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Report No: 32147-HT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 1.4 MILLION
(US$2.0 MILLION EQUIVALENT)

TO

THE REPUBLIC OF HAITI

FOR AN

ECONOMIC GOVERNANCE TECHNICAL ASSISTANCE PROJECT

May 13, 2005

Poverty Reduction and Economic Management Sector Management Unit
Central America Country Management Unit
Latin America and the Caribbean Region

Republic of Haiti
Economic Governance Technical Assistance Project

CURRENCY AND EXHANGE RATES

US$1 = HG$40 (as of May 10, 2005)

FISCAL YEAR

October 1 – September 30

ABBREVIATIONS AND ACRONYMS

AAN	Autorité Aéroportuaire Nationale (National Airport Authority)
AECI	Agencia Española de Cooperación Internacional (Spanish Agency for International Cooperation)
AGD	Administration Genérale des Douanes (Customs Administration Office)
APN	Autorité Portuaire Nationale (National Port Authority)
BRH	Banque de la République d'Haïti (Central Bank of Haiti)
CAE	Country Assistance Evaluation
CAMEP	Centrale Autonome Métropolitaine d'Eau Potable (Metropolitan Water Authority)
CEP	Conseil Electoral Provisoire (Provisional Electoral Council)
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CMEP	Conseil de Modernisation des Entreprises Publiques (Council for the Modernization of Public Enterprises)
CNIMP	Commission National Intérimaire des Marchés Publics (Interim National Commission for Public Procurement)
CNMP	Commission Nationale des Marchés Publics (National Commission for Public Procurement)
CPAR	Country Procurement Assessment Report
CPI	Transparency International Corruption Perception Index
CQS	Selection Based on Consultants' Qualifications
CSCCA	Cour Supérieure des Comptes et du Contentieux Administratif (Supreme Audit Institution)
CSO	Civil Society Organization
DCB	Direccion du Contrôle Budgetaire (Directorate of Budgetary Control)
DGI	Direction Général des Impôts (General Tax Directorate)
EDH	Electricité d'Haïti (National Electricity Company)
EERC	Emergency Economic Recovery Credit
EGRO	Economic Governance Reform Operation
EGTAG	Economic Governance Technical Assistance Grant
ERC	Economic Recovery Credit
EU	European Union
FBS	Fixed Budget Selection
FER	Fonds d'Entretien Routier (Road Maintenance Fund)
FMR	Financial Management Reports
FONHEP	Fondation Haïtienne de l'Enseignement Privé (Haitian Foundation for Private Education)
GDP	Gross Domestic Product
GNI	Gross National Income
GoH	Government of Haiti

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ICB	International Competitive Bidding
ICF	Interim Cooperation Framework
IDA	International Development Association
IDB	Inter-American Development Bank
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
LCS	Least-Cost Selection
LICUS	Low-Income Countries Under Stress
MDG	Millennium Development Goals
MEF	Ministry of Economy and Finance
MENJS	Ministère de l'Education Nationale, de la Jeunesse et des Sports (Ministry of National Education, Youth and Sports)
MINUSTAH	UN Mission for the Stabilization of Haiti
MPCE	Ministère de la Planification et de la Coopération Externe (Ministry of Planning and External Cooperation)
MSPP	Ministère de la Santé Publique et de la Population (Ministry of Public Health and Population)
NCB	National Competitive Bidding
NGO	Non Governmental Organization
OAS	Organization of American States
OED	Operations Evaluation Department
PAD	Project Appraisal Document
PCN	Project Concept Note
PCU	Project Coordinating Unit
PNH	Police Nationale d'Haïti (Haitian National Police)
PPIAF	Public Private Infrastructure Advisory Facility
PRSP	Poverty Reduction Strategy Paper
QAT	Quality Assurance Team
QBS	Quality-Based Selection
QCBS	Quality- and Cost-Based Selection
QER	Quality Enhancement Review
SA	Special Account
SBD	Standard Bidding Documents
SME	Small and Medium Enterprises
SMP	Staff Monitored Program
TA	Technical Assistance
TELECO	Télécommunications d'Haïti S.A.M. (Telecom Utility)
TI	Transparency International
TOR	Terms of Reference
TSS	Transitional Support Strategy
ULCC	Unité de Lutte Contre la Corruption (Anti-corruption Unit)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WBI	World Bank Institute

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GOVERNANCE TECHNICAL ASSISTANCE GRANT

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSPS

Date: May 13, 2005 Country Director: Caroline D. Anstey Sector Manager/Director: Ronald E. Myers	Team Leader: Linn A. Hammergren Sectors: Central government administration (70%);General public administration sector (30%) Themes: Public expenditure, financial management and procurement (P);Other accountability/anti-corruption (P);Administrative and civil service reform (P)
Project ID: P093936	Environmental screening category: Not Required
Lending Instrument: Technical Assistance Grant	Safeguard screening category: C

Project Financing Data

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 2.00
Proposed terms: Not applicable.

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	0.00	0.00	0.00
IDA GRANT FOR DEBT VULNERABLE	2.00	0.00	2.00
Total:	2.00	0.00	2.00

Borrower:
Republic of Haiti

Responsible Agency: Ministry of Economy and Finance (MEF)

Estimated disbursements (Bank FY/US$m)

FY	2006	2007	0	0	0	0	0	0	0
Annual	1.2	0.8	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	1.2	2.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Project implementation period: **Start** July 1, 2005 **End**: June 30, 2007

Expected effectiveness date: June 30, 2005 **Expected closing date**: December 31, 2007	
Does the project depart from the CAS in content or other significant respects? *Ref. PAD A.3*	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? *Ref. PAD D.7* **Have these been approved by Bank management?** **Is approval for any policy exception sought from the Board?**	 [ ]Yes [X] No [ ]Yes [ ] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? *Ref. PAD C.5*	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? *Ref. PAD D.7*	[X]Yes [ ] No

Project development objective ***Ref. PAD B.2, Technical Annex 3***

The objective of the Economic Governance Technical Assistance Grant (EGTAG) is to assist the GoH in strengthening its institutional capacity in the areas of budgetary planning and execution, investment and project planning, internal and external control, procurement, accountability, participatory monitoring, and reform constituency building. Specifically the EGTAG's development objectives are to: (i) improve the central ministry's ability to program, execute and track use of public resources and better link them to concrete development goals, ensure an adequate performance of the external, ex-post control function by the CSCCA, and help the CNMP grow into its role as overseer of procurement practices and make open, competitive procurement the rule rather than the exception; (ii) advance the development of a human resource management plan and system, especially as regards ensuring adequate capacity in the financial management system; (iii) advance the development of the ULCC as an effective check on corruption while also encouraging the greater involvement of civil society in its own operations and as a monitor of public sector reform; and (iv) ensure as part of the project management process, an adequate system for communicating information on the reform programs and mobilizing public support for their furtherance.

Project description *[one-sentence summary of each component]* ***Ref. PAD B.3.a, Technical Annex 4***

Component 1-Financial Resource Management: This component will aim to develop the Government's capacity to produce and execute a budget, track its implementation, and reduce irregular uses and expenditures.

Component 2-Human Resource Development: This component will support the development of a Human Resource Management System and the strengthening of HR capacity under the direction of the HR Unit within the Prime Minister's Office.

Component 3- Anticorruption Unit. This component will strengthen the Ministry of Finance's Anticorruption Unit and its special program for civil society monitoring of economic governance reforms.

Component 4-Communication, Coordination and Project Management. This component will strengthen the MEF's program for communication of economic governance reforms to the public, enhance MEF's ability to coordinate donor programs in economic governance and otherwise strengthen the Project Coordination Unit (PCU).

Which safeguard policies are triggered, if any? ***Ref. PAD D.6, Technical Annex 10***
The project currently triggers none of the Bank's Environmental or Social Safeguard Policies. If any changes of environmental or social significance should arise during project implementation, Bank policies will apply.

Significant, non-standard conditions, if any, for:
Ref. PAD C.7
Board presentation: None.

Loan/credit effectiveness:
The Borrower has prepared a Project Implementation Manual satisfactory to the Association.

Covenants applicable to project implementation: None.
The proposed project would not require any exceptions from Bank policies and would comply with all applicable Bank policies.

A. STRATEGIC CONTEXT AND RATIONALE

This document describes a proposed US$2 million Economic Governance Technical Assistance Grant (EGTAG) to the Government of Haiti (GoH) for the purpose of strengthening its economic governance, thereby enhancing its ability to attract external funding and use this as well as its own resources to advance its national development programs efficiently, effectively, and transparently. The operation builds on an exercise conducted by the Government with the participation of donors to prepare an Interim Cooperation Framework (ICF) to guide their collective activities. The exercise, carried out in April and May of 2004, included a component on economic governance. As in the other sectors, the needs and recommended actions identified by the ICF may exceed what can be accomplished within the ICF's two-year time frame, but, as agreed by the participants, it will serve as a base for planning all international assistance. The ICF has already informed the preparation of two IDA operations – an Economic Governance Reform Operation (EGRO) in the amount of US$61 million, approved by the Board in January 2005, and LICUS Trust Fund grants, approved in November 2004 in the amount of US$6 million, of which a grant of US$1.5 million to support economic governance reforms.

The Economic Governance Technical Assistance Grant (EGTAG) outlined here is intended to build on and support IDA's operations already underway, and to coordinate closely with on-going and planned technical assistance activities of other donors. If the EGTAG successfully meets its objectives, and conditions for economic governance reforms continue to be favorable in Haiti, IDA would consider another technical assistance operation as part of the overall package. Because the needs are so great, the international actors offering assistance so varied, and the Bank's own assistance package staged in an incremental fashion, this operation takes a somewhat broader look than usual at the situation being addressed. Rather than examining only the conditions relevant to the present operation, it first addresses the overall challenges as identified through the ICF, then examines initial progress made and estimates likely advances up to the time the proposed operation would become effective, and finally, discusses the EGTAG's objectives and components as part of the full spectrum of planned donor support for the ICF economic governance reforms.

1. Country and sector issues

a. General Background: Situated on the western third of the island of Hispaniola, Haiti is the poorest country in the western hemisphere. An estimated 76 percent of its 8.3 million population lives below the poverty line (less than US$2 a day) while approximately 56 percent lives in abject poverty (below US$1 dollar a day). At almost three times the regional average, Haiti's poverty level can only be compared to that of Sub-Saharan Africa,[1] and income inequality is amongst the highest in the world[2]. Haiti ranks 153rd (out of 177 countries) in the UN Human Development Index. Life expectancy is a dismal 52 years. Infant and maternal mortality rates remain amongst the highest in the world. Fully half of the population is illiterate. Malnutrition affects a third of all children, and ineffective public health and sanitation systems together with widespread poverty provide fertile ground for the rapid spread of such infectious diseases as

[1] Haiti Living Conditions Survey 2003; based on international poverty lines of US$2 PPP and US1 PPP per capita per day.

[2] As measured by a Gini coefficient of 0.65.

HIV/AIDS[3], tuberculosis, polio and human rabies. The widespread lack of solid waste management and access to potable water also contributes to many waterborne illnesses and preventable diseases and childhood deaths.

Despite its promising beginnings in the 19th century as the first slave colony to gain national independence and second free republic of the Western Hemisphere, Haiti's subsequent history has been fraught with problems. The 1986 termination of the 30-year dictatorships of François Duvalier and his son, noted for their corruption, police repression, and pillage of the country's wealth, was followed by a series of short-lived governments also fraught with corruption. The 1990 election of President Jean Bertrand Aristide was initially hailed as a break with past patterns. The seeming return to civilian rule was interrupted seven months later by a military coup that prompted an international embargo and the suspension of all but humanitarian aid. These actions further crippled Haiti's economy and produced a severe decline in the already dire living standards of its population. Activity in the textile and export-oriented assembly industries (representing over three quarters of export earnings as well as a considerable share of formal sector employment) virtually came to a halt; tax collection and expenditure control systems collapsed; and maintenance of the country's economic and social infrastructure was all but abandoned.

The return to constitutional rule, introduced via the U.S.-led reinstatement of Aristide's presidency in 1994, was followed in 1995 by the election of President René Préval. During the early years of his administration, Préval's adoption of an *Emergency and Economic Reconstruction Program* (EERP) appeared to embark Haiti on a path of economic recovery. However, by 1997 rampant corruption, internal power struggles, weak institutions and poor governance again took their toll on the economy[4]. Aristide's 1997 break from the *Organisation Populaire Lavalas* (OPL)[5] that had backed him since 1990 and establishment by him of the *Lavalas Family* (FL) unleashed a severe institutional crisis and a deadlocked parliament – ultimately suspended in 1999. In the absence of a legislative body, no major legislation (including budget laws) could be approved, ongoing reform programs were halted, and ratification of new loans with international creditors was rendered impossible.

Aristide's highly-contested landslide victory in the 2000 elections spurred civil unrest that continued to escalate over the next three years, provoking an armed rebellion that seized the northern half of the country and culminated with Aristide's resignation on February 29, 2004. His departure was followed by the creation of a Transitional Government[6] with a mandate to

[3] Haiti also leads the Western Hemisphere in reported cases of HIV infection rates.
[4] The economic crisis was further compounded in September 1998 with the advent of Hurricane George. Private transfers, largely in the form of remittances from migrants climbed from 1997 to 2001 to account for fully 18 percent of GDP. Such transfers were key to offsetting the impact of economic stagnation that grasped Haiti as a result of the political crisis and furthermore provided a much needed safety net for the Haitian poor in the absence of international aid.
[5] The OPL was later renamed the *Organisation du Peuple en Lutte,* soon to become the leading opposition party.
[6] The creation of this Transitional Government, with Supreme Court President Boniface Alexandre as Provisional President in accordance with Haiti's 1987 Constitution, was endorsed by a UN Security Council Resolution. Thereafter, a Council of Wise Men made up of seven eminent personalities from key sectors of Haitian society, designated Gerard Latortue as Interim Prime Minister, and on April 4, 2004, the Transitional Government, political parties (with the exception of the Lavalas) and civil society representatives signed a political pact agreeing on,inter alia, the organization of elections in late 2005 and the transfer of power to an elected government in early 2006.

hold democratic elections in end-2005 and hand over power to a new government in early 2006. Faced with the formidable challenge of confronting deep-seated political instability, weak institutions, inefficient use and allocation of resources, and the resulting mistrust of its citizenry, in April 2004 the Transitional Government joined forces with the donor community to draft the **Interim Cooperation Framework (ICF.)** The ICF identifies priority interventions and associated financing needs to support Haiti's path to economic, social and political recovery throughout the July 2004-September 2006 transition period. It also constitutes the foundation upon which a future medium-term *Poverty Reduction Strategy Paper* (PRSP) encompassing the period 2006-2009 will be prepared. The ICF is based on 4 pillars: (i) Strengthening political governance and promoting national dialogue; (ii) Strengthening economic governance and contributing to institutional development; (iii) Promoting economic recovery; and (iv) Improving access to basic services. The ICF also takes into consideration cross-sectoral issues, notably crisis prevention, human rights, gender, and HIV/AIDS.

b. Sector Specific Issues: For a variety of reasons, not the least of which are the weaknesses of its institutional base, Haiti's economic governance deteriorated severely over the past ten years leading up to the departure of the second Aristide government. Donor dissatisfaction with management of the funding they provided was a principal cause of their withdrawal of programs executed by the government at the end of the last decade, after which conditions continued to worsen. That donors remained present as long as they did was partly due to their ability to rely on Haiti's non-governmental organizations and/or to channel funds outside the government's normal financial management system, but as the GoH has continuously remarked, that strategy did not resolve and arguably may have compounded existing weaknesses. Services can indeed be provided through direct payments to NGOs, but the practice is neither sustainable nor a substitute for a well-functioning set of public sector institutions.

Following the installation of the Transition Government, there have been signs of improvement, as well as a willingness of donors to support its policy reform and institutional strengthening efforts. Before turning to these changes, this section reviews the existing situation and trends in the areas of economic governance. Although institutional weaknesses extend to all levels and sectors of government, attention here is on the functions and organizations most directly related to the programming and use of public resources – financial management in its most ample sense. As further developed below, the Bank has identified this area as critical to the success of its interventions as well as to Haiti's sustained recovery and future development.

Budgetary Process: Haiti's Ministry of Economy and Finance (MEF) has the responsibility for overall budget formulation, execution, and control, sharing programming and oversight of public investment with the Ministry of Planning and External Cooperation (MPEC). However, the 1985 Budgetary Law (replaced in 2004) defining the basic procedures, was never fully implemented, and critical positions and offices were simply not created. Offices that did exist were often understaffed and under-equipped. Parameters for budget analysis and data for budget preparation were weak, and the budget did not reflect all expenditures or revenues. Its contents were not linked to programs or higher level government goals (e.g. poverty reduction), but rather presented in line item form. The Treasury, which should manage liquidity and program disbursements according to available funds, had become little more than a mechanism for endorsing checks to employees and suppliers and processing accounts on an accrual basis.

Typically, deficit control was accomplished by tapping into reserves held by the Central Bank or accumulating internal and external arrears. The overall cash management system was weak and did not allow for proper control and synchronization between disbursements and receipts.

From 1997 through 2001, the government operated without an approved budget. The three following budgets were approved late into their fiscal years (which run from October 1 to September 30). The budget for 2004-05 was approved on time but by executive decree owing to the closure of the Parliament. Since 1997 an increasing share of public resources (reaching 60 percent in 2002-03) was channeled through multiple bank accounts held by individual ministries (called *comptes courants*) and/or largely assigned to a catch-all category called "*autres interventions publiques*." While it was not expected that funds so assigned be programmed beforehand, the requirement that their uses be subsequently documented and reported was routinely ignored.

Public Investment: On the investment side, officially managed by the Ministry of Planning and External Cooperation (MPCE), expenditures were not identified and planned in a coherent framework. Like the operations budget, investment projections were limited to a single-year timeframe. Sectoral ministries' planning offices (*Unités de Programmation*) played little part in the process, and in many cases had simply disappeared. By the mid 1990s, public sector investment had come to be driven by donor-funded and NGO projects. Donors typically set up special accounts with the Central Bank, but without an automatic transfer of information to the MEF. While the MEF eventually received information on these accounts and disbursements, aid supplied in kind was not registered at all. Although the FY2004-05 public investment budget rose to 6.2 percent of GDP (over the 2002-03 average of 2.1 percent), limited planning and execution capacity, as well as a lack of sufficient transparency, poses concerns as it involves vulnerability to misuse.

