

# Better Spending, Better Services

*A Review of Public Finances in Haiti*



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Photo cover

Credit: Isabelle Schaefer / World Bank

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**The images of flattened buildings and tent cities that dominated the news following the Haitian earthquake of January 12, 2010 triggered an emergency response from the global aid and development community.** Foreign governments, multilateral organizations including the World Bank, and NGOs dramatically increased the flow of funding to the devastated country. The money helped pay for emergency relief but also for higher public investment spending that sought to repair damage and press ahead with development projects that had begun before the disaster.

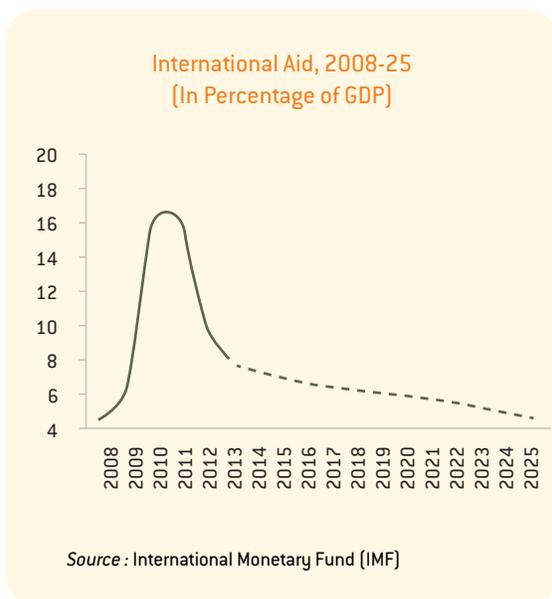
**Six years later, the flow of aid is declining, and Haiti faces pivotal challenges: how to adapt to the reductions, raise more resources internally, spend more efficiently, and safeguard the fragile social gains it has achieved in a time of extreme hardship.** Education, public health, and social safety nets deserve particular attention, so as to ease pressure on poor Haitians and give them the skills they need to move up the income ladder.

**The infrastructure Haiti has acquired in the recent surge of investment is something like a newly built house that lacks furniture and running water—it may look good from the outside but does little for its occupants.** The country has gained schools, clinics, and roads, but many are not properly

equipped and maintained. Staffing is insufficient, heavy on administrators and light on front-line workers. By correcting these shortcomings, Haiti stands to reap major dividends in growth and poverty reduction.

**Haiti has other potential drivers of positive change.** It has a young labor force, a dynamic diaspora, and proximity to major export markets. Given political stability, its pristine beaches and lively culture could draw tourists and their dollars in huge numbers. Despite the turmoil of recent years, some macroeconomic indicators are trending in the right direction: GDP has registered modest growth. Inflation is down to single digit levels. International debt relief initiatives allowed external debt to drop from 30 percent of GDP in 2008 to 9 percent in 2011. But to keep things moving forward, Haiti's key challenge is to make better use of the resources it has at home.

**For the present, life remains a struggle for most of the country's 10.4 million people. In 2012, almost 60 percent were living in poverty, getting by on about \$2 a day or less. Twenty-four percent were caught in extreme poverty—about \$1 a day, making them unable to meet even basic needs for food.** Moreover, Haiti has the highest income inequality in the region and one of the highest in the world—0.6



as measured by the Gini coefficient. Time and again, political instability, violence, and natural disasters have thwarted efforts to pull the country up.

**Following the earthquake, donor funding surged.** Private donations of \$3.1 billion were reported; at a March 2010 conference in New York, 58 donors made pledges totaling \$5.5 billion. But now the flow is tapering off. Donor assistance peaked at about 17 percent of GDP after the earthquake and sank to 7 percent in 2014. Paradoxically, the decline in international oil prices has been creating fiscal strain for the energy-importing country, because its largest source of foreign debt, concessional loans from Venezuela under the Petrocaribe program, becomes more costly as oil becomes cheaper on world markets.

**Stoking economic growth is a prime goal in Haiti, but levels that the country can realistically expect will not be enough to bring significant improvements in living standards for most citizens.** Simulations show that, with income distributions remaining unchanged, per capita GDP would need to expand by more than 7 percent per year for extreme poverty to fall to 3 percent by 2030, the World Bank's global goal. This would be a very ambitious and unlikely outcome: a two- to three-fold acceleration in

Haiti's growth rate compared to its best-performing years, 2005-2009.

**Thus in addition to growth, the country needs policies that will foster inclusiveness.** This combination would take Haiti a long way toward the 2030 goal. Achieving overall growth of about 4 percent per year and expanding the income of the bottom 40 percent of the income distribution at twice that speed would decrease extreme poverty to 3 percent by 2030. But what would it take to deliver this outcome?

**Analysis and past experience suggest that two factors are key: human capital and political stability.** Good health care and education in particular drive higher incomes at the bottom of the income distribution. Periods of political calmness, with limited frequency of cabinet changes and feuding within the government, have also helped this group advance. Improvements in infrastructure and transparency in government, meanwhile, are important underpinnings of income growth for all groups.

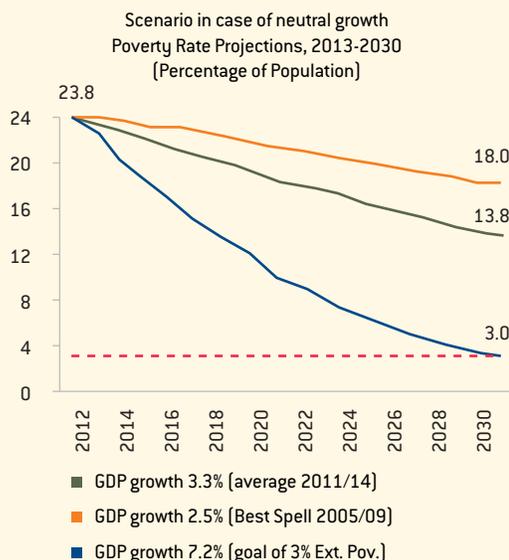
**To achieve this goal, Haiti will require a new outlook favoring fair, efficient government and social inclusiveness.** Unfortunately, an observation in the Bank's 1998 Poverty Report holds true today: "Haiti has never had a tradition of governance aimed at providing services to the population or creating an environment conducive to sustainable growth."

Following are six areas that hold special potential for building a better life for the people of Haiti.

