

ECONOMIC AND SOCIAL ASSISTANCE FUND

(HA-0037)

EXECUTIVE SUMMARY

BORROWER AND: Republic of Haiti
GUARANTOR:

EXECUTING AGENCY: Fonds d'assistance économique et sociale [Economic and Social Assistance Fund] (FAES)

AMOUNT AND SOURCE: IDB: US\$27 million
Local contribution: US\$ 3 million (The Government of Haiti is negotiating up to US\$4 million in financing from the OPEC Fund, which, if finalized, would be considered part of the local counterpart contribution under the project component. Under its agreement with OPEC, the Bank would sign a parallel agreement for administration of such funds.)

Total: US\$30 million

FINANCIAL Amortization period: 40 years
TERMS AND Grace period: 10 years
CONDITIONS: Disbursement period: 3 years
Interest rate: 1% first 10 years
2% thereafter
Inspection and supervision: 1% of the loan
Credit fee: 0.75%

OBJECTIVES: The objective of the program is: (i) to improve the quality of life for the poorest and most vulnerable segment of the population by financing the execution of small projects; and (ii) to strengthen grassroots groups, nongovernmental organizations (NGOs), municipalities, and cooperatives to enable them to participate actively in local development.

DESCRIPTION: For the second phase, it is proposed that the two existing components continue: (1) an investment component to finance projects (costing on average no more than US\$75,000) for economic and social infrastructure that will have an immediate positive impact on the living conditions of the population living in extreme poverty; (2) an institutional development component to:

(i) assist grassroots organizations, NGOs, and municipalities in preparing proposals;

(ii) provide training in all phases of the project cycle, with special emphasis on operation and maintenance of infrastructure facilities;

(iii) implement an impact monitoring and evaluation system; and

(iv) conduct a study to define the future role of the FAES as an instrument of government.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of February 29, 1996, classified this project as a Category III operation.

BENEFITS:

The capacity of the FAES to respond to the strong demand for economic and social infrastructure works on the part of communities and grassroots organizations make the FAES a key institutional vehicle while the government sets its new social strategy. The FAES is contributing to poverty alleviation during the present economic crisis and the adjustment reforms in the face of current obstacles to any significant improvement in the short term in the capacity of the line agencies and local governments to meet the needs of the poorest strata of the population.

The FAES is an efficient, transparent mechanism to channel resources to the poorest communities in the country. It also contributes to strengthening the active participation of local community organizations in rural development, which supports the mandate of the government to implement the decentralization process.

There is a high degree of community approval with respect to the projects carried out by the FAES, which has helped spontaneously generate considerable additional demand for other communities and types of projects. The FAES will benefit the most disadvantaged segments of the population through approximately 550 small projects, thereby potentially reaching up to an estimated 20% of the Haitian population.

RISKS:

One of the main challenges to be overcome is the communities' limited project preparation capacity, especially in the geographical areas where poverty is most extreme. In addition, weakness is evident in ensuring project sustainability. Furthermore, the government has not yet defined its social strategy

and the respective role of the FAES. Another important consideration is the risk of possible delays in ratification of the program by parliament, which would paralyze the FAES for lack of resources.

To address these problems, in the second phase, the FAES will: (i) provide technical assistance and training to the beneficiary grassroots organizations and communities and intermediary agencies; (ii) enter into agreements with the sector line institutions for support for project maintenance and operation; (iii) conduct annual evaluations of the program throughout its execution in order to review its achievements and take any necessary corrective measures; (iv) promote reflection by the government on the future role of the FAES in its social strategy as an instrument of government; and (v) hold information meetings for parliamentarians on the achievements of the program in order to facilitate its consideration.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

One of the chief objectives of all Bank projects in Haiti is to attack the problems associated with the extreme poverty prevailing in the country. The Bank's operations have a twofold objective: first, to finance activities with a direct impact on employment and incomes and will provide the key elements for reactivation of the economy, and second, to rehabilitate the basic infrastructure. This implies financing programs designed to reduce the structural aspects of poverty and to provide social services that are currently deficient. In this connection the Bank has various key operations under preparation for the period 1996-1997, in such areas as sector investment, municipal development, basic education, health sector reorganization, water supply, agriculture sector modernization, energy, drainage, and rural infrastructure.

The Bank's strategy is based on four specific elements: investment in human capital (improvement of living conditions); institutional strengthening; private sector development; and cofinancing and its complementarity. The second phase of the financing of the FAES is part of the Bank's strategy as a measure for (i) coping with the expected structural adjustments - the Enhanced Structural Adjustment Facility (ESAF), Structural Adjustment Credit (SAC), and Investment Sector Loan (ISL) - which include economic policy and institutional reforms; and (ii) provide basic services to the poorest segment of the population.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement

The updated Operating Regulations shall enter into force (paragraph 3.16).

A promotion plan, first agreed with the Bank, shall be adopted and will include, among other things: (i) the strategy to be implemented to improve the geographical and sector distribution of FAES assistance; (ii) identification of the institutions that could cooperate with the FAES to facilitate the promotion work; and (iii) the activities planned to provide support for communities, municipalities, and/or NGOs that have submitted applications to the FAES but need technical assistance for project preparation (paragraph 3.18).

Special clauses

The borrower, through the executing agency, shall submit to the Bank, within six months after the effective date of the loan contract: (i) the agreements entered into with the Ministries of Health, Education, Agriculture, the Environment, and Transportation and Public Works, and with the SNEP, the content of which shall have been previously agreed upon with the Bank prior to consideration of the proposal by the Board; (ii) the indicators that will serve as a basis for implementation of the impact monitoring and evaluation system; and (iii) the terms of reference for the consultants who will conduct the annual evaluation and draw up the indicators to be used for the monitoring and impact evaluation system (paragraphs 3.15 and 3.32).

Within six months after the effective date of the loan contract, the FAES shall hire the additional staff necessary for starting the second-phase activities: three evaluators (agriculture/environment, health/nutrition, for eligible projects), four experts in control and monitoring, one accountant, one internal auditor, and one specialist for implementation of the impact evaluation system (paragraphs 3.8, 3.11 and 3.21).

Within nine months after the effective date of the loan contract, the FAES shall retain: (i) the consulting services required for implementation of the impact monitoring and evaluation system; and (ii) the consultants to conduct the annual evaluation.

Every 12 months after the program has been declared eligible for disbursements, the FAES, in conjunction with the Bank, shall conduct an annual evaluation of the operation. The evaluation will consist of: a review of the FAES and its organization, in terms of the achievement of its objectives and its operation, the application of the operation regulations, the volume and quality of the projects executed, the timely achievement of the efficiency benchmarks, and any adjustments that may have been made (paragraphs 3.32 and 3.33).

A study shall be conducted on the future role of the FAES as an instrument of the State in the implementation of the social strategy. The terms of reference for this study shall be previously agreed upon with the Bank within 24 months after the first disbursement. This study will be a condition for any additional financing for the FAES (paragraph 2.14).

POVERTY TARGETING: The program is consistent with the goals of social reform and poverty reduction set forth in the document on the Eighth General Increase in the Resources of the Bank, since its investments geographically target the rural communities in the poorest areas of the country and a large majority of the direct beneficiaries (over 80%) will be low-income groups.

**PROCESSING
PROCEDURE:** In accordance with Part III, Section 2(a) of the Regulations of the Board of Executive Directors, this operation is to be submitted to the Committee of the Whole for consideration.

I. FRAME OF REFERENCE

A. Introduction

1. Economic developments

- 1.1 Since the restoration of the constitutional government in Haiti on October 15, 1994, important steps have been taken for the transition to democracy, such as abolition of the army, creation of a national police force, restoration of the Congress with election of its members, the election of mayors, and presidential elections. In the economic sphere, measures have been taken that led to the opening up of the economy and improved tax collection, with the introduction of certain policies, reform of the import tariff system, the lifting of the quantitative restrictions on imports, and the elimination of oil subsidies. A modest reactivation of the assembly industry took place in 1995, although it is still operating at levels below those posted in 1991. These achievements are significant if the political and social context from which Haiti has recently emerged is borne in mind.
 - 1.2 As of the end of 1995, the Haitian economy posted 4.5% increase in gross domestic product (GDP), which was not sufficient to offset the 30% drop in GDP recorded in 1994 compared with 1991. Per capita income in 1995 was an estimated US\$260, with the figure being lower in rural areas. The central government incurred a deficit of 5.8% of GDP, although it posted a 200% increase in total revenues thanks to the improvements in the tax and customs administrations. However, expenditures rose from 9% to 14% of GDP in 1995, thus causing the deficit. According to estimates based on Central Bank reports, inflation in 1995 was 27%. Since the economy has not recovered, unemployment remains an extremely acute problem, being the reason for the extreme poverty afflicting the great majority of the population.
 - 1.3 In April 1996, the government of President Préval, who took office in February of this year, reopened the dialogue with the International Monetary Fund (IMF), the World Bank, the IDB, and the European Community on its fiscal, economic, and sector reform programs (ESAF, SAC, ISL, and the second tranche of the health and education SAC of the European Community) with a view of reversing the economic crisis. Concurrently with the economic stabilization and structural reform process, the government will continue implementing poverty-alleviation programs that were launched in the past 15 months under extremely difficult conditions. The FAES is one of those programs.
- #### **2. Social sectors and government strategy**
- 1.4 The government is working on rebuilding the State and the civil service after the four-year trade and political embargo. This

means formulating the different sector strategies and policies and instituting the necessary reforms of their legal frameworks. The strategies and policies for the following sectors are currently being developed: education, health, water supply, decentralization, and modernization of government enterprises. Reforms are being made in the civil service and public administration, the financial and budgetary system, and in the legal system. All of these areas are crucial for the State, the country's economy, and Haitian society at large.