Control: Both internal control and external audit functions were also weak. Internal controls were affected by the lack of a well-structured accounting system, fragmentation of the accounting function, and the extensive use of *comptes courants*. The external audit of the government budget has not been done for several years, as the supreme audit institution, the *Cour Supérieure des Comptes et du Contentieux Administratif* (CSCCA) had focused nearly exclusively on ex-ante control, duplicating the functions of the Ministry of Economy and Finance's Directorate of Budgetary Control (DCB). The posts of several of the CSCCA's ten members had remained vacant for several years. The CSCCA also lacked sufficient staff and equipment as well as funds for training. Under the 1985 budgetary law, the CSCCA's role in ex-ante and ex-post control, and its simultaneous functioning as an administrative court presented potential conflicts of interest. Another usual source of external control, the Parliament, has not been in operation since early 2004, and was also closed during the period from early 1999 to mid 2000. Given the poor quality of information managed and provided by the Executive, and the Parliament' own institutional weaknesses, effective legislative review of the budget law and its execution will be a challenge for that body once it is reinstated following elections planned in end 2005.

Procurement: Until recently, public procurement operated under a 1989 decree which had never been fully implemented. The law itself had several flaws, including its failure to regulate certain types of public procurement, overregulation of some areas (e.g., by establishing membership of evaluation committees – *jurys de selection,* and the thresholds for the use of different procurement methods), and the provision for the CSCCA's prior approval of contracts, a clear conflict with its other roles. The system was decentralized, but the *Commission Nationale des Marchés Publics* (CNMP), which was to oversee its implementation, had not existed since the early 1990s, and the departmental commission had never been created. The ad hoc arrangements created to fill this institutional void proved to be neither efficient nor transparent and gave rise to accusations of corruption. Reduced operating budgets and salaries drove qualified procurement specialists to seek employment in the private sector. Sole-source (*gré-à-gré*) contracts and unadvertised bidding (*appels d'ofres restraints*) had become the norm, there were no standardized bidding documents or manuals, and information either on proposed or awarded contracts was not publicized or collected in a central data bank. Chronically slow payments to contractors, combined with a lack of legal recourse, resulted in higher prices, liquidity problems for vendors, and the potential for additional abuses.

Revenues: Both taxation and customs are decentralized agencies of the MEF, the *Direction Générale des Impôts (DGI)* and the *Administration Générale des Douanes (AGD)*, respectively. The repeated political and economic crises have affected the operations of both. During the February 2004 civil conflict, customs and tax offices were pillaged and already-inadequate equipment destroyed or removed. Despite some improvements begun in the mid 1990s (e.g., the creation of *l'Unité des Grands Contribuables (Large Taxpayers'Unit)*, and an office for customer service for the DGI, and well as the modernization of its *Pétion-Ville* office; improvements to Customs' information system), both entities remain inefficient, ineffective, plagued by corruption and fraud, and with an insufficient number of qualified personnel, who are furthermore inadequately deployed. There are problems with the narrow base and inequity of the tax system, non-integration of information systems, a weak organizational structure, poor working environment, and overly centralized decision making combined with inadequate controls and monitoring. There has additionally been a problem of the retention (and incomplete reporting) of revenues from fees and other sources by the agencies receiving them.

Public Enterprises and Infrastructure Management: Despite encouragement by the donor community, efforts to privatize Haiti's public enterprises advanced little in the 1990s; only two of the less important holdings were transferred to private hands. It appears that over the short run the rest will continue to be state controlled. This in itself may be less a problem than the fact that the services delivered have deteriorated significantly over the past ten years, and that the common practice has been either to milk the entities as cash cows or to use them to give employment to political allies and friends. Consequently, they are a drain on the public budget, are often overstaffed with nonessential personnel, and are known for their opaque, irregular, and unprofessional management practices. A World Bank review done in 2003 determined that of the five major public enterprises, only three were immediately auditable. The two others (Teleco, telecommunications, and EDH, electricity) would first have to clean up and reorder their accounts before an audit would be possible. Additionally, public infrastructure has suffered from a lack of maintenance over the years. The Ministry of Public Works, in charge of the road network, has lacked the required financial and human resources to ensure adequate road maintenance. The Ministry also lacks the capacity, or an adequate regulatory framework, to design and oversee policies in the several sectors.

Corruption, Vertical Accountability, and Transparency: Since its initiation, Transparency International's Corruption Perception Index (CPI) has placed Haiti in one of the three lowest rankings worldwide. While a study by Transparency International's Haitian branch indicated that the private sector believed corruption to be the leading constraint on economic growth and investment[7], it also showed corruption to be not only widespread, but also widely tolerated. Government's own 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 being used. Media coverage remains uneven, and civil society groups are few, tend to be concentrated in the capital city, and are relatively unprepared to deal with what information is available. Within government control mechanisms – the judiciary, public prosecution and police, as well as those already mentioned – remain weak, and are often suspected of their own internal problems. The offices of Fiscal and of Financial Control have yet to be established to provide the required internal checks, respectively, on revenue collection and expenditures.

Insufficient human resources: One of the greatest impediments to successful financial management in Haiti is the quality and quantity of human resources – the absence of a sufficient number of qualified personnel, within the MEF and the sector agencies to make the system work and the lack of a good incentive system to attract, maintain, and motivate it. The legal framework (a 1982 law and sections of the Constitution) emphasizes the importance of building a modern, reliable and competent public service based on equal access to employment and selection on the basis of merit. However, the cabinet-level office charged with overseeing the system was never created and the necessary *Arrêté,* a detailed set of specific regulations to govern the administration of personnel, has never been drafted. A series of donor-sponsored studies indicated that a majority of appointments has been made on the basis of political and personal connections. For those that did get a job, by whatever means, incentives for good performance were scarce. Public sector salaries lost fifty percent of their value between 1995 and 2000, and dropped more rapidly afterwards. There was little funding for training, and limits on the possibilities for promotion (for good performance) through a formal career system. Donors, NGOs, and the private sector often attracted the most qualified staff.

Human resource inadequacies took many forms. In highly technical offices (the statistical and economic studies offices, procurement personnel in ministerial and independent project units), while there were some qualified professionals, their number was often too small to accomplish their mandate. In a few cases (e.g., *commissionaires de douanes*[8]), redundancies ("a useless layer of extra semi-officials") were also a problem. The actual quality of existing staff had never been assessed, but there were clearly many areas where numbers were just too few to allow adequate implementation (taxation, customs, and local governments are mentioned in particular). Distribution of staff aggravated the problem, with most located in Port-au-Prince, meaning that programs depending on decentralized execution or enforcement consequently suffered.

c. Recent changes: The conditions described above were those confronting Haiti in 2003. Since that time, a series of steps has been taken to begin to rectify the situation. Many of these have involved the updating of the legal framework – the passage of a new Financial Management

[7] La Fondation Héritage pour Haiti, *L'Etat des Liux de la Corruption en Haiti, 2003.*
[8] World Bank (1999), Republic of Haiti : Country Procurement Assessment Report, Draft, September. p. 21.

Law (enacted in November 2003, and published in August 2004) and a new Procurement Decree (published in February 2005) are among the most important. The former, in addition to establishing the outlines of a new budgetary process, also mandated the creation of a new accounting system, distinguishing between authorizers (*ordonnateurs*) and approvers (*comptables*) of expenditures, created the position of *contrôleur financier* (internal ex-ante control) and a new internal auditing office (the *Inspection des Finances*), and removed the *Cour des Comptes'* ex-ante control functions, thus leaving it to focus on ex-post auditing and so eliminating one potential conflict of interest. The new Procurement Decree creates a *Commission Nationale des Marchés Publics* (CNMP) with a revised mandate and full-time members selected transparently with input from both the public and private sectors. The new Procurement Decree also formally establishes the requirement of competitive bidding practices over direct contracting for government procurement and includes new provisions governing the procurement of intellectual (consulting) services. A new civil service law has been drafted and is under study. Both the CSCCA and the CNMP are also working on additional laws and regulations to permit the implementation of their revised functions. A 2003 law created the *Fonds d'Entretien Routier (FER)* to finance road maintenance, although it is not yet fully operational.

Legal and institutional changes, including those effected before the transition, have produced additional progress – the vacant positions in the CSCCA have been filled, the *Commission Nationale de Marchés Publics* (CNMP) has been created and a director appointed, the FY2004-05 budget was prepared on the basis of the requirements of the 2003 Financial Management Law and presented in draft to the donor community and civil society organizations for consultations, and a Co-ordination Unit in the Prime Minister's Office has taken on the human resource functions, as a first step to establishing a new civil service law and agency to oversee its implementation. The unit has drawn up an action plan for meeting short and medium term human resource needs. Civil service salaries were increased by 30 percent in 2004, in consultation with the IMF; and an additional 15 percent increase is under study. The Ministry of Economy and Finance has also established an Anticorruption Unit (the *Unité de Lutte Contre la Corruption*, ULCC) and an office which will promote civil society monitoring of selected reform programs. The number of *comptes courants* has been reduced drastically (one per Ministry being the ultimate goal), and the amounts fed into them dramatically cut to less than 10 percent of cumulative non-salary current public expenditures since the beginning of FY 2004-2005.

Haiti also has a self-developed automated financial management system, SYSDEP, which has recently been installed in seven ministries. While it so far only tracks expenditures, and then incompletely, its development over the past three years has greatly improved the timely input of financial information. With donor support, including that of the World Bank, this information will be used by the civil society and anticorruption offices, as well as by the *Cour des Comptes* to facilitate the performance of their functions. The MEF is aware of the limitations of the present system and has sought donor assistance to expand its coverage and add additional modules to cover budget preparation, investment, contracting/purchasing, accounting (a General Ledger), human resources (especially salary management), and reporting. It has also been willing to entertain suggestions that SYSDEP be replaced by one of the several integrated financial management systems developed commercially.

While donor support pledged since 2004 has been slow in materializing, several donors now have recently approved projects in the economic governance area. These are discussed in further detail in the next section. Despite doubts about some aspects of the new Budget Law (e.g., its continuing single-year timeframe and focus on expenditure profiles only, the CSCCA's maintenance of its dual role as auditor and administrative court, lack of emphasis on performance or results), it represents a clear improvement over its predecessor. If Haiti can move to its full implementation, its ability to track, control, and demonstrate the use of public resources should raise the quality of public sector expenditures as well as increase both public and donor confidence. This will require considerable efforts to establish offices that still do not exist, train or hire personnel to fill new positions, work out in detail how new procedures will be carried out, and ensure that the sector ministries and agencies, and not just the office heading each function, are able to carry out their work. Given the apparently bureaucratic nature of many of the contemplated changes, it will also be important to explain their content and wider importance to nongovernmental constituencies, and to build support for the program with the broader public.

2. Rationale for Bank involvement

Consistency with the Transitional Support Strategy: Under IDA's Transitional Support Strategy[9] discussed by the Board in January 2005, during FY2005-2006 IDA would use a mix of lending operations, trust fund grants, and non-lending services to "support the transition to economic and social recovery, reduce the potential of a return to conflict, and lay the groundwork for the Bank's longer-term objective in Haiti: inclusive growth and poverty reduction through local development, institutional strengthening and support for productive sectors." Two areas of focus are emphasized: delivering hope and quick wins, and restoring credibility in institutions. The current proposal coincides explicitly with this second area, both in its emphasis on strengthening economic governance and on promoting inclusion and consensus on development priorities. It also will be an important input to the quick wins, in ensuring that public investments are made in a productive, transparent fashion.

Complementarity with other Bank Activities: As noted, the proposed operation is part of a package of assistance the Bank is providing to Haiti in the area of economic governance. The EGRO contains conditionality on economic governance reforms, and the LICUS Trust Fund is intended to provide the immediate technical and financial support needed to implement them. However, given their timeframes, both are limited as to the amount of change they can promote. The EGTAG is intended to build on their progress, and move Haiti toward more sustainable patterns of good economic governance. It will also be necessary to ensure the desired returns to other sector work included in the Bank portfolio. Since much of this work will be channeled through government agencies, the latter's ability to program and execute their funds in an efficient, effective, and transparent manner is key to their success. For this reason, the EGTAG, while implemented through and with the Ministry of Economy and Finance, and providing additional direct assistance to other central agencies (the CNMP, the MPCE, the CSSCA), will coordinate with efforts by other donors (principally the IDB) focusing on building capacity for good financial management within sector ministries.

[9] Transitional Support Strategy for the Republic of Haiti, Report No. 30541, December 10, 2004.

Complementarity with Other Donor Activities: The preparation of this operation has been done in close collaboration with other donor agencies active in the area of economic governance (IDB, USAID, CIDA, AECI, EU, IMF and the French Cooperation Agency). An economic governance group led by the Government is now operating in Haiti to help coordinate donor work and to ensure it meets Haitian priorities. The focus of this collaboration has been to ensure that the direction of donor support is consistent with ICF priorities and that there are no redundancies.

The actors with the broadest focus are the IMF, IDB, USAID, and the World Bank. Canada has begun some activities, focusing largely on the Ministry of Planning and External Cooperation and the sector planning offices, and Spain is beginning training programs to strengthen administrative and managerial capacity, starting with a course on project design and implementation. France intends to provide a few long-term advisors in the areas of customs, taxation, and budgetary reform. The IMF has undertaken a financial management review, the results of which have been incorporated in the EGTAG design. As regards donors working directly in the area, complementarity is being pursued by exchange of information and some joint planning of interventions. For example, as USAID had already set up a mission to evaluate SYSDEP and related aspects of tracking of budgetary information, both the IDB and the World Bank agreed to hold off action here, and instead use USAID's assessment as a first cut at identifying needs. As France and the IDB are taking the lead in customs and taxation, the World Bank will not be active there at this time. Likewise, several donors, including the World Bank, are financing the pre-audit and audit activities needed by the five major public enterprises, meaning that the EGTAG will not work there. Further work with the MEF, CSCCA, CNMP, and MPCE will be jointly programmed with the agencies involved; for example, IDA has shared its PCN for the EGTAG and its draft PAD with the IDB and USAID, the two agencies which will also support these entities, and Bank staff has been invited to join IDB meetings with their joint Government counterparts. The IDB and the World Bank also held a joint mission to Haiti in mid-April, coinciding with an IMF mission, and aimed at consolidating their joint and individual proposals with the Government. All work on economic governance is also complementary to the wider range of donor activities (outside economic governance per se) as improved public resource management is a *sine qua non* for effective project performance.

Lessons from Past Assistance: As the 2002 OED review of Bank assistance to Haiti notes,[10] a predominant reason for the low success rate of Bank supported interventions had been assuming the problems were only technical and financial rather than institutional and political. A secondary problem had been the differences in priorities between the government and the Bank (especially as regards privatization and civil service reform). A third was the continuous political turmoil and governance problems in Haiti, and a fourth was the offer, from all donors, of a level of assistance that overwhelmed the country's absorptive capacity. Finally, discontinuities in Bank staffing and the poor choice of some local hirings were identified as contributing to a low success rate of Bank supported interventions. Other donors[11] remarked on similar obstacles to their interventions, highlighting doubts about political commitment to reform, institutional weaknesses, and limited absorptive capacities. Similar lessons emerge from

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[10] World Bank, Operations Evaluation Department, Haiti Country Assistance Evaluation, Report No. 23637, February 12, 2002.

[11] United States Government Accountability Office, GAO (2000), "Foreign Assistance: Any Further Aid to Haitian Justice System Should be Linked to Performance-Related Conditions." (GA0-01-24), October 2000.

the LICUS Task Force report[12] which concluded that development assistance to countries with weak policies, institutions, and governance had been largely ineffective, and recommended that continued engagement focus on a mix of knowledge and grant financing to support improvements in policies, institutions, governance and basic service provision. The TSS' emphasis on "restoring credibility in institutions" and strengthening economic governance responds to these lessons, as does the proposed EGTAG. This is evident first in the EGTAC focus and coverage, but also in the stress on:

- coordinating donor activities,
- ensuring government ownership through the use of the ICF, and
- pursuing objectives incrementally.

3. Higher level objectives to which the project contributes
The higher level objectives to which this project contributes are those highlighted in the TSS – "inclusive growth and poverty reduction though local development, institutional strengthening and support of productive sectors." The emphasis in the proposed EGTAG is on institutional strengthening with an emphasis on economic governance. Without improvement in management of public resources (including those supplied by donors), sector programs focusing on growth, poverty reduction, and emergency relief and recovery will not be effective, and the country may face another withdrawal of external support. The operation also addresses the need for more inclusive policies and programs by incorporating elements of civil society monitoring, access to information, communication of reform contents and progress, and other mechanisms intended to foment broader participation in and support for governance reforms.

B. PROJECT DESCRIPTION

1. Lending instrument

The choice of a Technical Assistance Grant follows the LICUS Task Force recommendations (knowledge and grant funding) and its emphasis – as well as that of other donor programs -- on technical assistance for institutional strengthening. To ensure GoH ownership, the EGTAG supports ICF priorities and also includes benchmarks to facilitate monitoring of activities' implementation and ensure timely execution. Coordination with other donors will perform a similar function.

2. Program objective and Phases
The operation proposed herein is part of an assistance package described in the TSS, but also possibly extending beyond the period covered in that document.[13] Building on the measures supported under the EGRO and the emergency assistance under the LICUS Trust Fund grant, the US$2 million EGTAG is intended as the first step in a program of Bank support to Government efforts to improve economic governance. This program is based on the contents of the ICF, additional discussions with the Government, and information provided by other donors as to their on-going and intended support in the area. As should be clear from the preceding description of

[12] World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report, September, 2002.
[13] The TSS covers FY 2005 and 2006. It is expected that full achievement of the economic governance objectives will take longer.

the situation, quite independently of the amount of resources available, an effective, sustainable change program will require several years of concerted and sustained effort. The objectives outlined in the ICF, while essential, cannot be accomplished quickly; for several of them, experience in other countries suggests that a five-year time frame is reasonable assuming no setbacks. For this, both sustained government commitment and a substantial injection of donor resources will be needed. The Bank's medium term assistance program in the area of economic governance would be complementary to those provided by other donors. This somewhat complicates the task of outward planning. While the Government has indicated what it would like to achieve, the interested donors are also in the process of designing their medium-term support. Hence, the following description of the Bank supported program is subject to variation, depending on future additional donor commitments.

Movement into the next stages of the Bank-supported economic governance program will, of course, be contingent on continuing government commitment to the reforms, the results of this first stage, and advances made with other donor assistance. In the next section, the content of the EGTAG is discussed in greater detail. In the present section, the overall goals and envisioned content of the EGTAG and those of a possible second US$2 million TA operation that could be presented to the Board in the later part of FY06 are reviewed. The areas included in the two operations are similar except for the possible addition of a public enterprise component in the second. There are differences in emphasis: the EGTAG will include more efforts to lay out frameworks and strategies and to pilot new arrangements; the follow-on TA operation would build on the first, especially as regards implementing these strategic foundations and expanding pilot efforts deemed worth replication. Both are relatively short-term operations, and as noted above and below, a full medium-term assistance program will necessarily extend through five years, and would require additional funding.

