HAITI SERVICES SECTOR ANALYSIS

Haiti Snapshot

Capital: Port Au Prince

Population: 10,173,775 (WB 2012)

Currency: Gourde

GDP (constant 2005 US$): 4.6b (WB 2012)

GDP per capita (constant 2005 US$): $459 (WB 2012)

GDP Growth: 2.8% (WB 2012)

Ease of Doing Business: 174/185 (WB 2012)

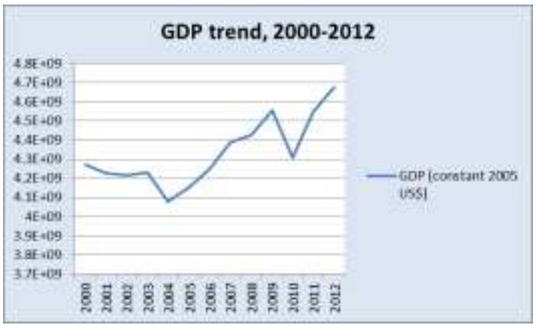
1. Overview of the Haitian Economy

Haiti has consistently and chronically under-performed in terms of its economic growth. With average growth rates of 1% over the 1960-2005 period, Haiti´s growth was Latin America and the Caribbean´s lowest. The root causes of economic stagnation are decades of political instability, eroded governance and occasional outbursts of social violence, environmental degradation that has exacerbated the impact of natural disasters, an inadequate business climate that has inhibited private sector development, a brain drain overseas of Haiti's most educated women and men, and a weak state capacity to define policies to provide public goods and manage social risks.

Haiti's recent performance shows that growth and stability go hand in hand. Relative political and macroeconomic stability over the 2005-2009 period stimulated economic growth that in 2009 reached a record 2.9%. The earthquake halted growth, compounded existing structural problems and posed new challenges[1]. In 2010 country's GDP contracted by 5.4%. In 2011, the Haitian economy had begun recovering slowly from the effects of the earthquake. However, two hurricanes adversely affected agricultural output and the slow public capital spending negatively affected the economic recovery in 2012. GDP growth for 2012 was 2.8%, down from 5.9% in 2011[2].

For an overview of the country's GDP trend from 2000 see Figure 1:

Figure 1: Haiti GDP Trend 2000-2012



The average annual growth in the last 12 years was 0.8%.

Source: World Bank, Databank

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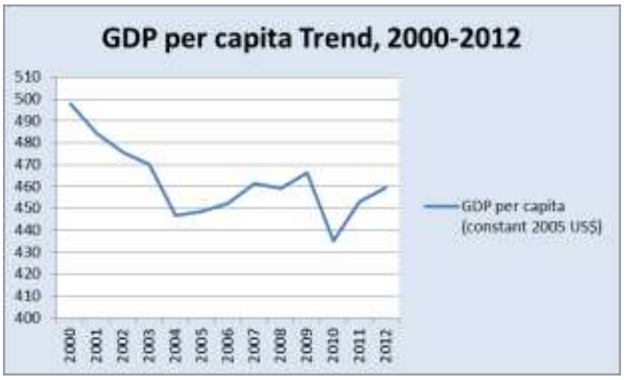
[1] Inter-American Development Bank: Haiti-Country Strategy

[2] World Bank Databank

Currently the poorest country in the Western Hemisphere with 80% of the population living under the poverty line, Haiti ranks 161 out of 187 on the United Nations Development Programme's 2012 human development index. Figure 2 shows the trend of GDP per capita over 2000-2012:

Figure 2: Haiti GDP per capita Trend, 2000-2012



Average GDP per capita declined by 0.8% over the decade to 2012. In 2010 after the earthquake it recorded a decline of 6.6% before recovering to a positive rate of growth of 4.4% in 2011.

Source: World Bank, Databank

2. Role of Services in the Haitian Economy

The **Country Strategy proposed by the IBRD** identifies six priority areas that in the view of both the Bank and the Haitian authorities have the potential to transform substantially and sustainably Haiti's economy and society: (i) education; (ii) private sector development; (iii) energy (particularly electricity), (iv) water and sanitation, (v) agriculture, and (vi) transport.