- 1.5 In this context of transformation, the FAES acts as a catalyst for State activities, responding rapidly in the provision of basic services for the poorest population. The FAES was originally conceived as a transitional means of offsetting the impact of the structural adjustments. However, considering the current institutional situation, the country's history, the FAES's achievements during phase one, and the experiences of social funds in other countries, the FAES clearly constitutes the ideal institutional vehicle to implement the medium-term social strategy. This final decision by the Haitian government will therefore have to be based on the evaluation of the impact of phase two of the FAES, a study on the future role of the FAES, and the social strategy eventually defined.
- 1.6 Haiti has historically had the lowest social indicators in the Americas. Since the 1991 coup d'état, the situation in the social sectors has deteriorated severely. Some 65% of the urban population and 80% of the rural population are living in absolute poverty, despite the efforts made since the return to democracy and constitutional government. The situation of the various social sectors is discussed and their main indicators shown in Annex III, together with FAES activities in those sectors during phase one. Clearly, the results achieved through the FAES would have been impossible given the current state of government institutions, which are in the process of transformation and defining their mandates as a result of the modernization and decentralization embarked upon.

3. Public spending in the social sectors

- 1.7 Over a four-year period, from 1990/91 to 1994/95, public spending on education varied from 1.32% to 1.78% of GDP. The total volume of spending on education represented almost 14% of the budget. Between 1990/91 and 1995/96 the proportion of public spending on education rose from 19% to 23%, reflecting the priority assigned by the government to this sector. The budget for 1995/96 submitted by the Ministry of Education to the Ministry of Finance is US\$93 million, 41% of which is for operating expenditures. In addition to the government budget, the public education system is funded by a per-family contribution averaging from 1,217 gourdes in rural areas to 2,140 gourdes in urban areas for the primary level. The average amount per family paid for the secondary level ranges

from 991 gourdes in rural areas to 1,288 gourdes in urban areas. Family contributions to the cost of public education are thus greater (approximately double) than the state education budget.

- 1.8 Over the four-year period from 1990/91 to 1994/95, public spending on health ranged from 1.1% to 0.7% of GDP. In monetary terms, it varied from US\$20.7 million in 1990 to US\$17.7 million in 1995. Private spending on health is difficult to calculate accurately, but is generally estimated at equal to or higher than public spending. The contribution of international cooperation to the health sector varied from US\$23 million in 1990 to US\$52.9 million in 1995, with the latter figure representing 75% of total expenditures on health in 1995. It is important to note that during the political crisis of 1991-94 the international funding was channeled solely to the NGOs in the context of humanitarian aid. The absorption capacity for resources through the public sector has been very limited up to this point.

B. Economic and Social Assistance Fund (FAES)

1. Background

- 1.9 The FAES was created by Presidential Decree in June 1990, and placed under the oversight of the Ministry of the Economy and Finance. It is an administratively and financially autonomous institution, established for a set period, which engages in the financing of projects but not their execution. The purpose of the FAES is to finance small projects designed to provide low-income communities with physical infrastructure and basic social services. The menu of projects offered by the FAES includes five categories of project types: (i) education; (ii) health; (iii) sanitation infrastructure; (iv) rural economic infrastructure and environmental improvement; and (v) other types of projects. The bulk of the resources have been used for social infrastructure projects - health and education. The ceiling set per project by the operating regulations is US\$75,000, with execution not to exceed six months. The projects are prepared by communities, grassroots organizations, municipalities, and other NGOs.
- 1.10 The Bank financing was approved in March and the contract signed in April 1991 for US\$12.4 million. The World Bank participated with parallel cofinancing of US\$11.6 million. The total amount of the program is US\$23.9 million. The execution period was estimated at four years with the financing of approximately 300 projects. The FAES, as a new institution, spent the first six months of its existence in 1991 on preparing its operations manual, hiring personnel and evaluating projects. These initial activities were funded with IDA/PPF resources because parliamentary ratification of the IDB loan did not take place due to the September 1991 coup.
- 1.11 With the return to constitutional government, parliament ratified the financing of this operation in February 1995 and the conditions

precedent were met in April. Local counterpart funding was waived for all Bank operations as an emergency measure following resumption of lending to Haiti. Preparatory work for reactivation of the FAES was done in the preceding six months, starting in November 1994, with the hiring of consultants (former FAES staff) to add to and update the pipeline of microprojects.

2. Financing and use of resources

- 1.12 The first-phase program comprised three major categories: (i) US\$20 million to finance the execution of small projects that would benefit the most vulnerable population groups; (ii) US\$3.1 million for general support, staff salaries, administrative expenses, consulting services, and other inputs for the technical assistance needed for the FAES to be able to perform its function; and (iii) US\$815,000 for contingencies and finance charges on the loan. The FAES has not received any additional resources.
- 1.13 Of the IDB financing, US\$9.3 million has been committed and US\$8.3 million disbursed. Of the latter amount, US\$6.2 million was charged against the project component, with an advance of funds of US\$2.1 million still to be justified, the bulk of which will be assigned to the project component. The equivalent of US\$842,042 has been earmarked for operating costs, equipment, and vehicles, and US\$43,083 for institutional strengthening activities and short-term consulting services. Of the World Bank funds, US\$4.8 million has been committed and US\$1.7 million disbursed. Only US\$40,000 has been used for operating costs since these are being covered by the IDB financing. The balances remaining in this category will be used in the second phase of the program.
- 1.14 In the first year of execution, the operating coefficient (operating expenditures as a percentage of expenditures for projects) was less than 8%. This ratio is comparable to those in other social funds partially financed with IDB and World Bank funds. A similar percentage has been allowed for the second phase.

3. Scope of the program

- 1.15 FAES operations have revolved around projects in three areas:
- (i) Social infrastructure. Rehabilitation of schools, health centers, water supply, and sanitation systems.
 - (ii) Production infrastructure. Construction and rehabilitation of small markets, irrigation systems, secondary road rehabilitation.
 - (iii) Social welfare. Nutrition and health programs for preschool children, pregnant women and children,

furniture and supplies for schools and health posts, training for health personnel, literacy work.

- 1.16 The following table shows the breakdown of projects approved to date by type of projects.

TYPE OF PROJECT	NUMBER OF PROJECTS	AMOUNT (US\$'000s)	% OF TOTAL	AVERAGE COST
Social infrastructure	193	8,908	61	46,842
Economic infrastructure	87	4,076	28	46,173
Social welfare	80	1,291	11	16,131
TOTAL	360	14,275	100	

- 1.17 Although the figures show a very high percentage during the first year of operation, it is important to note that, as an emergency measure during the first months of reactivation of programs in Haiti, the subcontracting of FAES-IDB resources to three NGOs was authorized, and the FAES was not actively involved in the promotion, evaluation, or supervision of those projects. The NGOs in question were the Pan American Development Foundation (PADF)/PL480; the Centre de Développement de la Santé [Health Development Center] (CDS) and the Cooperative Housing Foundation (CHF). These NGOs absorbed US\$6.3 million to finance 134 projects. The three subcontracts were executed and disbursed in full.

- 1.18 The PADF, which was the NGO that absorbed the largest amount of funds (US\$4.5 million), operates in a manner similar to the FAES, being an intermediary for resources with a network of about 50 national NGOs. The 89 projects executed by the PADF were designed to support the temporary employment generation program, which concentrates on labor-intensive works carried out on a cofinancing basis with United States Agency for International Development (USAID) project PL480. These projects generated work for 199,365 persons/month, 25% of whom were women, and included rural road rehabilitation, erosion control, and irrigation infrastructure rehabilitation. ^{1/} The CDS absorbed US\$1 million of FAES resources, which was spent on projects for sanitation, cleanup, and worker vaccination in Croix de Bossales, Dessalines and La Saline,

^{1/} The FAES financing supplemented the payment of daily wages as a result of the raising of the minimum wage, which made it necessary to cut the PADF program goals back. Wage costs represented 70% of the funds allocated to the projects. The evaluation of the PADF program put the internal rate of return at 58%, contributing to food security, rehabilitation of rural infrastructure, and preservation of the environment.

three Port-au-Prince slums. The CHF financed 24 projects using US\$500,000 in FAES resources in the same area, for trash collection and labor-intensive use of area residents.

