

**CARIBBEAN EXPORT DEVELOPPEMENT AGENCY (CEDA)**

# Study on certain aspects of the investment climate of Haiti

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The information and conclusions include in this study are on the sole responsibility of their author

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## **A- INTRODUCTION.-**

It has been very difficult to approach the subject matter and to propose solutions to the constraints for investment in Haiti without an overview of the basic factors that have limited the rational and efficient exploitation of the country's resources. Haiti should be in a much better situation given the strategic decisions made by its successive and continued administrations over a very long period (from 1930 to date).

Since the US occupation of Haiti from 1915-1930, successive Haitian governments have all chosen to develop the country according to principles favoring private investment and Foreign direct investment (FDI). These decisions were : (a) an economy based on the principles of a market economy ; (b) after 1945, the scrupulous respect for the directives of the Bretton Woods institutions and particularly those of the IMF and of the GATT (now WTO) ; (c) the development of national legislation ensuring the six main business freedoms almost without restriction (freedom of association, freedom of investment, freedom to reinvest profits, freedom to hire and fire, freedom of management, and freedom over raw material sourcing and markets) ; (d) calls for and initiatives in favor of foreign direct investment (FDI) ; (e) opening up of all investment fields to foreign investment (key sector approach, sub-soil resources, tourism and manufacturing).

In spite of this strategy, Haiti has not attracted its share of the flow of foreign investments directed toward the Caribbean Basin, nor has it benefited from the financial and commercial preferences included in the accords of the Alliance for Progress in the 1960s, the CBI in the 1980s, the Lomé Convention in the 1990s, nor its admission to the Caribbean Community in 1999.

The country is the only LDC of the hemisphere (with its main sovereign function managed by the United Nations) to have accumulated such enormous gaps with its neighbors (the majority of which have chosen the same strategy with remarkable results) : a per capita income of USD 716.50 and a Human Development Index of 0.44, (ranking 145th), with an associated unemployment rate topping 50% and a quality of life that has been extremely deteriorated and worsened by the earthquake of January 12, 2010.

In the case of Haiti, therefore, these conditions seem to be necessary and yet insufficient.

What, therefore, has been the missing element? The constraints limiting Haiti's economic growth and development should perhaps not be sought simply along traditional lines of thinking such as improvement of the business framework. For the economy to play its role in the country's stabilization and the creation of social cohesion, one must resolve the issue of certain preconditions. One could, therefore, consider the following:

- Historical issues.- Haitians created a nation on the first of January of 1804, after fifteen years of struggle against slavery that signaled revolution in Latin America. However, the construction of the Haitian State has been lagging and this has prevented the peaceful use of property. Strong State institutions are important for guaranteeing the enforcement of chosen policies. Haiti has been lacking a State.
- Security issues.- The presence of United Nations Peacekeeping Forces creates a dilemma. Stability has been regained with the presence of MINUSTAH (ushering in growth of 1.3% in 2008), yet their prolonged presence (close to 8 years) has increased the perception of political risk.

Four reasons explain this : (a) the precipitated departure of MINUSTAH would destabilize the country for good (Somalia comes to mind) ; (b) its presence connotes a deep political and social crisis that Haitians have been unable to solve (a failed State) and which, as it is still unresolved, could resurface (the political upheavals of November 2011 come to mind) ; (c) the demonstration by the Haitian National Police (HNP) of its inability to act in acute crises (the political upheavals of 2004, the foot riots of 2008, the 12 January 2010 earthquake and the political crisis of 2011 come to mind) ; and (d) the inability of the HNP to neutralize either petty crime (extremely bothersome to the small and medium businesses that dominate the Haitian economy) or the more well-organized mafia syndicates.

- Issues regarding economic income.- Haiti is a classic case of the excessive domination of Wall Street over Main Street, this being a constant in Haitian economic history. This choice to favor Wall Street has not permitted the modernization of key sectors of the real economy. Rather, it has led to the disappearance and/or the drastic reduction of production in strategic sectors (coffee, sugar, sisal, cotton), without their replacement by the development of other industrial capacities, and it has definitely discouraged producers.

This situation has been worsened by the unchecked commercial liberalizations of 1987 and 1994. This choice can explain the negative attitude of the population toward “the haves”—argued, it is true, by most intellectuals and university professors as well as by religious leaders. The fact is that distribution of wealth is the worst and very few collective benefits have been shared. Haitian society would need to seek a new form of arbitration if it wishes to stimulate the spirit of initiative in activities to produce goods.

- Issues regarding social cohesion.- To avoid heavy sanctions (such as the 1991-94 embargo), Haitian society is forced by the international context to learn quickly how to harmonize relations between its social classes, to create a State of Law based on liberal democracy and to find the proper balance between social progress and business needs.

As its natural tendency has been to turn to an Authority for the resolution of its conflicts, it has found it difficult to “activate” another model. Without a new social contract between Business Leaders and Social Forces and an obligation to modernize, the attractiveness of the country for investments will be strongly diminished.

- Issues regarding land use planning.- The Haitian population has reached 10 million individuals, of which slightly over 50% are living in a so-called urban environment within a territory of approximately 27,550 km<sup>2</sup>, 2/3 of which is mountainous. Haiti has the highest population density of the Americas (335.9 persons/km<sup>2</sup>). It is not well endowed with natural resources and its human resources are not known for their spirit of science or of economic calculation. Urban and social infrastructures are overwhelmed by the extent of internal migration and the country's main urban centers have been transformed into slums. The January 12, 2010 earthquake worsened this situation, particularly in the Port-au-Prince metropolitan area that is home to over 3 million residents. Haitians cannot achieve progress through "territorial liberalism."

The reflections of several experts and of most political leaders suggest a reorganization of the Haitian space. Was it ever planned before January 12, 2010? What does the concept involve? How can it be put into practice? The answers to these questions have become urgent, as they could orient investments toward other spaces needing networked infrastructure.

Without solutions to the issues raised above, Haiti will not be able to maintain vigorous growth over a sustained period so as to emerge from the vicious cycle of poverty. The task seems immense, which is one reason to tackle it as soon as possible.



## **B- RECENT PERFORMANCE OF THE HAITIAN ECONOMY.-**

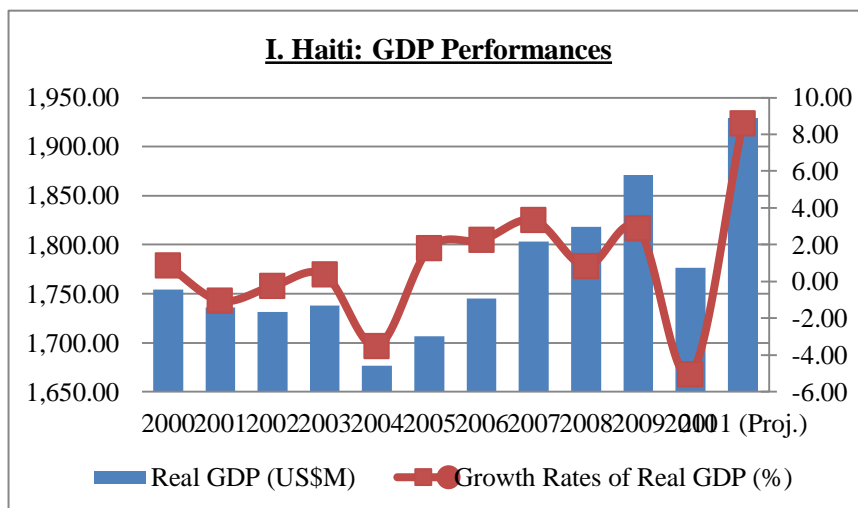
The Haitian economy is recovering slowly following a long string of severe shocks that have hampered productive capacity and retarded the fight against poverty. The latest one has been the major earthquake of January 2010 which destroyed hundreds of thousands of human lives and caused casualties estimated at more than 120% of GDP. Disaster had struck in the middle of a recovery from a long period of stagnation dominated by hurricanes, floods, commodity price spikes and food riots and political tensions.

