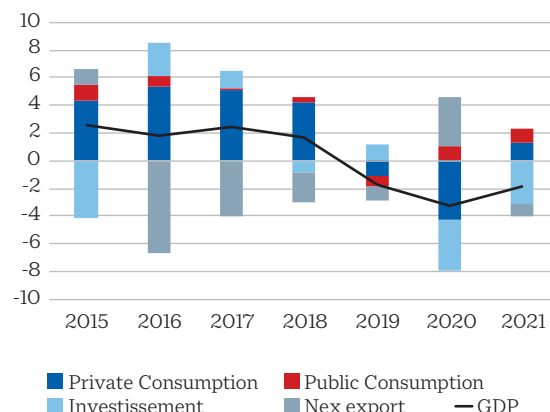
Real GDP growth contracted for a third consecutive year in 2021, reflecting in large part a reduction in investment and private consumption. Private consumption, fueled by remittances inflows, has remained a key contributor to aggregate demand. From mid-2018, the deterioration of political and

Figure 2.1: GDP per capita growth has trailed peers and remains 25 percent below 1982 level



Source: World Development Indicators.

Figure 2.2: GDP has contracted, driven by a decline in investment and private consumption



Source: Staff calculations.

²² Haiti's GDP was rebased in 2020 to capture changes in the structure and the size of the economy. GDP experienced a 73.8 percent increase after rebasing. The change in the structure has also impacted growth rates in some years.

social environment, compounded by the COVID-19 crisis, has resulted in a sharp decline in investments and private consumption. On the supply side, economic contraction affected all key sectors, particularly construction and services. Inflation, driven by high monetary financing of the fiscal deficit and supply disruptions, accelerated since 2018, peaking at 25 percent at the end of 2020.

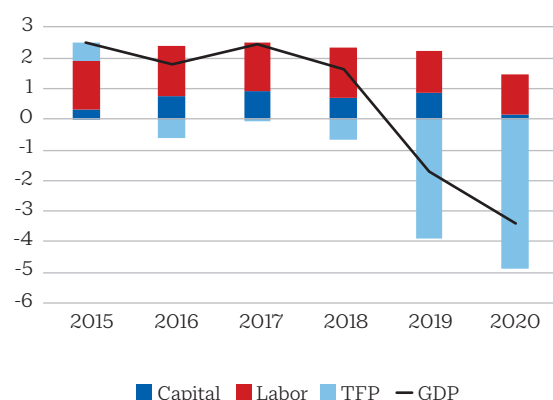
Growth has been driven largely by factor accumulation and hampered by negative productivity shocks. Factor decomposition of GDP growth reveals that an expanding labor force has been the main driver of GDP growth for the period 2000-2020. Capital accumulation also played a role particularly during the Petrocaribe oil for debt program with Venezuela,²³ and thanks to traditional donors' reengagement after the 2010 earthquake to replace lost infrastructure. Despite the increases in factors of production, Haiti's GDP growth performance remained weak, implying negative total factor productivity (TFP) growth, which may reflect the impact of political instability and vulnerability to natural hazard shocks. Weak institutions and strong economic vested interests translate into high levels of informality and a formal private sector characterized by relatively small and young firms with low productivity levels. The informal sector represents 61 percent of GDP (which is significantly above the average for the Latin America and the Caribbean region of 37 percent). According to 2013-2018 tax data, 95 percent of the formal private

sector is composed of microenterprises, and half of the formal firms have less than 6 years, suggesting that there are relatively low barriers to entry into formality relative to obstacles to grow. Firms are not only small, but their productivity level is low. Limited entrepreneurship experience and skills represent one of the main internal obstacles to firm growth. This lack of skills affects entrepreneurs' capacity to access markets and financing as well as adapt to climate change and insecurity shocks and mitigate their impacts. Only 23 percent of Haitian firms in the West Region have business continuity plans, and none of the firms in the agriculture and real estate sectors do.²⁴ Women entrepreneurs seem to play a greater role in Haiti compared to other countries affected by fragility, conflict and violence (FCVs). However, these female-owned/managed firms tend to be smaller, have lower productivity levels, and grow less in terms of number of employees than male-owned/managed ones.

2.2 Challenges to Competitiveness

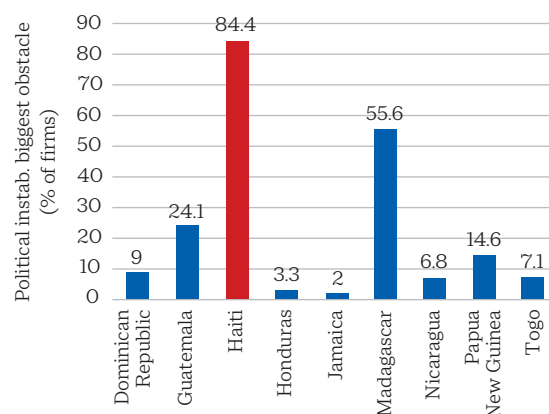
Private sector growth has been hampered first and foremost by political instability and vested interests. Firms in Haiti are disproportionately affected by political instability compared to firms in other FCVs (Figure 2.4). Continued lack of transparency at all levels is undermining trust in institutions, and high levels of perception of corruption have fueled continued social and

Figure 2.3: Growth has been driven by factor accumulation and negative productivity shocks



Source: Staff calculations.

Figure 2.4: Political instability is the main challenge faced by firms



Source: World Bank Enterprise Surveys 2019.

23 Between 2011 and 2017 the Petrocaribe program financed on average 1.4 percent of GDP worth of capital investment annually.

24 CCI Assessment of the needs of MSMEs following the COVID-19 pandemic outbreak, May 2020.

political unrest with repercussions for the private sector. The vicious circle in which political crises, weak governance and socioeconomic tensions and grievances feed into violence makes it difficult for the economy to grow. Moreover, Haiti's fundamental conditions for supporting a market-based economy are below the average of low-income countries, fragile countries, and regional peers. This includes high degrees of concentration in formal industries, lack of competition legislation and an overall uncompetitive business climate marked by the dominance of a few economic actors who gain advantages through close association with political elites. These market structures facilitate tacit agreements among families and groups to allocate markets among themselves, which harms productivity and limits the incentive to invest and innovate.

Access to finance remains a key obstacle to firms' resilience and growth. In 2019, 78 percent of formal firms with more than four employees in Port-au-Prince were partially or fully credit constrained (relative to 28 percent on average in other FCVs). Credit-constrained firms are less able to implement a business continuity plan to adjust to rising insecurity or climate change impacts. Domestic credit to the private sector by banks has stagnated since the previous SCD at around 10 percent of GDP, four times below the averages in Latin America and the Caribbean and in lower-middle-income countries. The banking sector is dominated by a few financial institutions that channel a substantial share of lending to prime companies in the formal market, of which some of them are related to financial groups. Three out of four Haitian private banks hold significant loans to related-parties, accounting for between 23 and 45 percent of their capital base. This may be explained by the tight relationships between borrowers and lenders. Noncontractual relationships seem to be used by Haitian banks to balance the shortcomings of the judiciary system, the resulting moral hazard, and the asymmetry of information. Because of the prevalence of financing to related parties, until 2018 Haitian banks showed unusually high-quality loan portfolios compared with comparable countries. While this business model has allowed banks to be resilient to the multiple shocks experienced by the Haitian economy, it has been unable to create innovation and increase financial access to micro, small, and medium companies.

Deficiencies in transport as well as in digital infrastructure and services quality continue to impede growth, with transport especially

vulnerable to climate and natural disasters. Despite investments over the past decade, 50 percent of Haiti's territory remains poorly connected, with less than a quarter of roads being paved and only 39 percent of households in rural areas living within two kilometers of an all-weather road. Road infrastructure deficiencies, combined with a highly informal and fragmented trucking industry, lead to high road freight costs relative to competitors. The recent earthquake, followed by the tropical storm Grace in August 2021, has demonstrated once more the vulnerabilities of the transport infrastructure and the exposure of the country to climate change and disaster risks. Moreover, Haiti is one of the smallest air transport markets in the Caribbean region despite having a large population relative to peers. Haiti has two international airports that suffer from lack of infrastructure investment both on airside and landside facilities. Poor integration into the global liner shipping network, combined with the fact that vessels serving Haitian ports are small because of the low trade volume (partly because of the fact that large exporters from the North region use Dominican Republic ports), lead to high maritime freight rates relative to competitors. Deficient telecommunications infrastructure, lack of competition in service provision, and limited regulation have led to low penetration, high prices, and limited quality of internet and mobile services. Because of years of underinvestment and several natural disasters, backbone infrastructure is also scarce and concentrated in Port-au-Prince. The absence of an effective wholesale broadband regime and the lack of any incentives to share infrastructure represent entry barriers into the market.

Haiti also suffers from an acute shortage of electricity and water services that increases frustration in the population, raises firm operating costs, and prevents the emergence of job opportunities, in particular in the poorest regions. The energy sector is a key enabling sector for the development of the country, directly affecting the quality of life, and weighs heavily on firms' operating costs. However, less than 40 percent of Haitians have access to electricity, with a large rural-urban gap (IHE and ICF 2018). Around 93 percent of firms in Port-au-Prince rely on generators, compared to 29 percent in peer FCV capitals. In addition, average end-user tariffs in Haiti are among the highest in Latin America and the Caribbean. Further constraining private sector growth is access to water, which is very poor in most areas, including Port-au-Prince, with deficient infrastructure coverage and service

delivery generally limited to a few hours during some days per week, forcing businesses to pay a premium to purchase water containers by truck to guarantee supply.

Labor and land markets inefficiencies continue to hinder private investment and competitiveness.

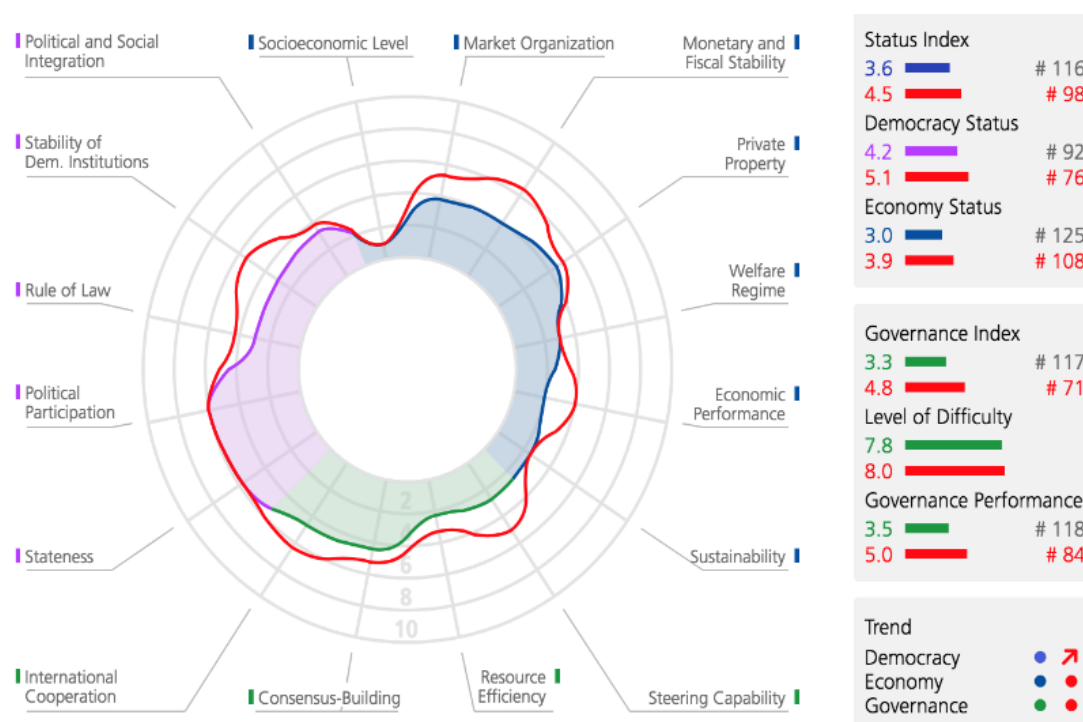
The regulatory framework for land tenure and land rights is complex, fragmented, outdated, and politically sensitive. The absence of a functioning property cadastre and land registry system constrains development outside the special economic zones. Likewise, lack of clear implementing guidelines for labor legislation deters investments and results in uneven application across firms.