Financial Management

- ***Budgetary Processes*** – the goal set out under the ICF is to: modernize the IFMS (SYSDEP); establish an accounting system compatible with international standards; set up a board of public accountants, strengthen budget preparation, strengthen the Ministry of Planning's ability in investment and project planning; and strengthen the role of the Treasury in managing all expenditures. These actions are centered in the MEF and in the MPCE, but also include strengthening of other relevant ministries and agencies across the public sector. The EGTAG will focus on providing support to the MEF and the MPCE in developing their capacities and systems, while support to the sector ministries and on SYSDEP would be covered by other donors. Under a possible follow-on TA operation, the Bank-supported program would continue support to the MEF and MPCE, but would also include a component on IFMS design, to ensure its consistency with the new procedures and organization. Current estimates are that the entire program, with funding from all sources, would cost US$8 million, of which less than half is currently covered by existing and planned donor programs. However, funding available within the TSS time frame (FY05-06) appears adequate for what can be achieved during that period, taking into account the government's absorptive capacities.
- ***Control*** – the ICF goal is to ensure that the regulatory framework matches the provisions of the new Organic Law on financial administration. Bank support under the LICUS

Trust Fund grant, the EGTAG and a possible follow-on TA operation, is a continuing, iterative process, helping the CSCCA to design its new organizational and normative framework and providing assistance (through specialized consultants, training, and equipment) to ensure it can perform its role adequately. Under a possible follow-on TA operation, more emphasis would be placed on the training of the *controleurs financiers*, responsible for internal control, and on ensuring the coordination of their work with that of the CSCCA. Estimated costs of activities are US$1 million, of which the Bank would provide the major portion.

- ***Procurement*** – the ICF goal is to establish a central control mechanism (the CNMP) and ensure its ability to carry out its work, strengthen sector procurement offices, strengthen private sector capacity to tender bids, and consolidate the judicial and regulatory framework. As with control, Bank support under the LICUS Trust Fund grant, the EGTAG, and a possible follow-on TA operation would be an iterative processing, focusing largely on the CNMP and depending on other donors (largely the IDB) for work on the sector ministries. Estimated costs are US$2.5 million, of which the Bank would provide roughly half. While these activities will take longer than the TSS timeframe, considerable progress should be possible within that period.
- ***Revenue management*** – the ICF includes two objectives: finalizing and implementing the strategic plan to reorganize and modernize the Customs Office, and finalizing and establishing a strategic plan to reorganize and modernize the Directorate General of Taxes. The Bank does not currently contemplate support here, as other donors (IDB, France and IMF) are taking the lead. Should additional assistance be necessary, it could be provided outside of the TSS timeframe.

Human Resources – ICF goals include adoption of a new normative and legal framework for human resource management; short- and medium-term training for staff; and development of mechanisms to improve staff incentives. EGTAG supports the first and second objectives; the possible follow-on TA operation would continue this support, but substantial improvements in the second and third areas will be a longer term process, and in the end require financial investments beyond those immediately available through any identified source. The most likely scenario is a larger program, with Bank and other support, initiated after the TSS period. Nonetheless, because of the centrality of this theme, and because other donors, while providing training, will not otherwise address it, it was decided to include a small component to keep it on the table.

Anti-corruption and Civil Society Monitoring – ICF objectives in the anti-corruption area include creation of an anti-corruption unit (accomplished), an anti-corruption survey (underway with Bank support), strengthening of the unit's capacities in investigation, anti-corruption programming, and public education; and development of a longer-term anti-corruption strategy. As substantial funding has been made available through the LICUS Trust Fund grant and other donors' programs, Bank support under both the EGTAG and a possible follow-on TA operation will continue at modest levels, focusing on targeted capacity strengthening assistance. Objectives in regard to civil society monitoring include development of a mechanism under the MEF to provide financial and technical support to civil society monitors. The Bank is currently the only donor providing support to civil society monitors. Since overall financing needs for the civil society monitors are estimated at US$1 million, and therefore exceed EGTAG's budget, additional Bank grant facilities are being sought to finance further activities in this area.

Communication and Outreach – ICF objectives include establishing a communications program that explains the vision and goals of the government's economic governance reform and provides public information on public resources and how they are managed and spent. The Bank is also supporting additional government and donor efforts around public communications and the ICF through the LICUS Trust Fund grant and plans to continue supporting communications efforts under the proposed EGTAG. Activities to be financed include the publication of reports from civil society monitors and press, television, and radio coverage of the economic governance reforms.

Public Enterprises and Infrastructure Management – ICF objectives include the auditing of accounts of five main public enterprises and actions to improve their management, including but not limited to private sector participation in or assumption of their administration (via management contracts). The LICUS Trust Fund grant provides funding for one audit; other donors (the EU, CIDA, the IDB) and in the case of TELECO, its parent the Central Bank, are funding additional audit and (where needed) pre-audit activities. A possible follow-on TA operation may provide some support for the second goal (already being explored through World Bank funded studies) and for the development of a regulatory framework, although the funding and temporal requirements suggest the activity may require its own program, with separate funding from the Bank and other donors.

The table below summarizes proposed Bank support through EGTAG and a possible follow-on TA operation. As indicated above, it should be stressed that some of the ICF objectives (especially in the areas of budget, human resources, private enterprises, and revenue collection) will require a longer time frame than that covered by the ICF or the TSS. The Bank's possible medium-term program in fact would extend beyond the TSS and the funding it includes.

Table 1: Medium-Term Program to Support Economic Governance

Area	Objectives and Funding Needs	EGTAG	Other sources	Possible World Bank Follow-on TA
Financial Management				
A) Budgetary processes	Development of budgetary system, including investment budget and IFMS Estimated US$8 million	Support to the MEF and the MPCE in developing their capacities and systems. US$550,000	LICUS Trust Fund Grant $77,000; USAID, US$1.2 million for IFMS evaluation and equipment; IDB US$2.5 million for equipment and support to sector ministries; CIDA and AECI support for project design and management	Up to US$1 million for continuation of EGTAG assistance and coordination with IFMS development

Table 1: Medium-Term Program to Support Economic Governance				
Area	**Objectives and Funding Needs**	**EGTAG**	**Other sources**	**Possible World Bank Follow-on TA**
			capabilities.	
B) Procurement	Development of CNMP and sector procurement system, new processes, and training of staff and private vendors in new processes Estimated US$2.5 million	Support to CNMP strengthening US$500,000	LICUS Trust Fund Grant US$231,800 for CNMP; IDB: US$1.34 million for support to sector ministries	Up to US$500,000 to continue EGTAG assistance
C) Control	Development of external and internal control systems Estimated US$1.0 million	CSCCA strengthening US$250,000	LICUS Trust Fund Grant US$270,000; IDB for internal control, part of component A above	Continue EGTAG assistance with emphasis on the training of the *controleurs financiers* and on ensuring the coordination of their work with that of the CSCCA. Up to US$250,000
D) Revenue	Strengthen DGI and Customs capacities, reorganizations, training, and equipment	Not included	IDB US$2.3 million; France and IMF, provision of consultants	Not included
Human Resources	Create human resource agency and program, strengthen legal framework, provide training Estimated US$750,000 for basic program Policy implementation amount TBD	Work on normative and legal framework; limited support to training institutes US$300,000	Support for training from AECI and as part of other donor programs Incremental funding , currently US$250,000 from AECI	Development of human resource unit and capacity for implementing merit career system [TBD]
Anti-corruption and Civil Society Monitoring	Create and strengthen anti-corruption unit and program for civil society monitoring of governance reforms and service delivery Estimated US$2 million	TA for capacity building in both areas US$230,000	LICUS Trust Fund Grant US$448,000; IDB to provide financing for ULCC including procurement data base (US$500,000); USAID financing for equipment and connections to SYSDEP (amount TBD)	Continue EGTAG assistance Up to US$200,000 for both subcomponents
Public Enterprises and Infrastructure Management	Audit principal enterprises, improve management, and build regulatory framework and institutions	Not included	LICUS Trust Fund grant to provide financing for one audit:	A possible follow-on TA operation could provide support for developing model for public enterprise management, including

Table 1: Medium-Term Program to Support Economic Governance				
Area	**Objectives and Funding Needs**	**EGTAG**	**Other sources**	**Possible World Bank Follow-on TA**
			IDB, EU, Canada, and the Central Bank financing other audits; PPIAFs for *FER*; development and study of management contract for EDH	via private sector participation in or assumption of their administration (via management contracts). Up to US$200,000
Communication and Donor coordination	Develop program to build public understanding of, and constituency for, economic governance reforms; build capacity within MEF to coordinate donor assistance in economic governance area	Funding to continue communication program begun under the LICUS Trust Fund Grant and to strengthen PCU's ability to coordinate donor assistance in economic governance area US$120,000	LICUS Trust Fund Grant for communication	Depending on results and further needs may contribute up to US$80,000 for both.

3. Project development objective and key indicators

a. Project Development Objective: The objective of the Economic Governance Technical Assistance Grant (EGTAG) is to assist the Government in strengthening its institutional capacity in the areas of budgetary planning and execution, investment and project planning, control, procurement, transparency, participatory monitoring, and reform constituency building. It is designed to advance changes begun with the EGRO and LICUS Trust Fund grant and to overcome weaknesses undermining Haiti's planning and implementation of its current and investment budget, the efficacy of all donor assistance, and public trust in public sector institutions. Specifically, the EGTAG's development objectives are to: (i) improve the government's ability to program, execute and track use of public resources and better link them to concrete development goals, ensure an adequate performance of the external, ex-post control function by the CSCCA, and help the CNMP grow into its role as overseer of procurement practices and make open, competitive procurement the rule rather than the exception; (ii) advance the development of a human resource management plan and system, especially as regards ensuring adequate capacity in the financial management system; (iii) advance the development of the Anti-Corruption Unit as an effective check on corruption while also encouraging the greater involvement of civil society in its own operations and as a monitor of economic governance reforms; and (iv) ensure as part of the project management process, an adequate system for communicating information on the reform programs and mobilizing public support for their furtherance, and coordinating activities financed by different donors.

b. Indicators: Specific results expected by project completion are listed in Annex III (Results Framework). Altogether, implementation of the EGTAG (in collaboration with activities of other donors) will provide an improved institutional and operational framework for the preparation and execution of the current and investment budget, tracking and control of expenditures, the implementation of the new procurement decree, identification, hiring, and training of key staff, and dissemination of information on the reforms and processes to Haitian citizenry. Emphasis will be on bringing existing structures and practices into conformity with the improved legal framework as preparation for subsequent steps leading to further institutional strengthening and public sector modernization. Because of the short life of the project, and the emphasis on institutional change, results indicators will focus on the latter, not on downstream impacts. They will measure the extent of adoption of new practices and structures in the following areas, as a necessary prelude to producing improvements in output:

- Implementation of key processes, staff, and offices defined by the new budget law and procurement decree;
- Advances in the creation of a system to manage human resources, compliance with normative framework, and development of improved regulations;
- Advances in the development and activities of the anti-corruption office and civil society monitoring program; and
- Advances in donor coordination, communication and outreach.

4. Project components

The project includes four main components: (i) financial resource management; (ii) human resource development; (iii) anti-corruption and civil society engagement; and (iv) communication, coordination, and project management. Below is a detailed description of each project component.

Component 1 -- Financial Resource Management: this is the largest component, absorbs the majority of the EGTAG's resources, and is presented as a single component because the parts are so closely interrelated. As the key area for economic governance, this component aims at the development of a capacity to produce and execute a budget, track its implementation, and reduce irregular uses and expenditures. The 2003 Budget Law and the 2004 Procurement Decree represent improvements over their predecessors, but like them could remain largely unimplemented and so have little impact. Aside from further implementing regulations (*Arrètés*), effective operationalization will require detailed design of new procedures, redistribution and possibly the addition of personnel (both in the MEF and in other agencies, including the MPCE and sector ministries), the creation of new functions and offices, training of personnel in their modified functions and procedures, and some improvements as regards management of information, ICT equipment, and the roll out and upgrading of SYSDEP. As USAID has programmed an evaluation of SYSDEP and has funds for equipment, it will take the lead there, with additional equipment financed by the IDB. Similarly, an IDB grant will provide funding for the development of a data base on procurement to be managed by the CNMP (and shared with the other agencies, including the ULCC). As regards other areas, the IDB and the World Bank have worked on the basis of the MEF's requests, each focusing its assistance as noted below.

- **Subcomponent 1.1 -Budgeting:** The IDB and USAID will finance most equipment needs and the latter will, in coordination with the IDB and World Bank, provide financial and technical assistance to evaluate SYSDEP and plan its expansion or replacement. The EGTAG will instead focus on design and implementation of basic budgetary procedures and functions as established in the new Organic Law. This will include supporting the MEF and MPCE to help staff implement procedures and instructions focusing on: developing a structure for budget elaboration, with increasing elements of a program-activity format; developing the accountability process still absent from the Financial Management Law; developing and implementing a sound cash-management system; implementing the internal ex ante control process (support for ex-post internal control will be provided by the IDB); and integrating at the central (MEF and MPCE) and in the sector ministries, the investment and current cost budgets and programming process. The IDB and CIDA will focus on supporting key sector ministries in implementing programming procedures developed in the MEF and MPCE with World Bank assistance.

  The LICUS Trust Fund grant finances two related activities: a study tour to review other integrated financial managements systems (which will be coordinated with USAID's initial findings) and a consultant to help the MEF develop a plan for implementing the new law, and possibly moving beyond it toward a more programmatic budget format (with some connection to a results framework, poverty reduction indicators, and a multi-year focus). This consultancy will provide the more specific design and action program for the activities listed above.

- **Subcomponent 1.2 – External Control:** The LICUS Trust Fund grant funding for the *Cour Supérieure des Comptes et du Contentieux Administratif* (CSCCA) will support class-room and on-the-job training of auditors in their new ex-post control function and the drafting of an updated Organic Law. Under the EGTAG, the CSCCA's initial experience with ex-post auditing will be evaluated, and further personnel, equipment, budgetary, and training needs identified, resulting in a plan for upgrading the agency's performance over the following two to three years. The EGTAG will support implementation of and further adjustments to this plan. Work will be coordinated with assistance provided by the IDB in the area of ex-post internal control, the only other donor agency to contemplate assistance in this area.

- **Subcomponent 1.3 - Procurement**: The EGTAG builds on assistance provided under the LICUS Trust Fund grant to support the newly created *Commission Nationale des Marchés Publics (CNMP).* It will support the CNMP's transformation into the permanent body mandated by law, the creation of a public-sector wide corps of procurement officials, and the development of and training in standardized procurement procedures. It will also continue work initiated under the LICUS Trust Fund grant in the development of standardized bidding documents, publication of information on bids and contracts, and the education of potential bidders and the general public on the procurement process. At the same time, IDB technical assistance will support strengthening of procurement departments within key sector ministries (Health, Education, Agriculture, Public Works, and Justice) and the CNMP's creation of a centralized database on suppliers and consultants available for government contracts, with input from and for use by all contracting entities. The IDB may also support work to prepare a new procurement law to present to Haiti's new legislature in 2006, building on the improvements introduced by the decree of February 2005. As with all elements under this component, this is an incremental process in which new procedures will be tested and modified according to preliminary results. It is contemplated that a consulting firm will be hired to support the Government in these activities, and that segments of its contract will be paid through the LICUS Trust Fund grant, the EGTAG, and the IDB programs.

Component 2 -- Human Resource Development: during the identification missions and as part of the ICF, a Bank consultant worked with 22 government agencies to develop an initial plan for meeting the public administration's most critical human resource needs. This plan will be the basis for further development of this area, but given the plan's estimated costs (in excess of US$100 million), the EGTAG will support the Human Resource Unit in the Prime Minister's Office to focus selectively on three areas to lay the foundations for subsequent work:

- **Subcomponent 2.1.- Strengthening of Human Resource Program:** this will provide support to the Prime Minister's Office (pending creation of a Ministry for the Public Function) to develop its capacity for monitoring human resources needs, policy, and programs and its ability to help other executive agencies develop plans for meeting their personnel needs over the next five years.
- **Subcomponent 2.2 Civil Service Reform:** Working with the Human Resource Unit and other agencies to design a longer-term civil service reform, including the necessary legal foundation. Under a possible follow-on technical assistance operation, steps would be taken to initiate implementation, probably on an agency-by-agency, or function-by-function basis.
- **Subcomponent 2.3 – Further development of training capacity:** Enhancing the Human Resource Unit's ability to plan training and the capacity of public sector training institutions to deliver the training needed for the first three areas. While course design will be financed under the other components of this operation or by other donors (e.g., AECI, USAID, IDB), the emphasis in this sub-component is on upgrading the overall planning capabilities and physical facilities of public sector's training institutions (the latter with the goal of eliminating the need to rent hotel conference rooms).

Component 3 - Anti-corruption and Civil Society Engagement: the LICUS Trust Fund grant is supporting establishment of the *Unité de Lutte contre la Corruption* (ULCC) and a program of civil society monitoring of economic governance reforms. The USAID and IDB "anticorruption" projects will fund some ULCC activities directly. The EGTAG will help develop the ULCC's capacity for anti-corruption programming, including skills and techniques needed for diagnosing institutional vulnerabilities (corruption maps) and the design of remedies, provide assistance in drafting improved laws (notably, a freedom of information law) and fund an evaluation of the early performance of the mechanisms for monitoring of economic governance reforms by civil society organizations.

Component 4 –Communication, Donor Coordination, and Project Management: the program supported by the EGTAG will be implemented under the project management mechanism developed for the LICUS Trust Fund grant, and will have an overall coordinator as well as an individual responsible for the area of budget reform (the MEF's own activity). The overall coordinator will have oversight of the World Bank, IDB and USAID activities in the areas covered by EGTAG; the budget reform coordinator will have oversight of IDB, USAID, World Bank, and other donor assistance in this specific complex reform area. One or more liaison officers will be responsible for tracking progress in the other components and entities, identifying difficulties in implementation of their programs, and helping address them. The PCU will also coordinate all donor assistance to economic governance, including holding periodic meetings (through the *Table Sectorielle* and related mechanisms) and the creation of a data base to track activities.

In addition, through the EGTAG the Bank will continue to provide support for communications activities around the EGRO that have been launched by the MEF with the LICUS Trust Fund grant support. This includes implementing a communications strategy and promoting two-way communications between the government and stakeholders to build consensus on reforms, increase understanding of economic reforms and their objectives, and promote input from stakeholders. It will be critical to ensure public understanding and support for reforms to ensure their sustainability.