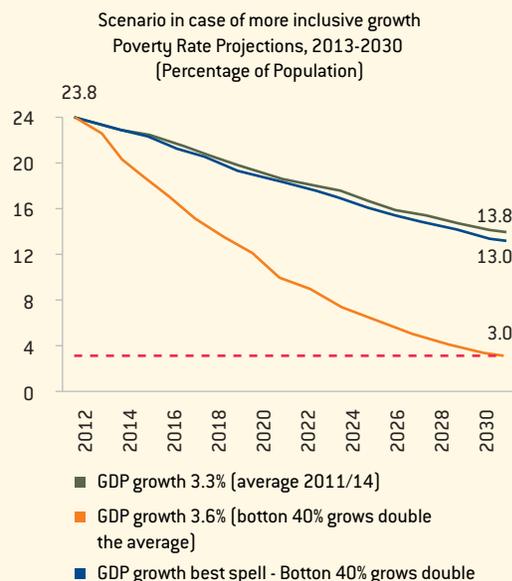
## 1. Increasing the Mobilization of Revenue and Reducing Tax Exemptions

**To confront the enormous challenges facing its people, the Haitian government needs adequate funds.** As foreign money dries up, it will have to raise more from the domestic economy. For now, Haiti is one of the region's poorest performers in revenue mobilization. While receipts have edged upward recently due to increases in domestic income, more

### Extreme Poverty Simulations



Source : World Bank staff calculation



Source : World Bank staff calculation

sales taxes collected in Port-au-Prince, and new taxes on international phone calls and money transfers, the government would do well to apply new frameworks for financing its operations.

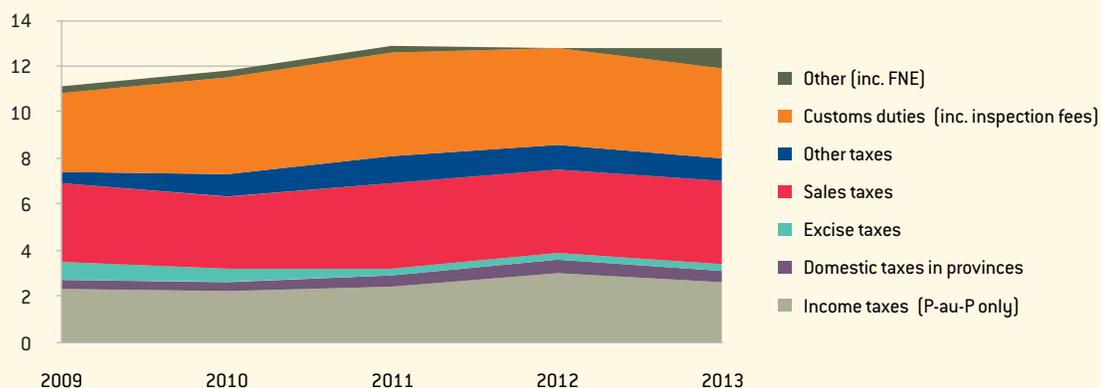
**Haiti's current tax system reflects the country's limited capacity for tax administration.** As do many countries around the world, Haiti relies heavily on taxing international trade to keep the state in operation. Sixty percent of Haiti's tax revenues is collected at borders as customs duties, inspection fees, and sales and excise taxes on imported goods. Thirty-six percent is collected in various forms in Port-au-Prince. Provincial Haiti, meanwhile, appears to be virtually a tax-free zone: only 4 percent of revenues originate there.

**This framework not only keeps government revenues low, but tends to be regressive.** An indirect tax such as customs duties on imported rice costs the poor and the rich equal amounts of money. All told, Haiti's ratio of direct to indirect taxes was about 30 percent in 2011, a level below that of most countries

of the region. Direct taxes, however, tend to be progressive because rates vary by the income level of the people paying. These taxes frequently function as an important tool of construction of the modern state because they tend to create a more direct citizen-state interaction and voice.

**One means by which Haiti's state accounts lose large volumes of revenue is tax exemptions.** The corporate income tax rate is 30 percent, slightly higher than the regional average, but exemptions are applied so liberally that in 2011 they equaled 63 percent of all corporate income tax collected. Most exemptions arise from a 2002 investment code that gives 15-year tax holidays to companies operating in tax-free zones, as well as 5-10 year exemptions for specific investment projects deemed good for development. But experience suggests that incentives of this type are often bad deals for the country offering them. A clear framework is needed to manage, measure, and monitor tax exemptions and their expected benefits. Often the result is windfalls for foreign groups that would have made the investment anyway. Studies

### Fiscal Revenue, 2009-13 (In Percent of GDP)

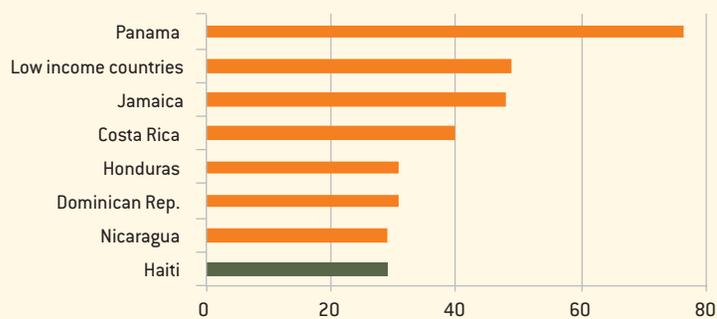


Sources : Ministry of Finance (MEF), IMF, BOOST database and authors' estimate.

	2009	2010	2011	2012	2013
Fiscal Revenue	11.2	11.8	12.8	12.8	12.7
Domestic taxes	7.4	7.3	8.1	8.6	8.0
Income taxes (P-au-P only)	2.3	2.2	2.5	3.0	2.6
Domestic taxes in provinces	0.5	0.4	0.4	0.5	0.5
Excise taxes	0.7	0.5	0.3	0.3	0.3
Sales tax	3.5	3.2	3.7	3.7	3.7
Other taxes (P-au-P only, inc. discrepancies)	0.5	0.9	1.2	1.0	1.0
Customs duties (inc. inspection fees)	3.3	4.3	4.5	4.2	3.9
Other (inc. FNE)	0.4	0.2	0.3	0.1	0.8

Sources: Ministry of Finance (MEF), IMF and BOOST database

### Ratio Direct To Indirect Taxation, 2009 or 2011 (Percent)



Sources : IMF and World Bank

suggest that to attract capital from abroad, countries do better to address investors' primary concerns, such as infrastructure quality, regulatory framework, and availability of local suppliers.

**Exemptions on import taxes are common too. In 2013 Haiti gave up 14 percent of sales tax revenues collected at the border due to exemptions, plus 19 percent of ad valorem excise taxes.** For tariffs, the shortfall was 50 percent. Tax breaks for imported capital goods can aid development, but standard customs procedures require that a clear legal basis be cited for an exemption. In Haiti, however, most exempted imports are simply classified as “exempt of all taxes” or exempt of specific ones, without explanation. Exemptions attributed to embassies, NGOs, and the government amount to only a small amount of the total.

**Though Haiti ranks as one of the world's most open economies, with very low tariffs, it imposes various fees that amount to trade barriers.** Imports, for instance, are subject to a 5 percent “inspection fee.” Adopting the trade regime of the Caribbean Community and Common Market (CARICOM) would generate additional revenue but also increase protectionism and costs for firms and consumers. But inspection fees could be replaced with a combination of higher tariffs and removal of exemptions with no loss in revenue.

