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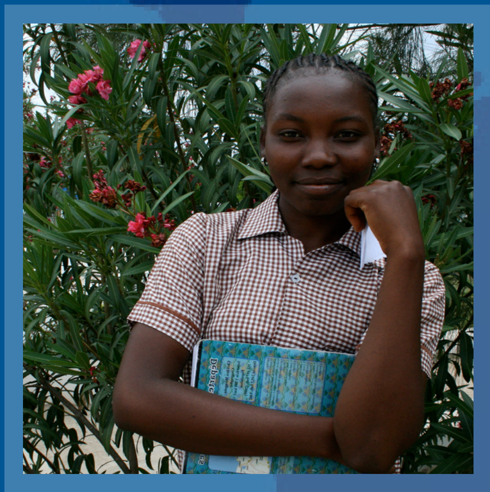

Country Program Evaluation

Haiti

2011-2015

IDB Inter-American Development Bank

IIC Inter-American Investment Corporation

Original: Spanish

Country Program Evaluation:

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2011-2015

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Acronyms and Abbreviations

AECID	Spanish Agency for International Development Cooperation
CAGR	Composite annual growth rate
CCB	Country Department Caribbean Group
CCLIP	Conditional credit line for investment projects
CDH	Country Department Haiti
CIP	Caracol Industrial Park
COF	The Bank's Country Office in Haiti
CPE	Country Program Evaluation
CTE	Centre Technique d'Exploitation [urban water utility]
DINEPA	Direction Nationale de l'Eau Potable et de l'Assainissement [National Water and Sanitation Directorate]
EDH	Electricité d'Haïti
EPT	Education pour tous [Education for all]
FAES	Fonds d'Assistance Économique et Sociale [Economic and Social Assistance Fund]
FSO	Fund for Special Operations
G	Haitian gourdes
HRG	Haiti Reconstruction Group
IDB-9	Ninth General Increase in the Resources of the Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau [Reconstruction Loan Corporation]
MENFP	Ministry of National Education and Vocational Training
MIF	Multilateral Investment Fund
NDMP	Natural Disaster Mitigation Program
NSG	Non-sovereign guaranteed
OFID	OPEC Fund for International Development
OMJ	Opportunities for the Majority Sector
OPEC	Organization of the Petroleum Exporting Countries
OVE	Office of Evaluation and Oversight
PBG	Policy-based grant
PBL	Policy-based loan
PCU	Project coordination unit
PDNA	Post-disaster Needs Assessment
PPP	Purchasing power parity
PRN	Primary road network
SCF	Structured and Corporate Financing Department
SG	Sovereign-guaranteed
SME	Small and medium-sized enterprise
TC	Technical cooperation operations
TTSFP	Technology Transfer to Small Farmers Program
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VPC	Vice Presidency for Countries
WHO	World Health Organization

Acknowledgements

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The country strategy with Haiti for 2011-2015 is the Inter-American Development Bank's first post-earthquake strategy approved after the start of the mandate of the Ninth General Increase in the Resources of the IDB.

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Executive Summary

The country strategy with Haiti for 2011-2015 is the Inter-American Development Bank's first post-earthquake strategy approved after the start of the mandate of the Ninth General Increase in the Resources of the IDB (IDB-9). The IDB-9 mandate included forgiving the debt and transferring an unprecedented amount (US$200 million per year) in grants to Haiti for a period of 10 years. The Country Program Evaluation (CPE) 2011-2015 for Haiti covers the first five years of the IDB-9 mandate and provides an opportunity to evaluate the Bank's program and strategic positioning in the post-earthquake period. The CPE examines the main achievements of the strategic move arising from the IDB-9 commitments and identifies the adjustments needed for the Bank to position itself over the five years remaining in the IDB-9 mandate.

Following the 2010 earthquake, economic growth in Haiti was driven by the reconstruction efforts and by significant foreign financing. Starting in 2014, a drop in external transfers and an intense drought adversely affected the country's growth trend. Gross domestic product (GDP) grew 5.5% in 2011. The construction and infrastructure sectors, linked to the country's rebuilding, were the largest engines of growth, fueled by a significant increase in public investment. More than half of public investment was financed through international grants and loans on favorable terms from Petrocaribe. The flow of international aid swelled to 50% of GDP after the earthquake but then gradually decreased to an estimated 5% of GDP in 2015. Economic growth began to decline to an estimated 1% in 2015. In addition, an extended drought impacted agricultural production, affecting the availability of food.

Haiti has preferential trade agreements with the United States; however, development of the manufacturing sector is in its early stages and is highly concentrated in the maquila industry, limiting the sector's impact on the external accounts and on economic growth. Despite the relative increase in the contribution of manufacturing to economic growth and advances in the use of preferential trade agreements in recent years, Haiti has not succeeded in taking full advantage of the agreements and has had difficulties in covering the annual sales quotas set under them. The balance of trade has historically been negative, and this situation was aggravated after the earthquake as a result of foreign aid flows. The rise in imports to address reconstruction needs, meanwhile, deepened the trade deficit.

While tax revenue collection has improved in recent years, it is barely enough to cover current expenditures, limiting the government's ability to deliver and regulate basic services. Haiti's taxation system depends on indirect taxes (primarily on international trade). With current expenditures among the lowest in the region, the Government of Haiti's ability to deliver and regulate basic services is limited. In fact, despite some relative improvements in the past decade in health and education access indicators, there have been no advances in services such as water and sanitation and electricity. Poverty in Haiti remains widespread, with high levels of inequality in income distribution.

The greatest impediments to greater development and economic growth in Haiti arise from structural factors associated with the fragility of the State and weak institutions. The limitations associated with government efficiency and institutional quality pose major development challenges in Haiti. At the same time, the business environment, which is among the weakest in the world, and the poor quality and coverage of the basic productive infrastructure impose major constraints on economic growth. Low institutional capacity, poor socioeconomic conditions, and high physical exposure to natural disasters combine to create extreme vulnerability. Lastly, the political instability of recent years, associated with turnover among government authorities and the absence of a functioning parliament, has imposed additional restrictions.

The IDB-9 mandate and the 2011-2015 country strategy modified the incentives system in the Bank's relationship with Haiti. The grant modality eliminated the incentives that traditionally guide the Bank's loan operations, such as the country's sense of ownership, as expressed in its commitment to repay and counterpart funds. Furthermore, during this period, the Bank's grant resources, and indeed most international cooperation resources, were not systematically programmed in the country's nascent budget planning process. This limits the government's fiscal management and discipline.

The country strategy was approved in November 2011 and identified six priority sectors that, while aligned with the Government of Haiti's program priorities, were not indicative of a new strategic positioning. The country strategy focused on the traditional sectors of Bank action prior to the earthquake and introduced only two strategic changes: a regional development program in the country's north, and an institutional reform and strengthening program focused on the priority sectors and replacing the crosscutting reform programs to support governance and the comprehensive strengthening of the State.

The Bank designed an ambitious strategy anchored in Management's decision to approve and disburse US$200 million per year. This strategic commitment, approved nearly two years after the earthquake, did not seem to take sufficiently into account the challenges associated with Haiti's fragility and limited institutional capacity, which was further strained by the fallout from the earthquake. In this context, the country strategy proposed objectives and targets that turned out to be unrealistic and apparently failed to recognize the need to adapt Bank action to the country's strategic planning and implementation capabilities. As a result, the Bank ended up financing an outsized operational program that did not in any case properly assess the costs and benefits of the interventions, given the limited information that was available on the markets, and that had to be bolstered with hefty investment resources to strengthen institutions and build the capacity of personnel in charge of executing the projects.

