

**Document of
The World Bank**

Report No: ICR00001919

**IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-H5350)**

ON A GRANT

**IN THE AMOUNT OF {SDR 8.0} MILLION
(US\$ 12.5 MILLION EQUIVALENT)**

TO THE

REPUBLIC OF HAITI

FOR THE

THIRD ECONOMIC GOVERNANCE REFORM OPERATION

May 25, 2011

Poverty Reduction and Economic Management
Caribbean Country Management Unit
Latin America and Caribbean a Region

REPUBLIC OF HAITI - GOVERNMENT FISCAL YEAR
October 1 – September 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of April 30, 2011)
Currency Unit Haitian Gourde
US\$1.00 HTG 40.00

ABBREVIATION AND ACRONYMS

CAS	Country Assistance Strategy	IGF	General Finance Inspectorate (<i>Inspection Générale des Finances</i>)
CEM	Country Economic Memorandum	IMF	International Monetary Fund
CIDA	Canadian International Development Agency	MDRI	Multilateral Debt Relief Initiative
CNMP	National Procurement Commission	MEF	Ministry of Economy and Finance
CSCCA	Supreme Audit Institution	PEFA	Public Expenditure and Financial Accountability
DGI	General Directorate of Taxes	PEMFAR	Public Expenditure Management and Financial Accountability Review
DPG	Development Policy Grant	PFM	Public Financial Management
DSNCRP	National Strategy for Growth and Poverty Reduction	PMO	Prime Minister's Office
EDH	National Electricity Company (<i>Electricité d'Haïti</i>)	PRGF	Poverty Reduction and Growth Facility
EGRO	Economic Governance Reform Operation	SDR	Special Drawing Rights
EGTAG	Economic Governance Technical Assistance Grant	SYSGEP	Système de Gestion de l'Information sur les Programmes et Projets d'Investissement
FER	Road Maintenance Fund	UN	United Nations
HIPC	Heavily Indebted Poor Countries	UNDP	United Nations Development Program
IADB	Inter-American Development Bank	USAID	US Agency for International Development
ICR	Implementation Completion Report		
IDA	International Development Association		

Vice President:	Pamela Cox
Special Envoy:	Alexandre V. Abrantes
Sector Director:	Rodrigo A. Chaves
Sector Leader:	Auguste Kouame
Co-Task Team Leaders:	Luc Razafimandimby and Jasmin Chakeri
ICR Team Manager :	Emmanuel Pinto Moreira

REPUBLIC OF HAITI
THIRD ECONOMIC GOVERNANCE REFORM OPERATION

TABLE OF CONTENTS

1. ProJECT Context, Development Objectives and Design	1
2. Key Factors Affecting Implementation and Outcomes	8
3. Assessment of Outcomes	17
4. Assessment of Risk to Development Outcome.....	25
5. Assessment of Bank and Borrower Performance	25
6. Lessons Learned.....	27
7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners.....	28
 Annex 1: Third Economic Governance Reform Operation Policy Matrix	 29
Annex 2: Bank Lending and Implementation Support/Supervision Processes	32
Annex 3. Donor's Support to Economic Governance Reform Agenda.....	33
Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR	34
Annex 5: Haiti at a Glance.....	35
Annex 6: List of Supporting Documents	37

MAP

A. Basic Information			
Country:	Haiti	Program Name:	HT 3rd Econ. Governance Reform Operation
Program ID:	P117944	L/C/TF Number(s):	IDA-H5350
ICR Date:	05/20/2011	ICR Type:	Core ICR
Lending Instrument:	DPL	Borrower:	GOVERNMENT OF HAITI
Original Total Commitment:	XDR 8.0M	Disbursed Amount:	XDR 8.0M
Revised Amount:	XDR 8.0M		
Implementing Agencies:			
Ministry of Economy and Finance -Haiti			
Co-financiers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	07/27/2009	Effectiveness:	03/16/2010	01/12/2010
Appraisal:	10/21/2009	Restructuring(s):		
Approval:	12/08/2009	Mid-term Review:		
		Closing:	12/31/2010	12/31/2010

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Unsatisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Satisfactory	Overall Borrower Performance:	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	90	
General public administration sector	10	
Theme Code (as % of total Bank financing)		
Administrative and civil service reform	14	
Public expenditure, financial management and procurement	65	
Tax policy and administration	21	

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Pamela Cox	Pamela Cox
Country Director:	Alexandre V. Abrantes	Yvonne Tsikata
Sector Manager:	Rodrigo A. Chaves	Rodrigo A. Chaves
Program Team Leader:	Luc Razafimandimby	Luc Razafimandimby
ICR Team Leader:	Emmanuel Pinto Moreira	
ICR Primary Author:	Ana Lucia Armijos / Emmanuel Pinto Moreira	

F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)

The operation directly supports key pillars of the Government's poverty reduction strategy, the DSNCRP, namely building state capacity and improving management of public resources. In particular, the operation aims to contribute to: (i) reducing inefficiencies in the electricity sector in order to support the Government's effort to reduce the fiscal transfer to the electricity company (EDH); (ii) modernizing and

strengthening public financial management to raise and use public resources in a more efficient and transparent manner; and (iii) strengthening and implementing the legal framework for public procurement to contribute to more transparent and cost-effective public expenditure. By addressing weaknesses in public financial management, the operation is also expected to contribute to improvements to the PEFA indicators in the medium term.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Electricité d'Haiti's (EDH) Cost Recovery Index (6 month moving average) has increased to at least 45 percent from less than 32 percent in FY2008.			
Value (quantitative or Qualitative)	32 percent in 2008	At least 45 percent		19.5 percent. Transfers to EDH exceeded the budgeted amount for FY 2010 by 3%.
Date achieved	09/30/2008	12/31/2011		12/31/2010
Comments (incl. % achievement)	Following the earthquake of January 2010, EDH revenue collection capacity weakened as part of the grid was damaged. The information system is outdated and the meters are not working in most of the cities.			
Indicator 2 :	Improved collection rate as evidenced by collection ratio for gross tax arrears, understood as collection of tax arrears during the Government FY as a percentage of total outstanding arrears.			
Value (quantitative or Qualitative)	Transparency of Taxpayer Obligations and Liabilities Component (i) Clarity and comprehensiveness of tax liabilities	Improved collection ratio for gross tax arrears as a percentage of total outstanding arrears		Quantitative indicator was not available at the time of the last supervision mission
Date achieved	06/25/2008	12/31/2011		12/31//2010
Comments (incl. % achievement)	The General Directorate of Taxes (DGI) lost most of its data base during the earthquake. The data are not available even at the time of the ICR			
Indicator 3 :	Operationalization and full compliance of the IGF with its 2009-11 audit work program, including distribution of audit reports to beneficiaries and ministries			
Value (quantitative or Qualitative)	Effectiveness of internal audit control: Component (i) Coverage and quality of the internal audit function; Component (ii) Frequency and distribution of reports	Full compliance of the IGF with its 2009-11 audit work program.		Based on the revised work program after the earthquake, the IGF has begun some key tasks.
Date achieved	06/25/2008	12/31/2011		12/31/2010

Comments (incl. % achievement)	The action plan of IGF was revised in June 2010 to integrate emerging priorities and expanded to cover the period 2010-2014. Only some key tasks, as part of the 2010-11 action plan, have been completed at the time of the ICR, including the inventory of Government and NGO's projects, the audits of subsidies in the education sector, the analysis of audit reports issued by the Court of Accounts, and the audit of public accountants activities in the Ministry of Finance			
Indicator 4 :	Existence of multi-year expenditure estimates based on strategic orientations in at least three ministries			
Value (quantitative or Qualitative)	Multi-year perspective in fiscal planning, expenditure and budgeting: Existence of sector strategies with multi-year costing of recurrent and investment expenditure	Multi-year expenditure estimates in at least three ministries		Only the Ministries of Agriculture and Education have multi-year expenditure plans.
Date achieved	06/25/2008	12/31/2011		12/31/2010
Comments (incl. % achievement)	Efforts are underway in several ministries to design an integrated sector and multi-year expenditure plan based on strategic orientations.			
Indicator 5 :	Improve comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of deposits and expenditures from <i>comptes courants</i>			
Value (quantitative or Qualitative)	Effectiveness of internal controls for non-salary expenditure: Component (iii) Degree of compliance with rules for processing and recording transactions	Improve budget and accounting classifications of consolidated statement of deposits and expenditures from <i>comptes courants</i> .		The procedures are already partially taken into account for FY 2010 but will be only fully effective in FY2011.
Date achieved	06/25/2008	12/31/2011		12/31/2010
Comments (incl. % achievement)	New procedures on budget & accounting classifications on deposits & expenditures from <i>comptes courants</i> are laid out in the operating manuals for budget execution, the approval of which has been delayed due to the earthquake. The Manual was approved in the second quarter of the 2011 calendar year and being printed out for distribution to line ministries as of May 2011. These procedures will be fully effective in FY2011-12.			
Indicator 6 :	Compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Audit Institution, respectively.			
Value (quantitative or Qualitative)	Scope, nature, and follow-up of external audits Component (ii) Frequency and distribution of external audit reports	Timely submission of the Budget Execution Law and Government Accounts to Parliament and the Audit Institution.		Government accounts for 2008-09 were submitted on time to the Supreme Audit Institution. However, submission of the audit of the 2008-09 to

				Parliament has been delayed.
Date achieved	06/25/2008	12/31/2011		12/31/2010
Comments (incl. % achievement)	The audit of the 2008-09 government accounts by the Court of Accounts was delayed following the destruction of its building after the earthquake. Government has submitted to the Court of Accounts the 2009-10 government accounts in May 2011. Bank staff discussed with MEF and the Court measures to shorten the period required for the preparation of government accounts for FY10 in order to enable the Court to prepare both the audits for 2008-09 and 2009-10 by Sept 2011.			
Indicator 7 :	Enhanced transparency in public procurement, evidenced by increasing share of competitive procurement/ total procurement, measured by the contracts awarded w/o competition as percent of all contracts awarded			
Value (quantitative or Qualitative)	58% in FY 2008	less than 45% in FY11		Procurement data in line ministries was lost due to the destruction of ministries during the earthquake.
Date achieved	06/25/2008	12/31/2011		12/31/2010
Comments (incl. % achievement)	The government is commissioning a consultancy to gather data from line ministries for 2008-2009 and 2009-2010 and to update the CNMP database.			

G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/30/2010	Moderately Satisfactory	Moderately Satisfactory	12.50
2	12/31/2010	Moderately Satisfactory	Moderately Satisfactory	12.50

H. Restructuring (if any)

Not Applicable

IMPLEMENTATION COMPLETION AND RESULTS REPORT FOR THE THIRD ECONOMIC GOVERNANCE REFORM OPERATION TO THE REPUBLIC OF HAITI

1. PROJECT CONTEXT, DEVELOPMENT OBJECTIVES AND DESIGN

1. Haiti is the poorest country in the Latin America and Caribbean region. The latest Household survey available indicated that 76 percent of the population lived below the US\$2-a-day poverty line and 58 percent below the US\$1-a-day poverty line. Poor access to infrastructure, minimal ownership of assets, low education and literacy levels, and high levels of child malnutrition were identified as the most important causes of poverty in the World Bank's 2006 Country Economic Memorandum. Inequality is high, with a Gini coefficient of 0.5. A marked gap existed between the rich and the poor in access to economic opportunities and social services and unemployment was high at an estimated rate of 30 percent in 2009.

1.1 Context at Preparation

2. After a two-year transitional period, Haiti successfully returned to constitutional order by holding presidential and parliamentary elections in February and April 2006. Mr. René Préal was elected President with a 51 percent majority, consolidating democracy and improving political stability. The 48th legislature was opened in May 2006, ending three years of legislative paralysis which strengthened the political process. Municipal elections were held in April 19, 2009, although delayed due to restructuring of the electoral council and the passage of a new electoral code.

