

ECONOMIC GROWTH IN HAITI – A MERE ILLUSION?*

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I. INTRODUCTION

In Haiti, real per capita income has been falling for at least half a century, probably more. The country continues to be the poorest – by far – in the Western Hemisphere, and the political history is no better. On the contrary, it can only be called dismal, and this state of affairs has unfortunately had a pronounced negative impact on growth and development.¹ Haiti has rarely, if ever, had an honest government. Ever since the first years of freedom at the beginning of the nineteenth century, the country has been caught in a downward spiral where government action has mainly had negative economic consequences. A series of kleptocratic governments evolved out of a colonial heritage which had as one of its main ingredients the unwillingness of the dominant classes to undertake productive work. Over time a pattern was established where the road to riches went instead via control of the state apparatus and the possibilities of taxing the population at large and generating rents which could be appropriated by those in power. This pattern, in turn, served to distort economic incentives away from production, competition, and reduction of costs, toward establishing good connections in the government, kickbacks, and operations in an environment characterized by corruption, privileges, and rent-seeking of all kinds. As a result, growth suffered and economic stagnation and retrogression became the rule instead of the exception.

Growth and employment are an imperative in Haiti. Nobody in his or her right mind would think that Haiti's economic problems can be solved by a mere redistribution of the available pie. Such redistribution is politically very difficult, would have to be carried out on a large scale, and if it were carried out would presumably reduce efficiency and production in

* The article is based on Lundahl (2004). It has been written in my capacity as an independent researcher and its views do not necessarily coincide with those of the IDB.

the economy. The existing distribution of land is far less unequal than in the majority of the Latin American countries (Lundahl, 1996; République d'Haïti, 2004:536-52), which means that redistribution would have to take place mainly in urban areas. This redistribution would then involve the modern sector of the economy, business establishments that would be notoriously difficult for the uneducated poor to run. Thus, the likelihood that wholesale redistribution will be counterproductive is very high. Rather, the feasible road to higher incomes for the poor goes via economic growth, a growth that leads to the creation of new jobs. The present essay endeavors to identify some possible areas that may produce growth, employment, and higher incomes. In the best case, it will also be possible to undertake a redistribution, in favor of the poor, of the additional income generated by growth, though only if the government has the will and the political clout to make this possibility a realistic one.

The need for growth, employment, and incomes is exceedingly strong. More than three-fourths of all Haitians live below an absolute poverty line of US\$2 per day (defined in purchasing power parity terms at 2000 prices), and well over half live in extreme poverty (less than US\$1 adjusted for purchasing power parity per day). Haiti is also a country of gross income equality. The country's Gini coefficient is 0.65, which puts it in the same category as South Africa and Brazil.² Unfortunately, no immediate silver lining is in sight. The Haitians are involved in a survival struggle, in an environment characterized by a decaying infrastructure. Central institutions like the parliament, the police, and the judiciary are all more or less paralyzed, and the maintenance of public order is dependent on the presence of foreign nations. Only fools would expect growth to take place in this kind of environment in the short run.

The present essay deals with the possibility of growth in the longer run, assuming that peaceful conditions prevail that will pave the way for positive government action, focused on development, as well as private investment initiatives. Hence, all the obstacles to growth that we will deal with are completely subordinate to those generated by the prevailing political and social conditions. Having said that, it is possible to identify a handful of areas in the Haitian economy, which display some potential for medium-term growth. The essay also points out some areas which are frequently brought up in the growth debate but are less likely to lead to a breakthrough. Let us begin our discussion by a look at the sector where most Haitians have to make a living: agriculture.

II. NON-TRADITIONAL COFFEE

Most Haitians are peasants, but traditional agriculture presents a gloomy picture in terms of growth. As practiced in Haiti, agriculture is conducive to erosion and falling incomes. Haitians are peasants because they have no alternative.³ Not all agriculture in Haiti is traditional, however. In the recent past some new products and production methods have been introduced. One such product is coffee of a type that shows more growth promise than the traditional variety. A project initiated in 1990 aims at improved plantations and plant distribution, as well as more elaborate processing and commercialization.

This project deals with three levels of organization: groups, associations, and a federation. The first is constituted by small-scale producers who are exposed to a technological package that involves training, improved seeds, etc., in two dozen groups in Jacmel and Grand'Anse working with twelve to fifteen growers in each area. The task of the next level, the associations, is to upgrade processing techniques. The simple dry method, as it is called, is used on 90 percent of all coffee in Haiti, but one of the basic ideas of the project is to make growers use the wet method instead, a method conducive to higher quality; this is a practice that the growers have adopted. More than twenty processing centers have been set up to this end. This is complemented by the third-stage organization, the *Fédération des Associations des Cafésières Natives* (FACN), founded by the processing centers, which runs a dry-processing center (the second stage in the wet-processing method).

The non-traditional coffee project involves foreign participation. Back in 1993-94, American roasters were invited to visit Haiti to purchase coffee there, and the Haitian Bleu brand was created. The new brand began being exported in 1995, at a price of three to five times the standard world market price in subsequent years. The success proved to be short-lived, however. The different actors in the project clashed because of deficient transparency and communication between them, and in 1997 a crisis point had been reached. The evaluations of the implementation of the project, made by the Inter-American Institute for Cooperation on Agriculture (IICA), were mainly negative, and the FACN failed to meet IICA's demand for a separation in the financial statement of FACN operations and project activities financed by IICA. Nothing came out of the resulting conflict between the two, and project finances continued to be both opaque and entangled.

In 1998 the South-East Consortium for International Development (SECID) took over the technical assistance and quality control activities from IICA, through a contract with the USAID. However, the project was

still in crisis. FACN coffee exports amounted to 74,000–138,000 pounds per annum in 1997–2001, but this did not suffice to cover the operating expenses. The FACN operations were not sound, either economically or financially.⁴ Also, the quality of Haitian Bleu had been in more or less constant decline since 1995-96, and in April 2001 the FACN was faced with an ultimatum from the U.S. buyers: either the quality had to be improved to a satisfactory level or purchases would be discontinued.

