

OBSERVATORY ON PUBLIC POLICIES AND ON INTERNATIONAL COOPERATION

A GENERAL OVERVIEW

For several years, the impact of foreign aid on Haiti's development has been questioned. Following the earthquake of 12 January 2010, international donors multiplied their pledges in order to respond to the emergency ("humanitarian aid") as well as to support the recovery and long-term development of the country. More than US\$ 13 billion was promised for the period of 2010 - 2020 and significant sums have already been disbursed (OSE, 2012)¹.

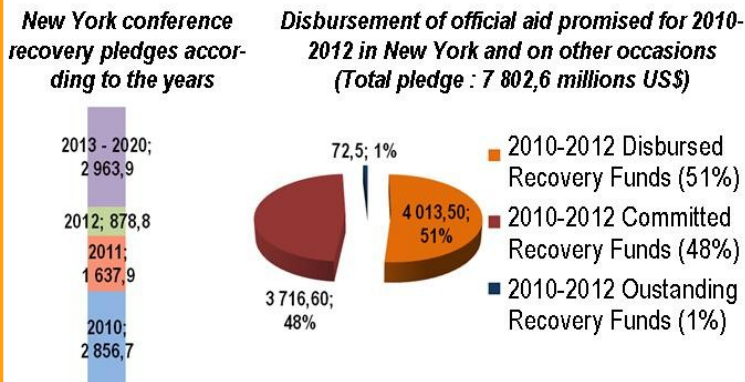
Official development assistance consists of donations and certain loans (at concessional terms) from the public sector with the purpose of promoting the economic development and welfare of a given country¹. Thus, in official aid statistics, neither private donations (at least US\$ 3 billion worth of private donations were traced after the seism) nor military spending are included.

OF DEVELOPMENT ASSISTANCE FOR HAITI

Nevertheless, official development assistance includes administrative costs, humanitarian aid and expenditure for armed forces that deliver this aid. For example, more than US\$ 450 million coming from humanitarian funds from the United States were allocated to the US Department of Defense for its interventions shortly after the earthquake (USAID, 2011)¹.

In this third monitoring bulletin, the Observatory focuses on the use of official assistance disbursed for the country's recovery and long-term development and wonders most particularly about the impact of these donations. Hence, unless explicitly mentioned, our charts do not include humanitarian aid.

Figure 1 : Public sector donations for recovery in December 2012 (in million \$ US)



Source : Observatory compilation with data from the UN Special Envoy (OSE)

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I - A BRIEF HISTORY

The concept of development assistance emerged after the Second World War. It hinges on the idea that economic and social inequalities between nations can compromise peace and that it is thus in the own interest of rich nations to contribute to the recovery of the economy of the nations considered as “less developed”.

Initially, development was exclusively compared with economic growth. Donor nations considered that they simply had to recopy the model of the “developed” countries and focused their funding notably on potential political allies.

With an increase of interventions during the second half of the 20th century, it was shown nevertheless that the expected results were not going to be reached as easily and that economic development did not lead automatically to an improvement of the living conditions of the most deprived populations. Numerous theories on the complexity of the phenomena of poverty and on the possibility of making development aid more effective have since been developed. Nevertheless, inequalities between rich and poor countries have become more and more pronounced¹.

In Haiti, development aid and anti-poverty strategies really started to flow in during the 70's. Although subject to fluctuations along with political events and natural disasters, international assistance has not stopped since.

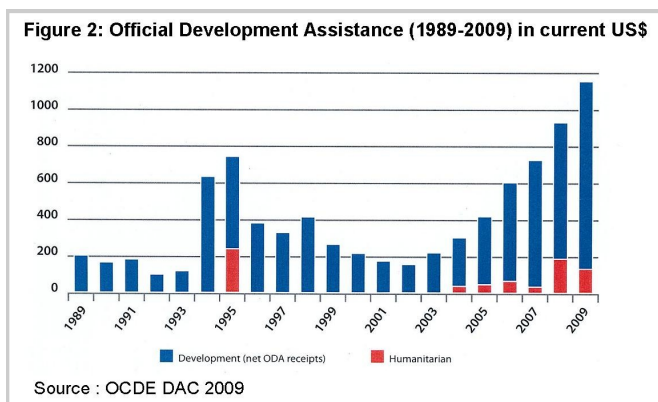
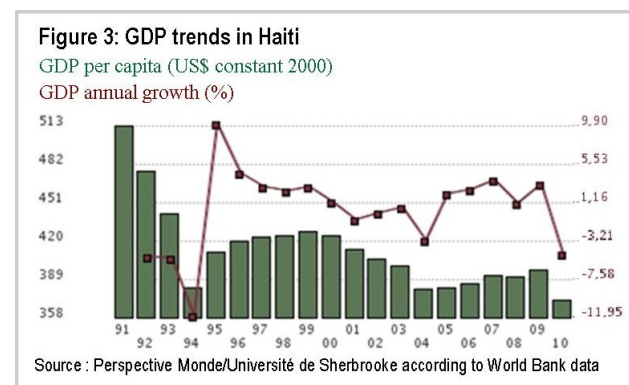


