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Does corruption hamper economic growth?

- A case study of Haiti

Abstract

The purpose of this study is to investigate if there is a relationship between corruption and economic growth in Haiti. This is investigated through the use of correlation analysis. The main factors influencing this relationship are also examined. A small negative relationship between corruption and economic growth is found. This relationship is influenced by many measurable as well as many hidden factors. This study has focused upon political and market factors such as international trade, rent-seeking and presidential shifts. The political aspects showed to be more significant to the relationship between corruption and economic growth than the market aspects.

Key words: Corruption, Economic growth, Haiti, International trade, Political influence

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1. Introduction

Nowadays it is highly possible that with the right means, economic growth can be achieved. Only a few years ago India was considered to be an underdeveloped country but can now be thought of as a country with a stable economy. Like India, a lot of other countries are at the breaking point of economic growth. A stable economy worldwide could reduce the amplitude of possible economic crises. But what is actually required for a country to reach a point of economic stability?

On a national level, money is most commonly donated through funds aimed directly to governments. Unfortunately it is difficult for both the organizations and the donating government to oversee exactly where the money ends up. A common problem in association with this is corruption. The effects of corruption have always been known. Péan (2000) has studied corruption in Haiti that has been occurring since the 18th century, hence, it is an old phenomenon in the country. However, it is only in recent years that the question has been open for the masses.

Research that has been conducted has increased the knowledge and understanding of corruption. As an outcome of this, the extent of the problem is larger than what was earlier recognized. Even though research has helped to understand the problem, more knowledge about corruption is needed to fully grasp the magnitude of the problem.

Many different definitions of corruption exist within scientific articles and research. However, most of them are based on the definition that has been given by Transparency International. This definition is used in the study.

"Corruption is operationally defined as the abuse of entrusted power for private gain"

(Transparency International, 2011)

Several authors extend their perception of corruption with other aspects and areas besides the above given. Svensson (2005) mentions in his article that corruption is an outcome of a country's legal, cultural, economic and political institutions and that corruption could be a response to harmful or beneficial rules. Corruption can also include bribery, nepotism and other misuse of public resources that damages economic performance (Drury et al., 2006). Klitgaard (1998) has in his research created a formula for how he perceives corruption.

According to this formula corruption equals monopoly plus discretion minus accountability. The definition of corruption within this study contains other factors on top of the definition given by Transparency International, similar to those of the researchers mentioned above. These additional factors are important when discussing corruption in this setting. Corruption is hence considered to be an act similar to the one Svensson (2005) describes. Corruption is something that is affected by the political situation in the country and an outcome of a country's legal and economic situation.

The most commonly used measure of corruption is provided by Transparency International. The index Corruption Perception Index (CPI) ranks countries according to the perception of corruption in the public sector (Transparency International, 2011). The measurement combines information about corruption from different sources and has been collected through different business surveys carried out by reputable institutions. This collected information makes it possible to compare the level of corruption between countries. The CPI mainly captures the administrative and political side of corruption (Transparency International, 2010). In addition to this, the measure includes influences such as bribery of public officials and embezzlement of public funds. It is important to mention that corruption is a hidden activity and therefore difficult to measure. Thus, the organization uses perceptions when describing corruption. The last year's CPI (2010) includes 178 countries and measures the degree to which public sector corruption is perceived in these countries.

The remainder of this study is organized as follows: Previous research on corruption and economic growth is provided in section 2. Section 3 contains delimitations of the study followed by background in section 4. The aim of the study is stated in section 5 and section 6 describes the methodology used. The data in section 7 and the empirical analysis in section 8 are followed by the discussion in section 9 and the last section concludes.

2. Previous research

There has been a lot of research when it comes to corruption as a phenomenon and its affect on other factors; such as the relationship between corruption and democracy (Druvy et al., 2006), if corruption has an effect on income inequality and poverty (Gupta et al., 2002) and how corruption affects growth, which is the focus of this study. The main conclusion from this different research is the same, that corruption has a negative effect on economic growth. Many researchers have studied this relationship through different aspects and perspectives. The perspectives have shifted over time when analyzing corruption. In comparison to the contemporary focus on what factors that affect corruption, the earlier researchers applied already existing models to corruption. Klitgaard (1998) and Rose-Ackerman (1975), who both belong to the earlier researchers, applied the principal-agent model to corruption. This model focuses on the relationship with the agent, an official taking bribes from individuals who are interested in a good produced by the government, and the principal which is considered to be the top level of the government (Schleifer and Vishnu, 1993).

The contemporary research enlightens how corruption and economic growth are influenced by different factors. There is a clear pattern of these which includes democracy, education, market situation and costs as discussion points. This study will highlight the political aspect and market situation, as these indicators are the most applicable to this case study.

In order to draw a general conclusion about corruption worldwide and to see if this study draws similar conclusions as previous research, a number of case studies will be introduced. These case studies are consciously chosen from different parts of the world in order to apply the conclusions on a general level. The case studies focus on Bangladesh, Lebanon and Africa.

2.1. Political Aspects – rent-seeking, taxation and regulations

Numerous researchers bring up the political aspect of corruption. The main focus points are the democratic environment, effectiveness of judicial system and the legal aspects. If a country is democratic, the level of transparency and accountability is higher than in a non-democratic country due to more political competition. The citizens in a democratic country also have the power to evict politicians because of the electoral mechanism. A democratic country will therefore have the chance to alleviate negative effects of corruption in contrast to a non-democratic country (Drury et al. 2006).