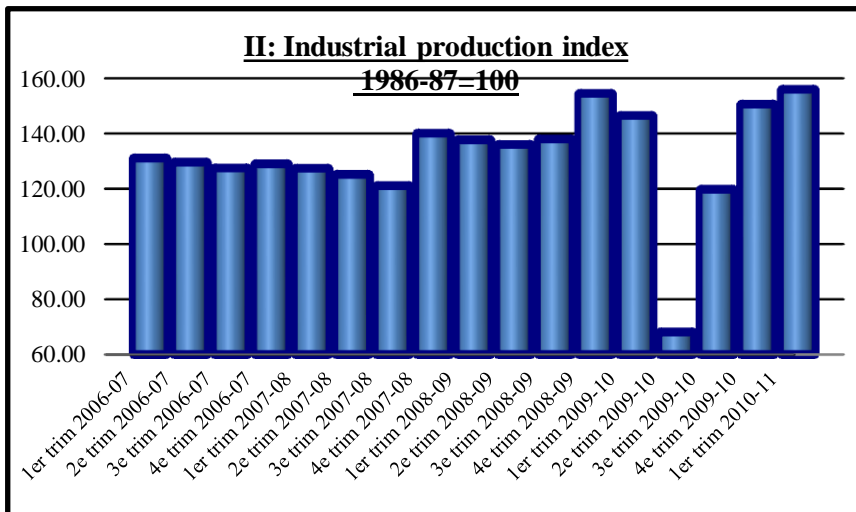
As a result, output growth has remained elusive and poverty has not declined despite vigorous measures (supported by bilateral and multilateral financial institutions) in public finances and monetary management that contained inflation and currency depreciation: after a contraction of about 5% in 2010, output growth is expected to reach 8.6% this year.

Domestic output has not exhibited dynamism in recent years with average growth increasing slightly to 1% (from 0.9%) between 2006 and 2010 with absolutely no improvement in per capita income. Still the 2010 hit would have been more painful were not for extraordinary fiscal efforts supported by foreign aid (as budget support) and workers remittances.

The rebound of GDP in 2011 is expected to come from a substantial increase in total government expenditures from 27.3 to 33.8% of GDP and capital expenditures from 15.9 to 22.7%. Of the latter foreign financing of investment will reach 14.5% from 10%. Exports are adding to the fiscal stimulus with a 97.8% increase in the 12 month ending in February 2011, reaching and even exceeding the pre-quake level thanks to the recovery of the US economy. Export rebound is led by assembly industry and also mango shipments which should continue growing with the preferential schemes offered to Haiti in the US markets.

Private bank credit is fueling further the incipient recovery after strong policy measures like reduction in reserve requirement on real estate or reconstruction loans and the opening of the *Partial Guarantee Credit Fund* inside the *Fonds de Développement Industriel* (FDI), a state-funded second floor financial institution. So far nominal bank credit –which is expected to grow à 21.6% this year- is running at the same pace as inflation for the second quarter and is pushing forward manufacturing (Graph II) and construction activities along with wholesale and retail trade.





As in the couple of years following 2004, fiscal policy has benefited in 2010 from increased foreign grants in the form of budget support and projects financing which allowed **i)** additional expenditures including more public investments **ii)** drastic reduction in domestic borrowing from the Central Bank and **iii)** , as a side effect, strong trend toward appreciation of the local currency. Total expenditures, financed by foreign aid, rose from 6.6% of GDP in 2009 to about 10.4% in 2010 and should reach 14.5% of GDP in 2011, shouldering sensible domestic fiscal efforts and shielding monetary policy from deficit financing. Debt cancellation amounting to \$695.2 Million (or 12.5% of GDP) notably by IMF has also helped relax the fiscal constraint.

So far fiscal policy has been on the moderate side: while domestic revenues exceeded – although slightly- the second quarter targeted level of 6.0% of GDP, total expenditures still lag their targeted level by 20%, reflecting the unexpected delay in aid disbursement.

This fiscal policy stance has paved the way for a monetary policy geared at a) maintaining inflation at moderate level and b) sustaining the recovery effort and, thus, a strong and safe expansion of real bank credit to the private sector, through low nominal interest rates and other measures like lower required reserves of bank mortgages and establishment of a partial private credit guarantee scheme. Inflation remained below 6% for most of the last 12 months, averaging 5.7% a year for CPI inflation and 5.9% for core inflation.

Relatively stable average inflation rate throughout 2010 had called then for a stable nominal short term rate to stimulate economic recovery after the January catastrophe. This policy – which was reinforced in the current fiscal year - was made possible by large inflows of foreign exchange and the ensuing need to resist currency appreciation and helped limit the economic contraction (of GDP) to less than 6% in 2009-10.

#### **C- PART I: Review of the literature on the climate for investment in the Caribbean**

##### **1- Weight of the business climate and the flow of foreign capital.-**

The climate for investment is defined in operational terms as the current and future political, economic, institutional and behavioral environment affecting profitability and risks associated with investment. It includes the costs and risks associated with a given transaction, as well as the competing forces at play within the economy.

The costs risks and forces in question are felt in various ways by each business. For example, an entrepreneur wishing to import machinery bears the direct cost of registering his business in the commercial register and the indirect cost associated with delays in having imported machinery clear customs. He can also run the risk of not being granted the required permit by the authorities.

When he has to transport new equipment throughout the country, the more undesirable the state of the roads and the bridges, the more his costs will increase, because merchandise can be damaged or take a long time before arriving at its destination. He can also run the risk of finding an essential bridge impassable. Finally, if he wishes to secure a bank loan in order to expand his business, the lack of competition within the banking sector can make it difficult for him to obtain credit.

In other words, the costs, risks and forces in question have a direct influence on the vigor of the business sector. Improving the climate for investments contributes to the creation of more businesses, to the increase of investments made within those businesses, and to the creation of more wealth and jobs.

## 2- The Caribbean Basin Initiative and Foreign direct investment.-

The global business environment has greatly improved during the past fifteen years. States and Territories have all carried out reforms that have contributed to generally satisfactory results. The OECD countries remain the most dynamic and also the most successful. The Caribbean region maintains a fairly attractive and stable climate for investment, although few reforms were undertaken in 2010 according to the World Bank's latest Doing Business report.

With the exception of Cuba, the region is made up of small open economies and has a population of approximately 40 million inhabitants and an average Gross Domestic Product (GDP) growth rate of 4%. The flow of Foreign direct investment (FDI) has experienced some decrease due to external shocks—it is very vulnerable to external shocks—such as that of September 11, 2001 and the recent international financial crisis.

Though they only represent less than 1% of the world's population (0.6%), the Caribbean islands perform well, attracting 4% of all FDI in 2010. They are in a very good position compared to other, more populous regions of the world.

The region is characterized by great diversification and certain complementarities. It is generally renowned for its beaches and its natural paradises, but also for the exuberance shown by its people in their vibrant festivities. Small in size, the Caribbean nations are full of potential. The region is made up of several small islands, all different from one another and with a certain complementarities, to wit:

- The Dominican Republic excels in labor supply and in other aspects of the labor market, as well as a relatively good tax regime and customs system, yet its quality of life still remains below a certain standard.
- Barbados offers an encouraging legal and political framework for FDI, yet has much work to do in relation to its tax and customs regimes.
- Jamaica offers the region's best market access and infrastructure, yet has weaknesses in terms of government bureaucracy and administrative barriers to growth.

- Trinidad and Tobago has macroeconomic stability and abundant food supply, but it is hampered by serious crime and concerns over security and anti-competitive practices.
- Haiti remains the most open country of the region with the cheapest labor costs, yet obstacles to FDI remain and the perception of risk is very high, as are transaction costs.

### 3- Haiti's special position in the Caribbean

Haiti is lagging behind other countries in the region due to deficiencies in its business climate. According to World Bank assessments of countries favorable to investments, Haiti is essentially the worst pupil of the region (ranking 162nd), together with Suriname. It has only moved up one notch over its previous ranking. Despite the timid efforts undertaken by its leaders over nearly 10 years, the country remains a fairly unattractive choice for FDI due to a relatively uninviting business climate, successive political crises, and a perception of very high risks in the eyes of investors.

A few problems constitute major obstacles for the influx of FDI, including the following weaknesses:

- a) A deficit in infrastructure, particularly in relation to electricity, telecommunications, roads, ports and airports.
- b) Deficits in training, particularly at the vocational and university levels.
- c) A deficit in social cohesion that can be seen in chronic political instability that encourages a climate ripe for insecurity and criminal activities.

- d) Judicial deficits, particularly an outdated regulatory and legal framework, that result in a bureaucracy with strong discretionary power and which, being conservative, rejects ideas for modernization.

These deficits have decreased attractiveness for FDI relative to other countries of the region. Over the past five years, Haiti has garnered USD 360 million in FDI, while Jamaica has garnered close to 7 billion and the Dominican Republic, approximately 13 billion.