3. In 2008, Haiti experienced a series of shocks that threatened macroeconomic stability and diverted resources away from the priorities of the National Strategy for Growth and Poverty Reduction (DSNCRP). In addition to the political stalemate following the food and fuel price riots, Haiti was hit by four back-to-back hurricanes and tropical storms in August-September 2008, which caused damages and losses estimated at about 15 percent of GDP. These domestic shocks were compounded by the effects of the 2008 global slowdown. As a result real GDP growth slowed to 1.2 percent in FY2008 from 3.4 percent in FY2007, turning negative in per capita terms. High food and fuel prices led to sharply rising inflation and a deteriorating current account balance. At end 2008 inflation increased to 14.4 percent and the current account deficit widened to 4.5 percent of GDP, driven by an increasing trade deficit, largely because of higher food and fuel imports. The overall balance of payments remained in surplus due in part to PetroCaribe inflows used as budgetary support that kept international reserve coverage at three months of imports.

4. In the period leading to appraisal the Government responded to the shocks by boosting spending, especially investment expenditure, through the program of post-storm recovery and reconstruction activities funded by PetroCaribe savings (around US\$220 million) expected to primarily finance capital expenditures (75 percent), with the remainder for current spending. The reconstruction program and a new proposed program to create 100,000 to 150,000 jobs over two years through infrastructure construction (including labor-intensive works) provided a fiscal

stimulus to counteract the effects of the global slowdown. The FY2009 budget also allocated a large share of resources to social sectors and infrastructure in line with the DSNCRP priorities.

5. Notwithstanding these challenges the Haitian economy performed well in 2009. Whereas the GDP of Caribbean nations shrank by 2.2 percent on average during 2009, the Haitian economy grew by 2.9 percent in real terms compared with an average growth of 0.9 percent between 2004 and 2008. Almost half of the growth was concentrated in the agricultural sector, which was hit hard by the 2008 hurricanes. The manufacturing and retail sectors grew strongly at 3.7 and 2.5 percent, respectively. The limited integration of the domestic financial sector in global markets shielded the economy from direct impact of the global financial crisis. Meanwhile, falling global commodity prices relieved pressure on the high cost of living experienced at the height of the food and commodity price crisis in 2008, bringing annual inflation down to -4.7 percent in FY2009, from 19.8 percent in FY2008. Falling commodity prices and a resilient level of remittances contributed to an improvement in the current account deficit from 4.5 percent of GDP in FY2008 to 3.2 percent of GDP in FY2009. The overall fiscal deficit worsened from 3.1 percent to 4.4 percent of GDP because revenues were lower than expected--although expenditure was contained through cuts in capital outlays.

6. In June 2009, a track record of good policy supported by the International Monetary Fund (IMF) three-year Poverty Reduction and Growth Facility (PRGF) program, the implementation of governance, structural and social reforms supported by EGRO I and II helped Haiti reach the completion point of the Enhanced HIPC Initiative. Haiti was thus expected to benefit from debt relief (including HIPC and MDRI) estimated at US\$1.2 billion in nominal terms. As a result, public external debt fell from 26.7 percent in 2008 to an estimated 13.9 percent in 2009.

1.2 Context during Implementation

On January 12, 2010, an earthquake hit Haiti and caused widespread damage and massive loss of life. The estimated official death toll was 222,570 while thousands of people were injured or permanently disabled. Million and a half people were left homeless. The capacity of the Haitian State was seriously affected because critical staff in various ministries perished and because important official buildings collapsed or were damaged. Major economic, financial and governance activities and functions were disrupted, which represented a major setback for the country following sustained progress in macroeconomic stability in the five years preceding the earthquake. After the disaster, the Bank realized that several of the EGRO III policy measures were no longer consistent with the development challenges. It was decided that the EGRO series would be discontinued, and a new series of policy loans would be considered to better assist Haiti in addressing the new challenges in the post-earthquake period. Some of the policy measures under the EGRO series were transferred to the emergency budget support operation approved in August 2010 to keep up maintaining sound economic governance and to strengthen the reforms started before the disaster.

7. In February 2010, the government of Haiti, supported by the international community, launched a post disaster needs assessment to measure damage/losses and reconstruction needs arising from the earthquake. The needs assessment included consultations with Parliament, civil

society, the Haitian Diaspora, the private sector and the population. Damages and losses were estimated at approximately US\$8 billion. The government developed an Action Plan for the Reconstruction and the Development of Haiti, which was presented to international donors at the United Nations in New York in March 2010. In a powerful show of support, donors pledged nearly US\$10 billion, of which US\$5 billion were pledged for the period 2010-2011.

8. On April 15, 2010, the Senate approved an 18-month extension of the state of emergency that the President of Haiti decreed after the January-12 earthquake. The law significantly expanded the powers of the Executive branch to implement the reconstruction plan, authorizing the President to approve contracts without bids, to requisition private land and build camps for people displaced by the earthquake, and to evacuate the displaced from their camps in case of emergency. In order to ensure efficiency and coordination of reconstruction funds, the government created new institutional arrangements. The Interim Haiti Recovery Commission and the Haiti Reconstruction Fund (HRF), for which the World Bank is the fiscal agent, were created under the Emergency State Law of April 2010. A Steering Committee made of government officials at the ministerial level and representatives of various stakeholders would ensure that projects are in line with the Government Action Plan. The Commission would scrutinize project concepts and oversee project implementation funded by the nearly US\$10 billion pledged by Haiti's partners.

1.3 Original Program Development Objectives (PDO) and Key Indicators (as approved by the Board on December 8, 2009)

9. The single tranche operation under review (EGRO III) approved by the Board on December 8, 2009, built on the successful implementation of Economic Governance Reform Operation I (EGRO I) and EGRO II. EGRO III was the first of a series of two programmatic operations (EGRO III and EGRO IV) and part of a broad package of the International Development Association support for economic management and governance reform program, which includes two Economic Governance Technical Assistance Grants (EGTAG I and II) amounting to US\$4 million, accompanied by a US\$1.5 million grant from the Low Income Countries Under Stress Trust Fund and the Public Expenditure Management and Financial Accountability Review (PEMFAR) finalized in FY08. This third economic governance reform operation was funded by a \$12.5 million grant supporting the reform effort to strengthen public financial management, public procurement, and management and transparency in the electricity sector. In particular, the operation supported policy reforms aimed at: (i) reducing inefficiencies in the electricity sector in order to support the government's effort to reduce the fiscal transfer to the National Electricity Company (EDH); (ii) modernizing and strengthening public financial management to raise and use public resources in a more efficient and transparent manner; and (iii) strengthening and implementing the legal framework for public procurement to contribute to more transparent and cost-effective public expenditure.

10. The operation supported policy measures in three areas deemed critical for continued progress on economic governance and public financial management, while maintaining a high degree of continuity with the previous operations. The fiscal policy component addressed some of the underlying issues creating pressure to increase fiscal transfers to the loss-making EDH. The public financial management component supported greater revenue mobilization capacity

through improvements in customs and tax information systems. On the expenditure side, the component sustained efforts to further improve budget preparation and execution, and the control systems. Finally, the public procurement component supported the implementation of the Public Procurement Law through the timely adoption of the main implementing regulations.

11. The results framework proposed seven programmatic outcome indicators expected to be completed by the end of the second operation (EGRO IV in 2011) as follows: (i) EDH's Cost Recovery Index (6 month moving average) has improved at least to 45 percent from less than 32 percent in FY2008; (ii) Improved collection rate as evidenced by collection ratio for gross tax arrears, understood as the collection of tax arrears during the government fiscal year as a percentage of total outstanding arrears ; (iii) Existence of multi-year expenditure estimates based on strategic orientations in at least three ministries; (iv) Operationalization and full compliance of the General Finance Inspectorate (IGF) with the 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries; (v) Improved comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of the deposits and expenditures from *comptes courants* (discretionary accounts); (vi) Compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Supreme Audit Court respectively; and (vii) Enhanced transparency in public procurement as evidenced by increasing share of competitive procurement in total procurement, measured by the value of contracts awarded without competition as percent of all contracts.

12. Given the impact of the earthquake of January 12, 2010 on public financial management institutions, the implementation capacity of the government was seriously weakened following the destruction of public buildings and the loss of senior level staffs. As a result, out of the seven indicators used to track the operation progress towards its development objectives, four were partially met, one is not met and data to assess the remaining two are not available.

1.4 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

13. Neither the objectives of the operation nor key indicators were revised. The Bank realized that some of the EGRO III policy measures, following the disaster, were no longer consistent with the development challenges. The EGRO series were discontinued, and the Bank started a new series of policy loans to better assist Haiti in addressing the new challenges in the aftermath of the earthquake. The emergency operation contains some of the actions that were triggers to the EGRO IV, following an assessment of the status of triggers made in May 2010 that concluded that only five of the ten triggers were on track.

1.4 Original Policy Areas Supported by the Program (as approved)

14. The government made significant progress in implementing reforms, largely focused on improving the legal and institutional framework for public expenditure and public enterprise management. However, significant weaknesses in economic governance remained and were considered to be one of the most serious obstacles to sustained economic growth and poverty reduction. As a result, the EGRO III focused on addressing those weaknesses. The policy actions

were organized under three components: fiscal policy, public financial management, and public procurement.

1.4.1 Fiscal Policy

15. In spite of progress achieved to improve the financial situation and management, significant weaknesses remained in public financial management. Large fiscal transfers to the EDH were (are) still diverting scarce resources away from DSNCRP priorities. Electricity tariffs charged by EDH were frozen between December 2005 and August 2009, despite the substantial increase in fuel prices. This discrepancy between cost of production and cost recovery, combined with high technical and non-technical losses, undermined the financial sustainability of EDH and its efforts to improve cost recovery¹; it has also prevented EDH from improving the quality and coverage of electricity services. As a result, EDH had to rely on fiscal transfers from the Treasury in order to continue operating, which amounted US\$104 million in the FY2009 budget, exceeding Treasury-financed investment expenditures. These transfers effectively represent inefficient and untargeted subsidies to the electricity sector.

16. Reducing the amount of transfers to EDH was among the key objectives of the Government to which the operation under review was contributing. Sustaining such a reduction would require improving EDH's cost recovery through higher tariffs and improved technical and customer management systems and practices. In addition, greater transparency in the use of the transfers to EDH was needed in order to better assess how quickly they can be phased out. As a prior action for the operation, EDH had designed, publicized and started implementing a cost recovery policy to improve its financial situation and management, which included: (i) the launching of an electricity tariff increase; and (ii) the competitive appointment of a provider of new customer and technical management systems in EDH.

17. Indicative triggers for the second operation included (i) further steps of the Government towards its medium-term goal of reducing fiscal transfers to EDH through the strengthening of the mechanism that monitors key financial indicators for EDH, on a monthly basis; and (ii) the Government committed to commissioning a bi-annual audit of the reports by an independent firm in order to ensure that the information is factually correct. These policy reforms were expected to contribute to improving EDH's administration and enhanced transparency in the management of transfers. The increase in tariffs and the operationalization of the new information systems that allow for tighter monitoring of metering and billing, would decrease EDH's non-technical losses, improve cost recovery and eventually lead to reduced public transfers to EDH.