The Bank's operational program for the 2011-2015 period doubled from the previous period, positioning the IDB as Haiti's main donor after the United States. Between January 2011 and December 2015, the Bank approved US$1.271 billion in grants, US$142 million of which was cofinancing funds. In terms of instruments, almost 80% of the Bank's portfolio in Haiti was investment grants. Most of the investment operations had a program logic, but the individual operations in each program were approved on an annual basis and in several cases without regard to the performance and disbursement of prior operations. The programmatic policy-based grants (PBGs) for budgetary support and sectoral institutional strengthening accounted for 13% of the portfolio. PBGs supplemented the sector investment portfolio and led to a broader policy dialogue, but they had limited depth. Most of the programmatic series have yet to be completed, partly due to the absence of a functioning parliament to approve the reforms pursued under the PBGs and partly due to turnover among authorities in some ministries. Lastly, given the unfavorable business climate, the private sector windows (non-sovereign guaranteed operations) did not meet expectations in terms of volume of operations and accounted for only 7% of the portfolio.

To ensure program management and implementation, the Bank introduced a new department for Haiti within its organizational structure. This allowed the Bank to significantly reactivate its disbursements but also meant an increase in administrative and operating expenses. Disbursement volume tripled during the evaluation period, although with significant differences by sector: operations that include large contracts, such as in transportation and the private sector (related to the industrial park), were above the disbursement average, while water and sanitation, education, and energy operations were below the average. At the same time, the operating expenses of the Country Department Haiti (CDH) show a significant increase over the total operating expenses that were being posted by the Country Department Caribbean Group (CCB) prior to the creation of CDH. The total operating expenses of the Haiti program, per million dollar approved, increased during the evaluation period (from US$46,000 to US$61,000) despite the stabilization in approvals starting in 2012.

Implementation of the IDB program faced not only the country's structural limitations but also problems associated with the design and implementation of operations. Delays and cost overruns affected the achievement of outputs and outcomes. The limited management and execution capacity of governmental entities, the volatility of the political leadership, and the limited business environment had an impact on program execution. Operations also faced conceptualization and design issues in part associated with the speed of preparation times in the first years of the country strategy and limited information on markets, especially in the post-earthquake landscape. These brought about implementation difficulties and delays resulting in significant cost overruns. In addition, given the lack of benchmark unit costs, the cost benefit analyses of the interventions were not very realistic. These design and implementation problems limited the scope of the works and the outcomes.

Faced with the challenge of executing an ambitious operational program in a context of institutional fragility, Bank staff made considerable efforts and devoted significant resources to building institutional capacity and speeding up program implementation. Disbursements were increased thanks in part to an investment of significant resources (US$205.7 million) to build government capacity and assist the officials and consultants who were performing ongoing work in support of project implementation, fostering continuous dialogue with the local counterparts. One half of these resources were used to support the project execution units, promote the development of public policies, and shore up institutional restructuring processes. In addition, between 2014 and 2015, the Bank financed current expenditures for an estimated 715 personnel (consultants and salaried employees) at various ministries and government agencies. While Haiti's particular situation may have justified this type of financial support at an initial stage, these resources create significant asymmetries at the government agencies, as well as fiscal sustainability risks. The IDB should put forth a clear exit strategy that takes into account the limitations of human resources and the civil service in general.

Despite these efforts, the country strategy achieved limited results in relation to the initial targets, with significant challenges in terms of the operational and financial sustainability of investments. The investment portfolio made progress on infrastructure works, albeit with differences from sector to sector, but the coverage and expansion targets initially proposed under the country strategy were not met. In transportation, the results fell short of the targets in terms of road network quality (kilometers rehabilitated) and maintenance. In energy, the rehabilitation programs for the Péligre hydroelectric plant and the distribution system experienced significant delays and cost overruns (close to US$110 million). The results in the agricultural sector portfolio were positive in terms of the construction of flood protection infrastructure and the expansion of irrigable area, but limited in terms of raising crop yields. The outcomes in water and sanitation, in terms of increase in coverage and financial performance of the operators, have been limited for Port-au-Prince but show improvements in midsized city programs. The rural water program, despite achieving the beneficiary targets, did not meet the coverage and sanitation targets. In education, the outcomes in terms of improvements in access, through the construction of schools, have been limited so far, while the tuition waiver program has yielded better outcomes. In terms of quality of education, progress has been confined to teacher training and the provision of materials. Progress on the governance pillar has been significant (in particular, completion of the education census and school mapping), and these products are starting to be used in policy planning and decision-making.

At the same time, policy-based grant operations served to support policy dialogue at the sector level but encompassed incomplete reform processes. In addition, the budgetary support was not integrated with a centralized planning process. The sectoral institutional reforms supported by the IDB helped to identify and promote new reform pillars as well as to broaden sector dialogue. However, the PBGs were implemented in each sector on an independent basis, without centralized planning by the national government and without integrating the financial flows into the national budget.

In a departure from previous strategies, development of the private sector took on particular importance in the 2011-2015 country strategy. A majority of the approved resources went to the construction of the Caracol Industrial Park (CIP). With 78% of the funds having been disbursed, the CIP program has made strides in developing quality infrastructure and creating jobs. However, the outcomes have not met expectations in terms of job creation and the cost per job has been particularly high. In the medium and long run, investments face some sustainability problems associated with their profitability and competitiveness. The rest of the private sector promotion operations are pilots with a small number of beneficiaries, and they face scalability challenges.

The 2011-2015 evaluation period was characterized by major changes in the government that affected implementation of the IDB's program. Also, Haiti remains in a state of extreme institutional fragility and social and economic vulnerability. The decline in economic growth and in tax revenue jeopardizes the sustainability of public finance. The decrease in concessional resources highlights the importance of mobilizing domestic resources and achieving more efficient management and use of these funds. The limitations associated with governmental efficiency and quality of institutions threaten the functioning of the State. During the evaluation period, there was high turnover among officials in most of the line ministries. In the short to medium term, these factors create a difficult context for interventions. In addition, reports of fraud in the last presidential elections (October 2015) and the end of the presidential term (February 2016) led to a political transition and the installation of a provisional government (February 2016) that is expected to hold new presidential elections in October 2016, with a new administration to take office in February 2017. This political transition, combined with the economic slowdown and local currency depreciation, aggravates the country's fragile condition.

In this context, the Office of Evaluation and Oversight (OVE) believes that the Bank's new country strategy with Haiti for the remaining five years of the IDB-9 mandate should not be a continuation of previous strategies. The future strategy should allow the Bank to position itself as a true partner for development, focusing on solutions to the country's structural problems. The current period of political transition and Management's decision to refrain from approving new operations provide an opportunity to redimension the program to reflect the country's real execution and institutional capacity, in line with the recommendations made by OVE in previous evaluations. OVE also feels that the Bank needs to consolidate its portfolio so as to show tangible results at the conclusion of the IDB-9 mandate and achieve them on a cost-effective basis. Thus, OVE recommends for the Bank to:

1. Set the next country strategy in realistic terms, focusing on building the country's long-term institutional capacity. The strategy needs to incorporate diagnostic components that can identify the fragility of the Haitian State and the absorption capacity of its institutions, and promote progressive action to develop internal institutional capacity and make government agencies accountable. In addition, the objectives and targets should be set on the basis of this capacity and be measurable so as to favor accountability.