2.3 Quality of Governance and Institutions

Haiti's state institutions and system of governance have been historically weak and dysfunctional, with limited ability to exercise core functions in an accountable and transparent manner and provide basic public goods to all citizens. Decades of political capture, crises and endemic corruption have significantly undermined the ability of the Haitian

state to exercise full territorial and administrative control, provide essential services and public investments, and regulate political and economic life. A political system driven by capture, rent-seeking and clientelism 'hollowed out' the state, impeding the development of transparent, accountable and inclusive institutions and constraining its ability to both generate revenues and target expenditures to core state functions. The political capture existing in Haiti has led to the emergence of a country where institutions are systematically under-resourced and limited in their capacity to provide core public functions and social services, placing significant constraints on economic growth and development. In addition, the limited territorial-administrative reach of the state and the extremely limited progress achieved in decentralization, combined with the weak judiciary system and ill-equipped police force, have facilitated the proliferation of criminal networks and armed gangs which have undermined public authority, and in some instances, influenced and subsumed the role of municipal authorities (World Bank 2021b). In this context, the private sector, NGOs and the international community have substituted for the state across a number of sectors, with minimum oversight, coordination and regulation.

Figure 2.5: Institutional quality has deteriorated across most dimensions in the last decade



Source: Bertelsmann Transformation Index (BTI), 2010-2020.

Core governance and institutional indicators have continued to decline over the past decade and especially since 2015. Haiti has consistently ranked among the lowest countries in the world across multiple core governance indicators—it is ranked 116 out of 137 countries in the 2020 Bertelsmann Transformation Index. While the 1987 constitution and its amendment in 2012 provided the basis for governance and institutional reforms, progress over the past decade has been constrained or reversed by successive political crises, natural disasters and absence of sufficient political will among key stakeholders. Haiti received significant international financial and technical assistance in the years following the 2010 earthquake. This assistance has not been translated however into more effective governance and institutional capacity. Successive governments have articulated national and sectoral strategies and policies for reforms, but often lacked the financial, technical and governance structure for their implementation. Since 2018, the government's ability to effectively discharge its functions has been constrained by political crisis and conflict, as well as significant social unrest, leading to paralysis in government decision-making. The assassination of President Moïse in July 2021 further aggravated this tendency, which has been compounded by increasing levels of gang-related violence and insecurity, disrupting provision and access to essential services.

2.4 Main Drivers and Dynamics of Fragility

Deteriorating conditions since 2015 and the tragic events of 2021 have brought profound uncertainty and heightened risks of instability and crisis. Following contested national elections in 2015, Haiti entered a cycle of increased social unrest, rising insecurity, and macroeconomic and political instability, which accelerated in mid-2018 against a context of steadily declining ODA (since 2010) and the withdrawal of the United Nations peacekeeping force (MINUSTAH). The assassination of President Moïse in July 2021 epitomizes this continued deterioration and has deepened political uncertainty. Heightened social unrest and shutdowns in response to perceived government corruption and worsening economic conditions, as highlighted in the 2019-2020 *peyi lok*, also indicate deepening social volatility and possible source of future instability

and crisis. Escalating levels of armed violence and criminality are also contributing to instability. Recent exogenous shocks, including the COVID-19 pandemic and the August 2021 earthquake, further compound these risks by exacerbating negative growth, increasing poverty, and reducing human capital, while fueling social grievances and further eroding trust in government. These developments highlight the continued salience of core drivers and dynamics of fragility in Haiti and their continued negative and destabilizing impact on economic and social conditions, which together perpetuate a crisis-fragility trap that have historically undermined the country's growth and development prospects.

Political and institutional capture

The exercise of power and authority in Haiti has traditionally been characterized by the lack of meaningful representation and the pursuit of narrow individual or group interests. Throughout Haiti's history, this practice has taken a structural form of elite capture, impeding effective governance and negatively shaping social and economic conditions, and contributing to the deep inequalities and uneven trajectory of Haiti's economic growth and development. 'Capture' in Haiti must be understood in terms of institutional arrangements that regulate the exercise of power and authority, as well as the interests, behavior and actions of specific agents. Understanding the nature of power and authority in Haiti is key to understanding the development of the past two decades and identifying potential priorities to address it.²⁵

The political and economic systems are characterized by pervasive capture and extreme concentration of power and resources in the hands of a few at all levels.²⁶ Although progress in establishing representative institutions of government has been achieved in recent decades, this system has not fundamentally changed. Key characteristics include predatory rent-seeking and redistribution centered on the interests of some of the ruling elites and their clients, as well as an exclusionist approach to the acquisition and retention of power that has in effect made politics a zero-sum game, leaving little space for power-sharing or consensus-based governance and resource distribution.²⁷ These, in a context

²⁵ See Jean (2019).

²⁶ Naidu, Robinson and Young (2016), Feldman (2019).

²⁷ Contributing to this is the historically challenging economic conditions in Haiti, marked by progressively diminishing productivity and resources. Control of the state was essential to maintain secure access to an ever-diminishing 'pie', leading to a 'fight to the death to monopolize the sinecures of political power' (Fatton, 2006).

of historically weak governance institutions, have obstructed the emergence of practices or norms to peacefully manage competition, contestation and conflict, and constituted a key driver of recurring crisis, conflict and violence.

This system of political control has obstructed the emergence of a state that is responsive and accountable to the needs of its citizens and has privileged the use of its institutions as mechanisms for resource extraction. The systematization of rent-extraction has led to widespread abuses of powers, corruption, low revenue mobilization, and limited commitment and investments in public service delivery. Because of the large economic interests at stake, there is also very limited space for institutional reforms, especially when they threaten to change the status quo. This has precluded the emergence of a meaningful social contract or effective governance predicated on the notion of a common good. The Haitian social contract—to the extent that it can be considered to exist in this context—is characterized by a low-level equilibrium in which political representation (through elections) is largely a formality, with benefits to citizens significantly curtailed by political capture and the absence of accountability. The shaping of institutions through a logic of exclusivist control and extraction has stymied efforts to maintain law and order, launch and sustain key reforms, and provide core services. The result is a highly dysfunctional state characterized by pervasive corruption, dysfunctionality and limited ability to exercise sovereign functions throughout its territory.²⁸

Capture is not limited to formal structure of the state but reaches deep into Haiti's society and economy. Since Haitian independence, there has been a strong symbiosis between political and economic actors, with the latter supporting political incumbents in return for economic power and privileges.²⁹ This relationship has led to an economy held hostage to the interests of a few private sector actors (see analysis in the 2015 SCD).³⁰ The logic of political capture is also manifested in society. Given the traditional weakness of the Haitian state, political

actors have resorted to a broader array of social levers to exercise and retain power, dating from the use of paramilitary gangs (the VSN, or Tonton Macoutes) during the Duvalier period, and expanded following the early 1990s through the orchestration and instrumentalization of popular mobilization, as well as the use of some community organizations (the *Organisations Populaires*, or *Ops*) and gangs, tied to political actors through clientelism relations, to maintain political order or achieve specific political objectives.³¹ This form of societal control for political purposes has often been backed by the use or threat of violence.

Endemic instability and crisis

Haiti's political system is highly unstable and has led to repeated cycles of crises and violent conflict during its history. A key cause of this volatility is the inherently fluid, fragmented and highly conflictual relationships among political actors and groupings, and their inability to form stable coalitions. In the absence of effective institutional rules and mechanisms governing disputes, conflicts have led to acute political crises often accompanied by generalized violence. Violent conflicts over power often play out in the streets, causing significant disruptions and damage to social and economic life of ordinary Haitians.³² Moreover, the role of international actors in intervening to support specific political actors at critical junctures and transitions (e.g. elections) has also served to aggravate conflict and obstruct opportunities for national consensus building (Hauge 2018). This inherent volatility has generated repeated and acute shocks to Haitian society, the economy and its institutions which have contributed significantly to uneven growth, dysfunctional service delivery and increased vulnerability. These impacts have accumulated over the years, reversing previous development gains, preventing institutions and reforms from taking root, and reducing space for long-term transformational reforms.

Democratic due process and institutions have not been able to emerge and manage violent political conflict. The processes of democratization in the

²⁸ Feldman (2019), Marcelin, undated.

²⁹ There are also unsubstantiated claims of growing linkages between prominent political actors in Haiti and illicit activities, including related to international drug trafficking networks. Data are limited, however, and Haiti is not mentioned in the 2020 annual report of the U.S. Drug Enforcement Administration (USDEA 2021).

³⁰ Naidu, Robinson and Young (2016). During the Duvalier dictatorship, the concentration of economic power in the hands of a small number of private sector actors was consolidated through the granting of monopolies across several sectors by Presidential Decree, often as a reward for supporting the government. See also the discussion of economic elites in World Bank (2015).

³¹ See discussions in Marcelin (2015) and Hauge (2019) on how grassroots civil organizations and community organizations were 'recuperated' by the Aristide regime in the late 1990s and instrumentalized as agents of the state.

³² Feldman, 2019 and Marcelin, undated.

1980s and 1990s increased instability by unbalancing the traditional political status quo through both the broadening of political space and participation, and by elections which made the continuity of political control by any one actor less assured (Feldman 2019). In the absence of any prior democratic tradition or requisite institutional capacities, the norms and systems introduced by the 1987 constitution were insufficient to check the dynamics of political contestation and conflict. Rather than providing a platform for dialogue on consensus on national priorities, for instance, the establishment of representative bodies (the parliament) expanded the arena for political conflict over resources, power and control. While elections have been regularly organized, these have been marked by low participation, fraud and intimidation, and have served as triggers for heightened conflict and acute crises over succession (the most recent presidential elections in 2010 and 2016 being cases in point). Few governments can be considered to have operated with a clear popular mandate (Hauge 2018).

Developments since 2015 illustrate the difficulties in breaking endemic cycles of crisis and instability.

While crises have often provided opportunities for transformational change, these have not materialized. Over the past years, several crises have constituted ‘critical junctures’ marked by an opening of space for the reconfiguration of political power and authority, and opportunities for meaningful dialogue on the future of the political system, a more representative state system and government.³³ While these crises were followed by attempts to introduce more representative and consensus-based governments, they inevitably led to the reconstitution of the *status quo ante*, marked by progressively authoritarian and extractive behavior by governments and increasingly violent contestation by the political opposition.³⁴ A case in point is the developments since 2015, with the period leading to the assassination of President Moïse characterized by increasing levels of criminal and politically-motivated gang violence; social unrest culminating in the *peyi lòk* [country lockdown], a mass act of civil disobedience including the shutdown of the economy and large-scale sustained demonstrations, including for several months in 2019; and deepening political conflict between the government and political and economic elites.³⁵

Violence

Since 2018, Haiti has experienced a resurgence of armed violence in a context of heightened activity by gangs and criminal groups, and the inability of the state to effectively guarantee law and order.

Increased levels of violence and accompanying insecurity are generating significant disruptions to the economy and the functioning of essential services, compounding the impacts of political crises, natural disasters and institutional deficiencies. Violence in Haiti is a phenomenon that is multi-faceted in nature and deeply inter-twined with other drivers of fragility. It has in essence become a structural condition in the absence of effective state security, justice and rule of law, playing a dominant role in the acquisition and retention of political and economic control; political competition and contestation; the regulation of social and economic relationships; as a means of livelihood; and as an expression of popular grievances and protest.³⁶

A particularity of Haitian political violence is the degree to which gangs have been instrumentalized for both the maintenance and contestation of political control.

In a practice dating from the 19th century and institutionalized during the Duvalier period, successive governments and political actors in Haiti have often relied on non-state entities to pursue political objectives through the use or threat of violence. The practice of using armed gangs for political and security purposes by the Aristide regime and its opponents was in clear evidence in the period leading to the 2004 crisis, and is considered to have been continued by successive governments, particularly during election periods.³⁷ In recent years, gangs have become more powerful and autonomous and, in the absence of effective state security presence and capacity (and, since 2017, the absence of UN military and police peacekeepers), led to situations where they compete over and exercise territorial control over significant parts of the capital city, Port-au-Prince and often serve as important intermediaries between political, economic and criminal actors and networks.³⁸ The ‘outsourcing’ of core state security functions in gangs has undermined the role, capacity and legitimacy of the state’s own security institutions and its ability to ensure public

33 These critical junctures include the popular uprising that led to the end of the Duvalier regime in 1986; the removal of the military junta through international intervention in 1994; and the 2004 crisis and regime change.

34 See discussions in Feldman (2019) and Marcelin, undated.

35 ICG, 2021.

36 Feldman (2019); Marcelin (2015).

37 Hauge (2018); Marcelin (2015).

38 Djems (2021), citing confidential UN reports, states that 177 gangs currently exist in Haiti, with 95 operating in the Port-au-Prince metropolitan area. See also Norwegian Church Aid and Actalliance (2014).

security. It has also made the acquisition of gang services a political objective in its own right, as well as a source of competition between political actors. The result is a fragmentation and diffusion of the means of violence, which lowers opportunity costs for the use of force to achieve political objectives and perpetuates instability and crisis.

