

# PROJECT CONCEPT DOCUMENT

## HAITI

OCTOBER 6, 2006

**Project name:** Strengthening Public Resource Management.

**Project number:** HA-L1017

**Division Chief:** Jorge Sapoznikow, RE2/SC2

**Project team:** Leader: Sandra Bartels (RE2/SC2). Other members: Susana Sitja Rubio (RE2/SC2); Roberto Cambor (RE2/SC2); David Rosas (RE2/OD3); Vibeke Oi (RE2/RE2); Marco Nicola (COF/CHA); Javier Jimenez (LEG/OPR2); and Leila Sarquis (RE/SC2) who assisted in the preparation of this document.

**Borrower:** The Government of the Republic of Haiti.

**Executing agency:** The Ministry of Economy and Finance.

**Financing plan:**

First Tranche (FSO)	US\$	10.000.000
Second Tranche (FSO)	US\$	<u>15.000.000</u>
Total	US\$	<b>25.000.000</b>

**Tentative dates:**

Orientation Mission:	October 2006
Analysis Mission:	October 2006
Negotiation:	November 2006
Board:	December 2006

**PTI/SEQ**

Poverty Reduction:	does not qualify
Social Equity:	does not qualify

## I. BACKGROUND

### A. Country Overview

- 1.1 Marked by political instability, economic mismanagement and exogenous shocks, Haiti has suffered negative economic growth over three decades in the last forty years. Even when economic growth has taken place, it has not been sustained. Haiti's pattern of socio-economic development has also been characterized by marked inequalities in access to productive assets and public services, the result of exclusionary policies and ineffective public institutions. These have meant that less of the gains from growth, when this has materialized, have been shared by the poor. In turn, the inability of poor Haitians to exploit growth-promoting

opportunities for investment in physical and human capital has created a vicious circle of weak economic growth and persistent poverty and inequality.

- 1.2 Haiti is the poorest country in the Americas with more than half of the population (54 percent) living with less than US\$1-a-day and 78 percent living with less than US\$2-a-day (2001 data). In addition, Haiti also has the most unequal income distribution, with a Gini coefficient of 0.65 (World Bank 2003). The country ranked 153 of 177 in the 2005 United Nations (UN) Human Development Report, and life expectancy for Haitians has in fact decreased from 55 to 53 over the past five years.
- 1.3 In addition to the obstacles to asset creation related to the precariousness of jobs and the lack of access to health, nutrition and education services, are the external risks related to the political and security situation, and the environmental risks due to the degraded state of the environment and the risk of natural disasters, in particular hurricanes. The economic and social impact of the political turmoil and natural catastrophes in 2004 and the ongoing political unrest and violence has further removed the country from achieving the Millennium Development Goals (MDG). Although many Haitians have avoided falling into complete destitution in the face of many shocks (both domestic and exogenous) by using remittances for food consumption, and education and health services,<sup>1</sup> studies have shown that the most vulnerable groups typically do not have access to remittances.
- 1.4 Faced with many challenges, the Transitional Government joined forces with the donor community in April of 2004 to prepare the Interim Cooperation Framework (ICF). The ICF identified priority interventions and associated financing needs to support Haiti's path to economic, social, and political recovery. As part of this initiative, donors committed US\$1.3 billion until September 2006. Actual transfers have not reached the pledged amount, but the initiative has been extended to September 2007 in order to accompany the new Government in its formulation of the Government Plan for 2007-2011.
- 1.5 The ICF included actions that supported the transition government in strengthening the legal framework by means of a new Organic Budget Law (OBL) and a new procurement decree, as well as a new Civil Service Law and a Central Administration Organization Law. The OBL has become the backbone of important steps in modernizing a budget process regarded as non-transparent and with weak accounting and auditing procedures. The procurement decree addresses the need to implement bidding processes according to transparent and competitive standards. Moreover, weaknesses addressed in the civil service included understaffing, politicized hiring practices, lack of merit-based evaluation procedures and incentives, as well as steeply falling real wages in the public sector.

---

<sup>1</sup> World Bank: Haiti: Options and Opportunities for Inclusive Growth. Country Economic Memorandum. June 2006