A strong foundation is necessary to provide a stable framework for economic growth. There are three main factors that are brought up by the majority of the researchers: rent-seeking, taxation and laws concerning property rights and licenses. The rent-seeking market has an underappreciated supply-side due to the fact that there is not only an incentive to bribe but also an incentive to receive bribes (Drury et al, 2006. Drury, Krieckhaus and Lusztig (2006,

pg.123) argue that this specific market for political influence "generates high opportunity costs because it dissipates resources that could be used on productive activity". When it comes to government-induced sources of rents, the prime example is trade restrictions (Mauro, 1995). Mauro brings up a good example stating that the necessary import licenses become valuable when there are quantitative restrictions on imports. Importers can therefore be more willing to bribe the relevant official in order to receive the licenses (Mauro, 1995). Other types of rent-seeking are government subsidies and price controls.

When considering corruption, taxation is a valid aspect because of the risk of tax evasion. Gupta, Davoodi and Terme (2002) bring forward this argument. They state that corruption can lead to tax evasion, resulting in favor for the wealthier population. The occurrence of tax evasion will most certainly lead to lower resources being available for improving society, affecting economic growth negatively. Corruption can also be seen as an inefficient tax on transactions, resulting in an increase on costs of production that is harmful on economic growth (Gyimah-Brempang and Camacho, 2006).

The conclusion regarding the arguments on laws and regulations states that the more formal and strict regulations regarding property rights, the more difficult it is to act in a corrupt way (de Vaal and Ebben, 2011). When a decent protection of property rights is absent, corruption takes over the role of property rights resulting in a reduced economic growth (de Vaal and Ebben, 2011).

2.2. Market aspect – open markets, licensing, import quotas

Market factors include the degree of openness a country is experiencing, the country's endowments of natural resources and the size of the public sector (Dreher et al., 2004). Officials who exercise control over the distribution of the rights to exploit these resources stand to gain from corruption (Dreher et al., 2004). Lambsdorff (1998) researched how exports and imports affect corruption within several countries. He found that exports only had a significant association with corruption in four out of nineteen countries.

Openness increases competition in the market which most likely reduces the level of corruption. Ades and Ditella (1999) assert that the more open an economy is, the less corruption exists. In markets where the degree of competition is low, large bribes will be available on items produced by companies in these markets (Mauro, 1995). An additional

feature of competition is that it hinders secrecy around corruption. Corrupt activities are often conducted in secrecy which results in an increase in transaction costs (Gyimah-Brempong and Camacho, 2006). Demand for secrecy while acting corrupt can redirect investments in a country from the highest value projects, such as education (Schleifer and Vishnu, 1993). The investments are instead focused on less important matters if these projects offer better opportunities for private gain.

In many countries there is a challenge when it comes to starting a business due to the difficulty of getting a license. The risk of acting illegally to avoid restrictions and delays increases and the wealthiest firms outbid their competitors (Houston, 2007). This difficulty hampers companies who want to start business in that specific country, since there are high costs and a long waiting time trying to receive the documents. This behavior will result in a negative impact on economic growth since it restrains the growth of the number of companies. Where corruption exists entrepreneurs are aware of the risk that some return of their investments will most likely be claimed by corrupt officials, since a payment of bribes will often be needed to receive a permit (Mauro, 1995). This risk reduces the number of new actors on the market, which is needed for a healthy economic growth.

Krishna and Tan (2007) mentions import quotas as a licensing problem in their study. The way in which quota licenses are distributed has an effect on corrupt behavior. When quota licenses are controlled by specific traders, it tends to be more corrupt than if the quota is rented out to domestic agents. If the import transaction requires a bribe in order to be finalized, the cost for the producing company will increase causing their overall efficiency to decrease. With the production costs involved in this transaction, the supplier would normally be able to provide a quantity of Q_2 instead of the quantity that is set by the subsidy, Q_1 . As a consequence, the company will be less efficient. When licenses to the quotas are owned by specific traders, the situation illustrated in the model below might occur. If the rights to the licenses are instead rented out to domestic agents, the problem can be decreased (Krishna and Tan, 2007).



This picture shows how corruption, in the form of bribes, leads to losses in productivity.

Corruption does not only yield benefits for some actors but it also entails costs. These costs vary across different political systems and the type of corruption that exists (Drury et al., 2006). The main costs when it comes to the political system are those that might hurt society actors. The costs of acting in a corrupt manner should increase in order for the corrupt behavior to decrease. However, this is not the best solution according to Houston (2007). He claims that it would be better to focus on the costs of acting in a legal manner. These are the costs that should be decreasing. It is also important to focus on initiating and improving fundamental institutions that support markets.

2.3. Corruption around the world

Paul (2010) unveiled the relationship between corruption and economic growth in Bangladesh and found that there was a positive correlation between the two variables. He based his conclusion on a study of political factors. During the 1970's, the country unleashed private investment in order to improve economic growth. However, bureaucracy failed in corresponding to reforms and public utilities resulting in an opportunity for people responsible for licenses to act corrupt. He also found that the perception of corruption within the country changed when there was a shift in power (Paul, 2010). A similar study was made with focus on Lebanon. The political aspect was the main focus point and arguments considering the government's role were highlighted (Farida and Ahmadi-Esfahani, 2008). Corruption showed to reduce Lebanon's standards of living, investments and productivity. Inefficiencies in government expenditures increased, resulting in a reduction of the government's effectiveness.

In a study of corruption and economic growth within Africa, the analysis was mainly based on the market factors exports and imports (Musila and Sigué, 2010). The result showed that these two factors were influenced by corruption both within the African countries, as well as within the trading partners.