2. Initiate a process with the Government of Haiti to integrate the Bank's resources into the national general budget, supporting the government in consolidating this budget. This would align the incentives and reinforce the role of the central government (through the Ministry of Finance) in the strategic management of budgetary support and investment resources, placing the IDB in a leading position with regard to other donors. In addition, the Government of Haiti should be equipped with ongoing fiscal management and public policy execution capabilities, strengthening ownership of the program and its sustainability. To this end, the IDB should also provide support to the Government of Haiti to strengthen mechanisms for accountability and transparency in the use of public resources.

3. Prepare an exit strategy for financing permanent officials/consultants in the government institutions. This strategy would require the use of fiscal resources to finance the operating capacity of the ministries and government agencies and would help to ensure the sustainability of interventions in the medium

term. To this end, the IDB should also provide support to the Government of Haiti to move forward with organizational reforms and improvements in human resources management in the civil service.

4. Review and consolidate the current investment portfolio using a cost-effective approach aimed at sequencing the interventions so as to strengthen the sustainability of the Bank's portfolio outcomes. The IDB should rationalize the portfolio, prioritizing interventions based on a realistic cost benefit analysis and combining operations based on common strategic objectives. It should proceed with new operations only when there is evidence of significant progress on the existing portfolio and when the institutional capacity is shown to be sufficient to undertake a new commitment effectively.

5. Target the use of sovereign-guaranteed resources to improving the business climate in order to facilitate private sector activity. Resources from the public sector window should be keyed to the fundamental mission of supporting initiatives likely to improve the business climate in Haiti. The IDB could also explore new ways of supporting private sector initiatives through structuring and financing mechanisms that reduce the risk associated with such initiatives.

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Crop production has low yields and fails to satisfy domestic demand. In this context, food availability is highly dependent on external markets.
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1 Context of the Country Program 2011-2015

Haiti is a country with significant comparative advantages but with structural limitations, derived from the country's fragility, that affect its development. Haiti is the third largest Caribbean country (after Cuba and the Dominican Republic), with a surface area of 27,750 square kilometers and an estimated population of 10.9 million. Haiti's comparative advantages include proximity and access to major markets, preferential trade agreements with the United States, a young labor force, and a dynamic diaspora that contributes to the country's economic growth by sending remittances, which grew from 20.6% of GDP (2011) to 22.7% of GDP (2014). However, Haiti is also the most fragile country in the Latin American and Caribbean region, with structural institutional limitations and high levels of poverty and inequality.

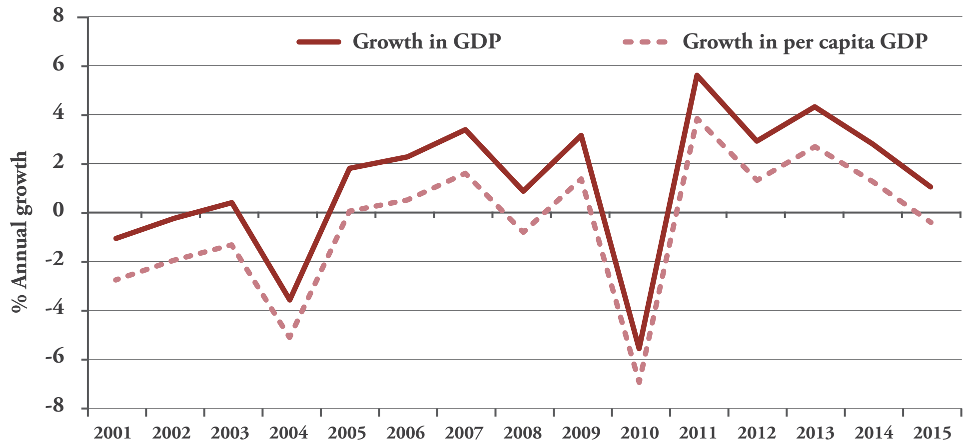
A. Recent economic developments

After the 2010 earthquake, economic growth in Haiti was driven by the reconstruction efforts and by significant amounts of external financing. Starting in 2014, the growth trend was adversely affected by a decline in external transfers and an intense drought. In real terms, it is estimated that the earthquake led to a 5.5% drop in gross domestic product (GDP) in 2010, in addition to the enormous loss of human life, infrastructure, and social capital.[1] Driven by the reconstruction efforts promoted by the international community, GDP grew 5.5% in 2011 and 4.2% in 2013 (Figure 1.1). However, economic growth began to decline in 2014 (2.7% of GDP), and estimates for 2015 are in the area of 1%. External transfers (grants), which in 2013 accounted for 9% of GDP, decreased to 7% in 2014 and an estimated 5% in 2015 (Box 1.1). In addition, the extended droughts affected agricultural production and resulted in low availability of foodstuffs. The agricultural sector's contribution to economic growth has been declining for the past 20 years. Agricultural productivity has remained below the regional averages.[2] Crop production has low yields and fails to satisfy domestic demand. In this context, food availability is highly dependent on external markets.

FIGURE 1.1

Economic growth (% GDP)

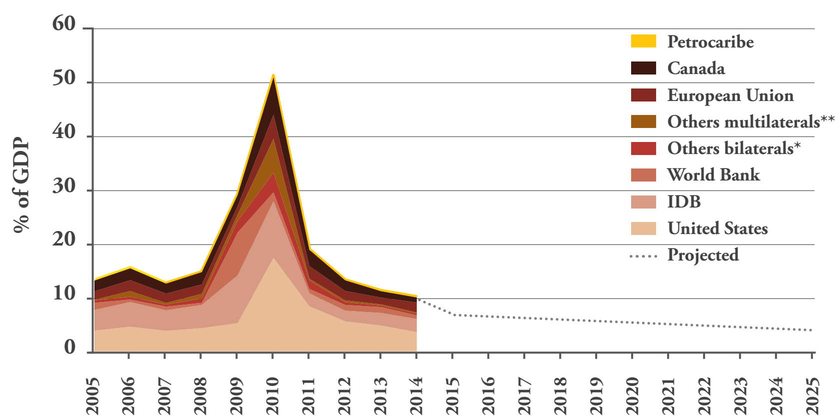
Source: IMF



Box 1.1: International aid flows to Haiti

The response to the 2010 earthquake included an unprecedented flow of aid. However, in recent years, the international aid flow shows signs of being exhausted, heralding the end of the post earthquake period. In 2010, the aid flow reached US$3.400 billion. However, by 2014-2015, international aid had returned to its 2005-2008 levels. The drop in oil prices has also led to a significant reduction in the resources that Petrocaribe contributes to the Government of Haiti.

FIGURE 1.2 Gross disbursements by donor (2005-2025; % of GDP)



Source: Organization for Economic Cooperation and Development. Creditor Reporting System Statistics and World Bank based on the IMF for the "Projected" series.
Note: Other bilaterals:* Spain, Norway, and Finland; Other multilaterals:** IMF, UNICEF, OPEC.

The construction and infrastructure sectors were the biggest engines of growth, fueled by a significant increase in public investment. However, public investment has made only a limited contribution to sustainable economic growth. Starting at a minimum level of 25.4% of GDP in 2010, gross investment—driven by public investment—gradually rose to 28.9% of GDP in 2015. More than half of public investment was financed through external grants, including budgetary support. In addition, a large part of this financing was in the form of loans on favorable terms from Petrocaribe.[3] However, shortcomings in public investment management, such as limited prioritization of investments, poor quality of project design, and little supervision, as well as insufficient resources for operation and maintenance, restricted public investment's contribution to economic development. The sector strategies that could guide the prioritization of projects were few.[4] Moreover, dependence on foreign aid weakens public investment management and hinders efficient use of public resources.

