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THE INTER-AMERICAN INVESTMENT CORPORATION

**HAITI**

**IDB GROUP COUNTRY STRATEGY 2017-2021**

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## ABBREVIATIONS

CDC	Country Development Challenges
CEP	Conseil Electoral Provisoire [ <i>Provisional Electoral Council</i> ]
CNMP	Commission National des Marchés Publics
CSCCA	Cours Supérieure des Comptes et du Contentieux Administratif [ <i>Superior Courts of Auditors and Administrative Disputes</i> ]
CS	Country Strategy
EdH	Électricité d'Haïti [ <i>Electricity of Haiti</i> , Haitian electric public utility]
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoH	Government of Haiti
GRF	IDB Grant Facility
HSF	Haiti SME Development Fund
IIC	Inter-American Investment Corporation
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MIF	Multilateral Investment Fund
MINUSTAH	United Nations Stabilization Mission to Haiti
MSMEs	Micro- Small- and Medium Enterprises
NCB	National Competitive Bidding
OMJ	Opportunities for the Majority initiative
PBG	Policy-Based Grant
PFM	Public Financial Management
PSDH	Plan Stratégique de Développement d'Haïti [ <i>Haiti National Strategic Development Plan</i> ]
SCF	Structured and Corporate Finance Department
SG	Sovereign-Guaranteed [operations]
SME	Small and Medium Enterprises
SNIP	Système National d'Investissements Publics [ <i>National Public Investment System</i> ]
TAS	Treasury Single Account
UNDP	United Nations Development Program
VAW	Violence Against Women

## EXECUTIVE SUMMARY

<b>Country Context</b>	In recent years, Haiti has made progress in key social indicators, although significant social and economic gaps remain. This progress is consistent with a better economic performance and some acceleration in GDP growth over the last decade (to an annual rate of 2%). What lies beneath the prevailing poverty rates, however, is insufficient economic growth over extended periods of time. The main challenges the country faces are to: (i) strengthen the business climate so that productivity and economic growth can improve; (ii) provide access to basic public services to bridge the social gaps that also affect incomes per person; and (iii) overcome limited government capacity and institutional weaknesses that hamper good governance and the efficient provision of public services.
<b>IDBG Presence in Haiti</b>	The IDBG is one of the main donors in Haiti. Between 2010 and 2016, the Bank approved 36 operations: eight policy-based grants for a total of US\$153 million, and 28 investment grants for US\$ 945 million. Under the previous Country Strategy (CS 2011-2015) the principal areas of intervention were: transport (the main sector in terms of size, with 32% of the approved amount), education, private sector development, agriculture, water and sanitation, and electricity.
<b>Priority Areas</b>	The IDBG Country Strategy for the period 2017-2021 <sup>1</sup> will seek to contribute to higher, inclusive and more sustainable growth that supports a reduction in poverty and inequalities. The Strategy has three strategic priorities that will guide sovereign and non-sovereign guaranteed operations in Haiti: (i) improve the business climate to enhance productivity; (ii) render key public services more accessible to enhance human development; and (iii) strengthen government capacity to increase fiscal sustainability. Bank support will incorporate cross-cutting themes that are key to Haiti's overall stability and poverty reduction, particularly climate change resilience, protection of the environment, and gender equality.
<b>Financial Scenario</b>	The IDB will continue to work within the financing parameters of the IDB Grant Facility (GRF) <sup>2</sup> , which provides an envelope of up to US\$990.7 million for the new country strategy period. <sup>3</sup> The IDB's expected contribution to Haiti (measured in terms of the share of total grants received by the government) could reach 50% in 2017-2021.
<b>Strategy Implementation</b>	The IDBG will focus on the sustainability of program results and effective implementation, aiming at achieving long lasting effects. To do so, the Bank will favor portfolio consolidation, will continue to support strengthening of country systems, and will participate actively in donor coordination activities.
<b>Risks</b>	There are three main risks that can affect the results and sustainability of the program: macroeconomic risks related to international and domestic factors, including instability triggered by natural disasters; the risk of problems in project execution; and the risk of political instability in the country.

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<sup>1</sup> The CS 2017-2021 will be valid from IDBG Board approval until December 31, 2021.

<sup>2</sup> Created in 2007 in the context of the Multilateral Debt Relief Initiative (see document AB-2565).

<sup>3</sup> Subject to annual approvals of transfers of Ordinary Capital (OC) to the GRF by the Board of Governors of the IDB (see documents AB-2764 and GN-2442-51).

## I. COUNTRY CONTEXT

- 1.1 Social and economic indicators have improved after a decade of enhanced economic and political stability, although significant challenges remain.** Extreme poverty fell by 7 percentage points from 31% in 2001 to 24% in 2012. There is better access to education: net primary enrollment grew from 50-60% in the early 2000s to 90% in 2015. Health indicators have also improved: the mortality rate for children under 5 years fell from 105 per 1,000 live births in 2000 to 69 in 2015; in the same period, the maternal mortality rate fell from 505 per 100,000 births to 359. In addition, investment climate indicators reflect a sounder business environment: mobile cellular subscriptions increased from less than one per 100 people in 2000 to 65 in 2015; the time required to register property fell from 683 days in 2004 to 312 in 2015 and the time to start a business dropped from 202 to 97 days<sup>4</sup>.
- 1.2 Social conditions remain characterized by poverty, inequality and a lack of access to basic public services.** The following indicators express these challenges: (i) Haiti has a national poverty rate of 59%, extreme poverty is 24%, and exhibits high inequality with a Gini coefficient of 0.61<sup>5</sup>; (ii) food insecurity is widespread, currently affecting 3.6 million Haitians, more than a third of the population; (iii) demographic pressures and informal urban settlements have mounted (70% of the urban population lives in underdeveloped and underserved areas); (iv) inequality associated with the rural-urban divide expanded as urban extreme poverty halved in ten years, to 12%, whereas in rural areas it stagnated at a much higher level, 38%, contributing to a current rural poverty rate of 75%<sup>6</sup>; (v) despite improvements in education and health, as well as in water and sanitation, indicators are below LAC's average<sup>7</sup>; (vi) gender inequality is pervasive, as health services for women are weak, violence against women and girls is widespread, and women's rights to own land, to receive education and to have a well-paying job are inferior to those of men.
- 1.3 Insufficient growth lies beneath these outcomes.** Haiti's average rate of economic growth has been 2.0% per year between 2006 and 2016, higher than the previous two decades and consistent with some improvement in social indicators, but below LAC's average of 2.6%<sup>8</sup>. In 2016, because of historic negative trends, per capita income was 30% lower than in 1980 (WEO). This behavior of economic growth through the years is derived from a decline in productivity; Haiti's total factor productivity (TFP) decreased at an annual rate of 1.5% since 1970<sup>9</sup>. Between 1991 and 2011, agriculture productivity declined at an annual rate of 2.1%, underperforming countries such as Nicaragua and the Dominican Republic<sup>10</sup>. In the manufacturing sector, after a severe crisis in the 1990s, production and employment have not yet recovered to 1980 levels<sup>11</sup>. The weakness in economic growth performance is consistent

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<sup>4</sup> Source of indicators: World Development Indicators 2015, The World Bank (2016).

<sup>5</sup> Poverty and inclusion in Haiti, World Bank #89522, 2014.

<sup>6</sup> It is worth noting that 40% of the population, approximately 4 million people, live in rural areas. See CDC section 3.1; and Haiti IHSI "L'évolution des conditions de vie en Haïti entre 2007 et 2012, La réplique sociale du séisme", 2014, and World Bank and Observatoire National de la Pauvreté et de l'Exclusion Sociale (ONPES), "Investing in People to Fight Poverty in Haiti, Reflections for Evidence-based Policy Making". Washington, DC: World Bank, 2014.

<sup>7</sup> See section III. (ii) for detailed information and values of indicators.

<sup>8</sup> It is worth mentioning that the DR is a top performer in the region in terms of economic growth and grew at a rate of 5.2% during that period.

<sup>9</sup> See CDC 3.1 and Katz, S. (2016) "Podrá Ayiti volver a ser el reino de este mundo", mimeo, for modeling and estimation of productivity.

<sup>10</sup> See CDC 3.1.f and table III.4 for a breakdown per decade and a discussion on alternative sources and estimations of TFP. It is worth mentioning that the decline in productivity is concentrated in 1991-2000 (-4.6%) and was flat or barely positive in 2001-2011.

<sup>11</sup> The trends seen in Haiti go against the traditional view of successful structural change in which labor is transferred from one sector (agriculture and informal services) to another (manufacturing, sophisticated services), with workers

with the absence of a wide range of basic social services, which is in part related to the fact that government and the private sector lack the capabilities and the right incentive structure to provide them.

- 1.4 **Growth performance is held back by institutional capacity and governance.** Haiti ranks 11<sup>th</sup> of 178 countries on the Fragile States Index (where number 1 is the most fragile state)<sup>12</sup>. Haiti also ranks low in the World Bank Governance indicators. In those indicators, Haiti performs relatively better in “Political Stability and absence of violence”, and in “Voice and accountability”, compared to “Government effectiveness” although the country has made no significant progress since 1998. Limited institutional development and government capacities is thus one of the central problems holding back Haiti’s human and economic development as it affects both the business climate and access to basic public services. Although there are multiple causes behind the lack of sound institutions, political instability has certainly played a role.
- 1.5 **The political transition was smooth.** Haiti’s current president was inaugurated on February 7, 2017, after a one-year provisional government had been in place. Parliament ratified Haiti’s Prime Minister and Cabinet on March 21, 2017, a sign of cooperation between the executive and the legislative branches. In contrast with the previous period, Congress is now complete, with all members in both chambers democratically elected. This institutional setting could lay the basis for an increased focus on Haiti’s development policy and would also be key to contain social unrest and enhance security, given the withdrawal of the United Nations Stabilization Mission to Haiti (MINUSTAH) and, increasingly, the transfer of internal security responsibilities to the national police.
- 1.6 **The Prime Minister presented the Government’s National Priorities to Parliament.** The Declaration of General Policy (*Déclaration de Politique Générale*, an electronic link in this CS), describes government objectives in several areas including: politics, economics, environment, infrastructure, social and culture. The declaration emphasizes the need to mobilize resources and expenditures to increase investment and provide a wider access to basic public services.
- 1.7 **Government policy will have to adapt to reduced access to finance.** Haiti faces a stringent international financing context that affects its capacity to implement the national plan; it also affects growth and macroeconomic prospects as it could add volatility to public spending, inflation and exchange rates. Haiti suffered a decline in external financing (mainly concessional debt from Venezuela) from US\$400 million per year in 2010-2014 to approximately US\$150 million per year (or 1.5% of GDP), in 2015 and 2016. This trend is not likely to be reversed in the short term. At the same time, total aid from external donors also declined from a peak in 2010 at around US\$2 billion, to an estimated US\$400 million per year during 2017-2021 (see Annex III, table A) that will be almost entirely channeled through the government by the largest donors (confirming a reduction in humanitarian aid entering the country and executed by NGOs). A serious consequence of the curtailment in financing has been seen in public investment. In fact, public capital expenditures averaged only 8.5% of GDP per year in 2015-2016, down from 16.2% in 2012-2013, though still above pre-earthquake averages of 7% in 2005-2009. In this context, the provision of basic public services is a concern, notably in the electricity sector where substantial financial losses associated with the public utility company

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seeking higher pay. See for example the two-sector and two-technology models in section 1.4 in Barro and Sala-i-Martin “Economic Growth” 2<sup>nd</sup> Edition, MIT, 2004; sections III-V in Ros, J. “La teoría del desarrollo y la economía del crecimiento”, FCE-CIDE, 2004, and Part II in Ros, J. “Rethinking Economic Development, Growth, and Institutions”, Oxford, 2013. 2013. Acemoglu, D. “Introduction to modern theory of growth”, Princeton, 2009, provide formalizations of this type of trajectories of growth and economic development. Recent case studies on structural change can be found in McMillan, M., Rodrik, D., Sepúlveda, C. eds. “Structural change, fundamentals, and growth: a framework and case studies.” IFPRI, 2016.