Wedeman (2002) identifies two different types of corruption: degenerative and developmental. Developmental corruption is characterized by governmental officials who take a part of a private industry's profit and in return providing resources and protection. Degenerative corruption occurs when public officials build a personal fortune by using their position to extort private property. Latin America and the Caribbean are of the degenerative type (Gyimah-Brempong and Camacho, 2006). Haiti is considered to be of a degenerative type. Dreher, Kolsogianis and McCorriston (2004 assert that high losses due to corruption are mainly connected to the countries within Latin America and the Caribbean. These losses average 57.74% of GDP per capita (Dreher et al., 2004).

3. Delimitations

The subject of corruption and economic growth is too big to study all at once. In order to obtain a valid and composed result, the subject will be narrowed down. Throughout earlier research that we have encountered within this subject, the focus has mainly been upon African and Asian countries through case studies. Though this focus is very interesting and can provide valid results, an analysis in the Latin American and Caribbean (LAC) area could give new conclusions and provide other influencing variables. Through this analysis a cross comparison with earlier research can also be conducted. The LAC-area combines high economic incidence of corruption with slow economic growth. Gyimah-Brempong and

Camacho (2006) mention in their study that a 10% increase in corruption decreases the growth rate of per capita income by approximately 2.6 % in Latin America. This can be considered rather high since the decrease in growth rate caused by corruption is 1.7% yearly in the OECD countries (Gyimah-Brempong and Camacho, 2006).

As the timeframe of this study is too short to include an analysis of the entire LAC region, the focus of this case study will be upon only one country. The connection between corruption and economic growth could be more prevalent within a country where other factors exist and events have occurred, due to the fact that a wider analysis can be conducted. Haiti is therefore a suitable case study for the following research. This country has had an interesting modern history including demographic changes, political changes and geographic changes. In order to better obtain an overview of the different situations in the countries of the LAC area concerning corruption, we compared the levels of CPI between the countries in the region. The result for Haiti showed a higher level of corruption in comparison to the other countries¹. This result provides further incentive to analyze Haiti thoroughly.

A lot of research exists about Haiti and its economic growth. However, a large quantity of this information focuses upon the natural disasters that have struck the country and how these in turn have affected economic growth. As this factor has been thoroughly researched in the past, it is disregarded in this study since this approach would not contribute with new conclusions to this area of research.

4. Background

Haiti is located in the Caribbean and is one third of the island of Hispaniola. The population is characterized by young people, 58% are in the age range 0-24 years old. Two thirds of all Haitians are dependent on the agricultural sector, mainly farming (Caribbean Export Development Agency, 2007), and 52.9% of the population is illiterate (Embassy of Haiti Washington D.C., 2011). The country is considered as one of the poorest countries in the Western Hemisphere and is also the most unequal in terms of division of wealth and power (Hallward, 2010).

As mentioned, Haiti is considered to be a highly corrupt country. In a report issued by the Haitian government in 2010, 85% of the households considered corruption to be of custom

¹ See appendix 1

(Bureau de Recherche en Informatique et en Développement Economique et Social, 2007). Corruption is widespread in all branches and consists mostly of bribes. In addition to this, the Haitian government is also highly corrupt which leads to of a lot of money disappearing (U.S. Department of State, 2009). The malfunctioning government in Haiti is the main reason why the monetary support does not reach the society and the private companies (Bureau de Recherche en Informatique et en Développement Economique et Social, 2007). Kliitgard (2010) asserts that it is the non-governmental organizations and the private sector that provide most social services in Haiti today. This can in part reflect the weakness of Haiti's government. The corrupt situation within the government becomes a major obstacle for economic growth. There is a law constituted which provides criminal penalties for official corruption (U.S. Department of State, 2009). However, the law is not implemented effectively and officials are often engaged in corrupt practices without being punished (U.S. Department of State, 2009). The main problem with corruption in general is the origin of it. In the case of Haiti, corruption has stemmed from the presidents of Haiti (Lundahl, 2011). The actions of the corrupted presidents have signaled to lower levels that corruption is an accepted behavior (Lundahl, 2011).

The factors that have been described in earlier research as explanatory factors for corruption and economic growth fits Haiti well. The country has had a tumultuous political history during the last decades and the market situation in the country is uncertain.

4.1. The political situation – influential presidents

In order to obtain economic development and increase productivity, there is a need for a degree of political stability within a country. Stability provides trust, facilitates productivity and attracts investments. The political situation in Haiti has been characterized by turmoil and instability for the last couple of decades. The situation is catastrophic. The judiciary lacks integrity and is a key element for a well working government (Bureau de Recherche en Informatique et en Développement Economique et Social, 2007).

The Haitian politicians have created the extreme situation Haiti is experiencing. Between 1843 and 1915 Haiti had 22 presidents who all were predators, in the sense that they were dictators abusing their power (Lundahl, 2011). Main actors that have influenced the country through presidency during the last decades are François (Papa Doc) Duvalier, Jean-Claude (Baby Doc) Duvalier, Jean Bertrand Aristide and René Préval. The disturbances in the

country all started when François (Papa Doc) Duvalier came to power. He was elected president 1957 and ruled the country for more than ten years (Buss and Gardner, 2008). Papa Doc ruled the country under highly repressive dictatorship. To control the military coups and the violence the country experienced, he created a paramilitary army to help him retain power. During his ruling, the country sank into more despair. Thousands of people were murdered, tortured and unjustly imprisoned and Papa Doc also closed the country for international influences, which had a negative impact on the country's economy (Buss and Gardner, 2008).

After the death of Papa Doc, Haiti was ruled by his son Jean-Claude (Baby Doc) Duvalier. Baby Doc's main accomplishment was to open the country for foreign investments. As a result of this, he gained more support from the international environment and the country started to receive foreign aid (Buss and Gardner, 2008). Despite this development, Baby Doc was still considered to be a dictator. In 1986, Baby Doc was sent to exile and a big part of the Haitian economy crashed.