In **the Government's Strategic Plan for the Development of Haiti: An emerging Country in 2030**, the Services Sector is targeted as a specific priority. The action plan for economic rebuilding focuses on the implementation of a macroeconomic development policy; support to private investment; modernization and revitalization of agriculture, livestock and fisheries production; upgrading the competitive sectors of the Haitian economy, such as manufacturing and **tourism**; establishing a **construction industry**.

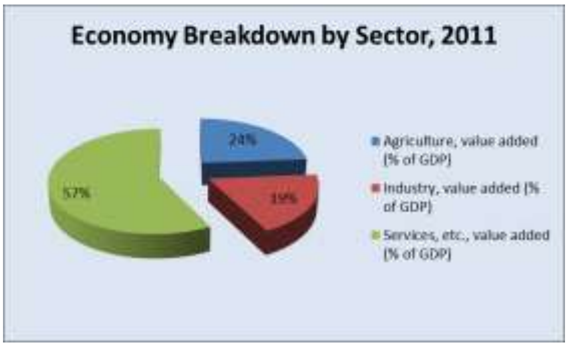
Haiti's services sector is labour intensive and rather inefficient. Operations are sometimes quite informal. Access to services is a challenge and spaces often unsanitary or otherwise inadequate. Priorities include access to insurance, the creation of a national purchasing office for agricultural production, the construction of convention and exhibition centres, the construction or rehabilitation of public markets, the development of formal commercial streets and shopping centres, and support for the relocation and reorganization of on-street services providers.

Before the recent earthquake, the steady decline of the agricultural sector led to a large-scale displacement of the rural population towards urban areas, in particular Port-au-Prince. Hopes that the services sector and the fledgling garment and assembly industries would expand to match the significant increase of job seekers proved unduly optimistic, given the emergence of more competitive producers elsewhere, despite incentives provided by the government[3].

The following figures show the current contribution of the services sector to GDP value added and employment:

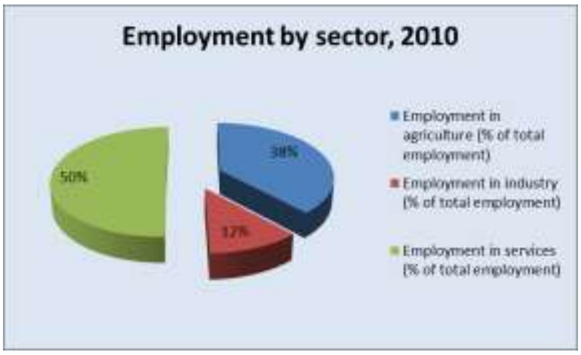
[3] UNCTAD POLICY BRIEF: Rebuilding Haiti

Figure 3: Haiti Economy Breakdown 2011



Source: CIA World Factbook

Figure 4: Haiti Labour Force



Source: CIA World Factbook

3. Trade in Services

Trade remains a weak contributor to Haiti's economy. Exports are heavily **dependent on the US market and a few apparel products**; **the apparel sector accounts for about 90% of Haitian exports** and nearly one-twentieth of GDP.

In the rebuilding process, international trade, including through regional and South-South linkages, will play an important role. Haiti needs to formulate a comprehensive trade policy and rebuild and reorganize its trade-related institutions and regulatory frameworks in line with local needs and capacities. This will imply a break with recent policy practice, creating much stronger links between trade, industrial and macroeconomic policies to help create a more dynamic investment-export nexus.

Services, contributing 57% to GDP, are hardly exported. The Services Account of the Balance of Payment (see Figure 5) was in overall deficit in 2011. Notwithstanding, 3 sub-sectors of commercial services, namely, **Travel, Communications and Royalties and Licence Fees** record net surpluses. Figure 6 shows the services export breakdown, highlighting the weight of Travel (proxy for inbound tourism).

Tourism is a priority sector for economic development, highlighted by a recent agreement that will see Canadian tour operator Transat bring vacationers to Haiti.

Haiti has the potential of other beach destinations in the Caribbean with the added value of its own distinctive character. Only the cruise ship industry is active at this time. Significant challenges must be addressed if the country is to see the development of sea-side resorts, ecotourism, cultural and adventure tours, as well as pleasure boating and additional cruise ship activity[4].

Despite significant recent growth, the **contribution of tourism to GDP and employment** is still small. The direct contribution of Travel and Tourism to GDP is forecast at 5.7% for 2013, up from only 1.9% in 2012. The direct contribution to employment was 1.6% in 2012, but taking indirect contributions into account, is considered to account in total for 4.9%[5].