1.19 During this time the FAES hired the necessary personnel, developed policies and operating procedures, and established the information system. It was assisted in this by a specialist in funds and another in information systems, both financed by the Swiss Fund. It also evaluated approximately the first 105 projects considered strictly "FAES projects". Between October 1995 and March 1996 the pace of evaluation reached a sustainable volume of some 36 projects per month. During this period the FAES conducted evaluations and committed US\$6.5 million equivalent to projects and disbursed US\$2.2 million. Bottlenecks developed between the approval and execution phases of works owing to the lack of mail service and means of communication for conveying information to beneficiaries and contractors so that agreements and contracts could be entered into. The promotion plan prepared on a preliminary basis proposes measures to remedy this situation, such as use of radio and identification of contacts with beneficiaries in Port-au-Prince. It also became apparent that the staff of the Control and Monitoring Department would have to be increased.

1.20 At this time the FAES pipeline consists of 3,130 project applications for an estimated total cost of US\$113 million, 84 projects totaling US\$4 million equivalent at the evaluation stage, 57 approved projects, and 145 under execution, while 158 projects have been completed (see Annex I). Analysis of the FAES' sustainable capacity shows its evaluation rate to be an average of 36 projects per month, representing approximately US\$1.5 million. It is expected that the funds intended for financing World Bank projects (US\$10 million) will be fully committed as of the third quarter of 1996, which means that provision of additional resources for the FAES is vital if the consideration of new projects is not to be brought to a halt.

4. Evaluation of phase one

1.21 To ascertain the results and impact of FAES activities, international and national consultants were retained at the end of 1995 to conduct an institutional and operational evaluation of the period 1994-95, based on a sample of all FAES projects completed as of November 1995 (27 projects) broken down by geographic area. The work carried out by the three NGOs referred to above (134 projects) was also evaluated, drawing in part on the evaluation/audit performed by USAID in the case of PADF and CHF. The evaluation covers 75% of the resources of the IDB component for project funding. On the basis of the findings of these and earlier evaluations, the following important conclusions can be drawn:

- a. **Targeting:** The projects generated by the FAES have been concentrated in the West, Artibonite, and South departments. The projects executed through the agreement with the PADF reached all the departments in the country, while those carried out through the CDS and CHF were concentrated in Port-au-Prince slums. During phase one, the fund responded to spontaneously generated demand. The concentration of its projects in three of the country's nine departments reflects, on the one hand, the better project preparation capacity of the community organizations and NGOs there, and on the other, the greater ease of access to those departments due to the shorter distances and considering the deficiencies of transportation and infrastructure. Accordingly, the FAES is taking steps to target the pockets of greater poverty. A poverty map was recently prepared with the assistance of the University of Quisqueya.

Based on this poverty map, a promotion plan will be completed aimed at strengthening and expanding the FAES's capacity to target the areas of the country where poverty is most pronounced and to reach those geographic areas it has not yet been able to. The promotion plan will include utilization of NGOs, professionals, universities, or other institutions that can help the communities and grassroots organizations prepare projects. The plan will have three main objectives: (i) to reach the areas of greatest poverty; (ii) to achieve greater diversification in the types of projects; and (iii) to increase demand in very remote areas, setting targets as tentative indicators. The plan will include training of FAES promotion staff and also of possible external promotion officers. The promotion plan is to be submitted to the Bank as a condition precedent to the first disbursement (see Executive Summary).

- b. **Prioritization and representativeness of the communities:** Of the 3,130 applications submitted directly to the FAES, 1,175 are from rural associations or communities, 71 from NGOs, 107 from ministries/municipalities, 151 from religious institutions, and the rest from a variety of other organizations. To date, the FAES has concentrated on working with community representatives in preparing projects. The service contract is signed by the FAES, the community representative, and the contractor. The FAES has a list of 150 contractors. Small firms and/or individual technical specialists supervise the works. FAES technical specialists visit the projects at the start, during the execution, and upon completion of the works and/or activities. Among government agencies, the Ministry of Education and the MTPTC are the most involved in coordination and supervision of activities. Community participation has been concentrated primarily on project identification and acceptance of the works once completed. In phase two, the beneficiaries and communities

will participate more extensively in the entire project cycle, especially in the operation and maintenance of the works and projects, the design of which will include a training component.

- c. **Project cost:** The average cost of the projects is below the ceiling set by the Operating Regulations (see Annex I).
- d. **Sustainability:** The works consist basically of rehabilitation of schools for which sufficient personnel, teachers, and equipment will be available for proper operation of the projects. In some cases, the projects include an additional component for providing the schools with furniture. The line ministry, NGOs, religious groups, or communities sign an agreement with the FAES at the time of acceptance of the works or project, under which they assume responsibility for their maintenance and/or operation. There are in fact problems with maintenance as regards training and coordination with the ministries. The FAES is accordingly going to sign agreements with NGOs, universities, or other institutions with experience in training grassroots communities in the operation and maintenance of water, sanitation, and irrigation projects during the first stage of the FAES. Moreover, in the second stage training in the use and maintenance of the works will be included as an intrinsic part of the projects.
- e. **Technical evaluation of the projects:** The FAES-financed projects meet general eligibility criteria and technical criteria for each type of project, depending on the sector involved. The general criteria FAES projects have to meet are that: (i) they must benefit low-income groups, (ii) their technical feasibility must be verified; (iii) their cost must be reasonable in accordance with the parameters set for the different sectors and their total cost must not exceed US\$75,000; (iv) they must be a priority for the beneficiary communities; (v) there must be appropriate arrangements for their operation and maintenance; and (vi) they must either have no adverse impact on the environment or else measures to mitigate any such impact must be proposed.

The technical evaluations are verified in the field by means of visits by FAES personnel to the projects. A part of this evaluation is a comparison of the unit costs of the proposed works with the benchmark prices set by the FAES, which are regularly revised. After the embargo it was difficult to establish clear unit prices because of major fluctuations in certain costs. A consultant was hired to conduct a global review of unit costs at both the national and regional level, and the resulting updated costs are those normally used.

Thirteen projects in the sample were found to need supplementary works, based on amended contracts, to include basic services in the schools, such as latrines and drinking water.

- f. **Physical quality of the works:** The evaluation of the physical infrastructure of the projects completed in November 1995 concluded that the quality of the works was in accordance with the technical parameters set. Certain deficiencies in construction were corrected in accordance with the FAES technicians' recommendations, which raised concern about the weakness of the services of the supervisory firms. The FAES held orientation meetings with the supervisory firms in order to improve the quality of the supervision.
- g. **Contributions by beneficiaries:** As already noted, 673,356 persons have been benefited from the program and community participation has been strong, with contributions totalling 4.8 million gourdes having been made to the projects, chiefly in materials and money. Although the contributions were considered greater than this, the program did not systematically record the amounts. In phase two, such contributions will be quantified.
- h. **Management of the project cycle:** The weaknesses detected that could become bottlenecks were the need to strengthen the Control and Monitoring Department because of the rapid increase in the number of evaluated projects that are moving into the next phase and the need to strengthen and make changes in the Finance and Accounting Department. These recommendations have been partially implemented. The FAES is in the process of identifying the additional staff needed to strengthen the Control and Monitoring Department. As for the Finance and Accounting Department, changes in staffing have been made, international advisory services have been hired to provide technical support, computer systems have been introduced, and the accounting records have been updated.
- i. **Interagency coordination:** The consultation mechanisms are functioning with the various line ministries (education, health, and the SNEP), which are applying the eligibility criteria agreed upon. These mechanisms will be formalized through agreements to be entered into with the Ministries of Education, Health, the Environment, and Agriculture, the MTPTC, and the SNEP, as a special condition for the first disbursement. The draft agreements are to be submitted to the Bank prior to presentation of the program to the Board of the Executive Directors of the Bank (see Executive Summary).

Agreements have been signed with the United Nations Children's Fund (UNICEF) for the execution of vaccination programs, and

with OPS for the execution of projects in the north of the country where that agency has an executing unit. This helps identify, prepare, supervise projects in the high-priority, very remote region. Additional agreements are possible with other agencies such as the World Food Programme (WFP) for the execution of nutrition programs in order to ensure that the activities being carried out are mutually complementary and that technical support from specialized agencies is provided. These efforts have a multiplier effect in achieving impact and benefits, as well as improving technical quality in project implementation.

- j. **Participation of women:** Women have been observed to participate mainly in project promotion, monitoring, and in operation and maintenance. Through NGOs and other types of organizations women also play prominent role in project preparation, especially in the social sectors.

1.22 The Bank has been closely monitoring the execution of the first stage of the program by means of field visits and joint working sessions with the World Bank for program supervision. The Bank financed technical cooperation operation ATN/SD-4903-HA in May 1995 to assist the FAES in developing policies, procedures, and information systems, as a result of which two international consultants have worked in the FAES in these areas. In addition, an intraregional technical-cooperation (CT INTRA) operation was funded to familiarize FAES staff with the comparable Ecuadorian Fund, while technical staff from that fund visited Haiti and helped with improving the information systems. Institutional support has also been received in financial and accounting management and in revision of the benchmark cost system.