**B. Relation of this Program with other Operations.**

- 1.6 This PBL is a continuation of the Bank's strategy in the area of economic governance, which consisted of two previous PBLs -one completed, one in execution- approved in 2003 and 2005. These programs have been designed taking into account the two Economic Post-Conflict Adjustment (EPCA) programs of the IMF. This new PBL is also being coordinated with the future Poverty Reduction and Growth Facility (PRGF)- supported program being prepared by the IMF, and the Highly Indebted Poor Country (HIPC) Initiative. The PRGF-supported program will focus on sustaining macroeconomic stability through fiscal discipline and prudent monetary policy
- 1.7 **HIPC:** In September 2005, the IMF calculated Haiti's external debt to amount to US\$1.3 billion or just above 30% of GDP. Most of this is concessional debt to multilateral creditors. In terms of net present value (NPV), Haiti's debt amounts to US\$923 million, which equals 176% of total exports. As the threshold level in the enhanced HIPC initiatives export window is 150%, Haiti was in April 2006 declared eligible. Consideration of the HIPC decision point by the IMF and IDA (the International Development Association) boards will take place in October 2006. To qualify Haiti must continue to pursue macroeconomic stability through the EPCA, finalize the Interim Poverty Reduction Strategy Document (I-PRSP), and agree on completion point triggers. The decision point reduction might reach 15% of NPV (or US\$139 million in NPV terms).
- 1.8 The IMF is estimating that Haiti will reach the completion point by September 2008. In order to do so, triggers have to be met in the area of preparation and implementation of a Poverty Reduction Strategy; maintenance of macroeconomic stability as well as debt control; adoption of a number of measures in the area of public financial management and governance; implementation of tax policies and strengthening of administrative capacity; and successful introduction of a set of reforms in the social sector.
- 1.9 Upon reaching the completion point, Haiti would further qualify for 100% relief of IDA debt under the Multilateral Debt Relief Initiative (MDRI). Although the MDRI is a common initiative, IDA and the IMF declare eligibility separately. Thus, a similar eligibility will not apply to IMF debt<sup>2</sup>. Yet, the IDA relief is estimated to be substantial, reaching US\$465 million (or US\$243 million in NPV terms).
- 1.10 **Previous Bank support for Public Finance Sector reform:** The Bank has had a leadership role in economic governance through several sequentially programmed operations. The following table summarizes the Bank's most recent Technical Cooperation and Loans under execution in the area of economic governance, and the main objectives pursued through these interventions. It is also specify the links to the two World Bank operations that have been prepared as parallel initiatives.

---

<sup>2</sup> Enhanced Initiative for Heavily Indebted Countries. IMF 2006

**Table 1 - Previous Bank and World Bank support in the area of Economic Governance**

<b>Project</b>	<b>Main Objectives</b>	<b>Links to HA-L1017</b>
<b>Institutional Strengthening Initiatives</b>  <b>ATN/SF-8157-HA (Dec. 2002)</b>	<p>Provided the MEF with resources to (i) strengthen its Office of Economic Studies (DEE); (ii) assist the Treasury for patrimonial accounting; (iii) assist the AGD with the improvement of its capacity to collect and analyze statistics; (iv) assist the Ministry of Planning (MPCE) in improving its capacity to coordinate external assistance.</p>	<p>Improved analytical capacity at DEE and MPCE provides government with the means to prepare a more comprehensive budget, including the capacity to include investment budgets, identify donor financed investments and structure a tracking mechanism for poverty reduction expenditures.</p>
<b>Public Finance Reform</b>  <b>1499/SF-HA (Nov. 2003)</b>	<p>The Public Finance Reform Program achieved its objectives, including the approval of a new legal framework for public finance, the establishment of a new budget nomenclature, the decrease in the use of discretionary current accounts from 58% of total expenditures in FY2002/2003, to 4.18% of FY2004/2005, a percentage that has been maintained through 2006.</p>	<p>The new program builds on the achievements of this loan, and continues the implementation of the Organic Budget Law, particularly on the budget formulation and execution, supporting the expansion of the budget classification to include economic function classifiers, and on the internal control structure.</p>
<b>Support for Revenue Institutions</b>  <b>ATN/SF-8583-HA (Dec. 2003)</b>	<p>This TC finance the following activities (i) Definition of strategic plans for modernization and strengthening of customs and internal revenue; (ii) assistance in preparing revised operational manuals; (iii) strengthening of control functions; (iv) training program in customs and tax collection; (v) development plan for performance based evaluation program.</p>	<p>The work undertaken for the TC led the government to request a thorough diagnostic and plan for reform of these institutions. This diagnostic has been a key input for the revision of the tax and customs legal framework.</p>
<b>Support for Anti-Corruption Unit</b>  <b>ATN/SF-8886-HA (Oct. 2004)</b>	<p>This operation supported the creation of the Anti-Corruption Unit at the MEF, and the following activities: (i) the drafting of an up-to-date legal framework for anti-corruption, according to the international conventions signed by the country (ii) a medium and long-term strategy and action plans to prevent and combat corruption; (iii) the design of an Internet Bulletin Board for government procurement opportunities and awards in order to improve transparency in this area (iv) technical assistance in establishing a financial disclosure system for public officials.</p>	<p>This program supports all the actions needed to approve the medium and long-term national anticorruption strategy.</p>
<b>Fiscal Reform and Governance</b>  <b>1644/SF-HA (June 2005)</b>	<p>The Program supports the enactment of key Regulations (Arrêté) for the implementation of the Organic Budget Law; it will further support SYSDEP expansion; and it will further maintain a ceiling for current account use; implementation of the ULCC's action plan, and the presentation of the legal framework for anti-corruption, as well as a new customs and tax code.</p>	<p>This program aims to support the approval by parliament of the legal framework prepared under 1644/SF-HA, and to support the establishment of the General Finance Inspection (internal control), as well as ensure the capacity of the government to access revenue information from the regional offices.</p>
<b>Institutional Strengthening and Development Facility</b>  <b>1632/SF-HA (June 2005)</b>	<p>This operation supports: (i) Institutional reforms in order to create an efficient and well-functioning public procurement management in key institutions of the Executive Branch; (ii) enhancing the capacity for budget formulation, presentation, and analysis of expenditure and policy options, thereby, linking the budget to the expenditure and procurement plans, as well as improving liaison and coordination between the Ministry of Finance and other institutions; (iii) enhancing the capacity of the AGD to increase customs collection; and (iv) enhancing the capacity of the DGI to increase tax mobilization and collection.</p>	<p>This program supports the creation of the Inspection General des Finances; a link between planning and budgeting and the inclusion of investment programs in the budget; the drafting of the new customs and tax codes.</p>
<b>Human Resource Management in the Public Sector</b>  <b>HA-L1018 (currently under preparation)</b>	<p>The Program will provide financing to create HR management tools to rationalize and organize the civil service, to prepare a broad civil service modernization and implementation of the new civil service law approved in 2005.</p> <p>The main objective of this Program is to support the design and implementation of a human resource strategy in the Public Sector that on one hand defines a structure both functionally</p>	<p>This Program would support the completion of the government employment census on a headcount basis, as an input to the Human Resources Strategy for Central Government that includes, staffing, compensation, and turnover plans to be financed with HA-L1018. The PBL will support the approval of this strategy.</p>