In May 2001, the Hillside Agricultural Program, operated by Development Alternatives, Inc. (DAI),⁵ which includes other crops as well, took over the production of Haitian Bleu. A number of measures were carried out to improve quality, and the volume shipped was cut back. The Fairtrade Labelling Organization (FLO) certified the FACN as a fair trade organization, which made it possible to sell the best rejects as fair trade coffee in Europe at a price of US\$1.24 per pound. The price of zero-defects Haitian Bleu continued to be US\$2 per pound,⁶ and the worst rejects went to local industrial roasters. In 2002-03, the quality was back at the 1995 level, and 65 percent of FACN exports consisted of Haitian Bleu.⁷ The FACN share of total coffee exports in 2002 was 5-10 percent in terms of volume⁸ (perhaps as much as 33 percent of the total value),⁹ as a result of the higher price.

DAI has also made an effort to weed out other unsatisfactory FACN procedures. This appears to have solidified the financial and economic basis, and, for the first time in the history of the Haitian Bleu, (modest) profits are in sight. This is fine in itself, but wet-processing is far from being the standard in Haiti, and it is desirable to reach a larger number of producers, which in turn presupposes a great deal more support. The *Institut National du Café d'Haïti* (IBNCAH) has been created to handle coffee policy in the country, but the institute also needs support to deal efficiently with all the coffee networks. It is to be hoped that the production of Haitian Bleu has now entered a phase characterized by stability and sustainability,¹⁰ but unfortunately, under the conditions that prevail in Haiti, new problems may easily ensue that result in new setbacks.

III. MANGOES: A TRADITIONAL NON-TRADITIONAL PRODUCT

In 1976, mangoes belonged to the category of non-traditional Haitian agricultural exports.¹¹ A mere 1,200 tons of the annual production of around 94,000 tons were exported. It was obvious that exports could be developed a great deal, since the fruit was in more or less constant surplus.

Today, if we are to believe official statistics, mangoes are the number one agricultural export.¹² However, given that coffee is smuggled across the Dominican border, it is likely that mangoes are second in importance.

Still, mango exports are now “traditional.” During the past three decades (excepting the embargo years in the early 1990s), the volume of export, notably to the United States, has increased more or less steadily. (Together with Canada, the U.S. absorbs all Haiti’s mango exports.)

Haiti has a pronounced comparative advantage in mango production, with an export season (about ten months) which is three to four months longer than that of most competitors.¹³ Around 400,000 tons of mangoes are produced every year.¹⁴ The comparative advantage is not due exclusively to climatic factors; Haiti also possesses a superior mango variety – Madame Francis, one of the success stories of Haitian agriculture, and the only recent one. Production rests on several thousand small growers, and Haiti is the second largest exporter of mangoes to the U.S. market. Producers have increased their incomes by about 30 percent simply by improving the post-harvest treatment of the fruits.

The potential for exporting more fresh mangoes and processed mango products is largely untapped. Export volumes at the beginning of the 2000s are not very much higher than they were during the 1990s and only some 20 percent of the potential output of mangoes is exported.¹⁵ However, since 2005 three small farmer associations and the exporter JMB S.A. have obtained certification as producers of organic mangoes. Group certification is costly, but if it is obtained on a larger scale it would do a great deal to increase the exports of fresh and frozen products alike.¹⁶

The raw material supply, however, constitutes a critical bottleneck in the context. Access roads have to be constructed, maintained, and improved to reach large numbers of small suppliers,¹⁷ who have from one to four trees each. Further, too much of the output is lost through bad storage and transportation on overcrowded *kamyon*, and more trees are needed, something that needs financing, especially if the output is to increase in the short run.

Mango exporters are willing to invest to increase their business. The U.S. mango market is large enough to swallow everything that can be produced. However, increased foreign investment is needed as well, and this will not be forthcoming unless stable political conditions conducive to good governance prevail.

As people get used to the taste of fresh mango, a market also develops for other mango products. JMB S.A. is constructing the biggest plant for individually quick-frozen (IQF) products in the Caribbean,¹⁸ scheduled to start operations in the spring of 2007. This creates new opportunities, like mixing frozen mango chunks with other fruits to provide the consumers with fresh fruit juices around the year. (Haiti has the greatest diversity of tropical agricultural products in the Caribbean, and other fruits,

berries, and vegetables can be frozen in the plant as well; to increase the capacity utilization, fruits imported from the Dominican Republic can be mixed with the Haitian fruit.) Another possible export product is mango pulp, and a feasibility study has been undertaken of the production of dry fruit from rejects of organic mangoes, with very promising conclusions.¹⁹

IV. THE ASSEMBLY INDUSTRY SECTOR

The potentially most dynamic sector in terms of both output growth and employment creation in the short run is quite probably the assembly industries – the most viable sector of the Haitian economy for more than thirty years. Their share of the total export value rose from less than 5 percent in the mid-1960s to over two-thirds, two decades later. In 1990, the sector had more than 250 firms and about 46,000 employees, the majority of them women, each supporting an average of three or four dependants. In other words, close to 20 percent of the total population of Port-au-Prince was dependent on the assembly industries.²⁰

As a result of the coup against President Jean-Bertrand Aristide in 1991, the vast majority of assembly industry companies had to close down. The input markets, notably those for fuel and spare parts, were disrupted by the sanctions, and work discipline suffered severely from the political turmoil that followed. Only 44 firms and less than 5,000 employees were left in early 1995, at the end of the sanctions episode.²¹

In 2004 some 25,000–35,000 workers (most probably around 30,000) were employed in small- and medium-scale enterprises in the assembly sector.²² The structure of the sector has changed. In 1991 it was diversified, but today it consists of virtually only textile companies. The electronics and toy companies are gone. Today almost all the companies are owned only by Haitians, although a couple of foreign firms have just begun operations. Overall, the *Association des Industries d’Haïti* (ADIH) reported a 36 percent growth in output for 2003. Afterwards, however, the situation deteriorated again. Fifteen textile companies in Port-au-Prince closed their doors in 2005 and 2006 and employment in the sector was believed to be no more than some 15,000 the latter year.²³

The Three Main Problems

The companies in the assembly sector have three main problems: space, personnel, and finance. Until the mid-1990s it was only the Haitian government that could create free zones in the country. This has been changed and new private free zones are being set up in Port-au-Prince and on the Haitian-Dominican border, in Ouanaminthe.