<sup>12</sup> The Fragile States Index (FSI) is an annual ranking of 178 countries based on the different pressures they face that impact their levels of fragility, and it is assembled with information related to each country’s economic, institutional, and social aspects. See graph III.7 in Haiti’s CDC. <http://fundforpeace.org>.

EDH threaten fiscal outcomes. Thus, increased taxation and greater spending efficiency will be necessary to expand the sustainable provision of public services, as intended by the government.

- 1.8 **Exposure to extreme events presents additional challenges.** Haiti has suffered extreme natural events with high frequency and to a great loss, and is placed 8<sup>th</sup> in the World Risk Vulnerability Index. Such a risk, coupled with weak capacity to prevent losses and organize responses to recover from a disaster, have affected the country's ability to grow sustainably and will constitute a challenge for future growth. To reduce this vulnerability, the country is taking steps to improve resilience to climate change in the areas of watershed management, coastal protection and climate smart agriculture, as stated in its Intended Nationally Determined Contributions (INDCs)<sup>13</sup>.
- 1.9 **Haiti has opportunities for economic growth.** To exploit some of these opportunities, Haiti could rely on its traditional comparative advantages and the development of the manufacturing sector<sup>14</sup>. With a population of 10.3 million, it is the third largest country in the Caribbean, together with the Dominican Republic and Cuba, and it is relatively young (36% of the population is younger than 15 years), with the largest “population dividend” among the LAC countries.<sup>15</sup> Haiti’s diaspora is estimated at 1.5 million or more, well connected in international markets and a substantial source of remittances (more than 20% of GDP). Finally, Haiti’s geographic location provides opportunities for trade with dynamic markets such as the United States and the Dominican Republic.

## II. IDB GROUP PRESENCE IN HAITI

- 2.1 **The Bank’s 2011-2015 Country Strategy with Haiti focused on six priority areas<sup>16</sup>:** (i) *education*: improving infrastructure quality, as well as access to and quality of education; (ii) *private sector development*: improving the business climate, creating jobs and supporting MSMEs; (iii) *energy*: increasing supply of electricity services in Port-au-Prince and rural areas, and improving management, planning and oversight of the sector; (iv) *water and sanitation*: increasing access to potable water and sanitation in urban and rural areas; (v) *agriculture*: improving agricultural income and reducing losses from natural disasters; and, (vi) *transport*: improving the quality of the national road system and the country’s connectivity.
- 2.2 **The 2011-2015 strategy was prepared in the aftermath of the 2010 earthquake.** Its main goal was to generate a wave of grant financing that could enhance the government’s capacity to address reconstruction at a time when its capabilities had been dramatically reduced by the

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<sup>13</sup> For more information, please see: [Haiti NDC](#).

<sup>14</sup> Exports of the Haitian assembly industry (mainly garments) reached US\$ 354.1 million in 2016 according to the Central Bank of Haiti, and are defined as *value added in the country* by those industries for the purpose of export statistics. Primary exports and essential oils, the two other main goods exports, are US\$30.0 million, and USD 23.7 million respectively. It is not immediately clear, however, what are the export shares since US\$ 540.0 million, more than half of an export bill of US\$ 994.9 is unaccounted for, and listed as adjustments. Although not conclusive, the export information is consistent with the view of a path for growth based on developing light manufacturing (source for information on trade <http://www.brh.net/tableaux/exportproduits.pdf>).

<sup>15</sup> A “positive” demographic dividend is normally associated with higher per capita growth, since  $y = (PIB/L) * (L/P)$ . Where  $y$ =PIB per capita, or PIB/P,  $L$ =workforce, and  $P$ =Population. For a given value of PIB/L, an increase in the “demographic” factor  $L/P$  (granted it is not only demographic, as it relates also to social, economic and gender related elements) drives PIB per capita upwards. The demographic dividends also matter in the choice of fiscal policies and fiscal sustainability. See Arenas, A. (2016) “Sostenibilidad fiscal y reformas tributarias en América Latina”, CEPAL.

<sup>16</sup> CS 2011-2015 was drafted in the aftermath of Haiti’s 2010 earthquake, and its validity has been extended to December 31, 2017 through a one-year extension of the transition period.

loss of infrastructure, equipment, and public officials<sup>17</sup>. Thus, a key element of the strategy's design was the ability to take urgent action in an expedited manner. The Bank succeeded in accelerating disbursements, which increased from an annual average of US\$65 million in 2000-2009 to US\$180 million in 2010-2015.

- 2.3 **The Bank is the largest multilateral donor in Haiti.** During 2011-2016 the Bank approved 36 sovereign-guaranteed operations financed by the IDB Grant Facility (GRF) for a total of US\$1,098 million. Between 2010 and 2016, Bank financing represented 30% of total grants received by the government and a substantial share of overall aid inflows to the country.<sup>18</sup>
- 2.4 **Of the 36 operations approved, eight were policy-based grants for a total of US\$153 million and 28 were investment grants for US\$945 million.** The distribution of funds approved per CS priority sector was as follows: transport, 30%; private sector development, 22%; agriculture, 15%; education, 13%; energy, 8%; and water & sanitation, 5%. During the same period, the Bank also approved 19 operations in Bank-administered co-financing totaling US\$170 million, covering the six areas of focus. The Bank also approved 64 technical cooperation operations totaling US\$31 million. With regards to the private sector, the IDB Group approved 36 non-sovereign guaranteed operations for a total of US\$43.7 million, of which US\$28.6 million were from the MIF to support the agriculture, microfinance, energy, health and reconstruction sectors, and US\$ 17.3 million from the IIC to support investments in the industry, services (financial and non-financial) and agribusiness sectors, of which US \$6.3 million are outstanding. One of the largest private sector projects in execution, the Haiti SME Development Fund (HSF) was established in 2012 (Spain provided €9.4M of equity and €40.6M of debt; IIC contributed €0.2M of equity and €0.8M of debt) to make financing more accessible to MSMEs.
- 2.5 **Portfolio composition.** As of June 30<sup>th</sup>, 2017, the active portfolio financed by the GRF consists of 34 projects for a total of US\$1,088.5 million, of which US\$638.3 million (58.6%) have been disbursed and US\$ 450.2 million (41.4%) remain undisbursed (see electronic link 2 for details). The MIF has an active portfolio of 21 projects for a total of \$21.4 million, with \$11.4 million (53%) disbursed. There are 9 operations in the IIC's active portfolio for a total approved amount of \$8.2 million, of which \$7.9 million (97%) have been disbursed.

#### **Program Results during 2010-2016<sup>19</sup>**

- 2.6 During 2010-2016, IDB Group interventions contributed to improving the provision of public services - including basic social services and infrastructure - and private sector development. The following are some of the results obtained through the IDBG's program.

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<sup>17</sup> The Post Disaster Needs Assessment conducted by the Government and the International community indicates: "There has been massive infrastructure destruction. Some 105,000 homes have been destroyed and more than 208,000 have been damaged. Over 1,300 educational establishments, and over 50 hospitals and health centers, have collapsed or are unusable. Part of the country's main port is not operational. The President's Palace, Parliament, the Law Courts, and most of the Ministry and public administration buildings have been destroyed." Losses in public infrastructure were estimated at US\$ 2.1 billion, and overall damages at \$7.8 billion.

<sup>18</sup> As reported by Haiti's Ministry of External Cooperation, of US\$8.4 billion in total inflows to the country (measured in terms of disbursements), 14.1% corresponded to IDB and 34.6% to the United States. The 10 largest donors in Haiti are responsible for 91% of disbursements. Data must be taken as an approximation, however, as for example the FRH, Haiti Reconstruction Fund, was funded by donors and may represent a case of duplication of disbursements. Furthermore, and while most of the disbursements are grants, this source also may include some debt financing (albeit in concessional terms) for example from Venezuela.

<sup>19</sup> More information on results can be found in the Haiti Progress Report – May 2017 (GN-2610-19). CS 2017-2021 will have, as will be discussed below, interventions aligned behind three main development challenges; Agriculture and Transport will remain key components of the general objective in the new CS that deals with enhancing productivity, Water and sanitation and Education will feature within the general objective that promotes the improvement in basic social services. Finally, Energy as well and the type of interventions labeled Private Sector Development will be topics included in the "Dialogue Areas" between the Bank and the country. For more details about the number of operations and their amounts allocated to each specific objective of the CS, please see the electronic link iii.



- 2.7 The strategy placed emphasis on infrastructure development to improve connectivity and access to markets and services.** Progress was made in the *transport* sector, particularly in the improvement of the primary road network (national routes RN1, RN7 and RN8). As a result, since 2011, travel time in RN1 and RN7 has been reduced by 83%. About 154 km of the primary road network are currently under construction, representing over 15% of the national road network of the country. To enhance gender equality in transport, women were included in training and certification programs linked to traditionally male jobs, as such women made up 75% of program beneficiaries in heavy machinery, road management, and entrepreneurship training and 89% of all participants in the masonry, scraping, and carpentry training. In the *Energy sector*, improvements were achieved in electricity coverage and quality, while issues related to the financial and operational sustainability of EDH (Electricité d’Haiti) continue to be a challenge. In terms of coverage, there was progress in the rehabilitation of the electricity distribution system in Port-au-Prince through the construction of the Tabarre Substation and the connection of eight new circuits that provide reliable electricity to the metropolitan area. In addition, after several years of rehabilitation, the first turbine of the Péligre Hydroelectric Plant went into operation in August of 2016.
- 2.8 Provision of social services concentrated in the education and water and sanitation subsectors.** In *Education*, the Bank helped improve access by: i) financing school construction (33 new school buildings completed by the end of 2016), and ii) provision of an average of 35,000 tuition waivers to private schools annually. *Water and sanitation* management and coverage in urban areas improved with Bank support. In Port-au-Prince, the number of active connections is growing (household connections increased from 32,000 to 49,000 between 2011 and 2016). Drinking water and sanitation connections in the six secondary cities are expected to be finalized by the end of 2017 (with two cities that can self-finance the provision of quality water services) and over 25,000 new households with access to water services.
- 2.9 Under the pillar of *private sector development*, several initiatives were implemented towards promoting job creation and foreign direct investment.** In the north-east region of Haiti, the Caracol Industrial Park has created nearly 12,000 new jobs, of which 60% are held by women. The park houses six tenants, a diverse set of industries comprising apparel, paint and sisal. Regarding enterprise development, the IIC’s Haiti SME Fund (HSF) has co-financed 377 SME loans for US\$11.4 million, mostly to women-owned businesses. The MIF and Compete Caribbean’s projects are having impacts in agriculture and in the provision of basic services, among other sectors<sup>20</sup>.
- 2.10 The Bank sought to improve productivity of the agriculture sector**, given its role in rural employment, especially of low-income households, by promoting sustainable agricultural practices, rural flood protection, and land tenure regularization. In particular, technology transfers in agroforestry contributed to the reforestation of 13,082 hectares of land and led to significant increases in gross value added per plot; in addition, evidence shows that in IDBG-financed operations, about 75% of farmers who are exposed to a new technology end up adopting it. In addition, 200 upstream small-scale water and soil conservation infrastructures were built, supporting agroforestry practices of 7,125 farmers; and four major downstream river-bank protection works were completed, reducing expected losses for annual crops<sup>21</sup>. MIF projects contributed to strengthening the agricultural value chains of cocoa and sorghum

<sup>20</sup> Compete Caribbean’s portfolio in Haiti is comprised exclusively of private sector operations through its innovation window. The Compete Caribbean Program portfolio illustrates some of the possibilities of applying a private sector focused technical assistance model to Haiti, aimed at improving livelihood opportunities for the poor. The Program funded 6 innovative projects in Haiti that are leveraging private sector investments (US\$4.2 million in counterpart) and will generate 1,079 jobs, of which 31% are for women.

