

Haiti
Second Economic Governance Reform Operation (EGRO II)
IDA Grant Number H269-0-HA
Release of the Floating Tranche – Proposed Partial Waivers of Four Conditions

Tranche Release Document

I. Background and Key Objectives

1. **On January 30, 2007 the Board of Executive Directors of the International Development Association (IDA) approved the Second Economic Governance Reform Operation (EGRO II) in the amount of SDR15.2 million (US\$23 million equivalent) to support the Republic of Haiti strengthen economic governance reforms launched under EGRO I.** The reform program focused on increasing transparency and efficiency in the use of public resources and external assistance EGRO II was extended through an IDA grant which was declared effective on May 16, 2007. The operation consists of a first tranche of SDR6.6 million (US\$10 million equivalent) and a second tranche of SDR 8.6 million (US\$13 million equivalent). The first tranche was released in August 2007 upon effectiveness.

2. **In April 2008, the Bank prepared a US\$ 10 million additional grant to Haiti.** This grant was provided as a supplemental to EGRO II, and was financed from the Food Price Crisis Response Program Trust Fund established by the Bank to channel grant financing to especially vulnerable countries affected by the crisis. The aim of the EGRO II Supplemental was to safeguard the ongoing reform and poverty reduction program that the EGRO series is supporting, by helping to partially fill the unanticipated financing gap created by the food price crisis. The food crisis put pressure on the state to increase its expenditures on social assistance, directly (through school feeding programs, mother-child programs, and labor intensive public works) and indirectly (through subsidies on food commodities, such as rice). The US\$10 million Supplemental financing was disbursed in July 2008. The closing date for EGRO II as amended from the original date of December 31, 2008 is now set at December 30, 2009.

3. **Haiti was hit by a series of shocks, four back-to-back hurricanes, which caused damage estimated at 15 percent of GDP (see paragraph 6) and have resulted in additional financing pressure on the Government.** A financing gap of about US\$50 million was estimated by the Government for FY2009. A Donors' Conference in April 2009 helped mobilize an international package of budget support by donors, including IDB, World Bank, the European Union as well as France, Spain, and the United States, to fill this financing gap. The disbursement of the second tranche of EGRO II is part of this package. It is also part of the financial support that the Bank has been providing to the Haitian's budget through a series of DPL operations. A new budget support operation (DPO) planned for FY10 will build upon the EGRO I and II operations and will continue supporting the economic governance reforms. This new DPO is consistent with the Bank's assistance to Haiti as described in the new FY09-FY12 Country Assistance Strategy (CAS). The CAS has three pillars: (i) promoting growth and local development;

(ii) investing in human capital; and (iii) reducing vulnerability to disasters. The strategy has a two-pronged approach combining longer-term institution building (including economic governance reform) with support for the Government in the delivery of quick, visible results. In addition, the CAS envisages the preparation of four investment operations including, Transport and Territorial Development (US\$10 million), Community Driven Development II (US\$9 million), Support for Government Priority Plan (US\$11 million), and the Governance Technical Assistance Operation (US\$3 million).

4. **This tranche release document summarizes progress in the execution of the reform program and actions taken by the Republic of Haiti to meet the conditions for the release of the remaining US\$13 million floating tranche.** This memorandum concludes that five conditions for the release of the tranche have been fully met and the remaining conditions have been partially met. This memorandum requests waivers for those conditions on the basis of: (i) the satisfactory progress made by the Government in advancing the implementation of those remaining conditions and the overall satisfactory implementation of the reform program described in the Program Document of EGRO II; (ii) the Government's commitment to implement corrective actions to fully comply with the remaining conditions; and (iii) its urgent need of resources to fill the financing gap for FY2009.

5. **The key objectives of EGRO II included:** (a) promoting efficiency, transparency and accountability in public resources use through public financial management and procurement reforms; (b) strengthening the public sector's human resource management and employees' accountability; (c) improving efficiency and transparency in public infrastructure management; and (d) supporting governance reforms in the education sector to promote accountability and transparency in the use of public education funds. The operation also supported efforts to help create a culture of public participation in the monitoring of economic governance reforms.

II. Recent Economic Developments

6. **During 2008, Haiti experienced a series of devastating shocks that threatened macroeconomic stability and hindered growth.** Sharply rising food and fuel prices fueled social and political discontent, and prompted the resignation of the Prime Minister in April 2008. These events led to a five-month political stalemate that severely constrained government operations.¹ Haiti was also hit by four back-to-back hurricanes and tropical storms in August/September, which have caused extensive food shortages and damages to infrastructure estimated at about 15 percent of GDP. This series of domestic shocks has been compounded recently by the effects of the global slowdown--resulting in large unanticipated financing needs (see para 3). Official estimates suggest that real GDP growth slowed to 1.2 percent in FY2008 from 3.4 percent in FY2007, turning negative in per capita terms (after three consecutive years of positive growth). High food and fuel prices led to sharply rising inflation and a deteriorating current