1.5.2 Public Financial Management (PFM)

18. In spite of significant progress made under the predecessor operations (EGRO I and II), significant weaknesses remained in public financial management. The preparation of investment and current budgets needed to be consolidated to contribute to the introduction of a forward-looking budget. Important progress still needed to be achieved in the areas of budget

¹ Fuel accounts for approximately 67 percent of the total production cost of electricity.

comprehensiveness and data management systems, which still lacked data on externally-financed investment. The internal control system needed to be fully operationalized to ensure full compliance with the budget execution framework and with the recommendations issued by the external audits of line ministries aimed at improving the integrity of the budget. The reporting of the discretionary accounts (*comptes courants*) was not processed under the regular procedures for budget resources and the submission of the budget and annual audits needed to be in compliance with the existing regulations. Finally, despite efforts to revamp the tax and customs administration, Haiti's revenue mobilization remained weak due to small tax base, the absence of a strong legal framework (which encourages corruption) and insufficient capacity in the form of weak decentralized presence and poor communications and coordination between the customs and tax offices. Much of the tax legislation was outdated and dispersed, making it difficult to administer and assess liabilities. The information system was deficient leading to ineffective collection rate and low rate of tax compliance.

19. To strengthen government's revenue mobilization capacity, the operation supported the following prior actions: (i) the operationalization of a new customs information system in eleven key customs posts, namely, Port-au-Prince port, Port-au-Prince airport and airport arrivals hall, Cap Haïtien, Gonaïves, Saint Marc, Miragoane, Malpasse, Ouanaminthe, Belladere and Port de Paix; (ii) the establishment in the Ministry of Economy and Finance (MEF) general directorate of taxes (*Direction Generale des Impots*) a networked information system linking all said directorate office and units in all departments; and (iii) the interconnection of respective information systems operated in MEF's customs directorate and general directorate of taxes; and (iv) carrying out the critical staffing of the General Financial Inspectorate to enable the start of internal audit operations.

20. For the second operation, the indicative triggers included the submission of the Fiscal Code to the lower chamber of Parliament aimed at improving tax collection; and as regards public expenditure management, actions aimed at sustaining efforts to improve the budget process for better outcomes and the strengthening of the control systems, through the following measures: (i) the consolidation of the integration of the preparation of investment and current budgets; (ii) the strengthening of the financial control and internal audit functions through the adoption and dissemination of the manual of procedures for internal audit, and the implementation of the FY2010 audit work program established by the Ministry of Finance for the IGF; (iii) the regularization of control procedures for *comptes courants*; and (iv) compliance with calendar and legal requirements for external audit; (v) the MEF has submitted to the Supreme Audit Institution (CSCCA) the 2008-09 public accounts; and (vi) the CSCCA has submitted to Parliament an opinion on the audit report for the fiscal year 2007-08.

21. By the end of the programmatic operations, the reforms are expected to lead to improved collection rate as evidenced by collection ratio for gross tax arrears; and the reforms aimed at strengthening public expenditure management are expected to lead to: (i) improved budget preparation process in at least three ministries; (ii) the operation and full compliance of the IGF with its 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries; (iii) improved comprehensiveness of budget reporting; and (iv) enhanced compliance of external audits with regulations as evidenced by timely submission of the Budget

Execution Law and Government Accounts to Parliament and the Supreme Audit Court respectively.

1.4.3 Public Procurement

22. Despite efforts initiated since 2004 to reform public procurement, progress has been slow in strengthening the system. Policy actions already taken to advance procurement reforms under the predecessor operations include: (i) the creation of the *Commission Nationale des Marchés Publics* (CNMP); (ii) the adoption of a new Procurement Law by Parliament in June 2009; (iii) the establishment of a web site on which the CNMP publishes invitations to bid, a list of suppliers and contracts awards; and (iv) the introduction of standard bidding documents and a manual of procedures for government procurement staff based on the new code. The dissemination of the new Law was expected to speed the adoption of improved procurement practices. However, significant work is still needed to ensure full compliance with the new Law by sector ministries. Compliance is of particular importance given the increasing number of public procurement processes likely to result from growing external aid.

23. This operation supported the issuance by the Government of the four key implementing decrees (*arrêtés d'application*) required for the Public Procurement Law to become effective, namely: (i) decree establishing all relevant thresholds in respect of public procurement; (ii) decree setting forth the institutional rules and procedures for the CNMP; (iii) decree setting forth the general rules regarding public procurement and public service concessions; and (iv) decree adopting the manual of procedures for public procurement and mandating its general application

24. The triggers for the second operation were designed to lay the foundation for steps to materialize, including two key measures (i) the preparation of annual procurement plans for FY2009-10 by key contracting authorities, communication of said plans to the CNMP and publication of associated general procurement notices; and (ii) enhancement of the CNMP's existing database of Government contracts and suppliers to provide more specific and up-to-date information which can be accessed by the general public and can be downloaded from the CNMP website.

25. By the end of this series of programmatic operations, the identified policy reforms are expected to contribute to enhanced transparency in public procurement. The share of noncompetitive procurement in total procurement, measured as the value of contracts awarded without competition as percent of all contracts awarded is expected to decrease significantly. Sustaining implementation of these reforms in the medium term would lead to improvements to the PEFA scores.

1.5 Revised Policy Areas (if applicable)

26. Policy areas were not revised.

2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES

2.1 Program Performance

27. The grant was approved on December 8, 2009. It became effective one month later on January 12, 2010. The disbursement of the Single Tranche took place January 25, 2010, as stated in the Financing Agreement. This operation was built on two previous Economic Governance Reform Operations EGRO I and EGRO II. EGRO I (2005) was designed as a two-tranche operation in view of the risks involved in a first operation in a transition period. The second tranche conditions were met without any waivers, but with delays. Significant technical assistance was provided to address the problem of low government capacity. Close coordination among donors, intense supervision and a field presence were essential for moving program implementation. The Government, under the EGRO II (2007) made good progress in public financial management and maintained macroeconomic stability despite severe external shocks and a difficult political climate. On the other hand, little was achieved in civil service reform, improving governance of the electricity sector and promoting accountability and transparency in the use of public resources for education. The operation was rated moderately satisfactory as the Government proved unable to deliver on the corrective actions it had agreed to take in return for the waivers granted on four conditions of second tranche release.

28. The operation under review was designed to be followed by a fourth operation as part of a programmatic series of two operations. The fourth operation was to be triggered by a set ten follow-on actions. After the field visit of September-October 2010, the mission reported that given the impact of the earthquake on public financial management institutions, the implementation capacity of the government was seriously weakened following the destruction of a large part of Port-au-Prince and the loss of several senior level staffs. As a result, the implementation of the indicative triggers for the next operation (EGRO IV) was significantly delayed. Only two of ten triggers were met; five were delayed but partially met, and three were not met.

29. Progress in the areas supported by this operation (EGRO III) was encouraging before the earthquake. *In fiscal policy*, to improve EDH's financial situation and management and support the Government's efforts to reduce the fiscal transfers to the company, EDH had designed and started implementing a cost recovery policy including the launching of an electricity tariff increase and the competitive appointment of a provider of new customer and technical management systems for company. *In public financial management*, significant progress was made, in particular with respect to revenue collection and efficiency and transparency in public expenditure management. Finally, progress *in procurement* although relatively slow due to significant delay in the adoption of the new Procurement Law and its implementation, as a prior action to the operation under review, the Government issued four key implementing decrees required for the Public Procurement Law to become effective.

30. Table 1 below summarizes the status of the prior actions to this economic governance reform operation (EGROIII) as well as the status of triggers for the second operation (EGRO IV).

Table 1: Status of Prior Actions and Triggers for the Second Operation

Prior Actions for Board approval		Triggers for the second operation	
I. Fiscal Policy			
EDH has designed, publicized and started implementing a cost recovery policy which includes the launching of an electricity tariff increase		The EDH monitoring table showing the use of fiscal transfers is published on a monthly basis on the MEF website beginning in November 2009, including the data for November 2008 – October 2009	Partially Met. The MEF has published partial data for November 2008-September 2009 in January 2010. The publication was interrupted after the quake in January 2010. The Government published the data between January 2010 and March 2011 in a sequenced manner, not on a monthly basis. The data are incomplete and do not contain all the required key information
EDH has designed, publicized and started implementing a cost recovery policy which include the competitive appointment of a provider of new customer and technical management systems in EDH		The information contained in the monitoring table is audited on a bi-annual basis by an independent firm	Not Met The first audit was scheduled for June 2010 but was delayed due to the earthquake and the impact of the quake on the institutions involved (EDH, MEF, and MTPTC) as well as the interruption of data collection. The Government is preparing a comprehensive audit of the data on electricity. The TORs for the audit are being finalized by the Government as of May 2011.
II. Public Financial Management			
The Government has carried out in MEF's Customs Directorate the operationalization of a new customs information system in eleven key customs posts of the Recipient's territory, namely, <i>Port-au-Prince</i> port, <i>Port-au-Prince</i> airport and airport arrivals hall, <i>Cap Haïtien</i> , <i>Gonaïves</i> , <i>Saint Marc</i> , <i>Miragoane</i> , <i>Malpasse</i> , <i>Ouanaminthe</i> , <i>Belladere</i> and <i>Port de Paix</i>		The Fiscal Code has been submitted to the lower chamber of Parliament	Not Met This follow-on action is delayed significantly following the destruction of the Tax Directorate
Completed in MEF's General Directorate of Taxes (" <i>Direction Générale des Impôts</i> ") the establishment and operationalization of a networked information system linking all said directorate's departmental offices and units (<i>Direction Départementales des Impôts</i>) among them		The MEF has adopted and disseminated the Procedural Manual for budget preparation and integrated the preparation of current and investment budgets	Partially Met The Manual is finalized, adopted and being prepared for distribution to line ministries as of May 2011.
Completed the interconnection of respective information systems		Internal Audit Function is strengthened through (i) the	Partially Met. The Manual of Procedure was

operated in MEF's customs directorate and general directorate of taxes		adoption and dissemination of the manual of procedure for internal audit; and (ii) the implementation of the internal audit work program established by the MEF for the IGF	finalized. The internal audit work program for the IGF has been updated after the quake and adopted by the MEF. The IGF action plan for 2010-11 has been undertaken. Only some key tasks have been completed but these are key tasks
The Government has carried out the critical staffing of its general financial inspectorate (<i>Inspection Générale des Finances</i>) to enable the start of internal audit operations		Regular controls compliant with budget rules are applied to the deposits and expenditures from ' <i>comptes courants</i> ' monitored by Public Accountants	Partially Met This activity is embedded in the budget execution procedures described in the Procedural Manual. The work program will be fully implemented in FY 2011-12 .after the dissemination and implementation of the procedural manual for budget execution.
		The MEF has submitted to CSCCA the 2008-09 public accounts	Met The 2008-09 public Accounts has been finalized by the Treasury
		The CSCCA has submitted an opinion (Avis) on the audit report for the fiscal year 2007-08 to Parliament	Met The 2007-08 government accounts have been audited by the CSC/CA, and the results submitted to the MEF for comments.
III. Public Procurement			
The Government has issued the four key implementing decrees required for the Public Procurement Law to become effective, namely: (i) decree establishing all relevant thresholds in respect of public procurement; (ii) decree setting forth the institutional rules and procedures for the CNMP; (iii) decree setting forth the general rules regarding public procurement and public service concessions; and (iv) decree adopting the manual of procedures for public procurement and mandating its general application		Key contracting authorities have submitted to the CNMP procurement plans for FY2009-10 and associated general procurement notices are published	Not met Line ministries have not submitted their procurement plans following the destruction of several line ministries in 2010. .
		The CNMP has rendered its database on contract awards fully operational, up-to-date, and accessible to the general public	Partially Met The server of the CNMP is being repaired but not fully operational yet.

2.2 Major Factors Affecting Implementation:

2.2.1 Internal factors

31. Parliamentary ratification of the grant agreement took short time contrary to what is generally the case in Haiti. Only one month after the approval of grant agreement (December 8, 2009) the operation became effective January 12, 2010 and the disbursement followed shortly (January 25, 2010). However, the limited government capacity for program implementation resulted in important delays in program execution, including taking the appropriate steps for meeting second operation triggers.

32. The earthquake created a substantial political uncertainty and the progress made in the functioning of democracy before the earthquake, including the political process towards legislative, presidential and municipal elections previously scheduled to be held in 2010 stalled.