<sup>21</sup> The total reduction in average annual estimated losses caused by floods in agricultural production, infrastructure and personal property for the prioritized watersheds is US\$11.9 million (in the watersheds of Macaïsse, Bertrand, Bas-la-Crête and Maniche source: PCR of project PMDN I).

contributing to opening domestic and export market access of these products and facilitating participation of small-scale producers.

- 2.11 **While most operations achieved results in terms of product delivery, not all targets were achieved as expected.** In investment operations, examples include delays and cost overruns in infrastructure projects and the setting of excessively optimistic targets, for example in the education sector and in the Caracol Industrial Park. Results fell short of expectations in terms of policy and regulatory reform. Policy Based Grants helped open the policy dialogue in several key sectors such as transport, water and sanitation, agriculture and energy. However, their effectiveness was in part affected by the fragile institutional environment at the time of their implementation.

#### **Lessons learned from implementation of CS 2011-2015**

- 2.12 **The Bank should emphasize long-term results and capacity strengthening.** The Bank's program during CS 2011-2015 had a focus on the recovery from the earthquake and on rapid disbursements. In the new country strategy, the Bank will renew its efforts to support structural policies and strengthen institutional capacity.
- 2.13 **Consolidation of the portfolio.** Partition of the Bank's portfolio into smaller annual operations helped mitigate risks caused by an uncertain environment for project execution (making it possible to approve additional operations to enhance the results in any given sector), but created greater transaction costs during execution. To increase efficiency and effectiveness, the 2017-2021 strategy will focus on consolidating the portfolio, finalizing execution of older operations and concentrating approvals in fewer operations with larger approved amounts. The advantages of such an approach will be to reduce the time and resources used in the preparation and approval of operations, to increase efficiency of executing units that would be able to plan their activities better, and to stimulate more competition in the procurement process.
- 2.14 **Further efforts are needed to strengthen financial management and enhance transparency.** The main challenges are in the areas of internal controls and risk management, availability of trained personnel in finance and procurement, governance structures (steering committees are mainly inactive), integrated financial management systems and budget monitoring, asset and inventory management, and contract management and archiving systems. Taking this into account the Bank would seek to: (i) strengthen the mechanisms to guarantee transparency in the execution of operations, and (ii) provide quick response in the case of suspicion of prohibited practices. Specific actions taken by FMP such as strengthening government counterparts, as well as providing training and participating in Bank project teams have been effective in creating better and more transparent conditions for project execution <sup>22, 23</sup>.
- 2.15 **Sustainability in Bank funded programs.** Strategy implementation will place emphasis on sustainability of results achieved under the previous strategy and of those expected from the new interventions. The design of the projects to be programmed during the new CS will

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<sup>22</sup> The Haiti country office used until recently (December 2016) special procurement provisions, consisting in increased thresholds for internal approval of Direct Contracting by Certified personnel and Procurement specialists. These provisions were not used frequently and did not have a considerable impact on project execution; for this reason, it was decided not to extend their validity.

<sup>23</sup> Since 2014 the Bank has become a partner in strengthening Haiti's PFM reforms in the following activities: (i) support to Haiti's Supreme Audit Institution (CSCCA) through the elaboration of the 8-year strategic plan (2016-2024) and 5-year operational plan (2016-2021); (ii) capacity building of the CSCCA's audit function through formal training of auditors; (iii) the assessment of the Treasury Single Account (TSA) and the preparation of action plan (iv) MAPS diagnostic and the establishment of a strategic action plan for the modernization of the national procurement system (v) Strengthening the National Procurement Commission (CNMP) through the elaboration of a 5-year strategy for the institution.

emphasize the risks and mitigating factors related to: (i) execution mechanisms, and (ii) commitment to long-term financing for management, operation, and maintenance.

- 2.16 **Coordination among donors is needed at the operational level.** To speed up implementation of operations and reduce transaction costs to counterparts, the IDBG will strengthen coordination at the operational (project) level, going beyond the successful thematic coordination mechanisms currently in place (sector *Tables*, agreeing on objectives, approaches, areas of interventions, leadership, etc).
- 2.17 **Private sector development operations face multiple challenges.** On the one hand, the execution of part of the portfolio dedicated to support private sector development through interventions aimed directly at SMEs had limited results, and on the other hand the private sector windows of the IDBG had difficulties originating operations due to their limited scale and high risks. In the 2017-2021 CS, the IDB Group will build on these lessons and narrow the focus of SG operations (Grants) to enhance the business climate and macroeconomic management, while NSG operations from the private sector windows will address the financing needs of a wider scope of firms (of various sizes and sectors of activity).
- 2.18 **The lessons learned are consistent with OVE findings and recommendations.** OVE's "Country Program Evaluation: Haiti 2011-2015"<sup>24</sup> recommended to (1) set the next country strategy in realistic terms, focusing on building the country's long-term institutional capacity; (2) initiate a process with the Government to integrate the Bank's resources into the national general budget, supporting the Government of Haiti in consolidating this budget; (3): prepare an exit strategy for financing permanent staff/consultants in the government institutions; (4) review and consolidate the current investment portfolio using a cost-effective approach aimed at sequencing the interventions to strengthen the sustainability of the Bank's portfolio outcomes; and (5) target the use of sovereign guaranteed resources to improving the business climate to facilitate private sector activity.

### III. CS 2017-2021: PRIORITY AREAS

- 3.1 **The main goal of CS 2017–2021** is to contribute to higher, inclusive and more sustainable growth, supporting the Government's goals of expanding and sustaining private and public investment, and enhance access to basic public services. Achieving these goals will require private sector job creation and the reduction of poverty and inequalities, as well as institutional capacity strengthening in the public sector. The IDB Group will provide this support through its public window and its private windows (IIC and MIF), acting in a coordinated fashion to enhance the reach and sustainability of its interventions.
- 3.2 **The CS proposes three strategic priorities** that will guide SG and NSG operations in Haiti: (i) improve the business climate to enhance productivity; (ii) render key public services more accessible to enhance human development; and (iii) strengthen government capacity to increase fiscal sustainability. The Bank will moreover contribute to cross-cutting themes including greater climate change resilience, protection of the environment and gender equality through actions that integrate these themes into the core activities of the priority areas.
- 3.3 **The selection of the strategic areas proposed in this CS is based on:** (i) Haiti's Country Development Challenges (CDC) report; (ii) dialogue with Haiti's authorities, political parties, business leaders and civil society (via CONSOC); and (iii) the *Déclaration de politique Générale* as well as legacy documents on economic development, such as the Development Plan – *Plan*

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<sup>24</sup> CPE Document RE-434-1, Management's response RE-434-2, Report of the Chairperson of the Programming Committee of the Board of Executive Directors RE-434-3.

*Stratégie de Développement d'Haiti 2030* (PSDH)<sup>25</sup>. The CS priority areas are consistent with the government's national plan economic objectives: (a) encouraging investment and (b) expanding access to basic public services; and with its instruments: (1) preserving macroeconomic stability, (2) strengthening tax and customs administration, (3) improving the business climate, and (4) enhancing firm competitiveness and increasing exports. At the sector level, the government also indicated a strong focus on agriculture, with which the IDBG strategy is also aligned.

- 3.4 The IDB Group will implement CS 2017-2021 through new operations as well as existing operations in the portfolio.** The IDB will continue to draw funds from Haiti's Grant Facility (GRF) for SG operations under CS 2017-2021, and will seek co-financing from other donors when applicable. The Bank will also provide support to the implementation of the strategy via active dialogue with the authorities and the provision of expert advice in various matters, as well as through different media (training sessions, presentations, seminars) and other knowledge products. CS 2017–2021 is aligned with the Bank's Updated Institutional Strategy 2010-2020 (UIS) and the IIC's Business Plan 2017-2019.

**(i) Improve the business climate to enhance productivity<sup>26</sup>**

- 3.5 Haiti's challenges in agriculture have a long history and important consequences.** The product per worker and per hectare has declined continuously over the past decades and is now 25% lower in real terms than in 1996. Meanwhile, other countries have expanded production and they are now several times more productive than Haiti (Nicaragua and Jamaica have 7 times Haiti's product per worker, and the Dominican Republic more than that). This decline has far reaching consequences as agriculture accounts for 47% of total employment and 75% of employment in low-income households. A non-performing agriculture sector contributes to increased concerns in several areas, including: (i) food security; (ii) demographic pressures and informal urban growth (70% of the urban population lives in underdeveloped and underserved areas); (iii) income inequality associated with the rural-urban divide; and (iv) the environment<sup>24</sup>. Productivity issues in agriculture and internal migration have an impact on labor markets in general, contributing to lower wages everywhere. Gender gaps are also evident in the labor market: women have unemployment rates 20 percentage points higher than men in urban and rural settings, and when they are employed they earn 17% less than men (in 2012, the latest data available). Gender discrimination in income (taken as the fraction of the wage differential that cannot be explained by observable factors) in Haiti was estimated, in 2012, at 40% (and up to 50% in lower wage activities), on par with values found in Africa (45%) and behind LAC (18%).
- 3.6 The main reasons behind the decline in productivity growth are linked to the business climate.** The following list includes some of the more relevant factors that explain poor productivity in the economy, particularly in agriculture: (1) a challenging regulatory framework for business, with an uneven playing field and weak property rights (Haiti ranks 133 out of 144 in the Global Competitiveness report in this indicator), with strong effects in rural areas because of land titling issues as 60% of private land lacks formal title, and only 5% of the territory is

<sup>25</sup> There are similarities in the different development strategies and in the identification of the main challenges. See for example Buss, T. "Foreign aid and the failure of state building in Haiti under Duvalier, Aristide, Preval and Martelly", UNU-WIDER working paper, 2013/104 (2013).

<sup>26</sup> See section 3.1 of Haiti's CDC (Annex I). In the CS, "business climate" is used in the sense of the factors that affect the country's productivity and long-term prosperity, and it is used interchangeably with "competitiveness". Among the typical factors relevant for "business climate" or "competitiveness" we have: business regulations and taxes, institutions and individual rights on property, infrastructure, macroeconomic environment, health, education, financial market development, and innovation. "Productivity" is instead used in this document in a narrow sense, that of Total Factor Productivity.

registered in the cadaster. Moreover, gender bias is also evident as women's land ownership is much less than that of men despite inheritance laws stipulating explicit gender equality<sup>27</sup>: in a survey, only 25% of the parcels were owned by women<sup>28</sup>; (2) inefficient production techniques and lack of access to inputs and quality services for producers (only 2.6% of farmers have received any sort of technical training, less than 10% use fertilizers, climate resilient practices and inputs are not widespread, and regulation and support regarding sanitary and phytosanitary conditions are among the weakest in the region<sup>29</sup>); (3) lack of irrigation infrastructure and inadequate watershed management, with underfunded government programs for disaster prevention and mitigation to cope with recurring extreme weather events that are likely to be aggravated by climate change<sup>30</sup>; (4) little deployment of credit in the economy, with scarce financial instruments for SMEs and productive activities in general: credit for agriculture is less than 1% of the total credit of the banking sector<sup>31</sup>, while credit to the private sector as a percentage of GDP stands at 18.3%, less than half the LAC average of 49.2%<sup>32</sup>; (5) lack of infrastructure services of good quality (transport, logistics and energy) as evidenced by low values of international indicators; and (6) weak capacity in the Ministry of Agriculture to implement the required public policies that could enhance production capacity in the sector<sup>33</sup>.