While Haiti has preferential trade agreements with the United States, development of the manufacturing sector is in its early stages and is highly concentrated in the maquila industry, limiting the sector's impact on economic growth. Haiti's geographic proximity to the United States market, preferential trade agreements and relatively low labor costs, and the limited skills required of workers, fostered development of the garment assembly/textile ("maquila") industry as a key sector in terms of creating jobs and attracting investment. In recent years, the boost received by the manufacturing sector was reflected in a relative increase in its contribution to economic growth[5] and in the growth of apparel exports (12% composite annual growth rate (CAGR), 2010-2015) and in the number of jobs created in the sector, estimated at roughly 41,000 (8% CAGR, 2010-2015). Its progress notwithstanding, Haiti has not yet succeeded in taking full advantage of its preferential trade agreements, exhibiting difficulties in covering the annual sales quotas under those agreements.[6]

Haiti's balance of trade has historically been negative, and this situation was exacerbated after the earthquake as a result of the external aid flows. The country's exports cover only one fourth of its imports. Exports consist primarily of garments from the maquila industry (more than 90% of exports in 2013), shipped mainly to the United States under preferential trade arrangements.[7] The rest is comprised of industrial products (mainly essential oils) and agricultural products (primarily mango and cocoa). The rise in imports to address reconstruction needs worsened the trade deficit. The main import categories included foodstuffs, manufactured products (machinery and transportation equipment), and fuels. In the capital account, foreign direct investment fluctuated but remained within a relatively low range (1%-2% of GDP in recent years).[8] (Gross) international reserves grew after the earthquake but have since been declining due to pressures on the currency market that have led the Haitian gourde to depreciate at a faster pace.

Inflation remained moderate until 2014, but it now shows signs of accelerating as a result of the depreciation of the Haitian currency. Consumer price inflation remained at an average of 6.2% between 2011 and 2014; however, in 2015 and early 2016, it increased to 14.4% (Table 6 – Annex I). The fluctuations in Haiti's exchange rate have a significant effect on consumer prices, since foodstuffs and fuels, most of which are imported, account for approximately two thirds of the basket of goods included in the index. The accelerated pace of local currency depreciation, coupled with a drop in the supply of domestic agricultural products as a result of the drought, accounted for the upturn in inflation, despite the decline in fuel prices.

The expenditures associated with reconstruction contributed to an expansion of the fiscal deficit. Revenue collection has improved but is barely sufficient to cover current expenditures. In 2013, as a result of the reconstruction efforts and the increase in public investment, the fiscal deficit reached a peak of close to 7% of GDP (15% of GDP not including grants).[9] The largest source of residual deficit financing was Petrocaribe,[10] which in net terms contributed 4.6% of GDP (2013). Domestic financing (3.5% of GDP) was primarily in the form of a reduction in net government assets at commercial banks. Haiti's tax system is highly dependent on indirect taxes (primarily international trade). While revenue collection (12.1% of GDP in 2014) has improved in comparison to the decade of 2000 (9.7%),[11] it continues to be at typical levels for low-income countries and far below the regional average (22% of GDP). Tax revenues are barely enough to cover current expenditures, which are roughly 11%-12% of GDP. Given the small debt interest payment amount (0.5% of GDP), the largest current expenditures are wages and salaries (5.6% of GDP), goods and services (3% of GDP), and transfers and subsidies (3% of GDP).[12]

B. Changes in social indicators

Poverty in Haiti remains widespread, with high levels of vulnerability and inequality. Per capita GDP growth was limited in recent years. At US$833 in 2014, it showed improvement over 2000 (US$518) but continues to be the lowest in the region. In 2012, the Government of Haiti published the first official national poverty line for Haiti based on basic needs, the food basket, and consumption. On this basis, in 2012, the poverty index was estimated at 58.5% and the extreme poverty index at 23.8%.[13] The incidence of poverty is significantly higher in rural areas and in the country's north. In addition, 10% of the population is just above the poverty line, suggesting high levels of vulnerability. With a Gini coefficient of 0.61 (unchanged from 2001), income distribution in Haiti is among the most inequitable in the region. Social protection mechanisms are insufficient and poorly targeted.

In terms of basic services, while health and education access indicators showed some improvement, there have been no advances in services such as water and sanitation and electricity. Health indicators, primarily maternal and infant mortality rates, suggest that progress has been made in recent years. In education, while the school enrollment rate has grown, the quality of education is uneven and considerably low, this being one of the factors behind the country's high unemployment rates (World Bank, 2015). Employment is primarily informal, with salaries that are half the size of formal salaries. Moreover, energy coverage in Haiti shows only limited progress and does not exceed one third of the population, while access to "improved" water sources has remained at roughly 50% of the population[14] and access to basic sanitation is among the lowest in the region (Table 1.1). Gender inequality is worrisome both at the school enrollment level and in terms of labor market share (World Bank, 2015).

Table 1.1: Selected social indicators

	Base year	*Latest available data*
Education		
% enrollment of school-age children – Rural areas	74 (2001)	87 (2012)
% enrollment of school-age children – Urban areas	84 (2001)	93 (2012)
Literacy rate (% of population 15-24)	81.6 (2003)	82,1 (2015)
Net primary school enrollment rate	N/A	76 (2012)
Net secondary school enrollment rate	N/A	22 (2012)
School completion rate – primary school	78 (2005)	101 (2012)
School completion rate – secondary school	12 (2005)	20 (2012)
Health		
% institutional delivery coverage	23.8 (2000)	37.3 (2012)
% fully vaccinated children ages 12-23 months	33.5 (2001)	45.2 (2012)
Total health expenditure (% of GDP) (1)	5.5 (2002)	9,4 (2013)
Maternal mortality rate per 100,000 live births	506 (2000)	360 (2015)
Infant mortality rate per 1,000 live births	30.2 (2002)	25.4 (2015)
Water and basic sanitation		
% improved water source coverage – Rural areas (2)	49 (2000)	48 (2015)
% improved water source coverage – Urban areas	82 (2000)	65 (2015)
% improved sanitation coverage- Rural areas (3)	14 (2000)	19 (2015)
% improved sanitation coverage – Urban areas	33 (2000)	34 (2015)
Energy		
Access to energy - Nationwide (% of total population)	32 (2001)	36 (2012)
Access to energy – Rural areas (% of total population)	11 (2001)	11 (2012)
Access to energy – Urban areas (% of total population)	62 (2001)	63 (2012)
Employment		
Unemployment rate		40.6 (2010)

Notes: The table lists the most recent available data for Haiti. (1) Includes public and private expenditure. (2) Source whose construction provides adequate protection from external pollution. (3) Solution that hygienically separates excretes from human contact and is not shared among several households.
Sources: Education: UNICEF Statistics, Haiti - Systematic country diagnostic, World Bank Group (2015). Health: WHO Statistics, UNICEF Statistics. Water and sanitation: WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (2015). Energy: Haiti - Systematic country diagnostic, World Bank Group (2015). Employment: CIA-The World Factbook.