Thus it appears that the space problem is more or less one of the past. This is not the case, however, with the lack of skilled personnel. Between 1991 and 1994 a great many qualified people had to leave when firms were closing their doors. At present, foreign (e.g., Dominican and Philippine) middle management and technical personnel must frequently be used to close the gap, but the presence of these people is inherently more or less short term. They do not serve as permanent substitutes for trained Haitian technicians, supervisors, managers, etc., which in turn calls for secondary level (vocational) education as well as tertiary training facilities in the educational system.

Finance is the third problem of the assembly industries. The average interest rate in Haiti is very high, around 30–35 percent per annum, and this often makes it virtually impossible to set up a company or expand operations on a loan basis. But finance is presumably not the binding constraint, either. As one factory owner expressed it, “If I can get a suitable loan, I can double employment in my factory in one month, but only provided that I can get the necessary trained people. Right now I cannot find the people to sew, the mechanics, and the supervisors.”

The HERO and HOPE Acts

Haiti has a strong potential comparative advantage in assembly production deriving from the fact that the country is situated very close to the large United States market, which in 2004 swallowed no less than 84 percent of Haiti’s total exports (90 percent of which came from the assembly sector).²⁴ It has long been hoped that this comparative advantage can be exploited even more forcefully in the future. To that end, in October 2002 a bill was introduced in the U.S. Congress that proposed treatment of Haiti resembling that of the African economies set out in the African Growth and Opportunity Act (AGOA).²⁵ The Haitian Economic Recovery Opportunity Act (HERO) would have made apparel articles imported directly into the United States from Haiti duty-free, provided that the fabrics and yarns that were used came from “the United States, members of the Free Trade Agreements with the United States, future members of Free Trade Agreements of the United States, as well as from eligible countries under the Africa[n] Growth & Opportunity Act, the Andean Trade Preferences Act and the Caribbean Basin Initiative.”²⁶ In addition, the HERO Act put some economic and political demands on the Haitian government, among these a market-based economy; removal of obstacles to American trade and investment in Haiti; democracy, with free and fair elections, rule of law, political pluralism, freedom of the press, combat of corruption, and respect for human rights. It was estimated that passage of

the bill would have created some 100,000 jobs in textile production and as many indirect jobs in supporting activities; i.e., some 1-1.2 million people would have benefited directly or indirectly from it, a drastic short-term improvement of both production and employment in the assembly sector.

However, the bill was rejected when it was submitted to the U.S. Congress in 2004, and a Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act was then introduced instead. The HOPE Act contains a more restrictive clause on the rule of origin, limiting the latter to either the United States itself or countries that benefit from U.S. trade preferences.²⁷

At that point the future was looking gloomy indeed for the Haitian assembly sector, and things soon got worse. On 1 January 2005 the quotas under the Agreement on Textiles and Clothing (ATC), affecting some 80 percent of U.S. textile imports, and virtually all of Haiti's textile exports, were lifted. This may result in a reduction of the latter by 45 percent, and as we have already seen, the number of textile firms shrank in 2005-2006. Also, in 2008 the Caribbean Basin Trade Partnership Act will expire. A Dominican Republic–Central American Free Trade Agreement (DR-CAFTA) was passed by the U.S. Congress at the end of July 2005. The latter agreement improves benefits marginally for the signatories, but it also makes them permanent. Essentially, it continues the duty-free access of apparel assembled from U.S.-made fabrics to the American market and establishes a limited quota for duty-free access for goods using fabric of any origin. The agreement also ensures similar treatment in Canada and Mexico. Haiti, however, is not included in the DR-CAFTA agreement and may stand to lose in 2008.²⁸ Against this we must set the fact that at the end of December 2006 the HOPE bill was passed by the U.S. Congress and signed into law by President Bush. What the HOPE Act may accomplish, however, remains to be seen. Another hopeful sign for Haiti is the WTO-mandated elimination of export promotion policies for the Dominican free zones as of 2010.²⁹ In fact, Dominican producers have already begun to react, turning their attention toward Haiti.

The Ouanaminthe Industrial Park

The Haitian assembly industry sector is concentrated in Port-au-Prince. A few years ago, however, a new project was begun, by the Dominican Grupo M which has 12,000 employees in 22 production facilities in the Dominican Republic.³⁰ Grupo M is the largest private sector employer in the Dominican Republic and the largest apparel producer in the entire Caribbean and Central America. In 2003 Grupo M finished construction of a factory in Haiti as well,³¹ in Ouanaminthe, on the

Dominican border, a town with an estimated 56,000 inhabitants in 2000. The Nord Est is the poorest region of Haiti. No less than 84 percent of the 313,000 people there lived under conditions of extreme poverty in 2001, and in all, 94 percent were living below the poverty line. The average income of the poor amounted to only 28 percent of the income that defined the poverty line; i.e., in order to escape from poverty the average poor family would have to triple its income.³² Under such conditions, initiatives that could possibly contribute to creating jobs and raising incomes in the area are highly welcome.

The high incidence and severity of poverty in the Ouanaminthe area has made migration to Dajabón, only one kilometer away on the Dominican side,³³ both intense and sustained. The idea behind the Ouanaminthe Industrial Park is to produce textiles in a free trade zone in Ouanaminthe and sell these in the U.S. market from the Dominican side of the border, in a vertically integrated system. Transportation from Ouanaminthe to Dajabón is easy and the export port of Puerto Plata is nearby.

It was calculated that the completion of the first phase would generate 1,500 direct and 3,000 indirect jobs in the Ouanaminthe area. The second phase is expected to yield as many as 21,000 direct and indirect jobs. Later phases envisage outside producers making apparel, footwear, etc., in tailor-made facilities rented from the zone development company owned by Grupo M. The Ouanaminthe site allows for up to 40 factories and 20,000 direct and 40,000 indirect jobs altogether. The total estimated cost of the project is US\$43 million, with US\$11 million going into the first phase. Grupo M has obtained a US\$20 million loan from the International Finance Corporation for ongoing capital expenditures and debt restructuring.

