

TC Document

I. Basic Information for TC

▪ Country/Region:	HAITI
▪ TC Name:	Program for Strengthening the Fiscal Management of State-Owned Enterprises in Haiti
▪ TC Number:	HA-T1311
▪ Team Leader/Members:	Reyes-Tagle, Gerardo (IFD/FMM) Team Leader; Astudillo, Karen (IFD/FMM) Alternate Team Leader; Cho, Sunga (IFD/FMM); Jean, Kawala (INO/FLI); Laura Ospina Garnica (IFD/FMM); Lotti, Giulia (SPD/SMO); Luis Recalde Ramirez (IFD/FMM); Nerlyne Jeanbaptiste (CID/CHA); Roman Sanchez, Susana (IFD/FMM); Sara Vila Saintetienne (LEG/SGO); Soojin Kim (IFD/FMM); Yery Park (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	27 Oct 2022.
▪ Beneficiary:	Government of Haiti
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 1 - Operational Capacity and Policy Dialogue for OC-concessional eligible countries(W1D)
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	December 2022
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM-Fiscal Management Division
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Environmental sustainability; Institutional capacity and rule of law

II. Objectives and Justification of the TC

- 2.1 **Objective:** The objective of this technical cooperation (TC) is to support the Government of the Republic of Haiti in the strengthening of its capabilities and knowledge for the fiscal management of State-Owned Enterprises (SOEs) and their investment framework. First, it is designed to support the Ministry of Economy and Finance (MEF) in its efforts to deepen and update the diagnostics of the governance and investment frameworks of Haiti's State-Owned Enterprises, in order to identify courses of action for their improvement and strengthening. Second, this TC will grant support to the MEF for the analysis and evaluation of the design and management of the fiscal regimes for SOEs' productive activities and their implication for fiscal sustainability. Lastly, it will support the dissemination of knowledge and training, including exchange of best practices at the national and international levels, to facilitate capacity building in the MEF.
- 2.2 **Justification:** The government of Haiti is facing various economic and social challenges in the wake of the post-pandemic era. The COVID-19 crisis fueled an

already difficult couple of years marked by political volatility, a surge in violence, and natural disasters. These were detrimental to the country's economy, which from 2019 until 2021 experienced an average annual contraction of 2.3 percent, and a central government debt of 24 percent of the GDP by the end of 2021. Additionally, revenue collection was low, and Central bank financing of the fiscal deficit (which reached 2.4 percent in 2021) contributed to increased inflation rates (IMF, 2022). Ultimately, all of this has had a negative impact over the operation of Haiti's State-Owned Enterprises (SOEs), including among other things, severe problems in the delivery of highly important basic services to the population, such as water and electricity. Although there have been efforts by the Government of Haiti aiming at improving data coverage of SOEs' financial sustainability (largely SOEs' debt data), SOE accounts (detailing revenue, expenditures, investment, etc.) are poorly consolidated in government financial statistics, mainly because reporting obligations are limited and often not enforced (IMF, 2019). Furthermore, the availability, and quality of data on SOEs is not uniform across the various entities. Therefore, there is a strong need for improvement in the diagnostics of SOEs' governance and investment frameworks.

- 2.3 Historically, SOEs in Haiti were established to compensate for the lack of private capital for large-scale investments in the production of essential goods (such as sugar, flour, cement, etc.), and the provision of basic services (electricity, water, telecommunication, etc.). Over time, many of the country's SOEs saw the need to become privatized to correct market failures and reduce the fiscal deficits they have incurred throughout the years. Under this scenario, it becomes of paramount importance to understand the design and management of fiscal regimes of SOEs' productive activities, as well as their implication for fiscal sustainability, by means of a thorough analysis and evaluation.
- 2.4 The assessment of Haiti's economic situation can hardly be separated from the country's environmental context. Similar to other countries in the Caribbean region, Haiti is particularly vulnerable to the impacts of climate change and seismic phenomena. This is particularly important considering that recently there have been discussions about the potential revitalization of Haiti's extractive industry (oil, gas, mining), which involves activities of high impact for the environment. Besides representing an unfamiliar terrain for the country, most of the talk has centered around the prospects of the private sector's leadership, under the umbrella of a mostly- foreign investment framework. It becomes important to explore the fiscal risks and opportunities associated with the government's potential participation in such productive activities, in a scenario of increased action against climate change.
- 2.5 In consideration of the above-mentioned limitations that SOEs in Haiti face, much of the toolkits needed to further improve their fiscal policies will need to come from the valuation of best practices, know-how, and experience of successful cases abroad. This TC will finance the production of knowledge materials, dissemination of results, and execution of training for policy practitioners at the MEF. They will feature effective reforms implemented, both at the national and international levels, to promote fiscal sustainability of SOEs that can serve as a benchmark for the Haitian case.
- 2.6 In essence, this TC will complement the efforts of the Government of Haiti to strengthen knowledge and technical capacities of the MEF on fiscal management of SOEs. Through the diagnostics of the current state of governance in SOEs, and the consolidation of data on SOEs, this TC will promote accountability and transparency. Through the understanding of the state of SOEs' investment frameworks, this TC will