**Finally, Haiti has a number of taxes that generate little revenue but impose high compliance costs on businesses—so-called “nuisance taxes.”** They encourage companies to drop out of the formal economy and generally undermine the business climate.

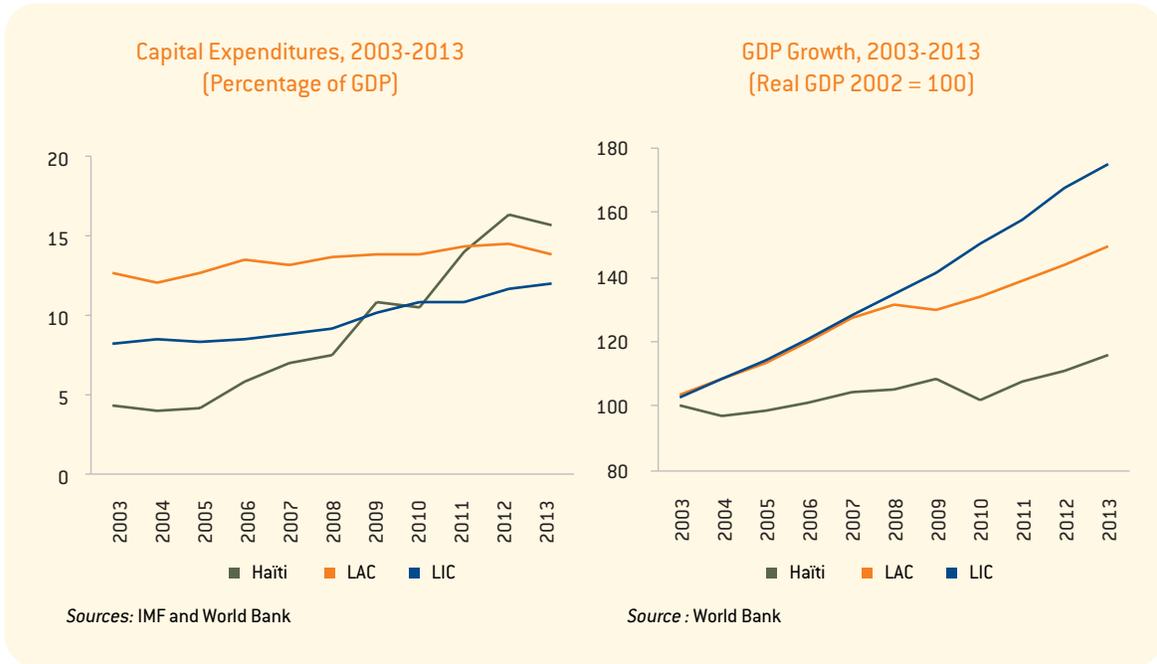
#### Steps to consider:

- Shift the government's revenue generation system toward direct taxes and away from indirect ones, to increase efficiency of collection and reduce regressive effects.
- Rein in the granting of tax exemptions on imported goods. An important step would be the introduction of a clear classification system in customs data to track the granting of these waivers.
- Monitor more closely tax holidays for investors and focus on attracting foreign capital by such steps as improving infrastructure, human capital, and institutions.
- Eliminate or reform nuisance taxes.
- Consider replacing import fees with higher tariffs. Combined with fewer tax exemptions, such a regime would not result in lower revenues.

## 2. Unifying, Targeting, and Better Tracking Public Investment Spending

**Though much of the influx of foreign funds since 2010 has gone directly to NGOs and private contractors, enough was channeled through the government budget to help it bolster public investment outlays.** In theory, this spending should have raised the country's historically low ranking in such indicators as access to electricity, roads,

and ports, and spurred economic growth, but the country has seen little such effect. Sadly, this is nothing new in Haiti—during the 1965–2004 period, public investments rarely delivered the expected growth dividend. Several explanations have been put forward, ranging from misclassification of spending as investment, chronic lack of maintenance, or simply the unproductive nature of the investment itself. This disappointing outcome stems also in part from very weak public investment management.



Like many donor-dependent countries, Haiti has limited capacity to appraise prospective investments and instead relies on donors to design good projects. Within the state bureaucracy, investment plans are neither fully assessed nor prioritized. Domestically funded capital expenditures are not properly tracked and reported, creating an environment conducive to corruption and mismanagement of scarce resources. Even though on paper the country has a good legal framework for management of these investments, its requirements are rarely respected. When they are, the result is often bureaucratic processes that are redundant or excessively elaborate. Within a ministry, for instance, a request from a technical office for funds may require as many as twelve steps before the check is finally delivered.

A recent review found that first-level screening of investment proposals seldom takes place, calling into question whether projects meet even minimum criteria of consistency with the strategic goals of the government. In a sample of 20 projects that were reviewed, only six had all of the project documentation that theoretically it needs to be part of

the government's Public Investment Program (PIP), such as supporting studies and financial plan.

In May 2012, the Haitian government issued a Strategic Development Plan, detailing a vision for the country to become an emerging economy by 2030. But the plan is too broad to serve as a basis for project selection. While it gives strategies for some sectors, there is not enough information in terms of timing and selection criteria to help ministries decide which to push forward. As a result, links between the government's investment projects, national policies, and underlying strategies are tenuous. In the sample of 20 projects, only a quarter were supported by a sector strategic plan.

Once approved, projects are frequently altered. The Ministry of Planning and External Cooperation can and does arbitrarily replace PIP projects, without transparency or stated justification. In the sample of 20 projects, four were not maintained in their original, approved PIP form.

The PIP often does not include donor-funded projects. This creates potential for conflict and overlap between externally-financed projects and

the government's own. It also means that costs the government will have to bear for the donor's projects down the road may not be provided for in the Haitian national budget. For instance, the costs of operating a hospital built by a foreign donor may not have been taken into consideration, delaying its opening once completed.

**Haiti's budgeting process for the government as a whole is another area of deep concern.** The country is only now implementing a Single Treasury Account and consistent budget classifications that would facilitate monitoring. Multi-year planning is lacking, as is strategic coordination between ministries. Projects that are begun and funded may be abandoned at mid-course. Technical expertise may be lacking for issuing procurement tender documents and evaluating applicants. Procurements can be delayed for months as every question is submitted to the top of the bureaucracy for resolution before the authorization flows back down. On reducing single-source contracting, there has been some progress, but nonetheless roughly half of all contracts over the past year have been awarded by this means, limiting competition.

**Donors sometimes use "executing entities" to get around the inefficiency of government services. But this practice has long-term downsides.** These entities have weaker linkage with the government's overall investment strategy and have cherry-picked some of the best staff away from ministries by offering higher salaries. The main drawback, however, is that the entities reduce incentives for government to get better itself.