In 1990, the next influential actor Jean Bertrand Aristide was elected president. This election was considered to be the first democratic election in the country since Haiti became independent 1804 (Kliitgard, 2010). Even though the election was considered to be democratic, Aristide appears to be the one who closed the windows of opportunities for democracy that had been opened after Baby Doc's ruling (Lundahl, 2011). However, Aristide was once again elected president in 2000 with some international help and he ruled the country during four more years (Political Risk Service Group, 2010). This time he had the majority of the votes in the election, but it was only a minority of the people in Haiti who voted. The rest supported the old regime of Duvalier and showed their disapproval of the presidential candidates by not voting (Buss and Gardner, 2008). His governmental plan was the best proposed among the candidates, but this time he was considered to be a dictator acting corrupt (Kliitgard, 2010).

The president following the steps of Aristide was Réné Préval. He was elected president in 2006, during an election that was generally free and fair (U.S. Department of State, 2009). Préval won with 51% of the votes and during his leadership Haiti has not experienced as much violence and fraud as with the previous presidents (U.S. Department of State, 2009). Préval has been recognized internationally for his ambition to seek economic reform and cleaner government (Guyler Delva, 2010). During his rule he, among other things, enhanced

dialogue between the private and the public sector and reduced interest rates to facilitate access to credit (Roc, 2009). Corruption was a subject that was close to his heart and he worked hard to reduce it. In 2007 he began a massive battle against corruption. Unfortunately, a big corruption scandal struck Haiti the year after. A huge amount of money disappeared and was shared between the judiciary and the police (Roc, 2009.).

4.2. Market situation – regulations and free trade zones

Haiti was closed to international influences during the ruling of Papa Doc, which affected the country's economy heavily (Buss and Gardner, 2008). In the Haitian law, openness to foreign investment is codified and the majority of the people are open for it since it creates job opportunities (Political Risk Service Group, 2010). In 2002 the Haitian government passed an investment law. This law prohibits legal discrimination against foreign investors and it defines specifically the important role foreign direct investment has on economic growth (Caribbean Export Development Agency, 2007). Theoretically, the law is universally applicable but legal enforcement is not universally applied (Political Risk Service Group, 2010). Furthermore, the law aims to facilitate and stimulate private investment which has been a problematic issue for Haiti (Political Risk Service Group, 2010). Private investment from both local and foreign investors is important for economic growth. However, it is challenging to open a business in Haiti due to paper work and bureaucracy. On average, it takes 199 days to start a new business in the country². In order to see how the number of days it takes to start a business in Haiti in relation to other countries within the LAC region, an analysis based on data from Doing Business Report 2002-2010 was conducted. The average number of days to open a business in LAC is 71 days. When comparing this to Haiti it shows how ineffective the process is in Haiti. The last number, 71 days, includes the country of Suriname which is a big outlier. In Suriname it takes 694 days to open a business, which is why the country is considered to be an outlier. Without the influence of Suriname the average number of days to open a business is 52 within LAC^3 .

Another law that was constituted during the same year (2002) was the law of free trade zones. This law specifies conditions for operating, creating and managing free trade zones (Demombynes et al., 2002). These zones are defined as geographical areas that can be both

² See appendix 2

³ See appendix 2

private and joint ventures. The law provides mainly three incentives for enterprises located in the free zone. Those are full exemption from income taxes for a maximum of 15 years, exemption from all communal taxes and registration or transposition of the balance due for all deeds relating to purchase, mortgages and collaterals (Caribbean Export Development Agency, 2007). Haiti has two free trade zones, one located in the northern part of the country and one in the southern part (Political Risk Service Group, 2010)

5. Aim of the study

The aim of this study is to investigate if any correlation between corruption and economic growth exists in Haiti. In addition to this, focus will also be put upon pinpointing different factors and events that have affected the economic development in relation to corruption. Connection between the situation in Haiti and earlier research will be carried out and included in this study to see if earlier and country specific results are applicable in other regions as well. The problem to be solved is:

Does a relationship between corruption and economic growth exist in Haiti?

To investigate this, these complementary questions based on previous research will be answered:

- Do GDP and CPI correlate in Haiti?
- Does corruption change when there is a change of government?
- Do CPI and international trade correlate?
- Does CPI correlate with the number of days it takes to start a business in Haiti?

6. Methodology

The main approach of this study is to carry out an empirical analysis to see if corruption and economic growth correlate in Haiti. In addition to this, parts of the study contain a literature study of the country. Solid background information of the country including the economic development, history and the situation of corruption is included. This will allow for a better understanding of the situation in Haiti and the result can easier be understood. The study is

based on data consisting of articles, books and web pages of different organizations. In addition to this, a dataset has been gathered and analyzed.

6.1. Secondary data

In order to obtain valid knowledge about corruption and economic growth, focus has been put upon these two factors when studying previous research. Academic research has been the main basis of information. This has provided an insight into which factors that mainly affect corruption and is therefore of interest for this study. Reports such as 'Gouvernance et Corruption en Haïti' (Bureau de Recherche en Informatique et en Développement Economique et Social, 2007) and books are used as a complementary source of information.

6.2. Empirical data

To obtain a valid data set with high reliability, the figures have been collected from the Statistical Institute at the World Bank, the organization Transparency International, Doing Business and from the Haitian Government market report 2002-2010. Variables that are reported in hundred thousand dollars are in this study reported in current US dollars in millions.