However, the country has advantages that could attract FDI. These include:

- a) Its proximity to the Number One economy of the world, the United States, can constitute an advantage over several countries in the region.
- b) Its abundant and relatively young labor force compared to other countries in the region, where overall population is only close to 100,000 inhabitants.
- c) Preferential commercial agreements with the United States in the textile sector (first the HOPE and then the HELP legislation), facilitating duty-free US entry for Haitian Products.
- d) Haiti is a signatory of the Economic Partnership Agreement (EPA), thus enabling access to the European Union. This agreement is even more important as it enables access to other Caribbean economies that are members of the ACP group.
- e) The diverse microclimates that characterize the country make it favorable for the production of vegetables and fruits such as mangos.
- f) A coastline 190 km long, half of which is covered by beaches; several islands and islets the size of Martinique; as well as numerous historical and natural sites would be ripe for mass tourism.



- g) Reconstruction efforts due to damages caused by the January 12, 2010 catastrophe will feed the construction industry. One quarter of all buildings in the nation's capital require reconstruction or rehabilitation.

## **D- PART II: EVALUATION OF SOME OF HAITI'S ASSETS.-**

### 1- Available property.-

#### - Context.-

The difficulty of guaranteeing peaceful use, sale, and transfer of title of private property and/or of state-owned land is one of the fundamental causes of instability in Haiti. This heritage is the legacy of property-related decisions made on the colonist property owner's rebellion against France. The decisions were offered as special conditions to the slaves during the August 29, 1793 (The properties were offered within special conditions to the slaves when they were liberated).

This is the underlying reason for the civil wars that ensued after the country's independence on January 1, 1804, and for the conversion of the Haitian State into the nation's largest landowner. Successive Haitian governments (of all political persuasions) have been unable to remedy the situation and Haiti has the peculiarity of being the only country without a functioning service for registry of land tenure nor a credible register of state-owned land.

The query regarding the peaceful use of property has worsened over the last 40 years due to four factors: firstly, rapid population growth compared to viable space (Haiti has the highest population density in the Caribbean Basin); secondly, internal and external migration flows (which have weakened property acquisition); thirdly, the urbanization of agricultural lands (pressuring peasants and generating property titles with little security); and fourthly, creation of slums via the alleged illegal occupation of urban lands (damaging relations between the self-proclaimed owners and the occupiers, and weakening the State).

These changes were on top of the weaknesses of the justice system and the political unrest that, since 1986, have arisen at each change of government.

Haiti's land tenure system has very particular characteristics. It is dominated, in fact, by small parcels, making land reallocation difficult. There is no existing mechanism for the registry of land titles, thus the identification of property owners is problematic. The Haitian State is by far the largest landowner, yet it is incapable of proving this. "Large private estates" are all contested and these conflicts have never been resolved in a court of law.

- Available reserves.-

Only two reserves of property will be taken into consideration: those destined for agriculture and those destined for tourism. It would be extremely complex to envision the other categories such as those designed for housing, even though this will become the promising segment after the January 12, 2010 earthquake, though a bit less so for Foreign Direct Investment.

- Agricultural possibilities.-

In spite of soil erosion, investments in agriculture could lead to good returns given the quality of some of the available land. Most of these properties fall under the category of state-owned lands and could become available for use under two conditions. The first is the resolution of titling problems, and the second is the creation of a business partnership between the current users, the government and the interested firm.

Promising land on the plains and in the plateau (it is difficult to specify the amount of available hectares, thus a comprehensive study should take up that task) has the advantage of being located primarily adjacent to the sea, making it easier to channel products to national and international markets. Examples can be drawn from different regions of the country:

- i- The Hotte mountain range that runs along the southern peninsula, favorable for coffee cultivation.
- ii- The Roche Bois Plateau, with excellent growing conditions, particularly for fruit. The climate is excellent for livestock production.
- iii- The Sel mountain range, to be converted into forest by planting pine trees.
- iv- Along the Caribbean Sea:
  - The Plains of Bel Anse, with exceptional ecological conditions for coffee cultivation.
  - The Plains of Jacmel, for banana and coconut plantations.
  - The Plains of Les Cayes, extremely attractive and of significant expanse for food, grain and livestock production.
- v- On the coastal plains of the northern coast of the southern peninsula:
  - The Plains of Leogane, with easy access to the Port-au-Prince market.
  - The Plains of the Cul de Sac, with easy access to Port-au-Prince.
- vi- The Plains of Mirebalais, with excellent agricultural potential.
- vii- The Plains of Cabaret, with excellent potential for banana plantations.
- viii- The Artibonite Valley, excellent for the cultivation of rice and with the highest agricultural potential in Haiti.
- ix- The Central Plateau for cotton and livestock production.
- x- On the Atlantic coastal plains :
  - The Plains of Borgne, , suited for a large number of crops.
  - The Plains of the North, the most attractive region of the country and extending to the Dominican Republic.
- xi- On the Northwestern Peninsula:
  - The Three Rivers Plains, the promising portion of the Plains of Port de Paix.

xii- Along the Gulf of La Gonâve:

- The Plains of Gonaïves, including Savane Désolée for cotton and grain production.
  - The Plains of Arcahaie for banana plantations and possibly becoming the breadbasket for Port-au-Prince.
- Possibilities for tourism.-

Haiti has four secrets for enabling the development of its tourism: its *diaspora* and the visitors from the Dominican Republic, its beaches, its islets and its history. With a supply of over two million Haitians in the diaspora, any political stabilization within the country and any improvements to its capacity to welcome visitors (some was registered in 2009) brings about a growth of visitors (over 200,000 visit the country annually). Along its northern, southern and western coasts, Haiti has over 900 kilometers of some of the most beautiful beaches of the Caribbean, as well as islands—the size of some being larger than Martinique. Finally, it is the only Caribbean nation, together with Cuba, to be able to recount such a rich history illustrated by its monuments. The following sites are especially noteworthy:

a- Historical.-

- In the North, the region of the Palace of Sans Souci and the Citadelle Laferrière.

b- Beaches.-

- In the North, Anse à Chouchou, one of the Caribbean's most beautiful beaches.
- In the West, the Arcadin Coast, with the benefit of several tourist installations.
- In the Southeast, the coast of the town of Jacmel.
- In the South, the Aquin Coast, Coteaux Plains (Port Salut) and the Plains of Tiburon.
- In the Nippes, Grand Anse beach, near the town of Pestel.

c- Islands.-

- In the Northeast, the small islands of Manzanilla with special coral.
- In the North, Tortuga Island with its history of the Brethren of the Coast (buccaneers), is the object of expressions of interest.
- In the West, La Gonâve Island, larger than Martinique, is the object of expressions of interest.
- In the West, Ibo Beach Island, developed in the 1970s.
- In the Grand Anse, Caymitte Islands, just off the Grand Anse Beach.
- In the South, Ile à Vache (Cow Island) with the beginnings of development.

2- Available work force.-

- Demographic trends for the Haitian population.-

The most recent census in Haiti (2003) estimated a population of 8.4 million inhabitants, representing almost a doubling of the population estimated in 1971 (4.3 million). In 2010, CELADE estimated the population to be 10.085 million. Population growth is 2.5%, greater than that registered during the prior two census periods from 1971 to 1982 (1.4%). The characteristics of the Haitian population are as follows:

- i- Accelerated urbanization. Urban centers account for 40% of the population as compared to 20.3% in 1971 and 12.2% in 1950.
- ii- Very short life expectancy. It is 58.1, while the average in the Caribbean is 75.2 years.

- iii- A young population. The average age is 25 years and the median age is under 25 years. The 0-14 year age group accounts for 33% of the population, and the under 21 years are over 50% of the population.
- iv- Tendency toward geographic concentration. The Port-au-Prince metropolitan area concentrates 63% of the population of the Western Department and 23% of the nation's entire population.
- v- Very high internal migration. Driven by the population living in rural areas, migration is directed toward the Port-au-Prince metropolitan area (Western Department). This region absorbs close to 90% of the flow, with a mere 2% directed toward the Artibonite Department.
- vi- Very high external migration. The expatriate Haitian population is estimated at over 2.5 million people, distributed as follows: 40% in North America, 40% in the Dominican Republic, and the remainder in the French Overseas Departments and Territories.
- vii- A more pronounced matriarchy. It is 38.5% for the entire country and higher in urban areas (45.7%).
- viii- Illiteracy, the central problem. 41% of the Haitian population does not know how to read and to write, with a lower tendency for women (37%). Only 1% of the population declares having attained university level studies.
- ix- A reservoir of laborers. The potentially economically active population (15–64 years) was estimated at 58.3% of the total population. It is made up of 43.2% women.
- x- An alarming rate of unemployment. Over 4 of every 10 persons in urban settings are unemployed; in rural areas the ratio is 3 out of 10. For the younger age cohorts, unemployment borders on 60%.