[4] Government's Strategic Plan for the Development of Haiti: An emerging Country in 2030

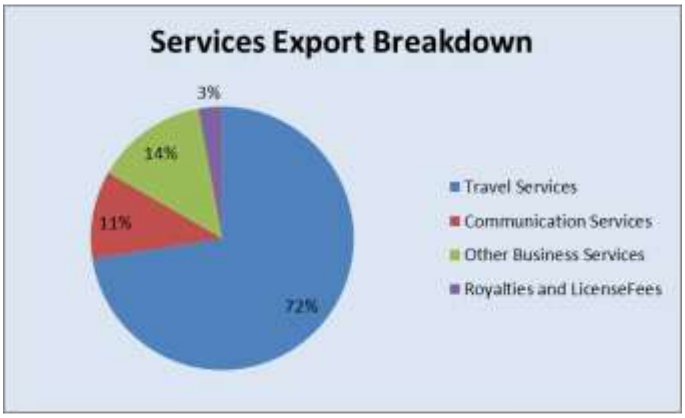
[5] World Travel and Tourism Council

Figure 5: Haiti Services Account, 2011

Service Label	Exports (Million USD m)	Imports (Million USD)	Balance
Transport	n.a.	622,910	n.a.
Travel	161,930	61,680	100,250
Communication	24,200	11,680	12,520
Construction	n.a.	n.a	n.a.
Computer Information	n.a.	n.a	n.a.
Financial	n.a.	0,43	n.a.
Insurance	n.a.	n.a.	n.a.
Other Business Services	30,780	48,220	-17,440
Personal, Cultural, Recreational	n.a.	35,590	n.a.
Royalties and LicenseFees	6,580	520	6,060
TOTAL	192,710	732,810	-540,100

Source: WTO Database

Figure 6: Haiti Services Sector Breakdown, 2011



Haiti is an exporter of **Other Business Services**, but not a net exporter

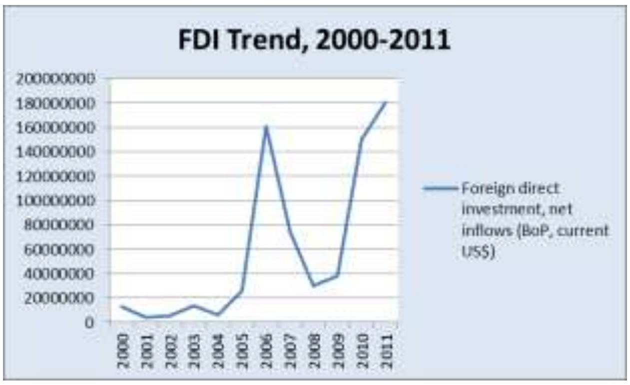
Source: WTO Database

In the Haitian economy a fundamental role is played by remittances which are the primary source of foreign exchange, amounting to 20% of GDP and representing more than five times the earnings from exports in 2012.

4. Foreign Direct Investment

Figure 7 shows the recent positive growth in FDI, probably due to the reconstruction. In 2011, net FDI inflows were 2.4% of GDP, just below the average for LDCs at 2.8%.

Figure 7: Haiti FDI Trend, 2000-2011



Source: World Bank, Databank

The difficulties that the country encounters in attracting FDI can also be explained with its low degree of economic freedom. According to the Index of Economic Freedom (see Figure 6) **Haiti is a repressed economy**.

Haiti's economic freedom score is 48.1, making its economy the 151st freest in the 2013 Index. Indeed, its score has been dropping rather than improving, and at an accelerating rate. In 2013 the score is 2.6 points lower than in 2012, due to declines recorded with respect to the management of government spending, freedom from corruption, and labor freedom. Haiti is ranked 24th out of 29 countries in the South and Central America/Caribbean region and its overall score is far below the regional average.

The effectiveness of public spending has been severely undermined by ongoing political volatility that undercuts the already weak foundations of the rule of law. Reforms to improve the business and investment climate have had little impact because of pervasive corruption and an inefficient judicial framework. Limited efforts to liberalize trade have been undermined by bureaucracy and red tape that continue to deter much-needed new investment.

Figure 8: Haiti Degree of Economic Freedom

Source: 2013 Index of Economic Freedom