### 3.7 The quality of infrastructure plays a vital role in the country's productive capacity.

Despite its importance for competitiveness, quality infrastructure is lacking in Haiti. The country's score in the World Bank Logistics Performance from the World Bank was 1.72, in 2016 (where 1=worst, and 5=best), inferior to the Latin American average of 2.57, as well as to Honduras: 2.4 and Nicaragua: 2.5; the measure for Quality of Overall Infrastructure from the World Economic Forum in that year was 1.9 (1=worst and 7=best). Haiti's transport system is limited, with only 23% of the road network at the national, departmental, and municipal level paved. Its inadequate quality and reduced coverage undermines both the provision of basic services to the rural population<sup>34</sup> and the competitiveness of Haitian exports. Transport-associated losses in some agriculture products appear to be very high (it has been suggested that they reach 40% of the value of production for certain fruits). This situation is underpinned by poor governance and weak technical capacity to execute the large portfolio in the transport sector. The Ministry of Public Works (MTPTC) is relatively weak and stretched thin in a vast number of areas, including terrestrial, maritime and air transport as well as water and sanitation, energy and telecommunications, among others. Its capacity to regulate the sector, plan investments, manage road assets, and implement policies in general is limited. This, coupled

<sup>27</sup> James Deaton, B., Kelly, L., & Atsu Amegashi, J. "The Nature of Property Rights in Haiti: Mode of Land Acquisition, Gender, and Investment" 2016 World Bank Conference on Land and Poverty.

<sup>28</sup> Land Alliance for Prosperity of People and Places. "Gender Analysis: Haiti Land Tenure Security Program – Phase Two", prepared for the Inter-American Development Bank. May 2017.

<sup>29</sup> Haiti scores 1.58/5 in the World Organization for Animal Health (OIE) indicator of animal health, and 15/100 in an indicator of the Inter-American Institute for Cooperation on Agriculture (IICA).

<sup>30</sup> The forest coverage has been considerably reduced in the past 30 years. Approximately 85% of the country's watersheds are either deteriorated or rapidly transformed, causing frequent flooding. The irrigation potential at the national level is between 135,000 and 150,000 ha; however, only 80,000 of the 90,000 developed hectares are irrigated and deteriorated due to the lack of maintenance and seasonal hurricanes. Losses to extreme natural events have been very high throughout the country's history and are estimated at 4% of GDP per year over 1970–2015. Haiti's ranking in the World Risk Index is consistent with this finding since it is the 21<sup>st</sup> most vulnerable country in the list (of 177 countries). See Haiti's CDC section 1.1.b, and the National Agriculture Investment Plan of the Ministry of Agriculture, May 2010.

<sup>31</sup> Bebczuk, R. and A. Filippo "Bank credit allocation by sector: Causes and effects on economic growth in Haiti", mimeo, 2016.

<sup>32</sup> See CDC 3.1.F, graph III.2 for an evolution of GDP per worker and per hectare. World Development Indicators, World Bank, 2016.

<sup>33</sup> Fisheries, a subsector of primary activities in the economy with critical importance for coastal communities, is also facing several challenges that prevent its sustainable development, including: resource sustainability, sector governance, availability of information, lack of public infrastructure and services, and access to basic technologies and equipment.

<sup>34</sup> For women aged 15-49 one of the key reasons for not seeking medical support is the lack of transport (with a response ration of 43%, according to the Demographic and Health Survey, 2012), second only to lack of money.

with the harsh topographical conditions prevailing in the country (abundance of mountains and irregular terrain, tropical rains), partly explains the slow pace at which the new paved area expands, and the rapid rate of deterioration of existing road infrastructure.

- 3.8 **The IDBG will support improvements in the business climate using a multidimensional approach:** (1) enabling conditions for increased productivity in agriculture, and (2) enhancing transport infrastructure. The focus will be in rural areas where most of the low-income population lives.
- 3.9 **Enabling conditions for increased productivity in agriculture.** In this area of action the IDBG will contribute to: (i) expanding irrigation and watershed management; (ii) enhancing the Ministry of Agriculture's capacity to invest in agricultural research, and in technology transfer (innovation) and dissemination, especially for activities that have positive environmental externalities and that generate more resilience to climate change; (iii) providing technical and financial support to farmers; (iv) improving land registration, land ownership and use of land rules, with an emphasis on protecting women's rights in the land titling process; and (v) contributing to the government's capacity to improve the sustainability of production in the fishery sector. The IIC will support the agroindustry value chain through the promotion of: (i) productivity-enhancing investments in crucial agricultural inputs, including financing for distributed renewable energy generation; (ii) medium and long-term investments on technology and business process upgrading and capacity building in the corporate agribusiness sector; and (iii) a larger supply of financial resources and mechanisms through partnerships with financial institutions, when conditions are deemed appropriate<sup>35</sup>. MIF will focus on scalable climate smart agriculture, innovative solutions for micro and small businesses and the adoption of technology by SMEs.
- 3.10 **Enhancing transport infrastructure.** The IDB Group will continue to support the government's plans to expand the transport network and to set up an efficient regulation and asset management mechanism for existing transport infrastructure (roads, airports, etc.). The Bank will contribute to launch and consolidate reforms in public entities in charge of planning and maintenance of public investment in transport (the MTPTC), and to a more efficient planning and execution of works (seizing the opportunity to integrate climate resilience into these efforts)<sup>36</sup>. The IIC will seek to support: (i) the assessment of the bankability of transport infrastructure projects; and (ii) key transport and logistics investments that allow entrepreneurs to capitalize on Haiti's proximity to the United States and existing preferential trade agreements, in coordination with IDB.
- 3.11 This strategic objective is aligned to IDB's Update to the IS 2010-2020 priority of enhancing productivity growth and innovation and the objectives of enhancing institutional frameworks and improving infrastructure in urban and rural areas. The priorities outlined here are also aligned with the priority segments of the 2017–2019 IIC Business Plan to support infrastructure development, strengthen capacities to support the corporate segment, and leverage resources through the financial system to support the priority areas as well as cross-cutting themes.

## **(ii) Render key services more accessible to enhance human development**

- 3.12 **Progress in human development is hampered by low access to quality education, health services, and water and sanitation.** Haiti's literacy rate is 77%, lagging neighboring countries (Dominican Republic: 92%). Recent public policies to improve education have shown positive results, and Haitians who are less than 30 years old have literacy rates of 90%, higher than the

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<sup>35</sup> For example, debt, quasi-equity and trade financing to financial intermediaries (banks and non-bank institutions such as leasing companies, microfinance institutions and factoring companies, among others).

<sup>36</sup> There are US\$160 million to be disbursed in transport operations in Haiti, with over 55% of the total committed. Four new contracts are currently under negotiation that will commit over 85% of the available resources.

country average. There has been considerable progress in access to education. Very few 15-year-old children have never attended school, while in adults who are 40 years old, that share is 30%. Access has improved mostly in primary education where net enrollment has increased from 50-60% in the early 2000s to 70-80% in 2012; today, 90% of children between 6 and 11 years of age are enrolled in primary school (although not always at the grade corresponding to their age<sup>37</sup>). Still, a significant challenge remains if Haiti wants to make education truly universal (to that end, for example, the government implemented a program of subsidies that achieved a coverage of 82%), and to reach out to the most vulnerable (60% of the rural population did not complete primary education, and less than 10% reached secondary or higher education). Besides the challenges (and partial success) of increasing access to education, Haiti is lagging in terms of the quality of the education delivered. In 2010, almost 30% of students could not read a single word in Haitian creole after the first 3 years in school, the share of correct answers at the national tests at 4<sup>th</sup> grade was only 38%, and the problems extend to the higher grades, as one in four students in 6<sup>th</sup> grade, and three in four students in 12<sup>th</sup> grade, failed the 2014 national exam<sup>38</sup>. Women's literacy rate is 72% (according to IHSL, 2014), significantly lower than men's 81%. Despite recent progress, there are reasons to believe that girls are on average less likely to obtain a quality education than boys. Gender violence, teen pregnancy and other inequalities, which often begin at an early age, are primary factors affecting female learning experiences: for example, 84.9% of girls in a survey were hit by male teachers<sup>39</sup>; household duties are also unequally divided, as women and girls are most likely to bear the responsibility of collecting and treating water (yet less likely to be part of community water related decision-making)<sup>40</sup>.

- 3.13 **Lack of experienced and trained teachers, institutional weakness and lack of investment in the sector are important in explaining those results.** Teacher training is deficient, with 40% of teachers not having completed 9 years of education. The Ministry of Education lacks the capacity of continuously improving the curriculum, training teachers, expanding access to education and of providing public schools with adequate oversight. Furthermore, private schools (which constitute 85% of the total) are mostly (90%) run without an official license or supervision by the Ministry. Government expenditure, although increased in the last years to reach 3.5% of GDP, remains insufficient (below LAC's 4.6%) limiting the capacity of the government to expand infrastructure, provide subsidies and other incentives to students of vulnerable families, and regulate the sector in general<sup>41</sup>.
- 3.14 **Key health indicators show a significant gap with the rest of the region.** The maternal mortality rate is 359 per 100,000 live births versus LAC's 67; and mortality rates of infants and children under 5 years old are approximately 4 times the regional average<sup>42</sup>. Causes can be found in a deficient supply of health care that provides minimal assistance to less than half of the population. Besides, demand is affected by the income and personal context of the person in need of medical assistance as many can't reach medical attention when needed because they lack money or adequate mobility. Only 36% of births have been attended by skilled staff,

<sup>37</sup> Only a third of those under 14 years old is in what is considered the right class according to their age.

<sup>38</sup> See CDC section 2.2.A.b and 3.2.A for data sources and description of challenges related to this strategic objective. Scores of the national tests at fourth grade come from the Ministry of Education's "Rapport sur l'Evaluation Nationale d'Haiti 2016"

<sup>39</sup> Violence against Children Survey (VACS), 2012.

<sup>40</sup> In a 2016 IDB survey of households in Carrefour and Port-au-Prince, 68.2% of these households had women and girls in charge of carrying water and 82.4% of these households had women responsible for treating water. Pérez Monforte, S., Rodríguez Vera, M. Proyecto de Recolección de Datos, Nota Técnica N° IDB-TN-1271, June 2017.

<sup>41</sup> See CDC 3.2.A.b. On the capacity of the ministry to perform its different tasks, see the literature referenced in the CDC: MENFP (2014) and World Bank (2014).

<sup>42</sup> Mortality rate for children under 5 years old is 69 per 1,000 live births. Haiti failed to meet the millennium challenge target for reducing the mortality rate of children under 5 years of age to no more than 50 per 1,000 births.

and only 32% of women receive post-partum attention within 2 days of giving birth (61% of women have had no post-partum check-ups within 41 days of giving birth). Furthermore, the lack of public funding and a diffuse set of priorities debilitate public health management.