- xi- Agriculture, the main employer. Despite the regression of the primary sector (and of agriculture especially), and the growth of the tertiary sector (trade in particular), 49.5% of the labor force is engaged in agriculture and 25.3% in wholesale and retail trade. Self-employment is dominant, accounting for 82.1% of the nation's employed persons.
- Profile of the trained labor force.-

The pool of Haitian labor has the following characteristics:

- i- Over half of Haiti's labor force (15 years and older) knows how to read and write. Despite progress in the rural milieu, its rate of literacy (42.1%) remains much lower than that of the urban milieu (79.5%). School attendance rates for girls (45.26%) are always lower than those for boys.
- ii- School dropouts are marked after the age of 19, with differences in favor of girls up to 24 years of age. It is noteworthy that primary school remains a difficult hurdle to clear, with 35.1% of persons aged 5 and older having a level of education corresponding to primary school without being able to pass into secondary school.
- iii- 10% of the labor force has attained secondary school level and less than 1%, university level.
- iv- Technical and vocational training centers are attended by 2.7% of the individuals aged 10 to 59 years, of whom 55% are women and the largest cohort is aged 20 to 34 years. Over half (58.3%) live in the Western Department and 15.6% are attending a public (government-run) center.



### 3- Availability of capital.-

#### - National capital.-

Haiti is the poorest country of the western hemisphere per capita income is among the lowest of the world, most of income goes to consumption leaving a level of private savings too low to finance development and thus to lift the country out of poverty. Moreover, recent political instability has not discouraged outflow of resources.

Domestic banks are allowed to offer checking, savings and term deposits denominated in foreign currency with market determined interest rates, like local currency deposits. These foreign currency deposits amount to almost half of broad money in Haiti. Banks loans can also be issued in foreign currency—beside Gourde denominated loans- up to 50% of foreign exchange deposits.

The banking system is made up of ten commercial banks holding assets amounting to 46% of GDP making most of the formal (net) credit market (10% of GDP). This relatively small banking system has been under considerable stress recently: from domestic stagnation and major earthquake to world recession. Non productive loans (NPLs) rose to 12.3% of gross loans in March 2010 (3 months after the earthquake) from 9.7% in September 2008 before returning to a more reassuring level of 5.4% in December 2010 bringing back the system to profitability: return on average assets is back up to 1.3% December from 0.14% in March.

Bank credit tends to be limited to a small number of well known traditional borrowers in the import-export sector and in the manufacturing and services sectors. Moreover, although the bank network covers the whole country, very few loans go to areas outside of Port-au-Prince and Cap-Haïtien areas, the two main cities of Haiti<sup>1</sup>. The banking system –which includes two government-owned commercial banks - coexists with other private and state *non-bank* banks like SOFIHDES funded by private domestic and foreign resources, along with NGO-type savings and loans like FONKONZE, sustained by foreign grants.

While the former aim at large and medium enterprises, the latter concentrate on micro-businesses and small traders outside the Port-au-Prince metropolitan area and among small farmers, in the “informal” sector. This area of “*microfinance*” has been growing rapidly despite the recent and well publicized collapse of “*financial pyramids*” in the early 2000’s, with losses estimated at 2.2% of GDP. Lately, the financial architecture has been enlarged with “*mobile banking*” developed by local cell phone providers supported by some commercial banks, within a wider initiative sponsored by the US

Government and the Bill and Melinda Gates Foundation. Mobile banking aims at “*including*” the countryside cell phone users into the formal payments mechanism and the established financial savings network.

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<sup>1</sup> It has been documented that large portions of bank loans are re-lended to small farmers and merchants as advances on their products.

- International capital.-

As for international funding, Haiti has not had access to the world financial markets for years, first because of distortions in the foreign exchange regime in the late 80s and early 90s and second because of political and economic instability at the turn of the century. The economy is too weak to sustain foreign borrowing at market rate, like Jamaica and the Dominican Republic. Even loans with very high grant element from the World Bank and the Inter-American Development Bank generated such a heavy burden that all those liabilities had to be forgiven after the earthquake.

With the exception of the Venezuelan government Programs like Petro Caribe credit window (which contains a substantial grant element) and their Development Bank (BANDES), all foreign financing to the Government must take the form of grants because Haiti has signed the Protocol on the Pardon of International debt for LLDCs. But, private firms may have loans from international development banks.

- 4- Availability of infrastructure.-

Considerations will be shared regarding electricity, road transport, maritime transport, air transport and telecommunications.

a- Electricity.-

i- Governance of electricity.-

The commercial and industrial state-owned enterprise, *Electricité d'Haïti* (EDH), was created in 1971 from the nationalization of the American company, the Electric Lighting Company (*Compagnie d'Eclairage Electrique*). It has the monopoly on the production, transmission, distribution and sale of electricity. The Haitian government appoints the members of its board, presided over by the Minister of Public Works, Transport and Communications (MTPTC).

ii- Production of electricity.-

The metropolitan area of Port-au-Prince is home to EDH's largest network, with an installed capacity of 171.87 MW, of which 31% is hydro-electric and the remainder is thermal. The other provincial areas with electrification are the Northern metropole (10.65 MW), Gonaïves and Saint Marc (16.10 MW), the South (8.23 MW) and the town of Jacmel (4.32 MW). Other towns in Haiti are supplied by small thermal power plants ranging from 300W to 600W. All the thermal plants are run on diesel motors.

Beginning in 1996, EDH opened itself up to the private sector by developing agreements for the purchase of power under the financial guarantee of the government. Along these lines, agreements have been signed with HAYTIAN TRACTOR INTERNATIONAL (20 MW in Port-au-Prince), SOGENER (24 MW in Cap-Haïtien, in the Artibonite, in Petit-Goave and Les Cayes), E-POWER (35 MW in Port-au-Prince). All of these companies are majority Haitian owned.

The Venezuelan government has donated three thermal plants, with total capacity of close to 60 MW, to “the Haitian people.” They are installed in Port-au-Prince (30 MW), Gonaïves (15 MW) and Cap-Haïtien (15 MW). Unlike the other EDH thermal plants, they function on heavy fuel oil. These assets have not been transferred to EDH.

Despite the introduction of these new sources, overall available capacity remains low. The ratio (of available capacity to installed capacity) is due to serious maintenance problems causing breakdowns and to the age of the transmission lines. Haiti’s ratio is 25%, compared to that of the Dominican Republic (37%), Trinidad and Tobago (46%) and Jamaica (51%).

### iii- State of the electrical grid.-

The supply of electricity in Haiti is not nationally interconnected. It is ensured within four distinct regions: Port-au-Prince, South, Artibonite and North, with Port-au-Prince being the only region to have an integrated distribution network. In the other regions, the networks are isolated, i.e. they are neither linked within a commune nor to any external network.

The national electrification rate (corresponding to legal connections) is low (12.5%) and is distributed as follows: Port-au-Prince (5.6%), Artibonite (1.12%), North (1.32%), South (1.06%) and Jacmel (0.9%). The supply of electricity varies from region to region, and is roughly 12-16 hours for Port-au-Prince and 20-24 hours for the other regions. The explanation for these figures is in the low rate of availability and the technical and non-technical losses.

It is estimated that EDH loses between 46% to 54% of its overall production. Technical losses account for 18% and non-technical losses range from 28% to 36%. These are very high, even in comparison to countries with weak governance such as Togo (27%) and Cameroon (21%). The national budget finances up to USD 100 million of the company's current deficit.

New developments have occurred in the electricity sector. The government has authorized the privatization of EDH. The operation has been taken up by the Council for State Enterprise Modernization (CEMEP), which will be assisted in its efforts by the International Financial Corporation (IFC). The World Bank and the Inter American Development Bank (IDB) are financing a program for rehabilitation of the electricity sector. These will be significant structural changes, the results of which will be felt in the medium term.

b- Road transport.-

i- Governance of road works.-

One can present the following overview of the coordination of the interventions:

From the governmental side, the Ministry of Public Works, Transport and Communications (MTPTC) is the Contracting Authority. It is assisted by the National Equipment Center (CNE) and the Fund for Road Maintenance (FER). The CNE is responsible for the rehabilitation of rural roads within communes and for emergency works, while the FER is responsible for maintenance of all of the networks.

National financing is concentrated on efforts between the communes and the rural sections and on network maintenance. The resources from *Petro Caribe* (the Haitian-Venezuelan Petroleum Agreement) have financed the rehabilitation and/or the construction of infrastructures (particularly in the Northwest Department), of the RN1 and of the inter-communal roads.

From the international side, the main donors ensure financing for the major road works (particularly the European Commission/CE and the IDB). The Port Salut–Port à Piment network is financed by the government of Taiwan.