The measurement used to measure corruption, Corruption Perception Index (CPI), is obtained from the organization Transparency International that focuses on collecting reliable measurements for transparent markets and governments. The numbers are measured on a ten point scale where ten implies the lowest possible grade of corruption and zero the highest possible grade of corruption. Corruption has also been measured by the Political Risk Service Group and this data has been used by many researchers such as Mauro (1998). However, accessibility to this data is highly limited and the CPI is therefore used. The conclusion will be reached with the use of correlation analysis using data from the past nine years. Due to the lack of observations this approach is used. The development of the Gross Domestic Product, GDP, has been used to measure economic growth.

6.2.1. Challenges

Unfortunately the data only goes ten years back. Transparency International began to measure corruption in 1995 and not all countries were included that year. Today almost 200 countries are ranked by their perceived levels of corruption. Due to the short time frame for this study, the existing data from Transparency International instead of primary data will be used in order to continue with the research. However, this study is still highly relevant despite the lack of

data. Corruption will be an even more important subject to study in the future since the problem most likely will grow.

A challenge could occur when comparing the changes in CPI and GDP. These variables are measured on two different scales where one is given in dollars and the other in an index based on perception. GDP can increase or decrease with a large sum from one year to another, while a change in corruption is limited to the ten scale index. This can affect the analysis as a small change in CPI can be of great importance but it is not shown significantly in the comparison between GDP and CPI.

It is important to mention that the conducted analysis illustrates a correlation between two factors. The provided results do not state an effect of one variable upon another, but merely how the two variables correlate. The number of analyzes possible to conduct are limited due to the small number of variables. A regression analysis is therefore not possible to conduct and causality cannot be provided. One could argue that a regression analysis of the entire LAC region would provide causality. However, such an analysis would not have any contribution to the aim of this study. Another problem with correlation analyzes are the omitted variables. Since omitted variable bias is mainly a problem within regression analyzes, this problem is disregarded.

6.3. Criticism of the sources

The research that has been made within the area of corruption and economic development has consisted of both literature studies and empirical studies. The empirical studies are well conducted with many authors analyzing their own collected data. However, many studies are dependent upon secondary data collected by organizations and the results given in these articles must be taken with prudence.

7. Data

Before the analysis will be conducted, an explanation of the included factors is in place. Both the fundamental analysis of the LAC region and the case study of Haiti will hereafter be explained. The data are used as a cross section for 35 countries during the last nine years (2001-2010) and hence include 350 observations. The number of variables included in each analysis varies due to lack of data within certain countries, certain years and certain variables.

Firstly the level of corruption is defined through the Corruption Perception Index, CPI, which is calculated and weighted by Transparency International each year. This measurement is used since it is the most universally recognized measurement of a factor that is otherwise hard to establish. The index ranges from zero to ten, where the lowest value means the highest level of corruption and vice versa.

The second variable GDP per capita is collected from the World Bank data catalogue. The level of GDP in the different countries is compared by converting their values into a common currency, US dollars. GDP per capita has been used in order to control the variable for the size of the population for all countries. It denotes the standard of living within a country and therefore reflects the economical growth and development. The correlation between CPI and GDP per capita will constitute the fundamental analysis for this study.

The market sector will be analyzed through the use of exports and imports as a percentage of GDP per capita. These variables have been gathered from the World Bank data catalogue (2011) to obtain statistical significance and reliability. As GDP per capita can be calculated as a function of exports and imports, among other variables, standardized measurements of these variables are used.

GDP = private consumption + gross investment + government spending + net exports

The numbers are collected and determined in the same way as the indicator for economic growth and are therefore easily applied to the data set without being re-coded into new variables. Exports and imports are used as indicators for the market situation as they together explain the part of GDP that is not consumption, investment or government spending. The net exports (exports minus imports) show the level of the international trade and can influence corruption on a market level. By examining these two variables together with CPI an analysis can be conducted in order to see if there is a correlation between the market situation within Haiti and the level of corruption.

The political sector will be analyzed through licensing and change in government. The amount of days it takes to start a business in the given country is used as a proxy for licensing. This variable is collected from the Doing Business Reports 2002-2010. By using this data it will be possible to estimate the office turnaround time and through this observe how the government within Haiti affects the level of corruption. The presidential changes are used as

one main variable in this analysis to see how and if the changes cause instability or can be connected to the variation in corruption.

8. Empirical Analysis

This section analyzes empirically the correlation of CPI together with the most important variables of the political sector and the market sector. The first analysis aims to observe the level of CPI within the countries in the LAC region. Haiti is the most corrupt country according to Transparency International every year. This strengthens the argument of choosing Haiti as a case study. Even though there are not enough observations for the analysis to be fully valid, the result is considered to be important. It gives an indication of the relationship between corruption and economic growth as well as what factors are the most influential in affecting these variables. These indications provide an understanding of the situation within Haiti and are useful for understanding the relationship between corruption and economic growth. The political sector is more difficult to analyze by using mere data, and a theoretical analysis is more applicable.

Nevertheless, the result from the case study analysis should be interpreted with caution since the number of observations is small. In order to reach a statistically significant and appropriate result, a parametric and a non-parametric correlation analysis has been conducted depending on the variables. When analyzing Haiti, the non-parametric test is used. When using this test, the focus is not on the significance level but the level of the correlations coefficient. The significance level is highly affected by the number of observations and if more observations were available, the significance level would increase. Therefore, the significance level is analyzed with caution. When analyzing international trade an additional test of the entire LAC region is used since this factor is considered to be similar in the region. Since the number of observations is bigger in this case, a parametric test can be applied.

The first analysis is conducted to compare the level of corruption in Haiti to other countries in the LAC region. The result shows that Haiti has the lowest average CPI score and thus is the most corrupt country in the region.



Picture 2: Mean - Corruption Perception Index

This picture shows the distribution of CPI within the LAC area. The Y-axis shows the mean value of CPI calculated from 2002-2010, the X-axis merely shows the countries in alphabetical order to simplify the visual understanding.