Violence in Haiti today is pervasive, extending across economic and social spheres of life. Haiti is affected by high levels of economic, social and inter-personal violence. This is partly due to the structural predisposition towards violence in shaping political and governance dynamics which also extends to the economic and social realm. The absence of rule of law and institutions to manage disputes and conflicts has created a climate of impunity incentivizing the use of force as a means to achieve ends and creates a security dilemma whereby ordinary citizens use violence to safeguard their own security. This has contributed to the dramatic rise of criminalized violence in the last several decades (kidnappings, violent thefts), but also to the use of inter-personal violence in a context of deteriorating social cohesion and community bounds and aggravated poverty and equality.³⁹ Gender-based violence (GBV) remains widespread, and may have increased during the pandemic.⁴⁰ Physical violence affects 29 percent of women of childbearing age. In 45 percent of cases, the act of violence is perpetrated by the intimate partner. Lastly, the persistence of acute inequality, lack of access to economic opportunities and rights has led to deep socioeconomic grievances, which have expressed themselves, in the absence of any other mechanism through which they could be channeled, in the form of collective social unrest and violence.

Vulnerability to natural / climatic shocks

Haiti is geographically highly exposed to climate-related shocks and earthquakes. Over 93 percent of the territory and more than 96 percent of the population are exposed to at least two types of hazards, including hurricanes, floods, earthquakes, landslides, and to a lesser extent tsunamis and drought. Physical infrastructure across all sectors suffers from significant exposure and vulnerability to shocks and is highly impacted by even moderate

natural hazards (World Bank 2021d; World Bank 2018c). Between 1972 and 2020, Haiti was hit by more than 170 disasters, which caused the death of 243,000 people (including more than 220,000 following the 2010 earthquake) and affected the lives of 17 million people.⁴¹ According to the Germanwatch Global Climate Risk Index 2021, Haiti was globally the third most affected country by climate events between 2000 and 2019 (Germanwatch 2021). The economic damage is extensive: the average annual loss due to tropical cyclones is US\$ 79 million, and that due to earthquakes is US\$ 77 million (GFDRR 2016). The 2010 earthquake destroyed the equivalent of 120 percent of GDP, and Hurricane Matthew in 2016 caused loss and damage estimated at around 32 percent of GDP (World Bank 2018c). In August 2021 a magnitude 7.2 earthquake struck the country's southern peninsula, causing more than 2000 deaths and losses and damages estimated at 10.9 percent of 2019-2020 GDP.

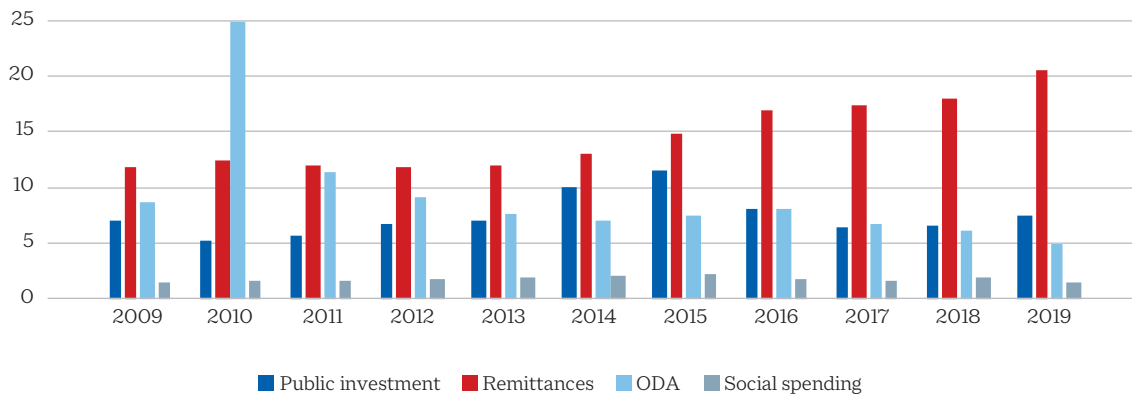
Haiti's fragility increases vulnerability to shocks due to natural disasters, climatic events and pandemics, which in turn can reinforce fragility.

Disaster impacts exacerbate sectorial and territorial vulnerabilities as well as chronic poverty. Catastrophic events tend to affect disproportionately the poorest and most marginal segments of the population, which settle in hazardous areas as a result of the lack of economic opportunities and access to affordable formal housing. The combination of frequent and impactful disaster events with rapid and unplanned urban expansion, unenforced building codes, inadequacy of risk-based territorial planning, deficient infrastructure for drainage and landslide protection, and insufficient disaster risk management (DRM) and emergency response preparedness, results in high human and economic losses. More than 7 out of 10 rural households affected by a shock in 2019 had to rely on negative coping strategies to meet their immediate food needs. Among farming households, these coping strategies include the sale of reproductive livestock, consumption of seed stocks and sale of lands, all of which can have detrimental impacts on longer-term livelihoods (CNSA and WFP 2019). The significant negative impact of these shocks is due in part to its high exposure which is attributable both to the fragility drivers highlighted above and pre-existing socioeconomic conditions, and which serve to

39 Marcelin, undated and Marcelin (2015).

40 High-Frequency Phone Survey, World Bank, 2020.

41 EM-DAT Public. <https://public.emdat.be/>
See also: World Bank (2015)..

Figure 2.6: ODA has declined steadily

Source: Staff based on MoF and WDI. Note: “social spending” includes only government budget spending.

further compound and exacerbate overall fragility in the country.

International development aid

International assistance plays a vital role in Haiti but has faced challenges balancing humanitarian assistance with sustained, long-term support needed to address fragility. International assistance has played a vital role in responding to crises and disasters, improving stability and security, and supporting provision of essential services. Continued (and in many cases deepening) fragility and vulnerability despite substantial international aid flows highlights a number of significant challenges with respect to how international assistance is provided. First, international assistance has been highly volatile, with large influxes of ODA following major disasters, followed by steady declines. This volatility and the widespread lack of accountability and corruption have strained the coordination and absorptive capacity of government. Second, while development assistance has helped expand and maintain basic services despite cumulative crises, it has reduced pressure on political elites to prioritize public financing for basic services. The very low levels of public financing in turn reduces the net impact of ODA and creates risks for sustainability. Third, although international partners and the government have made progress in the past five years with respect to improved coordination in a number of sectors (disaster risk management, education, health, water), this remains sub-optimal, resulting in fragmentation, lack of sustainability and absence of sufficient focus on and investment in core priorities. Finally, recurrent crises and natural

disasters have often created tensions between short-term humanitarian aid and medium-term development assistance, making it difficult to strike an appropriate balance between building national and local institutional capacities and privileging delivery mechanisms that partially or entirely bypass national or local governments in order to ensure rapid and direct provision of aid to beneficiaries.

2.5 Transforming Crisis into Opportunity

The current situation could be an inflection point providing opportunities for meaningful dialogue on changes needed to address core fragility challenges. As seen in other FCV contexts, periods of deep uncertainty, crisis and instability, and the disruptions in the political and social status quo with which they are associated, can also provide openings and opportunities for dialogue and change, and the emergence of new actors, coalitions and agendas. It is important to note in this regard, that the assassination of President Moïse did not result in an acute crisis or destabilization of the country. While the present context is serious—as highlighted by current political and institutional paralysis and gang-fueled violence and insecurity—there has been a notable absence of overt and violent political conflict (which has often marked past political transitions), and instead debate and mobilization among civil society and political groupings. These trends, if they continue, could potentially provide a basis for a meaningful political settlement on the nature of the transitional arrangements currently under discussion, and the organization of peaceful elections.

Box 1: Progress despite the odds—preserving Haiti's development gains

Since 2015, Haiti has made notable progress in a number of sectors, due in part to the success of some reform measures and support by the international community. Common elements include sustained engagement, capacity building at both national and subnational levels, progress on complementary policy or regulatory reforms, and leveraging information technologies. These include:

- **Financial sector.** The microfinance sector, covering MFIs (microfinance institutions) and CFIs (financial cooperatives), has been growing steadily for 10 years and accounts for 7 percent of the financial system assets. It provides funding to more than 286,000 borrowers, mostly micro-entrepreneurs, and collects deposits from 1.2 million individuals and enterprises. Recent development in the regulation of microfinance and digital financial services might disrupt the vertical integration that has played an increasingly important part in the banks' strategic development. In August 2020, a new regulation on MFIs was enacted that is expected to level the playing field in terms of regulations. A new regulation from December 2021 grants stand-alone licenses for the provision of digital financial services to nonbank electronic money issuers. As Haiti moves away from a bank-led model in the provision of such services, the reform which facilitates the entry of new players could potentially transform the growth of the digital financial services segment, especially if the reform is complemented with upgrades in the payment infrastructure to ensure interoperability.
- **Disaster early warning and post-disaster response.** In 2020, the government adopted a new Law on the Creation, Organization and Operation of the National Disaster Risk Management System, which led to the adoption of the National Disaster Risk Management Plan and establishment of a General Directorate Civil Protection (GDPC) as an autonomous body and its own budget. The DGPC and SNGRD have demonstrated their capacity to coordinate responses to natural disasters, as illustrated by the response to the 2021 earthquake.
- **Health.** Notable progress includes the successful control of cholera through strengthening of multi-sectoral surveillance and response systems (including coordinated interventions in health, water, and sanitation), strengthening health information systems, and developing a community health strategy. Government management of emergency responses to the COVID-19 pandemic have also progressively improved, including for instance through the provision of decentralized renewable energy solutions for prioritized healthcare and water facilities.
- **Infrastructure.** Improved government planning and risk management capacities and increased investments have generated important results, including notably the rehabilitation of national roads and irrigation systems. In the water sector, progress has been achieved in establishing a national, digitized and integrated water and sanitation system (SIEPA) and strengthening technical and operational capacities of regional water and sanitation entities. The government has also for the first time embraced distributed renewable energy solutions as an alternative to the centralized grid and has set up a national program for their support.
- **Social protection.** Important progress has also been achieved in the development of a national social protection system since 2015, including the adoption of the National Social Protection and Promotion Policy (NSPP) in 2020 and the development of a social registry (SIMAST), which currently covers 23 percent of the population and provided valuable data for targeting of various social protection programs, including in response to the COVID-19 pandemic and 2021 earthquake.
- **Agriculture.** Despite increasing food insecurity, examples of progress include the development of a National Farmer Registry designed to register Haiti's over 420,000 farmers with geo-referenced data, and the promotion of climate-smart agricultural technologies and practices to thousands of farmers in the Grand Sud region of Haiti. Moreover, the approval in 2018 of the Food and Nutrition Security National Policy and Strategy in Haiti (PSNSSANH) has resulted in a better coordination of humanitarian aid and, more broadly, of support for more resilient food production systems.

Seizing current opportunities to break Haiti's cycle of fragility requires concerted political will to protect and build on recent development gains.

While recognizing that addressing core drivers of fragility and development constraints in Haiti is a multi-generation endeavor, there is an opportunity to build consensus and political will around key priorities for preventing further deepening of vulnerability and identifying foundational 'building block' policies and reforms necessary for improving governance, strengthening institutions, rebuilding the social contract and enabling sustainable private sector-led economic growth. Despite the country's fragility and deteriorating conditions since the 2015 SCD, it does possess important capacities and resources which provide a counterpoint to prevailing negative narratives about Haiti's development prospects, and which could potentially provide bases for charting a different trajectory. These include important development gains across a number of sectors including disaster risk management and civil protection; provision of basic services, including health and social protection; improved infrastructure and connectivity; development of agricultural value chains; and innovations in local governance (Box 1).

In addition, Haiti possesses important sources of resilience that have been essential in mitigating the impacts of chronic fragility and recurrent shocks.

Although not uniform, elements of civil society, community networks and the private sector comprise capacities, organizations and stakeholders that have been critical over the years in providing services, jobs and livelihoods in the near-absence of the state and in a highly unstable and volatile context. The diaspora and the significant flow of remittances to Haiti is another source of resilience, both as a means to help communities and households cope in adverse conditions, but also as an important source of capital for economic growth. Haiti's young population has been in the forefront of recent social mobilization efforts to improve government transparency, and could become a driver of change and a source of new leadership in the public and private sectors. Leveraging these sources of resilience within broader systemic approaches to enhancing economic conditions and governance is essential both from the perspective of breaking Haiti's fragility/crisis trap, and to protect and safeguard what is in essence invaluable, but still fragile, social and economic capital that can be undermined by continued negative stresses and shocks.