5. Lessons learned and reflected in the project design: Aside from the general lessons applicable to all LICUS countries, experience in Haiti over the last year indicates three important lessons: (i) the need to work incrementally; (ii) the importance of constant communication and coordination among and within governmental agencies and among donors; and (iii) the key role played by the counterpart agency and its PCU in effecting this coordinating function. Also, while the government has shown a capacity to draft and pass new laws, their implementation has lagged. Before supporting the adoption of new legislation or systems, it therefore appears important to assist the authorities in implementing existing legislation. The new budget law and procurement decree include many worthwhile innovations, and it will be important to ensure they are implemented in full. As a result, the EGTAG focuses on assisting the Government in putting into effect the innovations it has recently introduced by law. It has also been apparent that despite the recent greater emphasis on donor coordination, more attention is needed to enhance this further and this has been a main focus in the preparation of the EGTAG and the definition of its project management arrangements.

6. Alternatives considered and reasons for rejection: A larger technical assistance operation was considered and rejected for the following reasons: (i) a new Government will enter in office in early 2006, at which time the World Bank, in coordination with other donors, will discuss with it the next phase of technical assistance needs in the economic governance area that could be supported by a possible follow-on TA operation, thereby ensuring full government ownership; and (ii) the need to link additional assistance to performance in implementation of the program and achievement of results on the ground. It was thus decided to provide assistance to Haiti on economic governance reforms in a two-phase approach as described in Section 2.

C. IMPLEMENTATION

1. Partnership arrangements. Not applicable

2. Institutional and implementation arrangements: A project coordination unit (PCU) already exists in the MEF to oversee the LICUS Trust Fund grant execution. Since the EGTAG will work with the same group of entities, in addition to the MEF, the same unit will be used, and will also oversee the IDB projects. As day-to-day activities for each component or subcomponent, in the EGTAG and other operations, would be handled by different government agencies, the major responsibilities of the PCU are to: (i) ensure that the implementation of the various components is on track; (ii) provide an overall vision and keep implementation in line with it; (iii); ensure compliance with GoH and other donor procurement and financial management regulations; and (iv) design and implement the MEF-specific component (the budgetary process). It is the last item in particular that requires strengthening as during project preparation it has become clear that if there is a single MEF vision on directions and priorities (the plan for implementing the new budget law), this needs to be better communicated to all the relevant parties in the public administration. The PCU will also need to add either a full- or part-time employee to oversee financial management as well as another to complete the processing of procurement actions.

The EGTAG will benefit from agency experience under the LICUS Trust Fund grant and the EGRO, in that by the time it comes into operation, all of the agencies will have a basic understanding of the project cycle and Bank procedures, know how to do a work plan, how to access funds, and how to apply procurement procedures and identify and hire consultants. Rather than ask the PCU to take over this job for the EGTAG, a development which would require a substantial expansion, the EGTAG will continue the current practice of using a local consultant to work directly with the various agencies. A coordinating body including representatives of the entities beyond the MEF, the overall coordinator, and PCU liaison officials will hold regular meetings to ensure overall inter-agency communication and coordination. Either in conjunction with this group, or separately, the PCU will hold periodic meetings with the donors financing these activities to ensure adequate coordination of their assistance. As needed, the EGTAG may also finance TA for the PCU, to deal with issues crossing agency borders.

3. Financial Management arrangements

Accounting. The MEF will have overall financial management responsibility for the project, following to a large extent the mechanisms put in place under the LICUS Trust Fund grant. Accounting of the LICUS grant operations is handled by the Accounting Unit of the MEF. One accountant was given specific tasks to keep a separate set of book of accounts for the grant while the usual approval and control mechanisms of the MEF were followed. Financial operations of the LICUS grant are therefore recorded and reported separately. Similar arrangements will be used for the EGTAG.

The same PCU will be used for both the EGTAG and the IDB financed technical assistance project. The current manual accounting system may thus require upgrading to cope with larger financing and facilitate reporting.

Disbursement. A project special account (SA) denominated in US Dollars will be opened at the Central Bank of Haiti or in a commercial bank on terms and conditions acceptable to IDA, and be managed by the MEF. Funds deposited in the SA will be used to finance the activities implemented directly by the respective entities. The MEF will disburse the funds directly to suppliers of goods and services upon request from the implementing entities and after control of all relevant supporting documentation. The authorized allocation to the SA will be limited to US$300,000 (representing approximately four months of expenditures.) Disbursements will be made on the basis of Statements of Expenditures.

Reporting. Financial Monitoring Reports (FMRs) will be prepared reflecting all components of the project and submitted to IDA. The FMRs will be an integral part of the activity report, and accordingly will follow the same periodicity. Given the nature of the activities to be financed (essentially consultant services and training), the FMRs will focus mainly on the financial situation of the project, while information on the physical progress and procurement activities will be provided in the activity report.

Auditing. Annual financial statements will be prepared by the PCU, and audited annually by independent auditors, in accordance with International Standards on Auditing and terms of reference acceptable to IDA. The auditors will be recruited no later than six months after grant effectiveness.

4. Monitoring and evaluation of outcomes/results: Monitoring and supervision of project implementation would focus on the achievement of expected results. The overall project monitoring and results framework is presented in Annex 3 and includes component- and subcomponent-specific indicators as well as aggregate monitoring indicators agreed upon with the government for supervision purposes.

Each component/subcomponent implementing agency would evaluate its progress vis-à-vis expected results and would inform the project PCU of the same in order to have aggregate progress reports prepared twice annually. The Bank would conduct, at a minimum, quarterly supervision missions to evaluate achievement of intermediate results and to agree with the participating agencies on adjustments when necessary. Since it is intended that the project be implemented within a 12-18 month timeframe, no mid-term review will be undertaken.

5. Sustainability: Government commitment to and ownership of the project is strong as indicated by its sponsorship of the ICF process which provides the basis for the activities included. The ICF was also instrumental in unifying donor views on the objectives and activities requiring support, and in encouraging an unusually high level of donor coordination in the preparation of their individual operations. The GoH's insistence on creating mechanisms to broaden citizen understanding of the reform process and to involve civil society in the monitoring of advances will also be critical in establishing and maintaining an external reform constituency and so helping the program sustain its impetus after the change of administrations. As these three factors – government commitment, consistency across donor programs, and citizen demand – are among the most important determinants of sustainability, the operation enjoys decided advantages there.

It is also important to note that the operation is not an isolated intervention, but rather is part of a longer-term IDA package and of a coordinated set of activities financed by other donors. It builds on activities already under way and, if successful, will be followed by additional technical assistance. Hence its sustainability must be measured within this context. This is an incremental process in which the EGTAG and the larger program aim to support the GoH in the attainment of the goals it has set out, and to accompanying it as it further develops its own vision.

6. Critical risks and possible controversial aspects

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
To Project Development Objectives		
Proximity of next elections and the chance that the new government will not support the project, or that because of the elections (or their failure to be held) civil violence will escalate	The project has been designed to support the first phase of implementation of economic governance reforms over a short time frame (12-18 months). When the new Government comes in office, IDA staff will discuss a possible follow-on TA operation to support the next phase of reforms. This incremental approach will encourage Government ownership in the medium-term and will also provide a means of determining whether it is appropriate to continue Bank assistance on economic governance areas. In addition, various project components (e.g. the communications strategy, the anti-corruption and civil society activities) are intended to build broader support for its goals and so decrease the chances of government's shifting direction. If the security situation were to deteriorate to the point of preventing the execution of the EGTAG, the Bank would remained engaged in the economic governance area through policy dialogue, analytical work and donor coordination.	S
Insufficient donor coordination impedes advances in key areas	Government-donors coordinating meetings in Haiti and in Washington will be held regularly, and project planning is being done in a coordinated fashion	M
To Component Results		
MEF's failure to establish a clear direction for implementation of the budget law makes it difficult to program activities, in this and in the other areas	Proposed joint donor project implementation arrangements for the activities supported by the EGTAG will contribute to improved coordination for the implementation of the budget law. The Minister of Economy and Finance has said he will follow IMF recommendations and that these will provide the direction for support provided by other donors	M
Weak institutional capacity in any or all components and failure to enact enabling legislation prevents forward movement in one or more of them	As with the LICUS Trust fund grant, the EGTAG will use a local consultant to work with the agencies in putting together their work plans and making procurements. While waiting for a new Parliament to be seated for the approval of complex legislation, the current Government has been passing decrees to ensure enactment of critical legislation.	M
GoH is unable to provide the staff needed for one or more of the agencies	Training will be used to bring staff already in place closer to the required capabilities, but for the MEF, CNMP, CSCCA Government's commitment to fill required posts will be critical. Staff from the diaspora financed by donors is also being hired.	M

7. Grant conditions and covenants

The preparation of a project implementation manual acceptable to the Bank will constitute the sole condition for effectiveness. The inclusion of this condition will ensure that the work is kept on track and will guarantee that the project is implemented per the original agreements and understandings with the GOH.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Although the proposed US$2.0 million project would have a minimal direct economic and financial impact, in as much as the project aims at improving the use of public sector resources, reducing corruption and waste, and increasing public (and donor and investor) confidence, its indirect impacts are expected to be considerable. Moreover, if the EGTAG successfully meets its objectives, it should at the very least encourage the donor community to increase their programs in Haiti and with the Haitian government in particular. It should also ensure that public funds are invested in a manner that would increase public benefits and substantially reduce leakage towards nonproductive uses.

2. Technical

The project poses no technical issues.

3. Fiduciary

Fiduciary and capacity assessments of the MEF and other participating entities have been undertaken. Both assessments have concluded that all units would be adequately prepared to manage the proposed project's procurement processes and finances upon completion of certain recommendations set forth in Annexes 7 and 8.

4. Social

This project currently triggers none of the Bank's social safeguard policies.

5. Environment

This project currently triggers none of the Bank's environmental policies.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[ ]	[x]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[x]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[x]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[x]

7. Policy Exceptions and Readiness

The proposed project would not require any exceptions from Bank policies and would comply with all applicable Bank policies.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Annex 1: Country and Program Background

HAITI: Economic Governance Technical Assistance Grant

A. Country Overview

Situated on the western third of the island of Hispaniola, Haiti is the poorest country of the Western Hemisphere. With a population of approximately 8.3 million, an estimated 76 percent lives below the poverty line (less than US$2 a day) while approximately 56 percent live in abject poverty (below US$1 dollar a day). At almost three times the regional average, Haiti's poverty level can only be compared to that of Sub-Saharan Africa,[14] and income inequality is amongst the highest in the world[15]. Haiti ranks 153rd (out of 177 countries) in the UN Human Development Index. Life expectancy is a dismal 52 years. Infant and maternal mortality rates remain amongst the highest in the world. Fully half of the population is illiterate. Malnutrition affects a third of all children, and ineffective public health and sanitation systems together with widespread poverty provide fertile ground for the rapid spread of such infectious diseases as HIV/AIDS[16], tuberculosis, polio and human rabies. The widespread lack of solid waste management and access to potable water also contribute to many water borne illnesses and preventable diseases and childhood deaths.

B. Political Context

Despite its promising beginnings in the 19th Century as the first and only slave colony to gain national independence and second free republic of the Western Hemisphere, Haiti's subsequent history has been fraught with political and economic instability. During the mid 20th Century Haiti endured a 30 year dictatorship characterized by corruption, repression, and the pillage of its wealth. Its termination in 1986 was followed by a series of short lived governments also wrought with corruption, which led to the 1990 election of now exiled President Jean Bertrand Aristide.

Initially hailed by a hopeful populace as the "first leader of the people" since Haiti's hard-fought independence, Aristide had little time to effect his promises to end political instability, conflict, and corruption. Seven months into his administration, the military overthrew him, prompting an international embargo and the suspension of all but humanitarian aid. These actions further crippled Haiti's economy and prompted a severe decline in already dire living standards. Activity in the textile and export-oriented assembly industries (representing over three quarters of export earnings as well as a considerable share of employment) virtually came to halt; tax collection and expenditure control systems collapsed; and maintenance of the country's economic and social infrastructure was all but abandoned.

The return to constitutional rule introduced via the U.S.-led reinstatement of Aristide's presidency in 1994, was followed a year thereafter by the election and presidential term of

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[14] Haiti Living Conditions Survey 2003; based on international poverty lines of US$2 PPP and US1 PPP per capita per day.

[15] As measured by a Gini coefficient of 0.65.

[16] Haiti also leads the Western Hemisphere in reported cases of HIV infection rates.

President René Préval. Over the next two years, Préval's *Emergency and Economic Reconstruction Program* (EERP) showed promise towards embarking Haiti on a path of economic recovery. Indeed, economic indicators for the period 1995-1998 reveal that measures adopted by the Government to improve economic management had a favorable impact. Unfortunately, by 1997 corruption, internal power struggles, weak institutions and poor governance had begun to reverse this progress.[17] Aristide's 1997 break from the *Organisation Populaire Lavalas* (OPL)[18]that had supported him since 1990 and establishment by him of the *Lavalas Family* (FL) unleashed a severe institutional crisis and a deadlocked parliament – ultimately suspended in 1999. Absent a legislative body, no major legislation (including budget laws) could be approved, ongoing reform programs were halted, and ratification of new loans with international creditors was rendered impossible.

Aristide's highly contested landslide victory in the 2000 elections spurred civil unrest that continued to escalate throughout the next four years. This unrest ultimately gave rise to an armed rebellion that seized the northern half of the country and culminated with Aristide's resignation on February 29, 2004 and the establishment of a Transition Government[19] with a mandate to create the conditions necessary to hold democratic elections in end-2005 and hand over power to a new government in early 2006.

C. The Transition Government – Paving the Road for Democratic Reform

The 20th century legacy of predatory presidencies, founded on, preserved and safeguarded through corruption, pervasive rent seeking, and brutal human right violations, devastated Haiti's economy, political institutions and infrastructure, not to mention the plight of the population at large. Faced with the formidable challenge of confronting deep-seated political instability, weak institutions, inefficient use and allocation of resources, and the resulting mistrust of its citizenry, in April 2004 the Transition Government joined forces with the donor community to prepare the **Interim Cooperation Framework (ICF.)**

[17] The economic crisis was further compounded in September 1998 with the advent of Hurricane George. Private transfers, largely in the form of remittances from migrants climbed from 1997 to 2001 to account for fully 18 percent of GDP. Such transfers were key to offsetting the impact of economic stagnation that grasped Haiti as a result of the political crisis and furthermore provided a much needed safety net for the Haitian poor.

[18] The OPL was later renamed the *Organization du Peuple en Lutte,* soon to become the leading opposition party.

[19] The creation of this Transitional Government, with Supreme Court President Boniface Alexandre as Provisional President in accordance with Haiti's 1987 Constitution, was endorsed by a UN Security Council Resolution. Thereafter, a Council of Wise Men made up of seven eminent personalities from key sectors of Haitian society, designated Gerard Latortue as Interim Prime Minister, and on April 4, 2004, the Transitional Government, political parties (with the exception of the Lavalas) and civil society representatives signed a political pact agreeing on,inter alia, the organization of elections in late 2005 and the transfer of power to an elected government in early 2006.

Box 1: Summary of the ICF

Pillar 1. Improving political governance and promoting national dialogue: This pillar covers security, police, and demobilization, disarmament and reintegration, justice, prisons and human rights; and the electoral process.
Pillar 2. Strengthening economic governance and promoting institutional development: This pillar focuses on economic governance, strengthening institutional capacity, and regional, urban and local development and decentralization.
Pillar 3. Promoting economic recovery. This pillar seeks to support macroeconomic stability, electricity, private sector, notably SMEs, development, rapid job creation and microfinance, agriculture, roads and transport, and environmental protection and rehabilitation.
Pillar 4. Improving access to basic service. This pillar focuses on urgent humanitarian aid and post-disaster reconstruction; water and sanitation; health and nutrition; education, youth and sports; culture, the media and communication; food security; slum upgrading; solid waste; and safety nets and social protection.

Source: Haiti Country Overview

The ICF identifies priority interventions and associated financing needs to support Haiti's path to economic, social and political recovery throughout the July 2004-September 2006 period. It also constitutes the foundation upon which a future medium-term *Poverty Reduction Strategy Paper* (PRSP) encompassing the period 2006-2009 will be prepared. The ICF is founded on 4 pillars: (i) Strengthening political governance and promoting national dialogue; (ii) Strengthening economic governance and contributing to institutional development; (iii) Promoting economic recovery; and (iv) Improving access to basics services. The ICF also takes into consideration the cross-sectoral issues of crisis prevention, human rights, gender, and HIV/AIDS (refer to Box 1 above.)

D. Jumpstarting Growth and Poverty Reduction through Improved Governance

As indicated in the ICF, it is now widely agreed that **poor economic governance and weak institutional capacity have constituted the key impediments to economic growth and poverty reduction in Haiti** and that in the absence of fundamental economic governance reforms, no other reforms can be achieved much less sustained. Hence, the strengthening of Haiti's economic governance structure is considered a *sine qua non* to the success of the ICF and ultimately Haiti's future.

In response to the Government's program, on January 6, 2005 the Bank's Board approved a **Transitional Support Strategy (TSS)** which provides assistance to Haiti for the implementation of the ICF. The TSS provides a two-year strategy for Bank support comprised of a mix of credits, grants and non-lending services totaling up to US$150 million. Beyond supporting efforts to meet basic and urgent needs and promoting income generating opportunities, the launch of reforms that promote longer-term economic governance and institutional development is central to the Bank's support of the Transition Government's ICF.

The ICF identified 5 critical areas in need of reform if long-term economic governance and institutional development are to take root and thrive, namely: (i) public procurement; (ii) budget process; (iii) ex-ante and ex-post financial control (including by the Superior Court of Accounts and Administrative Litigation and the fight against corruption); (iv) public enterprise management; and (v) strengthening of human resources for policy formulation and program implementation.

E. Economic Governance - Overview of Prevailing Challenges and Planned Reforms and Activities

During preparation of the ICF, the Government and the donor community identified the structural obstacles prevailing in each of the 5 areas targeted for reform under Pillar II of its reform agenda *(i.e, Strengthening economic governance and contributing to institutional development)* together with measures aimed at rectifying existing deficiencies. What follows is a summary of said findings and proposals.[20]

Challenge 1: Public Procurement.

The legislative framework prevailing in 2003 was founded on the Public Procurement Decree of 1989 which called for a decentralized national procurement system whereby sector ministries, administrative units and public enterprises were entrusted responsibility over public procurement management under the supervision of a national public procurement commission *(Commission Nationale des Marchés Publiques – CNMP)* with auditing responsibilities bestowed on an independent agency. However, a regulatory framework necessary to implement the Public Procurement legislation had not been enacted. Furthermore, the CNMP had not functioned since the early '90s. This was due to an institutional void caused by the absence of a Ministry of Civil Service, which according to the procurement decree, was mandated to coordinate the CNMP's functions. In the absence of the necessary regulatory legislation and oversight, ministries and agencies found themselves hard-pressed to adopt alternative methods to procure goods and services – rendering them open to opportunities for and allegations spanning from inefficient procurement practices at best and to large-scale corruption at worst. The situation further deteriorated as ever-decreasing levels of public expenditures coupled with increasing non-compliance with procurement procedures prompted qualified procurement staff to abandon the ranks of the civil service.

