

Haiti: From Natural Catastrophe to Economic Security

A Report for the Secretary-General of the United Nations

Paul Collier,
Department of Economics,
Oxford University

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1. Introduction

Haiti has a long history of socio-economic fragility. Following a period of crisis, in 2004 the United Nations intervened, creating MINUSTAH which successfully established credible security and progressively extended it throughout the country. On this base of security democratic politics was re-launched, including peaceful elections which produced a legitimate and accountable government. In 2007 these security and political developments were complemented by the enactment of HOPEII, which gave Haiti uniquely favourable preferential access to the US market. Thus, as of 2007 the combination of security, democracy, and economic opportunity were in place. With these foundations the next stage should have been the launching of economic development.

Instead, during 2008 the society was hit by a series of major external shocks. First the sudden increase in world food prices triggered riots and led to the fall of the government. Given the fractured nature of Haitian society, democratic politics is inevitably fraught and so it took five months to get a new government in place. No sooner was government restored than the country was hit by the fourth of a series of hurricanes, causing flooding and severe destruction of infrastructure and livelihoods. Further shocks are on the horizon for 2009. The global recession is likely sharply to reduce the remittances which are by far Haiti's largest source of foreign exchange and this will particularly hit the livelihoods of the poor. Multiple elections are due and these are likely to distract policy makers.

These shocks have two serious consequences. One is that they have created a humanitarian emergency which, if it is not dealt with, has the potential to reignite social disturbance. The other is that they have set back the launch of economic development. The immediate requirements for rehabilitation of social and economic damage are set out in the *Rapport d'Evaluation des Besoins Post-Desastre* (PDNA). The present Report takes these needs as given and presupposes that appropriate action will be taken. It builds on and complements the PDNA in elaborating a strategy that can take the society beyond recovery to economic security. In conjunction, the food crisis and the hurricanes turned 2008 into a lost year and this loss of time is important. Both MINUSTAH and HOPEII are time-bound. Unless economic development is started very soon it will become much more difficult: the remaining horizon for both MINUSTAH and HOPEII will be too short for investor confidence. More subtly, the setbacks of 2008 have reinforced an unhelpful sense that Haiti is trapped in a cycle of failure.

Manifestly, it will be harder to launch economic development in 2009 than it would have been in 2007. Both the legacy of the 2008 crises and the global recession make 2009 unpropitious. However, it is both feasible and imperative.

The feasibility of economic development in Haiti is the core subject of this Report. Indeed, despite the prevailing despondency, the opportunities for Haiti are far more favourable than those of the 'fragile states' with which it is habitually grouped. Due to the country's location, the governments of Haiti, the USA and Canada have a common interest in pursuing a practical and focused agenda that delivers rapid improvements in socio-economic conditions

and which scales up into longer term transformation. In stark contrast to other current entanglements with fragile states, Haiti offers the American and Canadian governments a rare opportunity to demonstrate that their support can lift a society decisively out of fragility.

It is imperative for two distinct reasons. First, Haiti has exceptionally rapid population growth which adds to an already acute pressure on land. This youth tsunami is accelerating the process of environmental degradation and adding to the potentially explosive pool of underemployed youth. For at least four decades per capita income in Haiti has been in secular decline and if this continues the society will become progressively more fragile. Second, MINUSTAH and HOPEII are time-bound windows of opportunity. Hence, the passage of time alone may not be building a more secure society. Unless current opportunities are taken, the society may be becoming more vulnerable to disturbance. Both the government and the international community have made major efforts to reach social peace and these efforts must not go to waste. For the government a return to social disturbance would be an unfitting legacy. For the international community MINUSTAH will, by its close, perhaps have cost around \$5bn. If Haiti reverts to a condition of socio-economic fragility this money will have been analogous to humanitarian assistance rather than to development assistance. The core case for international support now, both for the rehabilitation detailed in PDNA and for the development agenda set out in this Report, is to avoid the need for MINUSTAH2 some time in the next decade. *For the maintenance of social order military security must rapidly be superseded by economic security.*

The rest of this short Report is structured as follows. Section 2 sets out the economic fundamentals for Haiti: it argues that Haiti has far more favourable fundamentals than the 'fragile states' with which it is conventionally grouped. Section 3 suggests why these favourable fundamentals are not currently being adequately realized: what is missing is a practical and focused economic strategy that clearly specifies the actions needed by all the actors that collectively determine whether Haiti will achieve economic security. Section 4, which is the core of the Report, outlines such a strategy. Section 5 suggests what the next steps might be in getting from strategy, through action, to security.