The first two factories began operations in Ouanaminthe in August 2003. Around 500 employees were at work producing 30,000 pairs of jeans per week, and the plan was to increase output to 100,000.³⁴ It took only half a year, however, for trouble to arise. In October a trade union was created at Ouanaminthe and in March 2004 34 workers were fired. They were rehired in April. In June a twenty-four-hour strike broke out and some 350 workers were dismissed. Labor representatives claimed that Grupo M was blocking trade union activities in Ouanaminthe using Dominican armed guards and soldiers and dismissing the labor activists, whereas the company maintained that layoffs were due to insufficient demand.³⁵ In February 2005, however, an agreement was signed between the company and the union representatives, which paved the way for a gradual rehiring

that culminated with the conclusion of a collective agreement in December that year and the doubling of the basic wage.³⁶

Grupo M sees a possibility of having 25,000 people working in the Ouanaminthe area in three years' time. Further, if it is successful, the experience may be replicated elsewhere. The president of the Dominican Republic, Leonel Fernández, has suggested that the Dominican and Haitian foreign debts to the United States, instead of being repaid, may be employed to create a continuous free zone of five kilometers on each side of the Haitian-Dominican border. Haiti and the Dominican Republic signed a memorandum of understanding in 1998, an action plan was approved in January 2000, and in June 2002 a joint declaration about the desirability of strengthening the economic, social, and environmental cooperation in the border area was issued. The project has received support from the European Union and Canada. An effort has also been made to promote private sector participation in the creation of the free zone by the establishment of a Border Business Forum, involving the Haitian private sector, as a framework for dialogue.³⁷

Creating an export processing zone along the entire border stands out as both novel and ambitious. It has plenty of potential, and the active participation of the private sector in both Haiti and the Dominican Republic could mean that the outcome could become far more favorable than the "orthodox" public sector-led approach to free zone establishment, an approach which builds on unrealistic assumptions with respect to Haitian government capacity.³⁸ However, the project will need international technical assistance in such matters as property rights, labor and tax legislation, and migration matters, as well as economic, social, and environmental analysis.

V. FORMALIZATION OF THE INFORMAL SECTOR

In Haiti, most people have to find jobs in the informal sector. This is associated with a high degree of insecurity, for in the informal sector things take place on a day-to-day basis, and there are few or no structures that support and protect those who operate there.

The extent of informalization has increased in Haiti over the past twenty years, very much as a function of the growth of the population and the increasing rural-to-urban migration, above all to the capital. The population of Port-au-Prince has increased by more than 6 percent per annum during this period; i.e., its size has tripled. Haiti, however, does not have any institutional structure that allows an increase of this magnitude to be handled in an orderly fashion. The additional population has established itself in the urban environment without recourse to any formal structures at

all. Dwellings have been obtained through squatting in marginal areas, and the main occupation of the in-migrants is different kinds of informal self-employment.

There are approximately 300,000 informal micro enterprises in Haiti (almost 25,000 in the capital). These enterprises are concentrated in trade (62 percent) and services (25 percent). More than four-fifths have a single owner. On average they employ 3.7 workers in services, 3.4 in handicrafts, and 2.9 in trade. About 36 percent are run by women.³⁹ A number of firms have a formal front but mainly operate informally.⁴⁰

Against the above background, in 1997 the *Centre pour la Libre Entreprise et la Démocratie* (CLEDE) and the *Instituto Libertad y Democracia* (ILD) formed a Consortium for the Formalization of Haitian Informal Assets and began a survey of urban dwellings in Port-au-Prince, Cap Haïtien, Les Cayes, and Gonaïves (altogether 90 percent of the urban population in Haiti). During the course of this project a total of some 200,000 dwellings were mapped.⁴¹

The degree of formalization varies. In Cap Haïtien no less than 87 percent of the urban area is informal, and in Gonaïves 86 percent, but in Port-au-Prince only 46 percent, and in Cayes even less – 19 percent. The weighted average for the four cities is 54 percent. The capital dominates in quantitative terms. No less than 82 percent of the informal housing is found there (263,000 homes).⁴²

The structures built on this land represent dead or sleeping capital. Their total value is around US\$2 billion.⁴³ Legalizing these assets is virtually impossible for private citizens, given the amount of paperwork involved. For example, a person who wants to buy the piece of state land that he occupies has to prove that he or she has occupied the site legally (possessing a contract) for at least five years, or that steps have been taken to obtain a valid contract. Altogether, this involves 16 different public authorities and 64 administrative steps and requires a total of 749 days. Thereafter the tenant has to pay rent regularly for five years before he or she can initiate the process that leads to a purchase. Altogether, 31 public entities have to be involved in 111 administrative steps over a period of 4,112 days. Finally the plot has to be paid for. Not many persons in Haiti can satisfy these requirements. What is more, it does not solve the problem of legalizing the buildings that have been constructed without permit. Haitian law has no procedure whatsoever to deal with the issue.⁴⁴

Hence it is the legal system itself that produces informality. Formalization is highly desirable, since, as things stand now, the assets cannot be used as security in any type of economic transaction. The dwellers simply lack legal title to them. By formalizing ownership, the

sleeping capital can be awakened, and the owners may use legal assets to expand their investment and scope of operation. The idea is to sell the land to the de facto occupants at market value, but this requires lending. To some (incomplete) extent the loans can be secured by the assets held by the micro entrepreneurs. CLED/ILD estimates that their total value amounts to US\$394 million.⁴⁵ Formalization of the urban dwellings would make bank loans on a larger scale possible in the future. The microcredit agencies would get a fixed address for their clients and could lend more under less risky conditions. Profits and incomes in the hitherto informal economy would multiply.

Informal entrepreneurs do not pay taxes, by definition, since they lack systematic contacts with the public administration. Formalization would thus increase tax and other revenue for the Haitian state. This is an important consideration since total government revenue only amounted to 7-9 percent of GDP during the past decade. The tax/GDP ratio is considerably lower than the average for other low-income countries.⁴⁶ A third consequence of the project would be that it would mitigate some of the worst physical and social consequences of the generally bad living conditions of the urban areas. The outcome of the formalization project so far is a 300-article bill that was presented to the Aristide government. Now it is up to the government of René Prével that took over after the elections in February 2006 to make sure that the proposal is followed by action. The formalization project would require an estimated US\$40 million in a single investment.⁴⁷

VI. MICROCREDITS

Until some ten years ago no micro enterprises had access to credit in Haiti. An effort at the end of the 1970s failed because of mismanagement, and the attempts made in the 1980s were both sporadic and insignificant. In 1994, foreign aid began to flow into Haiti in the wake of President Aristide's return from exile. This changed the situation. Up to 1997 the number of micro-lending institutions in Port-au-Prince increased from four minor NGOs to over thirty offices serving 15,000–30,000 borrowers. Only one-fifth of the total lending volume, however, went to the provinces. Four banks were involved, three near-banks (cooperatives), and eight specialized NGOs.⁴⁸