**Compliance checks are another area of shortcoming.** Proof of spending is often submitted as photocopies, not originals, opening the door to fraud. The establishment of public accountants could improve the monitoring of accounts. Public accounts units would take care of such things as elimination of prepayment of services, with money going out only when services have been actually rendered or goods delivered.

Contracting Methods, 2012-13  
(Number of Contracts Reviewed by CNMP)



Source: Haitian authorities

**Once investment projects are set in motion, Haitian ministries conduct at best limited financial monitoring of them.** Officials lack an integrated computerized management system for public finances or an independent accounting system for public investments. There are more than 25 free-standing computer applications that respond to specific needs of a project, but none of them caters to the project's budgetary, financial, and accounting management needs.

**Finally, physical monitoring of projects is lacking.** The Ministry of Planning and External Cooperation appears to have performed no supervision visits to investment project sites in the last five years. Because of funding shortfalls, it simply trusts progress reports submitted by departmental directorates. Even closing audits of completed projects rarely take place. Of the 20 projects surveyed, only eight had undergone a closing inspection by the line ministry.

#### Steps to consider:

- Strengthen fiscal reporting to allow close tracking of public spending and enforce minimum conditions of transparency and accountability. Completing the roll-out of the Single Treasury Account and unifying budget classifications among the various sources of financing would be important steps in this direction.
- Increase donor coordination. A master plan for critical sectors could avoid duplication of investment and inefficiencies. Such a plan would have indicators and deadlines, triennial operational plans, and annual action plans for monitoring implementation.
- Improve public investment management through a strengthening of project evaluation, selection, programming, execution, and control. A first step would be to implement basic elements of formal management so that projects advance only if they are part of a broader strategic plan, are monitored (including physically), use their resources adequately, and are controlled after completion as required.

### 3. Making the Health Care System More Efficient and Equitable

**Haiti's health challenges are immense.** Maternal mortality rates are almost five times higher than those of the Latin America and Caribbean region, while the under-five mortality rate is four times greater. Immunization and presence of skilled attendants at births lag behind; incidence of serious diarrhea is higher than average. Many people go through life with little or no contact with trained medical professionals, resorting instead to buying their own medicines in markets or consulting traditional healers.

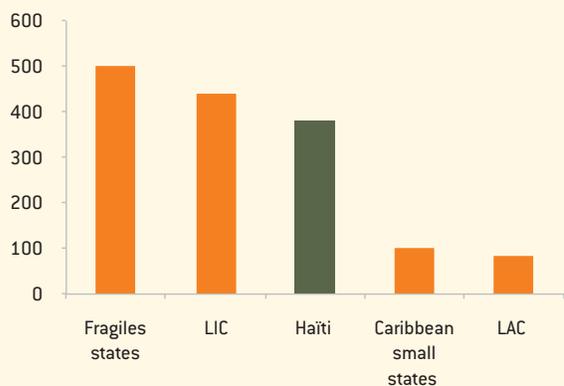
**Despite the traumas of recent decades, nevertheless, a few health indicators have actually improved.** Under-five mortality declined from 145 deaths per 1,000 live births in 1990 to 73 in 2013. Haitians can now expect to live eight years longer than the expectation in 1990. Gaps in health outcomes between rich and poor households have narrowed. While health care spending per capita remains only a fraction of what's found elsewhere in the region, Haiti has managed to raise per capita rates to 1.5 times the \$50 that the World Health Organization says can ensure basic care.

**Overall, however, the poorest Haitians benefit the least from health services.** At a 76 percent likelihood, child delivery in a health institution was eight times more common among the richest quintile of Haitians than among the poorest. Geographical disparities remain too: the Metropolitan area around Port-au-Prince has the highest institutional delivery rate and the lowest rate of underweight babies.

**The government's ability to improve health care is hampered by the fact that it spends very little of its money in the sector—just 5 percent of its total spending goes to health.** That is well below the 15 percent recommended by the Abuja Declaration, issued under the auspices of the World Health Organization in September 2000. Before the earthquake, government health spending was comparable with the regional average, but it plummeted in the earthquake's aftermath as international medical NGOs arrived en masse. By 2011 they were providing 90 percent of the country's health care costs. Patients paid almost nothing out of pocket, just 5 percent.

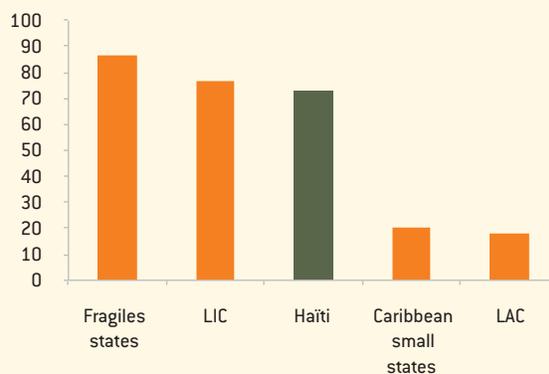
**With NGOs packing up and going home, the patients' share has shot up to 50 percent, an alarming rate for a country where a majority of**