2.2.2 External factors

33. The earthquake of January 12, 2010 directly impacted Port-au-Prince and the entire metropolitan area where the most important economic infrastructure facilities are located and a third of the country's population resides. This disaster very severely disrupted the economy, the public finances and the governance activities and functions representing a major setback for the country following sustained progress in macroeconomic stability and public sector governance in the five years preceding the earthquake. The country's productive capacities were devastated and the vulnerability of the population and of the state institutions increased as the State's ability to provide essential basic services for the people was eroded. The loss of a considerable quantity of physical capital (infrastructure, housing, equipment and materials) and also of human resources put the country in an unfavorable position for moving into the implementation of policy measures and actions towards the achievement of outcomes expected by the end of the EGRO operations. Some Government institutions, already weak before the disaster, are not yet functioning at pre-earthquake levels.

34. The position of the public finances, which had improved before the earthquake, displayed a definite downward trend. Revenue, which was running at a monthly average of 3 billion gourdes (2009), slumped abruptly to 700 million gourds in January 2010. The target for the 2009-2010 fiscal years was scaled back to 26.3 billion gourdes against the 34.9 billion initially set, hence a performance of just 75 percent. However, preliminary data show that revenue has increased at end 2010 to pre-earthquake level (31.4 billion of gourdes versus 26.3 billion of gourdes).

35. Regarding the implementation of expenditure, the MEF in mid 2010 was operating out of two provisional locations and with a reduced number of personnel. The main servers holding the data were saved and are once again operational. The expenditure forecasts for the fiscal year pointed to a slight reduction in current expenditure, while wages and salaries were swiftly restored and were paid on schedule. Locally financed capital expenditures, which have been diverted in part to cover emergency needs, were expected to increase by about 26 percent by end 2010.

2.3 Adequacy of Government Commitment

36. The Government was committed to the program, but was slow in meeting the triggers for the second operation, because of severe capacity constraints due to the earthquake which inflicted serious damages to the island and its population. The capacity of the Haitian State was seriously affected because critical staff in various ministries perished and because important official buildings collapsed or were damaged. Government buildings that were destroyed or seriously damaged include the National Palace, the Supreme Court, the Law Courts, the Parliament and police facilities, and all but one line ministry. Other affected key public entities include the Tax and Customs Administrations, the National Statistical Institute, the National Procurement Commission, the Court of Accounts (CSC/CA), and the FER. Major economic, financial and governance activities and functions were disrupted—which represents a major setback for the country following sustained progress in macroeconomic stability and public sector governance in the five years preceding the earthquake.

2.4 Analytical Underpinnings

37. The operation under review drew on a wide range of analytical work carried out by the Government and the Bank in recent years. Most notably, the overall design of the operation was based on the Government's DSNCRP itself, which was developed in a participatory process consisting of consultations with civil society, government officials, and development partners. The DSNCRP presents the government's long-term vision to foster growth, reduce poverty, and raise living standards, through an ambitious program of institutional reform and public investment. The overall strategic priorities of the DSNCRP are structured around three pillars: (i) enhancing human development, with a focus on improving delivery of basic services; (ii) improving security and the justice system; and (iii) promoting vectors of growth through agriculture and rural development, tourism, and infrastructure. The DSNCRP also includes as one of its cross-cutting policy priorities a strategy to build state capacity and improving management of public resources.

38. The Bank prepared a Country Economic Memorandum (CEM) in 2006, which identified poor economic governance as one of the main constraints to growth and poverty reduction. The CEM highlighted the important advances made to increase transparency and efficiency in the use of public resources and external assistance. These included changes in the legal framework for budget formulation and execution, the setting up of critical institutions and agencies, and efforts at disseminating basic information. The report's recommendations focused on the need for full implementation of the new legal framework, and the capacity building necessary to achieve the implementation especially with regards to revenue, expenditure and human resource management. Gradually, coverage of the framework could then be extended to offices handling financial management in sector ministries. In addition, the CEM pointed to the need for redistributive policies--through increased collection of progressive taxes to mobilize much needed public resources, and improved efficiency and targeting of public spending. The findings and recommendations of the CEM with regards to economic governance reform were subsequently incorporated into the EGRO series.

39. The PEMFAR and its follow-up action plan (2008) provide the technical basis for the proposed policy actions under the public financial management and procurement components. The review acknowledges the significant progress in strengthening fiscal discipline and improving the efficiency of the PFM and procurement systems over the period 2005-08, despite the difficult environment. The study identified progress in budget preparation and execution and in particular the improvements resulting from the implementation of the expenditure information system SYSDEP. In the area of procurement, the establishment of the CNMP helped to standardize tender documentation and improve the management of procurement processes. The report identified as remaining challenges the budget's limitation in terms of a forward-looking perspective, and poor link with sector policies; the lack of cash-flow planning and the weak capacity of line ministries; the need to link the different information systems; and the opportunity to further improve the PFM regulatory framework. Policy recommendations in the area of budget preparation included further linking budget and policy planning, incorporating extra-budgetary funds into the budget; communicating expenditure ceilings to the ministries at the beginning of the budget preparation process. In the area of budget execution and control, recommendations focused on accelerating recruitment of financial controllers, public accountant, and financial inspectors, and continuing the process of reducing the discretionary accounts.

40. Finally, the FY2009-12 Country Assistance Strategy (CAS) was discussed by the Board on June 2, 2009. It focuses on three pillars: (i) promoting growth and local development; (ii) investing in human capital; and (iii) reducing vulnerability to disasters. The strategy has two-pronged approach, combining longer-term institution building (including economic governance reform) with support for the government in the delivery of quick, visible results to the population. This results agenda involves activities to: (i) improve the effectiveness, transparency and accountability of public sector institutions; (ii) consolidate governance reforms including public financial management, both from the expenditure and revenue perspectives, and procurement to strengthen core institutions; and (iii) strengthen key sector ministries that are critical for service delivery.

41. The EGRO III operation supported key pillars of the Government's poverty reduction strategy, the DSNCRP, namely building state capacity and improving management of public resources. It also supported policy measures and activities in areas deemed critical for continued progress on economic governance, public financial management and procurement issues addressed in the CAS and the CEM; while maintaining a high degree of continuity with the previous economic governance reform operations.

2.5 Assessment of the Operation Design

42. EGRO III operation was designed as a first in a series of two single-tranche development policy grants (DPG), taking into accounts the experience with previous operations, and is fully in line with the agreement reached between donors and the government on the modalities for budget support. Furthermore, the operation was designed to reflect the government's policy priorities in the area of economic governance, as expressed in the joint matrix for budget support agreed upon with all the key donors, which forms the basis for this operation. The policy actions supported by this operation on the one hand reflected the recognition of the post-conflict environment from which Haiti had recently emerged — the political stalemate following the

food and fuel price riots, and the hurricanes and tropical storms in August-September 2008 and on the other hand the progress made over the past years with the support of the preceding EGRO operations. There was nothing new or unexpected in the third operation and it was reasonable to envisage that, with the experience gained, this third operation could be completed within schedule. Unfortunately, on January 12, 2010, an earthquake hit Haiti and caused widespread damage and massive loss of life, resulting in the disruption of economic, financial and governance activities representing a major setback for the overall country poverty reduction and economic management strategy.

2.6 Relevance of Risk Analysis

43. The operation under review took place in an environment of high risk. Four types of relevant risks were identified: economic risk, political risk, natural disaster-related risk, and weak institutional capacity risk. The economic downturn in major international economies could have a serious negative impact on Haiti, through reduced remittances, donor funding and investment. At the time of the appraisal there was evidence of an impact in these areas already, which could jeopardize macroeconomic stability, poverty reduction, human development and private sector development. The economic risk was expected to be mitigated by the ongoing support of the Bank and other donors but it was acknowledged that a serious crisis would also reduce the overall effectiveness of this assistance.

44. At the time of the operation's approval Haiti remained vulnerable to the political and social instability that has historically undermined development and the implementation of donor programs in the country. Difficult socio-economic conditions and multiple elections increased the risk of the recurrence of instability in the coming years. However, the appointment of a new Prime Minister who was Minister of Planning and International Cooperation the previous Cabinet, and as such who has actively participated in the dialogue with development partners -- including the World Bank -- in the past, provided assurance that Haiti would stay the course and continue implementing key economic reforms supported by the operation under review. Similarly, the presence of UN forces and the strong commitment of the international community, including the Bank Group, to supporting the Government and its reform program were considered stabilizing factors.

45. As Haiti is highly vulnerable to natural disasters, including hurricanes, earthquakes, flash floods etc. renewed occurrence of large scale natural disasters would derail the government's reform program and divert resources from the longer term development agenda towards more urgent recovery and reconstruction needs. The Bank's ongoing portfolio of emergency recovery projects directly addressed this risk and the Bank could be able to respond to any natural disaster by reallocating funds from pipeline or existing projects. Additionally, weak institutional capacity and delays that could arise from capacity constraints also remained important risks. This risk was expected to be mitigated by sustaining the reforms that have started generating positive results on which the country already had developed stronger capacity such as in public finance management and procurement. This risk would also be mitigated by ensuring that the most difficult reforms were taken up-front and that donor harmonization would help target efficiently the focus of technical assistance. The Bank would coordinate with the community of donors to enhance synergy and improve the efficiency of the EGRO III.

46. The risk analysis was adequate. The risks were substantial, but it was expected that the operation would bring about potential benefits, which were essential to support the Government's economic governance reform agenda. The mitigation of potential risks was overall appropriate, but the magnitude of the aftershocks of the January 2010 earthquake was so severe and the damage so significant that the development objectives of the operation were undermined.

2.7 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

2.7.1 M&E Design

47. The results framework included seven outcome indicators under three policy areas, expected to be achieved by the end of the second operation in 2011. The *fiscal policy* component had one outcome indicator: the EDH Cost Recovery Index (6 month moving average) has increased to at least 45 percent from less than 32 percent in FY2008. The *public financial management* component had five outcome indicators: (i) improved tax collection rate, evidenced by collection ratio for gross tax arrears, understood as the collection of tax arrears as a percentage of total outstanding arrears, of more than 60 percent; (ii) existence of multi-year expenditure estimates based on strategic orientations in at least three ministries; (iii) operationalization and full compliance of the IGF with its 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries; (iv) improved comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of the deposits and expenditures from discretionary ministerial accounts, and (v) compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Supreme Audit Court, respectively. Finally, one outcome was sought under *public procurement policy* component: enhanced transparency in public procurement as evidenced by an increased share of competitive procurement, measured by the value of contracts awarded without competition as percent of all contracts awarded.

2.7.2 M&E Implementation, Monitoring and Evaluation

48. The MEF was responsible for the overall coordination of the operation as set out in the Letter of Development Policy. Similarly, the MEF would be in charge of reporting progress and coordinating actions among other concerned entities, including the CNMP, the Central Bank and the main line ministries managing investment projects. The Bank monitored implementation as part of the joint donor matrix for budget support, through regular supervision missions as well as the presence in the field of the EGRO III task team leader and the preparation of several follow-up notes sent to the Ministry of Finance and the Prime Minister to permanently remind and identify pending reform measures, bottlenecks or pending problems, expected next steps and institutional responsibilities for follow-up (on both the Government and Bank sides).

49. Immediately after the approval of the operation early December 2009, a first Bank mission visited Haiti (December 10-17, 2009) with the objective of supervising if the prior actions of the EGRO III were on track. With the only exception of the use of transfers to EDH, which was significantly delayed due to weak government monitoring system and SOE's, the

other conditions were complied. As a result the Ministry of Finance would publish by the end of 2009 the existing data of EDH transfers with a note explaining the shortcomings. As the earthquake occurred January 12, 2010 the following Bank supervision missions had to focus on the impact of the earthquake on public financial management institutions and the loss of implementation capacity of the government given the destruction of public buildings and the loss of senior level civil servants. From the start, it was clear that the implementation of some of the indicative triggers for the next operation (EGRO IV) would be significantly delayed. Bank staff had to deal with the aftermath of the disaster and look for possible adjustments that needed to be made as the circumstances evolved.