In 1998 a Swedish consultancy firm looked into the market for micro-lending in Port-au-Prince. It concluded that the market would soon be saturated.⁴⁹ New actors, however, continued to appear on the scene. The *Banque de l'Union Haïtienne* had begun already in 1997, and in 1999 what is today the largest bank in Haiti, UNIBANK, set up the *Micro Crédit*

National (MCN). Capital Bank has established *Micro Crédit Capital* (MCC), and in 2000 SOGEBANK created SOGESOL. This means that today the major Haitian banks are well established in the micro-finance sector.⁵⁰

It is obvious that the Haitian banks do not share the opinion of the Swedish consultants that the market for microcredits is saturated.⁵¹ About 70 percent of the working people are their own employers, and the labor force is around 4 million people. Each year approximately 110,000 people enter the labor market, and virtually all of these either have to go into the informal sector, leave the country, or become openly unemployed. It is possible that the market for microcredits has stagnated in the downtown area of Port-au-Prince, but the banks nevertheless attempt to increase their lending operations in the capital.

Though the Port-au-Prince area will eventually be well covered by micro-finance, there appears to be plenty of scope for expansion in the rest of the country. SOGESOL is now experimenting with operations in provincial towns. The *Banque de l'Union Haïtienne* is also expanding its microcredits across the entire country. The MCN has branches in some provincial towns and can expand further through the UNIBANK network in other towns.

Micro Crédit National is planning to go into rural districts as well. It already possesses the network that will enable it to do so. In 2002 42 percent of the total credits went to the provinces, and UNIBANK's UNITRANSFER operation, the second largest transfer agency in Haiti, employs motorcycles to deliver funds from abroad to the homes of the recipients. Using the UNITRANSFER facilities would make it possible to reach rural customers even when they are not concentrated in villages. The bank plans to launch a pilot project in a few areas with different economic characteristics to see how MCN's credit techniques can be adapted to the special needs of rural people. Should other banks decide to do the same, the scope of microcredit lending in rural Haiti would widen considerably. Total transfers are estimated at present to be in the order of US\$800 million to US\$1 billion per annum.⁵² UNIBANK (which at present is the only Haitian bank that has a U.S. transfer license) has also made it possible for recipients to deposit their money in savings accounts. This as well could serve to increase the amount of lending to rural areas over time.

Another strategy is to attract new types of clientele. So far, loans to traders have dominated, but some of the credit agencies have begun to operate in the gap between microcredits proper and regular bank loans. The middle-category borrowers are not street vendors but people with a fixed location. Still, they are informal. They do not use any accounting tools or

pay income taxes, but they are often wholesalers, for example, importers who have a *patente* and who pay import duties, sales tax, etc.

One of the main problems of microcredit operations is how to locate the borrowers. Many are very mobile and hence do not qualify for loans. (They have to come to the same place every day.) Thus there is a need for more fixed public marketplaces to which vendors can return regularly. This would lower both risk premiums and transaction costs for the lenders. The extent of competition would also increase among the lenders, and that would bring down interest rates further still.

Funds for microcredits appear to be less of a problem. Banks report that their deposits are increasing regularly every month. Many of the operations are fueled by transfers from Haitians abroad. (Around half of the foreign exchange flowing into Haiti today is estimated to derive from transfers.) These transfers tend to be well distributed across the population, far better than any other incomes in the country. Transfers also appear to create more value added in the Haitian economy than exports, and they keep growing over time.

Finally, it should be stressed that micro-lending operations do indeed reach the poor in Haiti. Thus 37 percent of the SOGESOL borrowers had incomes below the poverty line and 16 percent were extremely poor according to that definition.⁵³

VII. TOURISM

Most observers agree that Haiti has a great deal to offer tourists, with a reliable climate whose rainy seasons do not coincide with the peak tourist seasons in the Caribbean: the end of the year and the summer. The discussion of tourism in Haiti, however, focuses mainly on the country's unique history and culture, and nobody seems to believe in the possibility of mass tourism. The potential market consists rather of cultural tourists and young backpackers. The recent success of the Dominican Republic, notably in the European market, has opened up possible links with the Dominicans for shorter or longer excursions by tourists staying on the other side of the border. Tourism has a great deal to offer from the point of view of employment. It is a labor-intensive sector with plenty of potential linkages into other sectors, like handicrafts, construction, transportation, trade, services, food production, etc.

The history of tourism in Haiti, however, has been one of very uneven development and many setbacks. The only success in the tourist sector in recent years has been Labadie on the north coast, where cruise ships regularly call, though only for a few hours, and even under the most favorable circumstances Haiti has never managed to capture more than a

couple of percent of the total Antilles tourist market.⁵⁴ Tourism will hardly experience any take-off in the immediate future. Haiti's image abroad is unfortunately solidly negative. At the present time the political situation, with periodic street violence, kidnappings, and killings, with all that this implies from the viewpoint of security, effectively keeps tourist visitors away. The lack of a decent infrastructure as well as direct tourist facilities will also act as a brake.

The availability of hotels is major bottleneck. Haiti has no concentrated accommodation for mass tourism anywhere in the country. The vast majority of the existing facilities are concentrated in the overcrowded capital. Port-au-Prince, however, has no good beaches, and the notoriously bad road network makes it impossible to access the southern and northern coasts of the country without four-wheel-drive vehicles.

Haiti has had a master plan for tourism since 1995, but so far there has been no political will to implement it. Seven different areas deemed sufficiently interesting to attract foreign investors were identified. Because it is hardly possible to develop all areas simultaneously, the government together with the private sector would have to make a decision on where to begin. Tourism development in Haiti means integrated development, zone by zone.⁵⁵

Above all, however, tourism requires a substantial improvement in security. Tourists will not come as long as they feel that they may become victims of political or criminal feuds. Unfortunately, recent events have contributed to cementing the image of Haiti as a completely chaotic place. The country has been deleted from a number of popular tourist guides to the Caribbean during the past few years and it will take time to put it back in. Competition is intense in the region, and investments are needed in everything from hotels and restaurants to road construction and other infrastructure if Haiti is to succeed. The most feasible short-term alternative is to try to develop joint ventures with tourist operators in the Dominican Republic.