1.23 In short, the FAES has had a significant impact in the disadvantaged regions and communities, the number of persons benefited being 673,356, a large proportion of whom are women and children. It has also benefited some 150 small contractors and professionals who have worked on execution and supervision of the works. The full amount of the IDB program funds was committed in one third of the time originally planned, the loan having been declared eligible in April 1995. The pace of disbursement and execution can be explained by the simple nature of the projects, efficient administration by the FAES, and participation in the opening phase of the first stage by three major intermediary NGOs whose projects were primarily designed for employment generation and labor-intensive works. Although the experience gained and the results posted are considered highly positive, this subcontracting mechanism would not be used in the second stage. On the basis of the evaluations and audits performed, the resources are considered to have been managed transparently and in accordance with the program Operating Regulations.

C. Other programs

- 1.24 Other poverty-alleviation programs that complement the FAES' activities are also under way, the following being particularly noteworthy: (i) The USAID/PL480 employment generation program, for US\$32 million, to which the FAES contributed, with financing from the PADF and CHF has been completed; (ii) The IDA employment generation program, for US\$50 million, started in September 1995 with a scheduled duration of 18 months and designed to create temporary employment, is being executed through the PADF, with an initial budget of US\$31 million, and is a continuation of the USAID program; (iii) IDB Emergency and Economic Recovery Program II, for US\$46 million, recently approved and distinct from the FAES program, finances projects of amounts between US\$200,000 and US\$1 million in infrastructure, agriculture, and energy, and also rehabilitation of government buildings, which have been identified by the line ministries and are being executed with the private sector. Execution of these projects will contribute to economic reactivation through repair of port facilities, power generation in mid-sized cities, coffee production, and rehabilitation of the Customs and Tax Department buildings, among others.
- 1.25 The European Union has a microproject program (PIU) for approximately US\$5 million, under which the projects have been practically all completed and the funds almost fully disbursed. The Canadian International Development Agency (CIDA) is funding small projects through Canadian NGOs in the amount of approximately US\$1 million per year. Finally, the Small Projects Program of the Office of the President has been completed, while the Repatriation Program of the International Migration Organization (IMO) will run through October 1996 with funding of US\$900,000. This program has concentrated on reintegrating Haitian returnees from Guantanamo and neighboring islands and training the soldiers of the former Haitian army by means of training programs, small employment-generation projects, and civil education. International assistance for these programs has been gradually declining.

D. The Bank's operating strategy in Haiti

- 1.26 The Bank's strategy, as set forth in the October 1995 country programming paper, is based on four specific points: investment in human capital (improvement of living conditions), institutional strengthening, development of the private sector, and cofinancing and its complementarity. Phase two of the FAES is part of the Bank's strategy as a temporary measure in response to the expected structural adjustments (ESAF, SAC, and ISL), which include economic policy and institutional reforms.
- 1.27 One of the main objectives of the Bank's projects is to attack the problems associated with the extreme poverty prevailing in Haiti. The Bank's operations have a twofold aim: to finance activities that will have a direct impact on employment and incomes and which

will also provide the key elements for economic reactivation and rehabilitation of basic infrastructure. This implies financing programs designed to correct the structural aspects of poverty and to provide social services that are currently deficient. In this connection, for the period 1996-1997, the Bank has a number of key operations under preparation in the following areas: investment, municipal development, basic education, health sector reorganization, water supply, agriculture sector modernization, energy, drainage, and rural infrastructure.

- 1.28 The economic obstacles to any significant short-term improvement in the capacity of the line agencies and local governments to enable them to meet the needs of the poverty-stricken population, combined with the strong demand for economic and social infrastructure works from the communities concerned, justify the government's request for continuation of the program with a second phase. The government does not yet have a social strategy, but is making progress in the formulation of strategies for individual sectors (health, education, water supply), together with policy-setting on decentralization and reform of public administration. The Bank is assisting the government in all these areas. The FAES can serve to attract donor resources to organize projects being carried out in the country for the provision of basic services to the communities. At the present time the French Agency for International Cooperation, OPEC Fund, and the World Bank are assessing the possibility of channeling resources through the FAES.
- 1.29 The proposed operation is based on the need to continue supporting the national efforts to mitigate the impact of the economic crisis. This action is being converted into a technical, operating, and financial instrument which - duly coordinated with the respective ministries and institutions - will make it possible to achieve: (i) equity, by targeting the poorest population groups; (ii) efficiency, through technical control of the project cycle and rational resource use; (iii) social relevance, through promotion of human development and community participation in the demand for social services; and (iv) financial sustainability, with beneficiary participation.

II. THE PROGRAM, ITS COST AND FINANCING

A. Objective

- 2.1 The objective of the program is: (i) to improve the quality of life for the poorest and most vulnerable segment of the population by financing the execution of small projects; and (ii) to strengthen grassroots groups, NGOs, municipalities, and cooperatives, to enable them to participate actively in local development.

B. Description

- 2.2 For the second phase, it is proposed to continue the two initial components: (1) an investment component to finance economic and social infrastructure projects (costing on average no more than US\$75,000) that will have a positive impact on the living conditions of the population living in extreme poverty; (2) an institutional development component to: (i) assist grassroots organizations, NGOs, and municipalities in preparing proposals; (ii) provide training in all phases of the project cycle, with special emphasis on the operation and maintenance of infrastructure works; (iii) implement an impact monitoring and evaluation system; and (iv) conduct a study to define the future role of the FAES as in instrument of government.

C. Program components

1. Projects

- 2.3 This component comprises the financing of projects for small-scale infrastructure facilities and to train communities in the operation and maintenance of these facilities. The purpose of the program-financed projects will be to support the delivery of basic services in education, health, water supply, and environmental sanitation. They must have an immediate impact in terms of improving the living conditions of the poorest segments of the population. Projects eligible for financing from the Bank-funded FAES program will be primarily in the following categories:

a. Education

- 2.4 This line of projects includes equipment, provision of teaching materials, rehabilitation, expansion or replacement of preprimary and primary schools, together with teacher training in rural areas, literacy work and training of communities in facility operation and maintenance. Financing will be provided for classrooms, school cafeterias, sanitary facilities, libraries, administrative offices, and small outdoor recreation areas.

b. Health

- 2.5 The health projects will be designed to strengthen the primary health care system (health posts and centers). They will include the financing of: (i) works for rehabilitation, expansion, and new construction for replacement of health posts and centers; (ii) provision of equipment and basic medicines for such health posts and centers; (iii) nutrition programs (school cafeterias) for preschool and school-age children, and also programs serving mothers and children. Health projects will also promote community health, to ensure the delivery of primary health care in the network of services. The health projects will comprise funding of training for: (i) community personnel (outreach workers, midwives, leaders); (ii) matters connected with sanitation education; (iii) caring for oneself; and (iv) promotional and preventive programs (prenatal care, reproductive health, infant care, and environmental sanitation).

c. Sanitation infrastructure

- 2.6 Projects in this area include: (i) rehabilitation or installation of small water supply systems, tanks, and wells; (ii) provision and installation of latrines in low-income rural and marginal urban areas; and (iii) trash collection and disposal. It also includes training of the communities in the operation and maintenance of such water supply systems, latrines, and trash collection arrangements.

d. Rural economic infrastructure and environmental improvement

- 2.7 This line of projects includes: (i) rehabilitation of small irrigation systems; (ii) small collection centers; (iii) community-owned drying platforms, markets, and wharves; (iv) related technical assistance; (v) soil conservation; (vi) reforestation; and (vii) education campaigns on environmental protection. Projects to protect woodlands in three priority areas of the country, such as support for the forest development program and woodland protection to be financed by the World Bank, will also be included.

e. Road infrastructure

- 2.8 The projects involved include construction and/or rehabilitation of small-scale works identified by organized target communities and designed to provide tertiary-level infrastructure such as rural access roads, footbridges, and retaining walls for protection against landslides and flooding. Training of the communities in project operation and maintenance is also included.

f. Other categories of projects

- 2.9 Other lines of projects besides those described above will also be eligible for financing under the program, provided the FAES submits to the Bank for approval the specific criteria for their eligibility, selection, and supervision, based on an indicative sample evaluated by the FAES, in coordination with the agency governing the respective sector.