Figure 2 shows the evolution of official development assistance disbursed for Haiti between 1989 and 2009. The blue part indicates the funds which were allocated for the country's long-term development. Thought should be given to the impact of this aid.

Since development in a country depends on multiple factors (e.g. the functioning of its institutions, its political situation and its productive capacity), it is not possible to establish a direct link between foreign assistance and trends in the targeted sectors. Classifications and indicators related to development must thus always be used with caution.



Nonetheless, a glance on certain indicators clearly confirms that the employment of the funds disbursed as development aid for Haiti was not able to generate a significant improvement of the living conditions for the majority of the population.

If we look at Figure 3 for example, we see that the Gross Domestic Product (GDP = an indicator which measures the production of final goods and services in a country during a year) per capita has rather decreased. At the same time, the purchasing power of the inhabitants was further reduced due to price increases and the high rate of unemployment. Moreover, according to its Human Development Index (which takes into account health, education and income), Haiti continues to be classified as one of the poorest countries in the world¹.



II - AID ARCHITECTURE AFTER THE EARTHQUAKE

In order to understand the weak impact of international aid on the country's development, it seems necessary to examine how the money disbursed for Haiti was used.

In December 2012, an analysis of official aid promised for long-term development (see Figure 1), indicates that US\$ 4 billion was disbursed and that an additional US\$ 3.7 billion was pledged. This amount is important given that it clearly exceeds the internal revenues of the Haitian Government during the period of 2010 - 2012.

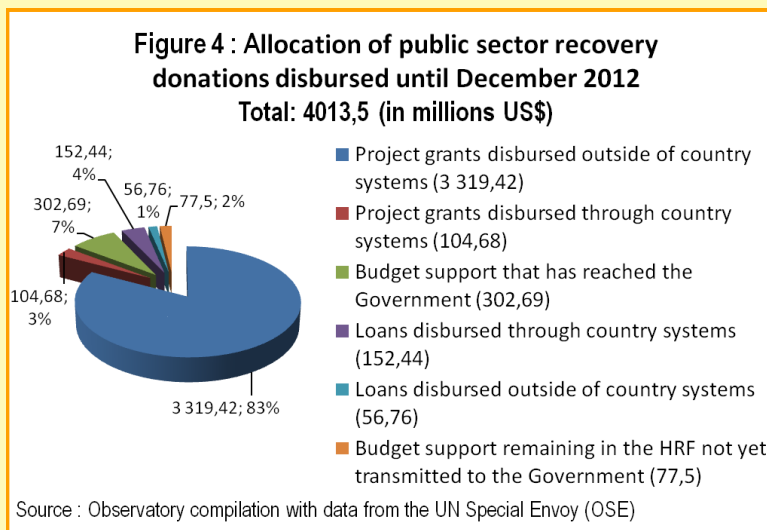
Nevertheless, this does not mean that all the money has already been spent in Haiti. The methods of disbursement provide us with a first indication¹:

- To commit funds means that the donor has approved a project or signed an agreement/contract. The money is thus reserved for a project or any other type of support which is in the phase of preparation;
- To disburse funds means that they have been transferred to the institution that will implement the project or programme, but that this institution has not necessarily spent all of it.

Once the donor has transferred the funds to the implementing institution, there is no more global follow-up of the expenditure. This is notably due to the great number of projects which are implemented according to their own budget and timeframe. Before reaching their destination, these funds were often decreased by administrative costs, sometimes even on several levels, because the implementing agencies often sub-contract companies or subsidize other organizations to implement the final activities.

The percentage of the money that really reaches its destination depends largely on the administrative costs of the engaged organizations and companies. A report by the *Center for Global Development* estimates that each one of these levels can absorb between 7 to 10% of administration expenses.