¹ The political crisis ended in early September 2008, when Parliament ratified President Préval's third proposed candidate for Prime Minister, Ms. Michelle Pierre-Louis, and her coalition government.

account balance. Twelve-month inflation peaked at 19.8 percent in September 2008, up from 7.9 percent in September 2007, but declined subsequently to 1.0 percent in end-March 2009, on the heels of rapidly falling international food and fuel prices.² After a small depreciation earlier in the year, the real effective exchange rate appreciated by about 5 percent during the last quarter of FY2008, while the Gourde remained broadly stable against the dollar. The current account deficit (including grants) widened to 2.6 percent of GDP. The trade deficit deteriorated by 7.5 percentage points of 2007 GDP (US\$463 million), largely because of higher food and fuel imports (up by US\$434 million). The improved services balance was offset by lower current transfers than anticipated. The overall balance of payments remained in surplus (US\$41.5 million), due in part to PetroCaribe inflows used as budgetary support, but reserve coverage remained below 3 months of import.

7. **Despite these negative shocks, macroeconomic stability has been broadly maintained.** The IMF supported-PRGF program is on track. The fourth review of the program was completed on February 11, 2009³. Program performance through end-September 2008 remained satisfactory. All but one quantitative performance criteria (PC) were met.⁴ All structural PCs were met, but implementation of end-September benchmarks was mixed.

8. **Budget execution, a weak point in the past, was satisfactory in FY2008 (see below).** Tax revenue was slightly below target (9.9 percent of GDP vs. 10.6 percent programmed), mostly owing to revenue losses (0.7 percent of GDP) from the temporary suspension of fuel price adjustments in response to rising commodity prices. Food and fuel price subsidies were however discontinued in August-October 2008. Spending capacity improved, with domestically-financed investment outlays exceeding expectations. The overall fiscal deficit (excluding grants and foreign-financed projects) exceeded program projections somewhat (2 percent of GDP instead of 1.7 percent), and was fully financed with external resources.

9. **The financial sector, which has not been significantly affected by the financial crisis, remained sound.** External credit lines are small and mostly trade-related. Indicators of banking sector soundness remained broadly satisfactory at end-April 2009, with increased net profits and declining non-performing loans, although the financial position of two small banks had weakened further. However, the BNC will need to be recapitalized to accommodate the absorption of Socabank in 2006, and its operational structure reviewed.

² Recent estimate by the *Institut Haïtien de Statistiques et d'Informatique* (IHSI) indicates an inflation rate of 1 percent in end-March 2009.

³ A mission for the fifth review of the program was successfully completed in May 2009. A preliminary assessment indicates that the program is on track. The IMF Board discussion of the fifth review is scheduled on June 29, 2009.

⁴ The target for net Central Bank (*Banque de la République d'Haïti, BRH*) credit to the rest of the non-financial public sector was missed by G 229 million (about 0.5 percent of end-of-period BRH assets, or less than 0.1 percent of GDP). The IMF Board granted a waiver of this breached quantitative performance criteria, as the deviation was minor and temporary.

10. **The joint Bank-Fund low-income country debt sustainability analysis (LIC DSA) indicates that Haiti's risk of debt distress remains high.** Under the baseline scenario (before post-completion point debt relief), the NPV of debt-to-exports ratio would remain above the country-specific debt-burden threshold of 100 percent in the medium term. However, debt ratios do not surpass critical thresholds for other indicators, even under the most extreme shock scenario. It is also worth noting that Haiti's very high and stable level of private remittances (over 20 percent of GDP in FY2006) provide a reliable inflow of foreign exchange to the country, which reduces external vulnerabilities. In addition, HIPC and MDRI debt relief (including MDRI-type relief from the IDB) would reduce the NPV of debt-to-exports ratio to just 40 percent after the completion point, lowering Haiti's risk of debt distress.⁵ Overall, the DSA thus suggests room for additional external financing after HIPC/MDRI debt relief. However, a careful approach to scaling up will remain advisable, given that debt indicators deteriorate rapidly in scenarios with less concessional financing terms or large additional borrowing.

11. **Progress in implementing the Enhanced HIPC Initiative Completion Point triggers has been satisfactory.** Several measures have been taken or are underway, such as the completion of the PRSP (the *Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté, DSNCRP*)⁶; the maintenance of macroeconomic stability under the IMF PRGF program; tracking poverty-reducing spending; adoption of an asset declaration law, reinforcing and establishing customs control in main provinces extending the use of central taxpayer file to all taxpayers, increasing immunization rates; establishing a national HIV/AIDS plan, and improving debt management. However, progress on some of other triggers is less advanced. The authorities are working on completing the remaining triggers to reach the completion point by end-June 2009.