In order to rectify these deficiencies the ICF proposed that the following measures be adopted.

- *Establishment of an interim public procurement commission under the authority of the Prime Minister to fill the current void in the supervision of the public procurement function.* This interim body[21] comprised of five two-year full-time staff, recruited through a competitive selection process, would exert control and oversight functions over the system of public procurement and contracts. All meetings would be opened to observers, NGO's and independent project entities. The interim commission would be allocated sufficient operational budget to allow it to recruit external expertise as necessary.

- *Recruitment of public procurement specialists.* Fixed-term public procurement specialists (agents) would be recruited by the interim commission to supervise procurement above a threshold, yet to be determined. These specialists/agents would train relevant interim commission staff in all facets associated with the management and oversight of public procurement including the training of public and private sector enterprise staff so that oversight responsibilities could be taken over by the interim commission staff within a one-year period.

[20] This section draws heavily from the Economic Governance Strategic Group's Sectoral Report: *Haiti's Interim Cooperation Framework*, May 26, 2004

[21] The interim commission could be formalized via passage of public procurement legislation.

➢ *Reinforcing transparency.* The creation of an Anti-corruption Unit together with the passage of a professional code of ethics and dissemination of information/data on procurement processes through both a website and daily journals would go a long way to reduce both the opportunities for and perception of corruption on the part of civil servants involved in procurement functions.

➢ *Strengthening of private sector capacity to tender bids for Government contracts and procurement.* To this end, the interim national commission would: (i) hold discussions with the Central Bank, commercial banks and insurance companies to identify measures to facilitate private sector participation in public bidding; (ii) impart training to the private sector on procurement regulations; (iii) facilitate the open tendering of bids; and (iv) ensure prompt response to inquiries, claims or grievances on behalf of bidders.

➢ *Consolidation of Judicial and Regulatory Procurement Framework.* The Government would retain a legal consultant to assist in the preparation and implementation of new public procurement and contract legislation and would furthermore formalize the status of the interim commission.

Challenge 2: Budget process.

Between 1997 and 2002, Haiti had operated without a budget and in 2002/03, approximately 60 percent of government expenditures were spent through the respective Ministries' own accounts (*comptes courants*)--so-called discretionary accounts which effectively evaded tracking mechanisms thereby considerably reducing the transparency and control of public expenditures. The ICF noted that the overall efficiency of the budget process is undermined by a combination of weak capacity of the planning, monitoring and assessment structures throughout the Ministries of Finance, Planning and all other sector ministries and agencies; delays in budget ratification, deficiencies in both the parameters for budget analysis and data underpinning budget proposals, and the pervasive use of *comptes courants* by the ministries to circumvent a lengthy and cumbersome expenditure execution process. The latter were found to be particularly conducive to mismanagement and corruption given their considerably discretionary nature and the fact that use of such accounts is neither subject to *ex ante* nor *ex-post* budgetary scrutiny.

The ICF proposed that the following measures be adopted to correct the above cited structural inefficiencies:

➢ *Modernization of the State's automated financial management system.* Successful implementation of this action would require that: (i) the SYSDEP management team receive assistance in drafting a development plan while actions would be taken in parallel to (ii) operationalize the DAC System; (iii) improve the existing SYSDEP module; and (iv) integrate the State budget module into the DAC so as to facilitate real-time processing of State financial transactions.

➢ *Establishment of a State accounting system.* A unit would be established within the Treasury Department to implement a module based on a standardized accounting code and format that would facilitate the recording of nearly all State financial operations in a double entry fund accounting system thereby enhancing transparency.

- *Establishment of a Board of Public Accountants.* To this end, qualified public accountants would be recruited and trained and statutory orders and regulations would be drawn up to clearly differentiate the functions of authorizer from those of accountants.

- *Strengthening of Budget preparation.* This would entail *inter alia* strengthening the analytical capacity of the MEF in budget planning and preparation and imparting training programs on budget processing to key officials responsible for the budget function; ensuring that budget information is linked to the Government's expenditure and poverty reduction goals; and drafting of a public investment budget consistent with the ICF and a national strategy for poverty reduction (PRSP).

- *Reinforcing the capacity of the Ministry of Planning in its role as coordinating public investment for development activities.* To ensure effective program and project monitoring, the Evaluation and Control Directorate (*Direction d'Evaluation et de Controle, DEC*) as well as departmental offices would be reopened and provided the support necessary to carry out their respective oversight roles.

- *Strengthening the role of the Treasury and eliminating parallel institutional accounts.* A single Treasury Account (CUT) under the auspices of the Treasurer-General would be established by transferring all state revenues (including *comptes courants*) into a single Treasury account. This would increase the Budget Office's capacity to assess the State's financial standing prior to authorizing expenditures.

- *Completion and implementation of the strategic plan to reorganize and modernize Customs Offices.* The plan calls for *inter alia* (i) decentralizing the monitoring system; (ii) creating an *ex-ante* control unit to expedite document verification (iii) establishing an information and documentation unit to track fraudulent activities and determine selection criteria; (iv) creating an arbitration unit; (v) setting up a declarations assessment and assistance unit in Port-au- Prince; and (vi) strengthening the quality of service of staff in the provincial offices through training of same and refurbishing of offices.

- *Completion and implementation of a strategic plan to reorganize and modernize the Directorate General of Taxes.* This would entail: (i) mobilizing resources; (ii) expanding and strengthening the revenue envelope and modernizing the revenue collection roles; (iii) recovering overdue and outstanding taxes; (iv) improving the quality of assistance to tax payers; and (v) collecting other State receivables and claims.

Challenge 3: Financial Control

December 2003 saw the passage of the Organic Law on the Preparation and Execution of Laws on Finance. This law modernizes and clearly delineates the roles of the *Supreme Court of Accounts and Administrative Litigation* (CSSA) as well as other public finance institutions and furthermore establishes a regulatory framework conducive to the efficient control of public finances. Upon drafting of the ICF, overall control over public finances as called for in the 2003 Organic Law, was seriously undermined by a series of factors:

- *CSSA*. Although responsible for exercising exclusive oversight of the public finance audit functions, the CSCCA's energies and resources had hereto been limited to its ex-ante control functions due to such factors as lack of qualified personnel, training and competitive salary structures; outdated equipment and data systems; improper and/or lack of preparation of final accounts by the Accountants General; lack of cooperation among state institutions; and the wide scale use of *comptes courants*.

- *Direction du Controle Budgétaire (DCB).* This agency (located within the MEF) is charged with the responsibility of enforcing compliance with investment and operational functions. To this end, the DCB tracks the execution of budget expenditures and generates periodic reports that identify gaps between expenditures programmed and executed and formulates strategy for corrective actions. As in the case of the CSCCA, the overall efficiency of the DCB's operations is seriously hampered by inadequate structure, personnel, and office infrastructure.

- *Directorate of Fiscal Inspection.* This agency exerts permanent control over all agencies responsible for the collection and recovery of duties, taxes, fees and other charges and revenues on behalf of the State. A key impediment to its efficient functioning stems from its inability to inspect *comptes courants* which in turn undermines the Government's capacity to evaluate the economic, financial and/or social impact of such expenditures.

The following measures were proposed by the ICF to correct the above inefficiencies:

➢ *Establishment of the Regulatory Framework for the new Organic Budget Law.* This action would entail (i) the publication and dissemination of the new organic law, regulatory provisions on the responsibilities of *ordonnateurs* and enabling legislation for the creation of a board of public accountants; and (ii) drafting the regulatory provisions on the status of the financial comptrollers.

➢ *Provision of support to public finance control structures.* Support would be provided to the National Treasury, CSSA, DCB and DEC to bolster their ability to efficiently carry out their functions in accordance with the Organic Law on the Preparation and Execution of Laws on Finance. Actions would include but are not limited to: (i) reorganizing the CSSA, training its staff and providing logistical support as necessary; (ii) setting up a board of financial comptrollers at the DCB and providing this office with the technical assistance and logistical support necessary to reinforce its organization and control methodologies; (iii) rationalizing the management of *comptes courants* and eventually eliminating them; (iv) strengthening the Directorate of Evaluation and Control (MPECE).

➢ *Strengthening the Directorate of Fiscal Inspection* through such actions as: equipping it with procedures manuals, and adequate informations systems; the hiring and training of staff in the areas of accounting, auditing and information technologies; and the provision of necessary logistical infrastructure.

➢ *Other.* Finally, the feasibility of eventually creating an *Inspectorate General of Finance* would be analyzed.

<u>Challenge 4: Public Enterprise Management.</u>
Historically treated as sources of funding or employment providers, Haiti's public enterprises have fallen prey to a legacy of mismanagement that ultimately undermined their overall efficiency and profitability. Within the context of the ICF, five state-owned enterprises (SOEs) were chosen to spearhead a strategy geared to improve the management of public enterprises as a further venue to bolster national economic recovery and growth, i.e., the national electricity (EDH); telephone (TELECO); airport authority (AAN); ports (APN); and potable water supply (CAMEP) companies. In general, the ICF calls for a package of interventions in auditing and management consultation in each of the five SOEs aimed at (i) increasing the overall transparency of public enterprise management and (ii) preparing them for increased private sector participation in their management structures and recapitalization to ensure their technical and financial viability.

Specifically, the following actions would be undertaken within the context of the ICF:

National Airport Authority (Autorité Aéroportuaire Nationale, AAN).

- *External audit.* An audit of AAN's FY2003 accounts, financial statements and financial position would be undertaken.

- *Management Review/Assessment of Master Plan.* AAN's capacity to meet the civil aviation and security service needs of the Haitian airports would be evaluated, and options and a schedule proposed for private sector participation in the management and/or recapitalization of same.

National Port Authority (Autorité Portuaire Nationale, APN).

- *Secure international certification for the Port au Prince Port* so that international maritime companies can continue to operate in Haiti.

- *External audit.* An audit of APN's FY2003 accounts, financial statements and financial position would be undertaken.

- *Strategic Review.* APN's strategy would be assessed and options and a schedule proposed for private sector participation in the management and/or recapitalization of the ports. Furthermore, the institutional, financial, technical and operational viability of the Jacmel Port would be undertaken on a pilot basis.

Metropolitan Potable Water Supply Agency (Centrale Autonome Métropolitaine d'Eau Potable -- CAMEP).

- *External audit.* An audit of CAMEP's 2002/04 accounts, financial statements and financial position would be undertaken.

- *Management Review of CAMEP.* The overall viability of the strategies to improve CAMEP's potable water and sanitation services in the Port-au-Prince metropolitan area would be assessed and options and a schedule to promote private sector participation in the management and/or capitalization of CAMEP would be provided.

Haiti Telecom (TELECO).

- *External audit.* A review of the accounting records, automation of the data management process and auditing of financial statements for FY 2003/04 would be undertaken.

- *Provision of advice on steps for securing private management of TELECO over a fixed period.* This would entail among other things the definition of: (i) services to be included within the management contract; (ii) the strategy and process for establishing prerequisites and honoring State commitments; (iii) management contract cost estimations; (iv) criteria for selection; and (v) the selection and negotiation of the associated management contract.

Haiti Electricity (Electricité d'Haiti - EDH).

- *External audit.* A review of the accounting records, automation of the data management process and auditing of financial statements would be undertaken.

- *Provision of advice on steps for securing private management of EDH over a fixed period.* This would entail among other things the definition of: (i) services to be included within the management contract; (ii) the strategy and process for establishing prerequisites and honoring State commitments; (iii) management contract cost estimations; (iv) criteria for selection; and (v) the selection and negotiation of the associated management contract.

Challenge 5: Strengthening Human Resources.

Although the 1987 Constitution and prevailing legal framework underscore the importance of building a modern, reliable and competent public sector firmly grounded on equal employment opportunities and merit-based recruitment and promotion practices, the Government's overall efficiencies is seriously undermined by a generalized insufficiency in the number of qualified civil servants and the lack of an incentive structure capable of attracting, maintaining and motivating it. Moreover, Haiti's public agencies are particularly vulnerable to high turnover associated with political fallout which in turn undermines efforts to professionalize career civil servants. The level of technical expertise throughout all ranks of the public sector is limited as evidenced in the fact that: (i) senior officials comprise 5.6 percent of public service employees; (ii) technical personnel make up between 35 and 40 percent; while (iii) fully 65 percent of the public sector is comprised of support staff. To a large extent, the precarious state of the public sector reflects in part the failure of Haiti's institutions of higher education and life-long learning to develop policy management training programs that can meet the human resource needs of the public service.[22]

[22] Economic Governance Strategic Group Sectoral Report: *Haiti's Interim Cooperation Framework*, May 26, 2004.

The ICF identified the following measures to address the above inefficiencies::

- *Hiring of critical staff at the decision-making, conceptual and execution levels for ICF implementation.* Over the short term, this could be achieved through: (i) competitive recruitment of qualified young professionals (i.e., public service officials, staff or consultants); (ii) participation of qualified executive of the Haitian Diaspora for 1 to 2 years; (iii) hiring of consultants by lenders for 4 to 6 months.

- *Training of existing staff over short and medium term:* Needs based training anchored in the program offerings of existing training institutions could be imparted. With the collaboration of foreign training institutions, the latter could be developed into individualized programs.

Adoption of an incentives-based system to retain qualified civil servants. A system of incentives, including salary increases, would be developed to attract and retain competent staff.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
HAITI: Economic Governance Technical Assistance Grant

Sector Issue	Project	(PSR) Ratings	
		IP	DO
Bank-financed			
Economic governance reform including support to fiscal management, budget processes and financial control; public sector procurement; HR management, public enterprise management, private sector participation in health and education; civil society monitoring of economic governance reforms, the development of an anti-corruption strategy.	Economic Governance Reform Operation (EGRO) (IDA US$61.0M)	S	S
Capacity building for governance reform in three areas of public procurement; budget process and financial control; and public enterprise management.	LICUS Trust Fund Support for Economic Governance Reforms (LICUS TF US$1.5M)	S	S
Urgent reconstruction needs and restoration of basic services for the poor in the aftermath of the May and September 2004 floods	Emergency Recovery and Disaster Management Project (ERDMP) (IDA US$12M)	S	S
Preparatory studies and training for Establishment of road maintenance fund (*Fond d'Entretien Routier*) to ensure its effective operation.	PPIAF: Road Maintenance Fund TA	S	S
Review of technical, legal, political and environmental constraints related to the creation of a management contract for the EDH.	PPIAF: Feasibility Studies of Management Contract in EDH	S	S
Other development agencies			
Approved Projects			
Review of existing IFMS (SYSDEP) and adequacy of existing hardware for its roll-out. Emphasis is on enhancing connectivity of budgetary system, including tax and customs agencies. Purpose is to make available information for citizen and ULCC review.	USAID, US$1.2 million for FY 05-06. May be increased later		
Addresses general training needs in public sector management and skills, including for project design and management	AECI – first course (April, 05) for Euros US$168,000. One more programmed for before October. Further work depends on what happens after elections.		
Institutional strengthening of MEF for design, monitoring and evaluation of economic and fiscal policies; build service delivery capabilities in key public entities; finance Coordination Unit in MEF	IDB, Institutional Strengthening Initiatives, US$950,000 grant funding		
Revenue collection: (i) strengthen DGI, diagnosis, action plan for reengineering, and training of staff; ii) Support for customs office (AGD)	IDB -- Support for Reform of Revenue Institutions, US$650,000 grant		
Anti-corruption and transparency. Support for development of a data base on all tenders, bidding documents, and contracts, to be published on the internet. Support to ULCC for review of legal framework, development of assets declarations, and training	IDB – Anticorruption grant, US$500,000		
Long term advisors to the ICF in a variety of areas for legal drafting and general planning	UNDP		
Planned Projects			
Economic governance support to public procurement, budget preparation (sector offices)	IDB – Institutional Strengthening Executive Branch (HA 0082, US$5.0 million loan)		
Implement legal framework for more efficient management of public finances.	IDB – Public Finance Reform (U$25.0 million Policy Based Loan)		
Technical assistance in tax administration, Institute of Statistics, and Customs; undefined number of long and short term consultants	French Cooperation Agency – amounts and timeframe undefined		

Annex 3: Results Framework and Monitoring

HAITI: Economic Governance Technical Assistance Grant

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
Strengthen GoH institutional capacity in budgetary planning and execution, investment and project planning, control, procurement, transparency, participatory monitoring, and reform constituency building	Percentage of non-salary current public expenditures going through *comptes courants* Percentage of un-programmed budget resources (in *autres interventions publiques*) Inclusion of external financing (disbursements and expenditures) in public budget	Determine extent to which new budget rules are taking hold; identify possible back sliding
Intermediate Results by Component	**Intermediate Results Indicators by Component**	**Use of Intermediate Results Monitoring**
Component One: Practices mandated by Budget law and Procurement decree enter into effect	Number of *comptables* designated and trained in their functions Number of auditors hired, trained and carrying out audits Percentage of direct (i.e. noncompetitive) procurements out of total	Check level of compliance with new Budget Law Track CSCCA's progress in reorganizing itself to perform new functions. Determine whether CNMP is assuming its new functions
Component Two: Better enforcement of existing human resource regulations and development of plan for improved system	Number of public employees listed in human resource unit's registry Development and approval of a plan to create a permanent human resource agency	Determine extent of compliance with regulations on human resources Measure extent of progress in systematizing human resource management
Component Three: Development of anti-corruption and citizen monitoring programs	Corruption cases identified by ULCC referred to judicial authorities for prosecution and follow-up Number of reports produced by CSO monitors and actions taken in response by agencies monitored	Assess ULCC efficacy Assess efficacy of civil society monitoring program, identify any needed readjustments
Component Four: Greater coordination among elements of financial management reform program Greater public understanding of, and support for, reform program content	Coverage of donor economic governance activities in PCU data base CSO members' ability to identify elements of MEF's reform programs [23]	To determine whether PCU is performing coordination function Identify any needed changes in content and format of MEF's communication program

[23] While ideally this should be public and not CSO response, as the MEF will work directly with CSO groups, it will be easier (and not require additional funding) to obtain this information less formally from members of the groups involved.

Arrangements for results monitoring

Institutional issues: As this is a project with multiple secondary counterparts (aside from the prime counterpart, the Ministry of Economy and Finance), most monitoring will be carried out by the agency directly responsible for a specific set of results. Thus the CSCCA will keep its own records on hirings, number of audits carried out, and so on; while the ULCC will likewise keep records of its own investigations, complaints registered by individuals and the like. The only exceptions to this general rule will be the few qualitative evaluations (for example of the links between the budget formulation and development objectives, the actions of the *comptables* or the content of the instructions for preparing the budgets). This part will be done through the project's supervision budget, either by Bank staff or consultants. Information on public reactions will either come from separate surveys or from more informal consultations. The PCU's role will be in consolidating the information from the various agencies. Although the long term impacts of the endeavor are aimed at the Haitian public as beneficiary, the short timeframe for the project will mean that within-institution changes are the most that can be measured realistically. The working hypothesis is that if these within-institutional changes can be effected, the improved use of public resources will bring more benefits for all Haitians. However, within the life-of-project, it would be very difficult to measure that effect.