On the other hand, it is important to know if these funds enter the local economy through the purchase of local products and services. It is recognized that the revival of the Haitian economy depends significantly on the strengthening of Haitian companies and substantial job creation. Nevertheless, a large part of the funds goes back to companies from the donor countries, which are often more competitive than the local ones. In this sense, an analysis of the contracts of the European Commission that are reported on the Web page of *Euro-peAid* shows that more than 76.7% of the value of the allocated contracts, for a total of 32 million Euros in 2010 and 2011, was allocated to European companies. Only 7.48 million Euros, therefore less than US\$ 10 million (1€ = \$US 1.3), went to Haitian firms¹. Concerning *USAID* donations (*United States' Agency for International Development*), an analysis of the *Centre for Economic and Political Research*, from September 2012, indicates that only 1.3% of the value of all contracts, meaning US\$ 5.7 million of a total of US\$ 446.7 million, was directly allocated to Haitian firms¹.



Finally, a glance at the allocation of total donations shows that the majority circumvents Government institutions. As reflected in Figure 4, since 2010, at least 84% of disbursed reconstruction funds, have been administered outside of the country's systems for financial management and procurement.

III - PROJECT MANAGEMENT ACCORDING TO DONORS' PROCEDURES

Traditionally, the majority of disbursed funds considered as development aid were channeled through development projects which were characterized by specific budgets, objectives and calendars outside of the management systems of the beneficiary country. On the one hand, this made it possible to bypass weak institutions and insufficient financial control systems in the aid receiving countries by establishing mechanisms of direct accountability between the implementing agency and the donor. On the other hand, this has led to a fragmented provision of services, duplication of certain activities and to the marginalisation of Government institutions, which have to follow the priorities of the donors instead of giving account to a population that uses and pays for the services through its taxes.

Nevertheless, experience has shown that this approach had trouble solving extremely complex structural problems.

In this sense, a great number of States and multilateral agencies have agreed on the need for a better harmonization of the interventions, so that development aid could generate positive results in the long run. In the Paris Declaration on Aid Effectiveness from 2005, the donor countries have thus committed to simplifying their procedures and to use common action plans, notably by providing 66% of their aid through programme-based approaches up to 2010¹.

Although interpretation can vary, a development programme is not only a group of projects linked to one another, but a logical approach in support of the locally-owned priorities of development. It notably integrates a single comprehensive budget and program framework as well as coordinated pro-

cedures. To the maximum extent possible, the programme is carried out under the leadership of the host country and it uses local management systems¹.

During the International Donors' Conference in New York on 31 March 2010, it was recalled that a programme-based development approach was essential for Haiti, most particularly because national leadership had to be reinforced.

Nonetheless, the seism has again worsened the difficulty of Haitian institutions to assume their role and, in comparison to the approaches used before 2010, practices have rather deteriorated (cf. OECD, 2011).

The majority of the funds are still invested in dispersed projects which are principally carried out by private stakeholders and international agencies and to the detriment of programmes likely to create sustainable national structures for the future. Moreover, instead of dividing up tasks between them and thus decreasing the number of stakeholders intervening in each sector, the major donors continue to work in several areas at the same time (social, economic, institutional, etc.).

Whereas many organizations privilege faster and autonomous procedures, the construction of solid institutions as well as sustainable programmes that do not depend on aid often seems to be sidelined.



IV - PUBLIC INVESTMENTS INTO DEVELOPMENT

Development policies and strategies cannot do without substantial investments in the national economy (agriculture, local production, etc) and in basic services (education, health, infrastructure, etc).

During the last decades, Non-Governmental Organizations and other private providers gradually took roles that concern substantial Government duties. On the one hand, this made it possible to fill gaps in places where the authorities did not intervene. On the other hand, it contributed to the weakening of Government institutions.

Aid effectiveness principles underline that, in order to generate long-term development, the assistance has to reinforce Government institutions and that this reinforcement is more effective if the assistance is channelled through them. Nevertheless, many donors fear embezzlements in view of the weaknesses of public financial management and accountability.

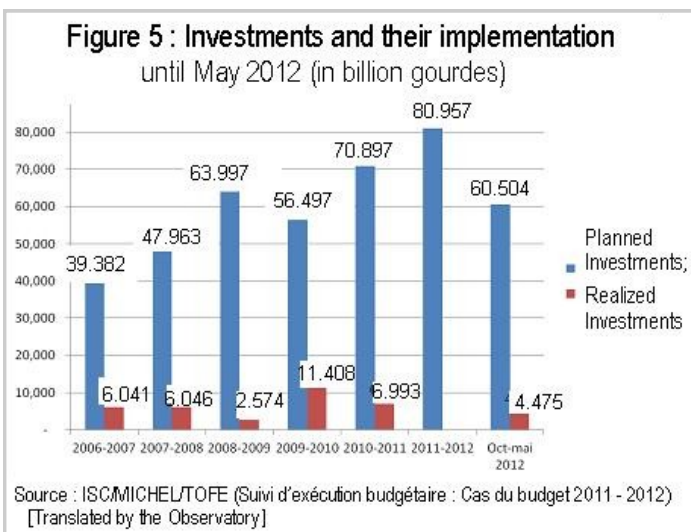
As Figure 4 (page 3) illustrates, donors are thus generally reluctant to give “budget support”, a modality that makes it possible to allocate funds to the national treasury which manages them in accordance with Haitian budgetary procedures. Only US\$ 303 million, hence about 7% of the recovery funds for 2010-2012, were transmitted as budget support since 2010.