12. **The 2008/09 budget approved by the deputies (Lower Chamber) on March 17, 2009 is consistent with the IMF supported PRGF program.** The financing gap for the fiscal year is expected to be financed by increased donor funding. During the April 2009 Donor Conference in Washington D.C., donors pledged at least US\$324 million toward the country's economic recovery over the next two years.

⁵ It is worth noting that this result is based on the LIC DSA carried out in January 2009. A new DSA is being prepared in the context of the HIPC Completion Point, scheduled for Board discussions on June 30, 2009. It will provide an update of Haiti's debt situation. In the context of the HIPC CP, a new macroeconomic framework is being jointly prepared with the IMF.

⁶ The DSNCRP has been approved by the IMF and IDA boards on February 29, 2008 and March 11, 2008, respectively. A first year implementation progress report is being prepared.

Table 1: Haiti: Selected Macroeconomic and Financial Indicators and Medium-Term Macroeconomic Framework, 2008-2012
(Fiscal Year Ending September 30)

	2008	2009	2010	2011	2012
	(Annual percentage change)				
National income and prices					
GDP at constant prices	1.2	2.5	2.7	3.2	3.3
Consumer prices (period average)	14.4	5.4	7.4	7.5	6.0
External Sector (value in US\$)					
Exports of goods and non-factor services	7.3	-4.3	12.7	6.3	6.5
Imports of goods and non-factor services	22.4	2.8	2.7	6.7	7.2
	(In percent of GDP, unless otherwise indicated)				
National Income					
Consumption	102.2	96.9	97.2	96.3	95.9
Private	95.6	89.8	90.2	89.5	89.2
Public	6.6	7.1	6.9	6.8	6.6
Investment	26.0	31.0	28.7	29.9	30.9
Private	19.1	22.0	21.0	22.5	23.5
Public	6.9	9.0	7.7	7.4	7.4
GDP per capita (US\$)	728	765	802	832	864
External Sector					
Non-interest current account deficit	-2.9	-4.4	-3.0	-3.4	-3.4
Exports of goods and non-factor services	11.8	10.6	11.2	11.3	11.4
Imports of goods and non-factor services	40.0	38.5	37.1	37.5	38.1
External current account balance 1/	-8.6	-11.9	-8.4	-8.2	-8.5
External current account balance 2/	-2.6	-4.4	-3.0	-3.0	-2.9
Liquid gross reserves (in months of imports of G&S)	2.9	2.6	2.7	2.9	3.0
Central Government					
Central Government overall balance 2/	-2.8	-3.9	-3.6	-3.1	-2.6
Total revenue and grants	13.9	15.6	14.5	14.6	14.7
Central Government revenue 1/	9.9	10.5	11.1	11.2	11.5
Central Government primary expenditure	16.1	18.9	17.6	17.2	16.9
1/ Excluding grants					
2/ Including Grants					

Source: WB staff calculations based on Government and IMF data. The macroeconomic framework is as of end-February 2009. The framework is being updated based on a recently concluded mission. Growth projections are likely to be lower and inflation is also lower than in the above table.

III. Progress in Implementing the Reform Program

13. **The Government's program of economic governance reforms to increase transparency and efficiency in the use of public resources and external assistance has been implemented successfully.** The activities supported under EGRO II components are assessed in the following paragraphs. Fulfillment of the conditions pertaining to the release of the floating tranche of EGRO II is discussed in the following section.

14. **Improvement in public financial management reforms.** Significant progress has been made in public financial management reform. Key areas of progress include budget preparation, execution, and control. The FY2008 budget was submitted to Parliament before the start of the fiscal year. The FY2009 budget was also submitted to Parliament although late. This was mainly due to the political stalemate and the exogenous shocks, which slowed the preparation process of the budget. However, the FY2008 and FY2009 budgets reflect the key priorities of the PRSP. The share of poverty-reducing spending in the FY2008 budget is estimated at 56 percent, up from 43 percent in FY2007. Moreover, the coordination and consultation process between the Ministry of Economy and Finance, the spending ministries and the Ministry of Planning has improved during budget preparation. The budget classification system has also been improved both on the expenditure and the revenue sides. The classification is based on the administrative and economic nature of the expenditures and is relatively close to international standards. To ensure the sustainability of the large road investments currently being undertaken, the Government is making efforts to establish a sustainable flow of resources to finance road maintenance activities. To this end, the FY2008 and FY2009 budget laws also include a specific line for recurrent budget allocation for the Road Maintenance Fund (*Fonds d'Entretien Routier, FER*) as well as a line item for counterpart funds of about 9 and 6 million gourdes, respectively. Public expenditures executed through the “*comptes courants*” accounted for 3 percent of total operating expenditures excluding wages at end February 2009.

15. **The Government has started implementing the PEMFAR action plan prepared in December 2007 with the joint support of the World Bank and the Inter-American Development Bank.** The PEMFAR Action Plan serves as a unique matrix for public finance reforms.