CHAPTER 3

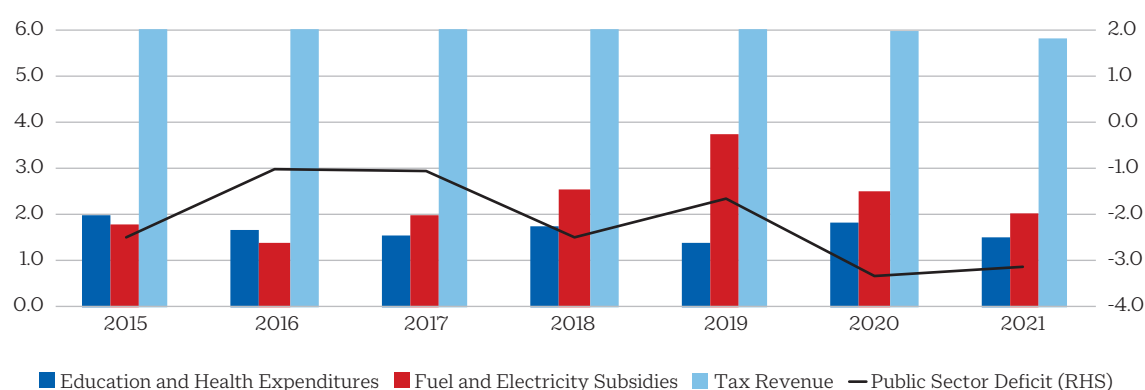
Sustainability

3.1 Macroeconomic and Fiscal Sustainability

The political crisis and subsequent economic contraction, compounded by the COVID-19 pandemic, have led to increasing fiscal imbalances and inflation. Fiscal space has been tightening since 2015 mainly due to the decline in donor assistance—explained by the winding down of post-earthquake reconstruction efforts and the interruption of the Petrocaribe agreement—the increased burden of the fuel subsidies and direct transfers to the national electricity company, and weak domestic revenue mobilization (which at less than 6 percent of GDP on average, is one of the lowest in the region). Subsidies and transfers to the energy sector averaged 2.3 percent of GDP between 2015 and 2021, while public spending in social sectors averaged only 1.8 percent of GDP over the same period. Since 2020,

these structural factors have been compounded by higher health-related expenditures and government support programs to help mitigate the impact of the COVID-19 pandemic and a decline in domestic revenue mobilization, pushing the fiscal deficit over 3 percent of GDP. Authorities have responded to this deteriorating fiscal environment by curtailing domestically funded capital expenditures (down from 2.6 to 0.6 percent of GDP between 2015 and 2021) and resorting to increased financing of the deficit by the central bank. The monetization of the fiscal deficit, compounded by poor agricultural performance, economic uncertainty, and a lack of confidence in the local currency, have resulted in inflationary pressures and a concomitant depreciation of the gourde. Inflation, which had been maintained in the single digits, has now been at double digit rates since 2016. In December 2021, the government took an important step towards

Figure 3.1: Energy sector subsidies have been a fiscal drain, crowding out social expenditures



Source: Staff calculation based on MoF data. Note: Percent of GDP.

reducing fiscal vulnerabilities by initiating a gradual adjustment of fuel retail prices to progressively eliminate fuel subsidies. The initial adjustment resulted in a doubling of diesel retail prices, eliminating the subsidy completely, and a more modest adjustment for other fuels. The impact of these initial measures is estimated at the equivalent of 1.2 percent of GDP on an annual basis.

Performance of the external sector continues to be characterized by a large structural trade deficit which is offset by large remittances flows. The trade deficit has averaged 20 percentage points of GDP since 2015. Haiti imports mainly food products, fuels, manufactured goods, machinery and transport equipment, and raw materials. The exports consist mainly of apparel and primary products, including essential oils. Between 2016 and 2019, apparel exports accounted for more than 95 percent of goods exports, followed by vetiver essential oil, fisheries and crustaceans, metal scraps, and fruits. Apparel industry exports contracted sharply following the 2018–2019 sociopolitical crisis and the COVID-19 pandemic. The instability is also deterring investments in this sector, the largest providers of formal wage employment in the private sector with over 59,000 jobs in 2021, resulting in the relocation of installed capacities and revision of expansion plans from Haiti to the Dominican Republic. The steady increase in inflows of remittances, from about 15 percent of GDP in 2015 to close to 24 percent in 2020, has helped contain the current account deficit. In 2020, with the slowdown in economic activity and the concomitant contraction of imports, the increase in remittances resulted in a positive current account balance. The real effective exchange rate depreciated by 16 percent between 2015 and 2020, driven by a marked depreciation of the nominal exchange rate. Performance in attracting foreign direct investment remains lackluster: with less than 1 percent of GDP on average over the past decade, Haiti continues to underperform regional as well as FCV peers.

Despite an increase over the past three year due to the deterioration of the fiscal accounts, Haiti's level of public debt remains moderate, with a total debt estimated at about 28 percent of GDP at end September 2021. Haiti's debt ratios were adjusted downwards in October 2020, following a rebasing of the National Accounts which resulted in a revised GDP 73.8 percent higher in the new base

year. External debt is estimated at US\$2.26 billion at end September 2021 (or 12.9 percent of GDP), while domestic debt is estimated at 12.7 percent. All the outstanding external debt is concessional, including the debt contracted with Venezuela through the Petrocaribe agreement which represents 82.7 percent of total external public debt.

The macroeconomic outlook remains conditioned by domestic political uncertainties, security challenges, and the indirect impact of the conflict in Ukraine, which pose significant risks to stability and growth. Real GDP is projected to contract for a fourth consecutive year at -0.4 percent in 2022, hampered by continued uncertainties about the political environment, persistent insecurity, and the fallout of the conflict in Ukraine. On the fiscal side, continued price adjustment to gradually eliminate fuel subsidies should contribute to a narrowing of the fiscal deficit. Without comprehensive structural reforms, medium-term growth prospects remain grim given the protracted crisis and related collapse in investment.

3.2 Social Sustainability

Political turbulence and rising levels of violence and insecurity over the past several years have caused significant disruptions to livelihoods and service provision, deepening household poverty, vulnerability and eroding human and social capacities. Armed gangs control large portions of Port-au-Prince, and increasingly other regions⁴², where they have effectively supplanted the state, disrupting supply chains leading to critical shortages of fuel and increased food prices, hindered access to essential social services, and obstructed humanitarian assistance to regions affected by the 2021 earthquake. This control is accompanied by high levels of violence, often linked to criminal and illicit activities, as well as escalating levels of inter-personal violence, including gender-based violence (see above). As of June 2021, approximately 19,000 people have been displaced by armed violence, and over 1.5 million people are estimated to have been affected by loss of access to basic services (ACAPS 2021). These impacts are compounding an already precarious situation in Haiti characterized by widespread poverty and food insecurity, as well as acute vulnerability to climate change and disaster

42 Gang-related violence is primarily concentrated in Port-au-Prince and the department of Ouest, but is also affecting the departments of Artibonite and Nord, and indications of increasing gang activity are also becoming evident in urban and inter-urban areas of Grand'Anse, Sud-Est, and Sud.

risks⁴³, and threaten to overwhelm Haiti's traditionally strong sources of societal and household resilience and coping ability. More than 4.9 million people (43 per cent of the population) are expected to require some form of humanitarian assistance in 2022 (United Nations 2021). Given continued challenges to strengthening service delivery and governance in Haiti, preserving and supporting societal sources of resilience at community and household levels will be essential to prevent deepening vulnerability and a potentially serious humanitarian crisis.

Despite the difficult conditions, Haitian society and individuals demonstrate great capacity for adaptability, innovation, entrepreneurship, and collective action through family, community and civil society networks. These include traditional Haitian social institutions (for example, the *Combite*), as well as local farmer cooperatives, village savings associations, local civil protection committees, and community mechanisms for collective action and conflict resolution. Some of the associations have taken steps toward establishing regional or national networks to enhance their capacity to serve members (e.g., savings and farmers cooperatives). Civic organizations and community action have been established even in the poorest urban neighborhoods but are constrained by limited resources and local government capacity, as well as high levels of poverty, violence, and social fragmentation. There is also a network of civil society organization (CSOs) and non-governmental organizations (NGOs) providing services (mainly in the health and education sector) and advocacy services. However, these organizations depend heavily on external financing and in some cases substitute for local government rather than enhancing accountability.⁴⁴ The Haitian press is highly active and relatively free—and encompasses widespread local radio stations which reach a majority of the population, and national newspapers, although journalists have increasingly become targets for harassment and violence. Universities (public and private) and research organizations analyze Haiti's challenges and engage with the wider populace, while social accountability and advocacy CSOs focus on a range of issues, including control of corruption (including loosely organized social movements, such

as the “PetroCaribe Challenge”), gender equity, and violence reduction.

In light of limited economic opportunities and a young population, migration remains essential for the coping capacity of many Haitians, serving both as source of resilience and a risk for further deepening fragility. Migration provides a pathway for mobility and opportunities that is potentially two-way (via out migration but also return of people to Haiti); generates remittances that contribute to livelihoods, coping and economic productivity, and to sustaining the Haitian economy; and provides both financing and motivation for parents to invest in their children's educations. Remittances are associated with lower levels of violence at community level.⁴⁵ An estimated 1.8 million Haitian lived abroad in 2020 (UNDESA 2020). The large Haitian diaspora remains engaged in Haiti through remittances, community projects and private sector initiatives. Conversely, migration contributes to a loss of human capital, including exodus of entrepreneurs and better-educated professionals, which has accelerated with deteriorating security in the past year. The deterioration in the socioeconomic and security situation risks creating further humanitarian crises by increasing the number of poor Haitians taking desperate measures to leave the country, including by sea (IOM 2021). Recent mass repatriations of undocumented migrants has placed further strains on households and receiving communities. Many private sector and political elites have dual passports and send their children to study in US or Europe—and increasingly don't see a future for their children in Haiti—which may further undermine commitment to address Haiti's deep-seated challenges.

More than half of Haiti's population is under the age of 25. With an estimated 56 percent of the population under the age of 25, Haiti's youth represent both a potential source of resilience through a “demographic dividend” and emergence of a new generation of leaders, but also a risk for further social instability if youths face worsening economic opportunities. The education system is not currently equipping the younger generation with adequate skills, and an estimated 19 percent youth (aged 15

43 More than half of urban areas are exposed to flood hazard and urban expansion continues to occur in hazard-prone areas, resulting in a growing number of people and assets exposed to climate change and disaster risks. Resilient urban growth is hindered by these gaps and by increased exposure to natural disasters, and by ineffective land use planning (World Bank 2018b).

44 About half of health services are provided by NGO providers (IHE and ICF 2018), which mobilize substantial external resources, and have played key roles in emergencies response. In the education sector, a substantial portion of non-public schools (which represent 80-90 percent of all schools) are operated by the churches, which also mobilize local and international funds to subsidize parental contributions and provide some degree of quality control and oversight (MENFP 2020).

45 World Bank (2015).

to 24) are not in employment, education, or training (NEET), with higher rates in urban areas and among women.⁴⁶ These rates conceal high levels of part-time work and underemployment, particularly for young men. Reaping the demographic dividend from Haiti's young population will require strengthening the human capital and productive employment opportunities for youth. Conversely, limited productive opportunities in rural areas encourages youth to migrate to urban centers, while high unemployment and underemployment makes urban youth vulnerable to recruitment by gangs.

3.3 Environmental Sustainability and Disaster Resilience

Climate change is expected to increase Haiti's exposure to extreme weather events. The future damages and losses likely to be caused by cyclones and earthquakes with a payback period of 250 years are estimated to be US\$ 1.6 billion (13.3 percent of GDP) and US\$ 2.41 billion (27.5 percent of GDP), respectively (World Bank 2021d). The effects of other hazards also represent major risks for the country, especially in the medium to long term, as phenomena like drought and desertification have a slow and unpredictable progression.⁴⁷ Haiti is projected to experience one of the largest increase in extreme heat in LAC: by 2050, projections indicate Haiti is expected to have between 44 days to 85 days with a heat index surpassing 35°C. Sea level rise projections indicate that Haiti's shorelines will retreat between 13–16 meters by 2050, and 29–46 meters by the end of the century, depending on the emissions pathway (RCP4.5 or 8.5) (World Bank 2021d). Rising seas together with water overextraction could contribute to saline intrusion in the water table, posing risks for drinking water and irrigation. Rising temperatures due to climate change increase risks of pandemics and infectious disease outbreaks, as well as direct health risks of exposure to high temperatures, both of which are more serious for those with chronic disease.⁴⁸

As an agriculture-dependent economy with high levels of food insecurity, climate change poses many risks to Haiti. Threats to agriculture production

range from a decrease in wet season rainfall and crop yields, to higher temperatures, sea level rise, and an increase in hurricane frequency and intensity. By 2050, crop yields in Haiti are projected to decrease by 2–9 percentage points compared to a situation without climate change (Rosegrant et al. 2017). These impacts could significantly affect the socioeconomic well-being of those working in the agriculture and fishery sectors, particularly the rural poor, and further accelerate soil erosion and environmental degradation. These impacts have implications at the national level for domestic productivity, export trade, foreign currency earnings and food security. Enhancing overall resilience of the agriculture sector and enhancing food security will require: coordinated and sustained investments to scale up “climate smart” agricultural practices that increase productivity while protecting the environment; improving irrigation; enhancing solidarity and risk protection for farmers; and increasing opportunities for non-farm livelihoods to help rural households manage risk.