- 3.15 **Access to clean water and availability of adequate systems for waste disposal are limited.** In Haiti, only 62% of the population has access to improved sources of water, significantly lower than 94% in LAC. Access of the rural population to clean water, at 47%, is significantly lower than it is for urban residents, where the indicator is 75%. The reasons behind the weak results in the water and sanitation sector are to be found in: (i) inadequate government regulation, with an incomplete legal framework, and a lack of planning, implementation and supervision capacity; (ii) inefficiency of service providers, both public and private, as well as reduced investments in physical infrastructure; and (iii) the substantial reliance of the system on donor financing to cover expenditures and financial losses in the sector.<sup>43</sup>
- 3.16 **To support the development of human capital, the IDBG will concentrate its efforts on** (1) enhancing access to, and quality of education; (2) Improving maternal and early childhood health to reduce maternal mortality and mortality of children under five; and (3) widening access to water and sanitation services. The IDBG will place emphasis on low income families' access to quality services, and on mainstreaming gender issues into this strategic objective.
- 3.17 **Enhancing access and quality of education.** The IDB Group will support government plans of achieving universal basic education while raising its quality with teacher certification and training. The focus of the Bank's intervention will be placed on early education, at the preschool and primary levels. The Bank will support strengthening the Ministry of Education aiming at better regulation and monitoring of the system of public schools, through the establishment of a Quality Assurance System (QAS), and as importantly, will seek the consolidation of quality standards in privately owned schools. Quality of teachers will be enhanced through: (i) Providing technical assistance and training to school directors in effective management and leadership, and providing technical assistance and training to teachers on pedagogical skills and content knowledge; (ii) Developing and implementing information and communication activities for school directors, school officials, and other relevant stakeholders. Modernization of the education infrastructure and the provision of financial assistance that has played an important part in CS 2011-2015 will continue to be pursued through the existing portfolio. The Bank will monitor access of girls to quality education, and will contribute to mitigating factors that hinder their performance, like violence against girls at home and at schools aiming at eliminating the intergenerational cycle of violence.
- 3.18 **Improving maternal and early childhood health to reduce maternal mortality and mortality of children under five.** The Bank will foster the provision of quality maternal and early childhood health services through a comprehensive "systemic" approach to guarantee effective outcomes. The approach seeks to cover various aspects of the supply and demand for health services in a coordinated manner, to guarantee that quality services are delivered to people in need of them, especially in vulnerable areas. The strategies for reducing maternal mortality include improving access and increasing coverage of reproductive health services to men and women of reproductive age (including family planning counselling and improving logistics and supply to ensure the provision of modern methods). Other strategies to reduce maternal and child health include: improve access and quality of obstetric and neonatal care including managing complications.
- 3.19 **Widening access to water and sanitation services.** The Bank will support the implementation of a new regulatory framework in the water and sanitation sector, and strengthen the public entity in charge of regulation, and of planning public investments. Furthermore, the Bank will contribute to increasing the efficiency of public service providers, and encouraging private

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<sup>43</sup> See CDC section 2.2.A.d.



participation as administrator or investors in the sector. These elements should pave the way for financial sustainability and the phasing out of donor assistance. The IIC will foster private sector investment in water and sanitation services and, jointly with IDB, will seek to advise the government on the feasibility of public-private projects. Furthermore, the IDGB will promote community water interventions that create more gender equality in the division of labor and decision-making linked to water and sanitation.

- 3.20 This strategic objective is aligned with the focus on reducing social exclusion and inequality by of IDB's Update to the IS 2010-2020 and with the aim of eradicating extreme poverty by making quality services in health and education accessible. It is also aligned with the priority segments of the 2017–2019 IIC Business Plan to support infrastructure development, including social infrastructure.

### **(iii) Strengthen government capacities to increase fiscal sustainability**

- 3.21 **Fiscal conditions are volatile.** Haiti's revenues and hence the capacity of the government to spend are subject to a significant degree of volatility. On the one hand, tax collection has been slowly increasing to reach 14.0% of GDP per year on average during 2015-2016 (from 11% in 2008-2009), slightly below the regional average of 14.9%<sup>44</sup>. It has been the norm that current government expenditures are covered by those revenues, with a small portion left to fund capital expenditures. On the other hand, the government has received substantial amounts of grant funds, and has had access to concessional financing. These additional revenues allowed the expansion of capital expenditures. In 2016, domestic revenues (13.9%) were complemented by grant funds (3% of GDP) for total revenues of 17%. However, external (grants) increased in the aftermath of the earthquake and fell sharply later, and access to concessional financing proved no less erratic, providing a challenging context for the planning, execution and supervision of expenditure. Comparing 2016 to 2012, capital expenditure has fallen by 50% (8% of GDP). In this context of erratic financing, the country is working on optimizing its financial management to preserve expenditure levels and avoid a reduction in the provision of public services<sup>45</sup>.
- 3.22 **Additional challenges are posed by weak fiscal institutions.** Haiti has weak frameworks for fiscal responsibility, fiscal transparency, and administrative capacity in areas of budgeting, treasury and debt management. IDB's PRODEV index, a tool for evaluating the capacity of government systems to manage public expenditures effectively, shows that although Haiti advanced from 1.3 in 2007 to 1.6 in 2013, it is still far from the region's average (2.4 for LAC, while the indicator maximum (best) value is 5)<sup>46</sup>. Furthermore, Haiti's public investment framework and the efficiency of public investment are weak<sup>47</sup> and the quality of policies and Government capabilities is low<sup>48</sup> and relies on outdated socio-economic and demographic data<sup>49</sup>. Finally, Haiti faces challenges in terms of the capacity and skills of the civil service

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<sup>44</sup> These numbers include customs, but do not include social protection figures that would raise LAC countries revenue by approximately 10 percent of GDP but that are almost inexistent in Haiti.

<sup>45</sup>The Government's strategy for improving fiscal management includes: the establishment of a treasury single account, the set-up of a coordinating office for fiscal reform and the production of three-year plans, the modernization of systems and infrastructure as well as strengthening of human capacity at key areas and in particular the tax collection office (DGI), and the strengthening of budget preparation and the implementation and supervision of public expenditures (with special attention to issues of transparency). See CDC section 3.3.A.c.

<sup>46</sup> The sub indicator in PRODEV where Haiti has made most progress is the one related to financial management, since the gap between approved and executed government budgets declined from 10% in 2006-2008 to 6.9% in 2009-2011.

<sup>47</sup> IMF Selected Issues, SM/15/110, 2015.

<sup>48</sup> The Politics of Policies: Revisiting the Quality of Public Policies and Government Capabilities in Latin America and the Caribbean, C. Scartascini M. Franco, IDB PB 220, July 2014.

<sup>49</sup> In Haiti's history, the country has only had four national population and housing censuses: 1950, 1971, 1982, and 2003, one every 18 years, when the international standard is that they should be 10 years apart. After the last census, the

because of: inadequate compensation schemes- public officials' salaries are lower than the region's and significantly lower than in Haiti's private sector, outdated features of the Human Resources Management Systems, and even substantial human losses due to the earthquake, from which there has not yet been a full recovery.

- 3.23 **Gender considerations.** The Haitian Constitution of 1987<sup>50</sup> calls for a quota that guarantees at least 30% participation of women in all aspects of national life, thus promoting opportunities in public sector employment for women. However, only 7% of women employed in the public sector hold leadership or decision-making roles<sup>51</sup>, making it difficult for women as a group to influence national policies.
- 3.24 **In this area, the Bank's interventions will focus on:** (1) strengthening fiscal management, and (2) the modernization of government organizations to enhance public sector management.
- 3.25 **Strengthening fiscal management.** The Bank will provide support to the Ministry of Finance in key areas of fiscal reform, including the preparation, implementation, monitoring and oversight, transparency and accountability of the national budget. These areas are key for coordinating and planning of revenues and expenditures and for the sustainability of public finances. Moreover, it will help the country upgrade its institutions in preparation of the new financing scenario in 2021<sup>52</sup>. Furthermore, the Bank will support the goals of increased transparency in government procurement and in financial management, including the Treasury single account<sup>53</sup>.
- 3.26 **Modernization of government organizations to enhance public sector management.** To provide support to the government in rendering public services and public policy more efficient, the Bank will contribute to increase the availability of statistical information, and to strengthen the capacities of key government units and sector ministries active in CS priority areas of intervention, including: Agriculture, Infrastructure, Education, Health and due to its overarching influence, the ministry of Economy and Finance. The Bank will provide support to modernization of the institutions' structure, which may include programs for training and for human resource management, to achieve efficiency, efficacy and sustainability in their operations. The IDB will provide support to the government in the effective management of existing gender equality regulations in public administration, through a gender perspective embedded in civil service management, and enabling an environment for women's leadership within the public sector.
- 3.27 This strategic objective aligns to the challenge of reducing exclusion and inequality in IDB's Update to the IS 2010-2020 through the objectives of creating a more distributive fiscal policy, and strengthening the capacity of the state.
- 3.28 **Cross-cutting themes.** The following cross-cutting themes are considered in the implementation of the country strategy: (i) *Resilience to climate change.* The IDBG will support the country's effort to adapt its infrastructure plans to climate change (in their planning, design and maintenance), as well as contributing to enhance preparedness of the general population especially in rural areas. In agriculture, the IDBG will contribute to increased productivity and a more efficient use of land and water, and to the adoption of production techniques and inputs that are resilient to climate change and that reduce losses that would otherwise be aggravated by it (for example, better watershed management). (ii) *Protection of the natural environment.* The Bank will assist the Ministry of the Environment in the evaluation and monitoring of

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country suffered several natural disasters, including a major earthquake, and a high flow of internal and external migration, rendering the data obsolete.

<sup>50</sup> Article 17.1 of la Constitution de 1987 Amendée

<sup>51</sup> Ministère à la Condition Féminine et aux Droits de la Femme. « Évaluation des besoins post cyclone Mathieu : secteur transversal genre », November 2016.

<sup>52</sup> See also section IV Financing Scenario.

<sup>53</sup> See also section V.

environmental safeguards and in the management of the National Protected Areas System and other ecologically sensitive areas. (iii) *Gender equality*. This CS organized its gender focus following a lifecycle approach, from birth to maturity: health conditions imply a notorious vulnerability for women giving birth, childhood conditions bias school success and finally discrimination in labor and asset markets reduce the productive potential of women. The interventions in the three priority areas will attend those considerations; in the second priority area, maternal health, education for girls, and improvements in water and sanitation cater from birth to early ages, in the other two areas specific objectives address productive opportunities for women (in the first priority area, women's access to land as a fundamental asset and in the third priority area, gender equality and respect for existing regulation regarding employment of women in the public administration).

- 3.29 **Dialogue areas.** The past strategy emphasized the Bank's intervention in the electricity sector, and during the current strategy the Bank could participate in the technical dialogue around it, and could help the authorities devise a sustainable plan for the country's state owned electrical company (EDH) to contain its financial losses (of 1%-2% of GDP per year). Operations approved in 2011-2016 are expected to continue execution of undisbursed funds (USD 7.6 million) during this CS, however, the approval of new interventions of a significant amount by the IDBG in electricity will be conditioned on decisive government action to foster EDH's financial sustainability. Furthermore, the dialogue will proceed on themes that affect productivity growth and income generating opportunities, such as entrepreneurship and vocational training, business regulation, the promotion of exports and attraction of foreign investment, and the continuous development of the Industrial Park at Caracol (for which there are operations pending disbursements), and on sustainable tourism initiatives. The IIC will explore interventions with the objective of providing financing to firms in manufacturing and sustainable tourism<sup>54</sup>, and in close coordination with IDB, will seek solutions to their specific demands of infrastructure services, including logistics, telecommunications and electricity. Lastly, the IDB Group and the country would promote, in collaboration with the Dominican Republic, the dialogue on political and economic binational integration in areas such as management of shared watersheds and other natural resources, sustainable agriculture, resilient infrastructure, productive investment at the border and building resilience to climate change.