Data collection: Data will be both qualitative and quantitative. Most will be derived directly from the office outputs (budgets, number of audits, trainees, investigations, rules and document designed) with some additional external evaluation of quality. While there is always room for manipulating results, this type of primary data (with the exception of the qualitative assessments) is less susceptible to this effect.

Capacity: As all these offices tend to be short-staffed, collecting the data may be a challenge but the approach proposed is rather basic. Efforts put into collecting and presenting data normally kept by the entities will be counted as counterpart in kind.

Arrangements for results monitoring

		Target Values					Data Collection and Reporting		
Project Outcome Indicators	**Baseline 2004-05**	**YR1**	**YR2**	**YR3**	**YR4**	**YR5**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Percentage of unprogrammed budget resources	4	2	2				Annually	Budget document	MEF
Percentage of non-salary public expenditures going through *comptes courants*	10	>10	>10				Quarterly	Budget execution reports	MEF
Percentage of external financing included in public budget	TBD	80	100				Annually	Budget document	MEF, MPCE
Intermediate Outcome Indicators									
Number of *comptables* designated and trained	0	**15**	**20**				Semiannually	MEF records	MEF
Number of auditors hired, trained, and doing audits for CSCCA (cumulative)	0	**10**	**15**				Semi-annually	**CSCCA records**	CSCCA
Percentage of noncompetitive procurements	TBD[24]	**10% reduction**	**10 % reduction**				Semi-annually	**CNMP records**	CNMP
Number of public employees in Human Resource Unit record	TBD	**TBD**	**TBD**				**Semi-annually**	Human Resource Unit records	Prime Minister's Office
Development of plan for creation of permanent human resource office	No Plan	**Plan**	**Plan approval**				**Annually**	Human Resource Unit records	Prime Minister's Office

[24] No information is currently available. Over the next three months the CNMP will collect the information necessary to establish a baseline and the amount of reduction sought will be determined. Currently it appears to aim for a 10 percent annual reduction.

		Target Values					Data Collection and Reporting		
Project Outcome Indicators	**Baseline 2004-05**	**YR1**	**YR2**	**YR3**	**YR4**	**YR5**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Corruption cases identified by ULCC referred to judiciary for prosecution and follow-up	0	**4**	**4**				**Annually**	ULCC records	ULCC
Number of reports produced by CSO monitors and actions taken in response by agencies monitored	0/0	**4/4**	**4/4**				**Annually**	Executive office reports	MEF
Coverage of donor economic governance activities in PCU data base	No data base	**Data base listing all programs**	**Data base tracks program progress**				**Annually**	PCU data base	MEF PCU
CSO members' ability to identify elements of MEF's reform programs.[25]	TDB	**25 % of surveyed can identify 2 elements**	**50% of those surveyed can identify 4 elements**				**Annually**	Survey conducted among civil society groups working with monitoring program	MEF/PCU

[25] While ideally this should be public and not CSO response, as the MEF will work directly with CSO groups, it will be easier (and not require additional funding) to obtain this information less formally from members of the groups involved.

Annex 4: Detailed Project Description

HAITI: Economic Governance Technical Assistance Grant

The proposed EGTAG (Economic Governance Technical Assistance Grant) is a US$2 million grant intended to assist the Government of Haiti in strengthening its institutional capacity in the areas of budgetary preparation and execution, investment and project planning, internal and external control, procurement, accountability, participatory monitoring and reform constituency building. It builds on needs and recommendations identified by the Interim Cooperation Framework (ICF) in April and May of 2004. It is envisioned as a medium-term undertaking, building on progress already made under two existing Bank operations (the Economic Governance Reform Operation, EGRO, and the LICUS Trust Fund grant) and preparing the way for further assistance assuming progress under it and commitment to continued economic governance reforms by the next Government. Since Haiti is scheduled to hold elections in late 2005, and install a new government in early 2006, much depends on the latter's willingness to continue in this line, as well, of course, as on the progress made by the present Transition Government. Thus the time frame for the EGTAG is intentionally short and the objectives more narrowly defined than the existing situation might seem to dictate. For example, no activities are planned for public enterprises under this operation.

In selecting the areas to be supported under the EGTAG, the project team has considered progress likely to be made over 2005 by the EGRO and the LICUS Trust Fund grant; programs underway or proposed by other donors; the areas considered most critical to immediate improvements in economic governance (thereby narrowing the ICF list); and the relatively short timeframe and existing resources for the proposed operation. The overall emphasis and logic behind the selection of activities to be covered by the EGTAG is the desirability of Haiti's moving into full compliance with its current, vastly improved legal framework, as opposed to the potential for introducing still further legal modifications, which over the longer run may be desirable. Priority areas not covered under current World Bank and other donor programs may be included in a possible follow-on TA operation assuming successful completion of the EGTAG.

Component 1 -- Financial Resource Management: this is the largest component, absorbs the majority of the EGTAG's resources, and is presented as a single component because the parts are so closely interrelated. As the key area for economic governance, this component aims at the development of a capacity to produce and execute a budget, track its implementation, and reduce irregular uses and expenditures. The 2003 Budget Law and the 2004 Procurement Decree represent improvements over their predecessors, but like them could remain largely unimplemented and so have little impact. Aside from further implementing regulations (*Arrètés*), their effective operationalization will require detailed design of new procedures, redistribution and possibly the addition of personnel (both in the MEF and in other agencies, including sectoral ministries), the creation of new functions and offices, training of personnel in their modified roles and procedures, and some improvements as regards management of information, ICT equipment, and the roll out and upgrading of SYSDEP.

Consultations with other donors indicate that immediate needs in some of these areas will be covered by their programs. For example, as USAID has programmed an evaluation of SYSDEP and has funds for equipment, they will take the lead there, with additional equipment purchases financed by the IDB. Similarly, an IDB grant will provide funding for the development of a data base on procurement to be managed by the CNMP (and shared with the other agencies, including the ULCC). Revenue management (taxes and customs) will be supported by the IDB and France, with USAID providing some support to improving information systems. As regards other areas, the IDB and the World Bank have worked on the basis of the MEF's own suggestions, each focusing its assistance as noted below.

- **Subcomponent 1.1 -Budgeting:** The IDB and USAID would finance most equipment needs and the latter will, in coordination with the IDB and the World Bank, provide financial and technical assistance to evaluate SYSDEP and plan its expansion or replacement. The EGTAG will instead focus on design and implementation of basic budgetary procedures and functions as established in the new Organic Law. This will include supporting the MEF and MCPE to help staff implement procedures and instructions focusing on: developing a structure for budget elaboration, with increasing elements of a program-activity format; developing the accountability process still absent from the Financial Management Law; developing and implementing a sound cash-management system; implementing the ex-ante internal control process (support for the ex-post internal control and the creation of the Inspection des Finance will be provided by the IDB); and integrating at the central ministries (MEF and MPCE) the investment and current cost budgets and programming process. The IDB and CIDA will focus on supporting key sector ministries in implementing procedures for programming and executing recurrent and investment budgets developed in the MEF and MPCE with WB assistance. The MEF's own evolving budgetary model is being further developed on the basis of IMF recommendations.

  The LICUS Trust Fund grant will finance two related activities: a study tour to review other integrated financial managements systems (which will be coordinated with USAID's initial findings) and a consultant to help the MEF develop a plan for implementing the new law, and possibly moving beyond it toward a more programmatic budget format (with some connection to a results framework, poverty reduction indicators, and a multi-year focus). This consultancy will provide the more specific design and action program for the activities listed below.

  Activities under the EGTAG include the provision of consultants to help Budget and Treasury develop a diagnosis of current staffing patterns and needs, including those related to new functions within the Ministry (e.g expanded role for the Treasury and for the DCB) and throughout the public sector (e.g., the differentiation of the *ordonnateur* and *comptable* roles; addition of *controleurs financiers*) and offices (e.g. that for accounting in the Treasury); development and implementation of plans to fill staffing gaps; preparation and delivery of training programs within the MEF (to be coordinated with those financed by the IDB in the sector ministries), provision of short term consultants to assist agencies in applying and refining new procedures, and training in the use and analysis of SYSDEP. As the Ministry of Planning manages the investment budget, the same objectives will be addressed there, with Canada taking the lead in the development of sector ministries' programming units (*Unités de Programmation*). The

EGTAG will focus on coordination of the investment and operational budgets and the improved overall planning of both. Depending on progress made, and further developments in the MEF's own plans, the EGTAG may also provide consultancies to advance the progress toward a program budget, but this would be only after the initial objectives are achieved and most likely will be left for a possible follow-on TA operation. It is envisaged that the technical assistance will be done provided a single TA contract with an institute or firm able to provide support in all the areas noted. The US$550,000 earmarked for this ~~purposed~~ should include the provision of one long-term consultant to oversee and coordinate the process, short-term consultants in more specific areas, and training costs for MEF and MPCE staff.

- **Subcomponent 1.2 - External Control:** The LICUS Trust Fund grant funding for the *Cour Supérieure des Comptes et du Contentieux Administratif* (CSCCA) will support class-room and on-the-job training of auditors in their new ex-post control function and the drafting of an updated Organic Law. The EGTAG will support: the CSCCA's: (i) evaluation of its initial experience with ex-post auditing; (ii) identification of further personnel, equipment, budgetary, and training needs; and (iii) development of a plan to upgrade its performance over the following two to three years. The EGTAG will also support the implementation of and further adjustments to this plan. Work will be coordinated with assistance provided by the IDB in the area of ex-post internal control (the creation of the *Inspection des Finances*), the only other donor agency to contemplate assistance in this area. Specific activities supported by the EGTAG will include:

    - Restructuring of CSCCA and further development of its own auditing policy and standards aligned with internationally accepted policies and standards, and business process re-engineering (with a greater focus on modern information technology, cross cutting functions, and improved oversight of internal CSCCA operations);
    - Defining staffing policies and human resource management plan emphasizing training to ensure that the full range of skills, experience and expertise is available and relevant to the audit tasks required for effectively fulfilling the CSCCA's mandate;
    - Establishing measures to ensure quality control and quality assurance laid down in regulations, rules and procedures;
    - Promoting effective communication within CSCCA and with key stakeholders externally, particularly Parliament (when it is reinstated), the media and civil society;
    - Coordination with work related to accounting processes and internal control (formation of the *controleurs financiers*) developed under subcomponent 1.1 and with the IDB funded activities related to internal control (development of the *Inspection des Finances.*).

Inputs will be a combination of long and short term technical assistance in the areas identified as needing readjustments (US$150,000), development and execution of further training programs for the CSCCA professional and administrative staff (US$50,000), and development and production of manuals (US$50,000).

- **Subcomponent 1.3 - Procurement**: The EGTAG builds on assistance provided under the LICUS Trust Fund grant to support the newly created *Commission Nationale des Marchés Publics* (CNMP). It will support the CNMP's transformation into the permanent body mandated by law, the creation of a public-sector wide corps of procurement officials (in coordination with IDB assistance), and the development of and training in standardized procurement procedures. It will also continue work initiated under the LICUS Trust Fund grant in the development of standardized bidding documents, publication of information on bids and contracts (coordinated with the data based developed with IDB support), and the education of potential bidders and the general public on the procurement process. At the same time, IDB technical assistance will support strengthening of procurement departments within key sector ministries (Health, Education, Agriculture, Public Works, and Justice) and the CNMP's creation of a centralized database on suppliers and consultants available for government contracts, with input from and for use by all contracting entities. The IDB may also support work to prepare a new procurement law to present to Haiti's new legislature in 2006, building on the improvements introduced by the decree of February, 2005. As with all elements under this component, this is an incremental process in which new procedures will be tested and modified according to preliminary results. It is envisaged that a consulting firm will be hired to support the Government in these activities and that segments of its contract will be financed through the LICUS Trust fund grant, the EGTAG, and the IDB programs.

Table A: Component 1, Cost Table

Subcomponents	
1.1 Strengthening the Budgetary Process (including investment budget, MPCE)	US$ 550,000
1.2 Control	US$ 250,000
1.3 Procurement	US$ 500,000
Total Component Cost	US$1,300,000

Component 2 -- Human Resource Development: during the identification missions and as part of the ICF, a Bank consultant worked with 22 government agencies to develop an initial plan for meeting the public administration's most critical human resource needs. This plan will be the basis for further development of this area, but given the plan's estimated costs (in excess of US$100 million), the EGTAG will support the Human Resource Unit in the Prime Minister's Office to focus selectively on three areas:

- **Subcomponent 2.1.- Strengthening of Human Resource Program.** This will provide support to the Prime Minister's office (pending creation of a Ministry for the Public Function) to develop its capacity for monitoring human resources needs, policy (including enforcement of merit appointments), and programs, and its ability to help other executive agencies develop plans for meeting their personnel needs over the next five years. While donor-financed consultants may temporarily perform some core functions, the longer term need is to ensure Haiti can recruit, maintain, and compensate a permanent core staff. Inputs here will largely be technical assistance, aimed both at helping the present staff carry out their functions and developing a plan for building a more permanent unit with expanded functions (e.g. with a capacity for doing personnel inventories and job classifications). Some equipment may be provided for ordinary office work and to expand the existing registry of government employees.

- **Subcomponent 2.2 - Civil Service Reform:** Working with the above agencies to design a longer-term civil service reform, including the necessary legal foundation. Under a possible follow-on TA operation, steps can be taken to initiate implementation, probably on an agency-by-agency, or function-by-function basis. Technical assistance will be provided to work on the draft civil service law and to do non-legal analysis (economic studies) of its implications once entering into effect.
- **Subcomponent 2.3 – Further development of training capacity:** Enhancing the capacity of public sector training institutions to deliver the training needed for the first three areas. As specific courses will be developed within each of the other components, this subcomponent will provide funding for rehabilitating and equipping existing training institutes (e.g. CEFOPAFOP) which will be used as sites for training financed under the EGTAG or by other donors. In any possible follow-on TA operation, support may be added to help CEFOPAFOP and others develop programs prioritized by the Human Resource Unit or by specific ministries.

Table B: Component 2, Costs

Subcomponent	**Cost**
2.1 Strengthening of Human Resource Program	US$100,000
2.2 Civil Service Reform	US$ 50,000
2.3 Further Development of Training Capacity	US$150,000
Subtotal	US$300,000

Component 3 - Anti-corruption and Civil Society Engagement: the LICUS Trust Fund grant supports establishment of the *Unité de Lutte contre la Corruption* (ULCC) and a program of civil society monitoring of economic governance reforms. The USAID and IDB "anticorruption" projects will fund some ULCC activities directly. The EGTAG will do further fine-tuning in both offices' programs, but owing to limited resources will reserve further support for a proposed second phase. In the case of the ULCC, it will help develop the unit's capacity for anti-corruption programming, including additional training in skills and techniques needed for diagnosing institutional vulnerabilities (corruption maps) and the design of remedies, provide assistance in drafting improved laws (notably, a freedom of information law, FOIA) and promoting national dialogues to build support for their passage, and continue the public communication campaign.

The EGTAG will also fund an evaluation of the early performance of the mechanisms for monitoring of economic governance reforms and performance by civil society organizations. It also seeks to contribute by helping to improve the undertaking's design, providing some further training to CSO monitors and to these and other groups in interpreting budgetary information, and ensuring the adequate dissemination of information on the results of the exercise.

Table C: Component 3, Costs

Subcomponent	Cost
3.1 LLCC (includes FOIA)	US$150,000
3.2 Civil Society Monitoring	US$ 80,000
Subtotal	US$230,000

Component 4 – Communication, Donor Coordination and Project Management: the program supported by the EGTAG will be implemented under the project management mechanism developed for the LICUS Trust Fund grant and will have an overall coordinator as well as an individual responsible for the area of budget reform (the MEF's own activity). The overall coordinator will have oversight of the World Bank, IDB and USAID activities in the areas covered by the EGTAG; the budget reform coordinator will have oversight of IDB, USAID and World Bank assistance in this specific complex reform area. One or more liaison officers will be responsible for tracking progress in the other components and entities, identifying difficulties in implementation of their programs, and helping resolve them. The PCU will also be responsible for coordinating donor activities in the economic governance area, and to this end will ensure a continuation of the working table or similar mechanism for periodic meetings, as well as develop a system to register and track relevant externally funded activities. The EGTAG may support, as needed, specialized technical assistance not available through the other components.

In addition, through the EGTAG the Bank will continue to provide support for communications activities around the EGRO that have been launched by the MEF with LICUS support. This includes implementing a communications strategy and promoting two-way communications between the government and stakeholders to build consensus on reforms, increase understanding of economic reforms and their objectives, and promote input from stakeholders. It will be critical to ensure public understanding and support for reforms to ensure their sustainability.

Table D: Component 4, Costs

Subcomponent	Costs
4.1 PCU (including donor coordination)	US$ 50,000
4.2 Communication Program	US$ 70,000
Subtotal	**US$120,000**

An amount of US$50,000 has been left for future programming.

Annex 5: Project Costs

HAITI: Economic Governance Technical Assistance Grant

Project Cost By Component and/or Activity	Local US $million	Foreign US $million	Total US $million
Financial Management			
a) Budget	$200,000	$350,000	$ 550,000
b) External Control	$127,000	$123,000	$ 250,000
c) Procurement	$75,000	$425,000	$ 500,000
Human Resources			
a) Strengthening of program	$25,000	$75,000	$ 100,000
b)Civil Service Reform	$20,000	$30,000	$ 50,000
c)Training capacity	$150,000		$ 150,000
Anti-corruption, civil society	$80,000	$150,000	$ 230,000
Project management and coordination, communication	$120,000		$ 120,000
To be programmed	$ 25,000	$ 25,000	$ 50,000
Total Baseline Cost	$822,000	$1,178,000	$2,000,000
Total Project Costs	822,000	1,178,000	$2,000,000

Annex 6: Implementation Arrangements

HAITI: Economic Governance Technical Assistance Grant

The project would be implemented over a period of 12 to 18 months, from July 2005 to July or December 2006. Various government agencies would take part in implementing project components. They are the Ministry of Economy and Finance (MEF), the MPCE, the CSCCA, the CNMP, the ULCC (located within the MEF but operating with relative autonomy), the Human Resources Unit within the Prime Minister's Office, and the MEF's Executive Secretary and Oversight Committee for the civil society monitoring program. This Annex describes the implementation arrangements related to (i) project administration; (ii) implementation structure and coordination of participating agencies and (iii) monitoring and evaluation arrangements.