While Haiti has made progress in strengthening capacity for early warning systems and post-disaster coordination and response, less progress has been made in addressing the underlying drivers of disaster vulnerability. Capital stock modelling of Haiti shows that while capital exposure levels to strong ground shaking are relatively low, the infrastructure and social sectors (including residential, education and health buildings) remain very vulnerable and current resilience levels are inadequate.⁴⁹ While Haiti has developed building and land use regulations in the past decade, there are multiple laws and decrees, resulting in overlapping and unclear legislation without clear assignment of responsibilities. Multiple international building codes have been introduced, increasing the general sense of confusion as foreign developers tend to use their own home country standards. Building standards must be adapted to local circumstances—including high levels of informal building in Haiti, particularly by the poor—and uniformly applied. The Haitian government also is increasingly incorporating disaster risk reduction (DRR) in their long-term planning objectives,⁵⁰ but implementation remains unresolved. Haitian cities continue to grow in an unplanned manner, with most

46 The NEET rates for rural youth is estimated at 15 percent for males and 28 percent for females, while in urban areas 23 percent of young men and 43 percent of young women are not in education, employment or training (ILO 2019).

47

48 World Health Organization (2021).

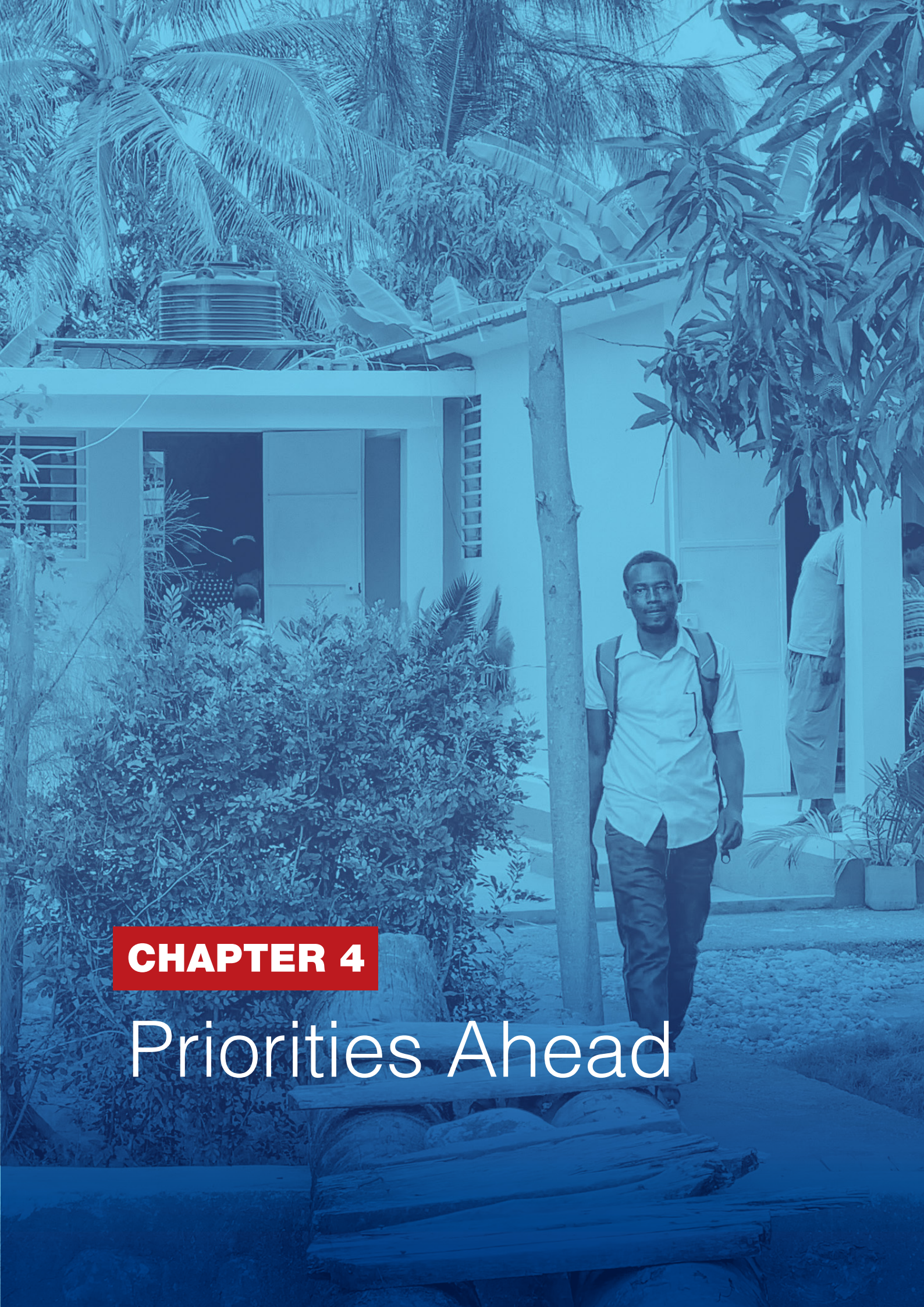
49 Since the 2010 earthquake, major reconstruction activities increased capital stock value by 11 percent, but reconstruction has not necessarily increased the resilience due to poor designs and inadequate construction quality. (World Bank 2021d).

50 Including the *Strategic Plan for the Development of Haiti - An Emerging Country In 2030* (MPCE, 2013) and the *Action Plan for the National Recovery and Development of Haiti* (Government of Haiti, 2010a).

of the constructions being built informally. There is a general lack of clarity regarding institutional responsibilities, access to financing, and the legal status of plans, along with the already mentioned overlapping of plans and authorities.

Urbanization and internal migration are likely to continue. If better planned, regulated and supported by appropriate investments to improve urban mobility, services, and security, urbanization could contribute to increased economic productivity and well-being of urban households, and create a 'virtuous cycle' with urban municipalities better able

to mobilize revenue, provide services, and reduce disaster vulnerability. However, an acceleration in unregulated urbanization risks further deterioration in services and livelihoods for the urban poor, greater urban congestion accompanied by worse connectivity and productivity, greater social instability and violence, and increased vulnerability to natural disasters. Even in gang-controlled urban neighborhoods, opportunities exist to build consensus among community leaders, members of armed groups and local officials to take steps toward addressing community priorities and provide alternative opportunities for youth.

A photograph of a man walking towards the camera in front of a white house. The man is wearing a light-colored short-sleeved button-down shirt, dark trousers, and a backpack. He is standing on a path. To his left is a large, dense green bush. In the background, there is a white house with a corrugated metal roof. A large water tank is visible on the roof. There are palm trees and other tropical plants around the house. The entire image has a blue tint overlay.

CHAPTER 4

Priorities Ahead

4.1 Approach to Prioritization

The deterioration of the socio-political and economic environment since mid-2018, sharp escalations of violence and insecurity and the volatile political context in Haiti threaten development gains. This is both a challenge and an opportunity requiring focus on short-term actions that can simultaneously serve as anchor points for longer term pathways for reducing fragility and promoting growth and development. Lessons from WBG engagement in FCV environments highlight a number of important principles and criteria for defining priorities in this context. These include first the need for a strong people-centric approach focus, prioritizing inclusion, highlighting gender and youth issues, and supporting the most vulnerable and marginalized communities. Second, there is a need to strike a balance between short-term measures that deliver basic services and contribute to stability, while acknowledging the long-term nature of entering and exiting fragility and the need to sustain efforts well beyond just restoring growth and core governance and institutional capacities. While short term measures can help restore confidence and mitigate crises, addressing deep-seated grievances, improving institutional inclusiveness and accountability, and building trust between social groups and the state is a delicate process that takes place over decades. Third, maintaining macro-economic stability remains key to strengthening resilience and managing risks, as macroeconomic instability tends to weaken factors of resilience of entire economies and societies. The private sector also has a critical role by helping to generate job opportunities that promote socio-economic inclusion, while also providing services in the education, health, water and energy sectors.

At the same time, the selection of priorities must also take into account prevailing conditions and risks, and how interventions will be implemented and sequenced in a challenging environment. While the priority areas identified in the 2015 SCD remain pertinent, they are unlikely to achieve results in the current context of deepening political crisis, social volatility and insecurity. Prioritization should therefore take into account likely trajectories of the situation in Haiti. In a scenario of continued deterioration, emphasis will need to be placed on preserving hard-won development gains in key sectors; strengthening societal resilience and livelihoods; and maintaining essential capacities to support core services and macro-fiscal stability. In a stabilizing scenario, characterized by a political settlement and improved security, emphasis should be placed on initiating and supporting transformational reforms to address core drivers of fragility and other binding constraints on development and growth, while rebuilding the social contract, breaking past cycles of elite capture and promoting the engagement of stakeholders (among them civil society, youth, communities and entrepreneurial private sector actors) that could help move the country towards a new, more positive equilibrium. Understanding the factors and evolving risks affecting the likelihood of either scenario will be key to identifying and adjusting priorities over time and ensuring flexibility and responsiveness in the face of a dynamic and changing situation.

Further, several core principles relate to how interventions should be implemented and sequenced. These include a) ensuring that identified priority interventions take into account the needs of citizens and communities and do not exacerbate or

reinforce drivers of fragility and conflict; b) taking a balanced approach to sequencing short-term stability interventions with longer-term transformation efforts, recognizing that even in acute crisis situations opportunities exist to establish foundations for longer-term recovery; c) conversely, being sensitive to the potentially destabilizing impacts of certain interventions in fragile environments (e.g. subsidy reforms in a context of heightened social volatility and grievance); d) carefully evaluating trade-offs inherent in different priorities as well as alternative options and pathways for achieving results over the short and long-term; and e) recognizing that exiting fragility and generating transformational change will not be linear processes, given the structural nature of FCV drivers in Haiti, and that movements towards greater transparency, accountability and inclusiveness will be an incremental and long-term process, marked by reversals, crises and strong resistance to changing incentives and benefits associated with the current political and economic system. In this context, sustained, harmonized, and increasingly integrated engagement of international partners will be essential, as weak institutional capabilities tend to be particularly compounded by aid fragmentation in FCV environments.

4.2 Priority Areas

Based on the above framework for prioritization as well as consultations held internally within the WBG and with key stakeholders in Haiti, the following priority areas, which remain congruent with the 2015 SCD, have been identified: (i) restoring macro-economic stability and strengthening core governance systems; (ii) preserving basic services and human capital; and (iii) fostering economic recovery and better jobs opportunities. Strengthening resilience against multiple risks is a cross-cutting priority, which encompasses the overall resilience of the economy and institutions; resilience of human capital, households, and basic services to shocks; resilience of physical infrastructure and connectivity; resilience of agriculture, the environment, and water resource to natural disasters and climate change; and strengthening overall disaster risk preparedness and response systems. Particular attention will need to be placed on ensuring a gender-differentiated approach to identifying and addressing priorities for resilience strengthening. In the short term, opportunities for major structural reforms and changes are likely to remain limited. At the same, entry points exist for

mitigating deepening vulnerability and exposure to shocks while also strengthening and building on existing sources of resilience and development gains.

Progress across all priority areas will be significantly limited, however, in the absence of stability, security and rule of law. In addition to the interventions identified below, it will be critical for Haiti to pursue efforts to improve the security situation, restore political stability and reestablish a democratically sanctioned government—all of which are essential preconditions for macro-economic stabilization, economic recovery and growth and enabling and sustaining essential reforms over the long-term. This underscores the importance of dialogue and cooperation between national and international actors, and the need for sustained and well-coordinated support by the United Nations and other international partners to strengthen the capacities of the national police (the PNH) and the justice system to restore law and order. Assistance for addressing key social and economic drivers of violence, including creation of opportunities for at-risk youth and strengthening community level capacities for improving security (including through the implementation of the government's community violence reduction strategy) also constitute important complementary interventions for which support by the international community will be important

Restoring macro-economic stability and strengthening core governance systems

Restoring and maintaining macroeconomic and fiscal stability is critical to prevent further deterioration of socio-economic conditions and enable growth recovery. A rationalization and redirecting of current expenditures together with improved domestic resource mobilization are needed to create the fiscal space required to increase social spending and boost growth-enhancing capital spending. Increased revenue mobilization will require fighting corruption and addressing the weaknesses in governance, notably at customs, as well as pursuing efforts to increase the tax base, including by rationalizing tax exemption regimes and improving tax administration. The prioritization and rebalancing of expenditures towards social sectors will require a reduction in subsidies and transfers to the energy sector. While the recent price adjustment in fuel prices provided temporary relief,

ensuring retail prices are adjusted regularly to reflect international market price conditions for all fuel products will be needed. The increase in international prices of oil triggered by the war in Ukraine has exacerbated the pressures on the authorities to allow progressive adjustments in domestic prices. In a stabilizing scenario, fiscal sustainability—and higher growth rates—will require implementation of a fundamental reform of the energy sector. In the meantime, mobilization of external funding will be needed to support social spending and capital spending and limit the monetization of deficit.