**Maternal Mortality, 2013**  
(Per 100,000 live birth)



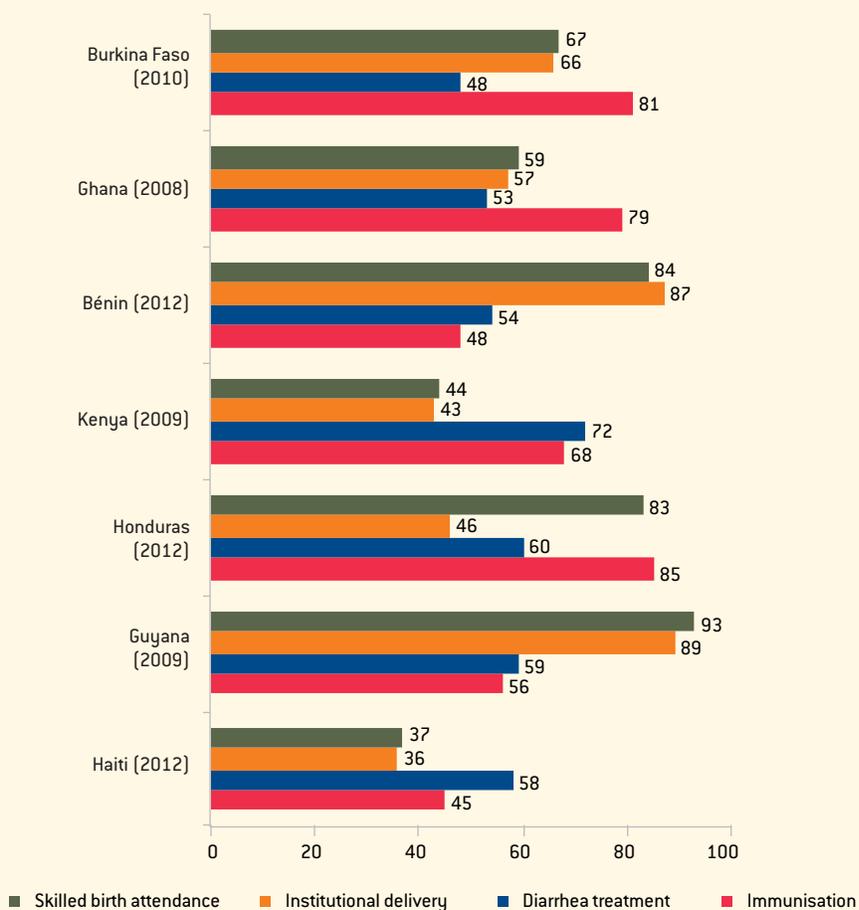
Source : World Development Indicators

**Under-5 Child Mortality, 2013**  
(Per 1,000 live births)



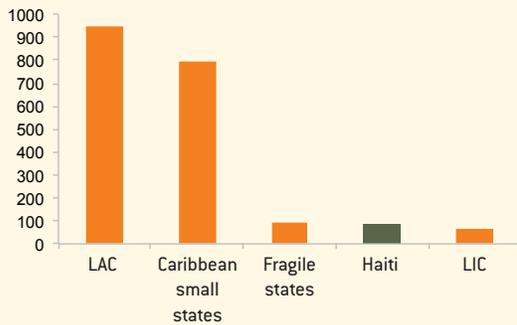
Source : World Development Indicators

**Health Service Utilization**  
(In Percent of Population)



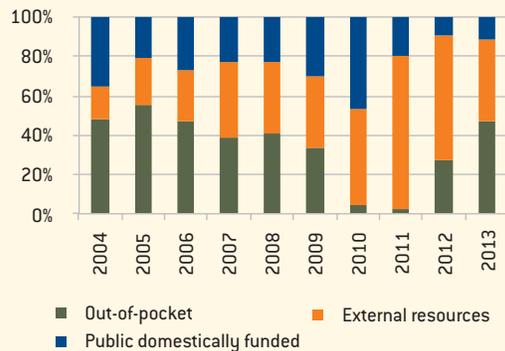
Sources: Demographic and Health Surveys and World Health Organization

Health Expenditure Per Capita, 2012  
(Current US\$)



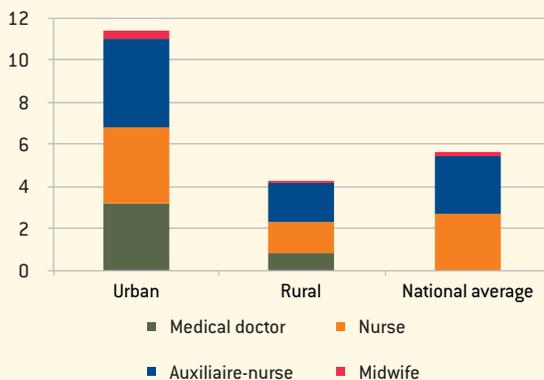
Source : World Development Indicators

Health Expenditure by Source, 2004-2013  
(% of Total Health Expenditure)



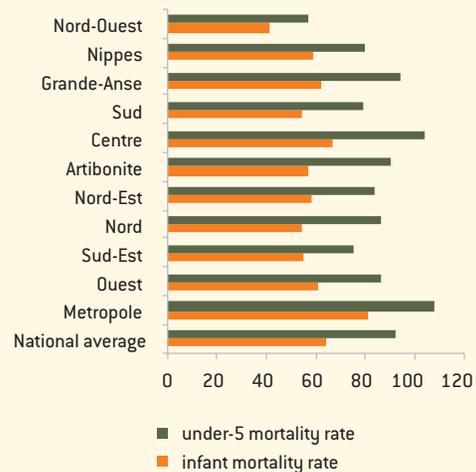
Source : World Bank, World Development Indicators

Density of Medical Personnel by Location, Excluding the Private For-Profit Sector, 2013  
(per 10,000 Inhabitants)



Source : World Bank calculations based on the SPA dataset (IHE and ICF International, 2013).

Child Health Outcome Indicators, 2012  
(Per 1,000 Live Births)



Source : ICF International, 2012, DHS Program STATcompiler - <http://www.statcompiler.com>

households live below the poverty line and only four percent have health insurance. As donor funds decline, many people, particularly in the lower income levels, are opting not to seek professional help at all for health issues. When they do, it may be only for major injuries or illnesses that become a “financial catastrophe” for the family, forcing it to pare spending on such necessities as food, clothing, and education.

During this period, however, Haiti did double its spending on health care facilities, building

new clinics and hospitals and repairing old ones damaged by the earthquake. But investment was often not targeted where it was most needed. Only 22 percent of funds went to dispensaries and health centers, facilities that, though small, account for 87 percent of all health care delivery in Haiti. In contrast, close to 33 percent of investment went to hospitals.

Health services are unevenly distributed geographically. People in the Metropolitan area tend to benefit more than average from health care spending,

with 50 percent consulting public providers, against 43 percent in rural areas, where most of the country's poor live. Disparities are also seen among regions: the west has the highest density of doctors, nurses and midwives, for instance, and the south the lowest.

**As medical capital expenditures have expanded quickly, operating expenditures have not kept up.** Haiti has only 9.5 medical staff per 10,000 people, well behind regional averages. Operation money goes overwhelmingly to salaries, putting the squeeze on budgets for such crucial supplies as vaccines and medicines. This creates a major barrier to good service delivery. A recent study found that only six out of 45 surveyed health facilities delivered services efficiently—they had neither excessive operation costs nor excessive personnel.

**A common theme in this chronic low productivity is low numbers of consultations.** Daily interactions with patients per medical professional amounted to only about 67 percent of the rate of Liberia and 35 percent of those of Cambodia and Rwanda. Much of the explanation appears to be that people who are paid for full-time work in clinics show up only part time. A survey found that 49 percent of medical personnel in Haiti's North-West

had income from other work, such as a private medical practice, sale of medicine, or unrelated businesses such as the sale of mobile phone cards.

**Bulky administrative staffs may also pull down productivity.** Administrative personnel make up about 40 percent of total staffing at primary care facilities; these types of facilities, small and lacking sophisticated equipment, have a generally low need for administrative people.