## ii- Overview.-

Haiti's inter-urban road network is comprised of 3,572 kilometers divided into three categories: national roads (inter-departmental), departmental networks, and communal networks.

National routes count for 953 km (27% of the road network). They link the economic hub of Port-au-Prince to the main urban centers of the country and to two international roads. The departmental network is 1,315 km in length and links smaller urban centers to the national network. The commune level network measures 1,304 km (36% of the national network) and links rural communities to the departmental network.

The Ministry of Public Works, Transport and Communications (MTPTC) estimated in 2008 that 20% of the network (614 km) was generally in good shape, including 347 km of paved roads (27% in good shape). The following interventions have been or are being undertaken:

- (a) Rehabilitation of 243.8 km of national roads corresponding to 25% of the network (RN1, RN2, RN3, RN6, RD) and construction of 103 km of new roads at commune level.
- (b) Contracts signed in 2010-11 will rehabilitate 231 km of primary roads and 171.3 km of secondary roads.

Urban works have been limited: 4.5 km in Port-au-Prince, 17.7 km in Cap-Haïtien et 1 km in Ouanaminthe. Infrastructures in the Northern Department (16 bridges) are in the final stage.

These works will facilitate the following linkages:

- (a) the town of Jérémie (capital of the Grand Anse department) to the town of Les Cayes (capital of the Southern department),



(b) the city of Port-au-Prince to Cap Haïtien (2<sup>nd</sup> largest city in Haiti) via the Central Department (Hinche),

(c) the Port Salut – Port à Piment departmental road in the Southern Department linking this region to the town of Les Cayes with extension toward Jérémie, and

(d) the infrastructures in the Northwestern department (National Road RN5), facilitating traffic between Gonaïves and Port de Paix.

### iii- Overview of transport.-

The road network carries a low volume of traffic. This is between 4,000 (RN1) and 1,000 (RN5) vehicles per day on national roads, between 200 and 1,000 vehicles per day over the departmental network and of negligible volume on the communal roads.

The fleet for the transport of passengers and merchandise is composed of roughly 40,000 vehicles, of which 85% serve the Port-au-Prince metropolitan area. 64% of the fleet is designated for transport with a set itinerary and 7% for the transport of merchandise. A new means of transport, the motorcycle, was introduced at the outset of the 2000s. Given a survey by ISTH that counted 4,561 motorcycles, 74% of which were in provincial urban centers, the ratio has not been greatly modified.

The characteristics of public transport in the metropolitan area of Port-au-Prince can be extrapolated to the rest of the country. The fleet is aging, with close to 76% of the models dating from the 1970s-80s. The rate of usage is 99% for tap taps and minibuses. For buses, which average 76% usage, 21% have a set itinerary and 18.3% are destined for transport of merchandise. Drivers are not highly unionized.

c- Maritime transport.-

i- Governance of maritime transport.-

The National Port Authority (APN) is the entity responsible for managing and administering all public and private port installations. It is a governmental entity with legal personality. The Minister of Economy and Finance presides over its Board of Directors. It has authority to deal with security at ports, to apply tariffs for the handling of merchandise at private and public ports, to organize coastal navigation at possible sites, to lease lands under its authority, and to issue licenses for the use of ports.

ii- Overview of infrastructures.-

- Ports for coastal navigation.-

Thirteen ports for coastal navigation serve the nation's coastal towns. The 8 most important ports are:

- 1- Port de Paix.- with a basin dredged to 3 meters deep and 4,050 m<sup>2</sup> of warehousing space. The wharf is of marginal quality. It is open to international trade. It serves the Northwest region.
- 3- Gonaïves.- with a 45m wharf and 11 bollards, 1,600m<sup>2</sup> of concrete deck and an access channel dredged to 3m. The storage area is open and covers a 900 m<sup>2</sup> lit area. It is open to international trade. It serves the Upper Artibonite region.
- 4- Miragoâne.- with a 35m long wharf and water depth of 2m10. The installations are antiquated. It is open to international trade. It serves the Nippes and Petit Goâve region.
  - 5- Jérémie.- With a 122m long wharf, 12 10T bollards, 8,000m<sup>2</sup> of warehousing and a 2m access channel. It is open to international trade. It serves the Grand Anse region.
  - 6- Jacmel.- With 106m of frontage for mooring, a 5m draught and a surface area of 1,713 m<sup>2</sup>. It is open to international trade. It serves the town of Jacmel and surroundings.
  - 7- Saint Marc.- With an 87m deck and a very deep bay. It is open to international trade. It serves the Lower Artibonite Region.
  - 8- The Port of La Saline in Port-au-Prince.- with a 275m deck, a 17,400m<sup>2</sup> surface area, a depth of 4m and 1,440m<sup>2</sup> of storage capacity. It serves the Port-au-Prince metropolitan area.
  - 9- Carriès.- With a 560m wharf, a 5.8m draught, and a 560m<sup>2</sup> marina. It mostly serves traffic between La Gonâve Island, Port-au-Prince and the Artibonite department.

- International ports.-

Haiti has two international ports: that of Port-au-Prince and that of Cap-Haïtien. They have the following characteristics:

(1) The port of Cap-Haïtien has the following characteristics:

- (a) Two access channels leading to the port: the first on the west, 1.6 km long and 10-15 meters deep; the channel on the east is no longer used.
- (b) It has four wharfs: one cruise ship wharf (176m, 7 bollards, 10m50 deep); one wharf for international trade (250m, 13 bollards, 9m50 deep, 74,000m<sup>2</sup> of warehousing space including an area for refrigerated containers), one costal wharf (100m long, 3m5 deep, 0ha50 of storage) and one marina (100m, 2m4 deep, 40 bollards).
- (c) The port of Cap-Haïtien was certified for conformity with ISPS code in 2006. The certification is valid for a period of 5 years.

The cruise ship wharf of Labadie is under its control. It was opened to traffic in 2009. It can accommodate the largest of cruise ships.

(2) The port of Port-au-Prince was damaged during the January 12, 2010 earthquake, with its deck partially destroyed. It has the following characteristics:

- (a) An access channel 4 km long and 12m00 to 20m00 wide
- (b) It has two wharfs: one for international trade (1250m, 7 berths), an area of 665,000m<sup>2</sup> and an improved area of 180,000m<sup>2</sup> and an 11,240 m<sup>2</sup> covered warehouse; and a cruise ship wharf (500m00 in length, it is not operational).

(c) It has the following cargo handling equipment: 30 MT rail-mounted gantry crane, 1 30 MT forklift, six 3 to 7 MT forklifts et 16 tow trucks.

iii- Traffic to international ports and costal ports.-

Traffic at the Cap-Haïtien international port accounts for 10% of the trade with foreign countries. It receives an average of 400 vessels annually for a total of 140,000 MT of merchandise, with less than 60,000 MT of which is container traffic. Cargo shipping has decreased by roughly 20%. Cruise liner traffic (including that of the port of Labadie) accommodates roughly 500,000 passengers annually, coming mostly from the US and the Caribbean.

Traffic at the international port of Port-au-Prince is estimated at more than 4 million tons of cargo to an average per year of 600 visiting vessels. Traffic in containers tops 300,000 annually. Over 80% of the cargo comes from the USA, of which 72% from the port of Miami. The other goods come from Jamaica (10%), Cuba (5%) and Latin American countries (5%). Cargo is currently transferred by barge to the APN area and then to the different private terminals due to the state of the deck.

The costal ports open to international trades receive approximately 350 vessels per year carrying roughly 200,000 MT. The port of Saint Marc is the most significant (39.86%), followed by Gonaïves (31%), Port de Paix (18%) and Miragoâne (12%).

The flow of cargo comes from the USA and above all the port of Miami (72%) and New York (11%). It should be noted that Cuba represents 7% of the shipping. As for strictly national cabotage shipping, it represents roughly 1,300 motorized or sail boats. The port of Lassaline (Port-au-Prince) ranks first (37%), followed by Jérémie (25%). Traffic is estimated at 130,000 MT/year.

d- Air transport.-

i- Overview of infrastructure.-

- International airports.-

Haiti has two international airports situated in Port-au-Prince and Cap-Haïtien.

The January 12, 2010 earthquake has had major impacts on Port-au-Prince's Toussaint Louverture International Airport (AITL). The main terminal and control tower suffered unreparable structural damages and, in addition, the water, communications and remote surveillance networks are beyond repair.

The AITL terminal and the navigational aids have been repaired, enabling the resumption of passenger travel. The airport has surpassed its pre-January 12, 2010 capacity. The studies (site plan) have been completed. They project an airport carrying capacity of 1.5 to 2.5 million passengers in a first phase, 4 million in a second phase and a desired 7 million in a third phase. Phase I financing in the amount of USD 37 million is being sought locally. Phases II and III will be part of a program of airport privatization.