16. **While budget execution was slow in the first quarter of FY2009, it accelerated in the second quarter.** As of end-March 2009, more than 46 percent of the total Government budget was spent, with about 43 percent of the poverty-reducing spending executed. It is worth noting that 33 percent of poverty-reducing spending went to investment projects. To accelerate budget execution, the Government has stepped up its efforts to recruit public accountants and financial comptrollers, which will strengthen the capacity of line ministries, departments and agencies involved in the spending chain. In addition to the 9 public accountants recruited in FY2007, 10 out of the 30 accountants trained in FY2007 were deployed in line ministries in FY2008. At the same time, 8 financial comptrollers were deployed in line ministries. Moreover, during FY2008 and FY2009, the Government has continued to strengthen public expenditure management by expanding the integrated financial management system (SYSDEP) to all line ministries. A manual of procedures for budget preparation and execution was developed and training of staff of the Ministry of Economy and Finance has been done. The Government is planning to expand the training to other line ministries.

17. **Budget control mechanisms have also been significantly strengthened.** The draft budget Review Law (*Projet de Loi de Règlement*) for FY2006 prepared by the

Ministry of Economy and Finance (MEF) was reviewed by the Supreme Audit Institution (*Cours Supérieure des Comptes et du Contentieux Administratif, CSCCA*). The draft budget review law accompanied by the CSCCA's legal opinion was transmitted by the MEF to the Parliament for adoption. The review of the draft Budget Review Act is on the agenda of the Parliament. The FY2004 and FY2005 treasury accounts were audited by CSCCA.

18. Improvement of public procurement processes. In the area of public procurement, progress has been slow due to the delays in submitting the new draft Procurement Law to Parliament. However, partial adoption of improved procedures has occurred despite this delay. Standard bidding documents and manuals have already been introduced to government procurement staff (including members of *Commissions Ministérielles* and *Commissions Spécialisées*) through a series of seminars in 2006 and 2007. Moreover, additional policy actions were undertaken to advance procurement reforms, including the creation of the *Commission Nationale des Marchés Publics* (CNMP), adoption of a 2005 decree to amend the existing procurement law, and communication by the Prime Minister of several instructions to purchasing agencies on the standardization of procedures.

19. Stepping up of anti-corruption efforts. Important steps have been taken to advance the adoption of the anti-corruption strategy. An anti-corruption survey was conducted and the results were disseminated at a workshop in Port-au-Prince in August 2007, followed by a participatory seminar series organized in the provinces between October and November 2007. An anti-corruption strategy has been prepared and adopted by the Government in March 2009. The strategy has been widely disseminated through workshops and other dissemination events financed by the Bank Economic Governance Technical Assistance Grant (EGTAG) project. The strategy has been posted on the MEF website.

20. Strengthening human resource management. Measures have also been taken to strengthen human resource management in the public sector and accountability of state employees, though progress in implementation has been slow. The strategic framework for public administration reforms and several ministerial level *arrêtés* have been prepared, which establish the different functions of the Management Office of Human Resources (OMRH). The *arrêté*, which defines the organization and functioning of the *Conseil Supérieur de l'Administration et de la Fonction Publique*, was approved in March 2008. Another *arrêté* which defines the organization and functioning of OMRH was issued by the Prime Minister in September 2008. The Government has also launched the process of updating the registry of state employees. The database to improve the existing registry of state employees was completed in February 2009 by the firm Turbo System. This system will be extended to other ministries.

21. Improving efficiency and transparency in public infrastructure management. Important progress was made during the past two years to improve financial transparency, performance, and procurement of public utilities. Following the recommendation of the FY2005 financial audits of *Autorité Portuaire Nationale* (APN),

Electricité d'Haïti (EDH), and *Telecommunications d'Haïti* (TELECO), these companies have developed and advanced with action plans for overhauling their internal systems and procedures. The audit of EDH's financial accounts for the FY2004-05 was completed at the end of 2006, while the inventory of technical assets for the FY2005-06 was achieved at the end of September 2008. APN has followed a similar process. All three companies have also improved their accounting systems (for example by switching from cash-based to accrual accounting). The authorities have also included expenditure lines for electricity, water and telecoms in the FY2008 and FY2009 ministries' budgets to ensure they pay their bills to EDH, TELECO and *Centrale Autonome Métropolitaine d'Eau Potable* (CAMEP). The Government has extended the audits of public utilities to CAMEP. In July 2007, it completed the financial, technical and administrative audits for CAMEP for FY2005 and FY2006. However, audits for FY2007 and FY2008 have yet to be launched due to lack of funding.