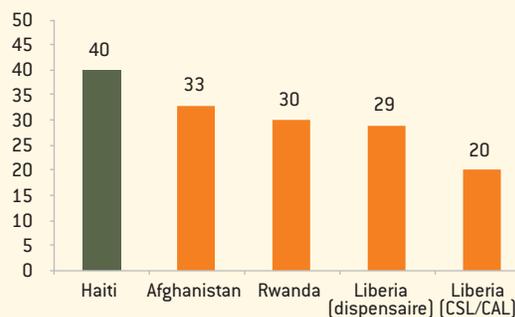
**The government is looking at confronting these issues by implementing “results-based financing,” which would predicate funding for a facility on it meeting certain pre-determined results, such as immunizing a fixed percentage of children in a certain area.** Traditionally funding for health has been directed toward inputs—salaries, construction, training, equipment. Improved health was assumed to follow, but this has not always happened. Results-based financing flips the whole equation on its head, starting with the result—more children immunized, for example—and letting health workers and managers on the ground decide how to achieve it. Three countries—Rwanda, Burundi, and Sierra Leone—have implemented results-based programs

Consultations per Medical Staff Member  
(Daily Numbers)



Sources : SPA, 2013 (Haiti); USAID, 2009 (Liberia); Royal Government of Cambodia, 2008 (Cambodia); MSH, 2011 (Rwanda); Kingdom of Morocco, 2014 (Morocco).

International Comparisons-Share of Administrative Personnel In Total Number of Primary Health Facilities (Percentage Total)



Source : Haiti: Cros, M. et Zeng, W., 2014; Afghanistan : Transitional Islamic Government of Afghanistan, 2003; Rwanda: USAID, 2011; Liberia: USAID, 2009

with promising results. Rwanda, for instance, has linked bonuses directly to performance. For example, if a health worker or facility can show that ten more

women had given birth in a facility rather than at home with its attendant risks, they would receive a bonus.

#### Steps to consider:

- Better target public spending to improve health service delivery. Staffing expansion has often favored people not directly involved in service delivery, diverting budgets for front-line workers and operating and maintenance expenses.
- Work for a more equitable distribution of health services among regions of the country and among different income groups.
- Move toward results-based financing, which would provide monetary and non-monetary incentives to health workers to increase their productivity and forego outside employment.
- At underused health facilities, put new stress on primary health services and operation of mobile clinics to increase patient numbers, particularly the poor.

## 4. Raising Standards and Accountability in the Education System

**Despite many challenges, Haiti has improved its education indicators in recent years.** The vast majority of primary school-aged children—90 percent—are today in school. In 1994, fewer than 30 percent of 15-19 year-olds had reached lower secondary school. By 2012, that figure had risen to over 50 percent for women and 40 percent for men. These gains grew mostly from the increasing number of low-cost non-public schools and from state programs to finance primary education at them through tuition waivers and support for school canteens.

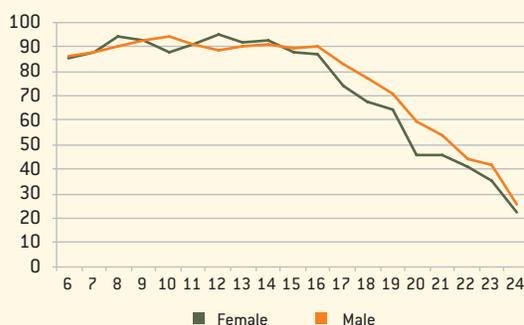
**Yet even with this progress, enrollment numbers lag behind regional averages.** Schooling participation drops off sharply at the tertiary level. Rural-urban disparities heighten the impact: children from poor rural households located far from the capital are more likely to be out of school or over-age in grades that they do attend. Parents' educational levels also matter: children in households where the head completed primary school are 4 percentage points more likely

to be in school than children in households where the head had no formal schooling, and 23 points less likely to be over-age.

**The school system is highly inefficient: children typically start primary school two years late—at 7.8 years of age, on average—and fewer than 60 percent ever reach the last grade of the primary cycle, sixth.** After age 14, girls drop out of school slightly faster than boys. This trend holds true whether the household is poor or non-poor, rural or urban. It may be caused by girls' tendency to advance from grade to grade faster than boys—in sixth grade, the average girl is 14.9 years old, compared to 15.6 for boys—and for social and economic pressure on girls for such life changes as child-bearing and migration.

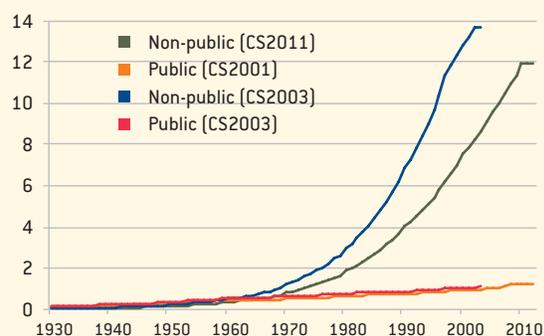
**Even children who remain in school, particularly poor children, learn little.** Teacher quality is generally low. For example, in French language and math assessments of primary school teachers in the Central Plateau, only 10 percent (French) and 22 percent (math) were able to correctly answer at least half of a set of questions drawn from teacher training institute exams. Low teacher quality contributes to high repetition and dropout rates by their students,

Youth Enrolled in School by Age and Gender, 2012  
(Percentage of Total)



Sources : World Bank staff estimates using ECVMAS 2012.

Primary Schools, 1930-2011  
(Thousands of Schools)



Sources : World Bank staff estimates using 2003 and 2011 School Censuses.

and ultimately to low educational attainment. An assessment conducted in schools in the Artibonite and Nippes departments found that the average third grader could only read 23 words per minute, well below the speed of 35-60 words needed to understand a basic text.

**While all children in Haiti are constitutionally entitled to a basic education, the state has historically not fulfilled this obligation.** Most education today comes from the non-public sector. The country has about seven times more non-public primary schools than public ones; 78 percent of primary students attend non-public schools. A bit less than half of these are run by religious groups, mostly Protestant. About 35 percent of non-public schools are privately owned and the rest are run by communities. This means Haiti has one of the largest non-public education systems in the world, and with major attendant problems. Non-public schools face little regulation, as the country's licensing system has never been fully enforced. Schools taking part in certain public financing programs, such as the Tuition Waiver Program, must theoretically comply with specific criteria for funding.

**In 2013, international funding for education stood at HTG 2 billion. Between 80 and 90 percent**

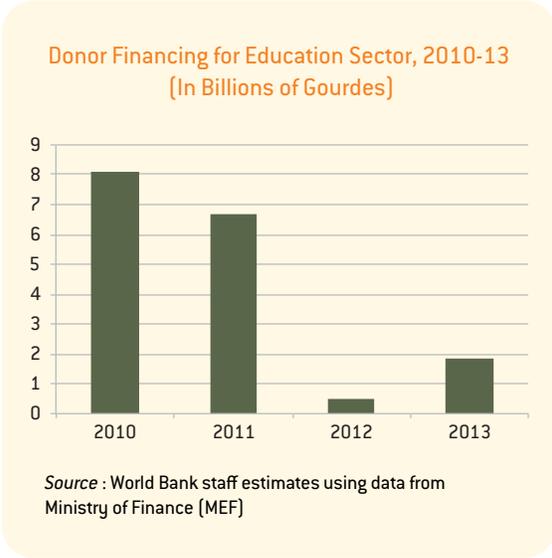
**of this money has gone to primary education in recent years.** But as aid declines, holding on to recent improvements in education is at risk and there is still vast room for improvement. Enrollment is not yet universal and the most disadvantaged students, including the poor, disabled or those living without their parents, tend not to be in school.