C. Structural limitations in Haiti and development challenges

The impediments to greater development and economic growth in Haiti stem from structural factors and institutional limitations associated with the fragility of the State.[15] The constraints associated with governmental efficiency and quality of institutions pose major development challenges for Haiti. According to the World Bank's Worldwide Governance Indicators, Haiti's score on "government effectiveness" is particularly low and has worsened in recent years. Haiti is ranked in the 0.96th percentile in the distribution for 2014 (compared to the 2.9th percentile in 2010). In terms of institutional capacity, the Country Policy and Institutional Assessment showed no significant improvement during the evaluation period: Haiti maintained an average score of 2.8, which is below the threshold (3.2) for a country to be deemed fragile. The fragility of the Haitian state is a major constraint on the government's ability to deliver and regulate basic public services, finance an adequate economic and social infrastructure, and create a favorable business environment to stimulate the economy.

Current public expenditure in Haiti is among the lowest in the region, and this also restricts the government's ability to deliver and regulate basic services. While the increase in revenue has allowed current public expenditure to expand since the earthquake, this expansion is insufficient to ensure the functioning of basic services.[16] Most basic services, such as health and education, are provided by nongovernmental actors (the private sector and nongovernmental organizations). These entities operate under limited State regulation and supervision that would ensure quality and equity in the access to such services. The cost of the services is transferred to the households, linking service delivery/quality to household income. In the case of education, the high percentage of private provision (88% at the primary school level and 60% at the secondary school level), coupled with the ministry's limited regulatory and management capacity and the low level of public investment, affects service quality and school performance.

In addition, the low levels of financing and the shortcomings in public investment management affect the government's ability to provide an adequate productive and social infrastructure. Haiti lags far behind in terms of transportation and logistics[17] indicators and reliability of energy supply.[18] Moreover, despite progress in the form of better technical capacity among some operators, the low continuity and quality of water and sanitation services impact collection of payment, regularization of customers, and service expansion. Coverage of sanitation services is low. Lastly, the limited technical and financial capacity of the responsible entities affects service planning and management.

The business environment, considered one of the weakest in the world, is also a major constraint on economic and social growth.[19] The main constraints on business activity include weaknesses associated with property rights (land tenure),[20] contract enforcement, and restricted access to finance.[21] Private economic activity in Haiti has been traditionally concentrated in a handful of family groups with interests in key companies in the country. The rest of private activity primarily consists of small businesses and microenterprises (90%) with a high degree of informality (95%) and a significant impact on employment quality and tax contributions.

Haiti is among the most vulnerable countries to natural disasters associated with climate change. A combination of high physical exposure, limited socioeconomic conditions, and low institutional capacities produces a situation of extreme vulnerability (document RE-459-1). Haiti faces severe deforestation problems as a result of unsustainable agricultural practices and high demand for charcoal for energy purposes. Changes in precipitation patterns have started to affect agricultural productivity, impacting the availability of food. The agricultural sector is the main source of resources for the country's poorest population groups.

2

Between 2011 and 2015, the largest approval amounts for projects were in transportation and private sector development.
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2 The Bank's Positioning in Haiti

A. Background

Since 2000, the Office of Evaluation and Oversight (OVE) has performed two evaluations of the Bank's country strategy with Haiti and prepared one evaluation report on the commitments with respect to Haiti under the Ninth General Increase in the Resources of the Bank (IDB-9). The evaluation of the country strategy for 2001-2006 covered a period of high political polarization and instability that ended with the departure of the President, establishment of the United Nations Stabilization Mission in Haiti (MINUSTAH), and development of the Interim Cooperation Framework (ICF). The country strategy evaluation for 2007 2011 included a Country Strategy Update by IDB Management in response to the 2010 earthquake. In 2012, OVE also prepared an evaluation report on implementation of the Bank's commitments to Haiti under IDB-9 (Box 2.1).

B. The Bank's strategy with Haiti

The country strategy with Haiti for 2011-2015 was approved in November 2011 and coincided with the start of the IDB-9 mandate, which modifies the Bank's system of incentives and relationship with the country. The IDB-9 commitments converted the Bank's loan portfolio in Haiti into a grant portfolio.[22] This modality eliminates factors that have traditionally guided the Bank's loan operations, such as the country's ownership, expressed in counterpart funding and commitment to repay. In addition, the Bank's grant resources, and all other international cooperation resources, are not systematically programmed in the nation's annual budget planning process, and there is no methodical ex post monitoring of disbursements by the Government of Haiti. This limits fiscal management and discipline on the part of the government. The fact that donor support flows are not properly integrated into the national budget and treasury accounting makes it impossible to obtain a complete overview of public expenditures, establish strategic priorities, and have an adequate reserve to cover the operating and maintenance expenses of investments.

Box 2.1: Main conclusions and recommendations of the OVE evaluations

The CPE for the period 2001-2006 (document RE-237) concluded that the Bank's presence in the country was significant in a complex political context. However, the program failed to provide policy guidelines that could help the Government of Haiti prioritize its scarce resources and engage in medium-term planning. The program was aligned with the Interim Cooperation Framework, achieving greater coordination among donors but failing to achieve harmonization. Policy-based loan (PBL) operations were relatively effective in terms of balance of payments support and also revived certain significant political and economic governance reforms.

The CPE for the period 2007-2011 (document RE-394) highlighted the Bank's swift and timely organizational and financial response to the earthquake emergency. However, it concluded that the strategic response was insufficient to position the Bank in the face of the enormous challenges created by the earthquake. The evaluation emphasized that the 2010 Country Strategy Update did not include a proper evaluation of the risks posed by post-earthquake conditions for the portfolio in execution, nor did it offer a sequential strategy for IDB action for emergency, reconstruction, and long-term development tasks. In addition, the evaluation pointed out that the new grant modality eliminates factors that have traditionally guided the loan portfolio (commitment to repay), creating room for discretionality. Execution problems, stemming from the institutional fragility of the Haitian State and the absence of designs adapted to the new context, curtailed the achievement of project results.

The evaluation recommended: (i) map out a long-term strategy (10 years) that garners the greatest consensus with the Government of Haiti and Haitian society (focusing on a few sectors with greater impact on poverty and social inclusion, giving priority to institution-strengthening, and including the short-term challenge of reconstruction); (ii) strengthen and make coordination more effective among donor agencies and country agencies; (iii) acknowledge the recurring emergencies arising from Haiti's institutional, political, and environmental vulnerabilities (strengthening risk analysis for each operation); and (iv) expand the Bank's knowledge capital, rooting its work in a robust diagnostic assessment of the real conditions on the ground in Haiti.

The 2012 Evaluation of IDB-9 Commitments for Haiti (document RE-426) analyzed the Bank's action with regard to its financial commitments, its effectiveness in coordinating aid, and its post-earthquake strategic positioning. The evaluation found that the Bank fulfilled its financial commitments, transferred resources to the Grant Facility in the amount of US$200 million per year, and financed a program in an amount that exceeded the transfers. The evaluation concluded that coordination among donors in Haiti continued to be insufficient, coming up against endemic limitations associated with the country's fragmented public management. With regard to strategic positioning, the Bank's strategy with Haiti was designed for the long term, without a strategic and sequenced response to address reconstruction needs (short and medium term). Interventions focused on the sectors in which the Bank traditionally had been active prior to the earthquake. The evaluation also concluded that the urgency in approving and disbursing US$200 million per year over 10 years created incentives to steer operations toward those areas or sectors capable of disbursing resources with a certain degree of autonomy and speed, such as large infrastructure works and policy-based grants, while reducing the appeal of addressing the task of building and strengthening capacities. The evaluation pointed out that the IDB-9 commitments do not require that the annual allocation (US$200 million) be approved and disbursed each year, but rather that these funds be transferred to the Grant Facility.