The Cap-Haïtien international airport has begun its rehabilitation process. Expropriation operations were conducted and civil engineering works should be completed in 2012. These works will benefit from a concessional loan of USD 16 million from the Venezuelan Development Bank (BANDES). The initial loan is USD 30 million, with the remaining USD 14 million being used to finance navigational aids throughout the country.

An international airport is planned for the Southern region. No serious progress has been made, whether on feasibility studies, site planning, meeting with investors or dialogue with beneficiaries.

- Domestic airports.-

Haiti has four airports for domestic flights, located in the towns of Port de Paix, Les Cayes, Jérémie and Jacmel. The terminal for domestic flights in and out of Port-au-Prince is separate from the central terminal. These airports are incapable of receiving medium-haul aircraft.

These airports are being re-evaluated, some for the purposes of modernization and others in relation to plans for relocation. For example, studies for expansion of the Les Cayes airport and feasibility studies for the creation of an international airport have been completed, however discussions are ongoing between stakeholders and the local population regarding the most suitable location for the region. The Jérémie airport has finished its preliminary site plan studies as well as a set of expropriation measures. The Jacmel airport has a new terminal. That of Port de Paix has completed the first evaluations to enable its relocation.

ii- Main aspects of air traffic.-

Haiti is connected to the rest of the world via the Miami, New York and Newark airports. Traffic is dominated by American Airlines, but DELTA and CONTINENTAL lines are beginning to capture a portion of the market with daily flights to New York and Newark. Ports of transit toward the Caribbean are primarily Santo Domingo, DR and Curaçao, serviced by mid-sized airline carriers. Two Haitian carriers have daily service between Santo Domingo and Port-au-Prince and a charter-type service has a connection twice a week between Cap-Haïtien and Providenciales (Bahamas). Haiti does not have any national airlines (it had an operating license which is no longer valid).

Most passengers on international flights are of Haitian origin and residing in North America and the Bahamas. Visiting the country for business, family and religious purposes, they reached a total of one million around the year 2000, are currently estimated at 1.5 million, and should reach 4 million by 2015. 90% of the cargo service is sent to airports in Miami.



Domestic flights are dominated by a Haitian company: TORTUG’AIR. It owns seven, small, 19-seat aircraft. TORTUG’AIR runs 16 flights per day using 7 aircraft. Flights leave Port-au-Prince destined for provincial towns and vice versa. A connection exists between Port de Paix and Cap-Haïtien. These airlines do not have regular cargo service. They have grown as a means of transport due to political tensions and frequent acts of banditry along the national and departmental roads and the condition of the network of roads. Their clientele is largely composed of professionals, of business agents, and of Haitian passengers transiting Port-au-Prince.

e- Telecommunications.-

i- Governance of telecommunications.-

The National Telecommunications Council (CONATEL) is the entity mandated to regulate telecommunications in Haiti. It is under the supervision of the Ministry for Public Works, Transport and Communications (MTPTC). It was created in September 1969, and its mission defined in August 1987.

At an operational level, it is responsible for (a) proposing to the government the rates to be applied to different types of communications, (b) ensuring the oversight of telephone companies and the coordination of their network, (c) evaluating requests for new licenses and modifications proposed by existing firms, (d) arbitrating disputes between networks and conflicts arising between networks and users, (e) managing the band of radio-electric frequencies.

ii- Telephone service.-

Four companies operate telephone services: NATCOM, HAITEL, COMCEL and DIGICEL. NATCOM was born of the acquisition by Vietnamese firm VIETEL of the majority of the stocks of TELECO during the privatization of TELECO, a semi-public company belonging to BRH (Haiti's central bank), which had the monopoly on telecommunications. HAITEL (1998) has a majority of private Haitian capital; COMCEL (1999) and DIGICEL (2005) are direct foreign investments. The agreement struck with VIETEL opens the door for the re-establishment of a network of landlines which had disappeared from the Haitian market.

Cellular telephone service has a clientele of roughly 3.33 million individuals for a population of over 10 million individuals. It is provided by four private companies, with the following market shares : HAITEL (11.4%), COMCEL (24.7%) and DIGICEL (60%). NATCOM began operations during the first week of September 2011. It is also authorized to offer cellular telephone service.

HAITEL operates using CDMA/EVDO technology, while COMCEL and DIGICEL use GSM/EDGE. HAITEL offers coverage over 25% of the national territory; COMCEL, 90% and DIGICEL, 95%.

iii- Internet service.-

Internet access service is provided by four suppliers: ACCESS-HAITI, HAINET, ACN and LINK. They are authorized to use a network integrating high-speed internet services and all those involving broadband transmission. Several thousand Direct Way type VSAT are installed in Haiti. An interchange point ensures routing of local traffic from internet access providers. This interchange point is privately owned.

f- Water resources.-

i- Governance of water.-

Potable water was supplied by state agencies—the Metropolitan Central Potable Water Authority (CAMEP), the National Potable Water Service (SNEP), and the Community Hygiene and Potable Water Point (POCHEP)—and several non-governmental organizations (NGOs). Given the challenges faced in this field and the lack of coordination of the operators, the government created an agency charged with planning and management of water in Haiti: the National Directorate for Potable Water and Sanitation (DINEPA), which has taken over the roles of the previous state agencies mentioned above.

ii- Potable water supply.-

Water supply is a very serious problem, in spite of the country's plentiful water supply. Haiti has an average annual precipitation of 1,400 mm with some zones receiving 400 mm of precipitation and others 3,600 mm. Ten percent of the country's available potable water is consumed for domestic use. Consumption of water by region is presented in the following table :

Consumption of potable water by hydrographic region (Mm <sup>3</sup> /yr)					
Region	Water supply	Irrigation	Other	Total consumed	Total available
Center-North	8.0	410.0	-	418.0	3,800
Center – South	80.0	333.5	4.0	417.5	1,100
North	5.0	8.4	0.4	13.8	1,000
Northwest	11.0	161.0	-	172.0	1,200
Southeast	1.5	69.0	-	70.5	800
Southwest	5.5	187.0	.25	192.75	4,700
Total	111.0	1,168.9	4.65	1,284.55	12,600

Source: PAHO /WHO, agenda 21, May 1996

Well water is the system most used for supply of potable water to the population; over 40% of the population obtains it water via this system. The geographic distribution is as follows: 35% in Port-au-Prince and neighboring municipalities, (Pétion-Ville, Carrefour, Delmas), 43% in secondary towns and 39% in rural regions.

75% of the water in the Port-au-Prince metropolitan area is obtained from 18 springs situated near the mountains of the La Selle range and the remainder from 5 older wells and from 6 newer wells built in 1998. Production from fountains and wells is estimated to be 40,000,000 cubic meters per year. Distribution is via a gravity-fed system with 16 municipal holding tanks that furnish a capacity whose total volume exceeds 45,000 m<sup>3</sup>. (PAHO/WHO, 1996).

In the rural areas, potable water coverage was estimated to be 39% in 1996. Much progress has been made given that DINEPA is concentrating its efforts in these areas. The current focus was increased by the cholera epidemic that hit Haiti starting in mid 2010.

Recent DINEPA surveys give the following national level results: only 8.5% of households are hooked up to a water distribution network, and 64% of the population supplies itself with drinking water from rivers and springs. In urban settings, poor families usually purchase water of doubtful quality by the bucket (DINEPA, 2010).

### iii- Industrial and commercial uses

The food industry in the Cul-de-sac Plains uses over 4 million cubic meters of water annually. Underground water, obtained from approximately 800 wells, is the primary source of this water. Information on other industrial uses or needs is unavailable.

If one takes into account different rivers existing in Haiti's different geographic departments or regions, water for industrial use could be obtained easily from river water. Of particular note: Trois Rivières Basin, La Quinte Basin, Limbé Basin, Cap-Haïtien Basin, Grande Rivière du Nord Basin, L'Estère Basin, Artibonite Basin, Léogâne and Carrefour Basin, Grande Rivière de Jacmel Basin.

#### iv- Agricultural uses and needs

Surface water flows through a large number of irrigation systems. The most important agricultural zones in Haiti are the following irrigated plains: the Northern Plain, the Fort Liberté estate, Cul-de-sac Plain, Les Cayes Plain, Lower Artibonite River Valleys, Lower Estère River Valleys.

The quantity of surface water currently available for irrigation is decreasing. This is in almost perfect correlation with the country's deforestation. Approximately 80% of all of Haiti's surface water is used for irrigation. In 1996, an estimated 1,170 million cubic meters of water was used for irrigation. In 1996, approximately 70,000 hectares of land were irrigated. However, only 42,000 are regularly irrigated due to the poor functioning of the system and the wastage of water that occurs.