50. The Bank supervision mission of May 3-13, 2010, reviewed the status of the EGRO III and filed the corresponding Implementation Status and Results Report (ISR). In the mean time the Bank mission already identified and agreed with the Government on the prior actions to underpin the upcoming Emergency Budget Support operation. The last supervision mission that visited Haiti on September 27 to October 8, 2010 prepared a detailed ISR (November 23, 2011) with the status of each one of the indicators.

51. The Bank mission provided information on each one of the indicators as follows: The only indicator pertaining to fiscal policy was not met (EDH's Cost Recovery Index has improved at least to 45 percent from less than 32 percent in FY2008). Four of five indicators, pertaining to public financial management, were partially achieved (existence of multi-year expenditure estimates based on strategic orientations in at least three ministries; operationalization and full compliance of the IGF with the 2009-11 audit work program; improved comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement on deposits and expenditures from comptes courants; and compliance of external audits with regulations and submission of the Budget Law and Government Accounts to Parliament and the Supreme Audit Institution). For the only indicator under the public financial management component, (improved collection rate as evidenced by collection ratio for gross tax arrears), there was no data available at the time of the mission, not at the time of the ICR. Finally, the indicator for public procurement (enhanced transparency in public procurement as evidenced by increasing share of competitive procurement in total procurement) had no information available because during the earthquake procurement data in line ministries was lost.

2.7.3 M&E Utilization

52. The indicators were not designed to be met in the first year of the operation. They were intended to monitor advancement in implementing specific actions in the reform program towards progress in achieving the broad objectives of the government's reform program.

2.8 Expected Next Phase/Follow-up Operation (if any)

53. The EGRO III operation under review was expected to be followed by a fourth EGRO within the context of a programmatic series. The series of operations would support policies and reforms aimed at: (i) creating fiscal space for priority expenditures by reducing inefficiencies in the electricity sector; (ii) improving public finance management by prioritizing allocations to key sectors in poverty reduction and growth, and improving information system to enhance revenue

mobilization capacity; and (iii) strengthening the framework for public procurement. This operation was designed in the context of improved donor harmonization on budget support agreed with the Government in April 2009. The assessment of the status of triggers for EGRO IV (as of May 2010) presented in Table 1, concluded that only two of ten triggers were on track and five were delayed due fundamentally to the earthquake. Financing needs have been exacerbated by revenue shortfalls following the earthquake. The damage and losses caused by the earthquake were estimated to be nearly US\$8 billion, according to the Post Disaster Needs Assessment (PDNA) carried out in February 2010. At the same time, expenditure needs to support the reconstruction increased. In response to the damage and losses caused by the earthquake the Bank prepared an Emergency Development Policy Operation in July 2010. As a result, the EGRO series were discontinued.

3. ASSESSMENT OF OUTCOMES

3.1 Relevance of Objectives, Design and Implementation

54. The objectives were highly relevant when the operation was prepared. As indicated earlier in this report, the operation supported key pillars of the Government's poverty reduction strategy; it also supported policy measures in areas deemed critical for continued progress on economic governance, public financial management and procurement issues addressed in the CAS; and maintained a high degree of continuity with EGRO I and EGRO II. The objectives of the operation continue to be a priority today after the extensive damage done by the 2010 earthquake. In effect, the Emergency Development Policy Operation approved in August 2010, used most of the triggers for the EGRO IV and focuses on areas that do not differ from those addressed in the latter operation. The Emergency DPO addresses the short-term challenges after the earthquake and aims to consolidate the gains achieved under the previous EGRO operations. Areas of continuity include the strengthening of budget controls and audits, and the establishment of transparency in the management of transfers in the electricity sector given the urgency of ensuring adequate monitoring and oversight of public resource use. While retaining procurement as a key area, it shifts the focus from implementation of the procurement Law to strengthening the legal framework and capacity given the damages to procurement institutions.

3.2 Achievement of Program Development Objectives²

53. As a result of the earthquake, 2010 GDP contracted by 5 percent (much less than originally expected) owing to a stable agricultural output, and resilient manufacturing industries and commerce. Overall production costs rose and the collapse of structures hampered the operation of many businesses. Annual inflation initially projected at 8.5 percent, was 4.7 percent, due to low domestic and international food prices and food aid. The overall fiscal deficit deteriorated to 3.0 percent of GDP and as expected, the earthquake reduced tax revenues

² It should be noted that instead of using the result indicators at the end of the operation (2011), the ISR used, for some indicators, medium-term results foreseen beyond the closing date of the operation. However, this does not affect the assessment of the operation's achievement under the ICR.

exposing the disadvantages of relying on a narrow tax base. However, overall domestic revenues increased due to a boost in customs revenue driven by rapidly expanding imports. By contrast, expenditures increased considerably in response to activities and reconstruction efforts following the earthquake. Progress in the implementation of the main components and development objectives of the reform program supported by the EGRO III operation is summarized in Table 2.

Table 2: Economic Governance Reform supported by EGRO III Objectives, Triggers for the second operation, Result indicators and Status

Objectives of EGRO III Triggers for the second operation (EGRO IV)	Status	Outcome Indicators Expected (by end- 2011)	Status (by end-2010)
I. Fiscal Policy			
Improve EDH's financial situation and management, and support the Government's efforts to reduce the fiscal transfers to the company. - The EDH monitoring table showing the use of fiscal transfers is published on a monthly basis on the MEF website beginning in November 2009, including the data for November 2008 – October 2009 - The information contained in the monitoring table is audited on a bi-annual basis by an independent firm	Partially Met Not met	EDH's Cost Recovery Index (6 month moving average) has improved at least to 45 percent in FY 2011 from less than 32 percent in FY 2008	Not Met The cost recovery index decreased from 55 percent in September 2009 to 19.5 percent in August 2010. Therefore, transfers to EDH exceeded the budgeted amount for FY 2010. Following the earthquake, EDH revenue collection capacity has weakened as part of the grid was damaged. Additionally, the information system is outdated and the meters are not working well in most part of the cities.
II. Public Financial Management			
Improve tax revenue collection and mobilization The Fiscal Code has been submitted to the lower chamber of Parliament.	Not Met	Improved collection rate as evidenced by collection ratio for gross tax arrears, understood as the collection of tax arrears as a percentage of total outstanding arrears at the beginning of the fiscal year	Not available Quantitative indicator was not available at the time of the supervision mission. The DGI lost a large portion of its data base during the earthquake. The data was not available at the time of the ICR.
Improve efficiency and transparency in public expenditure management, strengthen the budget process by improving budget integration with planning, and formulate policy priorities in line with the DSNCRP. - The MEF has adopted and disseminated the Procedural Manual for budget preparation and integrated the preparation of current and investment budgets - Internal Audit Function is strengthened through (i) the adoption and dissemination of the manual of procedure for internal	Partially Met Partially Met	Existence of multi-year expenditure estimates based on strategic orientations in at least three ministries Operationalization and full compliance of the IGF with the 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries	Partially Met Efforts are underway in several ministries to design an integrated sector and multi-year expenditure plan based on strategic orientations. Only the Ministries of Agriculture and Education have multi-year expenditure plans. Partially Met The action plan of IGF was revised in June 2010 to integrate emerging priorities and expanded to cover the period 2010-2014. Based on this revised work program, IGF has begun some key tasks planned for 2010-11, including the inventory of

Objectives of EGRO III Triggers for the second operation (EGRO IV)	Status	Outcome Indicators Expected (by end- 2011)	Status (by end-2010)
audit; and (ii) the implementation of the internal audit work program established by the MEF for the IGF - Regular controls compliant with budget rules are applied to the deposits and expenditures from 'comptes courants' monitored by Public Accountants - The MEF has submitted to CSCCA the 2008-09 public accounts - The CSCCA has submitted an opinion (<i>Avis</i>) on the audit report for the fiscal year 2007-08 to Parliament	Partially Met Met Met	Improve comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of deposits and expenditures <i>from comptes courants</i> . Compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Supreme Audit Court, respectively	Government and NGO's projects, the audits of subsidies in the education sector, the analysis of audit reports issued by the Court of Accounts, and the audit of public accountants activities in the Ministry of Finance Partially Met New procedures on budget & accounting classifications on deposits & expenditures from <i>comptes courants</i> are laid out in the operating manuals for budget execution, the approval of which has been delayed due to the earthquake. The Manual was approved in the second quarter of the 2011 calendar year and being printed out for distribution to line ministries as of May 2011. These procedures will be fully effective in FY2011-12. Partially Met The audit of the 2008-09 government accounts by the Court of Accounts was delayed following the destruction of its building after the earthquake. Government has submitted to the Court of Accounts the 2009-10 government accounts in May 2011. Bank staff discussed with MEF and the Court measures to shorten the period required for the preparation of government accounts for FY10 in order to enable the Court to prepare both the audits for 2008-09 and 2009-10 by Sept 2011.
III. Public Procurement			
Improve efficiency in public spending through the strengthening of public procurement. - Key contracting authorities have submitted to the CNMP procurement plan for the FY2009-10 and associated general procurement notice are published - The CNMP has rendered its database on contract awards fully	Not Met Partially met	Enhanced transparency in public procurement as evidenced by increasing share of competitive procurement in total procurement, measured by the value of contracts awarded without competition as percent of all contracts awarded.	Not available As a result of the earthquake, the office of the procurement regulatory body was destroyed and the procurement units in line ministries were weakened. Equipment and records disappeared with the collapse of the public buildings. The website and data on procurement bids have not been fully updated.

Objectives of EGRO III Triggers for the second operation (EGRO IV)	Status	Outcome Indicators Expected (by end- 2011)	Status (by end-2010)
operational, up-to-date, and accessible to the general public			

55. One year after the 2010 earthquake that devastated the country, the macroeconomic situation has improved faster than anticipated, reflecting the authorities' efforts to quickly restore state institutions, prudent macroeconomic policies, and the rapid and sizeable donors' budget support. The external current account deficit was 2.3 percent of GDP, while net international reserves increased significantly to about \$1.1 billion, due to capital inflows in support of the reconstruction activities. Debt relief, including by the World Bank, IDB, IMF, and Venezuela, that followed the earthquake, significantly improved the overall balance position and lowered the country's external indebtedness. The three-year IMF's program implementation under the Extended Credit Facility (ECF), approved in July 2010, is satisfactory to date. All performance criteria for the first review that took place end 2010 were met, with the exception of the poverty-related spending target as the poverty-related expenditure was not fully observed, reflecting a slower than expected response in the immediate aftermath of the earthquake. Similarly, implementation of structural reforms has continued, particularly in tax and customs administration aimed at increasing fiscal revenue, and cash management to improve transparency and efficiency in the use of public resources. All structural benchmarks have been implemented, albeit with some delays. The outcome results, current status of the policy areas and progress toward medium-term policy actions that were outlined in the Program document are discussed below.

Objective 1: Improving EDH's financial situation and management, and support the Government's efforts to reduce the fiscal transfers to the company

56. Despite significant progress made in the electricity sector as part of efforts aimed at improving public utility management and the efficiency of public expenditures, large fiscal transfers to EDH were still diverting scarce resources away from DSNCRP priorities. Therefore, reducing the amount of transfers to EDH was among the key objectives of the Government to which this operation was contributing. In effect, to improve EDH's financial management and support the Government's efforts to reduce transfers to the company, EDH, as a prior action had designed, publicized and started implementing a cost recovery policy which included the launching of an electricity tariff increase and the competitive appointment of a provider of new customer and technical management systems in EDH. As a follow-on action the EDH had to publish on the MEF website on a monthly basis the use of fiscal transfers beginning in November 2009. The publication on the website of the Ministry of Economy of the data for November 2008-September 2009 was satisfactory. Unfortunately it was interrupted after the earthquake. Additionally, the information contained in the monitoring table was to be audited on a bi-annual basis by an independent firm. The first audit was scheduled for June 2010, but it was

unable to be completed given the impact of the quake on the institutions involved (EDH, MEF, and MTPTC) and the obvious interruption of data collection.