Project	Main Objectives	Links to HA-L1017
	and of salaries.	
<b>Economic Governance and Growth EGRO I (2005) and EGROII (2006), EGTA I and II (2005 and 2006) World Bank</b>	EGRO I: established the legal framework for procurement; approve budgets annually according to the framework established in the Organic Budget Law; EGRO II: will support the approval of the Law for Disclosure of Public Officials; implementation of a tracking mechanism for poverty reduction expenditures.	This Program will complement these actions by supporting the elaboration of a Manual for budget preparation; the implementation of the mechanism for tracking poverty reducing expenditures and the Law for Disclosure of Public Officials, and the mechanisms for civil society evaluation of economic governance programs.

### C. Macroeconomic Framework

- 1.11 While economic conditions deteriorated significantly during the early 2000s, since the beginning of 2004 the Transition Government implemented macroeconomic stabilization policies that regained the support of the international community. These macro policies were framed in two IMF emergency programs<sup>3</sup> and, macroeconomic performance has remained on track since. Financial stability has been restored, inflation has declined and the exchange rate has stabilized. Fiscal accounts show some recovery and the external current account deficit has narrowed (see Table 2). Maintaining macroeconomic stability should be the top priority for policy makers since it will be critical for economic recovery, combating poverty and ensuring sustained growth.

**Table 2 - Selected Economic Indicators (as a % of GDP)**

	2001	2002	2003	2004	2005	2006
Central Government balance (incl. grants)	-2.4	-3.0	-3.5	-2.4	-0.6	-2.2
Current account balancer (incl. grants)	-2.0	-1.0	-1.1	-0.6	0.8	-1.4
External public debt	32.6	35.2	43.9	38.3	31.4	31.2
Inflation, CPI (end of period)	11.5	11.4	37.8	21.7	14.8	14
Exchange rate, Gourdes pr. US\$ (period average)	23.8	27.1	40.5	39.7	39.0	
Liquid gross reserves (in months of following year's imports)	2.2	1.5	1.2	1.4	1.3	1.6

- 1.12 The high dependence on foreign capital inflows is a chronic characteristic of the Haitian economy. International aid and remittances are the resources that support a current account that reflects domestic expenditures exceeding income by 30-percentage points of GDP before accounting for these inflows. However, as these flows currently come close to 25-30% of GDP, the current account has been close to balance for many years.

<sup>3</sup> The IMF, through the two-phased Emergency and Post-Conflict Assistance (EPCA), provided almost US\$30 million for the fiscal year 2004/05 and 2005/06, with the aim of strengthening macroeconomic stability and increasing social spending and investment in infrastructure.

- 1.13 Similarly, donations and loan disbursements from the international donor community are supporting public expenditures that in 2005 exceeded revenue (excl. grants) by 4% of GDP. Expenditures reached 13% of GDP, of which more than one-fourth was financed by grants, in particular project grants. Consequently, while the “homegrown” fiscal deficit has been increasing over recent years, the simultaneous inflow of foreign aid is currently producing an opposite trend in the “after-grant” deficit. As a welcome continuation of this trend the International Conference for Haiti’s Economic and Social Development in July 2006 pledged the transfer of US\$750 million to finance budget deficits and investment needs for the period July 2006 to September 2007.<sup>4</sup>
- 1.14 Nonetheless, as table 3 shows, the financing needs for 2006 and 2007 are estimated to be US\$111.5, for which US\$13.9 is unaccounted. Meeting these needs will be essential if the authorities are to balance critical social and security needs with continued financial stability. Also, filling the financing gap is a precondition for approval of a program supported by the Poverty Reduction and Growth Facility (PRGF) of the IMF, and its implementation will be critical to obtain debt relief through the HIPC initiative.