22. To promote transparency and accountability in public expenditures for the electricity sector, the Government has adopted a monitoring mechanism and carried out open bidding processes. The monitoring mechanism tracks on a monthly basis, fiscal transfers to EDH, as well as Sogenor and Alstom, the two independent power producers (IPPs). It also shows the volume and price of petroleum purchased by the government for generation by all three firms, the amount of electricity produced, EDH's operating expenditures and revenues, the cash recovery index, and the hours of electricity provided in Port-au-Prince and the provinces. The information is provided by EDH, Ministère des Travaux Publics et des Télécommunications (MTPTC), and MEF. While the table had been regularly published on the MEF website since 2006, publication has been interrupted since October 2008.⁷ Under PPIAF-financing, a consultant was hired to review the table and improve it, and discussions are taking place with EDH and the Government to finalize a new version. As regards the transparency in awarding of contracts, two open bidding processes were carried out since 2007. Nevertheless, the amendment of an existing contract with Sogenor did not follow competitive procedures.

23. These efforts to promote transparency complement ongoing donor-financed activities to strengthen EDH and the operation of the electricity sector as a whole. In addition to the measures discussed above, donors (Brazil, Canada, IDA and the IDB) are funding projects to rehabilitate the sector through the reduction of technical and non-technical losses in EDH and the rehabilitation of existing plants and the financing of new capacity. Such measures aim to build a stronger, more self-sustaining sector that will require less government support over the longer term.

24. The Government also plans to revise the legal and regulatory framework for the telecoms sector to enhance sector governance and promote public-private partnerships. The Government has concluded a sector-wide review and prepared a comprehensive action plan aimed at improving sector performance. In addition to the financial audit and accounting rehabilitation, TELECO has been undergoing a restructuring process for its management and staffing, including the appointment of a well respected professional manager, the replacement of most of the staff in the finance

⁷ www.mefhaiti.gouv.ht.

department and the installation of a modern financial management system. The sector as a whole has seen substantial growth after the entry of the third cellular operator (Digicel), supported in part by an IFC investment. There is potential for Bank support for a national broadband telecommunications network building on current non-lending technical assistance. IFC has an ongoing advisory mandate with state utility Teleco.

25. The Government has also pursued broad reforms in the water and sanitation. In the water sector, several donor-financed projects are ongoing (including an IDA-financed Rural Water and Sanitation Project, US\$5 million). The Government has submitted a draft water and sanitation framework law to Parliament that assigns the lead role in the sector to the MTPTC, and aims at gradually decentralizing service provision to municipalities.

26. To ensure the sustainability of road investments, the Government has committed to establish a sustainable flow of resources to finance road maintenance activities. To this end, the Government has provided funding to the FER from earmarked taxes (principally a gasoline tax of one Gourde per gallon). It has also ensured that the FER uses these resources transparently, efficiently and according to the road maintenance strategy endorsed by its five-member Board, which includes a representative of road users (named by the transporters' union) to promote greater accountability.

27. To ensure transparency and oversight of the use of road maintenance funds, the Government has established a dual system of audits for the FER and has regularly completed the audits for FY2004-2007 (see below)⁸.

28. Civil society monitoring mechanism and public information. After a period of reform stalemate, the civil society monitoring mechanism has recently been revamped. The Government has produced a new report on EGRO II. This was shared with the Bank in April 2009.

IV. Progress in Meeting the Conditions to Release the Second Tranche

29. The Borrower has met the condition of maintaining a satisfactory macroeconomic policy framework. Despite a series of devastating shocks as well as a five-month political stalemate, four back-to-back hurricanes and fuel and food crisis, the Government's macroeconomic management and the implementation of the first PRGF program have been satisfactory. The Government has successfully completed four reviews of the program. The new Government reaffirmed its commitment to pursue policies for improved macroeconomic management. Details on the Government's macroeconomic performance are provided in paras. 6-9 above.

⁸ The authorities undertake road maintenance technical and financial audits which examine not only the FER but also the MTPTC (for planning and contracting of road maintenance activities) and MEF (for timely transfer of funds).

30. The tranche release conditions referred to in Schedule 2 of the Development Grant Agreement between the Borrower and IDA include in respect of the release of the second (floating) tranche the following conditions:

A. Description of Conditions Fully Met

31. The borrower has met five out of nine conditions for the release of the second tranche.

“Satisfactory execution of FY2007 budget (and subsequent FYs’ budgets to conclude no less than six months prior to the second tranche release) in accordance with its objectives and approved allocations” which the Borrower has met, as further discussed below

32. **The Borrower has met this condition.** The execution of the FY2007, FY2008 and revised FY2008 budgets has been satisfactory. As of end-March 2009, about 47 percent of revised budget allocations for FY2009 had been executed. At the same time, 43 percent of budget allocations to poverty reduction expenditures were spent. Good performance of budget execution was mainly due to the Government’s actions. Measures undertaken recently to improve budget execution include: (i) strengthening of programming units of key spending ministries through deployment of trained experts in project formulation and implementation; (ii) deployment of 34 public accountants and budget controllers to key line ministries; (iii) extension of the SYSDEP to line ministries; and (iv) improvement of knowledge of public procurement procedures by public accountants and budget controllers. It is worth noting that satisfactory execution of FY2008 budget has been realized by using regular budget processes. The use of “*comptes courants*” has continued to decrease in line with the EGRO II performance indicator: the share of public spending executed through the use of “*comptes courants*” during FY2008 is estimated at less than 3 percent of total non-salary current public expenditures. The Government has taken the commitment to continue accelerating budget execution in line with the PRSP priorities. The budget execution reports are available on the MEF website: www.mefhaiti.gouv.ht.