#### IV. FINANCING SCENARIO

- 4.1 **Haiti faces a more stringent financing scenario for 2017-2021.** Following a period of steady access to Petrocaribe and donor funds in the aftermath of the earthquake, government access to fresh financing and new donor grants decreased significantly since 2014. Within this new financing scenario, the Government had to implement a reduction of the fiscal deficit to 3.5% of GDP in 2015 (from 7.1% in 2014), and further to 1.5% of GDP in 2016. By 2021 the fiscal deficit is expected to stabilize at approximately 2.5% of GDP, and external debt would reach 35% of GDP (currently at 27%)<sup>55</sup>. To manage this process of adjustment while keeping macroeconomic indicators from destabilizing and key public spending from falling, the government needs to strengthen access to tax and customs revenues and to stable financing, which may include

<sup>54</sup> IIC will explore sustainable tourism opportunities that mobilize investment to hospitality initiatives with high-development impact, supporting socioenvironmental actions.

<sup>55</sup> These projections correspond to the Baseline Scenario in the latest Debt Sustainability Analysis for Haiti performed by the IMF in November 2016, with assumptions of conditions to external debt contracting that are based on existing debt patterns, and expectation of new financing from multilaterals in the future. Venezuela will still hold the majority of Haiti's external debt under most plausible scenarios because of the current large stock and because of the expectation of multilaterals extending grant-only financial operations with Haiti for a few years more before possibly switching to mixed (concessional) lending frameworks.

funding from the long-term development partners of the country to replace the international sources of financing that have been lost.

- 4.2 **Through the CS 2017-2021 the Bank will continue to work within the financing parameters of the GRF to support Haiti's reconstruction and development.** Grants that were not approved in 2016 will be carried over to the following years, and hence with that addition, and subject to the country maintaining a sound macroeconomic environment and debt profile (that excludes non-concessional external borrowing), total approvals during the CS period could reach US\$990.7 million<sup>56</sup>.
- 4.3 **The Bank will also continue to operate within the 2007 framework of the Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) that granted 100% debt relief to Haiti and other heavily-indebted, low-income Bank member countries and led to the establishment of the GRF.** Central to this framework is the Bank's adherence to the IMF-World Bank Debt Sustainability Framework for Low-Income Countries (DSF) as the basis for debt sustainability analysis, coordination with other financial institutions, and addressing the "free riding" problem by lenders to countries who have received debt relief (Resolution AG-3/07 and AG-8/07). The Bank is harmonized with other multilateral organizations, including with regards to addressing "free riding" problems through limits on non-concessional borrowing.<sup>57</sup> If a country's borrowing decisions contravene the relevant policy, this can have repercussions on the volume or terms of multilateral financial assistance<sup>58</sup>.
- 4.4 **The Bank could resume concessional lending in 2021, provided Haiti's risks are deemed low or moderate.** As per the framework for concessional lending, Haiti could be eligible for concessional financing in 2021. The framework offers a sustainable model for the Bank to provide financing to its most vulnerable members; the total annual amount as well as the conditions of such financing depend on the country's risk of debt distress. Risk levels, in turn, depend crucially on the strength of the country's institutions<sup>59</sup>.

## V. STRATEGY IMPLEMENTATION

- 5.1 **During the strategy's implementation, the IDBG will focus on sustainability to make results visible and long lasting.** The following guiding principles will be important during the strategy's implementation: (1) sustainability of results, for example through phasing out Bank interventions without interruption of services to the beneficiaries; (2) sustainability of fiscal variables during the CS implementation period, through active search for co-financing from other donors and IDB contribution of grant funds; and (3) fiscal sustainability beyond the CS implementation period, with the aspiration of achieving "moderate risk" levels by 2020, and a smooth transition to a model of concessional financing based on stronger government capacity.

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<sup>56</sup> This amount would complete the US\$2.3 billion total pledge in grants for the period 2010-2020 established in the Report on the Ninth General Increase in the Resources of the IDB (AB-2764). See Annex III, table A.

<sup>57</sup> At present, Haiti is subject to the International Development Association's (IDA) "Non-Concessional Borrowing Policy" and, as of May 2017, had a zero non-concessional borrowing limit in place, because of its "high risk of debt distress" rating ([http://ida.worldbank.org/sites/default/files/pdfs/oecd\\_dlp\\_and\\_ncbp\\_table\\_05\\_31\\_2017.pdf](http://ida.worldbank.org/sites/default/files/pdfs/oecd_dlp_and_ncbp_table_05_31_2017.pdf)). Should Haiti have a formal program with the IMF in place, the relevant policy would be the IMF's policy on public debt limits in Fund-supported programs.

<sup>58</sup> For example, IDA reserves "the right to de-link the financing terms it provides under the grant allocation system from the risk of debt distress rating". "IDA can decide to (a) reduce allocated IDA volumes; (b) introduce a hardening of credit terms by either reducing or removing access to grants in a given fiscal year or hardening the country's credit terms to blend of hard term lending; or (c) introduce a combination of these measures." (*IDA'S Non-Concessional Borrowing Policy: Review and Update*), IDA Resource Mobilization Department, October 29, 2015.

<sup>59</sup> The World Bank announced in 2015 the reintegration of Haiti to concessional lending for the 2016-2019 period, but later postponed it and extended the grants-only approach with Haiti until further notice.

- 5.2 **The IDBG will seek enhanced efficiency through portfolio consolidation.** To increase efficiency of execution, when appropriate the Bank will approve operations with designs that have reached an advanced stage of preparation and that could rapidly lead to procurement actions. The result of placing more effort in the design phase of projects, including the advanced stage of preparation of procurement for works, will be to shorten the time between project approval and the disbursement of funds towards project financed activities. Moreover, the IDB will aim at the concentration of the portfolio in fewer but larger operations. Larger operations will then permit planning of works of a wider scope, and will allow for a reduction of administration costs for the Bank and the government.
- 5.3 **Geographic focus.** The IDBG will continue to apply a geographic focus on the northern departments during 2017-2021, given the high concentration of poverty, the national priority of creating economic centers and jobs in less developed regions of the country, and to ensure efficiency and sustainable results of past and present Bank financed operations in this area (such as the industrial park in Caracol) by taking advantage of multisector synergies. It is worth noting, however, that this focus does not imply that all IDBG funds will be used exclusively in operations in that area; it will remain a possibility that IDBG and the government agree on pursuing interventions in other parts of the country if they are deemed important.
- 5.4 **Private sector development.** The IDBG will provide support to business climate enhancement through new operations (as described in CS priority #1) and existing portfolio as well as in active dialogue with the country over business regulation and enhanced access by firms to financial services. Improving the business climate could provide new grounds for successful IIC operations that are currently hindered by the country's elevated risk. Furthermore, the IIC will seek to provide flexible financing instruments that have a risk tolerance appropriate to the Haitian context, particularly in the following cases: (i) company activities with high positive spillover potential; (ii) investments in intangible assets; (iii) adoption of tangible assets that are new to Haiti; and (iv) investments that would not occur without IDBG support because of the high risk aversion of Haitian banks.
- 5.5 **Fiduciary country systems are not being used in IDB financed operations in Haiti as there are still gaps with international standards<sup>60</sup>.** Nevertheless, the government is working to improve the capacity of its national systems through the following initiatives: (i) the development of the 2010-2030 "Plan Stratégique de Développement d'Haiti (PSDH); (ii) the National Strategy for the Reform of Public Finance (SRFP) including the 3-year Action Plan 2016-2018 and (iii) the recently updated Strategic Action Plan (2016) that was created following the (2013) MAPS-OECD diagnostic.
- 5.6 **During the country strategy period (2017-2021), the Bank will continue supporting the government in strengthening fiduciary country systems through the following activities:**  
 i) Lead donors in the strengthening of the country's supreme audit institution (Cour Supérieur des Comptes et du Contentieux Administratif, CSCCA) in its ability to audit public institutions and to render judgment of accounts of public accountants. The Bank and CSCCA will identify a pilot project financed by the Bank suitable to be audited by the Court of Accounts. ii) Support the implementation of the action derived from the assessment of the treasury single account (TSA), including the training of public accountants on IDB procedures and in understanding agreements signed between GoH and the Bank. iii) Collaborate with sectorial teams in strengthening key ministries' programming units. The objective will be to ensure that investment budgets are included in the national budget (public policy-based budgeting), to systematize the development of sectorial policies through a homogeneous approach, to use multi-annual programming instruments for the effective management of public resources, and to ensure a

<sup>60</sup> Fiduciary country systems include: Budget formulation, approval and execution processes, Treasury systems, Accounting and reporting, Internal Control, External Control and public procurement systems. Please consult Fiduciary note for more details (electronic link #ii).

more transparent budget execution that meets international standards and practices. iv) Finance the review of the national procurement legislation as well as the preparation of an amendment to the legislation. v) Support the identification and development of a sustainable training strategy for public procurement officers aiming towards the integration of a procurement course within the curricula of a national training institution. vi) Support the creation and development of institutional procurement units to centralize procurement activities and optimize resources for donor funded and national budget projects. vii) Promote initiatives that engage the private sector, by providing, through procurement fairs, information on procurement opportunities within ministries and public institutions. viii) Actively participate in dialogue with the government to simplify national procedures for contract approval, specifically with regards to the role of the CSCCA; and ix) Coordinate the donors group that supports public procurement initiatives to ensure synergies and effective collaboration.

- 5.7 It is expected that by the end of this country strategy period, the government will count on an increased control of procurement activities** through institutional procurement units, improved legal framework for public procurement, a stronger capacity within public institutions; the use of national systems to audit 10% of Bank Projects and the selection of at least one pilot project to test the integrity and reporting ability of the TSA. For Bank financed operations, the Bank will continue to strengthen the institutional capacity of the executing units to ensure adequate internal control systems and procurement capacity to limit the fiduciary risk in the execution the portfolio. See Table 1 for a description of the main actions planned regarding the support of the Bank to the use of country systems.

**Table 1. Haiti. Use of Country Systems**

Use of Country Systems	Baseline (2016)	Estimated use 2021	Actions planned during Country Strategy period
<b>Financial Management</b>			
Budget	0%	0%	Collaborate with sectorial teams in strengthening key ministries' programming units to ensure that investment budgets are included in the national budget.
Treasury	0%	20%	Support the strengthen of TSA through the implementation of action plan including adding the signature of public accountants on IDB funded operations.
Accounting and Reporting	0%	0%	No actions planned
Internal Audit	0%	0%	No actions planned
External Audit	0%	10%	Support the strengthening of CSCCA in the implementation of 5-year operational plan (2016 – 2021) through technical assistance in coordination with donors to audit public institutions and to render judgment of accounts of public accountants.
<b>Procurement</b>			
Information System	0%	100%	Finalize the diagnostic of the national information system and identify strengthening measures in CNMP's 5-year strategy for a potential use in 2021.
Shopping	0%	0%	No actions planned
Individual Consulting	0%	0%	No actions planned
Partial NCB	0%	0%	No actions planned
Advance NCB	0%	0%	No actions planned

- 5.8 **Donor collaboration.** Recent experience (systematically reported in the Haiti Progress Reports to the IDB Board of Executive Directors) has demonstrated good donor coordination (see electronic link V). The Bank had permanent dialogue with donors and the government through the implementation of the G12++ group<sup>61</sup>, the *Tables Sectorielles* (sectorial technical meetings of the main financial and technical partners with the government), as well as joint portfolio reviews that have been instrumental to adequate coordination at the strategic level. Furthermore, the Bank engaged in joint project design, preparation, and funding. For CS 2017-2021 the Bank will continue to actively participate in donor coordination and share the concerns regarding the country's past-due reforms, and will encourage more collaboration at the operational level with common use of executing units under similar rules, to minimize the transaction and coordination costs to the government counterparts.