2. The Fundamentals Favour Economic Development

Haiti is classified as a 'fragile state'. Yet compared to other fragile states its fundamentals are highly propitious. Essentially, if the international community cannot succeed in Haiti then it is hard to see it succeeding elsewhere.

A favoured region...

First, Haiti is not part of a troubled region. Those fragile states in the Great Lakes region of Africa and Central Asia face severe neighbourhood problems in addition to those problems that are internal. In contrast, Haiti is in a prosperous and peaceful neighbourhood. Its only immediate neighbour, the Dominican Republic, is itself peaceful and prosperous, and is not engaged in the sort of activities, such as clandestine support for guerrilla groups, that beset

many other fragile states. On the contrary, it has a recent history of being helpful, most notably in the mutual promotion of garments exports. The only neighbourhood problem of any significance is the use made of Haiti by Colombian drug traffickers as a transit point for North America. This is merely a matter of international criminality, not linked to a political agenda: Haiti is used because it is the only fragile state in the region and so is the transit point of choice for international criminals. However, this provides a distinct and powerful reason why North America should invest in achieving decisive change in Haiti: as the 'weakest link', this is the most cost-effective point for neighbourhood attention. Security in Haiti is a regional public good.

Free of typical structural problems...

Second, despite its difficulties, Haiti does not have the intractable structural socio-political problems that beset most other fragile states. It is not ethnically divided, it does not have a history of deep ideological cleavage, it does not have an armed and organized political group ready to launch rebellion, and it no longer has a military establishment with delusions of a political role.

A political window...

As in other post-conflict states, political leaders in Haiti face major impediments from within their own civil service, which, as is typical in such situations, has little capacity for effective action. The political system is fractious and so decisions are very difficult. However, political leadership itself, while currently beset by the immediate problems of crisis, is good by the standards of most post-conflict situations. Both the President and the Prime Minister have integrity, experience and ability, and a deep concern with the maintenance of social peace. I met several ministers who were concerned and engaged. There are, of course, powerful forces for inertia, but while these would severely impede any wide-ranging agenda for public action, they do not rule out more limited and tightly focused action.

A Huge and Proximate Diaspora...

The Haitian diaspora in North America is proportionately one of the largest in the world. It provides Haiti with a massive flow of remittances, a reservoir of skills, and a powerful political lobby. The flow of remittances is a vital resource for private households. The reservoir of skills is particularly important because the country is desperately short of middle management. The power of the political lobby is apparent in that Haiti has Canada's second largest aid programme, and the United States has given Haiti more advantageous market access than it has given to any other country.

Market opportunity...

Haiti has a massive economic opportunity in the form of HOPEII. Uniquely in the world Haiti has duty-free, quota-free access to the American market guaranteed for the next nine years, with generous rules of origin well-suited to the garment industry. The global recession and the failure of the Doha Round accentuate this remarkable advantage because manufacturers based in other locations will undoubtedly be fearful that rising protectionist

pressures may threaten whatever market access they enjoy currently. *From the important perspective of market access Haiti is now the world's safest production location for garments.*

Of course, market access is not enough: costs of production must be globally competitive. But here again the fundamentals are propitious. In garments the largest single component of costs is labour. Due to its poverty and relatively unregulated labour market, Haiti has labour costs that are fully competitive with China, which is the global benchmark. Haitian labour is not only cheap it is of good quality. Indeed, because the garments industry used to be much larger than it is currently, there is a substantial pool of experienced labour.

Market access and costs of production are not the only factors of importance: transport to market is also a fundamental consideration. Many fragile states are landlocked and therefore face transport costs that are prohibitive. In contrast, Haiti is on the doorstep of its market. Since it is the only low-wage economy in the region, it has a transport advantage over competing low-wage economies of several thousand miles. This advantage is not only a matter of shipping costs but of time-to-market. Garments are a fashion-sensitive business and so a quick delivery time is valuable.

3. Haiti is not Hopeless

In view of the above the air of despondency apparent in the donor community is inappropriate. Haiti is, of course, facing severe difficulties, but its fundamentals are far more attractive than most other fragile states. Currently, the local donor community is focused upon recovery from natural catastrophe. While the recovery agenda is indeed necessary, this is by no means the first such appeal made in respect of Haiti and in view of the global economic crisis it is liable to meet only a limited response. The emergency appeal is likely to be received more favourably, and to be more useful, if the crisis responses are designed to fit into a strategic agenda. It is noteworthy that this is explicitly the approach taken by the new American administration in responding to the current crisis in auto manufacturing.

What has been missing to date is an economic strategy that is simple and realistic, yet powerful. Given the political and civil service constraints any agenda for public action must be kept modest and focused: anything either grandiose or comprehensive stands no chance whatsoever of being implemented. Further, given current social fragility, any proposed public actions must have quick payoffs which are large, visible, and clearly attributable to the government of Haiti rather than just to donors. The task is to identify a small set of public actions which have these properties but which in aggregate have consequences which build economic security.