**Table 3 - Haiti, Financing Needs  
(Million US\$)**

	2006	2007
<b>Totals</b>	<b>78.7</b>	<b>111.5</b>
Global balance (including donations)	32.3	73.9
Repayments	46.4	37.6
<b>Financial Needs</b>	<b>78.7</b>	<b>111.5</b>
<b>External disbursement</b>	<b>60.2</b>	<b>97.7</b>
Belgie	0	1.9
WB	14.6	10
Canada	15	0
EC	12	25.2
Spain	2.4	7.6
France	1.2	3.8
USA	0	10
HIPC Intern Assistance	0	14.2
IADB Pipeline	15	25
<b>Actual Financial Gap</b>	<b>18.5</b>	<b>13.8</b>

- 1.15 Sustainable public finances are thought to be one of the tools with which to spur growth in coming years. Recognition of the state’s key role in inducing growth and reducing poverty has called for an increase and reprioritization of public expenditures. Thus, in 2005, government expenditures were up by 46% and

<sup>4</sup> Final Communiqué International Conference for Haiti’s Economic and Social Development, July 25, 2006.

reached 13% of GDP. The new government has announced its commitment to focus spending on growth-inducing and poverty-reducing measures, already initiated by the preparation of the social program package “programme d’apaisement social”. While donor support is strong, the Government will have to build a coalition in the national assembly that will approve further budget reprioritizations.

- 1.16 Over the medium term, the government will aim to redirect expenditures from public enterprise transfers, which currently take up a significant amount of available resources, to investments in security, infrastructure, and human capital formation. Another budget item that ties up substantial resources is debt servicing. Currently, about 9% of government revenue (incl. grants) is spent on servicing debt.
- 1.17 Expansive and growth-inducing fiscal policies will have to make up for the contractive effects of tightened monetary policy. The erratic political environment has been accompanied by high rates of inflation caused by supply disruptions. With the gradual enhancement in the security situation and the feat of a more stable political environment, the upward pressure on the inflation rate will ease. However, persistent rise in oil prices will continue to pose challenges to price stability. Moreover, the above-mentioned substantial inward finance flows, in the forms of aid and remittances, caused the Gourde to appreciate by as much as 13.5% between its peak in February 2003 and August 2006, which contributed to the increase in imported inflation. As a response, the expansive path of monetary policy was abandoned in 2003, and a contractive policy is being pursued for 2006. Nonetheless, while inflation has been significantly reduced, the inflation target of 10% was missed in 2005 and the same is expected to be the case in 2006.

#### **D. The Sector: Economic Governance**

- 1.18 The adoption of better economic governance and institutional development are necessary for economic recovery and improved living conditions. Substantial improvement in the management of public finances, better articulation and coordination of external financing, and greater administrative effectiveness will have a lasting impact on the level of human development in the country and will strengthen the State’s legitimacy for public action.
- 1.19 The Transition Government, with the support of the Bank, made an important contribution to stabilize the economy and improve governance and transparency in public sector operations. Reliance on Central Bank financing of the budget and the use of ministerial current accounts were reduced dramatically, government budgets were approved before the start of the fiscal year, annual auditing of government accounts resumed, and information on budget execution was published on the government’s website. They also partially implemented a system for financial management (SYSDEP) that facilitates the monitoring of budget execution, although the system remains to be extended in terms of

coverage and functions, but most likely will require migration to a new system with more integrated functionality. The creation and strengthening of key institutions, such as the supreme audit office (CSCCA), an anticorruption unit (ULCC) within the Ministry of Economy and Finance, and a coordination unit for the modernization of the civil service within the Prime Minister's office are other important achievements in the sector.

- 1.20 The approval of the Organic Budget Law on December 10, 2003, created a legal framework for budget formulation, approval, execution and monitoring, modernizing several areas of public accounting and changing processes, which had been engrained for years. Some progress has been recorded recently in matters relating to the budget process, particularly the budget approval process, and the coverage and presentation of budget information. The Government approved the FY2004-2005 budget before the end of September 2004, the first time in seven years that Haiti was able to have a budget before the beginning of the fiscal year.
- 1.21 Although these actions have translated into concrete results in the management of public resources, the country should continue to deepen its reform path in order to achieve greater efficiency and transparency. An analysis of the country's public expenditure management practices and systems still reveals several weaknesses which impede the efficient use of domestic resources and external financing: (i) weak basic budget formulation, execution and reporting; (ii) lack of transparency and accountability; and (iii) deficient human resource management. This is accompanied by a very low yield of the tax system, which has left the tax/GDP ratio at a level that is inadequate to support Haiti's development needs.

## E. Challenges

- 1.22 Although the country's challenges in the medium and long term are many, in order to continue with the reform path that the Bank has been supporting in the past years, the following actions are considered to be a priority in the short term.
- 1.23 **Budget formulation.** The incorporation of the investment budget in the annual budget law is essential. Although loans and grants from some donors were incorporated in the last two budget laws, this information was not comprehensive. Projects financed by donors within the framework of the ICF are not identified in the new budget classification, making it difficult to monitor implementation. Moreover, information on investment implementation is scattered. Over the short-term, responsibilities of the MPCE, MEF, spending ministries and the Strategic Coordination Unit of the Prime Minister's Office regarding project preparation, execution, and financial and physical monitoring should be clarified and coordination enhanced, and assistance provided to improve capacities. For this to be effective, it would require donors to provide more comprehensive and timely information on their investments. In order to attack these problems it is important to incorporate the investment projects in terms of economic nature and type of

funding, at first, as an annex to the Budget Law. Also important for monitoring the Poverty Reduction Strategy Paper (PRSP), will be the establishment of a tracking mechanism for poverty-related expenditures in order to protect expenditures in key line items in the social sectors that have an impact on poverty reduction.