## VI. Risks

- 6.1 **Macroeconomic risks.** Haiti is very vulnerable to several types of external shocks. The country is exposed to the uncertainty of the global economic environment, the volatility of international commodity prices (food and oil, of which it is a net importer) and quite often hit by inclement weather and natural disasters. A strong recession in the United States - the country's main trading partner and remittance source - would have adverse effects on the economy. A significant increase in international commodity prices coupled with adverse conditions in domestic agriculture could lead to inflationary pressures with impacts on poverty and food security. A natural disaster of great magnitude would produce pressures on public expenditures, which would have fiscal repercussions. At the same time, low tax collection generates little room for maneuver to deal with unexpected events, all of which could limit the impact of this strategy. Furthermore, to compensate for low tax collection and to generate additional spending capacity, the government could resort to issuing new debt, at concessional and non-concessional rates, thus aggravating macroeconomic risks<sup>62</sup>. As mitigation measures, the Bank will contribute to strengthen fiscal management and will make financing and technical advice available to the country. The IDBG will seek private and public financing and co-financing of expenditures that the country needs (infrastructure, social programs) to create not only expanded spending capacity, but also buffers that will be useful in case of external shocks. The Bank will also contribute to watershed management and strengthening the Ministry of the Environment, and will help in the planning and design of public infrastructure aiming at environmentally friendly and climate change resilient public investment.
- 6.2 **Political risks.** Haiti has initiated a new political cycle. To date, political negotiations have been successful, and there is adequate coordination between the executive and the legislative powers. However, there is a risk that conditions could change rapidly, and if that happens the window of opportunity for the government to launch desirable reforms successfully and to maintain economic stability could close. To mitigate this risk and to strengthen the government's ability to implement its plans and indirectly to help extend the climate of political collaboration and macroeconomic stability seen today, the Bank will continue the dialogue with the country

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<sup>61</sup> The G12++ regroups Representatives of the 18 most important donors in Haiti and is the main instance for donor coordination in Haiti, under the leadership of the United Nations, to improve coordination between donors and with the government.

<sup>62</sup> The most recent Debt Sustainability Analysis by the IMF/WB concludes that the country presents High Risk of debt distress. The IDB extended the analysis by evaluating additional scenarios for robustness and arrived at the same conclusion. Contracting new non-concessional external debt in the financing mix, keeping all other things equal, would only increase the riskiness of the debt profile.

over policy and other macro and budgetary issues, and will provide technical and financial assistance to launch and complete the policy reforms.

- 6.3 **Execution risks.** The challenges identified in section V (and in the lessons learned) to the execution of this CS could affect the expected results of the program. To mitigate those risks, the CS considers carrying out IDBG interventions as has been described in 5.1, and 5.2. Moreover, given the demand-based nature of NSG opportunities that are influenced by market fluctuations and the confluence of deep market failures that reinforce a low productivity-low investment cycle, the implementation of private sector operations may face several obstacles that could hinder IDBG's support to firms. To mitigate NSG execution risks, the IIC will review its internal processes to better serve client needs and expectations in Haiti, besides seeking to provide flexible financing instruments, as mentioned in 5.4.



# ANNEX I. RESULT MATRIX AND COUNTRY SYSTEM MATRIX

Table I.1. Haiti CS 2017-2021. Result Matrix

GoH priorities (Politique Générale)	Strategic areas	IDB strategic objectives	Expected Results	Indicator	Baseline	Baseline year	Source
The Economy (Chapter 1. <i>Chantier économique</i> )	Improve the business climate to enhance productivity	Enabling conditions for increased productivity in agriculture (1, 2)	Agriculture Productivity Expanded (1, 2)	GDP in Agriculture per person (GDP / Rural population); in gourdes of 1987 per person <sup>(a)</sup>	739.7	2016	GDP in Agriculture: ISHI < <a href="http://www.ihsi.ht/produit_economie_comptes_pres_historique.html">http://www.ihsi.ht/produit_economie_comptes_pres_historique.html</a> > ; rural population is projected by UN but can be obtained from <a href="https://data.worldbank.org/indicator/SP.RUR.TOTL?locations=HT">https://data.worldbank.org/indicator/SP.RUR.TOTL?locations=HT</a>
				GDP in agriculture per hectare = (GDP/ Land dedicated to Agriculture); in gourdes of 1987 per hectare <sup>(b)</sup>	1,799.5	2014	Land: FAOSTAT <a href="http://www.fao.org/faostat/en/#country/93">http://www.fao.org/faostat/en/#country/93</a> Agr GDP: ISHI < <a href="http://www.ihsi.ht/produit_economie_comptes_pres_historique.html">http://www.ihsi.ht/produit_economie_comptes_pres_historique.html</a> >
				Gross Loans to the Agriculture Sector as a % of Loans to productive activities.	1.10%	Mar-17	BRH: RAPPORT "STATISTIQUES" ET INDICATEURS FINANCIERS
Infrastructures (Chapter 4. <i>Infrastructures</i> )		Enhance key transport infrastructure	More resilient and better quality of infrastructure (1)	Quality of overall infrastructure index (WEF; range: 1=worst to 7=best) <sup>(c)</sup>	1.9	2016	<a href="https://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=HTI">reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=HTI</a>

GoH priorities (Politique Générale)	Strategic areas	IDB strategic objectives	Expected Results	Indicator	Baseline	Baseline year	Source
Social Development (Chapter 5. Le Champ Social)	Render key services more accessible to enhance human development	Widen access to water and sanitation services	Access to drinking water services improved in urban and rural areas	Population with access to improved water source (total urban and rural areas)	58%	2015	Progress on Sanitation and Drinking Water 2015 Update (UNICEF & WHO)
			More people with access to sanitation services	Population with access to improved sanitation facilities (total urban and rural areas)	28%	2015	Progress on Sanitation and Drinking Water 2015 Update (UNICEF & WHO) <i>The indicator will be used as defined by the JMP as improved access to sanitation</i>
		Reduction in maternal mortality and mortality of children under five (2)	Reduction in mortality in children under five years of age	Mortality rate of children under 5 years (per 1,000 live births)	69	2015	WHO
			Reduction in maternal mortality (2)	Maternal mortality rate (per 100,000 live births)	359	2015	WHO
		Enhance access and quality of education (2)	More children attend primary school	Primary school participation, net attendance ratio (%)	77	2008-2012	Unicef.org
			More students pass national test scores	Share of correct responses in national tests at 4th grade (% of total) <sup>(d)</sup>	37.9%	2016	Ministry of Education, Haiti. Rapport sur l'Evaluation Nationale d'Haïti 2016.
			Girls access to education is assured	Girls finishing elementary school - <i>premier cycle</i> (% of total students finishing <i>premier cycle</i> ) <sup>(e)</sup>	51.2%	2016	Ministry of Education, Haiti. Rapport sur l'Evaluation Nationale d'Haïti 2016.

GoH priorities (Politique Générale)	Strategic areas	IDB strategic objectives	Expected Results	Indicator	Baseline	Baseline year	Source
Chantier Politique (Chapter 2, <i>Chantier Politique</i> )	Strengthening government capacities to increase fiscal sustainability	Government's organizations modernized (1,2,3)	Effectiveness of Government increased	Government Effectiveness (Indicator Code GE.EST, range - 2.5 worst + 2.5)	-2.00	2016	World Bank Governance Indicators
			Capacity of the state in managing environmental and climate related risks enhanced (1,3)	Index of Governance and Public Policy in Disaster Risk Management (IGOPP) <sup>(f)</sup> (0 is the worst; 100 is the best)	7.35	2013	IDB INE/RND
			Increase gender equality in public administration (2)	Women holding decision making roles as % of women employed in the public administration.	7%	2016	Ministry of women rights of Haiti
Ways and Means (Chapter 7, <i>Voies et Moiens</i> )		Fiscal management strengthened	Tax collection increased	Percentage of GDP collected in taxes.	14.15	2016	WEO, Defined as: General Government Revenues minus General government grants, as % of GDP

**Notes to the Results Matrix:**

(a) Obtained as: GDP in agriculture / Rural population= 3226/4.361279 = 739.7 gourdes of 1987 per person. GDP units are millions of gourdes of 1987, and Rural population units are millions of persons.

(b) Obtained as: GDP in agriculture / Agriculture land = 3311/1.84 = 1,799.5 gourdes of 1987 per hectare. GDP units are millions of gourdes of 1987, and Agriculture land units are millions of hectares.

(c) The Quality of overall infrastructure index of the WEF refers to transport and electricity (with fifty percent weight each) and combines variables in the physical domain as well as indicators of perceptions of business executives.

(d) Obtained as a simple average of the percentage of satisfactory responses in national tests at 4th grade. Average 37.9% = (Creole (40.4%), French (36.7%), and Mathematics (36.6%))/3

(e) Obtained as a simple average of girls finishing premier cycle in Haiti's 10 Departments, as % of total students completing premier cycle.

(f) Applying the Index of Governance and Public Policy in Disaster Risk Management (iGOPP) demonstrated completion of a share of 7% (out of a maximum 100%) of the indicators. The index ranges from 100 which is the best, to 0 and have a classification system of 5 categories: 91%-100% completion = Outstanding; 71%-90% = Very Good; 41%-70% = Considerable; 21%-40% = Incipient; 0 – 20% Low.

**Cross Cutting themes in the Results Matrix:**

(1) Refers to resilience to climate change. IDB strategic objective and expected results that relate to increased productivity in agriculture, besides containing indicators of resilience to climate change, are in and of themselves contributing to mitigate climate change since this indicate more efficient use of the land, all other things constant.

(2) In Gender, the CS follows a life-cycle approach towards greater gender equality, where important interventions are mainstreamed in the general strategic objectives: health care will focus on women through maternal care, education will focus on the ability of girls to develop through schooling, and for adult women productivity enhancing actions will have a gender perspective through land tenure and public administration. The approach tries to counter gender bias through a health system that doesn't provide for the needs of mothers, access to education for girls, and lastly inequalities in access to assets and to certain job markets.

(3) Refers to Protection of the environment. The Bank will contribute to this cross-cutting theme through the modernization of government units. See CS document for more details.