Generating an economic strategy...

It is completely unrealistic to expect any government of a fragile state to devise such an economic strategy without assistance. That to date economic security has not followed on from the achievement of military and political security has been due to a misperception on

the part of the donor community that the *design* of economic strategy is solely a matter for the government. Economic strategy cannot be designed solely by the government. In part this is because design is a technical matter for which governments typically lack capacity. Government requests to donors through documents such as the PRSP cannot themselves meet the need for an economic strategy since they are essentially lists of projects drawn up by each ministry and then aggregated. In such a bottom-up process the question as to what are the minimum public actions needed to achieve economic security is not even posed, let alone answered.

More fundamentally, the government of Haiti does not control all the components which constitute a viable strategy: critical components are determined by donors, by the Security Council, by private investors, local and international, and by parliament. At some stage the government must indeed decide on those components of a strategy which it controls. However, since success rests on inter-dependent decisions by several actors, the government cannot take these decisions until it knows how what the other key actors are likely to do. Hence, *a strategy needs to be adopted simultaneously by all the key actors*. This interdependence is a defining feature of fragile states. The approach appropriate for these contexts is for a strategy that spells out mutual responsibilities for future actions to be conditionally (and privately) approved by government and then floated for discussion with other actors in preparation for a public act of mutual commitment. Only once the government knows the decisions of other actors can its own decisions be publicly taken.

The strategy proposed below should be seen in this spirit. It is intended as a first step in what should then become a process of gradual convergence upon an agreed agenda. However, it is vital that any such process should not expand the agenda to the point at which it becomes infeasible to implement: the price of agreement cannot be the suspension of realism.

4. A Realistic Strategy for the Rapid Attainment of Economic Security

This section sets out a possible economic strategy. It is not a strategy *for government alone*; rather it is a strategy for all the key actors who collectively determine economic outcomes. It aims to have simple, politically salient, and feasible objectives; clear and specified actions for each actor; to generate desired outcomes rapidly; and for both actions and outcomes to be readily observable and so suited to regular monitoring.

4.1. Simple and Immediate Objectives: Underpinning Security with Jobs, Basic Services, Food Security and Environmental Sustainability.

The key achievement to date of the government and the international community in tandem has been the restoration of social peace. Both parties recognize that this peace is fragile and time is not necessarily working in its favour. In this context distant grand visions are inappropriate: any action has to contribute immediately to building economic security rather than merely build the foundations for some distant goal. Hence, all actions must have quick pay-offs that speak directly to the lives of ordinary people. The choice of what these might be

is a matter for the Haitian government, but as a starting point I suggest *jobs, basic services, food security, and environmental sustainability*.

Job opportunities are important to give dignity and structure to the lives of young people. Currently, the proportion of the workforce in any sort of formal employment is tiny: the overriding aspiration of youth is to get a visa to emigrate and this is manifestly destructive.

Basic services are by their nature fundamentally desirable: it is dreadful that in the 21st century children should reach adulthood without schooling, and that infant mortality should be so avoidably high. Further, basic services are something that government should visibly be responsible for providing. A striking aspect of Haiti is the virtual absence of the state in much of the country: the state needs to be seen to be responding to the needs of citizens in order to command their cooperation. This does not necessarily imply that the state should directly supply basic services, but rather that it should have a visible involvement.

The importance of food security is apparent from the consequences of the failure to provide it during 2008. In a society where the urban poor spend around half of their budget on food, sudden large increases in prices are likely to lead to riots and these in turn are likely to be exploited by parts of Haiti's fractious politics to generate a crisis.

Environmental sustainability is vital because the resource base of forest and soil has been depleting for some decades. This implies that Haiti's living standards, although very low, has been unsustainably inflated by the mining of its environmental capital (the estimate for deforestation alone is that economic growth has been exaggerated by 0.8 percentage points). With more climatic shocks likely the pace of erosion will accelerate unless action is taken.

The foundation for these objectives is, necessarily, the rehabilitation already set out in the PDNA. The focus here is on simple strategies that can quickly build on rehabilitation, beginning to deliver on these four objectives and which, once started, will automatically scale up.

4.2 Policies for Jobs

Haiti has two opportunities for the mass creation of productive jobs: the reconstruction of infrastructure and the expansion of export zones. I take them in turn.