- 1.24 **Budget execution information.** The State Financial Operations (TOFE)<sup>5</sup> should be based on accounting data in order to obtain maximum information so as to keep this regular statement accurate. Then, the TOFE should be compiled by using monthly accounts, and avoid the use of non-accounting data as far as possible. The TOFE should consolidate the extra budgetary and social security units included in the BRH's current Table 10R, in order to eliminate inconsistencies in the reporting above and below the line. This is essential because in the TOFE, the variances ("adjustment" line) between the transactions of the receipts and the expenses and the means of financing are critical for budget execution information. Also, in the general national accounts report for fiscal year 2001/2002 (the only available report in June 2006), the CSCCA (Supreme Accounting and Legal Administrative Institution) has submitted a negative comment on the accounts of the Republic.
- 1.25 **Transparency.** Transparency International's (TI) Corruption Perception Index has consistently placed Haiti among the lowest ranking countries worldwide. While a study by TI's Haitian branch indicated that the private sector believes corruption is the leading constraint on economic growth and investment, it also suggested that it is widely tolerated. Government's limited control of financial data and the lack of any law requiring information to be made public meant that citizens had little or no knowledge of how public resources were used. Media coverage remains uneven and civil society groups are more focused on basic service delivery than specialized advocacy. The government's control mechanisms remain weak, and plagued by their own internal problems. To improve this it is necessary to provide an institutional and legal framework for a comprehensive medium and long term Anti-Corruption Strategy in order to prevent corruption and ensure the integrity of public actions. In this sense, making the "Direction General des Finances" (IGF) within the MEF operational is key. The IGF has the attribution to control, audit and inspect public sector, mixed or private entities that benefit from public funds.
- 1.26 **Human Resources.** Haiti has a relatively small corps of public employees, it is estimated to be around 46,000. The territorial and sector distribution of public servants does not correspond to actual needs. Besides, the civil service has experienced a severe brain drain, with well-prepared professionals departing for international agencies, NGOs, or the North American continent because of low wages. In this context, there are a number of issues that need to be addressed in

---

<sup>5</sup> TOFE are a compilation of information on government revenue and expenditures from different sources on a monthly basis. It is prepared by the Direction the Economic Studies (DEE).

order to start the process of civil service reform, in particular: (i) the deterioration in the quality and composition of public employment, particularly at the management and technical level, because a failure to provide clear incentives in compensation and performance (transparent and dynamic recruitment and promotion systems, etc.); and (ii) the weakening suffered by the public sector in its ability to perform the functions assigned to it, not only because it lacks qualified personnel but, because it lacks a comprehensive and up-to-date figures on the number of civil servants employed by public institutions, their respective salaries, and budgeted positions. This makes it difficult for the Ministries to develop and implement a policy for hiring personnel, or estimate the impact of any reforms to the public service. In order to undertake the problems named above, it is important in the short term to address the following issues: (i) the operationalization of the Office of Management and Human Resources at the Office of the Prime Minister (ii) Adoption of two regulations on civil service: “Décret portant sur l’organisation et le fonctionnement de l’Office de Management et des Ressources Humaines” and “Décret portant sur l’organisation et le fonctionnement du Conseil Supérieur de l’Administration et de la Fonction Publique”; (iii) design a Human Resources Strategy (HRS) for the Central Government that includes staffing, compensation, turnover plans and a voluntary retirement program.

- 1.27 **Internal Revenue.** Tax revenue is by international standards low, amounting to only 9% of GDP. A perforated tax base, a stagnant economy, and a weak tax administration explain why current revenue streams do not back expenditure needs. The IMF, in its proposed PRGF-supported program has set the goal of increasing tax revenue by 3% of GDP by fiscal year 2007/08<sup>9</sup>. The measures included in existing programs are strengthening the existing tax administration with a main focus on enforcement fighting tax evasion, improving collection procedures, and reorganizing tax agencies along functional lines. The Tax Agency (DGI) does not have a solid institutional framework, with a clear definition of roles, responsibilities, and controls and, in general, of procedures. In this context, it is clear that a general Code of Procedures (“code des procédures”) is much needed. The opportunity should be taken to do away with the tax-by-tax approach and consolidate all tax administration and procedures in one single law (today, each tax Law includes its procedural regulations that overlap, and above all disrupt a streamlined management of the tax system).
- 1.28 **Customs Administration.** The General Customs Directorate (AGD) has as its main functions to implement and enforce the legal and regulatory provisions on the movement of merchandise and other cargo, and transportation in and out of the Haitian territory. Customs Collection represented 70% of the Haitian revenue collection for 2004. The AGD is beset with serious challenges that impede its ability to fulfill its mission. Structural and control weaknesses have provided an ideal environment for fraud, smuggling and other illicit trafficking to thrive.

<sup>9</sup> IMF, Briefing Paper for Initial Discussions on a PRGF-supported program, May 31, 2006.