Do GDP and CPI correlate in Haiti?

Through the analysis of GDP and CPI within Haiti, a positive correlation of 0.299 was found. As the variables cannot be considered to follow a normal distribution with the low number of observations (n=9), a Spearman correlation test has been used. Though this correlation

analysis is not significant it still implies that there is a connection between the two variables, even if it is not immensely strong. The result indicates that a higher GDP per capita gives a higher CPI and, thus, a lower level of corruption within the country.

Table 1: Correlation CPI and GDP/Capita	
Spearman– Non-parametric correlation analysis	
Correlation	0.299
Significance level	0.234
Ν	9

The conclusion is that there is a correlation between CPI and GDP though it is very small.

8.1. Political sector

Does corruption change when there is a change of government?

This table shows the Haitian situation with consideration to political instability and governmental change. It has been taken into consideration that the elections have been democratically executed during the investigated years.



Picture 3: Presidential shifts and CPI

This picture shows the level of CPI and the changes of government. The Y-axis shows the level of CPI and the X-axis displays the timeframe.

The main conclusion drawn from this information is the changes after an election. The CPI index has been influenced from every shift in power. The rank in relation to the other countries investigated⁴ has also been influenced by these changes.

8.2. Market sector

The market sector focuses on exports and imports as indicators of trade. The correlation between these factors and CPI is first carried out in Haiti but due to invalid results, an additional analysis was conducted. This second analysis is of a more general nature as it includes the entire LAC area.

Do CPI and international trade correlate?

The first conducted analysis on Haiti showed that export and CPI had a negative correlation of -0.354 as table 2 shows. Even though the significance level is stated to be irrelevant when analyzing the result from a correlation analysis, the significance level in this case is extremely high. Due to this, the result is considered to be irrelevant. The correlation between imports and CPI, explained in table 3, is similar. The result showed a correlation of -0.465.

Table 2: Correlation CPI and exports	
Spearman– Non-parametric correlation analysis	
Correlation coefficient	-0.354
Significance level	0.389
Ν	9

Table 3: Correlation CPI and imports	
Spearman– Non-parametric correlation analysis	
Correlation coefficient	-0.465
Significance level	0.245
Ν	9

⁴ See appendix 3

The correlation analysis within the LAC region was conducted in order to obtain a general view of the relationship between exports and CPI as well as imports and CPI. The first analysis of export and CPI resulted in a correlation of 0.167 as table 4 shows. The significance level in this case proved to be more reliable than within the analysis of Haiti. The same approach was applied to imports and CPI, seen in table 5, with a correlation of 0.085. The significance level showed to be 0.227. Since the significance level does not improve as the number of observations is increased, the result is excluded. In both cases, the level of the coefficients is proven to be low. This indicates that the effect of exports and imports on CPI should not be considered to be strong.

Table 4: Correlation CPI and exports LAC	
Pearson- arametric correlation analysis	
Correlation	0.167
Significance level	0.015
Ν	253

Table 5: Correlation CPI and imports LAC	
Pearson– Parametric correlation analysis	
Correlation	0.085
Significance level	0.227
Ν	253

To conclude, CPI and exports has a small correlation in Haiti. The same applies for CPI and imports. The result within Haiti is enhanced by the analysis of the LAC area. As the coefficients for the correlations proved to be low, this value indicates that the relationships between exports and CPI as well as imports and CPI are generally weak.

8.3. Market and Political sector

Does CPI correlate with the number of days it takes to start a business in Haiti?

A mutual analysis of licensing from both a political aspect and a market aspect has been conducted. The variable used cannot be considered to be normally distributed and a nonparametric Spearman correlation test has therefore been used. The result shows a negative correlation between the variables of -0.740 in Haiti.

Table 6: Correlation CPI and licensing	
Spearman– Non-parametric correlation analysis	
Correlation coefficient	-0.740
Significance level	0.000
Ν	9

The conclusion is that the more handling days it takes to start a new business is correlated with a lower level of the CPI score and thus a higher level of corruption.

9. Discussion

The fundamental analysis showed that only a very weak correlation between corruption and economic growth exists. There are several variables that influence this relationship directly and three of these have been brought up in this study. Additional variables exists, affecting either corruption or economic growth and, thus, have an indirect influence on the relationship. The first factors that were analyzed were different political aspects. One conclusion drawn from this is that the country of Haiti has become more corrupt after an election and change in power since the CPI score is shown to decrease. However, this change in CPI can be an effect of many other variables but we believe that the change in government is a contributing factor. In addition, changes in the level of corruption have been identified during the mandate period of the ruling party. The first president during the 20th century was Aristide. During his presidency the CPI score for Haiti decreased from 2.2 to 1.5. Aristide was considered to be a dictator and his government illegitimate which is a stepping-stone for corruption. Since the head of state was acting in a corrupt way, it signaled that corruption was a legitimate action. Due to his actions, Aristide was evicted from his presidency in 2004. The following two years, a transitional government ruled the country. The analysis shows that during the change in power, the CPI level was constant. An explanation to this is that the transitional government departs from politics and does not implement any drastic changes.