Project Administration:

The Project Coordination Unit (PCU) will be established within the MEF, the principal counterpart for the project. In effect, it will be an extension of the PCU already established for the EGRO, the LICUS Trust fund grant, and for the IDB activities, and will probably continue to coordinate and oversee all economic governance activities undertaken by the two institutions. The World Bank and IDB are in agreement on this arrangement, and believe it will both reduce costs for the MEF and increase the efficiency and augment the coordination of its work. The establishment of a satisfactory PCU is a condition for effectiveness of the IDB's Sector Facility Project for economic governance and will also be a condition for the EGTAG's effectiveness.

While the existing PCU will have to expand to take on these new activities, it should not be an extremely large unit. This is because the agencies responsible for each component will continue to do the more detailed work of elaborating annual plans, drafting terms of reference for procurement, and overseeing contractors' performance. The PCU's role will thus be:

- Financial management (requests of disbursements, tracking and reporting of expenditures, payment of contractors and consultants).
- Oversight of procurement and contractual representative for the grant. The PCU will review all procurement documents, will participate directly in contracting procedures over a predetermined threshold and all procurements of equipment, and will be the government signatory to all contracts.
- Reviewing and channelling other documentation required by the Bank.
- Ensuring compliance with Bank and GoH regulations.
- Ensuring inter-agency communication and coordination, and monitoring physical advances in each area (to ensure an adequate pace of work).

Each participating agency (including the MEF for its components) will designate a person responsible for overseeing its own activities under the EGTAG and will assign, as needed, members of its own staff to handle related administrative work. Supervised by the agency designee, this staff will prepare annual work plans, terms of reference, and handle selection of consultants for amounts under the threshold list above.

The IDB has agreed to pay for any additional staff needed by the PCU or top off salaries for ministry employees seconded to the unit. The EGTAG will provide funding for any technical assistance needed to improve internal organization.

Implementation Structure and Inter-Agency Coordination:

The direct responsibility for project implementation rests on six main execution entities, including those located within the MEF. For the budgetary subcomponent (1.1), the MEF will designate an individual to coordinate the actions of the various internal offices involved (notably the Directorate General of Budget (DGB), Directorate General of Treasury (DGT), and Directorate General of the Ministry (DGM)). The five other entities (ULCC, Oversight Committee and Executive Secretary for civil society programs, CSCCA, CNMP, and Human Resource Unit of the Prime Minister's Office) will do the same, by designating the agency head or his/her representative. Agencies with programs with other donors (e.g., with the IDB or USAID) will be encouraged to name the same individual to oversee them as well.

Component	**Institution**	**Executing Agency**
1. Financial Management		
a) Budget	MEF (MPCE)	DGB, Treasury, DCB, (MPCE)
b) Control	CSCCA	CSCCA
c) Procurement	CNMP	CNMP
2. Human Resources	Prime Minister's Office	Human Resource Unit
3. Anti-corruption, Transparency		
a) Anti-corruption	MEF	ULCC
b) Monitoring	MEF	Oversight Committee
4. Management, communication, coordination	MEF	PCU

Project and annual work plans and procurement plans will be elaborated by each agency for its respective component. Agencies will also be responsible for drafting TORs for procurement actions, referring them to the PCU for their clearance and that of the Bank, and for selecting consultants for amounts below the threshold stated above or participating in a selection committee with members of the PCU. Agencies will supervise performance by their own consultants and contractors (including those for goods and equipment), and will request that payments be made by the PCU upon satisfactory completion of work.

To enhance coordination of the inevitably interrelated activities and to ensure satisfactory advances in each component, the PCU will also hold periodic meetings with a committee composed of each component head, or their designated representatives. As necessary, representatives of donor agencies and/or principal long term consultants may also be invited to attend. For more targeted coordination issues (e.g. harmonization of internal and external control mechanisms; dissemination of budget or contracting information to the ULCC or civil society monitors) the PCU may suggest the formation of smaller working groups.

Accounting, Reporting, and Auditing

The PCU will be responsible for all project finances, for compiling and submitting reports to the Bank, and for arranging for required audits. Every implementation agency or unit will keep records of their own physical operations and will provide the PCU, for transmittal to the Bank, with annual and quarterly reports on progress. The project accounts maintained by the PCU and progress records kept by the executing agencies will be audited periodically by independent and qualified auditors acceptable to IDA, and in accordance with International Standards on Auditing and the guidance provided in the "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the Guidelines) and other guidance. In order to comply fully with the revised Bank requirements per OP/BP 10.02, the PCU and the executing agencies will implement planning, budgeting, accounting and reporting systems that substantially satisfy the needs of the project.

Monitoring and Evaluation:

The PCU will monitor project execution through a set of key performance indicators, supported by supervision missions. In coordination with the executing agencies, the PCU will provide a consolidated first year work plan within two months of entrance into effectiveness and annual work program for the subsequent year(s). Given the project's anticipated short time frame, there will be a full final evaluation and an abbreviated mid-term evaluation, 12 months after the project enters effectiveness. Semi-annual progress reports will be presented to the Bank no latter than 30 days after the conclusion of each calendar semester, starting 6 months after the project enters effectiveness.

Annex 7: Financial Management and Disbursement Arrangements

HAITI: Economic Governance Technical Assistance Grant

Introduction

This report summarizes the findings of the financial management capacity assessment conducted by the Bank task team during the preparation phase of the project. The objective of the assessment is to determine whether the entities that will be involved in implementing the EGTAG have acceptable financial management arrangements, including system of accounting, reporting, auditing, and internal controls. An entity's arrangements are acceptable if they are considered capable of recording correctly all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entity's assets, and are subject to auditing arrangements acceptable to the Bank. Bank policy requires that acceptable accounting and internal control systems are in place when project implementation begins.

Overall conclusion of the financial management assessment

The proposed financial arrangements are adequate given the size of the project, the nature of its activities and the volume of its transactions. The PCU located in the MEF, which will have overall financial management responsibility of the project, has already acquired some knowledge of the Bank's financial management requirements and procedures through the implementation of the Economic Governance Grant financed by the LICUS Trust Fund. A manual accounting system was put in place for the LICUS grant, which also relied on the ministry's internal disbursement approval and signatory mechanisms. An accountant of the Ministry's accounting unit is specifically dedicated to the LICUS grant operations.

Since the EGTAG will use the same financial management arrangements, the financial management capacity is considered satisfactory to a large extent. However, the EGTAG will use different disbursement mechanisms (i.e. disbursement based on statements of expenditures as opposed to tranches). Also, the financial management procedures under the LICUS grant have not been formalized yet, which affected implementation as there was not common understanding among the various implementing entities of the procedures to follow. For the purpose of the EGTAG, these two weaknesses will be addressed through training of the accountant and development of an operations manual, respectively.

Project background

A detailed project description is available in the main text and annex 4 of the PAD. A brief summary is presented below to highlight the main features affecting financial management arrangements.

The EGTAG seeks to: (i) improve the government's ability to program, execute and track use of public resources and better link them to concrete development goals, ensure an adequate performance of the external, ex-post control function by the CSCCA, and help the CNMP grow into its role as overseer of procurement practices and make open, competitive procurement the rule rather than the exception; (ii) advance the development of a human resource management plan and system; (iii) advance the development of the Anti-Corruption Unit (ULCC) as an effective check on corruption while also encouraging the greater involvement of civil society in its own operations and as a monitor of economic governance reforms; and (iv) ensure as part of the project management process, an adequate system for communicating information on the reform programs and mobilizing public support for their furtherance.

The EGTAG is designed to advance changes begun with the EGRO and LICUS grant. It will provide support more or less to the same entities supported by these two operations (MEF, CSCCA, CNMP, Prime Minister Office, and ULCC) by financing mainly consultant services, training and operating costs. The institutional arrangements will follow largely the structure used under the LICUS with a PCU in the MEF to oversee the execution and each of the entities involved directly responsible for the implementation of their activities. Procurement and financial management activities will be the responsibility of the PCU.

Financial Management responsibilities and arrangements

Accounting. The MEF will have overall financial management responsibility for the project, following to a large extent the mechanisms put in place under the LICUS grant. Accounting of the LICUS grant operations is handled by the Accounting Unit of the MEF. One accountant was given specific tasks to keep a separate set of book of accounts for the grant while the usual approval and control mechanisms of the MEF were followed. Financial operations of the LICUS grant are therefore recorded and reported separately. Similar arrangements will be used for the EGTAG.

The Government will use the same PCU for both the EGTAG and the IADB financed technical assistance project. Thus, the current manual accounting system may eventually require upgrading to cope with larger financing and facilitate reporting.

Disbursement. A project special account (SA) denominated in US Dollars will be opened at the central bank on terms and conditions acceptable to IDA, and be managed by the MEF. Funds deposited in the SA will be used to finance the activities implemented directly by the respective entities. The MEF will disburse the funds directly to suppliers of goods and services upon request from the implementing entities and after control of all relevant supporting documentation. The authorized allocation to the SA will be limited to US$300,000 (representing approximately four months of expenditures.) Disbursements will be made on the basis of Statements of Expenditures.

Reporting. Financial Monitoring Reports (FMRs) will be prepared reflecting all components of the project and submitted to IDA. The FMRs will be an integral part of the activity report, and accordingly will follow the same periodicity. Given the nature of the activities to be financed (essentially consultant services and training), the FMRs will focus mainly on the financial situation of the project, while information on the physical progress and procurement activities will be provided in the activity report.

Auditing. Annual financial statements will be prepared by the PCU, and audited annually by independent auditors, in accordance with International Standards on Auditing and terms of reference acceptable to IDA. The auditors will be recruited no later than six months after grant effectiveness.

Risks

Country fiduciary risks. Haiti's public financial management systems have experienced weak performances over the last years. The Bank has not carried out a Country Financial Accountability Assessment (CFAA), but a number of studies have highlighted major weaknesses[26] in the overall accountability framework, as described below. In the interim, the government has been engaged in a number of reforms to improve public financial management. Also, the risks are unlikely to affect the project as appropriate internal control mechanisms will be built into the procedures that will be used specifically for the project. Although the country fiduciary risk is high, its impact on the project is medium.

Project risks. Given the nature of the project activities and institutional set up, no major inherent fiduciary risk is identified. The risk level is rated low.

Relevant issues to be included in the legal documents

The legal documents should include the standard financial management provisions:

- Requirement for the MEF through its PCU to maintain an adequate financial management system, produce quarterly interim financial statements and submit annual audited financial statements.
- One special account denominated in US dollar will be opened at the Central Bank (*Banque de la République d'Haïti* or BRH), and will be replenished using statement of expenditure method.
- The sole condition of effectiveness is the existence of a project implementation manual for the project, in form and substance satisfactory to the World Bank and including a section on financial management.[27]

Action plan

Area/Action	**Responsibility/To be completed by**
1. Flow of Funds	
1.1. PCU to open the project bank accounts: the Special Account in US dollars in the bank selected, and the Project account in local currency in the bank selected.	MEF/PCU, project effectiveness
2. Staffing	
Project Accountant Complete training on World Bank financial management and disbursement procedures, with specific emphasis on statement of expenditures and financial reporting	PCU, project launch
3. Accounting and Internal Control	

[26] See Economic Governance Reform Operation Program Document

[27] The inclusion of this condition will ensure that the work is kept on track and will guarantee that the project is implemented per the original agreements and understandings with the GOH.

3.1. Open separate book of accounts for the project with a chart of accounts to reflect the disbursement categories for the project and project activities.	PCU, project effectiveness
3.2. Prepare the project Operations Manual, with a section on Financial Management, including FM organization, flow of funds, FMRs formats, etc.	PCU, project effectiveness
4. External Audit	
4.1. Submit final Audit TORs to the Bank for review and clearance.	PCU, no later than six months after project effectiveness
4.2. Once the Bank clears the TOR, proceed with the appointment of the auditors.	PCU, no later than six months after project effectiveness

Supervision plan

After an initial hands-on training of the Accountant, the project supervision should consist mainly of the review of the FMRs and the annual audit reports, and one annual field visit to review the continuous adequacy of the financial management system and provide support for capacity building.

Allocation of Grant Proceeds.

Expenditure Category	Amount of the Grant Allocated (US$)	Financing Percentage
Consultants services	$1,650,000	100
Works, Goods	$ 250,000	100
Operating Costs	$ 50,000	100
Unallocated	$ 50,000	100
Total	$2,000,000	100

Note: IDA may finance up to 100% all Eligible Categories if (a) the Recipient has officially exempted all Eligible Expenditures from internal taxation; or (b) the Association has determined that the Recipient is eligible for 100% financing in accordance with Association's policy.

Estimated Disbursements Schedule (IDA FY/US$ million)

FY	2006	2007
Annual	1,200,000	800,000
Cumulative	1,200,000	2,000,000

Annex 8: Procurement Arrangements

HAITI: Economic Governance Technical Assistance Grant

A. General

Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Works: The only works that would be procured under the project would by minor renovations required to upgrade training institute facilities. This procurement would be done using Standard Bidding Documents (SBDs) agreed with the Bank.

Procurement of Goods: Goods procured under this project would include computers, equipment and furnishings for the training institute and for other agencies involved in project implementation. The procurement will be done using SBDs agreed with the Bank.

Procurement of non-consulting services: Procurement of printing services for publication of manuals and training materials will also be done using SBDs agreed with the Bank.

Selection of Consultants: The bulk of the technical assistance to be financed by the grant will be composed of discrete technical and advisory assignments with the various implementing agencies, which can be performed most effectively by individual consultants. For assignments where teams of consultants are required to ensure coordination and/or centralization of responsibility, consulting firms will be hired. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. For some contracts the services of civil society organizations (CSOs), NGOs, universities, government research institutions, public training institutions, and other specialized organizations may also be required.

Operating Costs: Operating costs (e.g.: office utilities, travel costs, operation and maintenance of office equipment financed with the proceeds of the Grant, and non-durable goods) and logistical costs of training activities (e.g.: travel costs and per diem of facilitators, rental of training facilities and equipment, and training material) would also be financed by the project and procured using the Ministry of Finance's administrative procedures, which were reviewed and found acceptable to the Bank.

The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, will be presented in the project Operations Manual.

Thresholds recommended for the use of each method discussed above are identified in the table below, which also establishes the notional thresholds for prior review. The agreed procurement plan will determine which contracts will be subject to Bank prior review.

Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold) US $ thousands	Procurement Method	Contracts Subject to Prior Review
1. Works	>1,000	ICB	All
	100-1,000	NCB	All
	<100	Shopping	All
2. Goods	>100	ICB	All
	25-100	NCB	All
	<25	Shopping	All
3. Consulting Services			
-3.A Firms	Regardless of value	QCBS,QBS,FBS,LCS	All
	<100	CQS	All
	Regardless of value	Single Source	All
-3.B Individuals	Regardless of value	Comparison of 3 CVs in accordance with Chapter V of the Guidelines	All

Note: QCBS = Quality- and Cost-Based Selection; QBS = Quality-Based Selection
FBS = Fixed Budget Selection; LCS = Least-Cost Selection
CQS = Selection Based on Consultants' Qualifications

B. Assessment of the agency's capacity to implement procurement

Most of the technical input for procurement activities will be provided by the six agencies receiving the goods and/or consulting services (i.e.: MEF, ULCC, Oversight Committee, CSCCA, CNMP and PMO/HR unit). These agencies have varying levels of procurement skills and experience, so all contracts will be signed by the expanded PCU in the Ministry of Finance, which will also be responsible for coordination and oversight of all procurement financed by the grant. As described in Section C-2 of the PAD on implementation arrangements, the existing PCU will be expanded to include an employee with specific responsibility for reviewing all procurement documents and ensuring that they are submitted as needed for Bank prior review.

The Bank's assessment of the capacity of the PCU to implement procurement actions for the project has been based on performance to date in implementing the LICUS grant, which has been satisfactory. However, this assessment will need to be updated after the additional PCU staff has been recruited for the EGTAG and the project implementation manual has been prepared and circulated to all the participating agencies.

The key issues and risks concerning procurement implementation for the project arise from the many weaknesses in the Haitian procurement system, as identified in the body of this PAD. While the Government's commitment to reform procurement institutions and practices is clear from the actions already taken under the EGRO, real change will take time. In addition to the technical assistance to be provided to the newly created CNMP by the EGTAG, corrective measures such as the development of operating manuals for Bank-financed projects and the broad dissemination of information on new procurement procedures to all purchasing agencies are expected to mitigate some risks. However, the overall project risk for procurement remains HIGH.

C. Procurement Plan

The Borrower, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on May 9, 2005 and will be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

Supervision will be carried out primarily through the prior review by the Bank of all procurement actions. This exceptional level of Bank oversight will be made possible by the engagement by the Bank of a local consultant to work with the PCU and the various participating agencies. In addition, day-to-day procurement supervision will be supplemented by supervision missions every quarter.

E. Details of the Procurement Arrangements

1. Goods, Works, and Non Consulting Services

No contract packages are expected to be procured following ICB or direct contracting.

2. Consulting Services

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6
Ref. No.	**Description of Assignment**	**Estimated Cost**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**
1.A.4	TA to define roles and processes for *ordonnateurs*, *comptables*, and *contrôleurs financiers*	$150,000	FBS	Prior	July 2005
1.C.1	TA to support *Commission Nationale des Marchés Publics* (CNMP)	$425,000	QCBS or FBS	Prior	July 2005

(b) All selection processes for consultancy services will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than $100,000 equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

HAITI: Economic Governance Technical Assistance Grant

The proposed operation will focus on capacity building activities, and it is therefore difficult to quantify outputs and benefits, and to precisely calculate rates of return. Nevertheless, since positive fiscal impacts are expected, project implementation is projected to generate economic gains. The most noteworthy economic and fiscal savings are expected to result from: (i) the implementation of a budgetary process in accord with the new Organic Law and its incorporation in an expanded automated expenditure tracking system (SYSDEP), the latter supported largely by assistance provided by and coordinated with the IDB and USAID: (ii) the implementation and further strengthening of the commission (CNMP) charged with overseeing procurement and ensuring greater transparency and competitiveness in the process; (iii) developing the ex-post audit function of the *Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA)* and coordinating this with a strengthened internal audit and control capacity; (iv) enhancing the capabilities of the human resource unit to oversee new appointments, ensuring they follow legal procedures and incorporate an emphasis on merit, and ensuring a facility for the delivery of training programs for this and other public sector operations; (v) strengthening the capacity of the new anti-corruption office (ULCC) and publicizing its presence and activities; (vi) further developing the system of civil society monitors and the MEF's communication program to inform all citizens of the content and progress of the package of economic governance reforms; and (vii) further developing mechanisms to ensure greater coordination of all donor activities in economic governance operations.