57. Following the earthquake, EDH revenue collection capacity was weakened, the grid was partially damaged, the meters were not working well in most part of the cities, therefore he EDH's Cost Recovery Index (6 month moving average) that was expected to be improved at least to 45 percent in FY 2011 from less than 32 percent in FY2008 seems difficult to be reached, given that the cost recovery index decreased from 55 percent in September 2009 to 19.5 percent in August 2010. Therefore, transfers to EDH exceeded by 3 percent the budgeted amount for FY 2010. This does not give a clear indication on the possibility of complying with the expected outcome by end 2011.

58. However, steps are being taken to address weaknesses in budget monitoring and control, as well as in cash management, in line with recent IMF technical assistance recommendations. The authorities have agreed to identify not only budget transfers to EDH but also consolidate all off-budget transfers to the company, including Petro Caribe resources, in monthly budget execution reports. Furthermore, the authorities have signed a Memorandum of Understanding with IDB and the US government (The Bank is expected to join the group of donors) on the modernization of the energy sector, including the implementation of an interim management contract to improve the financial management of EDH, the rehabilitation of the distribution network to reduce technical losses, and the construction of the new power plant for an industrial park in Northern Haiti. These would allow the MEF to reduce fiscal transfers to the company. According to the IMF's First Review under the Three-Year Arrangement of the Extended Credit Facility (April 2011), preliminary data suggest that total transfers to EDH could amount to as much as 3 percent of GDP in FY 2010-11.

The Fiscal Policy component is therefore rated *moderately unsatisfactory*.

Objective 2: Improving tax revenue collection and mobilization

59. Haiti's tax revenue (averaging 10 percent of GDP over the last decade) is the lowest in the region, leaving the Government heavily dependent on external assistance. In a country with a small tax base and relatively large informal sector, continued improvements in Haiti's tax and customs administration is critical for enhancing revenue mobilization capacity. The public financial management component supported this goal through improvements in customs and tax information systems. As a prior action to the approval of the operation the Government had carried out in MEF's Customs Directorate the operative implementation of a new customs information system in eleven key customs posts of the territory, namely, Port-au-Prince port, Port-au-Prince airport and airport arrivals hall, Cap Haitian, Gonaives, Saint Marc, Miragoane, Malpasse, Ouanaminthe, Belladere and Port de Paix. It had also completed in the General Directorate of Taxes (DGI) the establishment and operationalization of a networked information system linking all directorate's departmental offices and units among them; and completed the interconnection of respective information systems operated in MEF's customs directorate and general directorate of taxes. Nonetheless, to be able to reach the expected outcome by end-2011, the Fiscal Code had to be submitted to the lower chamber of Parliament. This follow-on action was not achieved following the destruction of the Tax Directorate, consequently there was no

information available at the time of the supervision mission (end 2010) in order to evidence if the collection of tax arrears as a percentage of total outstanding arrears at the beginning of the fiscal year was complied. Originally it was expected that in FY2011 the collection ratio for gross tax arrears would reach 70 percent from a baseline of 60 percent in FY2008.

This public financial management sub-component is *rated* moderately unsatisfactory

Objective 3: Improving efficiency and transparency in public expenditure management, strengthening the budget process by improving budget integration with planning, and formulating policy priorities in line with the DSNCRP

60. With respect to public expenditure management, the government intends to implement key actions aimed at improving efficiency and transparency by strengthening the control systems and improving compliance with existing regulations and procedures, thereby enhancing budget integrity. The Government has carried out the critical staffing of its general financial inspectorate (Inspection Générale des Finances) to enable the start of internal audit operations as one of the prior actions for this sub-component. This would be reinforced by five follow-up actions three of which were partially met (the adoption of a procedural manual for budget preparation; the strengthening of the Internal Audit Function, and the application of regular controls to the discretionary accounts). The other two conditions for the second were met: the submission to CSCCA of the 2008-09 public accounts, and the submission to Parliament of the CSCCA's opinion on the 2007-2008 audit report.

61. While progress was made with key actions aimed at improving efficiency and transparency in public expenditure management, all of the expected outcome indicators under this objective were partially met. The indicators and its current status are as follows:

1. *The existence of multi-year expenditure estimates based on strategic orientations in at least three ministries.* At end 2010 most ministries lack an appropriate multi-year expenditure estimate, however elements of strategic orientation do exist in a scattered manner and efforts are underway in several ministries to design an integrated sector and multi-year expenditure plan. Two ministries Agriculture and Education have Multi-year expenditure plans.
2. *Operationalization and full compliance of the IGF with the 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries.* The action plan of IGF has been revised in June 2010 to integrate emerging priorities and expanded to cover the period 2010-2014. Based on this revised work program, IGF has begun audits in Central, North and South Region.
3. *Improved comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of the deposits and expenditures from discretionary accounts.* New procedures on budget & accounting classifications on deposits & expenditures from "comptes courants" will be fully implemented in 2011-12 once the Operation Manual for budget execution is operational.
4. *Compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Supreme Audit*

Court respectively. Government accounts for 2008-09 were submitted on time to the Supreme Audit Institution. The audits of the 2008-09 were delayed due to the earthquake. The Bank staff has discussed with the MEF and the Court measures to shorten the period required for the preparation of 2009-10 government accounts in order to enable the Court to produce both audits (2008-09 and 2009-10) before end September 2011.

This public financial management component is rated *moderately satisfactory*.

Objective 4: Improving efficiency in public spending through the strengthening of public procurement

62. Despite efforts initiated since 2004 to reform public procurement, progress has been slow in strengthening the system. To enhance policy dialogue and improve efficiency in public spending through the strengthening of public procurement, the Government, as a prior action, issued four key implementing decrees required for the Public Procurement Law to become effective, namely: (i) decree establishing all relevant thresholds in respect of public procurement; (ii) decree setting forth the institutional rules and procedures for the CNMP; (iii) decree setting forth the general rules regarding public procurement and public service concessions; and (iv) decree adopting the manual of procedures for public procurement and mandating its general application. Although implementation of the Law has been slow due to continued delays in adopting the remaining decrees needed to apply the Law fully, eight of these decrees have been drafted by the CNMP and were submitted for review by the Office of the Prime Minister in January 2011. Now that the electoral process has been completed the incoming Government should be able to adopt the decrees promptly and move forward with the implementation of the Law. Lastly, the CNMP has been able to review contracts submitted by line ministries to them.

63. Over the following months after the operation was approved, the objective was to achieve compliance with the new legal framework. While full compliance is likely to take some time, the triggers for the second operation were designed to lay the foundation for these first steps to materialize, including two key measures. First, that key contracting authorities have submitted to the CNMP procurement plans for FY2009-10 and associated general procurement notices are published, which has not been met; and second, that the CNMP has rendered its database on contract awards fully operational and accessible to the general public, which has been partially met. However, early in 2011 the Government initiated the selection of consulting firms for assignments (a) to gather data from line ministries for 2008-2009 and 2009-2010 and (b) to update the CNMP's database and web site, Contracts for the two consultancies may be signed as early as June 2011 and the results of the two consultancies will enable the CNMP to advance more rapidly in future.

Despite progress made in public procurement, this component is rated *moderately satisfactory*

3.3 Justification of Overall Outcome Rating

Rating: *Moderately Unsatisfactory*

64. The overall outcome of this operation is rated *moderately unsatisfactory*. The objectives of the grant set at the time of the approval (reducing inefficiencies in the electricity sector; modernizing and strengthening public financial management; and strengthening and

implementing the legal framework for more transparent public expenditure) remained relevant throughout the operation and continue to be aligned with the Government's commitment to the economic governance reform agenda. The Emergency Development Policy Operation that replaced EGRO IV supports maintaining sound economic governance in the post-earthquake period and strengthening the reforms started before the earthquake. The operation supports consolidating the gains achieved in governance over the past few years including the government's capacity to manage public resources efficiently and transparently. More specifically, the operation supports most of the objectives of the operation under review, such as: increasing transparency in budget transfers to the electricity sector; reinstating budget controls and external and internal audit processes; and reinforcing public procurement regulation and enhancing transparency in procurement practices.

3.4 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

65. The actions supported by this operation most likely had no perceivable impact on poverty reduction. Reforms supported by the operation were expected to increase efficiency, transparency and accountability in the use of public resources, so as to more effectively channel them to poverty reduction. These actions would contribute to an overall improvement in governance. In fact, the measures in the electricity sector aimed at increasing transparency in public resource use; the budget strengthening measures aimed at improving budget integration with planning; and the procurement reforms expected to improve efficiency in public resource use, will ultimately make it easier to scrutinize the extent to which budget allocations and actual public expenditures are in line with the DSNCRP objectives, and benefit the entire population, including the poor.

66. Despite widespread damage caused by the earthquake the economic growth and its impact on poverty levels was less pronounced than originally expected given that the economic situation improved faster than anticipated, reflecting the efforts to quickly restore state institutions, the prudent macroeconomic policies, and the sizeable donors' budget support. However, internal constraints, including delays in the electoral calendar and the outbreak of cholera have hindered the pace of reconstruction activities and, economic and social recovery. The operation was not designed to address gender issues and in the area of social development, this operation contributed to foster growth, reduce poverty, and raise living standards, through an ambitious program of institutional reform in public financial management and public procurement, in line with the DSNCRP.

(b) Institutional Change/Strengthening

67. The development and strengthening of core institutions for economic governance was an important component of the operation. Specific areas where the EGRO III has had an impact include: the strengthening of EDH through the implementation of a cost recovery policy which include the competitive appointment of a provider of new customer and technical management systems; the operationalization of a new customs information system in the Customs Directorate;

the establishment and operationalization of a network information system in the DGI; and the staffing of the IGF to enable the start of internal audit operations.

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)

68. There were no unintended consequences.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

69. The earthquake of January 12, 2010 prevented the Bank from organizing a survey or a workshop with stakeholders.

4. ASSESSMENT OF RISK TO DEVELOPMENT OUTCOME

Rating: *Substantial*

70. Some of the EGRO III policy measures, following the earthquake, were no longer consistent with the development challenges. Therefore, not all the development outcomes of the operation could be maintained in the wake of the natural disaster.

5. ASSESSMENT OF BANK AND BORROWER PERFORMANCE

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: *Satisfactory*

71. The reviewed operation was built on previous EGROs. EGRO I and II were approved in January 2005 and January 2007 respectively. The operations supported the Government's implementation of critical economic governance reforms to increase transparency and efficiency in the use of public resources and external assistance. The key objectives were: (i) improvement of public expenditure management and public procurement processes; (ii) strengthening of the public sector's human resource management and employees' accountability; (iii) stepping up of anti-corruption efforts; (iv) improving efficiency and transparency in the management of public enterprises and the Road Maintenance Fund; and (v) creating a mechanism for civil society to monitor economic governance reforms and supporting Government communications efforts to increase public understanding and raise awareness of governance reforms. In general, progress under these headings was encouraging under both operations.