4.2.1 Reconstruction

Haiti had a massive need for the reconstruction of infrastructure even prior to the hurricanes of 2008. As set out in the PDNA the natural shocks have substantially accentuated these needs. However, in meeting them it is essential to recognize and tackle the issue of how Haiti has come to lack infrastructure. There seem to be two underlying reasons. The primary reason is the failure to maintain infrastructure once built. The secondary reason is a lack of strategic prioritization that would focus infrastructure provision on breaking bottlenecks in the economy.

At the heart of the maintenance problem is the past behaviour of donors. Donors have structured their activities so as to deliver 'projects', a procedure for which the construction of infrastructure is well-suited: a road can be built by a donor and handed to the government. If over the decade the road falls apart due to lack of maintenance, then eventually the same donor, or another one, rebuilds it. Not only does this approach delink the capital budget from the recurrent budget, but inadvertently it destroys the incentive for the government to provide maintenance. *It is a donor responsibility to ensure that any construction of infrastructure is supported by a credible process for its maintenance.* Currently such a system is in its infancy as a result of a rudimentary Road Fund (*Fonds d'Entretien Routier*). However, at present this is a further example of unrealistic donor behaviour. First, there is no effective system to ensure that the Fund actually receives revenue, (e.g. the supposedly automatic earmarking of revenue is not operative). Second, there is no link from construction to revenue so that as more roads get constructed whatever is provided for maintenance will simply be spread more thinly.

The maintenance issue is also central to the employment opportunities that can be generated by infrastructure construction. There is a strong quality trade-off in the techniques that can be used for construction. Labour-intensive techniques produce infrastructure of lower quality and so increase the need for maintenance. If donors are incapable of tackling the maintenance issue then the technology for infrastructure reconstruction will need to be capital-intensive and so it will not contribute substantially to jobs. Given the desirability of injecting job opportunities quickly across the country, labour-intensive public works seem highly attractive.

Priority: Devise and implement an automatic link between construction and maintenance.

Needed Actors: Donors; government; Road User Association

Conditional upon this being done, a reconstruction programme can be implemented which uses a labour-intensive technology and which is designed to ease the objectives of jobs and food security, both of which have pressing infrastructure needs.

The infrastructure needed for jobs depends upon what sectors are judged to have economic potential and where they are located. Two that are promising are the export zones for garments, and the export of mangoes. The export zones have substantial infrastructure needs which will be discussed in the next section. The export of mangoes has simpler requirements: basically, there is a need for a better road network in mango-growing areas. The market opportunity for Haitian mangoes is enormous and so the requisite infrastructure seems likely to have a high economic return.

The infrastructure needs for food security are probably of two distinct types. One is to link all areas of substantial population density better to each other so that the food market is properly integrated. The other is to provide better feeder road links to those agricultural areas which have the potential for high productivity so that they can supply the urban market. Large tracts of Haiti are mountainous and providing infrastructure to the scattered populations in these areas would create an unsustainable maintenance burden and not be economic.

Priority: Conditional upon the maintenance issue being properly addressed, devise and implement an infrastructure reconstruction programme, including the reconstruction of infrastructure damaged during the hurricanes, which is labour-intensive and designed to meet the infrastructure needs of other objectives.

Needed Actors: donors; government; construction industry

4.2.2. Export Zones

The global garments industry is huge and the Haitian economy is tiny. Like many other industries, global production is now organized into clusters of firms. By locating together firms reduce each others costs. For example, they build a pool of experienced labour, and create a market sufficiently large to support specialist suppliers of necessary service inputs such as skilled maintenance of equipment. As a result, as the cluster grows the costs of production for its firms decline. This property of costs declining with expansion of the industry is unique to manufacturing; in other sectors firms typically hit some bottleneck input that becomes scarce and so beyond some point costs rise. The spectacular consequence of declining costs is that once expansion gets started it is explosive: the industry enters a virtuous circle of increasing competitiveness. In effect, there is an entry threshold of costs which must be surmounted. Until costs can be brought down to global levels firms cannot compete and so clusters cannot grow. Once over this threshold the industry can expand until it runs out of labour. This has been the experience of the garments industry globally: either countries are uncompetitive and have virtually no production, or they break into the global market and expand extraordinarily rapidly, transforming job opportunities in the societies in which they are located: the process is the core focus of the forthcoming *UNIDO Industrial Development Report, 2009*. The implication for Haiti is that if it can once get over the threshold of international competitiveness the employment situation can be transformed.

Currently the garment industry in Haiti is small, based in two locations, a long-established one in Port-au-Prince which appears to be stagnant, and a new one based in Ouanaminthe which is expanding fast. Both clusters are already using the market access provided by HOPEII, but the key difference between them is infrastructure. Port-au-Prince has poor infrastructure: its electricity is unreliable and expensive, and it uses the national port which is the most expensive port in the region. In contrast, Ouanaminthe is on the border with the Dominican Republic. It buys its electricity from across the border and uses the nearest port in the Dominican Republic. These infrastructure advantages combined with the market access advantage are sufficient to make it globally competitive.