2. Institutional development

a. General support

- 2.10 The program will finance the part of the FAES' administrative expenses pertaining to staff remuneration, operating expenditures during the program execution period, and training of its technical staff in project promotion, evaluation, control, impact monitoring and measurement, and other areas identified as important.

b. Support for grassroots communities

- 2.11 This component consists of financing the technical assistance necessary to support the communities, NGOs, cooperatives, and municipalities in their management responsibilities, with emphasis on technical support for the preparation of projects that would not otherwise materialize owing to lack of means. The facilitators in the formulation of projects identified as priorities by the communities will be given training organized by the FAES and will receive a copy of the manual of procedures and the Operating Regulations.
- 2.12 Funds will also be allocated for training the beneficiary grassroots organizations in operation and maintenance of the infrastructure works, especially sanitation and irrigation systems, including basic hygiene, preventive health care, and environmental protection. The training will be incorporated into the design and included in the costs of each project.

c. Implementation of the impact monitoring and evaluation system

- 2.13 A parallel internal and external monitoring system will be set up to assess the impact of the program and to draw lessons from the program in all matters pertaining to: resources targeting, project quality, compliance with the environmental requirements, community participation, project sustainability, and efficient management throughout the project cycle. A technical specialist with experience in monitoring systems for a social fund will provide advisory services on a short-term basis to assist in defining the key indicators and setting up the system. The FAES will also hire a national expert as part of its regular staff to be in charge of the monitoring system. The data on the indicators selected will be

compiled by a network of university centers or NGOs. The indicators and the terms of reference for the compiling institutions will be agreed upon with the Bank as a special condition. The consulting services will be retained no later than nine months after signature of the loan contract (see Executive Summary).

3. Study

- 2.14 The future of the FAES as an instrument of government. The government is in the process of establishing the sector strategies for the social sector, health, education, water supply, and decentralization, and is also assessing economic development reforms to be implemented within the coming 24 months. To enable the government to evaluate its social strategy and the future role of the FAES, a study will be financed to determine the role of the FAES after 1999. This definition must be based on the support the FAES is providing for the social agenda, its efficiency, the evaluation of the impact of its projects, and the strengthening of the grassroots communities. The terms of reference for the study will be agreed on with the Bank within 24 months after the first disbursement. The study must be completed as a condition for any requests for new loans for the FAES.
- 2.15 In addition, in order to better gauge the return on social funds and the future role of the FAES in a long-term strategy to reduce poverty, the Bank is preparing a comparative study on social funds in eight countries, including Haiti. The study, based on work conducted in the field in each country, will address such issues as: the impact of the funds on poverty and unemployment, the success of the funds targeting the poor, their relationship with the different levels of government, and project sustainability. The study will provide key elements for a report on social investment funds being prepared by SDS.

D. Sizing of the program

- 2.16 The sizing of the program was based on: (i) the present operating capacity of the FAES for executing the program, including the funds from the World Bank; (ii) the total volume of resources that the FAES can process and disburse in three years; (iii) demand, according to the project pipeline of applications for financing submitted by the FAES; (iv) better cooperation between the FAES and the line ministries; and (v) a new vitality stemming from the development of local governments.
- 2.17 The amount of resources proposed for the second phase of the FAES is based on the experience gained in 1995. The FAES currently has a pipeline of 3,130 projects for a total cost of approximately US\$113 million, with 537 projects under evaluation, for a cost of US\$21.1 million. Since percentage of projects rejected is around

35%, the actual pipeline for this second stage could be over 2,034 projects totaling an estimated US\$81.4 million. These figures do not include the new project applications that will be submitted each year, i.e. those that would be generated during program execution. Estimated on a conservative basis, the term for commitment for phase two will be 24 months and the execution period, 36 months.

- 2.18 Regarding the operating capacity of the FAES, with the additional personnel to be hired, the recent improvements in the project cycle management systems, execution of the promotion plan, the experience gained by the FAES, and better coordination with the line ministries, the FAES will be able to manage the proposed program in accordance with criteria acceptable to the Bank.

E. Cost and financing plan

1. Cost of the program

- 2.19 The total of the proposed program is estimated at US\$30 million equivalent. The IDB would finance the equivalent of US\$27 million from the Fund for Special Operations (FSO). The local counterpart contribution is an estimated US\$3 million. The breakdown by investment category and source of financing is presented in the following table:

TOTAL PROGRAM COSTS (in US\$000's)				
CATEGORY	IDB	LOCAL 2/	TOTAL	%
1. PROJECTS	23,660	2,700	26,360	88.0
2. ADMINISTRATION AND INSTITUTIONAL DEVELOPMENT	2,100	100	2,200	6.6
2.1 General support	1,600	100	1,700	6.4
2.2 Community support	400	0	400	0.1
2.3 Monitoring system	100	0	100	0.1
3. CONTINGENCIES	170	0	170	0.1
4. FINANCE CHARGES	1,070	200	1,270	4.1
4.1 Interest	800	0	800	2.6
4.2 Credit fee	0	200	200	0.6
4.3 Inspection & Supervision	270	0	270	0.9
TOTAL	27,000	3,000	30,000	100.0
PERCENTAGE	90%	10%	100%	

2/

The Government of Haiti is negotiating up to US\$4 million in financing from the OPEC Fund, which, if finalized, would be considered part of the local counterpart contribution under the project component. Under its agreement with OPEC, the Bank would sign a parallel agreement for administration of such funds.

a. Bank financing

- 2.20 The proceeds of the Bank financing would be allocated as follows: (i) US\$23.66 million for project financing, including training for the communities in project preparation, operation and maintenance of the sanitation infrastructure, and basic sanitation; (ii) US\$2.1 million for the administration and institutional development component, which would comprise: (a) financing for general support for the FAES - in terms of salaries and operating expenses (US\$1.6 million); (b) support for communities, NGOs, and municipalities requiring assistance for project preparation (US\$400,000); and (c) implementation of a monitoring system (US\$100,000); and (iii) US\$1.07 million for financing the interest payable during the execution period and payment of the inspection and supervision fee. Lastly, US\$170,000 would be included to cover contingencies.

b. Local contribution

- 2.21 The local counterpart is estimated at US\$3 million equivalent, i.e. 10% of the cost of the program, of which US\$2.7 million will be for project financing. The end beneficiaries of the FAES projects should be able to contribute up to 10% of their total cost. Since the estimated contribution from the communities and NGOs is US\$2 million, the Haitian government will contribute an additional US\$1 million, which would be allocated as follows: US\$700,000 for projects, US\$100,000 to defray part of the general support costs, and US\$200,000 for the credit fee.

III. PROGRAM EXECUTION

A. Institutional framework

1. The borrower and executing agency

- 3.1 The borrower of the proposed loan will be the Republic of Haiti. The execution of the program would be handled by the Fonds d'Assistance Économique et Sociale [Economic and Social Assistance Fund] (FAES) attached to the Ministry of the Economy and Finance. The government will transfer the loan proceeds and the local counterpart contribution to the FAES as a grant. The FAES will not execute the projects directly, but will act as financial agent and channel the funds for financing small infrastructure and social services projects sponsored by grassroots communities. The FAES will be responsible for the evaluation of the projects and will supervise their execution to ensure that they are carried out in accordance with the technical and financial criteria laid down in the Operating Regulations.

2. The FAES

- 3.2 The FAES is an autonomous entity possessing with full legal capacity and financial and administrative autonomy. It is exempt from the civil service regulations as regards salary levels, competitive bidding for goods and services, taxes and management of its financial resources. It was established by presidential decree in June 1990. 3/
- 3.3 The supreme authority of the FAES is its board of directors, made up of nine members: three members of the government (the Minister of Finance - who acts as Chairman - and the Ministers of Planning and of Social Affairs); five nongovernmental organizations (NGOs) representing various sectors (education, health, environment, agriculture, credit, and women in development); and the Director General of the FAES who acts as secretary. With the inclusion of five representatives of private volunteer organizations, the board makeup covers a variety of interests and sectors, and incorporates Haitian women in the national economy.

3/ Presidential decree of the interim government of Mrs. Ertha Pascal Trouillot. Article 142 of the Constitution requires that any autonomous institution be approved by Parliament, but in 1990 Parliament had been dissolved. Nevertheless, the financing of the FAES was ratified in February 1995 by the newly elected Congress. By ratifying the IDB financing, Parliament is understood to have implicitly recognized the establishment of the FAES as an autonomous institution.