The third operation was more simplified than the previous ones. It was intended to gain from further streamlining, to better focus government attention on key reforms. The operation was intended to sustain the reform effort under the previous operations by continuing strengthening public financial management, public procurement reforms, and management and transparency in the electricity sector. In effect, EGRO I supported the Government's efforts to improve the

allocation, efficiency and effectiveness of public expenditure, improve transparency and accountability in the public sector and increase the country's absorption capacity for external resources. EGRO II supported policy reforms aimed at (i) promoting efficiency, transparency and accountability in public resource use through public financial management and procurement reforms; (ii) strengthening human resource management in the public sector and employees' accountability; (iii) improving efficiency and transparency in public infrastructure management; and, (iv) promoting accountability and transparency in the use of public education funds. EGRO III supported two of the four areas for which waivers were issued under EGRO II. First, it supported the issuance of key regulations for the implementation of the Procurement Law, and EGRO IV would support steps to facilitate compliance with the law. EGRO III also supported greater transparency in the use of fiscal transfers to EDH, including power purchases from suppliers, thus supporting the remedial actions recommended in conjunction with the mentioned waiver. It is difficult to assess if all the triggers and results outcomes were realistic enough given the occurrence of the earthquake.

(b) Quality of Supervision (including M&E arrangements)

Rating: *Satisfactory*

72. Supervision missions visited regularly Haiti and provided assistance to the Government to take the required actions for meeting the conditions to trigger the second operation. Supervision took place through the presence in the field of a Bank Economist and the frequent missions of the operation's task team leader as well as the preparation of several follow-up notes sent to the Ministry of Finance and the Prime Minister to permanently emphasize the pending actions, bottlenecks and other problems. The supervision and monitoring mechanism relied on frequent and regular reviews of reform implementation status.... The first Bank supervision mission after the approval of the operation had to focus on the impact of the earthquake on public financial management institutions and the loss of implementation capacity of the government given the destruction of public buildings and institutions. It was evident that some of the outcome indicators would be significantly delayed and that intended development goals and the specific policy actions of the operation would be difficult to achieve given the circumstance.

73. The last supervision mission, which visited Haiti on September 27 to October 8, 2010 discussed the status of the EGRO III and agree with the Government on the closure of the operation taking place December 31, 2010. As mentioned before, the implementation of some of the indicative triggers for the second operation (EGRO IV) was delayed and the outcome indicators expected for 2011 showed little progress. In the November 2010 ISR, the ratings for development objective and implementation progress were maintained at moderately satisfactory because of delays in the process towards reaching the results indicators.

5.2 Borrower Performance

(a) Government Performance

Rating: *Moderately Satisfactory*

74. Borrower performance is rated moderately satisfactory. Despite the fact that the implementation capacity of the Government was seriously weakened following the destruction of

public buildings, and despite the challenging political and security situation, the Government made committed efforts to implement the reforms supported by the EGRO III. In particular, it should be noted that the Government made an extraordinary effort to improve efficiency in public spending through enhanced transparency in public procurement and availability of information to the public. A demonstration of its commitment and determination to pursue its governance efforts in this area is the fact that the government is commissioning a consultancy to gather data for 2008 – 2009 and 2009-2010 from line ministries, and to update the CNMP database given that following the destruction of government buildings procurement data in line ministries was lost.

(b) Implementing Agency or Agencies Performance

Rating: *Moderately Satisfactory*

75. The MEF was the principal executing agency and was responsible for the overall coordination of the operation as set out in the Letter of Development Policy. Similarly, the MEF was in charge of reporting progress and coordinating actions among other concerned entities, including the CNMP, the Central Bank and the main line ministries managing investment projects. This ministry was the unit responsible for coordination and implementation of the activities and reforms under the previous EGRO operations.

Although several delays were encountered in the implementation of the EGRO supported program, due to difficulties in the aftermath of the earthquake and also due to the difficult political and security situation, the staff in the MEF tightened monitoring and coordination of the EGRO program with the support of the Bank Staff, and tried to provide leadership to address bottlenecks or pending problems, and tied to ensure Government attention for the most complex issues.

(c) Justification of Rating for Overall Borrower Performance

Rating: *Moderately Satisfactory*

76. On the whole, the Government's reform program was well focused but had to be implemented under extremely difficult circumstances. Identification and implementation of the program had to take into account the impact on the program of a serious shortage of skills in the public sector, a fragile political and security situation, a huge devastation due to the earthquake and the malaria, and weak economic management in the preceding years. Macroeconomic stability was restored and Haiti is on track with the IMF supported Three-Year Arrangement under the Extended Credit Facility program. Essential state functions have been restored and prudent macroeconomic policies have helped support growth and contain inflation. Most of the second operation conditions were met. Several other reform measures originally covered by the Government's program supported by EGRO III have been transferred to the Bank supported Emergency Development Policy Operation.

6. LESSONS LEARNED

77. Experience points to the need for adopting a simple approach in most fragile countries, in particular in a country with high risk of occurrence of major natural disasters as Haiti. The

decision to do a single-tranche operation was adequate in view of the possible risks affecting the operation, the period required by the Government to implement the reforms, and the need to test the Government's sustained commitment to the reform program. However, in a country with an extremely low capacity, there is the need for future projects of this kind to specify better the responsibility of every agency in achieving the stated objectives.

78. The policy actions supported by this operation on the one hand reflect the recognition of the post-conflict environment from which Haiti had only recently emerged, (following the food and fuel price riots, Haiti was hit by four back-to-back hurricanes and tropical storms in 2008, which caused damages and losses estimated at about 15 percent of GDP), and on the other hand, the progress made over the past years with the support of the preceding EGRO operations. Institutional building and strengthening of legal and regulatory frameworks are key factors underpinning budget support operations. A key immediate challenge for the government was to continue strengthening the legal framework for public finance management and public procurement to ensure proper management of aid inflows.

79. Countries that have experienced major natural disasters need strong institutional support to back up critical reforms aimed at restoring the state functions quickly. Public expenditure management and procurement are of great importance as aid inflows are expected for reconstruction programs. This is a lesson drawn from experience in post-natural disaster countries.

80. Close coordination among development partners within a simple, commonly agreed reform's framework is important. Such an approach requires a prioritization of reforms with a reasonable milestone framework based on commonly agreed targets. Drawing from that lesson, this operation was based on the government's matrix supported by a harmonized budget support framework involving all key donors.

7. COMMENTS ON ISSUES RAISED BY BORROWER/IMPLEMENTING AGENCIES/PARTNERS

Borrower/Implementing agencies

81. Since January 12, 2010, the attention of the Borrower and all external partners has been entirely focused on the earthquake and its aftermath. At the time of the QER meeting the Borrower has not prepared its implementation completion report, nor has provided comments on this Implementation and Completion Report (ICR).

ANNEX 1: THIRD ECONOMIC GOVERNANCE REFORM OPERATION POLICY MATRIX

Objectives	Prior Actions for Board Approval	Indicative Triggers for the second operation	Outcomes Indicators expected (by end-2011)	Status (by end-2010)
I. Fiscal Policy				
Improve the EDH financial situation and management, and support the Government's efforts to reduce the fiscal transfers to the company	EDH has designed, publicized and started implementing a cost recovery policy which includes: (i) launching of an electricity tariff increase; and (ii) competitive appointment of a provider of new customer and technical management systems in EDH	- The EDH monitoring table, showing the use of fiscal transfers, is published on a monthly basis on the MEF website beginning in Nov. 2009. The data should include data of November 2008 – October 2009 - The information contained in the monitoring table is audited on a bi-annual basis by an independent firm	EDH's Cost Recovery Index (6 month moving average) has improved at least to 45 percent from less than 32 percent in FY2008	Not Met The cost recovery index decreased from 55 percent in September 2009 to 19.5 percent in August 2010. Therefore, transfers to EDH exceeded the budgeted amount for FY 2010. Following the earthquake, EDH revenue collection capacity has weakened as part of the grid was damaged. Additionally, the information system is outdated and the meters are not working well in most part of the cities.
II. Public Financial Management				
Tax Revenue: Improve tax revenue collection and mobilization	The Government has: (i) carried out in MEF's Customs Directorate the operationalization of a new customs information system in eleven key customs posts of the recipient's territory; (ii) completed in MEF's General Directorate of Taxes the establishment and operationalization of a network information system linking all directorate's departmental offices and units; and	The Fiscal Code has been submitted to the lower chamber of Parliament.	Improved collection rate as evidenced by collection ratio for gross tax arrears, understood as the collection of tax arrears during the government fiscal year as a percentage of total outstanding arrears at the beginning of the fiscal year.	Not Available Quantitative indicator was not available at the time of the supervision mission. The DGI lost a large portion of its data base during the earthquake. The data was not available at the time of the ICR.

	(iii) completed the interconnection of respective information systems operated in MEF's customs directorate and general directorate of taxes			
Budget management Improve efficiency and transparency in public expenditure management; strengthen the budget process by improving budget integration with planning; and formulate policy priorities in line with the DSNCRP	The Government has carried out the critical staffing of its general financial inspectorate (<i>Inspection Générale des Finances</i>) to enable the start of internal audit operations	• The MEF has adopted and disseminated the Manual of Procedures for budget preparation and has integrated the preparation of current and investment budgets • Internal Audit Function is strengthened through (i) the adoption and dissemination of the manual of procedures for internal audit; and (ii) the implementation of the internal audit work program established by the MEF for the IGF • Regular controls compliant with budget rules are applied to the deposits and expenditures from 'comptes courants' monitored by Public Accountants • The MEF has submitted to CSCCA (Audit Institution) the 2008-09 public accounts • The CSCCA has submitted an opinion on the audit report for the fiscal year 2007-08 to Parliament	• Existence of multi-year expenditure estimates based on strategic orientations in at least three ministries • Operationalization and full compliance of the IGF with the 2009-11 audit work program, including distribution of audit reports to the beneficiaries and ministries • Improved comprehensiveness of budget reporting as evidenced by compliance with the budget and accounting classifications of consolidated statement of the deposits and expenditures from <i>comptes courants</i>	Partially Met Efforts are underway in several ministries to design an integrated sector and multi-year expenditure plan based on strategic orientations. Only the Ministries of Agriculture and Education have multi-year expenditure plans. Partially Met The action plan of IGF was revised in June 2010 to integrate emerging priorities and expanded to cover the period 2010-2014. Based on this revised work program, IGF has begun some key tasks planned for 2010-11, including the inventory of Government and NGO's projects, the audits of subsidies in the education sector, the analysis of audit reports issued by the Court of Accounts, and the audit of public accountants activities in the Ministry of Finance Partially Met New procedures on budget & accounting classifications on deposits & expenditures from <i>comptes courants</i> are laid out in the operating manuals for budget execution, the approval of which, has been delayed due to the earthquake. The Manual was approved in the second quarter of the 2011 calendar year and being printed for distribution to line ministries as of May 2011. These procedures will be fully

			Compliance of external audits with regulations as evidenced by timely submission of the Budget Execution Law and Government Accounts to Parliament and the Supreme Audit Court respectively.	effective in FY2011-12. Partially Met The audit of the 2008-09 government accounts by the Court of Accounts was delayed following the destruction of its building after the earthquake. Government has submitted to the Court of Accounts the 2009-10 government accounts in May 2011. Bank staff discussed with MEF and the Court measures to shorten the period required for the preparation of government accounts for FY10 in order to enable the Court to prepare both the audits for 2008-09 and 2009-10 by Sept 2011.
III. Public Procurement				
Improve efficiency in public spending through the strengthening of public procurement	The Government has issued four key implementing decrees required for the Public Procurement Law to become effective, namely: (i) decree establishing all relevant thresholds in relation to public procurement; (ii) decree setting forth the institutional rules & procedures for the CNMP; (iii) decree setting forth the general rules regarding public procurement and public service concessions; and (iv) decree adopting the manual of procedures for public procurement and making it mandatory for general application	- Key contracting authorities have submitted to the CNMP the procurement plan for FY2009-10 and published the associated general procurement notice - The CNMP has rendered its database on contract awards fully operational, up-to-date, and accessible to the general public	Enhanced transparency in public procurement as evidenced by increasing share of competitive procurement in total procurement, measured by the value of contracts awarded without competition as percent of all contracts awarded (Baseline: 58 percent in FY2008; target: less than 45 percent in FY2011)	Not available As a result of the earthquake, the office of the procurement regulatory body was destroyed and the procurement units in line ministries were weakened. Equipment and records disappeared with the collapse of the public buildings. The website and data on procurement bids have not been fully updated.