Developing foundations for core governance systems that are inclusive can restore public confidence in the Government and break free from a low equilibrium governance environment.

There is a critical need to build inclusive and reliable institutions, and to strengthen the efficiency of public services and the accountability of public institutions, including state-owned financial institutions. Better management of public resources (especially from the center to the local level and the public procurement system) can be achieved by promoting transparency and digital solutions to ensure effective and accountable use of public resources. The accountability of civil servants and elected officials should be strengthened by supporting the implementation of the existing conflict of interest and income and asset disclosure systems to begin to address existing discretion and impunity. Pursuing efforts to strengthen statistical and analytical capacity will also be critical to inform policy decision and implementation. In a context of continued deterioration of the situation in Haiti, where space for undertaking deep governance and institutional reforms will likely remain limited, focus should be placed on strengthening inclusive governance and improving transparency and accountability in areas where gains have already been achieved, including at municipal and local levels. Broader and deeper reforms will likely need to be calibrated with longer-term efforts to stabilize the country and establish a more representative and inclusive system of governance.

Preserving basic services and human capital

Restore and maintain basic services to preserve human capital. The Government should seek to prioritize spending for basic services and increase its transparency. Targeted interventions and financing also will be needed to preserve human

capital by improving both the supply and demand for services. Priorities include preventing school dropout (including through school feeding programs and targeted subsidies for school fees), catching up from learning losses, increasing coverage and quality of basic health services; improving access to water, sanitation, and other basic services, including through maintaining and where possible enhancing road and digital connectivity; gender-based violence prevention and response services, improving inclusion of disabled persons; and post-earthquake reconstruction in the southern peninsula. These will require hybrid approaches that seek to use and build national and government coordination and implementation capacity whenever possible; delegate resources when appropriate to lower levels of service delivery (with necessary oversight and capacity building); and make pragmatic use of NGOs, UN partners, or the private sector to support service delivery monitoring or implementation. Further security deterioration may require increased reliance on delegated implementation, but with flexibility to shift toward more use of national capacity as the situation stabilizes. A greater emphasis on regional development approaches will contribute to addressing territorial disparities, mitigate risks of security deterioration, allow more responsiveness to local needs, and improve opportunities for synergies among sectors. Given the possibility of continued gang violence, protracted or future crises and shocks, financing and mechanisms to sustain basic services and preserve human capital will remain critical to avoid further deepening fragility. Even in gang-controlled urban neighborhoods, opportunities exist to build consensus among community leaders and local officials to address key community priorities and provide alternative opportunities for youth, but this requires at least modest resources to implement agreed priorities.

Strengthen systems to respond to natural disasters, climate change, and disease outbreaks.

Priority should be placed on addressing the health system's weaknesses in preparedness and response capacity that impede taking early action and effective control measures on any disease outbreak (including COVID-19). This includes strengthening core surveillance, supply chain, and emergency response systems, while avoiding diverting limited capacity and resources from primary care. The Disaster Risk Management capacity developed at national and local level remains fragile and will need to be preserved (in case of protracted crisis) and gradually strengthened with financing and logistics support

from the international community. Empowering local communities is essential to increase preparedness and improve response—including improving emergency plan dissemination at the community, village, and household level, especially in the disaster-prone communities. These plans should account for the needs of vulnerable and disadvantaged groups, including women, children, disabled persons, and the elderly. A return to stability will allow greater reliance on national and local capacity and financing, with international partners increasingly playing and supportive role.

To protect households from shocks and preserve human capital, further develop the adaptive social protection systems including by strengthening the social registry and cash transfer delivery mechanisms. Even pending a return to stability, the National Social Protection and Promotion Policy (NSPPP) will need to be operationalized and prioritized in response to the evolving and uncertain country context. Increased stability and fiscal space will allow phased expansions of key programs and increased reliance on national financing and implementation. Investments in transparent and effective delivery mechanisms, including through the establishment of an integrated social information system and payment platform will be crucial to the efficiency of social spending. Digital payments should be prioritized whenever feasible to ensure the safety and efficiency of cash transfer payments. Whether or not instability persists, support from the international community financing and implementation support will remain essential in the coming years—while preserving and seeking to build capacity at national and local levels. The government should continue expanding the coverage of the newly established flagship social safety net, which can promote the resilience of households and be scaled-up in response to shocks (financed by available government and international resources). Enhanced disaster risk financing mechanisms would allow for an effective social protection response in case of shocks, providing adequate coverage and benefit levels in a fiscally sustainable manner.

Strengthen systems to improve coverage, quality and efficiency of public and private services once the country stabilizes. First, if Haiti returns to macroeconomic stability and modest growth, the current very low levels of public financing for basic services should be increased through both enhanced revenue mobilization and increasing the volume and efficiency of public spending for basic services.

This should also include increasing the transparency, volume, predictability, and management of local finance, and identifying additional mechanisms to generate local revenue. Second, recent efforts to develop systems to monitor, regulate, and improve service quality and connectivity in both the public and private sectors should be consolidated and scaled up, including building national and subnational capacity. This includes establishment or update of clear regularity and quality standards; strengthening institutional mechanisms and information systems for quality monitoring; sharing quality information with service providers and the public; and training and coaching for service providers on quality standards. Strengthening social accountability for service delivery will both improve quality and contribute in the long-term to rebuilding the social contract. Third, national and subnational capacity for service delivery, urban planning and rural connectivity can be built both through targeted investments in capacity building as well as through a “learning by doing” process, with central ministries and subnational entities enhancing their capacity to play their stewardship and oversight role for public and private services. Fourth, efforts should continue to pilot and evaluate innovative service delivery models that can be scaled up and sustained in the Haitian context if there were to be a return to greater stability and increased fiscal space. In the energy sector, for instance, there is an opportunity to replace dependency on diesel with renewable energy alternatives in the short term, all of which over the long-term could promote diversification of the energy sector, help create green jobs, and ensure more reliable and cheaper electricity provision.

Support economic recovery and better jobs opportunities

Bolster private sector confidence. Reducing levels of insecurity and social unrest is paramount to support economic recovery and foster jobs opportunities beyond the garment industry, which account for most exports as well as jobs in the private sector. In the meantime, addressing other key cross-cutting constraints can promote private sector development, encourage greater female participation and reduce informality. This is notably the case with regards to access to finance, skills, connectivity, and the business regulatory environment. On the latter, for example, government to business (G2B) services are characterized by lengthy administrative procedures, poor inter-agency coordination and the lack of e-government services. As in other FCV contexts, it

will also be important to strengthen the capacities of the private sector to better manage risks and adapt operations in the face of continued man-made and natural shocks. The recently published Haiti Country Private Sector Diagnostic (undertaken jointly by the World Bank and IFC) highlighted four sectors where private investment could generate welfare gains in favor of the bottom 40 percent of the population. Financial services for SMEs and digital financial services (DFS), renewable energy, water supply, and the apparel industry were selected on the basis of expected inclusive gains from further private investment, reform feasibility, and World Bank Group success in supporting the sector in other countries that share characteristics similar to Haiti.

Strengthen financial sector stability and support the development of financial services for SMEs, as well as digital financial services (DFS). Non-performing loans are presently estimated around 10–15 percent for credit unions and were steadily rising in 2019 for banks, both which will likely continue to rise given the impact on business from the political turmoil and natural disasters, posing a significant risk for financial stability. Yet, new opportunities to support private sector development in SME finance (which has unmet demand) have emerged with the recent passing of important pieces of legislation for micro-finance, secured transactions, leasing, and digital financial services. Further improvements of the legal framework on DFS, credit reporting, financial consumer protection, insolvency, bond issuance and insurance are needed. Establishing risk-sharing mechanisms, such as partial credit guarantees, can help strengthening SME's resilience and growth. Digital financial solutions could provide a technological leap in access to financial services, including financial inclusion (32 percent compared to regional average of 55 percent) and deepening, especially for hard-to-reach firms and individuals (for example, micro firms and rural households). New products, such as nano and digital loans, digital repayment of microloans, or e-payment of salaries could be a commercial success in a context of high unmet financial demand, but need to be implemented with adequate disclosure of financial products and financial consumer protection efforts. Institutional transformation of public financial institutions—especially in the areas of governance, transparency, accountability, credit decisions, and environmental and social management—is needed to increase their efficiency and ability to support private and public sectors. In a stabilizing environment, the entry of new risk capital providers could be supported by

providing refinancing to operators, and mixing public and private, as well as domestic and international sources.

Ensure maintenance and preservation of existing infrastructure assets, services, and connectivity, and development of more resilient infrastructure in the medium term. The vulnerability of Haiti's infrastructure to disaster and climate events remains extremely high, which calls for continuous important investments in resilient infrastructure to ensure that development gains through better connectivity are sustained in the short and medium term. In a stabilizing environment, improving both urban and rural connectivity, and addressing the massive infrastructure deficits will require significant increase in investments coupled with strengthening of the regulatory environment. Physical risk to infrastructure can be reduced by developing and implementing building codes, developing capacity to plan and implement resilience planning (including training of supervisory authorities and private contractors), and identifying and strengthening critical infrastructure assets (including schools, health facilities, roads). Improving connectivity both in terms of roads and physical infrastructure, as well as digital connectivity, will be critical both to improving access to basic services and increasing access to productive opportunities.

Support greater value addition, including in the agriculture and agri-business sectors, and improve linkages to suppliers and markets. Strengthening agricultural productivity and resilience, along with access to credit and financial accounts, will be critical to improve livelihoods and food security for rural households. To avoid productivity declines due to climate change, priorities include ensuring adoption of climate-smart technologies (improved land and water management, drought- and flood-resistant seed varieties, etc.) as well as more nutrition-smart approaches (e.g., biofortified seeds), by providing a combination of financial support via partial subsidies (particularly by digital means) for input packages combined with technical assistance. Beyond the farmgate, it will be important to improve access to markets through animal and plant health services, food safety and post-harvest handling and loss reduction practices, including by strengthening linkages between farmer groups and agri-food businesses, as well as improving the capabilities of transport and logistics operators. Moreover, an integrated watershed-level approach to delivering services to farmers while protecting water

resources can strengthen the overall sustainability of investments, by encouraging agroforestry and landscape management to reduce the risks of soil erosion and flooding in the lower-lying areas of the watersheds and contribute to securing water availability. In addition, the rehabilitation and expansion of rural road networks will be essential to improve linkages to markets for rural households.

Harness the contribution of the private sector to service delivery. Recent trends in private investment in Haiti in the provision of energy, water, and digital financial services also suggest untapped opportunities for harnessing the contribution of the private sector to service delivery. Growing economies of scale in goods and service provision fostered by rapid urbanization and mobile uptake have attracted private investment in digital financial services (for example, e-wallets), renewable energy (for example, minigrids and pay-as-you-go [PayGo] systems), and

water supply (for example, affermage contracts) in Haiti. The country has untapped opportunities to foster the development of the digital economy, as 86 percent of firms in Haiti use a telephone to conduct business and 21 percent use e-mobile payments. The 2021 regulation that grants stand-alone licenses for the provision of digital financial services to nonbank electronic money issuers could potentially transform the growth of the digital financial services segment, especially if complemented with upgrades in the payment infrastructure. Scaling up digital payment systems and access to digital finance will enable more efficient service delivery and promote financial inclusion. The ongoing decentralization process combined with technological innovations that reduce fixed costs of entry create opportunities for tailoring smaller-scale market solutions in energy and water supply while strengthening municipalities' institutional capabilities.