Submission to Parliament of FY2008 Budget (and subsequent FY’s budgets up to and including such years beginning before the second tranche release), before beginning of FY and that, in the opinion of IDA, is in conformity with the Program objective, reflects key priorities of I-PRSP (and, when completed the PRSP) and includes an annex budget for FER.

33. **The Borrower has met this condition.** The Budget for FY2008 was submitted to Parliament at the end of 2007. The percentage of spending allocated to poverty reduction increased from 43 percent of total expenses in FY 2007 to 56 percent for FY2008. There is a budget line for the functioning of the FER as well as an amount of 9 million gourdes in the special section “other compensation funds”. A revised budget law was prepared in the third quarter of 2008 and was approved by Parliament. The budget allocations broadly reflect the PRSP priorities. Moreover, the FY2009 budget law was transmitted to Parliament for approval in mid-December 2008. The delay in submitting

the FY2009 budget to Parliament reflects mainly a six month political stalemate that followed the resignation of the previous Prime Minister (PM) and the urgency of the economic and social situation caused by a series of hurricanes which hit Haiti hard last summer. The situation was only resolved in early September 2008 with the ratification by Parliament of the new PM Michele Pierre-Louis and her government. The FY2009 budget also reflects PRSP priorities with a particular focus on reconstruction activities following the damages brought about by the hurricanes. An amount of 400 millions gourdes (0.5 percent of total budget) has been allocated to reduce the country's vulnerability. The agriculture sector has been allocated about 6.4 billion gourdes (8 percent of the total budget) while education and health sectors have received 7.4 billion (9.2 percent of the total budget) and 8.7 billion (10.8 percent of the total budget), respectively.

Strengthen budget controls through submission to Parliament of the Loi de Règlement for FY2006, and submission to Parliament and publication of the Cours Supérieure des Comptes et du Contentieux Administratif (CSCCA) audits of the FY2004 and FY2005 Treasury accounts.

34. The Loi de règlement for FY2006 has been submitted to Parliament on January 10, 2009. The *Cours Supérieure des Comptes et du Contentieux Administratif* (CSCCA) audits of the FY2004 and FY2005 Treasury accounts have been published on the MEF website on April 20, 2009.

Adopt and widely disseminate an Anti-Corruption Strategy including definition of institutional arrangements for implementation of the strategy and that in the opinion of IDA, is in conformity with the program objectives.

35. **The Borrower has met this condition. The Anti-Corruption Strategy was adopted by the Government in March 2009** and the strategy has been widely disseminated through the MEF website. The dissemination of the results of the already-completed diagnostic survey on governance and corruption, a critical input to the preparation of a national anti-corruption strategy, as the survey was an essential tool in the design of the strategy, was launched through a workshop in Port-au-Prince (August 2007). This was followed by participatory workshops in the provinces to present the results of the survey outside the capital and allow participants to provide recommendations for governance reform, which were integrated into the Anti-Corruption strategy. With the support of MINUSTAH, the ULCC delivered an initial series of workshops in 20 provincial towns in October-November 2007. In March 2009, another dissemination series was done and completed.

Completion of auditing requirements in respect of public sector road maintenance activities and operations for at least one year and ending no more than twelve months before the second tranche release date.

36. **The Borrower has met this condition.** The audits for FY2005 and FY2006 have been completed. The audit reports have been approved by the FER Board and published,

in a way satisfactory to IDA. The copies of these reports have been submitted to the World Bank mission that visited Haiti from September 10-14, 2007. The audits for FY2007 and FY2008 have also been completed. The FER has now become fully operational and can now count on significant budget resources to finance road maintenance investments. However, institutional bottlenecks in the Ministry of Public Works, Transport and Communications (MTPTC) are still hampering the planning and implementation of a wide scale road maintenance program that is becoming increasingly necessary given the large number of roads currently being rehabilitated, with support from the international community. A road maintenance strategy has been prepared and endorsed by the MTPTC in order to tackle this issue. Finally, road maintenance is also important in the broader context of Haiti's vulnerability reduction agenda to natural disasters: the few roads whose maintenance has been financed by FER have proved to resist better than non-maintained infrastructure, during the 2008 hurricane season.