The evaluation recommended focusing the program for Haiti on a sustainable reduction of poverty and on economic growth, moderating short-term pressures to approve and disburse resources for operations by taking into account the country's absorption capacity, and providing room for activities that are critically important but are smaller in size or involve slower disbursement. In addition, the evaluation suggested that Management: (i) increase the information and knowledge capital on Haiti so as to improve the design of operations and strengthen the monitoring and supervision process (in fragile country environments); (ii) redimension the Bank's portfolio in Haiti to adjust it to actual execution possibilities in each sector; (iii) intensify efforts to promote a comprehensive program for State reform, including both political and economic governance; and (iv) intensify coordination efforts among donors and strengthen the Government of Haiti so that it can provide effective leadership.

In general, the country strategy was aligned with the priorities of the government program, particularly with regard to the pillars of territorial, economic, and social reconstruction. The Bank's country strategy for 2011 2015 was based on the Government Action Plan for National Recovery and Reconstruction (March 2010) and the Post-disaster Needs Assessment (PDNA). The government plan outlined a strategy based on four pillars: territorial, economic, social, and institutional rebuilding. The country strategy identified six priority sectors aligned with these pillars. Table 2.1 summarizes the strategic objectives of the country strategy for each sector, together with the total portfolio amount approved for each sector.

The objectives set out in the country strategy positioned the Bank with a long-term development strategy. However, the strategic course charted by this country strategy was not substantially different from previous strategies and appeared not to properly appreciate the risks associated with the fragility of the Haitian state and its limited institutional capacity, particularly in the post-earthquake period. The country strategy continued to focus on the sectors in which the Bank had traditionally been active before the earthquake, and the strategic objectives for the priority sectors were not very selective.[23] The country strategy only included two strategic changes: a regional development program in the country's north centered on construction of an industrial park, and an institutional reform and strengthening program centered on priority sectors to replace crosscutting reform programs to support governance and the comprehensive strengthening of the government.[24] Lastly, even though the country strategy was approved nearly two years after the earthquake, in identifying risks, it does not appear to have properly appreciated the constraints stemming from Haiti's post-earthquake fragility and institutional fragmentation. In effect, as discussed later, during execution, significant resources from investment projects were used to compensate for these weaknesses and strengthen capacity at the institutions that execute the IDB's program.

Table 2.1: The Bank's strategic objectives 2011–2015

Government pillar: Social rebuilding	***Total approved***
Bank priority sector: Water and sanitation	**(% of the portfolio)**
Improve coverage and management of water and sanitation services in urban and rural areas Improve solid waste practices	US$69,4 million (5%)
Bank priority sector: Education	
Improve access to and quality of education Strengthen institutional capacity and the governance system Reform technical and vocational training Reform higher education	US$174 million(14%)
Government pillar: Economic and territorial rebuilding	
Bank priority sector: Agriculture	
Protect the environment and enhance food security Increase agricultural income in target areas	US$209,2 million (16%)
Bank priority sector: Transportation	
Improve the quality of the national road infrastructure (primary and rural) Reinforce the institutional capacity of the transportation sector Improve international connectivity	US$340,9 million (27%)
Bank priority sector: Energy	
Reinforce government oversight and planning of the energy sector Improve the operational efficiency of Electricité d'Haiti (EDH) Expand electricity service in urban and rural areas	US$121,8 million (9%)
Bank priority sector: Private sector development	
Promote private sector investment in order to create jobs, achieve sustainable growth, and reduce poverty	US$317 million (25%)

Management translated the IDB-9 commitment to transfer US$200 million per year into an ambitious strategy aimed at approving and disbursing US$200 million without giving adequate consideration to the country's limited institutional capacity in the post-earthquake context. In fact, considering the enormous challenges that the country was facing in the post earthquake period, the Bank's country strategy was not realistic and gave rise to serious evaluability limitations for accountability purposes. Despite having a perfect score in the Development Effectiveness Matrix (DEM), the country strategy Results Matrix set ambitious objectives, outcome indicators marginally attributable to the Bank's work, and targets that failed to reflect either the country's actual circumstances on the ground or the Bank's execution history. Between 2013 and 2014, these indicators and their targets were revised and are now as reported in the progress reports that Management has been submitting to the Board of Executive Directors on a semiannual basis since 2014. However, the Results Matrix was not formally updated, creating a constraint on the accountability exercise for evaluation. While the indicators introduced in 2014 are more realistic, they are primarily indicators of outputs (rather than of outcomes), evidencing a significant trend toward reducing the targets but without modifying the development objectives and making only minimal changes in the resources allocated to the projects (Table 2.2).[25] At the project level, the Progress Monitoring Reports (PMR) incorporate the new output indicators set in 2014 but show an ongoing adjustment in the targets based on the progress achieved by the interventions and generally contain limited information on the performance thereof.

Table 2.2: Example of changes in the country strategy indicators and targets

Country Strategy Results Matrix	*2014 update*
Education: The strategic objectives were aimed at improving access to and quality of education at all levels, as well as fostering significant governance reforms in the education system. The education targets (2015) included doubling the gross enrollment rate in secondary school (grades 7-9) (from 46% to 96%), quadrupling the percentage of students enrolled in schools free of charge (from 20% to 85%), and accrediting 100% of private schools.	The increased coverage objectives remain but are measured through output indicators: number of schools built/rehabilitated (92) and number of tuition waivers (35,000 per cohort), which do not end up affecting the sector access targets. The target relating to the percentage of private schools accredited by the ministry is considerably reduced, from 100% to 25%.
Water and sanitation: The increased coverage objectives included targets of similar size (an increase of 15% in Port-au-Prince and 14% in rural areas) as well as doubling the operating margin of the water utility operator in Port-au-Prince (from 30% to 65%).	The coverage objectives were replaced by number of beneficiaries: number of households with newly installed and/or rehabilitated individual water connections in Port-au-Prince (3,693) and rural areas (30,000), which represent much smaller coverage increases than the original targets (3% and 6%, respectively, according to OVE estimates). There were no changes in the operating margin indicator.
Energy: The targets were aimed at increasing the electricity coverage from 40% to 70% and reducing the percentage of technical and commercial losses of the operator Electricité d'Haiti (EDH) by half, from 60% (2010) to 30% (2015).	The coverage indicators are eliminated. The generation capacity targets are reduced (from 200 MW to 54 MW) and the technical and commercial loss reduction targets are reduced to 45% for 2015.
Private sector: The strategic objective of creating a favorable investment environment is measured through an increase of 50% in foreign direct investment and the creation of 450,000 new jobs in the country's north.	The target for creating small and medium-sized enterprises (SMEs) in the north is reduced by half, and the target for newly created jobs is reduced from 50,000 to 18,143 for 2015.