Furthermore, Haiti has recently become a member of CARICOM, and as such it is faced with the task of aligning its customs regulations and structure with those of the Common Market. Even though Haiti is a member of WTO and CARICOM and thus committed to the implementation of several basic principles of both International Agreements, it has not yet honored its international obligations and lags behind in terms of enacting legislation setting up the “transaction value system” (WTO backbone) or the CARICOM Agreement in general. A draft Customs Code is ready, that introduces most of the needed changes (like the transaction value system, the establishment of clear duty/tax liability throughout the trade chain, a new penalty structure, and the introduction of record keeping requirements).

- 1.29 **The Country Strategy:** The new Government adopted the ICF as its short-term country strategy. This Strategy has four pillars: (i) strengthening political governance and promoting national dialogue; (ii) strengthening economic governance and promoting institutional development; (iii) promoting economic recovery; and (iv) improving access to basic social services. The second pillar, strengthening economic governance and promoting institutional development, sets out the country’s reform program in this area. For several aspects of the proposed strategy, the government has made substantial advances in pursuing reforms, with the support of the IDB and other donors.
- 1.30 The new Government has centered its priorities on building a modern state and creating a climate for private investment in order to ease the constraints for growth in Haiti. In this context the government considers that as a medium term strategy an improvement in the quality of public institutions and economic governance is critically needed to improve the business environment. This will be accompanied by lifting other restrictions to growth by improving the education system, develop the inadequate infrastructure, improvements in human capital, etc. all necessary conditions for restoring growth in Haiti.
- 1.31 **The Bank’s new Strategy** will focus on four pillars: (i) governance; (ii) economic recovery; (iii) improving human development, and (iv) private sector development. This program fits within the governance pillar by supporting the continued improvement of the country’s capacity to formulate, execute and register the use of resources, in particular in key sectors for poverty reduction, as well as promoting actions that contribute to improving the transparency of the public sector.
- 1.32 **Donor Coordination.** The key aspect of this loan, beyond the conditions that are presented, is the effort that the Bank team has made to establish the viability and sustainability of the reforms, by working together with the Haitian Authorities, and by coordinating and exchanging information with other key donors in the sector. This has led to joint efforts with the IMF, World Bank, USAID and French Cooperation. The Team has had coordination meetings with the World Bank staff working on Haiti, and has agreed on complementary activities to ensure that the MEF and key sectors are advancing on their reforms in a consisting manner. The

Team has been coordinating with USAID on the integrated financial system, with the IMF on the public expenditure management conceptual framework and the revenue management aspects of the Program.

- 1.33 **Lessons Learned:** One of the most important lessons learned from the Bank's work with Haiti is the importance of donor coordination, in order to prevent backward and forward duplication of actions. In this regard, the project team has played a leading role in donor coordination in the Economic Governance Sector since the Bank's involvement in the sector. Another critical lesson is to design projects with the political, economic and social environment as the base, to make sure that the actions planned are realistic and viable within the existing conditions.

## **II. THE PROGRAM**

### **A. Objective**

- 2.1 The general objective of this policy-based loan is to contribute to improving the efficiency, effectiveness and transparency of the management of public resources in Haiti, thereby providing a strong fiscal basis for sustained growth. The loan will improve policies in six areas: (i) macroeconomic management, (ii) public expenditure management, (iii) human resource management, (iv) transparency, (v) internal revenue, and (vi) customs.
- 2.2 The Program has been structured to complement and continue the reform efforts undertaken by the Bank's Fiscal Reform and Governance Program (1644/SF-HA), approved by the Bank in July 2005, and the World Bank's Economic Governance Reform Operation I (EGRO) consisting of an adjustment credit for US\$36.5 million, and an adjustment grant for US\$24.5 million, and EGRO II, recently approved. Besides, the program is designed to be effective within the context of what is considered politically and institutionally feasible in Haiti at this time, and seeks to firm up Government's ownership of the reforms that are being implemented. The Program is designed so that actions undertaken in 1644/SF-HA are finalized under this new loan, in particular the enactment of legislation drafted and presented to Parliament under that Program.

### **B. Program Structure**

- 2.3 To accomplish the objective described in 2.1, the project will focus on institutional reforms in 6 target areas:
- 2.4 **Macroeconomic Management.** As a general condition for the disbursement of the two tranches, the Government of Haiti (GoH) should maintain a sound macroeconomic framework in accordance with the objective of the Program. The GoH will present a Policy Letter explaining its commitment with this condition.

The Bank will prepare a macroeconomic assessment according to the New Lending Framework, using as an input the IMF's reviews.