B. Description of Conditions Partially Met and Request for Waivers

Adoption by key sector ministries and public enterprises (Ministries of Education, Health, Public Works and Justice, and EDH and APN) of standard bidding documents and procedure manual prepared by CNMP as evidenced by an independent review of procedures of these ministries and public enterprises by an audit firm of international repute competitively selected.

37. **The Borrower has partially met this condition.** The delay in fully meeting this condition is due to obstacles encountered in submitting the new draft Procurement Law to Parliament, including the five-month political stalemate in 2009. Despite the absence of a consistent legal framework for procurement, a partial adoption of improved procedures by some key government entities has occurred. However, more significant change in government procurement practices depends now on full implementation of the new legislation to consolidate the procurement reforms introduced since 2004. The draft Procurement Law was passed by Haiti's Parliament in June 2009 and constitutes a solid legal basis for the establishment of a modern and transparent procurement system. The CNMP estimates that it will take a further six months after the law becomes effective to broaden compliance with the standard documents and procedures in all the target agencies to a level which could be subjected to independent audit with the expectation of a positive result. The independent audit of these first six months of experience under the new law would also require one or two months, so the earliest date by which the government can commit to meet the condition is eight months after the law becomes effective.

38. **Staff recommends that the condition be waived primarily on the basis of past performance and continued commitment of the CNMP to advance the procurement reforms in a difficult environment.** Even in the absence of a coherent legal framework for procurement, improved procurement practices have already been adopted by some government entities. This progress has been achieved largely through the efforts of the CNMP, which introduced standard bidding documents and a procedures manual to government procurement staff (including newly-appointed members of *Commissions*

Ministérielles and Commissions Spécialisées) through a series of seminars delivered in 2006 and 2007. These standardized procedures and documents are consistent with the law prepared by the CNMP for submission to Parliament and their distribution even before the law was passed is expected to speed the adoption of improved procurement practices once the new legal framework is in place. Since its creation in early 2005, the CNMP has assumed a leadership role and improved public procurement practices through its review/approval of hundreds of procurement processes each year, as well as hands-on training of procurement staff in key purchasing entities. As a result, there is evidence that the percentage of noncompetitive procurement (value of contracts awarded without competition as percent of all contracts awarded) has declined from an estimated 85% in 2004 to 59% in 2006. At the same time the CNMP drafted the new procurement law which was first submitted to the Prime Minister's Office (PMO) in July 2007 for review and comments. The delays in the law's arrival at Parliament began only after the CNMP had completed their technical work. Due to the limited number of legal staff at the PMO and the full legislative agenda that year, an in depth review of the law only began in May 2008. The PMO's review and eventual submission of the law to Parliament was further delayed by the social, political and economic crises that intervened.

Improve human resource management by updating and thereafter maintaining updated, registry of state employees and defining system, applicability and procedures for new merit-based appointments and promotions.

39. **The Borrower has partially met this condition.** It has made significant progress towards fully meeting the condition. The registry of state employees for key line ministries was completed by the firm Turbo System in February 2009. Procedures for new merit-based appointments and promotions are still to be put in place.

40. **Staff recommends that a waiver be granted based on progress made and the following actions that the Government intends to undertake:** (i) issuance of an arrêté which defines the organization and functioning of OMRH by the Prime Minister by end-September 2009; (ii) completion of procedures for merit-based appointment and promotions by end-September 2009, and (iii) extension of the registry to all line ministries and Government agencies by end-September 2009.

From January 1, 2007 onwards, competitively procure any further contractual arrangements for the purchase of power (whether through new contracts or the modification or extension of existing contracts) for the supply of electricity to Port-au-Prince and the main provincial towns, with due regard for IDA's environmental recommendations in the matter.

41. **The Borrower has partially met this condition.** Two bidding processes were completed for the provision of energy in the provinces and Port-au-Prince in 2007 and 2008. However, the signing of an amendment to the contract for power purchase Varreux II with the firm Sogener, dated August 28th 2007, did not follow a competitive process. This amendment, of which a copy has been sent to the World Bank, differs from the proposed amendment made by EDH in April 2007 – that had been considered in

conformity with that EGRO II condition – in two respects: (i) the amendment included the repair of the facilities of the Varreux I site – partially destroyed by a fire in August 2007, as a result of that, the prices of the contract had been changed, and (ii) the amendment prolongs the length of the contract from 5 to 14 years. However, the Government is committed to resolve the issues raised by the Bank. In November 2008, the Government transmitted to Bank staff the information requested for further analysis of the amendment and the two other contracts (E Power and Haitian Tractor). The Bank Procurement team reviewed the documents provided by the Government and concluded that the E-Power and Haitian Tractor contracts were awarded as a result of an open bidding process. However, the Sogener amendment was not awarded competitively. To improve transparency and accountability in the sector, a monitoring mechanism which tracks on a monthly basis, fiscal transfers to EDH has been put in place (see paragraph 22).