C. The Bank's program in Haiti

1. Approvals and instruments

In response to the IDB-9 commitments, the Bank's operational program (approvals) for the 2011-2015 period was doubled in comparison to previous periods, in line with the projections made in the country strategy. Between January 2011 and December 2015, the Bank approved US$1.271 billion in grants, US$142 million of which was in cofinancing funds. The country strategy provided for financing in the amount of US$1.044 billion in grants, with disbursements of US$1.120 billion, equivalent to US$230 million per year. Total disbursements for the period were US$1.170 billion, equivalent to an average of US$234 million per year (between 2011 and 2015) (Figure 2.1). The reviewed portfolio also includes the inherited portfolio, defined as all operations approved prior to 2011 and executed during the evaluation period.[26]

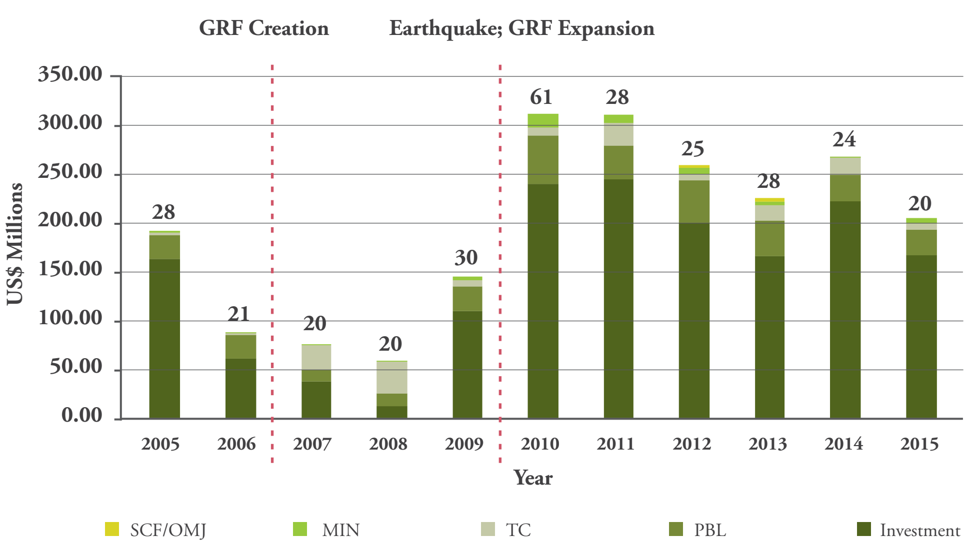
This level of approvals positioned the Bank as one of the principal donors in Haiti, while on average the associated cofinancing remained at pre earthquake levels. In terms of development aid flows, the Bank (after the United States) approved the largest amount of grant resources post earthquake.[27] Thus, the Bank became the main financing agent in several sectors. In education, the Bank's commitment accounted for 38.5% of the total international aid (excluding Petrocaribe) and 75% of the funds committed by multilateral banking institutions (2010-2014). In water and sanitation, the Bank's approvals of investment operations during the period accounted for 41% of all funds approved by the major donors and 97% of multilateral assistance for the sector. In agriculture, IDB approvals accounted for approximately one third of all international aid and two thirds of multilateral aid.[28] The Bank's investment portfolio approved between 2011 and 2015 leveraged US$0.11 in cofinancing resources for every dollar approved. This ratio is equal to that of the investment portfolio approved between 2005 and 2009.[29]

Figure 2.1

Figure 2.1: Approval and disbursement amounts 2005-2015 (by instrument)

Source: OVE calculations based on OVE/OVEDA.

Note: The post-earthquake Haiti portfolio (2011-2015) grew 2.3 times with respect to the country's portfolio prior to the earthquake (2005-2009). In terms of number of operations, 125 operations (65 projects and 60 technical cooperation operations) were approved in the post-earthquake period, while 119 operations (45 projects and 74 technical cooperation operations) were approved during the previous cycle.



The operational program approved during the period reflects the changes in the strategic positioning of the country strategy, with an increase in approvals for private sector development and a drastic reduction in the crosscutting institutional strengthening portfolio. Between 2011 and 2015, the largest approval amounts for projects were in transportation (27% - US$341 million) and private sector development (25% - US$292 million sovereign guaranteed and US$25 million non-sovereign guaranteed). Agriculture and education respectively received 16% (US$209 million) and 14% (US$174 million), while energy received US$122 million (9%) and water and sanitation US$64 million (5%) in approvals. Crosscutting institutional strengthening received shy of 1% of the portfolio.[30]

In terms of instruments, the Bank's portfolio in Haiti was focused on investment grants. For the most part, these were "programmatic" operations but were approved on an annual basis. Of the total amount approved (US$1.279 billion), 78.5% (US$1.005 billion) was in investment grants (including US$97 million in cofinancing).[31] In a majority of the sectors (education, transportation, private sector, and water and sanitation), investment projects had a programmatic logic that included sequential operations associated with an investment program with common objectives (similar to that of a conditional credit line for investment projects (CCLIP)). The individual operations were prepared and approved on an annual basis, with a certain degree of independence from the performance and disbursement of previous operations (unlike a CCLIP, which only approves new operations when the preceding operation has been substantially disbursed). Figure 2.2 shows the sequence/overlap of the four individual operations that comprise the program in education. It should be noted that the original education program included the approval of five operations (US$50 million per year for five years) for a total amount of US$250 million. During execution, the first three operations were approved in 2010 (HA-L1049), 2011 (HA-L1060), and 2012 (HA-L1077), in line with the proposed schedule. In 2013, a midterm evaluation found that the original plan was not feasible given the government's limited absorption capacity (Annex VII), and no operation was approved that year. In 2014, an operation was approved (HA-L1080) but for a smaller amount (US$24 million). No operation was approved in 2015.

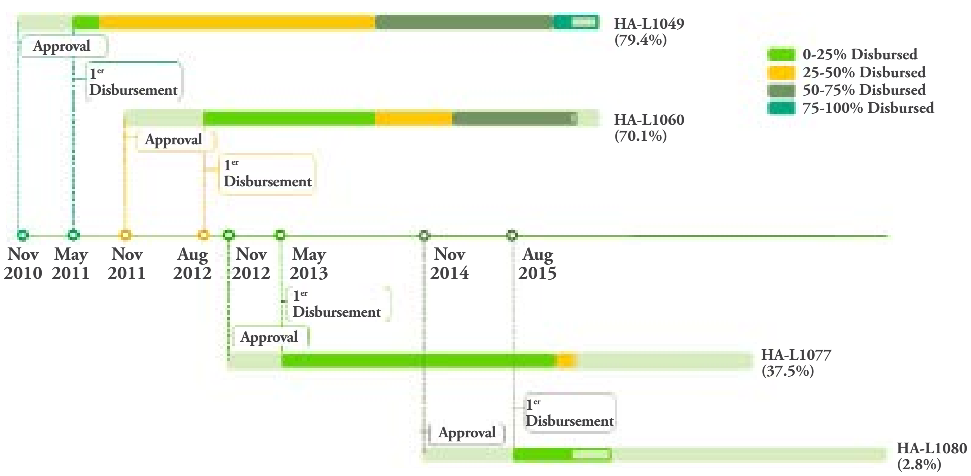


Figure 2.2

Project sequence in the education sector

Source: OVE calculations using information from corporate databases.