- 3.4 The functions of the board are to: approve the general policies; establish operating procedures and project selection criteria; approve the contracting of technical personnel, together with the annual reports and budget of the FAES; monitor the activities of the FAES; take other measures necessary to accomplish the objectives of the FAES; and approve the Operating Regulations.
- 3.5 The organizational structure is based on horizontal integration of the four key activities in the project cycle: promotion, evaluation, monitoring and finance. The structures and functions of the four departments responsible for these activities are consistent with the needs of the organization and the project cycle, and are described in paragraph 3.6 below.
- 3.6 The function of the promotion department is to disseminate the purpose and objectives of the FAES. It is the initial contact point for applicants, assists the communities in preparing and documenting their applications, and establishes project priority in accordance with the program's typology and criteria. The evaluation department is responsible for executing FAES policies on project selection and evaluation. It designs, implements, and adjusts the project evaluation mechanisms and procedures, and also maintains the unit cost system. Its central function is to conduct the technical, socioeconomic, institutional, financial, and environmental impact evaluation of the projects. It makes mandatory field visits to verify project priority and the appropriateness of the proposed technical solution, in accordance with standard parameters and benchmark costs. The evaluation department is responsible for submitting financing proposals to the board of directors. The control and monitoring department receives the approved projects, processes the contracts, and verifies that the guarantees required from the participants are in place. It ensures that the projects are carried out in accordance with the technical, financial, economic and environmental requirements agreed upon, and supervises and verifies the adoption of corrective measures concerning the degree of execution and quality of projects under way. The administration and finance department administers the financial, human, and material resources necessary for the operation of the FAES. It includes an accounting unit, which is responsible for ensuring proper compliance with generally accepted accounting standards and principles, and for improvement and implementation of internal controls and application of the administrative and financial procedures established.
- 3.7 The FAES also has an information and systems unit responsible for operation and maintenance of the automated systems and a legal office which monitors whether the parties are fulfilling their contractual obligations, advises the other FAES departments in legal matters, and provides the board of directors with legal assistance.

a. Personnel

- 3.8 The FAES has a staff of 50, made up of technical personnel specialized in social and economic infrastructure and finance, and support staff. The level of training and capability of its personnel is considered adequate for the performance of their respective duties. Analysis of the present staffing plan shows there to be a need to increase the control and monitoring staff. The FAES will also hire specialized evaluators in health/nutrition and agriculture/environment and an evaluator for programmable projects. In finance and accounting, the accountant position recently became vacant and will have to be filled. These personnel will be hired with phase one funds and will be maintained throughout phase two. As a special condition, within six months after the effective date of the loan contract, the executing agency must submit evidence to the Bank that such staff has been hired in order to strengthen evaluation and increase the capacity of the control and monitoring department (see Executive Summary).

b. Internal procedures and control

- 3.9 The accounting system is adequate for recording the financial transactions connected with the projects and administrative expenditures. Separate accounts for each donor make it possible to identify the sources of funds and the respective investments. With the assistance of a consultant the accounts have been organized and the system consolidated and switched from manual recording to the mechanized system recently implemented. The consultant also helped the FAES prepare the financial information for the close of the fiscal year ending on September 30, 1995.
- 3.10 The internal control systems have also been refined, establishing clear responsibility for control of the payment process for projects and administrative expenditures to ensure constant verification of the reliability and accuracy of financial transactions records. The disbursement procedures are considered acceptable and allow for adequate control.
- 3.11 These procedures will be supplemented with the support of an internal auditor who will independently examine and evaluate the effectiveness of the control procedures and mechanisms in place. It is recommended that prior to the first disbursement, evidence be submitted to the Bank that the auditor has been hired to perform the concurrent audit functions during program execution (see Executive Summary).

c. Management information system

- 3.12 The FAES has a management information system that is designed to closely track all operations and transactions. Installation of this system was completed at the end of 1995. The financial accounting records have been systematized but have not yet been

integrated with the rest of the system. Possible integration of the systems will be assessed at a later date.

3. Project execution participants

- 3.13 The main parties involved in the processing of the projects are: (i) **applicants**: eligible communities or groups of people who are the direct recipients of the benefits of FAES projects; (ii) **promoters**: government agencies or private institutions, such as NGOs, professionals, municipalities, sector organizations, or religious groups, that promote FAES projects; (iii) **contractors**: qualified private individuals or firms who provide the goods and/or services for execution of the projects; and (iv) **external supervisors**: professionals who ensure the quality of project execution. The FAES has model contracts for transfer of resources and contracts between administrators for the execution of works, which have been examined to the satisfaction of the FAES in accordance with procedures agreed upon with the Bank.

4. Interagency coordination

- 3.14 The FAES has developed mechanisms for coordination with the agencies responsible for the sectors involved in FAES-financed projects. Interagency coordination is ensured in part through the FAES eligibility and evaluation criteria, which follow the rules and standards laid down by each oversight agency, thereby guaranteeing that each particular project is consistent with the respective sector policy.
- 3.15 In addition, the FAES has entered into technical-cooperation agreements with UNICEF and the OPS, which provide technical support for project execution. Project evaluation is also coordinated with the sector institutions. It is nevertheless recommended that interagency agreements be entered into to ensure that: (i) the project financing is in accordance with sector policies; (ii) there is no duplication of efforts; (iii) sufficient guarantees are provided for project operation and maintenance; and (iv) the projects meet the technical standards of the respective sector. As a special condition, the borrower, through the executing agency, will be required to submit evidence satisfactory to the Bank, within six months after signature of the loan contract, that it has signed the agreements and other pertinent documents with the Ministries of Education, Health, Agriculture, Environment, and Public Works and Transportation and with the SNEP, that will ensure adequate interagency coordination throughout the project cycle under the program (see Executive Summary). The draft agreements are to be submitted to the Bank as a condition for submission of this operation to the Board of Executive Directors.

B. Execution of the project component

- 3.16 The operating mechanisms agreed upon with the Bank, as laid down in the Operating Regulations (which will have to be updated), will be used for execution of the project component. As a condition precedent to the first disbursement of the loan, evidence satisfactory to the Bank must be submitted that the updated program Operating Regulations have been implemented (see Executive Summary). The main aspects of the FAES project cycle are set forth below.

1. Targeting

- 3.17 To ensure that the program benefits the target population, the FAES has adopted a targeting strategy based on the following considerations: (i) the eligibility criteria for projects involving the financing of works and activities must be designed to meet the needs of the poor; (ii) the projects must specifically benefit women and young people; (iii) the poverty map prepared by the FAES with assistance from the University of Quisqueya must be used for guidance in decision-making on programming; and (iv) projects with the greatest multiplier effect on local development are to be given precedence.

2. Promotion

- 3.18 In its first phase, the FAES simply responded to the demand for projects that had built up prior to the embargo and was updated during the reactivation. Now, however, the promotion department has launched a new approach that includes: (i) preparation of a promotion plan for focusing FAES activities on the regions of the country that have not yet benefited from it; (ii) a special effort to assign priority not just to geographic areas but, based on the poverty map, to support project categories considered priorities; (iii) entering into agreements with intermediary agencies having a special capacity for working with groups assigned priority; and (iv) utilization of established structures, such as municipalities, NGOs, universities, and professionals capable of promoting and preparing applications from remote communities (see Executive Summary).
- 3.19 Projects that meet the eligibility criteria are entered in the information system and evaluated. Projects that do not meet the criteria are rejected or returned to the applicants to be adjusted or reformulated.

3. Evaluation

- 3.20 Project evaluation consists of a technical, economic, financial, institutional, and environmental analysis. This process is made up of two parts: (i) a field visit, during which the data provided by the applicant are verified and it is ascertained that resources are

available for the operation and maintenance of the project, and the information on which the evaluation will be based is compiled; and (ii) a technical, institutional, financial, socioeconomic, and environmental evaluation, based on the data gathered during the field visit and the applicable eligibility criteria. To calculate the cost of the project, the evaluator totals the costs of the individual components comprising it using the unit prices in the FAES cost database.

- 3.21 During the individual evaluation of the project cycle, the FAES technical staff conduct an environment impact assessment (EIA), following a checklist by type of project. The findings of this assessment will determine whether any specific additional studies will be needed. The environmental assessment criteria by type of project were reviewed during preparation of the second phase and of the environmental summary, and it was recommended that the environmental factors be incorporated in full in the project evaluation sheets. This will simplify the evaluator's work. The updated operating manual will reflect this change. The FAES will hire an evaluator with experience in environmental assessment.

4. Project approval and awarding of construction contracts

- 3.22 On the basis of the evaluations, lists of projects will be prepared for periodic submission to the board of directors. These applications for financing have been evaluated and meet the evaluation criteria. It is recommended that they be accepted, or else that such further conditions as are deemed appropriate be met first. Once a project is approved, the FAES prepares a financing contract, which establishes the FAES as financial and supervisory agency and the community as beneficiary. The contractor that will be responsible for the works will also sign the contract.

5. Supervision

- 3.23 The supervision system for the projects includes three types of activities. First, the FAES hires outside supervisory firms, who are financed as a part of the total cost of the projects, with the actual proportion depending on the type of project. Second, FAES staff make periodic visits to the worksites, where they verify on a selective basis the reports of the supervisory firms. Since weaknesses in supervision have been identified, it is recommended that training workshops be held for the supervisory firms to strengthen this activity. Most of the firms are very small with little experience. The concurrent audit should alert the FAES to any shortcomings in the projects, both during execution and once completed.

6. Procurement procedures

- 3.24 Because the program does not call for any contracts in excess of US\$250,000, international competitive bidding procedures are not considered necessary. The project execution component consists of small investments with a ceiling set at US\$75,000. To ensure swift execution of the large number of projects involved, the following procedures were considered appropriate for the procurement of goods and services and the awarding of construction contracts: (i) works and equipment totaling less than US\$75,000 would be procured by means of direct shopping; (ii) works and equipment between US\$75,000 and US\$150,000 would be procured by means of shopping, with quotations being sought from at least three suppliers; (iii) in the case of works and equipment over US\$150,000 and US\$350,000, ad hoc national public bidding would be required.
- 3.25 Direct shopping is justified in the case of works and equipment amounting to less than US\$75,000 because the projects in question are small, use simple technology and are executed by labor-intensive means. Moreover they are often located in scattered and remote areas for which it is difficult to attract three competing suppliers. The FAES unit cost system, adjusted by region and updated quarterly, will serve as a guide for cost estimation in direct shopping. In addition, the FAES maintains in its information service a database on the number, amount, and geographic location of projects by contractor or executing agency.