42. **Staff recommends that a waiver be granted based on the following actions that the Government intends to undertake as discussed during EGRO II November 17-21, 2008 mission (see Aide-Mémoire of EGRO II mission) and reaffirmed during the preparation of this disbursement memorandum:** (a) establishment of a comprehensive system of monitoring and evaluation of Power Purchasing Agreements (PPAs) within EDH, including: immediate activation of all fuel meters (including within EDH plants), and monitoring of the fuel consumed at the plants (EDH and providers) and of the energy provided by the power providers, with imposition of penalties, when applicable, (b) implementation of monthly audits of: fuel consumption, equipment in place, based on the terms of the contract that set targets for installed capacity, and energy provided vs. energy billed. The audits shall be carried out by internationally certified firms over the life of the contracts, and the results of the audits shall be published on the web site of the Ministry of Finance; (c) monthly publication on the MEF website of the monitoring table for transfers from the Government to the electricity sector, which will be audited by internationally certified firms on a bi-yearly basis; and (d) publication of the contracts and amendments signed with the Independent Power Producers on the MEF website.

Regularly publish on MEF website, circulate to the media and transmit to Parliament summaries of civil society organization quarterly monitoring reports after their adoption by CC and discussion with MEF on progress achieved.

43. **The Borrower has partially met this condition. The publication of civil society organization monitoring reports was stalled due to a lack of clarity regarding responsibilities and funding for the monitoring mechanism. However, significant progress has been made recently under EGTAG I funding.** The five civil society organizations started their assignment in mid-January 2009. They have produced their first report. This first report should be discussed with the MEF, published on the MEF website, and transmitted to the Parliament. The Government has committed to circulate the report to the media and transmit it to Parliament by end-June 2009. Government has also made a commitment to ensure timely delivery of the

reports by: (i) hiring a consultant to support the monitoring process by end-June 2009; and (ii) holding regular meetings to validate the reports.

44. **In addition, it is worth noting that the Civil Society monitoring mechanism predates the installation of the Parliamentarians of Haiti's 48th Legislature, mid 2006.** Since then, the lawmakers have played their check-and-balance role by holding frequent hearings (albeit sometimes in a dysfunctional fashion) on economic governance issues in general, ranging from alleged corruption cases to statutory ex-post control of uses of public funds. Such hearings and their results are covered widely by the media and followed by the public at large with great interest. Furthermore, an independent civil society watchdog organization (*Observatoire Citoyen pour l'Action des Pouvoirs Publics et Parapublics –OCAP*), created only last year, is also monitoring the Government's reform agenda and the sectoral ministries action plans. Moreover, an increasing parallel demand for transparency by the Parliament and other independent watchdog institutions has proved effective in enforcing government's accountability with respect to economic governance in general.

45. **Staff requests that a waiver be granted for this condition given the significant progress made to date towards its achievement and the Government's intent to ensuring that the actions identified above are carried out on schedule.**

C. Progress Against Outcome Indicators

46. **Despite the delay in implementing some of the tranche release conditions, the Government has made significant efforts to meet the program outcome indicators.** Since FY2006, budget execution reports are routinely made available to the public within one month of their completion. These reports are available on the MEF website. The Government has made efforts to improve the execution of spending and cut the use of "*comptes courants*". Over the past two years, in no more than 2 of the last 4 calendar quarters actual non-foreign financed expenditure deviated from budgeted expenditure by more than 5-10 percent. Disbursement of cumulative non-salary current public expenditures since October 2006 through the "*comptes courants*" was kept below the 10 percent threshold. The Government has also strengthened budget control. External audit reports on central government consolidated operations are regularly made available to the public after being completed.

47. **In the area of public procurement some progress has been made in reducing the Government's use of sole source contracting and in improving the quality of bidding documents and awarded contracts.** There is evidence that the percentage of noncompetitive procurement (value of contracts awarded without competition as a percentage of all contracts awarded) has declined from an estimated 85 percent in 2004 to less than 60 percent in 2006. Although comparable statistics are not yet available for 2008, it is likely that the Government's recourse to open and competitive procurement methods has continued to expand. The quality of bidding processes and contractual documents has also improved, as indicated by the increased percentage of bidding documents and contract awards approved by the CNMP. In 2005, the CNMP's first year

of operation, only 20 percent of the procurement documents submitted for the Commission's review were approved as presented. By 2007 the percentage of submitted documents that satisfied the CNMP requirements had risen to 63 percent.

48. **In the area of public infrastructure management, since 2006, the Government has regularly published electricity monitoring reports on the MFE website.** However, publication has been interrupted since October 2008 in a difficult context of devastating exogenous shocks that slowed down the Government's overall reform program. The publication process has been recently revamped (see para 22).

49. **In the area of governance in the education sector, the Government has improved accountability and transparency in the use of public resources in the education sector.** The law which creates the National Education Partnership Office (NEPO) has been passed, and its location identified. However, NEPO has yet to be operational.