VIII. HANDICRAFTS

The handicraft sector has never managed to take off in Haiti, despite a relatively long history going back at least to the 1920s. Most of the time handicrafts are not even mentioned in economic analyses of the country. Haitian handicrafts enjoyed a small success in the 1970s but failed to adapt to changing tastes and trends in the 1980s, and the 1991-94 international embargo inflicted considerable damage on the sector. Exports dropped from US\$9 million in 1990 to a mere US\$1.4 million in 1994. In many

cases the cost of raw materials went up drastically, between 100 and 400 percent. The inflow of funds from Haitians abroad was curtailed, and it became impossible to finance activities. As the sector was decapitalized, the artisans began moving into other activities instead. Export volumes have dropped since then and people have continued to leave the sector. Very few are working at present in industrial firms.⁵⁶

The two main problems of the Haitian handicraft sector are costs on the one hand and coordination on the other. These two problems are interrelated. If Haitian handicrafts are to be able to compete in international markets, costs must be kept in line with costs elsewhere, notably in Asia. Wages are low in Haiti, but this comparative advantage tends to be eroded by other cost items. Imported raw materials are expensive and, due to the high internal transport costs, local inputs are not as cheap as one might think. Also, Port-au-Prince is the highest-cost port in the Caribbean.

The handicraft sector is having difficulties at virtually every stage of operations.⁵⁷ Many good designs exist in Haiti, even though there is no formal design training anywhere in the school system. Exporting, however, entails continuous redesigning as trends change. Once the design is ready, the necessary raw materials have to be found and at an affordable cost: metal, paint, beads, etc. The problem is volume. Small artisans cannot buy enough to get a good price, and some items simply cannot be found in the domestic market. When the raw materials have been obtained production can begin. Here, training is required. Artisans who have been working for a number of years often need to refresh their knowledge and upgrade their technology, not least to ensure adequate quality control and avoid unnecessary costs, but there are no specialized artisan schools in Haiti. The production process, notably metal processing, is also suffering from the lack of electricity.

Once it has been finished, the product has to be sold. Haitian handicrafts sell in the Caribbean, the U.S., and Europe. Today much business is done through web sites, and if Haitian products are to attract the attention of prospective buyers, user-friendly sites must be constructed and continuously updated. This is far beyond the reach of small artisans. The product must also be transported to the sales point, and Haitian artisans tend to be spread out in a great many locations that often lack adequate roads that would make it possible to transport things in time for delivery and without damaging the product.

Even the trivial practical steps involved in exporting are beyond the capacity of the artisans themselves. The necessary export documents have to be filled out and the items have to be packed in a way that prevents them from being broken or otherwise damaged. Getting things though Haitian

customs is a real challenge. The artisans need assistance from brokers and shipping agents, but the latter are not interested. Small artisans do not offer them enough volume to be of interest.

The Haitian government has done little to support the country's artisans, in sharp contrast to the situation in other areas of the Caribbean, where their competitors have been able to fall back on sometimes elaborate support structures at various stages in the production and marketing process. Such support is important, for one of the main problems of the handicraft sector is the heterogeneity of the producers. It is not reasonable to expect them to cope efficiently with all the problems enumerated above. Support is needed at all stages, and the support structures have to be relatively centralized in order to be efficient, but since the artisans are spread out all over the country the cost of coordination is high. It is also desirable to make as many artisans strengthen their relations with manufacturing proper to achieve greater standardization.

IX. INFRASTRUCTURE: PORT ST. LOUIS⁵⁸

Haiti's infrastructure has been in a deplorable state for a long time. This does not mean, though, that no initiatives are forthcoming. Since 1996 a project has been under way which aims at the creation of a deep-water port – Port St. Louis – on the Haitian south coast. The idea is to stimulate economic growth in southern Haiti; there is little in the region presently. Roads, telecommunications, and electricity are all inadequate, and there is no international port or airport that can handle inward and outward movement of goods in the south. This state of affairs has led to the creation of a consortium by private investors to build a port close to Les Cayes. To this an international airport and a number of free zones will be added. Free-zone status will also be requested for the port itself. The idea is to establish a package of basic infrastructure facilities that will attract foreign and domestic investment to the area. The project would thus contribute to the decentralization of the Haitian economy, notably of industrial production, which is now almost completely concentrated in the Port-au-Prince area, thereby contributing as well to the physical decongestion of the capital.

Port St. Louis could serve as both an import/export port and a container transshipment port. It would be a significant supplement to the port of the capital, which has to face major deferred maintenance issues. The main imports into Port St. Louis (by tonnage) would be fuel, cement, rice, flour, and sugar. Turning to export, total employment in Haitian free zones was around 30,000 a couple of years ago (today less), all of it in Port-au-Prince. The port complex could help to expand this figure considerably.

A related issue is that Asian manufacturers have a problem with shipments from Asia through the Panama Canal to the east coast of the United States. The canal is heavily congested, and it appears that the waterway has now reached the point where an investment on the order of an estimated US\$8 billion is necessary to prevent the canal from reaching its capacity limit in just a few years, when transports to and from mainland China will increase drastically. Asian producers are in a situation where an advantageous location near the U.S. east coast might be necessary if they are not to lose business. Today, China, Taiwan, and Korea are all 30 to 35 days from the major receiving ports on the U.S. east coast. However, for free zones and distribution bases to be attractive, at least three things are needed: access to a deep-water port with container-handling facilities, electricity at a reasonable price, and fuel. Asian manufacturers or distributors using free zones near the new Port St. Louis will find themselves a mere 2.25 days by ship from Miami and 5 days from New York. A deep-water port at St. Louis du Sud could also serve as a transshipment port with goods from large vessels being reloaded into smaller boats, and vice versa. Storage and repacking could be handled there, at a comparatively low labor cost.

The port was originally to have been inaugurated in July 2000, but the project ran into a series of unexpected delays. The study was finally submitted to the government in January 2000, and in November the following year the basic port authority authorization was obtained, but without any details. In October 2003 the paperwork for the long-term lease of government land required by the port was completed. An 8-kilometer access road has been constructed and a platform has been put in place in the sea for the construction of the first part of the port.