C. Execution of the community support subcomponent

- 3.26 The FAES will sign various agreements with NGOs, universities, or other institutions with experience in the training of grassroots communities and organizations to provide training in maintenance and operation for projects financed in the first phase, chiefly in sanitation, health, and nutrition. These activities will be financed with funds available from the phase one institutional component. As a benchmark, during the first year of execution of phase two, the FAES will train a minimum of 25 phase one communities.

D. Other aspects of program execution

1. Execution schedule

- 3.27 The program funds will be committed over a two-year period from the effective date of the loan contract, and will be disbursed in an estimated three years. Commitment is defined as signature of a contract and/or financing agreement for a project.
- 3.28 The program execution schedule is based on the pipeline of existing projects and the FAES' estimated execution capacity. Approximately 33% of the funds available for project financing will be disbursed per year.

2. Advance of funds

- 3.29 It is recommended that an advance of funds of up to the equivalent of 10% of the total amount of the proposed loan be granted for execution of the program (US\$2.7 million).

3. Maintenance of works and equipment

- 3.30 In its financing contracts, the FAES specifies the obligation of the community and of the project administrator to perform the routine maintenance of the works, equipment, and facilities, in accordance with generally accepted technical standards and to enable the FAES, the Bank, and the oversight agencies to make inspection visits. The country has a limited capacity for ensuring the sustainability of the projects. To address this matter during the second phase, the FAES will place emphasis on organization and training of the beneficiary communities in areas connected with project sustainability.

4. Program supervision, monitoring, and impact evaluation

a. Reports

- 3.31 During program execution the FAES will submit semiannual progress reports to the Bank with a summary of projects financed, beneficiaries served, the applicants involved, and the procedures followed in the use of the loan proceeds.

b. Annual evaluation

- 3.32 The program will be monitored and evaluated by the project team and the country, with support from consultants. Every 12 months after phase two is declared eligible for disbursement, the FAES, in conjunction with the Bank, will conduct an annual evaluation of the operation. This evaluation will review three main topics: (i) the FAES, its organization, operation and internal efficiency; (ii) timely achievement of the indicators; and (iii) volume and quality of projects executed and achievement of their objectives. The FAES and the Bank will prepare the preliminary terms of reference setting forth the basic indicators for the evaluation (see Executive Summary).

c. Program performance indicators

- 3.33 Certain preliminary performance indicators for the three years of program execution are listed briefly below and in more detail in Annex I.

- (i) overall production targets (number of projects and total amounts)

- (ii) project cycle yield (number of projects processed at each stage of the project cycle)
- (iii) project processing delays
- (iv) efficiency of the FAES in relation to administrative expenses
- (v) targeting in priority areas in terms of amounts approved and sector diversification
- (vi) level of community participation in the project cycle
- (vii) environment impact of the projects
- (viii) application of cost-effectiveness criteria
- (ix) transparency of the procedures.
- (x) training of communities in project operation and maintenance
- (xi) training of FAES personnel

- 3.34 **Targeting.** In year one, it will be verified that the correlation between the programmed resources and the approved resources for projects outside metropolitan Port-au-Prince represents 70% of all projects. This figure will be reviewed, taking into account the findings of the poverty study.
- 3.35 **Management indicators.** Based on the average time necessary in the second half of 1995, it will be verified that there has been a decline of at least 10% in the first year of the program, a 20% drop in the second year, and a 30% decrease in the third year. The following average time indicators will be evaluated: (i) between submittal and evaluation; (ii) between evaluation and approval; (iii) between approval and the first disbursement; (iv) between approval and completion of the works; (v) between completion of the works and final settlement; and (vi) between the time scheduled and the actual time needed.
- 3.36 **Participation by women.** The annual evaluations will verify the participation of women in: (i) project selection; (ii) project execution; (iii) project preparation; and (iv) project operation and maintenance. The percentage of women benefiting from the employment generated during project execution and taking part in the training for project maintenance will also be verified.
- 3.37 **Environmental project.** During program execution, at least 85% of the resources allocated to projects must be for environmental

protection (reforestation, protection of forests, erosion control, training courses).

- 3.38 Operation and maintenance. In year one, it will be verified that at least 85% of the projects completed are being properly operated and maintained. This proportion must be at least 90% by the second year and 95% by the third.

5. Outside audit

- 3.39 Within 120 days after the close of each fiscal year, starting with the year in which program disbursements are started, the executing agency will submit to the Bank the financial statements of the program, duly audited by a firm of independent auditors acceptable to the Bank.

6. Discretionary limits

- 3.40 The following will require prior approval by the Bank: (i) approval of a project the financing of which exceeds US\$75,000; (ii) the awarding of contracts for works or services to a single contractor for an amount exceeding US\$750,000; and (iii) financing for a single community group of works exceeding US\$500,000. These limits are the same as those set for the first phase, during which three exceptions were granted for contracts for services to be performed by three NGOs (see paragraph 1.17).

7. Restrictions on use of program resources

- 3.41 Program resources may not be used for: (i) the payment or refinancing of debt, dividends or returns on capital; (ii) purchase of shares, stocks, bonds or other bearer securities; (iii) purchase of property or real estate; (iv) purchase of used goods; (v) tax payments; or (vi) finance charges. 4/

4/ Not applicable to interest payable during the disbursement period.

IV. FEASIBILITY, BENEFITS AND RISKS

A. Feasibility and benefits of the program

- 4.1 The feasibility of the program is proven with the results of the first phase, which is meeting the basic objective for which it was designed, namely poverty alleviation through the provision of basic services. The evaluation indicates a need for better targeting of FAES actions to reach pockets of extreme poverty and geographic areas as yet unserved by the program, together with a need to assist the most disadvantaged communities and grassroots organizations with project preparation. The need has also been identified to include, as part of the project preparation process, technical assistance for training beneficiaries in the operation and maintenance of the basic infrastructure works financed. Phase two will ensure implementation of these two recommendations by strengthening the participation of civil society in local development and improving targeting by implementing a promotion plan based on the recently prepared poverty map.
- 4.2 In institutional terms the FAES has been consolidating itself and now has technically competent personnel and appropriate equipment, organization mechanisms, and management systems. Additional specialized personnel will enable it to respond to the growing number of projects and activities. From the institutional standpoint, the FAES has been adjusting its structure to the requirements of the new project cycle.
- 4.3 The FAES has established systems and procedures, some of which are being refined to improve the promotion, evaluation, monitoring, and control mechanisms, which ensure the technical feasibility of the projects. The institutional strengthening component includes the resources needed for providing technical assistance and thereby strengthening the communities and grassroots organizations in project promotion and preparation. The participation of the communities in identification of their needs has been one of the characteristics of the FAES project pipeline.
- 4.4 The FAES has developed sufficient evaluation capacity for efficiently selecting and financing projects submitted by the communities. An analysis of the FAES' sustainable operating capacity indicates that its evaluation rate averages 36 projects per month. Taking into consideration the average cost per project evaluated in the past six months, the FAES would have capacity to evaluate projects aggregating some US\$14 million per year. With the additional personnel to be recruited, the supervision of projects under way and disbursement levels ought to show substantial improvement.

- 4.5 The Bank has determined that the FAES has systems compatible with the evaluation criteria and discipline required. The feasibility of future projects is guaranteed by effective application of the Operating Regulations, which have been developed and refined as experience has been gained.
- 4.6 The costs have been calculated on the basis of recent contracts awarded by the FAES and an updated study of benchmark costs based on the country's private and public sectors. These costs reflect current market prices. In addition to the direct costs, the amounts required for administration, inspection, and design work are also included in the project components. In phase two, care will also be taken to include the cost of training beneficiary communities in the operation and maintenance of the works.
- 4.7 The architectural and engineering designs are in accordance with sector standards and appropriate for provision of the respective services. Some projects use standard designs agreed upon with the ministries and/or specialized agencies. The solutions adopted are least-cost ones and in all cases the sustainability of the projects in terms of operating costs is guaranteed by the ministries and/or the communities themselves.
- 4.8 The Environment Committee has classified the program in Category III. An environmental summary was accordingly prepared which included the criteria for environmental assessment of the types of projects eligible for FAES financing. The works to be carried out are small scale and are not expected to have any adverse environmental impact. It has nevertheless been recommended that measures be taken to mitigate any potential adverse impact on the environment. The manual of procedures will be updated to include the environmental criteria in full instead of keeping them separate. This simplifies their application in the evaluation process. In addition, the program will have an environmentalist, as an evaluator in the FAES, who will see to it that the environmental criteria are applied and help design projects to protect the environment, especially forests.
- 4.9 The socioeconomic criteria applied will ensure that projects are selected that will benefit the target group. In all cases the least-cost solution are sought, minimum utilization levels are set, and the expansion, repair or replacement alternatives are considered in the case of construction projects. The cutoff points be reviewed and updated every six months.