References

- ACAPS (2021). Haiti: Gang Violence. ACAPS Briefing Note. https://www.acaps.org/sites/acaps/files/products/files/20210714_acaps_start_network_briefing_note_haiti_gang_violence.pdf
- Akhtar, S. and M. Ait (2018), *Privilege-Resistant Policies in the Middle East and North Africa: Measurement and Operational Implications*. MENA Development Report, World Bank, Washington, DC.
- Chambre de Commerce et Industrie (2020), *Assessment of the needs of MSMEs following the COVID-19 pandemic outbreak*, May.
- Coordination Nationale de la Sécurité Alimentaire (CNSA) and IPC Technical Working Group (2022), Haiti: IPC Acute Food Insecurity Situation. <http://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1152816/>
- Coordination Nationale de la Sécurité Alimentaire (CNSA) and World Food Programme (WFP). 2019. *Enquête Nationale d'Urgence sur la Sécurité Alimentaire et Nutritionnelle* (ENUSAN 2019). Ministère de l'Agriculture des Ressources Naturelles et du Développement Rural (MARNDR) and World Food Programme. Port-au-Prince. Haiti.
- CNSA and WFP. 2020. *Évaluation Rapide de l'Impact COVID-10 sur la Sécurité Alimentaire, Moyens d'Existence et Production Agricole* (SAMEPA 2020).
- Djems Olivier (2021) *The Political Anatomy of Haiti's Armed Gangs*, NACLA Report on the Americas, 53:1, 83-87, DOI: 10.1080/10714839.2021.1891648
- Energy Sector Management Assistance Program (ESMAP). *The State of Access to Modern Energy Cooking Services*. The World Bank, Washington, D.C.
- Feldman, Andreas, (2019), "Making Sense of Haiti's State Fragility and Violence: Combining Structure and Contingency?" in Policzer, P. (Ed.). (2019). *The politics of violence in Latin America*. Calgary, AB: University of Calgary Press.
- Fatton, Robert (2006), *Haiti: The saturnalia of emancipation and the vicissitudes of predatory rule*, Third World Quarterly, 27:1, 115-133.
- Fatton, Robert (2002). *Haiti's Predatory Republic: The Unending Transition to Democracy*. Lynne Rienner Publishers, Bolder, CO.
- Germanwatch (2021). *Global Climate Risk Index 2021: Who Suffers Most from Extreme Weather Events?* Berlin. <https://www.germanwatch.org/en/cri>
- Giardino, A, Leijnse, T, Torres Duenas, L, Athanasiou, P and Haasnoot, M (2021). *Assessing the Impact of Sea Level Rise and Resilience Potential in the Caribbean*. Delft, The Netherlands: Deltares.
- Global Facility for Disaster Reduction and Recovery (GFDRR) (2016). *Haiti Country Profile*. Washington, D.C. www.gfdr.org
- Government of Haiti. (2010a). Action plan for national recovery and development of Haiti. <https://www.preventionweb.net/english/professional/policies/v.php?id=60112#:~:text=The%20Action%20Plan%20for%20National,Haiti%20on%2012%20January%202010.&text=It%20aims%20to%20relaunch%20economic,on%20the%20road%20to%20development>.
- Jean, Fritz Alphonse (2019), *Haiti : Une Economie de violence - Instabilité Politique et violence économique : Sortir des cercles vicieux*, Pétion-Ville, Haiti, Les Editions Pédagogie Nouvelle.
- Hauge, Wenche, I. (2018). *Haiti: A Political Economy Analysis*. Report Commissioned by the Norwegian Ministry of Foreign Affairs. NUP: Oslo, Norway.
- Institut Haïtien de l'Enfance (IHE) et ICF (2018), *Enquête Mortalité, Morbidité et Utilisation des Services* (EMMUS-VI 2016-2017), Pétion-Ville, Haïti, et Rockville, MD, USA : IHE et ICF.
- _____ (2012), *Enquête Mortalité, Morbidité et Utilisation des Services* (EMMUS-V 2016-2017), Pétion-Ville, Haïti, et Rockville, MD, USA : IHE et ICF.
- _____ (2005), *Enquête Mortalité, Morbidité et Utilisation des Services* (EMMUS-III 2005), Pétion-Ville, Haïti, et Rockville, MD, USA : IHE et ICF.

- International Labor Organization (ILO) (2019), *Youth Labour Statistics*. Geneva <https://ilostat.ilo.org/topics/youth/#>
- International Organization for Migration (IOM) (2021), “*Nap Pran Kaanté*” (“We go by sea”): *Trends in Irregular Migration by Sea*, Port-au-Prince, Haiti, April 2021 (English Translation).
- Marcelin, Louis Herns (XXX), *Haiti Laid Bare: Fragility, Sovereignty, and Delusional Recovery*. Paper prepared for the World Bank.
- Marcelin, Louis Herns (2015). “Violence, Human Insecurity, and the Challenge of Rebuilding Haiti: A Study of a Shantytown in Port-au-Prince”. *Cultural Anthropology*. Volume 56, Number 2 (April 2015). Chicago: University of Chicago Press.
- Ministère de l’Education Nationale et de la Formation Professionnelle (MENFP) (2020). *Plan décennal d’éducation et de formation (PDEF) – 2020-2030*. Port-au-Prince, Haiti.
- Ministère de la Santé Publique et de la Population (MSPP) (2022). « Situation Epidémiologique de la COVID-19 au 2 Mars 2022. » https://www.mspp.gouv.ht/wp-content/uploads/Sitrep-COVID-19_02-03-2022.pdf
- Ministère de la Santé Publique et de la Population (MSPP) and UNICEF (2020). *Enquête Nationale Nutritionnelle et de la Mortalité*. Port-au-Prince, Haiti: MSPP and UNICEF.
- Ministère de la Planification et de la Coopération Externe (2013). Summary—Strategic Plan For The Development Of Haiti—An Emerging Country In 2030. Port-au-Prince. <https://www.slideshare.net/dkelly2784/130511-strategic-plan-for-development-of-haiti>
- Naidu, S., Robinson, J., and Young, L. (2016), *Social Origins of Dictatorships: Elite Networks and Political Transitions in Haiti*, Colombia/SIPA Center on Global Economic Governance: New York, USA.
- Norwegian Institute of International Affairs (2018): “Haiti: A Political Economy Analysis”. Oslo. www.nupi.no
- Pace, M., and Luzincourt, K. (2009). *Haiti’s Fragile Peace: A Case Study of the Cumulative Impacts of Peace Practice*. Collaborative Learning Projects: Cumulative Impact Study. Cambridge, MA: USA
- Norwegian Church Aid and Actalliance, (2014). *Haiti – Exploring Inequalities: Conflict and Power Relations in Bel Air*. https://www.kirkensnodhjelp.no/contentassets/ee77fa84ec654fb2a01ac3ea8f72bd98/belair_conflictpowerrelations_nca_final_2014.pdf
- Rosegrant, M W, Sulser, T B, Mason-D’Croz, and others (2017). *Quantitative Foresight Modeling to Inform the CGIAR Research Portfolio*. Washington, DC: International Food Policy Research Institute (IFPRI).
- Scot, T. and A. S. Rodella (2016), “Sifting through the Data: Labor Markets in Haiti through a Turbulent Decade (2001-2012)”, *Policy Research Working Paper 7562*, Washington DC.
- United Nations (2021). *Global Humanitarian Overview*. New York.
- United Nations Department of Economic and Social Affairs (2020). *International Migrant Stock 2020*. UNDESA, Population Division, United Nations, New York. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesa_pd_2020_international_migrant_stock_documentation.pdf
- United Nations (2020), “Spotlight Initiative Haiti: 2020 Annual Report,” Port-au-Prince. <https://mptf.undp.org/factsheet/project/OO119133>.
- United States Drug Enforcement Administration (2021). *2020 National Drug Threat Assessment*. U.S. Department of Justice, March 2021, Washington, D.C.
- USAID. (2018). “Early Reading Program (ERP) Baseline Evaluation.” Port-au-Prince.
- World Bank (2007), *Social Resilience and State Fragility in Haiti*, Washington, D.C.
- _____ (2015), *Haiti: Toward a New Narrative. Systematic Country Diagnostic*, Washington, D.C.
- _____ (2016a), *Better Spending, Better Services: A Review of Public Finances in Haiti*, Washington, D.C.
- _____ (2016b), *Distributional Impacts on the Poor from Improving Electricité d’Haiti’s Performance*,

Poverty Social Impact Assessment, Unpublished, Washington, DC.

_____ (2016c), *Linking Farmers to Markets through Productive Alliances: An Assessment of the World Bank Experience in Latin America*, Washington, DC.

_____ (2017a), *Better Spending, Better Care: A Look at Haiti's Health Financing*. Washington, D.C.

_____ (2017b), *Looking Beyond Government-Led Delivery of Water Supply and Sanitation Services: The Market Choices and Practices of Haiti's Most Vulnerable People*. WASH Poverty Diagnostic. World Bank, Washington, DC

_____ (2018a), *Financial Cooperatives in Haiti: a Diagnostic Review of the Sector and its Regulatory and Supervisory Framework*, Unpublished, Washington D.C.

_____ (2018b), *Haiti Cities: Actions for Today with an Eye on Tomorrow: Haiti Urbanization Review*, Washington, D.C.

_____ (2018c) *Haiti Country Risk Profile*, Washington, D.C.

_____ (2019a), *Evaluation de modèles alternatifs pour relier les petits exploitants agricoles aux marchés en Haïti*, Unpublished, Washington DC.

_____ (2019b), *Evolution of Welfare and Poverty in Haiti since 2015*, Unpublished, Washington DC.

_____ (2019c), *Financement Agricole en Haïti*, Unpublished, Washington DC.

_____ (2019d), *Fragile and Conflict-Affected States: On the Frontlines of the Fight Against Poverty*, Draft, Washington DC.

_____ (2019e), *Haiti Risk and Resilience Assessment*, Unpublished, Washington DC.

_____ (2019f), *Social Contracts and World Bank Country Engagements: Lessons from Emerging Practices. IEG Meso Evaluation*. Independent Evaluation Group. Washington, DC: World Bank.

_____ (2019g), *Using Behavioral Insights to Increase Safer Birth Deliveries in Haiti*, Washington DC. <https://documents1.worldbank.org/curated/en/7041415616181549/pdf/Using-Behavioral-Insights-to-Increase-Safer-Birth-Deliveries-in-Haiti.pdf>

_____ (2020a), *World Bank Group Strategy for Fragility, Conflict, and Violence (FCV), 2020-2025*, Washington DC.

_____ (2020b), *The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19*, Washington DC.

_____ (2021a), *Women, Business and the Law 2021*. Washington, DC. <https://openknowledge.worldbank.org/handle/10986/35094> License: CC BY 3.0 IGO."

_____ (2021b), *Haiti: Strengthening the Local Social Contract (PI72485). Completion Report* (Unpublished), Washington DC.

_____ (2021c). *COVID-19 in LAC : High Frequency Phone Surveys - Technical Note*. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/35902>

_____ (2021d). *360° Resilience: A Guide to Prepare the Caribbean for a New Generation of Shocks*. Washington, DC. <https://openknowledge.worldbank.org/handle/10986/36405>

World Health Organization (2021), "Climate Change and Health," Geneva. <https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>

World Health Organization and UNICEF (2020), *Joint Monitoring Program (JMP) on Water and Sanitation*. Geneva. <https://washdata.org/>

Annex 1:

Selected economic indicators

	Average 2015-2021	2015	2016	2017	2018	2019	2020	2021e	2022f
Real sector (annual percentage change)									
Real GDP growth	0.3	2.6	1.8	2.5	1.7	-1.7	-3.3	-1.8	-0.4
Real GDP per capita growth	-1.1	1.2	0.5	1.2	0.4	-2.9	-4.5	-3.0	-1.6
Agriculture	-1.3	-4.3	1.1	1.2	1.4	-1.9	-2.5	-4.1	-1.1
Industry	-1.1	5.5	1.1	3.6	-1.7	-6.8	-6.9	-2.5	-1.5
Services	1.1	2.4	2.4	2.2	1.9	2.1	-1.2	-2.0	0.9
Private Consumption	2.2	4.5	5.6	5.0	4.1	-1.0	-4.0	1.2	1.0
Government Consumption	5.9	15.9	7.8	1.5	4.2	-8.6	11.1	9.7	9.5
Gross Fixed Capital Investment	-5.3	-22.0	17.2	7.9	-5.2	7.7	-20.6	-21.8	-0.8
Exports (goods and services)	-4.5	6.2	1.1	-0.6	-6.5	6.8	-39.7	1.4	-1.0
Imports (goods and services)	3.2	-1.4	21.7	10.4	3.3	4.2	-18.3	2.7	6.2
Income (percent of GDP, unless otherwise indicated)									
GDP per capita (real, US\$ 2015)	1,366	1,387	1,393	1,410	1,415	1,374	1,312	1,273	1,254
Gross investment	18.0	14.1	16.9	20.2	18.7	20.3	17.7	18.0	13.2
Gross domestic saving	-4.4	-4.4	-5.1	-3.4	-6.0	-4.6	-3.8	-3.2	-5.4
Gross national saving	13.9	12.3	12.9	16.2	11.7	14.3	17.9	12.3	10.2
Money and prices (annual percentage change, unless otherwise indicated)									
Inflation (CPI, average)	15.0	7.5	13.4	14.7	13.5	17.2	22.8	16.0	26.2
Domestic credit to private sector	9.8	3.3	21.0	4.4	12.4	23.0	-7.9	12.7	6.5
Domestic credit to private sector (% of GDP)	11.3	12.2	12.7	11.2	11.6	12.3	9.7	9.4	10.6
Nominal exchange rate (HTG/USD, average)	72.2	48.6	60.4	65.6	65.4	84.1	99.9	81.1	...
External Sector (percent of GDP)									
Current Account Balance	-1.1	-1.8	-1.9	-2.2	-2.9	-1.1	1.5	0.7	-1.3
Export (goods and services)	10.2	11.8	11.5	11.1	10.8	11.7	7.7	7.1	5.4
Imports (goods and services)	24.8	23.2	25.1	25.8	26.7	27.2	22.9	23.0	24.1
Net Foreign Direct Investment	0.8	0.7	0.7	2.5	0.6	0.5	0.1	0.1	0.1
Remittances	18.8	14.8	16.9	17.5	18.0	20.5	23.8	20.0	21.8
Fiscal accounts (annual percentage of GDP)									
Revenues	8.9	11.2	10.5	9.8	9.7	7.4	7.1	6.9	10.4
o/w Tax revenue	6.6	7.4	7.3	6.8	6.9	6.1	5.7	5.7	6.1
o/w Grants	2.1	3.3	2.7	2.6	2.3	1.2	1.3	1.1	4.0
Expenditures	9.9	12.7	10.4	10.0	10.9	7.5	9.3	8.2	10.8
Current expenditure	6.8	6.9	6.9	6.7	7.5	6.0	7.1	6.6	6.3