To an outsider it is striking how modest are the impediments to competitiveness relative to the huge opportunities offered by the fundamentals. The garments industry has the scope to provide several hundred thousand jobs to Haitians and to do so over a period of just a few years. Further, the existing industry finds that male and female labour are equally good and employs them in equal proportions so that the social consequences of employment expansion need not be divisive. It is truly important that this opportunity should be taken. Not only does it offer a realistic chance of employment transformation, but if it is not taken then the large

political investment inherent in mobilizing support in the American Congress to pass HOPEII will be seen as a waste and support will be dissipated.

Production of garments is not very demanding of government: for example, Bangladesh, which has a government rated as among the most corrupt and inefficient in the world, is able to support a garments industry for export with around 2.5 million jobs. There is thus a very high pay-off to ensuring that each of the few key requirements is met to a satisfactory standard. For each requirement it is essential to work back from a benchmark of global competitiveness and determine what standard must be met, rather than working forward from any existing plans for the activity. The main cost of garments is labour and the second is power. Since output must be exported and inputs imported the functioning of ports and customs are also critical.

There are two powerful reasons for meeting the needs of the garments industry through the creation of a few export zones around the country. One, as discussed above, is that clustering of firms reduces industry costs: zones facilitate this process of clustering and it is the standard approach in East Asia. The other reason is that it is much easier and quicker to provide the infrastructure and services that the industry needs by creating a few islands of excellence rather than by trying to improve standards across the entire country. I now discuss how each of the key needs of the sector can be met simply and quickly through this zone-based approach.

Labour costs: Zones of Multi-Shift Working

Labour costs in Haiti are competitive with China and labour quality is good. The only issue appears to be the current difficulties facing multi-shift working. Globally, the garments industry operates multi-shift production: this would be particularly efficient for Haiti because it would maximize the number of jobs that could be supported by a given amount of investment and infrastructure, and in Haiti jobs are the key objective for this sector. National legislation has already been adjusted to permit exemptions. However, in Ouanaminthe, which has the best prospects for immediate expansion because of its superior infrastructure, the impediment appears to be the personal security of workers. Night shifts would require workers to travel to and from the zone during the hours of darkness and this is currently too dangerous. Clearly, providing such localized security against personal violence is well within the capacities of the security forces. This is perhaps an example of the need for clearer coordination between security and development objectives.

Priority: Ensure that multi-shift working is feasible.

Needed Actors: government; security forces.

Electricity: Exemptions for Private Generation

Electric power must be reliable and inexpensive; at present in Haiti neither is the case. Clearly new generating capacity is needed. However, the cost of a kilowatt of electricity in East Asia is around 6 cents, whereas on current plans for generation the cost in Haiti will be around 18 cents, a level which is probably too high. This is an example of the need to work

backwards from a benchmark of competitiveness, rather than forward from an isolated strategy for the national electricity sector. Cheap and reliable power needs to be generated for use in the export zones. Most probably this requires a private generating company to operate with second-hand equipment to keep costs low. With such a strategy costs could probably be reduced to the order of 10-12 cents per kilowatt which would most probably be adequate given the other margins of advantage that Haiti enjoys in garments production.

Priority: Exempt Export Zones from restrictions on private generation for sale (with transitional arrangements to enable them to sell outside the Zones while internal demand for power is building up); provide a legal framework in which both sellers and buyers of power can have confidence in the pricing structure.

Needed Actors: government; parliament; power generation companies; IFC.

Sites for factories: clear and rapid rights to land

As in many post-conflict societies, Haiti's land rights are complex and unclear. This makes it difficult to find sites for factories. Again, the zone approach is helpful since it enables land rights to be clarified within specified zones by fast-track procedures that do not necessarily need to apply elsewhere. A useful approach, successfully taken by the post-conflict government of Uganda, is to establish a dedicated court to hear land claims and to set a clear and short deadline by which such claims should be made for them to be valid. All claims made by this deadline are then adjudicated in a transparent manner by the court, again with a tight deadline set for decisions. Procedures such as minimum fees can be used to discourage frivolous claims. In return for clarity of land rights the business community may reasonably be asked to offer title to land that has long been occupied by squatters.

Priority: Ensure that land is rapidly available for acquisition in Export Zones with titles that cannot subsequently be challenged.

Needed Actors: government; parliament; local business community.