B. Risks

- 4.10 Four risks have been identified: (i) the need to formalize program coordination with other players in the social sectors in order to commit the public sector agencies, primarily to coordination of the sector activities and with regard to maintenance of FAES projects; (ii) the communities furthest from Port-au-Prince may not receive

the necessary assistance for project preparation on a timely basis; (iii) the tendency to respond to generated demand may continue to cause FAES activities to be concentrated in the least remote departments and that have the greatest project-generation capacity; and (iv) delays in ratification of this operation by parliament would bring the program to a standstill if fresh resources are not secured by September 1996.

4.11 Concerning the first risk, the FAES is preparing draft versions of interagency agreements that will be concluded with the Ministries of Education, Health, Agriculture, Environment, and Public Works and Transportation, and with the SNEP. The agreements must be officially entered into as a condition precedent to the first disbursement. As for the second risk, the FAES is preparing a promotion plan that emphasizes the need to reach remote areas where there are pockets of poverty. In addition, the FAES will hire private institutions such as NGOs and universities with experience in training and project formulation to act as facilitators for project preparation. To address the third risk, the FAES will inform the parliamentarians about program achievements and the targets set for the second phase. This will facilitate consideration of the loan by parliament.

4.12 Finally, the program monitoring system agreed upon will enable the Bank, jointly with the executing agency, to conduct an annual evaluation of the achievements and impact of the program, allowing for corrective measures or improvements in the procedures to be made.

C. Impact on women

4.13 In Haiti women make up 54% of the total population and 46% of heads of households. In the case of the FAES, although there are no projects specifically designed to benefit exclusively women, in practice women and children are considered the main beneficiaries of the health (immunization and nutrition) and education projects. The FAES has signed a cooperation agreement with UNICEF for execution of child immunization campaigns and maternal-and-child nutrition programs. In phase one, the health and education projects represent approximately 55% of the projects financed and 75% of those in the current project pipeline. In the area of production, women dominate the agricultural marketing (markets) sector. It has been observed from the applications received by the FAES that women are energetic project promoters during project identification and monitoring in the communities. In phase two, the annual evaluations will measure the level of participation by women as beneficiaries.

D. Poverty alleviation

4.14 Given the nature of the program, the type of projects and their size, together with the fact that they are proposed by the

grassroots communities and organizations, NGOs, and cooperatives, which represent the country's most impoverished population, all program beneficiaries belong to low-income groups. In Haiti, approximately 80% of the population lives in extreme poverty. In phase one (IDB resources) the FAES benefited some 673,356 persons with basic infrastructure rehabilitation projects in the social sectors and production and also generated temporary employment.

- 4.15 The FAES has initiated a project promotion campaign in areas with pockets of extreme poverty. Because these most poverty-stricken areas usually have considerable difficulty in identifying, preparing, and submitting projects, the FAES will provide the grassroots organizations and NGOs with technical assistance for this purpose. This will help to ensure that the benefits reach the most remote areas. The FAES will also support training in the operation and maintenance of works in order to ensure the sustainability of the projects. In view of the greater volume of resources made available to the FAES, its impact on poverty alleviation will be greater: stage two could benefit approximately 1.6 million persons, representing 22% of the population.
- 4.16 The FAES is thus becoming an important vehicle for reorganization of the delivery of public services at a time when sector strategies, adjustments, and structural reforms are being defined, the civil service is undergoing administrative restructuring and the ministries are being strengthened, the country having suffered a decade of political instability and economic crises.

**KEY PERFORMANCE INDICATORS FOR THREE YEARS
FAES**

INDICATOR	SOURCE	PURPOSE OF INDICATOR	YEAR 1	YEAR 2	YEAR 3
Number of project applications completed	Data base of subprojects, promotion department	Determine effective demand for financing and evaluate promotion capacity of FAES	1.000	1.200	1.400
Amount of FAES projects evaluated	Project data base, evaluation department	Size the financial commitments in investment expenditures of the FAES; determine the evaluation capacity of the FAES	460	500	600
Number of projects evaluated	Project data base, evaluation department	Determine FAES evaluation capacity	US\$23,0 millions	US\$25,0 millions	US\$27,0 millions
Number of projects evaluated by evaluator	Project data base, evaluation department	Ensure that the evaluation department has the necessary human resources	92	100	120
Number of projects approved	Project data base, evaluation department	Determine project processing capacity; establish ratio between projects approved and projects evaluated	390	450	540
Total amount of projects approved	Project data base, evaluation department	Determine project processing capacity; establish ratio between amounts approved and amounts evaluated	US\$15,6 millions	US\$18,0 millions	US\$22,0 millions
Percentage of amounts of FAES projects approved outside metropolitan Port-au-Prince	Project data base, evaluation department	Determine effectiveness of FAES investments and verify achievement of institutional goals	70,00	70,00	70,00
Number of projects approved, then cancelled	Project data base, evaluation department	Determine FAES capacity and quality of project processing	20	25	30
Number of projects for which contracts let	Project data base, management department	Determine project processing capacity of control and monitoring department; establish ratio between projects for which contracts let and projects approved	370	425	510
Amount of projects with contracts	Project data base, management department	Determine project processing capacity of control and monitoring department; establish ratio between amounts of projects with contracts and amounts approved	US\$14,8 millions	US\$17,0 millions	US\$22,0 millions
Number of projects with contracts in amounts above those estimated during evaluation	Project data base, management department	Evaluate estimates made by evaluation department using the costing system	30	30	30
Number of projects initiated	Project data base, control and monitoring department	Determine the project processing capacity of administration and finance department and control and monitoring department; establish ratio between projects initiated and projects approved/with contracts	360	412	490

INDICATOR	SOURCE	PURPOSE OF INDICATOR	YEAR 1	YEAR 2	YEAR 3
Amount of projects initiated	Project data base, control and monitoring department	Determine the project processing capacity of administration and finance department and control and monitoring department; establish ratio between amounts of projects initiated and amounts approved/with contracts	US\$14,4 millions	US\$16,5 millions	US\$18,6 millions
Number of projects under way behind schedule	Project data base, control and monitoring department	Determine the project processing capacity of the control and monitoring department	70	60	50
Aggregate number of projects suspended due to lack of compliance by executing agencies	Project data base, control and monitoring department	Determine the efficiency and quality of processing by evaluation department, management department, and control and monitoring department	12	13	15
Number of projects completed	Determine the Project data base, control and monitoring department	Determine the project processing capacity of the administration and finance department and control and monitoring department; establish ratio between completed projects and projects approved/with contracts/initiated	278	339	420
Amount of projects completed	Project data base, control and monitoring department	Determine the project processing capacity of the administration and finance department and control and monitoring department; establish ratio between amounts of completed projects and amounts approved/with contracts/initiated	US\$11,5 millions	US\$13,5 millions	US\$15,5 millions
Number of projects completed in amounts higher than those estimated during procurement procedures	Project data base, control and monitoring department	Determine number of projects with reallocations due to cost overruns; provide feedback to evaluation department on costing system estimates	20	16	14
Average execution period for completed projects	Project data base, control and monitoring department	Determine the project processing capacity of FAES; evaluate execution by executing agencies	9 months	8 months	7,5 months
Total amount of FAES disbursements	Project data base, administration and finance department	Determine FAES performance and investment capacity during year	US\$8,0 millions	US\$9,5 millions	US\$11,0 millions
Average amount of monthly disbursements by FAES	Project data base, administration and finance department	Determine FAES performance and investment capacity during month	US\$700,000	US\$800,000	US\$900,000
Number of projects settled	Project data base, administration and finance department	Determine the project processing capacity of administration and finance department and control and monitoring department; establish ratio between projects settled and projects completed	200	237	300
Number of projects with processing time greater than 30 days from assignment to an evaluator to field visit	Project data base, promotion and evaluation department	Determine the project processing capacity of the evaluation department	50	50	50

INDICATOR	SOURCE	PURPOSE OF INDICATOR	YEAR 1	YEAR 2	YEAR 3
Number of projects with processing time greater than 30 days from field visit to project approval by technical committee	Project data base, evaluation department	Determine the project processing capacity of evaluation department	84	84	84
Number of projects with processing time greater than 30 days from signature of contract to initiation of works	Project data base, control and monitoring department	Determine project processing capacity of administration and finance department and control and monitoring department	60	60	60
Ratio of administrative expenses to total expenditures (disbursements for investments)	Project data base, administration and finance department	Determine the efficiency of FAES project processing.	10,00	10,00	10,00

PROPOSED RESOLUTION

HAITI. LOAN /SF-HA TO THE REPUBLIQUE D'HAITI
(Economic and Social Assistance Program - Phase II)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf the Bank, to enter into such contract or contracts as may be necessary with the République d'Haïti, as Borrower, for the purpose of granting it a financing to cooperate in the execution of an Economic and Social Assistance Program - Phase II. Such financing will be for the amount of up to US\$27,000,000, or its equivalent in other currencies, except that of Haiti, which are part of the resources of the Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.