All of these measures aim at improving the government's ability to program and track the use of public resources, including external assistance and human resources, strengthening the internal and external controls used to promote transparency, fight corruption, and reduce waste, and increasing all citizens' understanding of and support for the changes sought. Better management of the government's resources should lead to improved performance and increased efficiency by strengthening the linkages between inputs and outputs and ensuring that funds are no longer assigned to un-programmed catch-all categories (*autres interventions publiques*). The fiscal impact of improved resource allocation, better planning and execution may be significant, as efficiency gains translate into reduced investment and recurrent costs for a given level of output. These in turn will contribute to a better investment climate, which in Haiti is essential for long-term economic growth, the reduction of unemployment and the improvement of critical social conditions.

The cost effectiveness of the components is discussed in the following table:

Cost Effectiveness of EGTAG Interventions

Components and Subcomponents	*Possible fiscal impact*	*Expected economic gains*	*Expected social gains*
1.1 New budget practices put into effect	Fiscal savings through improved capacity for allocation of public resources in priority areas; reduce risks for duplicate and/or ineffective activities	Increased impact of programs through better budget allocation decisions and better expenditure tracking.	Improved allocation of funds in social programs aimed at poverty reduction.
1.2 Development of CNMP's capacity to oversee procurement system	Lower prices paid for same level/quality of goods and services purchased by State.	More competitive and open procurement process, encouraging participation of more efficient local and international vendors	More of money going into social programs actually reaches and benefits the poor.
1.3 Development of internal and external control systems	Fiscal savings through strengthened public audits and accounting mechanisms	More effective monitoring and control of financial flows and reduced public resource leakages	Improved and more transparent allocation of public funds for social programs aimed at poverty reduction .
2.Development of Human Resource Management System	Costs of training reduced because of better fit, and availability of government facilities.	More efficient allocation of human resources and improved capacity of those holding positions	Improved programs with greater benefits for the poor
3.1 Strengthening Capacity of Anti-Corruption Unit	Less financial leakage due to diversion of resources	Greater protections for investors willing to start up economic activities in Haiti.	More funds for social services get to poor.
3.2 Strengthen civil society monitors program	Fiscal savings through increased incentives for public employees to use resources efficiently.	Reduced corruption and waste means greater returns on public and private investments.	Give civil society organizations a place at the table in the evaluation and design of all government programs.
4.1 Strengthen communications program	To support impact of other areas	To support impact of other areas	Citizens more involved in policy process, and better able to understand and make suggestions on resource use
4.2 Strengthen Donor Coordination	Funds available buy more inputs	Greater impact of funds invested; more donor funds attracted	More donor funds available for social programs and greater returns on investments

Annex 10: Safeguard Policy Issues

HAITI: Economic Governance Technical Assistance Grant

The project currently triggers none of the Bank's Environmental or Social Safeguard Policies. If any changes of environmental or social significance should arise during project implementation, Bank policies will apply.

Annex 11: Project Preparation and Supervision

HAITI: Economic Governance Technical Assistance Grant

	Planned	Actual
PCN review	01/19/2005	02/03/2005
Initial PID to PIC	01/26/2005	02/10/2005
Initial ISDS to PIC	01/26/2005	02/08/2005
Appraisal	04/04/2005	05/05/2005
Negotiations	04/06/2005	05/10/2005
Board/RVP approval	06/07/2005	
Planned date of effectiveness	06/30/2005	
Planned date of mid-term review	06/15/2006	
Planned closing date	12/31/2007	

Key institutions responsible for preparation of the project:

Ministry of Economy and Finance
Supreme Audit Institution
Office of the Prime Minister (National Commission for Public Procurement and the Human Resources Unit)
Anti-Corruption Unit

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Linn Hammergren	Sr. Public Sector Mgmt. Specialist	LCSPS
Auguste Tano Kouame	Sr. Country Economist	LCSPE
Patricia McGowan	Sr. Procurement Specialist	LCOPR
Ahmadou Moustapha Ndiaye	Sr. Financial Management Specialist	LCOAA
Mark Nelson	Sr. Operations Officer	WBIEE
Solange Alliali	Sr. Counsel	LEGLA
Hilarion Bruneau	Sr. Finance Officer	LOAG1
Luc Ladouceur	Budget Specialist (Consultant)	
Benjamin Santa Maria	Human Resources Specialist (Consultant)	
Franca Braun	Civil Society Specialist (Consultant)	
Maria del Carmen Miñoso	Operations Officer	LCSPS
Jesús Martínez	Operations Officer (ET Consultant)	LCSPS
Peer Reviewers		
Tony Verheijen	Sr. Public Sector Specialist	ECSPE
Chris Parel	Sr. Operations Officer	LCSPS

Bank funds expended to date on project preparation:

1. Bank resources: $116,623.31
2. Trust funds: $0.00
3. Total: $116,623.31

Estimated Approval and Supervision costs:

1. Remaining costs to approval: $10,376.69
2. Estimated annual supervision cost: $116,490.00

Annex 12: Documents in the Project File

HAITI: Economic Governance Technical Assistance Grant

A. Project Implementation Plan

Draft Procurement Plan
Project Implementation Manual (condition for effectiveness)

B. Bank Staff Assessments

Financial Management Assessment
Procurement Capacity Assessment
QAT Environmental and Social Comments on the PCN, PAD and associated Integrated Safeguards Data Sheet (ISDS)
Country Procurement Assessment Report, September 30, 1999
La Fonction Publique: Le Renforcement des Capacités – Analyses et Propositions d'Actions, De Weerd, June 1999
Haiti Country Brief, December 16, 2002
Haiti Country Assistance Evaluation, Operations and Evaluation Department, February 12, 2002
An End to the Beginning: Resolving the "Interminable" Crisis and Neeting the Challenge of Governance in Post-Duvalierist Haiti, Ira Lowenthal, June 2, 2002
Economic Governance – Findings and Analysis, *Ladouceur,* November 2003
Decentralisation: Cour Supérieure des Comptes et du Contentieux Administratif, Mission de la Banque Mondiale sur la Gouvernance Economique, Laurence Mézin, October 13-18, 2003
Haiti Interim Cooperation Framework – Economic Governance Strategic Group Sectoral Report, May 26, 2004

C. Other

Project Concept Note
Project Appraisal Document
Review Meeting Minutes: PCN, QER, Decision and Negotiations
Peer reviewer and other reviewer comments on project cycle documents
Public Information Document
Component reports prepared by World Bank staff and consultants
Aide Memoires

Annex 13: Statement of Loans and Credits

HAITI: Economic Governance Technical Assistance Grant

Project ID	FY	Purpose	Original Amount in US$ Millions: IBRD	IDA	SF	GEF	Cancel.	Undisb.	Difference between expected and actual disbursements: Orig.	Frm. Rev'd
P089873	2005	HT Economic Governance Adjustment Op	0.00	61.00	0.00	0.00	0.00	15.26	0.00	0.00
P090159	2005	HT Emergency Recov.& Disaster Management	0.00	12.21	0.00	0.00	0.00	12.21	0.00	0.00
		Total:	0.00	73.21	0.00	0.00	0.00	27.47	- 46.85	0.00

HAITI
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

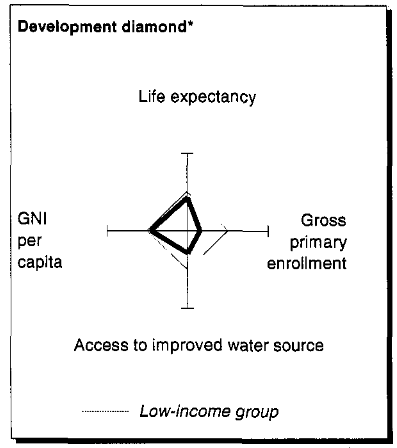
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1998	MicroCredit	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00
	Total portfolio:	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

HAITI: Economic Governance Technical Assistance Grant

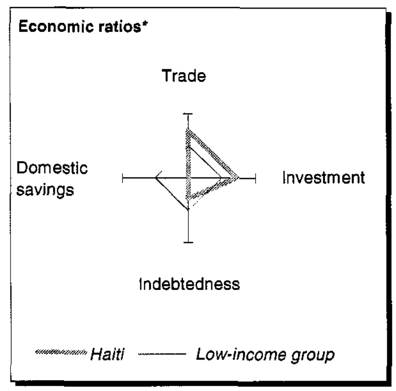
POVERTY and SOCIAL	Haiti	Latin America	Low Income
2003			
Population, mid-year *(millions)*	8.2	534	2,310
GNI per capita *(Atlas method, US$)*	390	3,260	450
GNI *(Atlas method, US$ billions)*	3.3	1,741	1,038
Average annual growth, 1997-03			
Population *(%)*	1.9	1.9	2.1
Labor force *(%)*	1.9	2.1	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	65	..	..
Urban population *(% of total population)*	37	77	30
Life expectancy at birth *(years)*	49	71	59
Infant mortality *(per 1,000 live births)*	79	28	82
Child malnutrition *(% of children under 5)*	23	..	42
Access to an improved water source *(% of population)*	46	86	76
Illiteracy *(% of population age 15+)*	48	11	36
Net primary enrollment *(% of school-age population)*	56	129	92
Male	56	131	99
Female	56	126	85



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

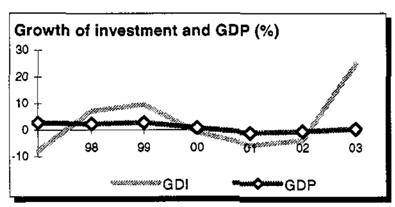
	1983	1993	2002	2003
GDP *(US$ billions)*	1.6	1.7	3.5	2.9
Gross domestic investment/GDP	16.3	6.9	25.0	31.1
Exports of goods and services/GDP	17.5	9.0	12.2	16.4
Gross domestic savings/GDP	5.9	-6.9	1.6	0.2
Gross national savings/GDP	..	-3.5	22.0	28.8
Current account balance/GDP	..	-9.7	-4.9	-4.8
Interest payments/GDP	0.4	0.0	0.2	0.3
Total debt/GDP	37.5	46.9	36.1	45.0
Total debt service/exports	..	4.3	1.8	3.1
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	-0.7	0.7	-0.5	0.4	1.7
GDP per capita	-2.6	-1.4	-2.4	-1.8	-0.4
Exports of goods and services	0.8	4.7	-2.2	35.6	4.3

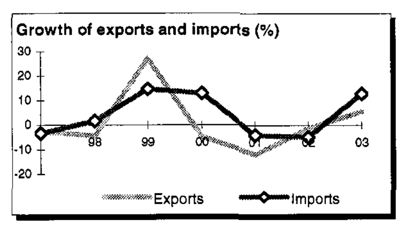


STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	..	..	28.0	27.9
Industry	..	..	16.9	17.0
Manufacturing	..	..	8.4	8.4
Services	..	..	55.2	55.1
Private consumption	83.4	100.1	89.2	91.3
General government consumption	10.7	6.8	9.3	8.4
Imports of goods and services	27.9	22.8	35.6	47.2



	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	1.7	-1.2	-3.7	0.3
Industry	-5.2	-3.6	1.3	1.0
Manufacturing	-1.5	-7.0	1.6	0.5
Services	1.6	3.0	-0.5	0.4
Private consumption	2.2	..	..	..
General government consumption	-6.8	..	..	..
Gross domestic investment	-6.1	10.1	-3.9	24.9
Imports of goods and services	3.9	6.3	-2.1	33.4

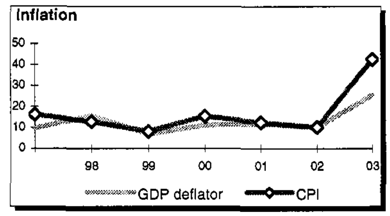


Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

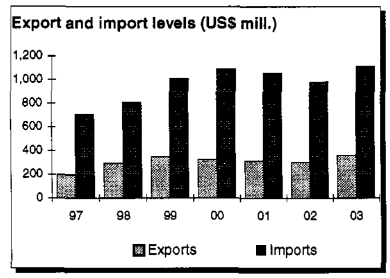
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	..	20.2	8.7	32.5
Implicit GDP deflator	8.9	32.5	10.0	25.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	7.4	8.3	9.1
Current budget balance	..	-1.5	-1.1	-0.3
Overall surplus/deficit	..	-2.4	-3.1	-3.7



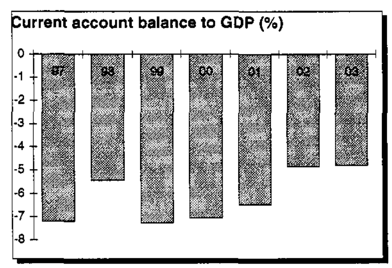
TRADE

	1983	1993	2002	2003
(US$ millions)				
Total exports (fob)	166	131	304	361
Coffee	..	9	..	..
Sisal and sisal strings	..	2	..	..
Manufactures	..	108	273	330
Total imports (cif)	..	346	983	1,116
Food	..	144	..	..
Fuel and energy	..	71	..	..
Capital goods	..	22	..	..
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



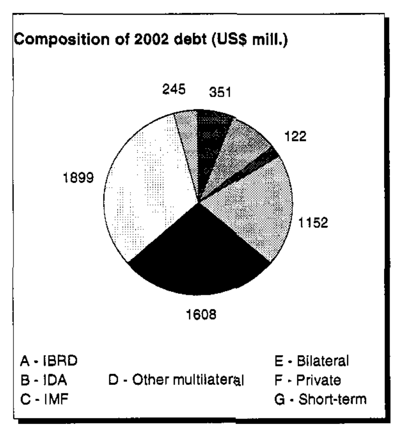
BALANCE of PAYMENTS

	1983	1993	2002	2003
(US$ millions)				
Exports of goods and services	..	180	437	461
Imports of goods and services	...	409	1,239	1,400
Resource balance	..	-229	-802	-939
Net income	..	-11	-15	-12
Net current transfers	..	70	649	811
Current account balance	..	-169	-168	-140
Financing items (net)	..	200	127	130
Changes in net reserves	..	-31	41	10
Memo:				
Reserves including gold *(US$ millions)*	20	36	228	207
Conversion rate *(DEC, local/US$)*	5.0	12.2	27.1	40.5



EXTERNAL DEBT and RESOURCE FLOWS

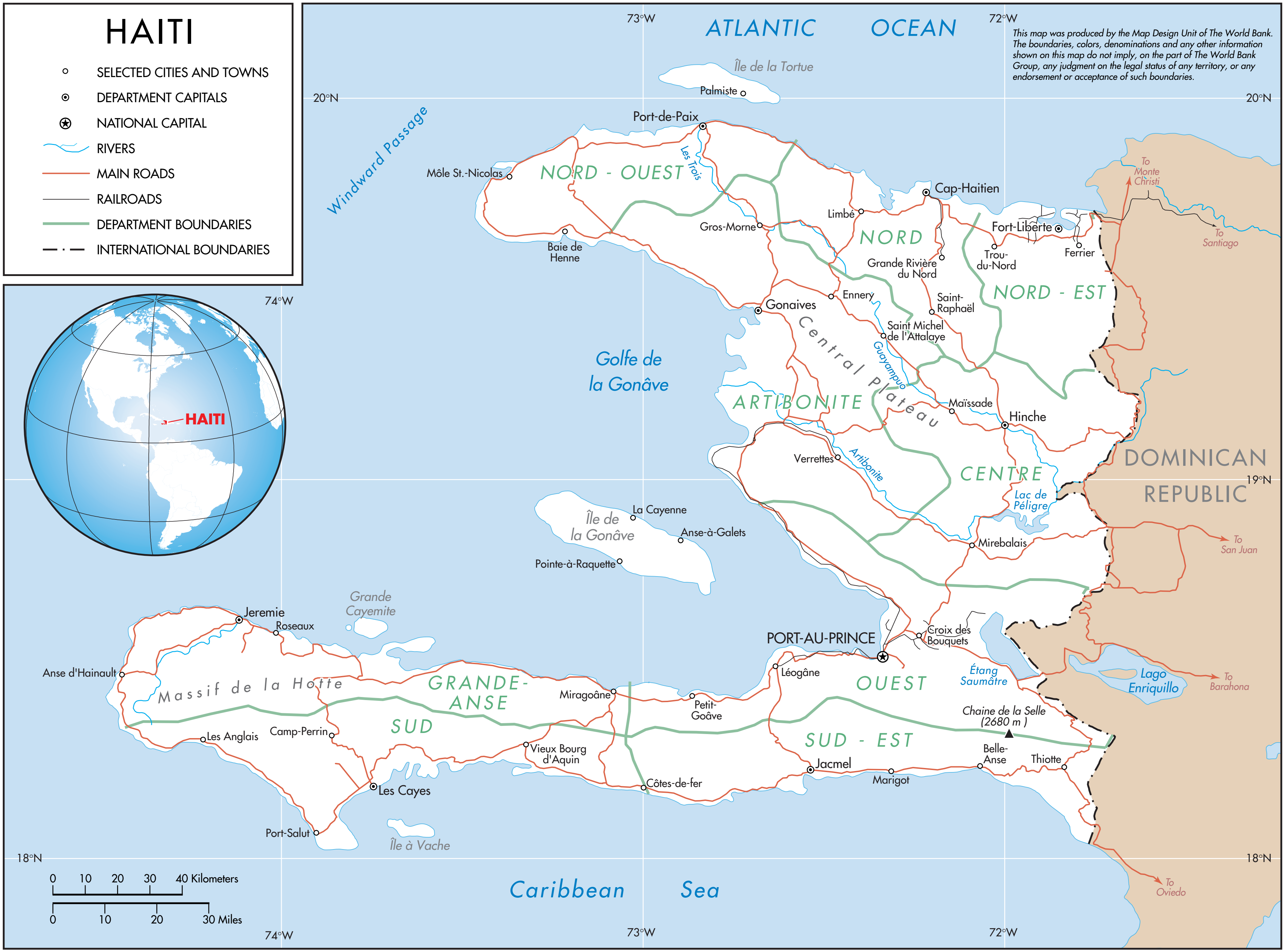
	1983	1993	2002	2003
(US$ millions)				
Total debt outstanding and disbursed	610	817	1,251	1,313
IBRD	0	0	0	0
IDA	122	337	496	491
Total debt service	25	8	19	39
IBRD	0	0	0	0
IDA	1	0	0	0
Composition of net resource flows				
Official grants	49	72	135	96
Official creditors	38	-3	-3	-2
Private creditors	-6	0	41	30
Foreign direct investment	8	-3	5	8
Portfolio equity	0	0	0	0
World Bank program				
Commitments	49	0	0	0
Disbursements	26	0	0	0
Principal repayments	0	0	0	0
Net flows	26	0	0	0
Interest payments	1	0	0	0
Net transfers	26	0	0	0



Annex 15: Map

HAITI: Economic Governance Technical Assistance Grant

MAP SECTION



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