Ports: infrastructure and management

Notoriously, Port-au-Prince is the highest cost port in the Caribbean. Courageously, the government has recently tackled some of the key inefficiencies and this fact should be given greater prominence. Port management can readily be improved: corrupt management should not be permitted to strangle the rest of the economy for its own private interest. The port of Dar-es-Salaam swiftly moved to East Asian standards of efficiency once it was placed under management contract and the same approach might be tried in Port-au-Prince. However, export zones elsewhere in Haiti will need new port facilities to be developed. The simplest approach is to permit new private ports, subject to regulation analogous to electricity generation.

Priority: allow all or part of the port at Port-au-Prince to be run by a management contract and develop new private ports.

Needed Actors: government; parliament; donors; private sector; IFC.

Customs procedures

Globally, the customs service has the potential for corruption. In Haiti the system is still run manually rather than by a computerized system such as ASYCUDA, and this increases the risk of corruption. An export zone, by design is exempt from customs duties, but customs officers must still police the operations of the zone and thereby have considerable scope for impeding the flow of goods. The easiest way of tackling this potential problem is to outsource customs services in the zones to a company such as SGS, which runs many such services in other countries. This can be complemented by encouraging an active association of manufacturing exporters operating in the zones, notably by arranging good communications with this group at a high level of government, so that legitimate complaints can be dealt with swiftly and authoritatively.

Priority: Outsource customs services in the zones, and encourage an active association of garments exporters linked it to a high level within government.

Needed Actors: SGS; private sector; government.

Basic Infrastructure for Zones

Zones will need access roads, water and sewerage. This requires coordination with donor projects. For example, currently at Ouanaminthe a large road-building donor project is close to completion, yet the road into the Export Zone remains in a very poor condition (unsurfaced and passing through a municipal refuse tip) since it was not part of the project.

Priority: Target new infrastructure on identified export zones.

Needed Actors: government; donors.

Coordinating Garments Exporting

Government and donors in combination can only do so much: neither is in the business of garments. It is therefore highly desirable at an early stage to involve both domestic and international manufacturers of garments to get conditional commitments and a better indication of what they see as the key impediments to production, together with some interest from some major American retailers. This requires international private sector convening power such as might be appropriate for the Clinton Global Initiative. As with the larger strategy for economic development in Haiti, success in the garments industry requires coordination and confidence-building among a range of actors with some agency taking a lead in promoting it.

Priority: Develop a dialogue among the pertinent actors for garments exporting.

Needed Actors: Local private sector; Clinton Global Initiative; government; donors.

Monitoring the Jobs Strategy

The two components of the jobs strategy, public works and export zones, can both show results over a two-to-three year time horizon, although their main consequences will be longer term. To give the right sense of urgency, it is important to have regular monitoring both of needed actions and of outcomes, with reporting back to key actors.

4.3 Policies for Basic Services

Haiti has a highly distinctive pattern of basic service delivery. Overall supply is inadequate, but a large majority of services are provided by NGOs and the private sector. This has both drawbacks and advantages and a realistic strategy builds on this foundation, addressing the drawbacks while using the advantages.

The key drawbacks of NGO/private provision are that it is of variable quality, some of it far too low; uncoordinated in geographic coverage and seriously undersupplied in some areas; expensive to end-users because it is insufficiently subsidized; and totally detached from government and therefore not enhancing citizen confidence in the state. The key advantages of NGO/private provision are that at its best quality is very good and costs are low relative to service; it is able to avoid many of the problems of staff motivation that typically beset public provision; and it can be flexible and responsive to opportunities.

Basic service provision needs to be improved substantially and swiftly in such a way that implicates the state. However, scaling up public provision is not a viable solution: the problems of the public sector are deep-seated and it is not realistic to expect that they can be addressed quickly.

An alternative is for the government to have closer involvement and control of NGO/private provision. A possible model is that of the Independent Service Authority (ISA), in which a quasi-independent public agency coordinates and co-funds NGO and private sector provision. Variants of ISAs have been adopted by several governments and no issue of principle is involved in establishing one: existing public supply need not be affected. An ISA is a public agency outside the civil service, somewhat analogous to an independent central bank, or an Independent Revenue Authority, which implements government policy but does not set policy, this being the task of the relevant social service ministries. For example, the Ministry of Health might set minimum standards of quality and maximum levels of charges for those health facilities in receipt of ISA support. An ISA has three functions. The first is to take in money from donors, government and any other potential sources (this can be included in the national budget process). The second function is to channel this money to a wide range of NGO and private service providers by entering into contracts with them, in the process meeting such requirements as set by the ministries over matters of quality and geographic coverage. The third function is to monitor the performance of service providers in such a way that it is comparable, thereby generating yardstick competition: contracts with the least satisfactory providers would not be renewed and those with the most satisfactory would be

scaled up. Crucially, the ISA would have a Board with a government majority but on which donors and any other pertinent actors would be represented. For example, in view of the large Haitian diaspora it might be appropriate to give representation to diaspora organizations with the objective of attracting funding from them.