Préval was elected new president in 2006. The analysis shows that during his first year as president, the CPI decreased. When a new president is elected, new ideas for improvement are implemented. However, these improvements take a long time to be established and during this time society can stretch boundaries and there is a risk that corruption will increase. This results in a lower level of CPI. If the ideas that are being implemented are well executed, the foundation will become more solid for laws and regulations against corruption and other societal problems. This will cause the CPI level to increase, which has happened during the presidency of Préval. One interesting observation is that during 2008, the CPI decreased even though it should have increased according to the mentioned arguments above. This year, Haiti was struck by many different natural disasters which put the country into a crisis. Focus was shifted from the implementation of the improvements to rebuilding the country. When a crisis like this occurs, people tend to get more selfish and desperate and thus act irrationally. Both individuals and institutions tend to act this way. The financial aid that was received from international organizations became an easy target for corruption. The same conditions were given in 2010 when a disastrous earthquake struck Haiti. As seen in the analysis, the change in CPI was not the same. This year, the CPI increased. Most likely Préval's precautions when fighting corruption were strong enough to prevent a similar outcome as in 2008. The corruption scandal in 2008 is also an explanation for the decrease in CPI. The question is: would the magnitude of the scandal have been the same if Préval had not implemented the major changes against corruption?



Picture 3: Presidential shifts, CPI and GDP

This picture shows the level of CPI, GDP and the changes of government. The Y-axis shows the level of CPI and the X-axis displays the timeframe.

As the table above shows, the CPI and GDP per capita only have a small correlation. The shifts in CPI from one year to another are extremely small in comparison to the changes in GDP. This can be an explanation to the vague correlation between CPI and GDP per capita.

Another aspect of the political influence on corruption is democracy. Previous research states that citizens in democratic countries have the power to evict politicians. Unfortunately in Haiti, people tend not to vote in the elections. One of the main reasons for this is that instead of voting, Haitians tend to protest the candidates, which is the wrong approach when it comes to influencing the future of the country. This could result in the wrong person being elected. The lack of education could also be an explanation as to why people are not voting. People with higher education tend to be more informed when it comes to understanding the society. As the majority of the Haitian people do not have a higher education, they might vote according to their feelings rather than what is best for them in the long run.

The stronger the regulations, the more difficult it is to act in a corrupt way. In Haiti there is a lack of strong rules. This is one aspect of why the Haitian government is malfunctioning. If the government is malfunctioning, as in this case, corruption is more likely to occur. Due to the problem of corruption within the higher levels of the governments, a lot of focus that could otherwise be put into better use is put into solving this problem. This affects society since resources for improvements disappear, affecting the development negatively within the country. Another example explaining this issue could be applicable on a company level. Suppose there is a producer whose goal is to earn 10,000 dollars. There are two buyers wanting his products, company A and company B. The price of the products is 5,000 dollars, which company B offers. However, company A is willing to bribe the producer and offers him 10,000 dollars. The producer can either act in a legal way, selling the products to company B and produce more products worth 5,000 dollars and sell them, reaching his goal of 10,000 dollars. The alternative is to accept the bribe from company A, reaching the goal but not spending time producing more goods. The overall productivity will be affected negatively and a result of this will be a negative effect on economic growth.

The market situation has not been shown to be as influential as the political aspect. The correlation between exports and corruption was small. Imports have an even smaller affect on corruption than exports. These results are interesting since previous research has stated the opposite: both exports and imports have been proven to have a significant influence on

corruption. Imports as well as exports are registered numbers, but there is a large amount of money that is not registered. Bribes in connection to international trade are not registered. These bribes can be seen as an additional cost on top of the price of the good. This additional cost is not included in the import measurement, which is an explanation for why imports do not correlate with corruption. Even though the amount of bribes increases, imports remain constant and corruption increases.

Import quotas should also be considered when discussing the market situation and corruption. An import quota can result in an increased level of corruption, as importers can use their power for own benefits. Suppose that an import quota is set at 200 for the import of chairs. Many different suppliers exist and the competition on the chair market is high. The importer can therefore choose between different suppliers and will choose the one who can give him the highest personal benefit. Within a corrupt country, import quotas can therefore result in bribes in order to get a delivery. This behavior matches the definition of corruption given by Transparency International. If import quotas are introduced within Haiti they could easily become a problem since the country is corrupt, hence it is not a good solution for economic growth.

The free trade zones that have been established within Haiti, give a lot of advantages for companies within these areas. This mostly concerns domestic companies and results in a higher number of new establishments. The increase in the number of companies increases the market competition, which gives more openness on the market. Previous research has shown that a more open market reduces the corruption due to less secrecy, which hinders the possibilities to act corrupt. Wealthier companies and powerful people have a better opportunity to use their power position for private gain. In a country like Haiti where corruption is considered to be a custom, the increase in competition can lead to this corrupt behavior.

The subject that could be applicable to both the market situation and political situation influencing corruption is licensing. The analysis shows that the more days it takes to start a business, the higher the level of corruption and vice versa. A huge problem is rent-seeking, where licenses are the main part. From a political point of view, import licenses are brought up in this study showing that importers are more willing to pay bribes. This bribe can be considered a hidden transaction cost, since the amount is not displayed in any way. Money

that could be invested in more important and efficient projects is lost. From the market perspective, licenses could hamper the process of starting a business within the country. In Haiti there are several laws constructed to prevent this kind of behavior. Laws that prohibit legal discrimination of foreign investors and stimulate private investments exist, but are not used as efficiently as they should be. Companies might invest in other countries due to the large number of handling days. Also, wealthier companies can bribe their way to getting the license and thus outrival smaller enterprises. This hampers economic growth because the number of companies is not as high as it could be and therefore the optimal productivity level is not reached.