Contacts have been established with the Inter-American Development Bank to discuss the possibility of a US\$10 million credit, as the first piece of a US\$50 million loan. (The consortium is not yet in the position where it could take the debt for the full 50 million.) Further finance is needed for the infrastructural investment supplementary to the port. Unfortunately, the political turmoil after the fall of President Jean-Bertrand Aristide in February 2004 brought the project to another halt, for lack of necessary government authorizations. It is hoped that things will start moving again in early 2007.

X. THE MAIN OBSTACLE TO GROWTH: THE POLITICAL SITUATION

The present essay is being written at a critical point in Haiti's history. The country gradually sank into political chaos of the worst kind, culminating in the exodus of Aristide. At that point, a number of

institutions necessary for the operation not only of the economy but of society as a whole had more or less totally ceased to function. After this, Haiti was run by an interim government headed by Gérard Latortue, whose main task was to set up elections for Parliament and for the presidency, elections delayed until February 2006. In the meantime policy-making was suffering delays as well. The victor in the election was René Préval, who had already been president once, between 1996 and 2001, and who took office in May 2006.

The political problem in Haiti – the one that Préval has to deal with – is very much an institutional problem. President Aristide never was a strong believer in institutions. It can even be argued that he attempted to prevent them from emerging, or from functioning (when they existed already). Aristide preferred direct contact between himself and the masses, and in that process institutions had no role to play. He saw politics as a one-man show, he lacked the capacity and the will to negotiate with the opposition, and he was definitely not interested in setting up an institutional system that provided the usual democratic checks and balances.

The only strong institution in Haiti when Aristide came into power was the army. (The Catholic Church did not have the prestige it once had.) However, the army was abolished upon his return from the United States in 1994 – for good reasons. It was not a good institution, but a corrupt instrument of repression. The police force created after that was no substitute. People simply saw it as corrupt and arbitrary, and it did not provide any institutional structure. The police corps was stuffed with Aristide supporters who had not even been given much formal training (less than they were supposed to receive) and who were subsequently promoted rapidly to the higher ranks. The only structures that were in place were mafia-like and repressive. Poor people mistrusted, and still mistrust, the politicians and have learned that they must survive by themselves, no matter what they may be promised by those who want to be elected. The same is true with respect to their attitude toward public institutions. These provide no public services worthy of the name, and when Aristide fell from power common people were often convinced that the institutions had worked to the benefit of a single individual.

Thus, altogether, people in Haiti are not accustomed to good institutions. Nepotism and favoritism have prevailed not only in government but also in important parts of the private sector, and the tendency has often been for the actors in the latter to try to get around the institutions instead of working through them, to work through contacts and connections in the public sector instead of with the agencies set up to

handle particular matters, and to act on their own instead of through such private institutions as, for example, the Chamber of Commerce.

From the point of view of economic growth, however, institutions are completely central. The political process must function in a way that allows legislation on a continuous basis in a parliament where there is also room for the opposition. Rule of law must be established and the judiciary must be provided with enough resources so that it can be reformed and made to function decently. None of this is in sight today, in spite of the new government and the upcoming elections. Institution building is time consuming and needs support from the political process.

Unfortunately, the private sector has not been very convincing either in the past. It was involved in extensive rent seeking during the Duvalier era, and it failed to provide any credible leadership, let alone viable alternatives to Aristide. In recent years, however, things have changed, and the younger generation of businessmen is much more concerned than the older generation about what happens in Haitian society in general.⁵⁹ Before the fall of Baby Doc in 1986 rich people were by and large able to ignore the street poverty. This has gradually changed, and now the reality is apparent. It is no longer so easy to enjoy a high standard of living without simultaneously lending a hand to upgrading the surrounding social environment. Still, as the rift between President Aristide and the private sector proved, the institutions of the private sector live to a large extent in a vacuum.

During recent years, however, a number of private think tanks have emerged – think tanks that participate actively in the debate on economic and social issues and which have set up a number of institutions. One such think tank is the *Centre pour la Libre Entreprise et la Démocratie* (CLED), which deals with the modernization of economic, social, and political life in Haiti. It attempts to make people from the private sector take active part in public affairs, it attempts to reinforce private and public institutions likely to foster democracy, and it works actively to establish the judicial structure necessary for economic and social development. CLED's main achievement so far is the formalization project dealt with above. In addition, the foundation organizes regular seminars and meetings on social, legal, and economic issues.

Another private think tank is the *Fondation Nouvelle Haïti*, an entity that focuses on management, judicial negotiation, and sociopolitical issues. The FNH is the organization behind the *Le Groupe des 184*, a civil society movement that works to create a social contract between the citizens and the state on the one hand, and between the various political groups in Haiti on the other, as a way of breaking the political stalemate. A third institution

is the *Fondation des Industries d'Haiti* (FONDIH), a non-profit organization that focuses mainly on education. FONDIH was behind the *Livre blanc du secteur privé*, a book published in 1991, which brought out the stance of the private sector on the economic development of Haiti.⁶⁰ FONDIH also set up the vocational school *Haiti Tec* in 1999 and FAFEN, an institution concentrating on co-financing short-term training courses for employees in the formal sector and people active in the informal sector alike. Finally there is the old *Chambre du Commerce*, proposing to set up an arbitration tribunal for the private sector. (No public entity exists.)

XI. CONCLUSIONS

The economic situation of Haiti in 2007 can hardly be qualified as good. Real GDP growth has been mainly negative after the turn of the millennium,⁶¹ and in a comparative perspective, the country's growth performance has been one of the worst in the world since the early 1980s.⁶² The vast majority of the population is living below the poverty line and more than 50 percent of all Haitians are extremely poor. The recent political paralysis ended with President Aristide going into exile at the beginning of 2004. Now, his successor is in place, but as "always" in the recent history of the country, Haiti is back at square one, economically and politically speaking.

Is there any way forward, toward a more or less sustained growth path, for the Haitian economy? This is a difficult question to answer, and the history of the country – not only the recent one, but virtually all of it – does not provide any reason for optimism. Still, the main finding of the present essay is that Haiti is not devoid of positive points, either in agriculture or manufacturing, banking or infrastructure. Given a genuine willingness to change things, these points may be developed. It is by no means certain, however, that this willingness exists. Whether the new political setup will provide a framework that allows for positive economic change is impossible to know. The conservative bet is that it will not. The optimistic bet is that the promising sectors will muddle through. It takes more than optimism to predict sustained positive economic change in a stable and positive political climate.