- 2.5 **Public Financial Management.** In the area of financial management the operation will support: the inclusion in the 2006-2007 budget of annexes containing the investment budget, using a classification according to the economic nature of the investment and the source of funding (external or domestic, donation or loan), and the expansion of the coverage of revenues and expenditures in the State Financial Operations Table (TOFE) by consolidating the extra budgetary units included in the BRH's current Table 10R to eliminate inconsistencies in the coverage above and below the line between the two reports. It will also support the establishment of a tracking mechanism for poverty-related expenditures in order to have information that would allow for protecting expenditures in key line items in the social sectors that have an impact on poverty reduction.
- 2.6 **Transparency.** The general objective of this area is to provide the institutional and legal framework needed to verify the integrity of public actions, supporting the operationalization of the "Direction General des Finance" (IGF). The IGF has the functions of control, audit and inspection of entities under the management of the public sector or that benefit from public funds. The objective is to ensure: (i) the conformity of expenditures with the existing laws and regulations; (ii) the accuracy of the financial and budgetary reports; and (iii) the effectiveness of operations. It will also support the approval by government of the national anticorruption strategy.
- 2.7 **Human Resources.** The objective is to support (i) the strengthening of the Civil Service legal framework through the adoption of two civil service regulations and their publication in "Le Monitor" and making fully operational the Office of Management and Human resources of the OPM, in order to have better tools to facilitate the administration of the most critical human resources needs, and (ii) the preparation of the Human Resources strategy for Central Government that includes staffing, compensation, and turnover plans. These last two actions are extremely important to evaluate the current staffing needs in terms of a minimum and optimal scenario and to prioritize new hires and training staff within the budget allocations.
- 2.8 **Internal Revenue.** This operation will support the connectivity of DGI regional offices with the Central DGI office and the MEF, and the review of the legal framework in order to introduce the legal changes that are needed to enable the institutional and material changes that will lead to a more effective and efficient operation of the DGI. Specifically, the Program will support the presentation and approval by the Parliament of a new Tax Code that will allow a common procedural treatment for most Tax Administration functions. These actions will thus contribute to help making the DGI a modern organization, separated by

functions rather than by taxes. The preparation of the Tax Code<sup>6</sup> will entail the consolidation of current regulations, which has not been undertaken since 1994.

2.9 **Customs.** This operation will support the connectivity of AGD regional offices, and approval of the proposed draft Customs Code, after a last revision and update, especially to bring the Code in conformity to the CARICOM agreement. The preparation and presentation of this Code to Parliament was a condition of 1644/SF-HA<sup>7</sup>.

2.10 **Disbursements.** The loan disbursements will take place in two tranches. A first tranche of US\$10 million will be eligible for disbursement once the loan is ratified and the authorities provide the Bank with documentation, as agreed, that the conditions described in Annex I have been satisfied. A second tranche of US\$15 million will be eligible for disbursement once the respective conditions described in Annex I have been satisfied. For submittal to the Board of Executive Directors, this loan proposal will be accompanied by an independent macro assessment prepared by the Bank and a comfort letter from the IMF Project Execution.

#### **C. Borrower and executing agency**

2.11 The borrower will be the Republic of Haiti, which has designated the Ministry of Economy and Finance (MEF) as executing agency for the program.

#### **D. Project execution and management**

2.12 The MEF will be responsible for: (i) satisfying the project conditionalities; (ii) delivering reports and evidence of compliance with the loan terms; (iii) supporting the compliance process and the terms of this loan and others under execution and in the pipeline that would help make the reforms implemented under this project sustainable; and (iv) receive the loan proceeds. As stated by the general norms governing this PBLs, the borrower must deposit the loan proceeds in separate, special accounts and provide that Bank with evidence that such accounts have been opened prior to the first disbursement.

#### **E. Technical supervision**

2.13 RE2/SC2 will be responsible for technical supervision of the project with support from the Bank's Country Office in Haiti.

#### **F. Monitoring and Evaluation**

2.14 The set of indicators to be monitored during project execution, and to be assessed in a final evaluation to be conducted under terms of reference agreed upon

<sup>6</sup> The preparation and presentation of the Tax Code was a condition for 1644/SF-HA. This condition is lagging behind in its implementation, and therefore, to reduce the risk of not having the code before end of 2007, the preparation, presentation and now approval has been included in this new operation.

<sup>7</sup> The Parliament ordinary session take place from January till August therefore, the approval of this legislation - Customs Code and Tax Code- was included in the second tranche.

between the borrower and the Bank, will be determined during the analysis phase of the preparation of this Program.

### III. IMPACT ON DEVELOPMENT

- 3.1 The introduction of improved planning and budgeting, the exercise of better controls on the use of public resources, the reduction of the loss, misuse and waste of public resources, and the improvement in the transparency along with the introduction of increased public accountability will represent a substantial change in the modus operandi of Haiti's Government and public institutions. This in turn implies lower transactions costs and, higher rates of investment and an increased likelihood of a return to growth. Finally, in this climate, the Government of Haiti will thus be better able to meet its poverty reduction and growth targets.
- 3.2 **Social and Environmental Impact.** The project team considers that owing to the nature of this operation, no direct social or environmental impacts are foreseen. The CESI meeting on September 29, 2006 approved the Program without comments.

### IV. ESPECIAL ISSUES

- 4.1 The main risk is related to the political stability that might inhibit the efforts to improve economic governance. Another risk has to do with the need to achieve consensus for the proposed reform. Overcoming these weaknesses will require an active and sustained commitment to build and work with the new Parliament, and a transparent process of consultation that helps to ensure performance, accountability, and implementation of the reforms. This is a priority in terms of building new legitimacy of the Haitian state with its citizens. Another risk has to do with the macroeconomic framework, if the donors committed resources to finance the financing gap does not materialize in time, it could risk the continued the on track status of the IMF program.