enhance budget planning and execution, as well as debt management through the improvement of micro-fiscal policy frameworks. Additionally, this TC will evaluate the fiscal management of SOE's productive activities in Haiti, including services (e.g., water, electricity), extractive industries (e.g., oil, mining), and other sectors, taking into consideration not only the complex social, economic, and political context of the country, but also the vulnerabilities facing the country, such as climate change.

- 2.7 **Strategic Alignment.** This TC is (i) aligned with the Second Update of the Institutional Strategy (UIS) 2020-2023 (AB-3190-2) through the cross-sectional areas of climate change and environmental sustainability and enhancing institutional capacity and the rule of law, and through the development challenges of productivity and innovation; (ii) it is aligned with IDB-9 strategic goal of “addressing the needs of small and vulnerable countries, particularly Haiti”; (iii) it is aligned with the priority area of “effective, efficient and transparent institutions” of the Strategic Program for Development Financed with Ordinary Capital (GN-2819-14, GN-2819-15), and (iv) aligned with the Fiscal Management Sector Framework Document (GN 2831-8) through the strengthening of knowledge and technical capabilities of the MEF in key areas related to the appropriate management of fiscal risks of SOEs and the promotion of strengthened governance. The operation also contributes to the Corporate Results Framework (CRF) 2020 – 2023, (GN-2727-12) through the indicator of institutional capacity and rule of law by improving the limited capacity of the public sector to deliver services, fight corruption, and enforce the rule of law. Under this framework, the project will support the country's efforts in formulating stronger fiscal risk management policies by strengthening governance of SOEs, in order to enhance their overall operational and managerial capacities, as well as their transparency and integrity practices.
- 2.8 This TC is aligned with the IDB Group Country Strategy (CS) 2017 – 2021 for Haiti (GN-2904)¹, pursuing its main objective of contributing to higher and more sustainable growth, supporting the Government's goals of expanding and sustaining public investment, which should come through the strengthening of institutional capacity in the public sector. This TC aims at fulfilling one of the main strategic priorities determined in the CS: strengthening government capacity to increase fiscal sustainability. Additionally, also established in the CS, this TC will tackle climate change resilience as a cross-cutting theme facing SOEs in the fiscal development process of their productive activities. Furthermore, this TC is aligned with Haiti's Post-Covid Economic Recovery Plan 2020-2023 (PREPOC) objective of achieving stabilization of the macroeconomic framework through the strengthening of administrative, economic, and financial governance.
- 2.9 **Coordination and synergies.** This TC is a unique contribution towards efforts of international cooperation in Haiti to strengthening the country's fiscal management. The team conducted preliminary meetings with Canada, the World Bank, and the International Monetary Fund (IMF) on topics related to Haiti's fiscal management and sustainability to ensure coordination and synergies with the objectives of this TC. In specific, there has been a close review of project implementation and results, including the Program for the Support of Mobilization of Tax Revenues (PAMREF) through

¹ The Country Strategy (CS) 2017 – 2021 for Haiti (GN-2904) remains in force until an updated CS is approved.

Canadian funds, and the preparation and adoption of a new Tax Code (*Code general des impôts*) and Tax Procedure Code (*Livre de procedure fiscale*), led by the IMF.

III. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET

- 3.1 **Component 1. Deepen and update the diagnostics of the current state of the governance and investment frameworks of the State-Owned Enterprises (SOEs) (US\$200,000).** This component aims to improve the fiscal management and investment frameworks of State-owned enterprises in Haiti through an enhanced understanding of the practices, rules, and procedures that govern them. This shall be done through: (i) the mapping and categorization of SOEs to review their impact on the fiscal sustainability and economic development; (ii) analysis of the governance and management structure of the SOEs; and (iii) an assessment of the investment frameworks for SOEs and their fiscal implications.
- 3.2 **Component 2. Analysis and evaluation of the design and management of the fiscal regimes of SOEs productive activities in Haiti and their implications for fiscal sustainability (US\$200,000).** This component aims to increase control and efficiency over SOEs' investments in the extraction of materials, production of goods and provision of services. This shall be accomplished through: (i) the diagnosis of the fiscal regimes applicable to SOEs productive activities in Haiti (including, but not limited to, extractive industries); (ii) the exploration of the fiscal risks and opportunities associated with SOEs' productive activities, in a scenario of increased action against climate change; (iii) ; and (iv) the design of a policy roadmap draft and action plan for the improvement of governance and investment frameworks of SOEs and their fiscal impact; and (v) the design of a framework draft for SOEs' engagement in more climate-friendly operation models.
- 3.3 **Component 3. Production of knowledge products, dissemination of results, and training (US\$100,000).** This component aims to disseminate the findings of the previous components, and draw lessons learned and best practices, from national and international cases, with the potential to be replicated by Haitian SOEs and the Government of Haiti. This shall be achieved through: (i) the publication and dissemination of technical documents; (ii) the implementation of intersectoral coordination activities; (iii) a workshop / training activity in each of the areas of intervention proposed in previous components to be coordinated with the MEF during the execution of this TC; and (iv) exchange of best practices at the national level, (v) preparation of knowledge products focused on analyzing best practices in countries with successful SOE management, that can serve as a benchmark for the Haitian case.
- 3.4 The total cost of the TC is US\$500,000, which will be financed by the Bank with resources of the OC SDP Window 1 - Operational Capacity and Policy Dialogue for OC-concessional eligible countries, W1D.

Indicative Budget (US\$)

Activity / Component	Description	IDB/Fund Funding	Total
Component 1	Deepen and update the diagnostics of the current state of the governance and investment frameworks of the State-Owned Enterprises (SOEs).	200,000	200,000

Component 2	Analysis and evaluation of the design and management of the fiscal regimes of SOEs' productive activities in Haiti and their implications for fiscal sustainability.	200,000	200,000
Component 3	Production of knowledge products, dissemination of results, and training.	100,000	100,000
Total		500,000	500,000

IV. Executing agency and execution structure

- 4.1 At the request of the Government of Haiti, this TC will be executed by the Bank through the Fiscal Management Division (IFD/FMM) for a period of 36 months. This is in line with the Procedures for Processing of Technical Cooperation Operations (OP-619-4; Annex II-2.2) in terms of recognition of the highly specialized technical, methodological and conceptual knowledge that the study topics require, as well as the need to know best international practices in the matters addressed by the TC, taking into account that the Bank has the technical experience, networks of experts and knowledge of experiences that justify said request, as well as greater agility in the process of contracting consulting services, justifications contemplated in OP-619-4. The IDB's Country Office in Haiti (CID - Isthmus & DR) in close collaboration with the Fiscal Management Division (IFD/FMM) will have technical responsibility for the execution of the TC. The designated focal point with responsibility for executing this TC will be the Lead Sector Specialist in IFD/FMM. The IDB team will lead implementation, oversight of TC activities and coordination of results with authorities in Haiti. IFD/FMM will be responsible for procurement of required services.
- 4.2 All activities will be executed in accordance with the Bank's established procurement policies as follows: (i) individual consultants, as established in the document AM-650 - Complementary Workforce; and (ii) logistic services and other services other than consulting, according to the Corporate Procurement Policy (GN-2303-28).
- 4.3 The activities of the components of this TC will be closely monitored and coordinated by the FMM specialists in the Bank, who will evaluate (i) the alignment with the objectives of the TC; and (ii) the impact and additionality with the program in the Ministry of Finance of Haiti. The evaluation results will be put together as technical evaluation notes and reports. The Bank and the MEF will coordinate on the activities contemplated in this TC.

V. Major issues

- 5.1 The main risk associated to this TC is the eventual discontinuation of the implementation of government's initiatives due to domestic political changes. Similarly, difficulties to hire national and international consultants might arise due to the current context. Eventual protests and turmoil may cause interruptions in the execution of the TC's components. Additionally, institutional weaknesses could delay execution of some of the planned activities, and potential personnel turnover may generate lack in ownership of the program. Finally, data about SOEs may not be readily available to collect for the preparation of data base, or the quality may not be the desired one, which may be a cause for the delays. To mitigate this risk the Bank will continue to support the technical capacity of the staff of the MEF through the activities contemplated in components 2 and 3 of this TC. .

- 5.2 Any studies report or other knowledge products or otherwise, prepared as stated in the Procurement Plan (Annex IV) shall belong to and remain the property of the Bank. All intellectual property rights in the outputs produced under this TC are vested in the executing agency, the IDB' Fiscal and Municipal Management Division (IFD/FMM). However, a license to use these products will be granted to the Government of Haiti, when applicable.

VI. Exceptions to Bank policy

- 6.1 There are not exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client - HA-T1311](#)

[Results Matrix - HA-T1311](#)

[Terms of Reference - HA-T1311](#)

[Procurement Plan - HA-T1311](#)