	Average 2015-2021	2015	2016	2017	2018	2019	2020	2021e	2022f
Fiscal accounts (annual percentage of GDP)									
Wages	3.6	4.0	3.8	3.6	3.9	3.3	3.3	3.4	3.5
Goods and services	2.1	2.1	2.3	2.1	2.4	1.8	2.2	2.1	2.1
Interest	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.3	0.2
Capital expenditure	3.1	5.9	3.5	3.3	3.4	1.5	2.2	1.6	4.5
o/w Domestically-funded	1.0	2.6	0.8	0.8	1.1	0.3	1.0	0.6	0.5
o/w Grants	2.1	3.3	2.7	2.6	2.3	1.2	1.3	1.1	4.0
Central government fiscal balance	-0.7	-1.3	0.4	0.4	-1.0	0.0	-1.9	-1.3	-0.4
Energy sector transfers and direct subsidies	1.3	1.4	0.9	0.9	1.2	2.0	1.1	1.3	0.6
o/w EDH transfers	0.6	0.1	0.2	0.4	0.6	1.1	0.8	0.8	0.8
o/w direct fuel subsidies	0.4	0.0	0.0	0.0	0.2	1.1	0.7	0.8	0.3
Non-financial sector (NFPS) public fiscal balance	-1.9	-2.7	-0.5	-0.5	-2.1	-2.0	-3.0	-2.5	-1.5
NFPS fiscal balance (excluding grants)	-4.0	-6.0	-3.2	-3.0	-4.5	-3.2	-4.3	-3.6	-5.5
Debt (percent of GDP)	22.7	17.8	21.4	19.9	23.5	26.2	24.4	25.6	26.1
o/w External	13.4	13.4	14.4	14.2	12.9	15.8	10.1	12.9	14.3
o/w Multilateral	1.3	1.0	1.1	1.4	1.2	1.3	1.3	1.5	2.0
Memorandum item:									
GDP (current, LCU billions)	1,146	720	844	987	1,076	1,244	1,450	1,699	2,000
GDP (current, US\$ billions)	15.8	14.8	14.0	15.0	16.4	14.8	14.5	20.9	18.6

Source: Haitian authorities and WB staff calculations

Annex 2:

Geographic challenges posed by natural disasters and accessing services

Figure A2.1: Haiti is urbanizing rapidly, but urban areas are highly exposed to flooding and earthquakes

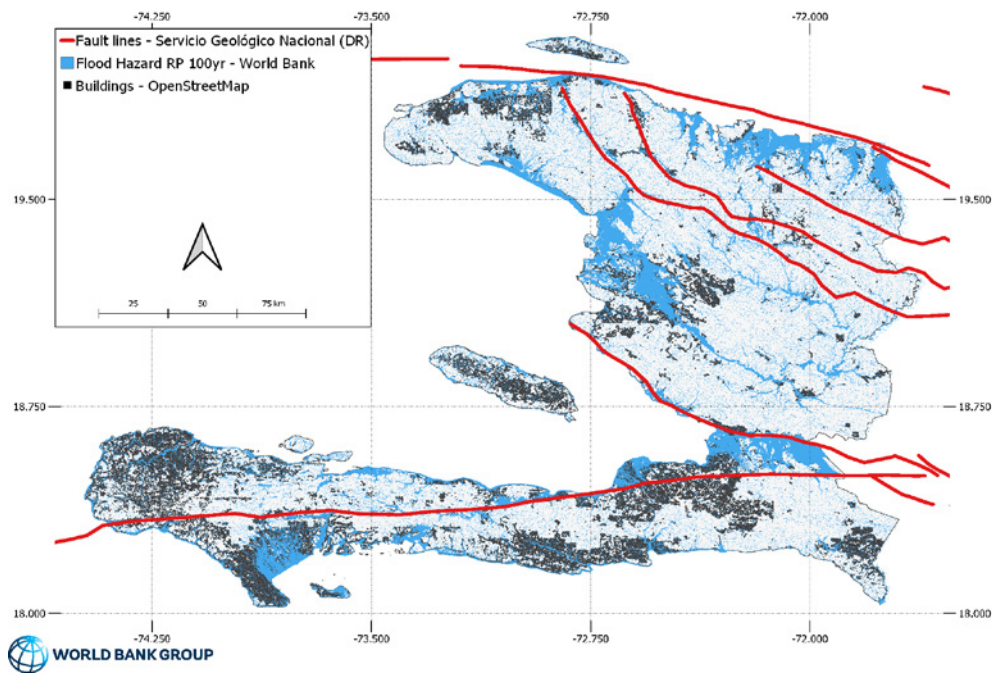
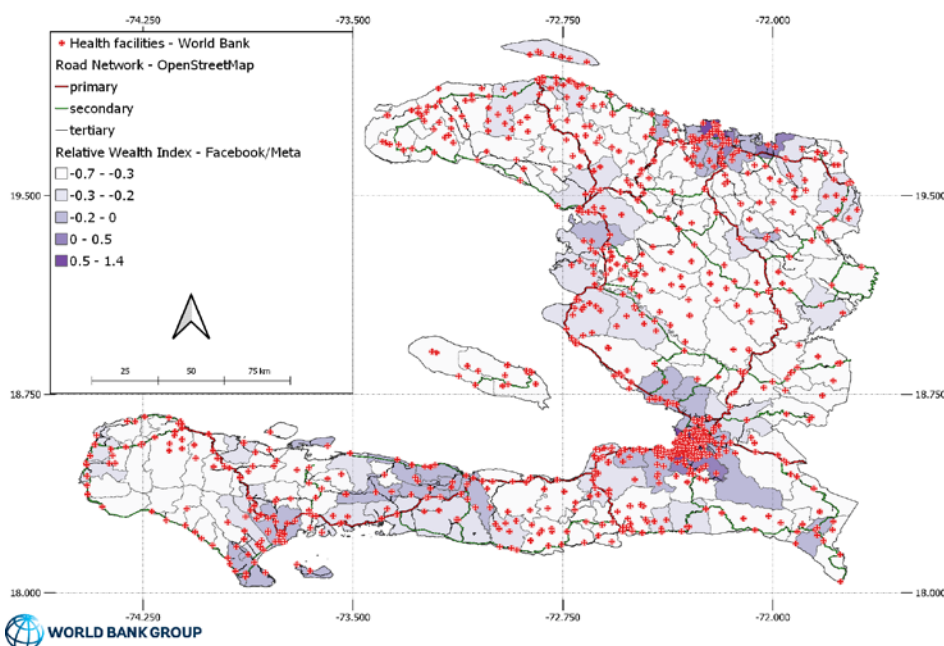


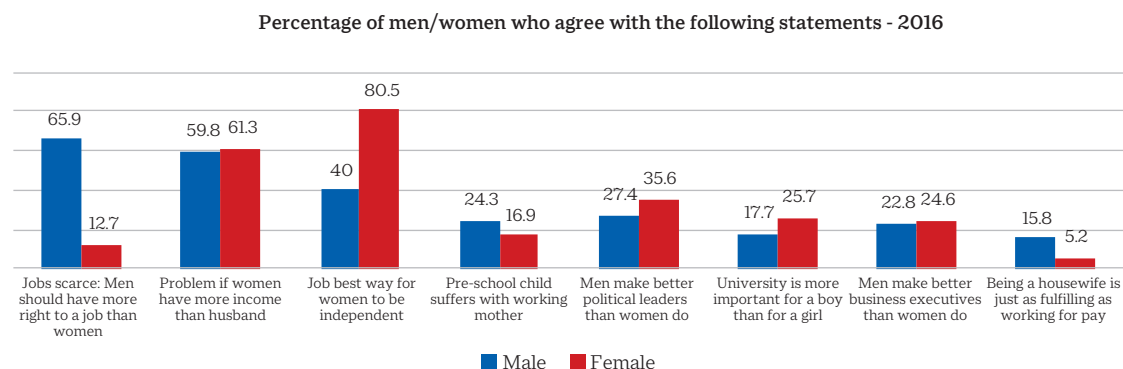
Figure A2.2: Poor and rural Haitians face challenges in accessing basic services and markets, with long distances to health facilities in some rural areas and inadequate quality and coverage of rural roads



Annex 3:

Gender and Labor market gaps in Haiti

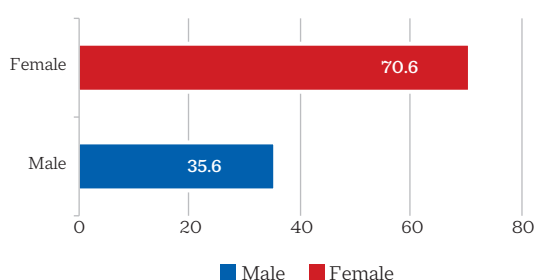
Figure A4.1: Traditional social and cultural norms about men's and women's role in society limit women's participation in important activities within the household and the society....



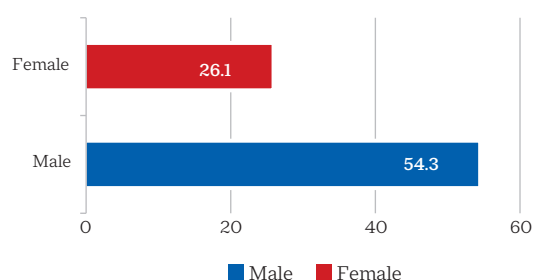
Source: World Value Survey 2016.

Figure A4.2: ...Women having fewer job opportunities and lower incomes than their partners

Before the pandemic, did your partner work?
% - 2021



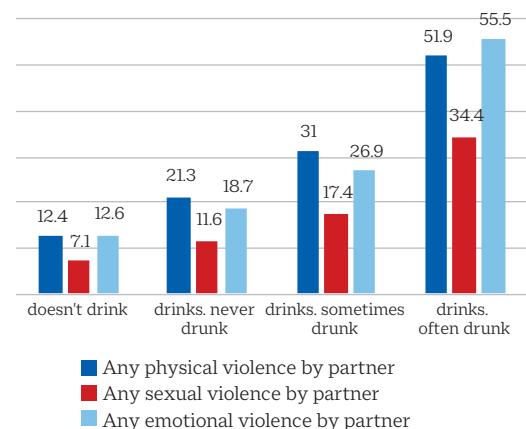
Percentage of men and women who made more money than their partner before the pandemic - 2021



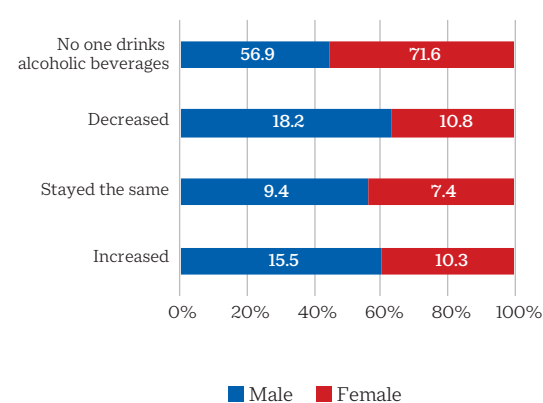
Source: High Frequency Phone Survey 2021.

Figure A4.3: Gender-based violence is prevalent and linked to alcohol abuse, which worsened during pandemic

Women who experienced physical, sexual and emotional violence by husband's drinking habits (%) - 2017



Alcohol consumption during the pandemic - 2021



Source: IHE and ICF 2018. High Frequency Phone Survey 2021.