### V. READINESS AND ACTION PLAN

- 5.1 A mission to continue the preparation took place the first week of October. The Team will work with the Haitian counterparts to fine-tune the analysis and the conditionalities and identify any pending TA requirements to comply with the stated actions during analysis mission that will take place the last week in October.
- 5.2 **Calendar:** Orientation Mission: October 2006; Analysis Mission: October 2006; Negotiation Mission: November 2006; Board: December 2006.

**HAITI**  
**STRENGTHENING PUBLIC SECTOR MANAGEMENT (HA-L1017)**  
**CONDITIONALITY MATRIX**

Problem	Objective of the program	Actions Taken	Conditionalities 1 <sup>st</sup> tranche	Indicators	Conditionalities 2nd tranche	Impact
	Maintain macroeconomic stability.		Sound macroeconomic framework maintained in accordance with the objectives of this Program.	PRGF	Sound macroeconomic framework maintained in accordance with the objectives of this Program.	Enhance business environment
<b>Public Financial Management:</b> There are major weaknesses on conceptual and systems aspects of the public financial management system	To use domestic and external resources efficiently in the short to medium term,	Support the MEF in developing their capacities in budget execution by improving registry procedures, budget classification and the chart of accounts, as well as information systems (SYSDEP) IDB, WB	The 2006-2007 budget included in annexes, (i) the investment budget with investments classified according to their economic nature and source of funding (external or domestic, donation or loan).  Expand the coverage of revenue and expenditure in the TOFE by consolidating the extra budgetary and social security units included in the BRH's current Table 10R to eliminate inconsistencies in the coverage above and below the line in the TOFE.	Inclusion of an investment budget in the budget law with identification of source of external financing	Establish a tracking mechanism for poverty-related expenditures	Optimization of the use of domestic and external resources specially those that have an impact in poverty reduction.  Better allocation of public funds for social programs aimed at benefiting the poor.  Improve protection of poverty related expenditures.
<b>Transparency:</b> Limited experience in inclusive, transparent or responsive governance in Haiti	Implementation of key processes in the terms established by the Inter-American Convention on Anti-Corruption.	Development of internal and external control systems; CSCCA strengthening IDB, WB	Direction General de Inspection Financiere its fully operational.	Completion of x number of audits, both financial and operational, within x agencies of the	Anticorruption legal framework: Legal framework for anticorruption, in particular Financial Disclosure of Public Officials Law approved by parliament	Improve transparency  Reduced corruption and waste means greater returns on

				Central Administration.			public and private investments
<b>Human Resources:</b> Inadequate quality and quantity of qualified personnel	Strengthening capacity to manage human resources in compliance with the new normative framework.	Support to create a human resource agency in the Executive and provide training WB and AECI	Revision of the new civil service Law enacted by decree in July 2005 by the Parliament in process.  Complete the government employment census on a headcount basis.	Civil service Census completed	Human Resources strategy for Central Government that includes, staffing, compensation, turnover plans approved.	More efficient allocation of human resources and improve capacity of those holding positions.  All proposals for new recruitment and promotions are within the new legal framework and within budget and within budget allocations in the spending Ministries.	
<b>Internal Revenue:</b> Cumbersome tax legislation structure and organizational deficiencies prevent the DGI from achieving the government's revenue objectives	Consolidate all tax administration and procedures in one single law (today, each tax Law includes its procedural regulations that overlap, and above all disrupt an streamlined management of the tax system).  This would allow a common procedural treatment for most of Tax Administration functions, thus	Strengthening DGI capacity, reorganization, training and equipment. IDB, France, IMF, USAID.	Connectivity with the main regional offices of the Direction Generale des Impot fully operation exchange with MEF: Cap-Haitien, Fort Liberté, Ouanaminthe, Port de Paix, Gonaives, Hinche, St, Marc, Jacmel, Petit-Goave, Miragoane, Cayes and Jeremie	Test of connectivity undertaken and successful- Report from Haitian Government and USAID	New tax Code submitted and approved by legislature.	DGI will become a modern organization separated by functions rather than by taxes	

	contributing to help DGI make the move to a modern organization, separated by functions rather than by taxes							
Customs: Haiti has not yet honored its international obligations and lags behind in terms of enacting legislation setting up the "transaction value system (WTO backbone) or the CARICOM Agreement in general	Approval of a legal framework that introduces most of needed changes (like the transaction value system, the establishment of clear duty/tax liability throughout the trade chain, a new penalty structure, and the introduction of record keeping requirements, to have a modern customs.	Strengthening AGD capacity, reorganization, training and equipment. IDB, France, IMF, USAID	Connectivity with the regional offices (Administration Generales de Douanes fully operational to permit online information exchange with MEF: Cap-Haitien, Ouananitihe, Port-de-paix, Gonaives, St Marc, Sources Metelas, Malpasse, Brache, Miragoane.	Test of connectivity undertaken and successful-report from Haitian Government and USAID	New Customs Code approved by legislature	The Administration Generale de Douanes will become a institution that operates according to basic international standards		