**In recent years Haiti's government has been raising education spending, which now accounts for a 14 percent of government expenditures, funded partly by new taxes on international phone calls and money transfers.** But much of this spending goes not to pay for government schools but to non-public ones, through tuition waivers and canteen programs. About HTG 2 billion were spent on waivers in the 2012-13 school year, supporting 1.4 million students in more than 10,700 schools. The programs attempt to target the subsidies at communities that are poor and have sub-standard nutrition. But corruption has often intervened. In 2013, the government's anti-corruption unit reported that an audit of a sample of schools found that about 25 percent more students than actually existed were reported to be taking part in those schools. It found cases of "ghost" schools that could not be physically located and appeared to have been invented for the private gain of specific individuals.

**Even with these programs, total public spending on education is low compared to the world at large.** And funds are often poorly spent. As with health facilities, public schools have too many administrators. Only about 58 percent of salary expenditures go to people who are “frontline” educators such as teachers, directors, and inspectors. Moreover, a program to provide free or subsidized textbooks to students has had questionable results: a 2011 audit found that while the program purchased 2.5 million textbooks, only 19 percent of a sample of public schools had actually received any.

**Though the government is spending more, the reality of education in Haiti is that the cost falls mostly on households.** With the state spending HTG 10 billion per year and international donors disbursing 2-3 billion, the bill to households nonetheless works out at about HTG 20 billion per year. Among households with children aged 6-14, 93 percent report spending money on education, on average 10 percent of the total household budget. Cost to households tends to create schools segregated by income group, with better-off families sending their children to well-equipped non-public schools with small class sizes, and lower-income families settling for poorly endowed schools. But many families can’t afford school at all. In cases when children don’t attend, parents say 83 percent of the time that cost is the primary reason. One saving grace is that in recent years, spending for low-income households has risen more slowly than spending by higher-income ones, due apparently to an expansion in government spending on the public school system.

**School quality remains widely diverse in different parts of the country.** The West department has more schools per capita and the schools enjoy



better resources than in other departments, in terms of student-teacher ratios and likelihood of having libraries and electricity.

**In August 2014, the Education Ministry announced steps to increase accountability and improve quality.** These include mandatory registration of all teachers and schools with the ministry through automatic, provisional granting of registration cards followed by qualification checks. In addition, students will be academically evaluated prior to the sixth grade, and schools performing particularly badly will come under ministry supervision. In addition, the ministry has been planning to administer the Early Grade Reading and Math Assessments (EGRA and EGMA) to nationally representative samples of third grade students. While these are welcome efforts, implementation and financing plans have not yet been articulated, and it remains unclear how the new steps will fit into ongoing efforts to raise quality.

## Steps to consider:

- Make all Haitian schools—public and non-public—more accountable for the quality of education they provide. Identify schools and students benefiting from the different programs offered by the Ministry of Education, including the donor-financed Tuition Waiver Program (TWP) and the *Programme de Scolarisation Gratuite et Universelle* (PSUGO), and linking this support to school achievement.
- Establish a mandatory teaching license based on demonstrated competencies and a mandatory school identity card, leading to certification.
- Offer teachers in-service training programs to improve instructional skills.
- Work to reduce disparities of education quality available to students in different areas of the country and income groups.

## 5. Providing Safety Nets for Those Most in Need

The Haitian state has traditionally played a limited, laissez-faire role concerning social safety nets. The Duvalier dictatorships of 1957-1986 had no interest in providing such help to the poor. The FAES (*Fonds d'Assistance Economique et Sociale*) was created in 1990 to provide social support, but subsequent years of political turmoil and natural disaster hampered development of this approach. It was only in the second half of the 2000s that Haiti's political elite began to buy into the concept of social protection as public policy that can contribute to poverty reduction and social risk management. The 2007 National Growth and Poverty Reduction Paper covering the period 2008-2010 listed poverty reduction and the improvement of living conditions as national objectives. Trade unions approved a roadmap that included social protections such as gender equality and contributory and non-contributory mechanisms for workers and vulnerable groups. At the same time, some donor partners began to show interest in food and nutrition security, which led them to consider a safety net agenda that could address both the short-term needs of responding to constant shocks and the longer-term goal of reducing chronic poverty.

The 2010 earthquake, which killed more than 200,000 people, understandably shifted the focus to short-term humanitarian response. Since no safety net could be quickly rolled out, interventions had to be designed from scratch. Between 2012 and 2014 there was again some encouraging attention to social protection as a broader framework for addressing short-term and long-term vulnerability and poverty reduction. In 2014, the government began a three-year initiative called “Thinking and Fighting for a Haiti without Poverty: Action Plan for Accelerating the Reduction of Extreme Poverty.” A key element is a social assistance strategy known as EDE PEP, which aims to protect people living in extreme poverty and to ensure long-term investment in human capital. It is a multi-faceted initiative, including issues as diverse as family planning, cholera eradication, conditional cash transfers, community restaurants, literacy, and public works aimed at improving the environment.

One potential weakness is that the program is financed principally by concessional loans from Venezuela at a time when access to those loans is tightening due to the fall in world oil prices. But various international donors are taking interest in social protection. The United Nations Development Program, for instance, has supported the human

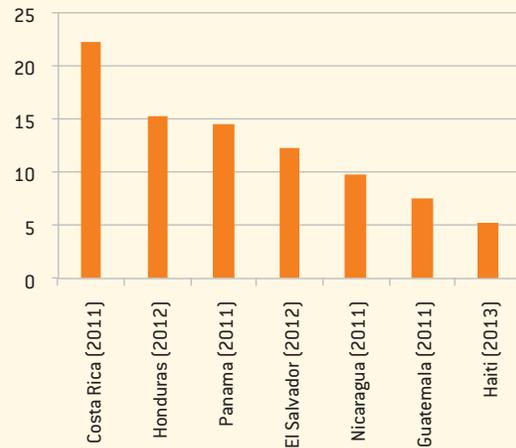
capital approach of the conditional cash transfer program known as Ti Manman Chéri.

**The chronically poor are in particular need of help from these programs.** These are people who live below the monetary poverty line and also lack various dimensions of wellbeing such as access to electricity and basic sanitation. By this definition, about 70 percent of Haiti’s rural residents are chronically poor, compared to 20 percent of people living in urban areas. But aid is also needed by the transient poor, people who are poor in terms of money, but have access to basic services and are more likely to be able to pull themselves up above the poverty line. In general, Haitian households need help in dealing with the shocks that are so common in Haitian life, whether an earthquake that levels the community or an illness that sidelines a household’s prime bread winner.