Notes

¹ See Lundahl (1979, 1983, 1992, 2001) for an analysis of the economic and political causes of poverty in Haiti.

² Egset and Sletten (2003).

³ The mechanism behind the erosion process is analyzed in Lundahl (1979:ch. 5), and the alternatives to agriculture are discussed in Lundahl (1999).

- ⁴ Hillside Agricultural Program (n.d. a:2).
- ⁵ Development Alternatives, Inc. is an employee-owned international consulting firm founded in 1970, based outside Washington, D. C. For information about DAI, see <<http://www.dai.com>>.
- ⁶ Hillside Agricultural Program (n.d. a:1).
- ⁷ Hillside Agricultural Program (2003:7).
- ⁸ The figure depends on the figure of total exports; no reliable official figures exist.
- ⁹ Hillside Agricultural Program (n.d. b:4).
- ¹⁰ Lenaghan (2005).
- ¹¹ JWK Corporation (1976).
- ¹² The information in this section derives mainly from an interview with Jean Maurice Buteau and Bernard Craan of JMB S.A., Port-au-Prince, 10 January 2004.
- ¹³ Ducasse (2002:27).
- ¹⁴ Ibid.:18.
- ¹⁵ JMB (2004a). Cf. Ducasse (2002:59).
- ¹⁶ Interview with Tim Aston, Tom Lenaghan, and Marc-Eddy Martin at the Hillside Agricultural Program, Port-au-Prince, 12 January 2004.
- ¹⁷ Thus, JMB S.A. receives fruits from over 400 suppliers.
- ¹⁸ See JMB (2004c).
- ¹⁹ Interview with Tim Aston, Tom Lenaghan, and Marc-Eddy Martin at the Hillside Agricultural Program, Port-au-Prince, 12 January 2004.
- ²⁰ Lundahl (1999:21).
- ²¹ Ibid.:22.
- ²² The information on the assembly sector comes mainly from interviews with Georges Sassine, A.G. Textiles, Port-au-Prince, 10 January 2004; Philippe Armand, American Chamber of Commerce in Haiti, Port-au-Prince, 10 January 2004; Bernard Fatton and Jacky Lumarque, Capital Consult, Port-au-Prince, 12 January 2004; Ralph Auguste, Centre pour la Libre Entreprise et la Démocratie (CLED), Port-au-Prince, 13 January 2004; Jean-Édouard Baker, Association des Industries d’Haïti (ADIH), Port-au-Prince, 22 January 2004; and Henri Bazin, Haitian Association of Economists, Port-au-Prince, 23 January 2004.
- ²³ Meek (2006); International Monetary Fund (2006:25).
- ²⁴ International Monetary Fund (2005:40).
- ²⁵ For details about AGOA see, e.g., AGOA (2004a, 2004b, 2004c, 2004d).
- ²⁶ Gilman (2002).
- ²⁷ International Monetary Fund (2005:44).
- ²⁸ Ibid.:43.
- ²⁹ World Bank (2006: 24).
- ³⁰ Information about Grupo M is found on the company’s website <www.gruopm.com.do>, and also in Dahle (2000).
- ³¹ Information about this project is available in International Finance Corporation (2003a, 2003b), Compagnie de Développement Industriel (2003), Oneworld.net (2004), and DRI Daily News (2004).

- ³² Egset and Sletten (2003:16).
- ³³ For information about Dajabón, see Vargas (2001:195-215).
- ³⁴ *DRI Daily News* (2004).
- ³⁵ Lemoine (2004).
- ³⁶ ICTFU (2006).
- ³⁷ Inter-American Development Bank (2004).
- ³⁸ The history of government intervention in the industrial sector in Haiti is not a happy one. (See Lundahl 1999.)
- ³⁹ Consortium CLED/ILD (2000:17).
- ⁴⁰ Interview with Carl Braun, UNIBANK, Pétionville, 23 January 2004.
- ⁴¹ See Consortium CLED/ILD (1998, 2000).
- ⁴² Consortium CLED/ILD (2000:5).
- ⁴³ *Ibid.*:15.
- ⁴⁴ *Ibid.*:8. The document also specifies the steps in the case of privately owned property.
- ⁴⁵ *Ibid.*:17.
- ⁴⁶ International Monetary Fund (2005:5-6).
- ⁴⁷ Consortium CLED/ILD (2000:17).
- ⁴⁸ Swedish Development Advisers (1998:7).
- ⁴⁹ Swedish Development Advisers (1998).
- ⁵⁰ Dahlstrand (2002).
- ⁵¹ This section is based on interviews with Pierre-Marie Boisson, SOGEBANK, Port-au-Prince, 12 January 2004; Guy Cuvilly, Banque de l'Union Haïtienne, Port-au-Prince, 14 January 2004; and Carl Braun, Edouard Baussan, and Franck Helmcke, UNIBANK, Pétionville, 23 January 2004.
- ⁵² Interview with Carl Braun, Edouard Baussan, and Franck Helmcke, UNIBANK, Pétionville, 23 January 2004.
- ⁵³ See ACCION International (2003), for an extensive study of SOGESOL's borrowers.
- ⁵⁴ Lundahl (1992:412).
- ⁵⁵ Interview with Pierre Cauvet, Agence Citadelle, Pétionville, 22 January 2004.
- ⁵⁶ Lundahl (1999:27-29).
- ⁵⁷ Much of the information in this section comes from an interview with Jeff Kerzner and Anne Pressoir, at Aid to Artisans, Pétionville, 15 January 2004.
- ⁵⁸ This section is based on an interview with Ann Bayliss Hauge, secretary of the consortium for the port, Port-au-Prince, 12 January 2004.
- ⁵⁹ See, e.g., *Agenda du secteur privé des affaires* (2002) and Centre pour la Libre Entreprise et la Démocratie (2003) for details concerning the new philosophy.
- ⁶⁰ *Le livre blanc* (1991).
- ⁶¹ International Monetary Fund (2005:50, 2006:22); Banco Interamericano de Desarrollo (2005:7).
- ⁶² World Bank (2006:1).

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