The current potential for irrigation ranges between 135,000 and 150,000 hectares, representing approximately 50% of the plains with the highest potential for production in Haiti. The remaining agricultural lands are located in the mountainous areas.

## **F- PART III: PROPOSALS FOR RESOLVING THE CONSTRAINTS.-**

### 1- Recommendations regarding workforce.-

#### - Context.-

Haiti is theoretically in a favorable position in relation to available labor. With over 60% of its economically active population unemployed, the static reserve in Haiti is a little over 2.5 million persons seeking employment. Of this force, slightly over 58% know how to read and write, bringing the available workforce to approximately 1.45 million people, which is relatively significant for a country in the Caribbean Basin. It should be noted that the language of communication for this workforce is Creole, a language very rarely used in the business world.

The difficulties become apparent at the phase of recruitment of qualified workers and management. In fact, of the population that can read and write, 10% has reached the secondary school level and 2% the university level. They are generally inexperienced, given the small amount of business training and the very theoretical nature of the instruction they have received. Haiti does not have, as do some emerging nations, a reservoir of trained human resources.

Another difficulty can be found in the population's attitude toward work. The population has developed a mentality opposed to formal businesses, which makes for very strained relations between management, middle management and workers. The resolution of conflicts via legal mechanisms (labor code) does not supply the peace necessary for smooth business operations.

This attitude is also found in the relations between businesses and society. It is the dominant culture and it is largely promoted in the media, even though the media belong, in the case of the most powerful, to the business sector.

- Recommendations.-

The following proposals can help to address these challenges:

- (a) The need for trained resources (qualified management and labor force) can be met immediately by seeking skills on the Haitian expatriate market. These resources can be found, with the required caliber, in North America and the Dominican Republic. This reservoir is large: approximately 1 million persons.



A formal linkage to enable recruitment is recommended (advertisements are too costly). It could be either institutional (a public institution) or delegated to a non-state organization (a Chamber of Commerce).

- (b) This need could be developed in vocational schools and university centers of excellence (a maximum of 10 vocational schools and the selection of 3 universities) capable of providing the desired skills. The creation of new institutions would not be desirable; it would be better to rank existing institutions. Prizes for excellence could also be developed for the most successful Haitians in the academic arena.
- (c) The strategic decisions made by government and non-state actors are rarely taken up within the university sector. It is necessary to rectify this situation and to integrate this sector within the country's realities. It is the crucible of future leaders.
- (d) The Haitian economy cannot evolve if businesses and employers have such a poor reputation among the general public and at times within their own society. A vast program promoting the spirit of enterprise should be proposed for major media outlets and training centers (primary and secondary schools, vocational schools, and institutions of higher learning).

## 2- Recommendations regarding property. -

### - Context.-

The legal context was modified by the 1987 constitution. It enables the State to legislate regarding private properties. It introduces the Municipal Council as preferred manager of state-owned lands. It authorizes all manner of transactions related to these properties.

As the Haitian State is the largest land owner, a complete set of laws and regulations were developed. The direction General des Impots (DGI) was given the power to administer the state dominion, to authorize their use by individuals and to set the price for their lease or rent. The DGI Director General may authorize leases of up to 9 years. The Ministry of Economy and Finance can authorize longer leases. Their authority is circumscribed by the laws of January 1963 and September 1964.

- Recommendations.-

The socio-economic conditions, the weakness of the judicial apparatus, the introduction of local authorities, the scarcity of property and the available laws require solutions tailored to each category of alleged property owner. Proposals cannot be generalized, but should address four types of property: state-owned lands for public use, state-owned lands for private use, areas which have become slums, and private property.

(1) State-owned lands for public use.-

Public domain state lands are comprised primarily of islands. They have been singled out by investors for the purpose of tourism (Ibo Beach, La Tortue, La Gonâve, Île à Vache). Their legal status does not allow the Haitian government to engage in any transaction without a parliamentary vote to decide their fate. This study proposes the following actions during the deregulation of these islands:

- i- Establish a steering committee.- Its objective is to provide its non objection at each phase of the deregulation process. It would be composed of the main stakeholders interested in the development of these regions (local authorities, members of the business sector and social interests) and presided over by the Prime Minister, assisted by the Minister of Economy and Finance.
- ii- Conduct a strategic study.- It should respect the Master Plan for Tourism. It would identify the islands to be deregulated. Discussions with the main donors are important for the selection of these islands; some of them may have other constraints.
- iii- Determine the potential of these islands.- Evaluate the real possibilities for tourist investments and/or commercial transit and determine the conditions for doing so, the non-economic investments necessary and any other measures to facilitate their development. The different forms of partnership between the State and the private sector should also be studied.
- iv- Deregulate lands within the public state domain.- Propose legislation to facilitate interventions on selected properties. A legal framework would be more appropriate; it would enable case-by-case deregulation.
- v- Actions to facilitate a vote and the understanding of the decision by the broader public should also be designed and undertaken.
- vi- Verification of the level of seriousness of those manifesting interest.- It is necessary to limit land speculation and to reduce negative expectations regarding these properties. Select a firm to task with verifying whether developers have the necessary qualifications and resources to properly implement their proposal.

## (2) State-owned lands for private use.-

The Haitian government has a history of allocating parcels of state-owned land to companies for their projects. Moreover, The Internal Revenue Service (DGI) is authorized to offer use of these lands to individuals or public or charity-oriented institutions. These properties cannot be transferred to individuals until after five years of leasing and via parliamentary vote. The Free Trade Zone Commission is an example: of 17 proposals requiring free trade zone status, 12 are implemented on state-owned lands.

Four strategic tools have been lacking to enable governments to make good use of these properties: the first, town and country planning; the second, registry of state-owned lands; the third, orientation to give to these tracts of land; and the fourth, evaluation of the level of competence of the applicant firms and individuals. Authorities are working on the two most important tools:

The first, the Inter-ministerial Committee for Territorial town and country Planning (CIAT), has studied a territorial planning scheme. Critics say it is theoretical and based on voluntaristic and that it does not sufficiently take into account political demarcations – i.e. the organization of the communes and the communal sections and the capacities of the Haitian state to reorient public investments. It was not adopted by the government.

The second, the decision to construct the registry of land ownership, was implemented in 2010. It is the fruit of a tripartite cooperation agreement (Organization of American States/OAS, and the French and Haitian governments). The efforts have just begun. Haiti's weakness in this field, as well as its history, do not predispose the process to producing results in the short term.

Legal provisions authorizing DGI personnel who operated in rural sections to lease state-owned properties complicate the situation surrounding state-owned properties. This relaxation has not favored the efficient development of these properties. The following proposals are aimed above all at introducing foresight into the decisions of government authorities and enabling these properties to be made available for the business sector:

- i- An examining Commission.- This should be the only entity authorized to receive requests. It would have the power to grant or refuse requests. It should be presided over by the Minister of Economy and Finance and have as members the Minister of the Interior and the relevant local authority. The Director General of the DGI would act as Secretary of the commission. The introduction of non-state actors is not recommended so as to avoid insider dealing.
- ii- Limitation clauses.- It should have clauses enabling the DGI to immediately recover land if beneficiaries do not follow authorized plans.
- iii- Authorized forms of partnership.- A study should evaluate the different possible forms of partnership between the State and private companies. It should propose options in the case of closures.

iv- Studies on new legislation regarding state-owned land for private use.- Current regulations are over 50 years old. They are no longer adapted to current conditions (see preceding paragraphs). A study should review all aspects pertaining to leasing, allowable duration of the occupation, and the future of these properties.

(3) Recommendations regarding areas that have become slums.-

Stabilization of the alleged ownership of squatterized land is of central importance if one wishes to guarantee Haiti's stability (very few of the peasant uprisings have threatened Haiti's security, yet urban revolts have toppled many a government), as well as the peaceful use by beneficiaries of private properties in urban centers. The efforts undertaken by the team of Peruvian economist De Soto during 1998-1999 could serve as a basis for offering these properties to their occupants.

His interesting proposition was to convert "dead capital" into "active capital" by offering property titles to the occupants of areas that had become slums. The documents offered them two things: collateral for financing and, above all, a sense of long term security. It would be necessary to adapt these documents, developed slightly over 15 years ago, to the Haitian realities of 2011.

It would be necessary to make these areas livable by introducing basic infrastructure, undertaking sanitation works, and building shared social spaces.