Is this analysis on Haiti applicable and comparable with other countries in the world? Through studying the work of other researchers with the focus upon Africa, Lebanon and Bangladesh some general similarities have been detected. The market aspect has shown to be a common factor to focus on. The study of Africa highlighted exports and imports and their effect on corruption. The conclusion reached is the opposite of this study. Musila and Sigué (2010) proved that a connection between international trade and corruption exists within Africa. Corruption reduces trade since the market is not considered to be open. It increases the transaction costs and creates inefficiencies. However, international trade and corruption does not correlate in Haiti. Nevertheless, this aspect should be taken into consideration but with caution. Lambsdorff (1998) proved in his analysis consisting of several countries around the world that exports and imports were significantly associated with the level of corruption but only within a small number of countries. This might be a result of other factors influencing international trade. These omitted variables can be hard to detect. Lambsdorff's study emphasizes that exports and imports should be considered but not as main factors affecting corruption. This variable should therefore not be considered as a generally applicable factor when analyzing corruption.

When analyzing other countries, political factors have been proven to be one of the main issues connected to corruption. Studies of Bangladesh and Lebanon showed that this aspect is significant. In the study of Bangladesh, governmental problems, rent-seeking and regime changes were the main focus points. During the 1970's the country put a lot of effort to increase the private investments, in order to achieve an economic growth. The government did not manage to regulate this rapid development and corruption became more widespread. Rent-

seeking became an issue as people in charge of important permits used their power position in order to achieve personal gain. In addition to these conclusions, the author found that the perception of corruption changed as the regime shifted. In Lebanon, the research focused upon the governmental institutions and showed that corruption decreases the effectiveness on government expenditures. Projects are steered to companies who can pay bribes. Similar to Bangladesh, corruption in connection with licensing is a big problem. These conclusions are comparable to this study of Haiti. Therefore, the political aspect should be considered to be applicable on a general level.

Today, the situation within Haiti is complicated and solving the problem of corruption will be difficult. In addition to the factors given in this study, Haiti is often struck by natural disasters. These occurrences shifts focus from the work of preventing corruption towards a focus upon fundamental difficulties related to crisis management. It is important to put emphasis on solving corruption even in the future. Presidents following the footsteps of Préval are a crucial element for Haiti's battle against corruption. Préval's ideology that corruption is one of the main problems to solve in order to achieve economic development has to be continued during future presidencies. By losing track of this view, Haiti will most likely not get past the current economic calamity.

Corruption is and will always be an important subject to study. Due to a higher level of cooperation between big international and influential organizations, the demand for openness has increased. As a result, corruption has been realized to be a bigger problem than previously known. Many researchers have focused on the political aspects affecting corruption. This approach and the results are all similar, making the subject generic. More focus should be put upon different market factors. These factors need more focus since international trade is not the main indicator and other factors that explain corruption directly need to be found. As the years pass more observations will be available, improving the statistical significance of the corruption analysis. Another interesting area of research will be the changes caused by the presidential election in 2011.

10. Conclusion

Does a relationship between corruption and economic growth exist in Haiti?

• Do GDP and CPI correlate in Haiti?

This study has shown that there is a small correlation between GDP and CPI in Haiti. It can therefore be concluded that there is a weak relationship between corruption and economic growth.

• Does corruption change when there is a change of government?

There is a change in the level of corruption after a change of government in Haiti. However, the change is very small and omitted variables might have more significance.

• Do CPI and international trade correlate?

International trade has a small correlation with corruption in Haiti. The relationship is considered generally weak and this factor should therefore not be thought of as a main indicator when discussing corruption.

• Does CPI correlate with the number of days it takes to start a business in Haiti?

The more handling days it takes to start a business is correlated with a lower level of the CPI and thus a higher level of corruption. Licenses and corruption could therefore been seen as connected variables.

These answers indicate that a relationship between corruption and economic growth exists in Haiti. The main factors influencing are change of government and the issue of licensing. Our discussion in combination with the empirical analysis shows that corruption hampers economic growth.

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12. Appendices

<u>Appendix 1:</u>

Country	Mean CPI		
Argentina	2,79	Haiti	1,76
Barbados	7,14	Honduras	2,51
Belize	3,57	Jamaica	3,46
Bolivia	2,53	Mexico	3,48
Brazil	3,72	Nicaragua	2,55
Chile	7,22	Panama	3,40
Colombia	3,76	Paraguay	2,11
Costa Rica	4,72	Peru	3,64
Cuba	4,03	Puerto Rico	5,80
Dominica	5,70	StLucia	6,97
		StVincent &	Z
DominicanRepublic	3,06	Grenaldine	6,33
Ecuador	2,27	Surinam	3,55
El Salvador	3,80	Trinidad & Tobago	4,02
Grenada	3,45	Uruguay	6,14
Guatemala	2,76	Venezuela	2,24
Guyana	2,58		

Appendix 2:

Mean: Days it take to start a business

Antigua	23	Jamaica	15
Argentina	35	Mexico	38
Bahamas	31	Nicaragua	40
Belize	44	Panama	16
Bolivia	53	Paraguay	57
Brazil	147	Peru	78
Chile	27	Puerto Rico	7
Colombia	41	StKitts&Nevis	19
Costa Rica	70	StLucia	19
Cuba	77	StVincent&Grenaldine	12
Dominica	14	Suriname	694
Dominican Republic	51	Trinidad&Tobago	43
Ecuador	73	Unigiav	47
El Salvador	51	Venezuela	141
Grenada	20		
Guatemala	36		
Guyana	43	Average, LAC area	71
Haiti	199	Average, LAC area	
Honduras	81	(cleared of outlier)	52

<u>Appendix 3:</u>

vear	СРІ	rank from bottom	Number of countries investigated	President
2002	2,2	7	102	Aristide
2003	1,5	3	133	Aristide
2004	1,5	1	145	Transitional gov.
2005	1,8	2	152	Transitional gov.
2006	1,8	1	163	Transitional gov.
2007	1,6	3	181	Préval
2008	1,4	3	180	Préval
2009	1,8	7	180	Préval
2010	2,2	10	178	Préval