One consequence of this structure would be that donors would be co-responsible for the honest and efficient operation of funding for basic social services. It would also provide both government and donors with the flow of evidence necessary to judge the efficacy of public spending. Once donors saw that the system was effective they would then have the reassurance necessary for financing to be increased. The solid base of evidence would also help Haiti to tap into new sources of major funding for social provision such as the Gates Foundation. A further advantage is that it would enable the government to bring in the new wave of 'social enterprise' which, with its combination of money and organizational capacity, may be more cost-effective than the traditional NGOs.

To get an ISA started donors could gradually channel their current funding of NGOs through the ISA. This would enable the government to coordinate donor activities and to co-brand all services provided through the ISA as government services, expanding the visible presence of the state.

Although an ISA can be launched quickly and scaled up gradually, it need not be a temporary institution. It may well turn out to be a more appropriate institutional design for Haiti than the largely unsuccessful approach taken in the past. However, this issue need not be pre-judged. As a public agency if it proves to be more successful than other forms of provision it can become a permanent feature of the state: scrutiny of its performance is built into its design.

Priority: establish an ISA on a pilot basis for incremental social service provision.

Needed Actors: government; parliament; some donors; some diaspora associations.

4.4 Policies for Food Security

Food security depends upon the production of food, its distribution, and its price. In 2008 the aspect of food security that went wrong was price: food was available, but it suddenly became too expensive relative to people's expectations.

Haiti has scope to raise food production because productivity is low. Agriculture is not currently input-intensive, partly because the transport network is inadequate. Hence, feeder roads to potentially productive areas can improve access to inputs as well as access to market for output. The government has plenty of capacity in agronomy, from the President downwards, so it has no need of external advice on appropriate measures. Since the government has such a substantial informational advantage over others in this area it would be a sensible priority for the government's own resources, financial and human, rather than attempting to coordinate with other actors.

Food distribution, as discussed above, would be improved by better transport connections between the centres of significant population concentration. A nationally integrated food market provides greater safety than isolated pockets where shortages can develop.

Food prices are set on global markets even if the food is locally produced: this is especially the case for Port-au-Prince. The crisis in March 2008 was due to the lack of a viable strategy to respond to the surge in global prices. Currently, due to the global recession food prices have declined, but it is important to have in place a plan to deal with the next price surge. If the eventual global economic recovery coincides with a climatic shock in a major food supply region the same phenomenon is likely to recur.

An appropriate response might combine a food-for-work scheme that self-targets on many of those most in need, and a tapered subsidy which cushions the price rise of staples for some months so that families are able to adjust gradually. Both of these cost money, and since the need cannot be anticipated the expenditure cannot be accommodated within the normal budgetary process. The right way to deal with such contingent events is through insurance: in effect the government needs to purchase an insurance policy, paying an annual premium in return for a lump sum which is paid to the government if global food prices surge. Of course, the government should not literally enter into such an arrangement with an insurance company, but a donor should use part of its aid budget to pay the insurance premium, either literally, or more likely notionally, in return providing a commitment to the government of Haiti. The 'insurance policy' can be renewed annual by agreement with the government. Since this is a problem faced by several other countries it would be sensible for the World Food Program to develop a donor-funded contingent facility. Currently the WFP is structured to respond to non-coincident food shocks such as droughts, but following the global food crisis it evidently needs a financing mechanism which can respond automatically to the coincident shock of a surge in global prices.

Priority: Implement a national policy for raising food productivity in areas with potential. Target road infrastructure on food security needs. Establish a quasi-insurance facility to protect against global price surges.

Needed Actors: Government; donors; World Food Program.

4.5 Policies for Environmental Sustainability

Haiti is environmentally as well as socially fragile. It has dramatically deforested as a result of which it has lost its defences against soil erosion. Deforestation is the result of two distinct processes, one political, the other economic.

The political process is the lack of a land law that confers clear, individual, marketable ownership. As a consequence much of the tree stock has been public property. No one in particular has much incentive to defend this public asset. Instead, there is a strong incentive to plunder it. Haiti has lost its tree stock in a way analogous to that by which it lost its railway tracks, a phenomenon termed 'the tragedy of the commons'.

The economic process is as result of population pressure. As the population dependent for its livelihood upon the land has increased, standard economic forces have induced a change in the composition of activities within agriculture. Specifically, rising population has increased production of labour-intensive crops and reduced production of land-intensive crops, this being a well-understood economic response to changes in the ratio of labour to land. Unfortunately, in Haiti tree crops are land-intensive so that this switch has resulted in the loss of trees and hence of root systems which protect the soil.