**Table I.2. Haiti CS 2017 – 2021. Country System Matrix**

Strategic Objectives	Expected Strategy Results	Indicators	Unit of measure	Baseline (2016)	Main Target	Timing
Strengthening of national systems	Strengthened Treasury Single Account through the implementation of Public Accountant approved signature on IDB funded operations	% of IDB Funded operations with approved Public accountants signature	%	0%	100%	
Increase the use of fiduciary country systems	Strengthened External Control systems (CSCCA) through the implementation of CSCCA 5 years operational plan	CSCCA Operation plan implemented	%	0%	50%	At the end of CS Period
	Treasury Single Account (TSA) validated for its use in IDB portfolio	Projects funds which are executed through TSA	%	0%	20%	At the end of CS Period
	Pilot project audited by CSCCA	IDB funded operations which are audited by the Supreme Auditors (CSCCA)	%	0%	10%	At the end of CS Period
	Use the subsystem of "Information System"	Country portfolio that use the subsystem "Information System"	%	0%	100%	At the end of CS Period

**ANNEX II. MAIN ECONOMIC AND SOCIAL INDICATORS**

<b>Macro Sheet</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b><i>Growth and Employment</i></b>						
Real GDP growth (%)	5.5%	2.9%	4.2%	2.8%	1.2%	1.5%
GDP (US\$ billions)	7.5	7.9	8.5	8.8	8.7	8.3
GDP per capita (US\$)	740.8	766.8	810.2	831.4	813.4	761.4
Gross capital formation (% GDP)	27.9%	29.5%	30.0%	31.0%	32.3%	29.5%
Unemployment rate (%)		28.9%				
<b><i>Price</i></b>						
Inflation	10.4%	6.5%	4.5%	5.3%	11.3%	12.0%
Exchange rate (gourdes per US dollar)	40.5	41.9	43.5	45.2	50.7	63.3
Real effective exchange rate (% change from previous year, negative = appreciation)	-18.8%	-2.9%	-0.7%	-1.4%	0.8%	11.5%
<b><i>External situation</i></b>						
Current account balance (% of GDP)	-4.3%	-5.7%	-6.6%	-8.5%	-3.1%	-0.9%
Capital and Financial accounts (%of GDP; negative = net inflow)	15.2%	8.6%	8.6%	6.0%	1.5%	-0.3%
Foreign Direct investment, net (% GDP, negative=net inflow)	1.9%	2.0%	1.9%	1.1%	1.2%	0.7%
Portfolio investment (% GDP, negative= net inflow)	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Total Reserve Assets (US \$billions, Gross international reserves)	2.1	2.3	2.4	1.9	1.8	1.8
<b><i>Standard of living</i></b>						
Population (million)	10.15	10.29	10.43	10.57	10.71	10.85
Income inequality (Gini coefficient)	-	0.60	-	-	-	-
Poverty rate (%)	-	58.5	-	-	-	-

### ANNEX III. INDICATIVE LENDING FRAMEWORK

#### A. GRF approvals and disbursements

Year	GRF Approvals USD million	Co-fin Appr. USD million	GRF Disbursements USD million	Co-fin Disb. USD million	GRF Disb as % of Total Grants*	Total Grants as % of GDP**
<i>Country Strategy, 2011-2015 and extensions</i>						
2010	251.0	64.4	176.9	16.9	33%	8%
2011	241.0	74.3	174.8	50.2	26%	9%
2012	245.5	0.0	147.6	42.8	18%	11%
2013	188.0	22.2	186.3	26.6	27%	8%
2014	213.7	52.6	205.6	64.3	37%	6%
2015	190.0	4.5	187.8	31.8	40%	5%
2016	20.0	15.3	116.4	42.4	33%	4%
2010-2016	1349.2	233.3	1195.4	275.0	30%	
<i>Proposed country strategy, 2017-2021 (indicative)</i>						
2017	325.0		115.0		44%	3%
2018	222.9		190.0		40%	6%
2019	222.8		190.0		44%	5%
2020	220.0		190.0		46%	5%
2021	0.0		190.0		49%	5%
2017-2021	990.7		875.0		50%	
<i>GRF total Pledge</i>						
2010-2021	2339.9		2070.4		36%	

\*GRF disbursements as percent of total grants received by the Government of Haiti.

\*\*Total grants received by the Government as percent of GDP. In millions of U.S. Dollars, total grants in the lower part of the table are: 2017: 260.3, 2018:472.7; 2019: 430.0; 2020: 410.0; and 2021: 390.0; and the annual average for 2017-2021 is USD 392.6 million.

Projections for 2017-2021 are from WEO (version as of April 2017)

## ANNEX IV. DEVELOPMENT EFFECTIVENESS MATRIX (DEM) SUMMARY

### COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

#### COUNTRY STRATEGY: Haiti

##### STRATEGIC ALIGNMENT

*Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.*

##### EFFECTIVENESS

*This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.*

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	100%
- That provide corresponding <b>policy recommendations</b>	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes



\* This analysis includes any potential diagnostic document used elaborated to inform.

\*\* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

**CS Diagnostic:**

*As part of the Country Strategy 2017-2021 a country development challenges diagnostic was presented, under the title "Haiti: Country Development Challenges". The CS diagnostic is comprehensive and based on empirical evidence. The diagnostic identifies 3 priority areas for Bank intervention: (i) Productive development and firms; (ii) Human development; (iii) Government and institutions. The diagnostic clearly identifies and dimensions, based on empirical evidence, 100% priority area's specific constraints and challenges. The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 100% of the priority areas. The diagnostic provides corresponding policy recommendations for Bank actions, which are based on empirical evidence, for 100% of the priority areas.*

**Results matrix:**

*The section of the Results Matrix corresponding to the new strategic area includes 7 strategic objectives for Bank action, 13 expected results and 14 indicators to measure progress. - 100% of the strategic objectives are clearly defined. - 100% of the expected outcomes are clearly defined. - 100% CS Objectives are directly related to the main constraints identified in the Diagnosis. - 100% of the indicators used are SMART. - 100% of the indicators have baselines*

**Country Systems:**

*During the new CS period, the IDBG will continue the dialogue and technical support to the government, promoting the strengthening and modernization of country systems. The following initiatives will be implemented: i) Supreme Audit Institution (CSCCA) in its ability to audit public institutions and to render judgment of accounts of public accountants; ii) support the implementation of the action derived from the assessment of the TSA; iii) collaborate with sectorial teams in strengthening key Ministries' Programming Unit; iv) Finance the review of the national Procurement legislation as well as the preparation of an amendment to the legislation; v) support the identification and development of a sustainable training strategy for public procurement officers aiming towards the integration of a procurement course within the curricula of a national training institution; vi) support the creation and development of institutional procurement units to centralize procurement activities and optimize resources for donor funded and national budget projects. vii) Promote initiatives that engage the private sector; viii) Actively participate in dialogue with the GoH to simplify national procedures for contract approval, specifically with regards to the role of the Supreme Audit Institution (CSCCA); and ix) Coordinate the donors group that supports public procurement initiatives to ensure synergies and effective collaboration.*

**Vertical logic:** *The CS has vertical logic.*

**RISKS.** *This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.*

*The Strategy identifies three risks: (i) macro risks; (ii) political risks; and (iii) risks of execution. Mitigation and monitoring measures have been identified for all the risks.*

## Annex V. Management's response to the Country Program Evaluation's Recommendations

Recommendation	Management's Response
<p><b>#1. Set the next country strategy in realistic terms, focusing on building the country's long-term institutional capacity.</b> The strategy needs to incorporate diagnostic components that can identify the fragility of the Haitian State and the absorption capacity of its institutions, and promote progressive action to develop internal institutional capacity and make government agencies accountable. In addition, the objectives and targets should be set on the basis of this capacity and be measurable so as to favor accountability.</p>	<p><b>Agree.</b> The new country strategy is being prepared based on the lessons learned from implementation of the previous strategy and the realities of the country's economic and institutional context. In its design, a more in-depth analysis will be done on the macro, socioeconomic, political, and institutional risks for implementation of the country strategy. In defining the strategic objectives and indicators in the results matrix, the institutional limitations in the country's public and private sectors will be taken into account.</p>
<p><b>#2. Initiate a process with the Government of Haiti to integrate the Bank's resources into the national general budget, supporting the Government of Haiti in consolidating this budget.</b> This would align the incentives and reinforce the role of the central government (through the Ministry of Finance) in the strategic management of budgetary support and investment resources, putting the IDB in a leading position with regard to other donors. In addition, the Government of Haiti would be equipped with ongoing fiscal management and public policy execution capabilities, strengthening ownership of the program and its sustainability. To this end, the IDB should also provide support to the Government of Haiti to strengthen mechanisms for accountability and transparency in the use of public resources.</p>	<p><b>Agree.</b> It should be noted that the Bank's investments have been duly recorded in the public investment budget since the 2014-2015 fiscal year. In this framework, the IDB is providing support, in conjunction with the European Union, the International Monetary Fund, and the World Bank, to help the government improve the national budget preparation process so that in the future donor resources will be used to finance investments that come from the national budget.</p> <p>As suggested by OVE's recommendation, providing support to help the Government of Haiti improve its fiscal capacity and achieve sustainability in its public policies and transparency in its use of resources is a process that will be carried out over a long period of time in coordination with other donors. The leadership taken by the international community in this process, including the IDB, will depend on the positioning and strengths of the donors. The Bank will participate actively in this dialogue without duplicating efforts or cooperation already under way.</p>
<p><b>#3. Prepare an exit strategy for financing permanent officials/consultants in the government institutions.</b> This strategy would require the use of fiscal resources to finance the operating capacity of the ministries and government agencies and would help to ensure the sustainability of</p>	<p><b>Agree.</b> This recommendation is already being incorporated into the design of the new country strategy. Financing for part of the administrative structure for the execution of operations was necessary, as OVE recognizes, given the human resources needed to implement the support to the country over the past five years.</p>

Recommendation	Management's Response
<p>interventions in the medium term. To this end, the IDB should also provide support to the Government of Haiti to move forward with organizational reforms and improvements in human resources management in the civil service.</p>	<p>Management agrees that this capacity should be maintained and its financing gradually absorbed with budget resources from the Government of Haiti. The IDB is already working with the Ministry of Economy and Finance (MEF) and the Office of the Prime Minister on an exit strategy for financing public employees and consultants.</p> <p>This complex process must be carried out gradually, considering that any abrupt removal of this support would carry the risk of some of the reforms failing due to limited budget and technical resources. For the new country strategy, the Bank will discuss with the Government of Haiti greater support in the areas of organizational reform and human resources management.</p>
<p><b>#4. Review and consolidate the current investment portfolio using a cost-effective approach aimed at sequencing the interventions so as to strengthen the sustainability of the Bank's portfolio outcomes.</b> The IDB should rationalize the portfolio, prioritizing interventions based on a realistic cost-benefit analysis and combining operations based on common strategic objectives.</p> <p>It should proceed with new operations only when there is evidence of significant progress on the existing portfolio and when the institutional capacity is shown to be sufficient to undertake a new commitment effectively.</p>	<p><b>Agree.</b> The Bank has already been doing this prioritization exercise in the sectors that have demonstrated better progress, as recognized in the CPE with various examples. We agree on the importance of noting that the portfolio should be monitored on an ongoing basis and that the preparation of new operations should be contingent upon progress in the execution of earlier projects.</p> <p>Portfolio operations have been prioritized in line with cost-benefit analyses and the Bank's strategic objectives. The Bank also evaluates the portfolio on an ongoing basis, revising it periodically with the Government of Haiti and on a daily basis with the executing agencies. In addition, during the preparation of new operations, the capacity of the executing agencies is assessed.</p> <p>The Bank will continue these efforts over the next five years, in order to maintain a healthy portfolio that is executed at a good pace and delivers results.</p>
<p><b>#5. Target the use of sovereign-guaranteed resources to improving the business climate in order to facilitate private sector activity.</b> Resources from the public sector window should be keyed to the fundamental mission of supporting initiatives likely to improve the business climate in Haiti. The IDB could also explore new ways of supporting private sector initiatives through structuring and financing mechanisms that reduce the risk associated with such initiatives.</p>	<p><b>Agree.</b> Despite the real challenges involved in attracting private investment in the post-earthquake context, progress has been made in this area under the current country strategy (2011-2015). Programs like the Partial Credit Guarantee Fund, the Spanish Fund for SMEs, and the Anchors Program use grant funds to design a guarantee mechanism to facilitate private investments and loans from the financial system. The new country strategy will step up efforts in this area in order to strengthen the business climate and available infrastructure and spur growth in the development of new investments in the private sector.</p>