In spite of that, the Haitian budget continues to be financed greatly by loans or grants from the International Community. These funds are given for projects or programmes that, partly or entirely, are managed according to their own procedures. The part of foreign aid is higher in the investments' rubric (expenditures which are made to increase economic assets, for instance through infrastructures or agriculture, but also for the general improvement of living standards through education, health, housing, etc.) than in the operation's rubric (expenditures for daily affairs, wages and maintenance of Government infrastructures).

During the last years, the investment budget of the Haitian Government has been

regularly funded with more than 2/3 by international aid. Nevertheless, these investments often gather varied expenditures for projects or programmes, and are therefore not always “investments“ in the authentic sense of the word (CEPALC, 2010)¹. Many of these expenditures are carried out by Project Implementation Units (PIU) which function inside Government institutions in order to carry out external cooperation projects. Although aid effectiveness principles invite donors to “Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes”¹, the number of PIU's in Haiti has more than doubled between 2007 (39) and 2010 (92) (OECD, 2011)¹.

Consequently, the poor results of public investments may be explained - in addition to the difficulties of the national institutions - notably by the fact that the funds and the various stages of implementation remain under the control of the donors and that the projects and programmes often experience important delays. Hence, the Haitian Government is not able to carry out the entirety of its investment budget. An analysis of the *Civil Society Initiative (ISC)* estimates that an average of 11,4% of the Haitian investment budget was spent during the last six fiscal years (Figure 5).



V - PERSPECTIVES

In spite of the increase in international development cooperation during the second half of the 20th century, tangible results (translating into an improvement of the conditions and the quality of life of the population of “developing” countries) were not often up to par. In view of this situation, States have agreed on a body of principles that aim at making development assistance more effective. As reflected by the commitments of the Paris Declaration, these agreements clearly stress the paramount role of the State and its institutions as the driving force for development in its country.

Although the reasons for the weak impact of the funds deployed in Haiti are multiple, it seems important to underline three of them:

- 1) A consequent part of the money was not spent on Haitian territory, in support of local institutions, companies and their employees or even of Haitian products.
- 2) Funds were rarely invested in structural programmes, developed in accordance with the priorities of the Haitian people or managed by its Government.
- 3) The objectives pursued by development aid and trade policies from donor countries have often been contradictory, because many trade agreements favor food dependency and limit Haiti's productive capacity.

Based upon the declarations from different stakeholders, there is a consensus that development at a national scale cannot be without the strengthening of national institutions nor without the development of a common vision mobilizing all the forces in the country and gradually limiting the dependency on international aid.

Nevertheless, the multitude of foreign stakeholders continues

Paris Declaration on Aid Effectiveness (PD), 2005 :

Commitment 1 - Ownership : *Partner countries exercise effective leadership over their development policies and strategies and co-ordinate development actions.*

Commitment 2 - Alignment : *Donors base their overall support on partner countries' national development strategies, institutions and procedures.*

[...]

to operate according to different priorities, methodologies and strategies instead of joining their forces in a coordinated system where their competencies are well distributed and regulated by the Government.

It seems unlikely that a strategy towards the reduction of foreign assistance can be put into practice by the donors only. Its feasibility depends rather on the strategic choices of the Government and the collaboration of its partners. At the end of November 2012, a new framework for the coordination of external assistance was launched. This one comes after the *Interim Coordination Framework* (2004), the mechanisms of the *Poverty Reduction Strategy Paper* (2007), and the *Interim Haiti Recovery Commission* (2010-2011)¹. Let us hope that its implementation will provide more results than in the past and that the donors will manage to align their interventions (Principle 2 PD) on the strategies and policies controlled by the Haitian State (Principle 1 PD).

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¹ **For more information and a bibliography:** www.cerfashaiti.org/observatoire.htm

*** We welcome your suggestions, questions and comments***