The almost complete deforestation of Haiti is potentially reversible. The Dominican Republic has 47 percent of its land area as tree cover compared with only 3 percent in Haiti, so that the scope for reforestation is enormous. However, just as with roads there is no point in building them unless there is an effective link to maintenance, there is no point in planting trees unless incentives are changed so that they are not cut down. The way to do this is to increase the value of trees left in the ground, while reducing the value of trees that are cut.

The most straightforward way of increasing the value of trees in the ground is to encourage the planting of trees that produce valuable crops. The most promising appears to be the mango tree which is large enough to have a substantial root network and produces a high-value crop. As discussed above, the main impediment to the development of a mango industry is the inadequacy of the transport network.

This would need to be complemented by clear and marketable property rights for land on which mango trees are planted. Clarity in property rights is manifestly important to reduce the risk that ownership is challenged, and to provide a strong incentive to protect trees once planted. Marketability of rights is important because mango trees last a very long time, so that if the land on which they are growing cannot be sold the investment in them is highly illiquid and therefore unattractive even if the rate of return is high. Changing land rights across Haiti is not a realistic option in the short run and so something analogous to export zones might be appropriate, in which mango zones with distinct land rights are piloted.

To lower the value of trees that are cut down the most effective intervention would probably be regulatory. The core use of felled timber is charcoal, and in turn much of this is used by a few urban commercial activities. These uses could initially be curtailed by regulation and then banned outright. To reduce household use of charcoal the regulatory approach is inappropriate. For this the simplest approach is a temporary subsidy on gas bombs which are a close substitute for charcoal. This would induce households to switch their cooking technologies and as a result new habits of behaviour would gradually be established.

A complementary way of reversing soil degradation is to reduce pressure of population on the land area. Recall that rising rural labour-to-land ratios have shifted the balance of agricultural activity towards labour-intensive crops and away from land-intensive crops – most notably, trees. Reducing the number of people who depend upon the land for their livelihood reverses this whole process. Evidently, reducing pressure of population on the land requires employment opportunities elsewhere in the economy. Hence, the employment strategy discussed above reinforces environmental sustainability.

Priority Action: Promote reforestation by changing incentives. Establish clear land rights for new mango-planting, regulate against the commercial use of charcoal, and introduce a subsidy for bas bombs.

Needed Actors: Government; parliament; donors.

5 Next Steps

It is of course for the government to determine whether the above ideas are helpful. If they do not resonate politically with what the government itself wants to achieve then they can simply be quietly forgotten. If, however, the government wishes to take them forward then speed is essential. Both the domestic political opportunity constituted by the new government, and the international political opportunity constituted by concern over the devastation wrought by the hurricanes and the fluidity provided by the new American administration, are momentary. Hence, at the highest political levels there will be a need for persistence in pushing through a short sequence of actions to a limited number of clear goals to a tight timetable.

Since the essence of the Report is that the commitments of several actors need to be coordinated, progress depends upon all actors rapidly cohering around an outline strategy. This will need a phase of explanation, discussion and awareness-raising. In practical terms what is needed is a rapid form of shuttle diplomacy in which a strategy is circulated among the key actors until all are satisfied that it is politically feasible and addresses key economic needs. The shuttle would not be a negotiation, but simply a light reporting process which revealed what decisions could be expected. A pre-meeting among key actors might be helpful to speed this process. At one end of the range of options decision takers might decide that they wish to implement the rehabilitation detailed in PDNA as a free-standing request, at the other, they might prefer to implement it only in conjunction with the development strategy discussed in this Report. Since there are not many actors and the proposed strategy is not complicated, it should be possible to conclude this phase during February.

Conditional upon the success of this phase, it should be followed by the development in parallel of more detailed action plans by small task forces dedicated to each component of the strategy. In combination these action plans would then constitute the strategy.

Once revealed decisions were mutually compatible all actors would come together publicly to commit to the agenda. The commitment meeting would be a launch, not a conclusion. It could take the form of a donor conference with parallel meetings for private sector actors. These mutual commitments would then bind all parties to a simple course of action over a two-to-three year horizon, with clear mutual review processes built in to ensure compliance by all parties. Each component of the strategy should by then have an agreed set of actions, a time line for these actions, a mutual monitoring system, and a schedule for regular review meetings. A small multi-actor steering group should be established. Such a meeting might be set for April.

The implementation phase of the strategy could then begin in May 2009 and continue for two or three years. Regular review meetings should take responsibility for keeping the process on track.