



Board of Executive Directors

For information

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To: The Board of Executive Directors
From: The Secretary
Subject: Haiti. Executive summary of the proposal for a sector facility loan for the strengthening of economic governance institutions

Inquiries to: Mr. Roberto Camblor (extension 2600)

Remarks: This operations is being presented in accordance with Resolution DE-30/00, approving the “New flexible lending instruments: Sector facilities”, adopted on 22 March 2000 (document GN-2085-2).

On **9 June 2005**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate will approve this operation.

References: GN-1838-1(7/94), DR-398-5(5/03), GN-2085-2 (3/00), DE-30/00 (3/00)

**Other
distribution:** Representative in Haiti

STRENGTHENING OF ECONOMIC GOVERNANCE INSTITUTIONS

(HA-0082)

EXECUTIVE SUMMARY

Borrower:	Republic of Haiti		
Executing agency:	Ministry of Economy and Finance (MEF)		
Amount and Source:	IDB: (FSO) Net Resources from the	US\$	5,000,000
	Fund for Special Operations		
	Co financing:	US\$	0
	Local:	US\$	45,000
	Total:		5,045,000
Financial terms and conditions:	Amortization Period:		40 years
	Grace Period:		10 years
	Disbursement Period:		4,5 years
	Interest Rate:		1% annually
			for 10 years, 2% annually afterwards
	Supervision and Inspection:	1%	
	Credit Fee:	0.5%	
	Currency:		US Dollars

Objective: The objective of this operation is to strengthen the institutional capacity of the MEF and beneficiary institutions by creating, in the short and medium term, the minimum conditions required for good economic governance.

The specific objectives are: (a) supporting the implementation of the needed institutional framework in order to create efficient and well-functioning management of public procurement processes in five (5) Ministries (Public Works, Education, Health, Justice and Agriculture); (b) enhancing the capacity for budget formulation, presentation, and execution and linking the budget to the expenditure and procurement plans, in the beneficiary institutions as well as improving liaison and coordination between the Ministry of Finance and other institutions; (c) enhancing the capacity of the AGD to improve customs collection; and (d) enhancing the

capacity of the DGI to collect taxes.

Description:

Component 1: Government procurement (US\$1,200,000)

This component will strengthen procurement management in five (5) key ministries: (Ministries of Public Works, Education, Health, Justice and Agriculture), with the purpose of improving the economy and efficiency in the use of funds and the execution of programs and projects in those sectors. The component will provide the necessary technical assistance, training and equipment to enhance the procurement structure, organization and processes of each participating Ministry .

The main activities in each participating Ministry will consist of the following: (a) reorganization of the procurement administration and internal procedures; (b) preparation of a procurement plan; (c) revision of evaluation and qualification of parameters and methodologies for procurement; (d) preparation of model Terms of Reference (TOR), technical specifications, bid evaluation reports and letters of clarifications; (e) provision of on-the job-training for staff related to procurement activities, and for members of the bid evaluation commissions; (f) establishment of a contract monitoring system; (g) preparation of a procurement manual for use at the Ministerial level; and (h) support for the creation of a quality control system to assist in the reception of goods, works and services procured.

Component 2: Financial Management and Control (US\$1,720, 000)

This component aims to support the development of capacity to produce and execute budgets, , and reduce irregular uses of resources improv coordination between the MEF and these institutions. For the selected, it will guide the process of output specification formulation of budgets.

The component will finance the following activities: (a) develop and implement a plan to further strengthen the budget preparation process and execution, and the establishment of a budget information reporting system that will facilitate the monitoring of Government objectives; (b) assist the Ministry of Finance to prepare legal instruments and regulations authorizing the establishment of the General Finance Inspection (GFI), and its implementation. (c) expand the automated public expenditure system (SYSDEP) to key sector Ministries and other beneficiary institutions to improve data gathering and analysis ; (d) develop and deliver a training program to strengthen the analytical capacity of personnel; (e) develop and deliver a training program for all government officials involved in the expenditure control process, with emphasis on work planning and budgeting, internal control and accounting practices.

Component 3: Strengthening of the AGD (US\$677,000)

This component will allow Haiti to increase customs collection, which represented 70% of the Haitian collection for 2004. It will finance the following activities: a) review and design of a new legal and regulatory framework for the AGD, including a Custom Code; b) review, design and implementation of a new structure for customs organization defining the roles and responsibilities of the customs officials and the different users relating to customs operations; c) review, design and implementation of new procedures for all the customs operations (cargo, imports, exports, transit), including the evaluation of the IT system and the recommendations to update the system , and the communication platform; d) design and implementation of a training program for customs officials and brokers. The staff program includes courses for the different levels of functions (general knowledge, basic customs courses, audit, valuation, origin, classification of goods, etc.) and risk analysis; e) evaluation of the customs buildings' infrastructure in the metropolitan area and in the provincial offices, and the establishment of a reconstruction program, including a timetable prioritizing works, with their respective budgets; f) evaluation of needs in the fight against customs fraud and other crimes and acquisition of the necessary equipment

Component 4: Strengthening of the DGI (US\$715,350)

This component was designed to complement the activities included in the Technical Cooperation approved by the Bank (ATN/SF-8583-HA). This program will allow Haiti to increase its tax collection, which represented 30% of the Haitian collection for 2004. This operation will finance the following activities(a) review of the existent, and design of a new legal and regulatory framework for the DGI; (b) review of the existing structure, and design and implementation of a new structure for DGI defining the roles and responsibilities of the DGI officials and, whenever needed, of the taxpayers and other stakeholders; (c) an assessment of the IT system together with the purchase of the most urgent equipment;(d) a training program for officials , including courses for the different functional levels (general tax knowledge, collection of taxes, audit, etc.); (e) evaluation of the need and acquisition of the most necessary equipment for DGI premises (field offices), including a timetable with the priority works and their respective budgets. The activities financed by this component are complementary and will be done in coordination with the French Customs and Revenue Bureau technical assistance activities.