#### (4) Recommendations for private property.-

##### - Context.-

The cornerstone of private investment is the guarantee of the peaceful use of private property. In Haiti, this is not threatened by government actions such as nationalization, agrarian reform, unjustified expropriation, etc. It is threatened by judicial decisions, by the inability of the forces of law and order to enforce judgments, by forgers of property titles, by acts of banditry (occupation of property by force) and by other forms of predation.

The cumulative effect of these acts over the past 30 years could lead to a major crisis, i.e. a clash between “alleged owners” and the impossibility of government authorities to guarantee private property. It is necessary to contain the conflict at the source.

##### - Recommendations.-

This study proposes the following actions:

- i- A commission composed of judges should be tasked with ruling on all contentious cases. The result of their deliberation would have the force of law. The commission would be endowed with a technical secretariat for preparation of the cases destined for judgment.

- ii- A police force attached to this commission and specially trained to enforce commission rulings. It could be modeled on the one tasked to combat trafficking of illicit substances.
- iii- Transfer to state-owned lands of those properties in conflict and for which the commission has not found a solution. Alleged owners would be indemnified.
- iv- Increase in the penalties against notary publics and surveyors who participate in illegal operations. The commission would have complete authority to impose sanctions. An increase in the number of notary publics and surveyors should also be envisaged.
- v- Draft legislation taxing unimproved urban lots and facilitating the transfer and registration of property titles as well as the most modern means for drawing up deeds. This should take into account efforts around the land register.

### 3- Recommendations for infrastructures.-

- Context.-

The electricity, roads and water infrastructure networks do not generate enough surpluses to enable their reallocation toward other areas whose economic performance is superior or destined for development. Quite to the contrary, these goods suffer from scarcity due to structural constraints.



Electricity covers only 12.5% of the country with a supply of 12-16 hours for the most important region (Port-au-Prince). Without a national grid, it is impossible to transfer any possible surplus capacity to other regions. EDH is being privatized. The process initiated will be lengthy due to the discourse of those who oppose inclusion of the private sector in the domains “reserved” for the State.

The road network is very limited, and less than a quarter is in good shape despite progress made over the past five years. The length of roadway, paved or not, is less than 2,000 km for a population of over 10 million inhabitants. The nation’s major cities are not yet interlinked. The transport of cargo and persons remains unorganized and this sector will be unable to offer cargo transport at an industrial rate.

Potable water is a rare commodity in the major metropolitan areas (Port-au-Prince, Cap-Haïtien). For a city of over 2.5 million inhabitants, formal paid hookups do not exceed 30,000 clients. Spanish financing intends to invest in potable water for several medium-sized cities such as St Marc, Ouanaminthe, Les Cayes, Jacmel, etc. The number of irrigated tracts is limited, agricultural methods are largely manual, and water resources are very poorly used although they could be abundantly available.

Airport and port infrastructures will be modernized in the coming years. It is difficult to set a timeline given the uncertainty of the resources to be dedicated to these efforts. The Port-au-Prince port, the country's most important, suffered serious damage during the January 12, 2010 earthquake. It lost part of its deck. The Port-au-Prince International Airport was destroyed by the earthquake, and was already inadequate for international traffic.

- Recommendations.-

Given the above, it is clear that Haiti's reserve of infrastructure is very far from over capacity. Innovative approaches are therefore required if Haiti wishes to attract Foreign Direct Investment.

One solution would be for political leaders to agree to open up certain sectors (Key Sector Approach) to investments, particularly foreign investments. This decision would be justified due to Haiti's inability, as beneficiary of the Highly Indebted Poor Countries program, to borrow on international capital markets. The results obtained in the telecommunications sector are a good example of this. From a national coverage that could be compared to that of electricity distribution, Haiti has reached 95% coverage by introducing multinationals in the sector.

Given Haiti's infrastructure deficit, it should be admitted that this approach will "take time" before enabling visible gains for a firm; therefore intermediary solutions are needed. One could envision the following:

- i- A fund could be constituted using Fund for Road Maintenance (FER) monies in order to set aside resources for building road infrastructures in areas where there will be investment.
- ii- Authorize firms to operate networks, backed by State guarantee, in regions where new businesses will set up. Subsidize the required equipment as well as the petroleum products if necessary.
- iii- Authorize construction of private airports and ports destined for remote areas and for the sole use of the beneficiary company. They should be under high surveillance given the different trafficking that occurs through the Caribbean Basin.

#### 4- Recommendations for capital.-

##### 1- Context.-

Haiti has a tradition of welcoming direct foreign investment. In fact, during the plantation regime (the 30s and afterwards), Haiti received investments for production of bananas, sugar, meat, bauxite and sisal, and for electrification. The regimes around light industry and tourism during the 70s and 80s saw Haiti become the largest exporter of baseballs and become home to international chains such as Club Med, Holiday Inn and Habitation Leclerc.

The stormy years of the 1990s and 2000s have witnessed multinational investments, during the privatizations of state enterprises such as the flour and cement works (Minoterie d'Haïti and Ciment d'Haïti), and the licenses granted in telecommunications. They also witnessed strong growth in cruise ship tourism with investments in Labadie.

For countries with Haiti's status, the question of financing for multinational investments does not arise in the same manner, given that these firms know they must find their resources elsewhere. In general, they seek them from institutional lenders, using their respective capital as leverage.

Examples include the International Finance Corporation (IFC) the Inter-American Investment Corporation (IIC), the European Investment Bank (EIB), and the national financial institutions of developed countries that are oriented toward developing countries such as the American Overseas Private Investment Corporation (OPIC) and the US EXIM BANK. Some emerging countries—such as Brazil, Venezuela and Korea—have copied this model with their own variants.

Despite a noted perception of very high risk, Haiti's payment defaults have been limited and the country has a reputation for being a good payer both at government and business levels. The country has experienced three major conflicts. The first was with EXIM BANK during the nationalization of the Haitian Electricity Company that became EDH in 1971 (US EXIM BANK refused to finance businesses without resolution of the conflict). The second was with an Italian government bank over the Darbonne Sugar Works (near Leogane), without major consequences.

And, in the third case, the Haitian government's cancellation of the contract (1973) for the development of Tortuga Island as a tourist and business center did significant damage to the country's reputation. The firm pursued the matter, including seeking to sue the Haitian government and informing the business sector of the political risks of doing business in Haiti. Even as recently as 1995, the Texan firm was seeking compensation.

Direct foreign investors have purchased insurance policies guaranteeing them against political risks, nationalization and natural disasters. In addition to these policies, they can benefit from Investment Guarantee Agreements (Haiti has signed onto 3 and a fourth is in the pipeline). They can also invoke Haiti's ratification of MIGA. To date, not one firm has invoked these agreements.

## 2- Recommendations.-

Haiti finds itself at a crossroads in the aftermath of the January 12, 2010 earthquake. It should adopt exceptional measures in order to liberate its economic forces and effectively develop the resources at its disposal. This study proposes the following initiatives in relation to business financing:

- (a) Resolve the conflicts.- Haitian authorities should seek to resolve the conflicts cited in point 1, especially the one with US EXIMBANK. They should also resolve the question of Tortuga Island once and for all in order to restore the site's attractiveness. The causes are long past, yet they discourage investment.

- (b) Reopen the door to international borrowing.- The authorities should revisit the conditions of the pardon of their debt and negotiate possibilities for government borrowing with the International Community. Influential international members of the IHRC could help. The March 31, 2010 pledge is not a panacea; it cannot resolve all of Haiti's development problems.
- (c) Re-evaluate public financing needs.- It is necessary to substantially increase development-related activities in the budget and to finance these new activities with resources generated from the issuance of currency. An agreement with the International Community regarding the volume would be desirable.
- (d) Create a Guarantee Fund.- It would serve as collateral for financing businesses that cannot offer sufficient guarantees to commercial and investment banks. This fund would be accompanied by a project assessment unit.
- (e) Establish an investment bank.- It would be a mixed enterprise with minority participation from private capital and other non state actors. It would finance investments from medium sized enterprises in the fields of agriculture, tourism and industry. It would offer a subsidized interest rate, above all for agricultural projects.
- (f) Open agricultural land to multinationals.- It is doubtful, even under greatly improved conditions (human resources, financing, and equipment), that agriculture can be the engine for growth, yet it is the only field in which Haitians exhibit skill. The reintroduction of multinationals would be done on the condition that they would agree to partner with current farmer-occupants and the State.
- (g) Reintroduce Mixed Enterprises.- Two reasons justify this choice. The first is that a start up is required and only the State can play this role given the worries of the business sector. The second is that all traumatized nations (Europe after the Second World War and nations of Asia and South America emerging from a period of instability) have used this formula.

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