ANNEX 2: BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

(a) Task Team members

Names	Title	Unit	Responsibility/
			Specialty
Auguste Tano Kouame	Lead Economist and Sector Leader	LCSPR	Sector Leader
Jasmin Chakeri	Senior Country Economist	LCSPE	Co-Task Team Leader
Luc Razafimandimby	Senior Economist	LCSPE	Co-Task Team Leader
Emmanuel Pinto Moreira	Senior Economist	LCSPE	Macroeconomics
Joseph Irvens Denis	Economist	LCCHT	Budgetary Process
Alexandre Arrobbio	Senior Public Sector Mgmt. Specialist	LCSPS	Public Sector Reform
Karen Bazex	Energy Specialist	LCSEG	Electricity
Christophe de Gouvello	Senior Energy Specialist	LCSEG	Electricity
Patricia E. Macgowan	Consultant	LCSPT	Procurement
Eustache Ouayoro	Adviser	LCSOS	Water
Silvia Gulino	Program Assistant	LCSPE	Team Support
Yao Wottor	Senior Procurement Specialist	LCSPT	Procurement
Christine de Mariz Rozeira	Economist	LCSPS	Public Sector Reform

(b) Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
Total:	34.97	118,614.590.00
Supervision/ICR		
Total:	11.78	51,453.020.00

ANNEX 3. DONOR'S SUPPORT TO ECONOMIC GOVERNANCE REFORM AGENDA

Area	Technical Assistance	Budget support
Public Financial Management		
• Planning	IADB (Prodev)	
• Budget preparation	IADB (Economic Governance Project) World Bank (EGTAG II) CIDA (PARGEP)	World Bank (EGRO III)
• Budget execution	USAID IADB (Economic Governance Project)	IADB (Fiscal Sustainability I)
• Monitoring and control	World Bank (EGTAG II)	IADB (Fiscal Sustainability I) World Bank (EGRO III)
• Public debt management	World Bank (EGTAG II) CIDA (CEMLA) IADB	IADB (Fiscal Sustainability I)
Human Resources Management	World Bank (EGTAG II) IADB (HRM Project) UNDP CIDA (PARGEP)	
Revenue mobilization	CIDA (PAMFR)	IADB (Fiscal Sustainability I) World Bank (EGRO III)
• General Tax Directorate (DGI)	IADB (Economic Governance Project)	
• General Customs Administration (DGA)	USAID CNUCED	
Public Procurement	IADB (Economic Governance Project) World Bank (EGTAG II)	World Bank (EGRO III)
Electricity sector	World Bank (PREPSEL) IADB CIDA	IADB (Fiscal Sustainability I) World Bank (EGRO III)

ANNEX 4. SUMMARY OF BORROWER'S ICR AND/OR COMMENTS ON DRAFT ICR

Since January 12, 2010, the attention of the Borrower and all external partners has been entirely focused on the earthquake and its aftermath. No specific text for this section was provided.

ANNEX 5: HAITI AT A GLANCE

Haiti at a glance

4/27/11

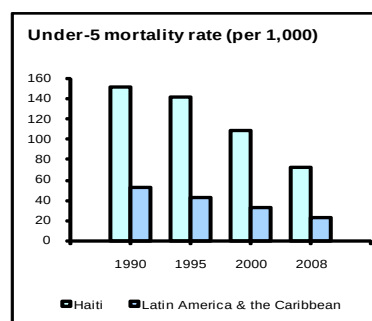
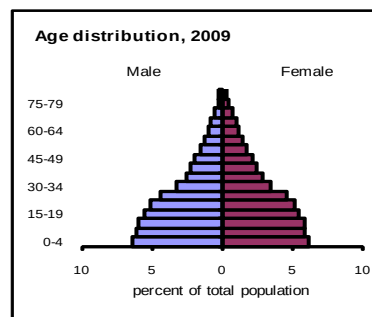
Key Development Indicators

 (2009)

Key Development Indicators	Haiti	Latin America & Carib.	Low income
2009)			
Population, mid-year (millions)	10.0	566	828
Surface area (thousand sq. km)	28	20,422	17,838
Population growth (%)	16	11	2.2
Urban population n (% of total population)	47	79	28
GNI (Atlas method, US\$ billions)	5.4	3,882	389
GNI per capita (Atlas method, US\$)	550	6,856	470
GNI per capita (PPP, international \$)	..	10,525	1,131
GDP growth (%)	2.9	4.3	6.2
GDP per capita growth (%)	13	3.2	3.9

(most recent estimate, 2003–2009)

Poverty headcount ratio at \$125 a day (PPP, %)	55	8	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	72	17	..
Life expectancy at birth (years)	61	73	57
Infant mortality (per 1000 live births)	54	20	77
Child malnutrition (% of children under 5)	19	4	28
Adult literacy, male (% of ages 15 and older)	..	92	73
Adult literacy, female (% of ages 15 and older)	..	90	59
Gross primary enrollment, male (% of age group)	..	118	107
Gross primary enrollment, female (% of age group)	..	114	100
Access to an improved water source (% of population)	58	93	64
Access to improved sanitation facilities (% of population)	19	79	35

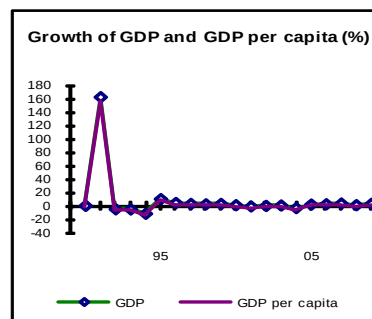


Net Aid Flows

Net Aid Flows	1980	1990	2000	2009 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	104	167	208	912
<i>Top 3 donors (in 2008):</i>				
United States	35	50	91	259
Canada	5	10	20	148
European Commission	1	11	11	117
Aid (% of GNI)	7.2	5.9	5.6	11.5
Aid per capita (US\$)	18	24	24	92

Long-Term Economic Trends

Consumer prices (annual % change)	17.8	213	13.7	0.0
GDP implicit deflator (annual % change)	214	14.1	111	3.5
Exchange rate (annual average, local per US\$)	5.0	5.0	212	412
Terms of trade index (2000 = 100)	..	..	..	..



	1980-90	1990-2000	2000-09
	(average annual growth %)		
Population, mid-year (millions)	5.7	7.1	8.6
GDP (US\$ millions)	1462	2,864	3,665
Agriculture	..	..	28.4
Industry	..	..	16.6
Manufacturing	..	..	9.0
Services	..	..	55.0
Household final consumption expenditure	819	814	90.6
General gov't final consumption expenditure	10.1	8.0	7.8
Gross capital formation	16.9	13.0	27.3
Exports of goods and services	216	17.5	12.7
Imports of goods and services	30.5	20.0	33.4
Gross savings	..	5.6	22.8

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.

a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade

(US\$ millions)

	2000	2009
Total merchandise exports (fob)	331	550
Total merchandise imports (cif)	1091	2,143
Net trade in goods and services	-863	-1,880

Current account balance	-82	-232
as a % of GDP	-2.2	-3.6

Workers' remittances and compensation of employees (receipts)	578	1,376
---	-----	-------

Reserves, including gold	182	680
--------------------------	-----	-----

Central Government Finance

(% of GDP)

Current revenue (including grants)	8.5	17.9
Tax revenue	7.8	10.8
Current expenditure	8.4	11.5

Overall surplus/deficit	-2.3	-4.4
-------------------------	------	------

Highest marginal tax rate (%)

Individual	..	..
Corporate	..	..

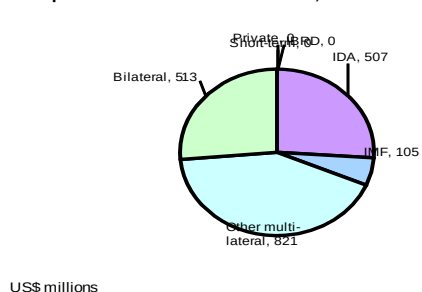
External Debt and Resource Flows

(US\$ millions)

Total debt outstanding and disbursed	1,173	1,245
Total debt service	44	45
Debt relief (HIPC, MDRI)	155	557

Total debt (% of GDP)	32.0	19.2
Total debt service (% of exports)	4.0	4.6

Foreign direct investment (net inflows)	13	38
Portfolio equity (net inflows)	0	0

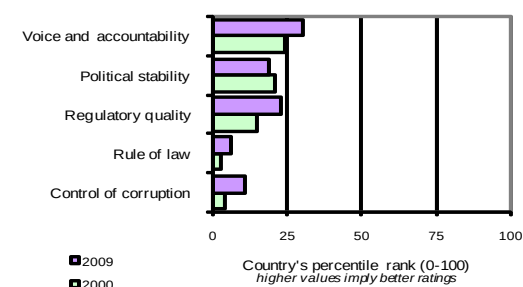
Composition of total external debt, 2008**Private Sector Development**

Time required to start a business (days)	..	195
Cost to start a business (% of GNI per capita)	..	204.0
Time required to register property (days)	..	405

Ranked as a major constraint to business (% of managers surveyed who agreed)

n.a.	..	..
n.a.	..	..

Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2009

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure

Paved roads (% of total)	24.3	..
Fixed line and mobile phone subscribers (per 100 people)	1	33
High technology exports (% of manufactured exports)	3.5	..

Environment

Agricultural land (% of land area)	62	61
Forest area (% of land area)	4.0	3.8
Terrestrial protected areas (% of surface area)	..	0.3
Freshwater resources per capita (cu. meters)	1,453	1,317
Freshwater withdrawal (billion cubic meters)	10	..
CO2 emissions per capita (mt)	0.16	0.25
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	4.9	3.6
Energy use per capita (kg of oil equivalent)	232	286

World Bank Group portfolio

(US\$ millions)

IBRD		
Total debt outstanding and disbursed	..	..
Disbursements	..	..
Principal repayments	..	..
Interest payments	..	..
IDA		
Total debt outstanding and disbursed	480	39
Disbursements	8	0
Total debt service	10	13
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	0	0
Disbursements for IFC own account	0	0
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	..	..
New guarantees	..	..

Note: Figures in italics are for years other than those specified. 2009 data are preliminary.

.. indicates data are not available. – indicates observation is not applicable.

4/27/11

Development Economics, Development Data Group (DECDG).

ANNEX 6: LIST OF SUPPORTING DOCUMENTS

Third Economic Governance Reform Operation in the amount of SDR 8 million to the Republic of Haiti. Report No. 49499-HT, November 9, 2009

Second Economic Governance Reform Operation in the amount of SDR15.6 million to the Republic of Haiti. Report No. 38235, December 12, 2006

Emergency Development Policy Operation in the amount of SDR20.3 million to the Republic of Haiti. Report No. 54732-HT, July 9, 2010

EGRO III Aide Memoire December 2009

EGRO III Aide Memoire October 2010

HT Third Economic Governance Reform Operation (EGRO III) Program Information Document (PID) at appraisal stage. December 8, 2009

IMF Staff Report for the 2010 Article IV Consultation for a Three-year Arrangement under the Extended Credit Facility, July 8, 2010

IMF First Review under the Three-Year Arrangement under the Extended Credit Facility, April 2011

Implementation Status & Results for Haiti 3rd Economic Governance Reform Operation, November 23, 2010

Implementation Status & Results for Haiti Emergency Development Policy Operation, December 22, 2010

HT Third Economic Governance Reform Development Policy Financing - Closure and Cancellation of Grant Account, January 25, 2011