Relationship of the Project in the Bank's country and

The proposed operation is in line with the Bank's Transition Strategy for Haiti (GN-2212-6), which assigns priority to economic governance. The objectives of the Transition Strategy are aligned with ICF strategic pillars and government agenda. Pillar 2 of the ICF "Strengthen Economic

sector strategy: Governance and Contribute to Institutional Development” relates to this operation.

Coordination with other Official Development Finance Institutions The preparation of this loan is being closely coordinated with the World Bank, USAID, French Cooperation Agency and IMF staff working on Haiti, to insure complementarities of actions, a joint action plan and cross support between the Technical Assistance programs. This coordination has led to joint efforts in: (i) the area of financial management with the IMF; (ii) in procurement, budget process and financial controls, the project team with the World Bank staff working on the EGTA program, to ensure that the MEF and key sectors are advancing in parallel on the reforms; and (iii) with USAID on the SYSDEP expansion and access to information; and (iv) with the French Customs and Revenue Bureau’s regarding technical assistance to AGD and DGI.

Environmental Social review: Given that the objective of this operation is to support the GOH to implement key initial reforms and capacity building efforts in the area of procurement and financial management in the short and medium term, these efforts would have a positive indirect impact on public service provision and poverty reduction. The CESI, in its meeting on February 25, 2005, considered the profile for this project and agreed with this assessment.

Benefits: 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, the improvements in the transparency and enhanced competition to provide goods and services to the government, along with the introduction of increased public accountability represent a substantial change in the *modus operandi* of Haiti’s Government and public institutions. This in turn implies lower transactions costs and risks for doing business in Haiti, higher rates of investment and an increased likelihood of a return to growth. In the provision of public, and social goods, it means a greater emphasis on the identification and satisfaction of society’s needs in a more efficient and effective manner.

Risks: The pace and smoothness of the political transition will have a profound effect on governance. However, it is important to stress that the MEF is a very stable Ministry, the Directors are likely to remain, and donor involvement in the transition is key to sustain the reforms.

Although the Transitional Government is emphasizing capacity building in the public sector as well as human resources management, and has defined a realistic transition strategy, the transition period may prove too short to allow for lasting reforms in the public sector. However, the level of dependence of the country on external assistance, a characteristic that is not likely to change in the near future, implies that the proposed reforms are essential to continued donor support. To address this risk, the donor community has responded with significant technical assistance and efforts to coordinate it effectively so as make the reforms sustainable.

Other potential risks affecting the achievement of the goals of this operation

	<p>are: (i) inadequate coordination of the different entities and activities to be undertaken under this operation. In order to mitigate this risk, the MEF will create a Project Coordination Unit (see paragraph 3.2), and, (ii) the lack of ownership of the program by some of the public agencies. To address this risk, the PCU will be in permanent contact with each institution. Furthermore, the Bank will do continuous supervision of this operation.</p>
Special contractual clauses:	<p>Conditions prior to first disbursement: (i) The creation of the PCU; (ii) The appointment of the PCU Coordinator, the selection and hiring of the Project Manager, and the Financial and Procurement Specialists; and (iii) The approval and entry into force of the Operating Manual of this Program by the GoH.</p>
Poverty-targeting and social equity classification:	<p>This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, This operation does not qualify as poverty targeted investment.</p>
Exceptions to Bank policy:	<p>There are no exceptions to Bank policy.</p>
Procurement:	<p>The Procurement of goods and works and the selection and contracting of consultants under this Loan will be governed by the Bank's Policies for the Procurement of Goods and Works and for the Selection and Contracting of Consultants, as respectively set forth in Documents GN-2349-4 and GN-2350-4. Additional procedures will be applied in a complementary way in order to remedy some of the insufficiencies of the Decree regulating public procurement in Haiti. These procedures will be described in detail in a special procurement Annex prepared by the Bank. This Annex will form part of the Loan Contract.</p> <p>A procurement plan was prepared by the Executing Agency and sent to the Bank for its clearance. This Plan covers the initial 18 months of project execution and will be updated on an annual basis, in accordance with the relevant provisions of the Bank's Procurement Policies.</p>
Key performance indicators and monitoring benchmarks:	<p>The monitoring and evaluation of the proposed project will be based on the output and outcome indicators set forth in the logical framework.</p> <p>At the impact level, the following results are expected:</p> <p>(i) An improved public budgeting, expenditure and procurement system leading to better allocation and management of resources in support of government policies and priorities particularly in social and economic development.</p> <p>At the outcome level the following results are expected:</p> <p>(i) The problems that hinder the efficiency and, effectiveness and</p>

transparency of the Public Sector Procurement Framework, Public Expenditure Management and Financial Control have been duly identified and a mitigation of the cited problems have been defined; and implemented.

- (ii) The Capacity of the MEF, the Ministry of Education, Ministry of Agriculture, Ministry of Health, Ministry of public works, Ministry of Justice, DGI and AGD has been substantially enhanced in order to perform their functions effectively.

At the **output** level the following results are expected:

- (i) The GOH has developed specific plans to strengthen its capacity to manage its key core administrative functions such as financial, procurement, expenditure, revenue and information management by 12/06.
- (ii) The GOH has enhanced its capacity by implementing new procedures, information systems, and by hiring new staff and effectively trained them by 012/07