**Raising incomes is a deeply ambitious task, because poor households face so many constraints to building human capital such as education and skills, which ultimately is their biggest hope of exiting poverty.** These constraints include chronic malnutrition among children, barriers to health care, and a tendency to respond to shocks with decisions that help in the short term but hurt in the long, such as removing a child from school after a breadwinner loses a job.

**The different risks faced by different segments of the population require different responses in terms of social protection policies.** Unfortunately, Haiti’s social protection system is too fragmented to attack effectively the varying risks. Social insurance schemes, for instance, are implemented by a maze of institutions, making coordination difficult. Social safety nets involve more than 20 programs with implementation scattered across at least four ministries. Nine ministries share the oversight of EDE PEP programs, and 11 agencies or ministries are responsible for their execution. In addition, donor contributions are widely fragmented, creating difficulties in estimating and coordinating spending. Many are financed by one organization and implemented by another.

International Comparison - Social Spending, 2013 or Latest (In Percentage of GDP)



Sources : World Bank and Ministry of Finance (MEF)

**Targeting of social assistance benefits is also weak, with as much as half of these benefits going to the non-poor.** Because informality is so high in Haiti, only 11 percent of wage workers have access to retirement benefits through the social security system, but they tend to be in the upper income groups. Patterns are similar with health insurance administered by the Office of Work Accidents, Illness, and Maternity Insurance (OFATMA)—most households covered by the program are in the top quintile and living in the Metropolitan area. Children under age six, meanwhile, have almost no social assistance coverage—just 7.4 percent do. And though child labor and the practice known as *restavèk*, in which children live in other households and work as servants, are widespread in Haiti, this risk is not addressed by the EDE PEP strategy.

**Geographically, safety net initiatives could be better targeted to areas where poverty is particularly severe.** Some EDE PEP programs, in fact, have little coverage in regions with the highest poverty rates. Even where coverage does exist, it may be only short-term. The Ti Manman Chéri CCT gives mothers incentive to keep their children in school, but

due to budget restrictions and Haitian government decisions, the payments last only a year.

**Here and there are glimmers that things are taking a promising turn.** About 13 percent of people in the poorest quintile receive some social assistance compared to 5 percent in the two richest quintiles. And coverage is slightly higher in rural areas, with

its greater concentration of poverty, than in urban. But overall, Haiti's social protection system remains deeply undeveloped. The net impact of the programs is very small: Without social protection transfers, including pensions, Haiti's poverty headcount would be just one percentage point higher than it is.

#### Steps to consider:

- Continue to develop the social safety net. In a country with such high levels of poverty, social programs often make the difference in enabling some basic dignity of life.
- Reduce fragmentation of the social safety net by creating more centralized control of programs. Improve planning and coordination of domestically and foreign-financed initiatives.
- Better target benefits programs so as to reach people who most need help. Pay particular attention to the chronically poor.
- Press ahead with efforts to create a social registry of potentially eligible beneficiaries, so as to better target people in need and serve them efficiently.

## 6. Protecting the Budget from a Return of Fuel Subsidies

**Like in so many energy-importing countries of the world, political stability in Haiti is at risk when international oil prices spike.** Rising retail prices can bring crowds into the street demanding relief. The Haitian government long cautiously passed through increases to consumers but in 2010 it abandoned that practice in favor of a system of tax forgiveness and subsidies that shields consumers from retail price shifts in gasoline, diesel fuel, and kerosene. That changed in October 2014 when the government allowed retail fuel prices to rise. Combined with a decline in international oil prices, this step allowed Haiti to eliminate the subsidies.

**Until then, oil subsidies had expanded dramatically for four years and posed a heavy burden on public finances, gobbling up about 15 percent of total revenues in 2013.** Subsidies were equivalent to close to 2 percent of GDP, exceeding

public spending on health and education. The resulting major difference in fuel prices with the Dominican Republic, which shares the island of Hispaniola with Haiti, had created incentives for smuggling—fuel taken across the border could be resold at the roughly 30 percent higher prices prevailing there. These illegal sales created even more budgetary burden for Haiti's government.

**Moreover, the program was highly regressive. Poor households consume very little fuel—they spend only about 0.01 percent of their money on it.** Yet in households of the richest decile, likely to own cars and motorbikes, fuel spending is almost 6 percent of total consumption. Adding it all up, over 93 percent of fuel subsidies that were going directly to Haitian households were benefitting the richest 20 percent of the population. Poor households got only 1.6 percent of the subsidies and extremely poor households got only almost nothing, 0.3 percent.

Distribution of Oil Subsidies by Fuel Product, 2009-13  
(Billion Gourdes)

Products	Fiscal Year			
	2010	2011	2012	2013
Gazoline 95	0.105	0.604	1.004	2.066
Gazoline 91	0.269	1.565	2.301	2.529
Gasoil	0.541	1.93	1.217	1.898
Kérosène	0.162	0.341	0.187	0.399
Total	1.078	4.44	4.709	6.892

Source. MEF (2014)

**The higher fuel prices resulting from reduced subsidies thus have little direct impact on poor households, because they spend so little on fuel to begin with.** The impact falls mainly on higher-income households which are more able to absorb the impact. Indirect impact—the effect of fuel prices on the price of food, due to higher costs of moving it from field to market, for instance—can be contained to affordable levels.

**Transit costs are a special case.** Owners of the brightly painted mini-buses and pick-ups known as “tap-taps,” on which millions of Haitians get around, tend to pass on higher fuel prices to passengers. This can price the poor out of employment and education opportunities across town.

**Another exception concerning impact on the poor involves kerosene.** In a country where most homes lack electric power, kerosene lamps are the standard means of lighting. This is particularly true in rural areas, where 80 percent households use kerosene as their main fuel. A change in the price of this fuel, therefore, is mostly felt by the most vulnerable segments of the population.

**Ending fuel subsidies is only one dimension of renewable and transport reforms.** The country needs safer vehicles and more highly skilled drivers. Haiti’s reliance on petroleum fuels could be reduced by developing renewable sources such as solar and wind. Furthermore, in the absence of a truly automatic pass-through mechanism, the budget remains vulnerable to a rebound in international oil prices and a return of fuel subsidies.

Steps to consider:

- Return to a system of automatic pass-through of oil price rises, to prevent fuel subsidies from draining away government resources that are urgently needed by other more fruitful programs.
- Place the pricing mechanism in the hands of an independent agency, so as to reduce political influence in the setting of fuel prices.
- Consider creating targeted subsidies that would ease price rises that particularly impact low-income Haitians, such as higher transit costs.
- For the long term, promote programs to shift the country away from petroleum toward renewable forms of energy such as solar and wind.





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