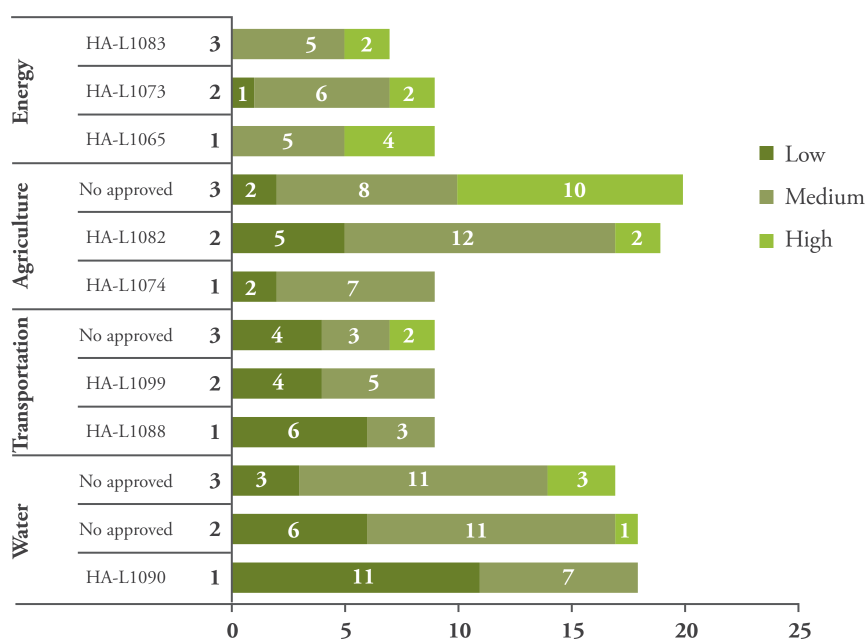
The Bank introduced the modality of policy-based grants (PBGs) at a sectoral level as a budgetary support instrument for institutional strengthening and policy dialogue. PBG projects accounted for 13% of approvals (US$170.5 million) during the period. These resources went to support the planning for sector-level public policies and their regulatory frameworks (preparation of proposed laws, implementing regulations, etc.) as well as capacity-building within the ministries. The Bank approved four programmatic PBG series in the energy, transportation, water and sanitation, and agriculture sectors. Unlike the case in the preceding evaluation period (2007-2010), the PBGs did not go to support crosscutting reform processes as had been done through the public finance and public management strengthening programs (HA-L1017 and HA-L1023) or the fiscal sustainability programs (HA-L1029 and HA-L1034) (Annex I).

The PBGs supplemented the sector investment portfolio, supporting a policy dialogue. The depth of the policy and institutional reforms was limited given that most of the series have not yet been completed. The operations were designed with a progressive increase in the depth of the conditionalities, with primarily low-depth conditionalities in the initial phases, medium-depth conditionalities in the subsequent phases, and the majority of high-depth conditionalities (enough to achieve lasting changes) in the third phases (Figure 2.3). Since the programmatic series have not yet been completed in most sectors (the only exception being the energy sector), the operations that include substantive conditions have not been approved, limiting the outcomes in each sector. This situation is partly due to the absence of a functioning parliament since 2012-2013 to approve the reforms pursued under the PBGs and partly due to turnover among government authorities at some line ministries[32] and insufficient political resolve to push through the reforms.

FIGURE 2.3

Depth of policy reforms

Source: OVE, based on project documents. *Note:* The trigger is considered for non-approved projects.



The country strategy called for a significant increase in the share of non-sovereign guaranteed (NSG) loans. However, given Haiti's weak business environment, most of the resources for private sector development were approved with sovereign-guaranteed (SG) instruments. Most of the resources approved for private sector development (US$292 million) were for SG operations aimed at building the industrial park and for minor operations to support the business sector. The private sector windows (Structured and Corporate Financing Department (SCF) and Opportunities for the Majority Sector (OMJ)) did not meet expectations in terms of volume of originated operations. Of the US$40 million projected in the country strategy, only three operations were approved, for a total of US$7 million. The Inter-American Investment Corporation (IIC) also had trouble originating operations in Haiti, and its portfolio was likewise limited (10 investments for a total of US$11.4 million).[33] The MIF approved 16 projects under a grant portfolio for a total of US$25 million.

2. Program disbursements and execution

With a view to ensuring management and implementation of the program and in line with the IDB-9 requirements, the IDB introduced a new department for Haiti within its organizational structure. This decision allowed the Bank to significantly reactivate disbursements. In 2011, the proposal to modify the Bank's basic structure (document GA-232-38) required approval to create in VPC a Haiti Department (CDH), to ensure the efficient and effective management of the unprecedented amount of resources allocated by IDB-9 (document AB-2764) to the Haiti program (paragraph 1.7, vi). The department was to be in effect until 2020, and an evaluation of this institutional arrangement was required for 2015.[34] Accordingly, a proposal was put forth to institutionalize the Haiti program department within the Bank's organizational structure (paragraph 2.5,c).[35] In this period, with the support of the CDH and specialists at Headquarters and in the Bank's Country Office in Haiti, the Bank was able not only to double approvals but also to triple disbursements, in both cases with respect to the preceding period. In addition, starting in 2013, the Bank succeeded in pacing the growth of annual approvals to match the flow of annual disbursements. During this period, undisbursed balances (stock) went from US$414 million (2011) to US$589 million (2015) (Figure 2.4).[36] While 35% of these balances are already committed, the undisbursed amounts continue to be significant.[37]

The decision to create a new department for Haiti also meant a rise in the Bank's administrative and operating expenses. The operating expenses of CDH at Headquarters (yearly average of US$2.4 million in 2012-2015) are significantly higher than the total operating expenses incurred by the Country Department Caribbean Group (CCB) at Headquarters prior to the creation of CDH (Figure 2.5). The total operating expenses of the Haiti portfolio, in nominal terms, went from US$4.6 million in 2009 (prior to the earthquake) to almost US$13 million in 2015 (Figure 2.6),[38] nearly 50% of which is allocated to CDH at Headquarters and the Country Office. While the volume of approvals remained constant (at US$240 million on average) starting in 2012, total operating expenses for every US$1 million approved rose from US$46,000 in 2012 to US$61,000 in 2015.

Figure 2.4

Capital flow with Haiti 2000-2015

Source: OVE calculations based on the Loan Management System, including only "LOANS."

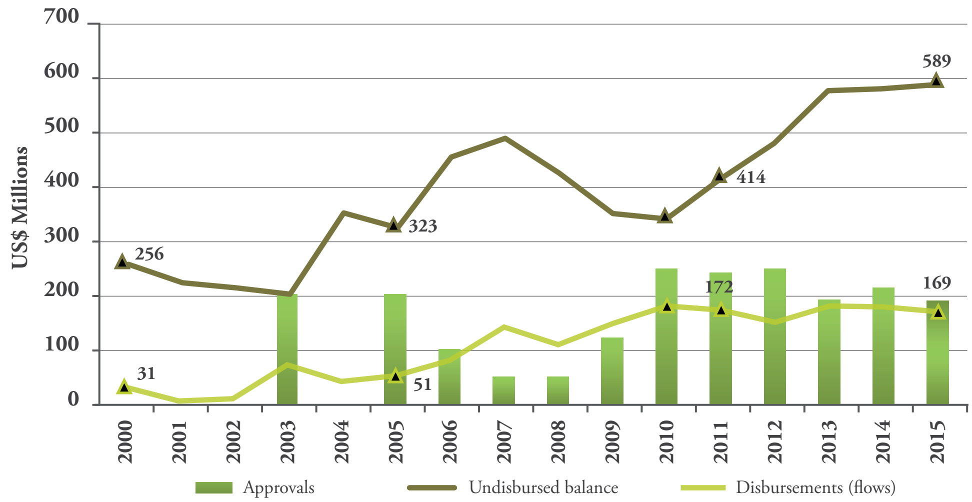


Figure 2.5

Operating expenses

Source: OVE calculations based on corporate databases.
Note: Haiti belonged to the CCB until the CDH was created in 2011. The total CCB amounts from 2007 to 2011 include the resources allocated to Haiti, which on average were US$200,000 per year.

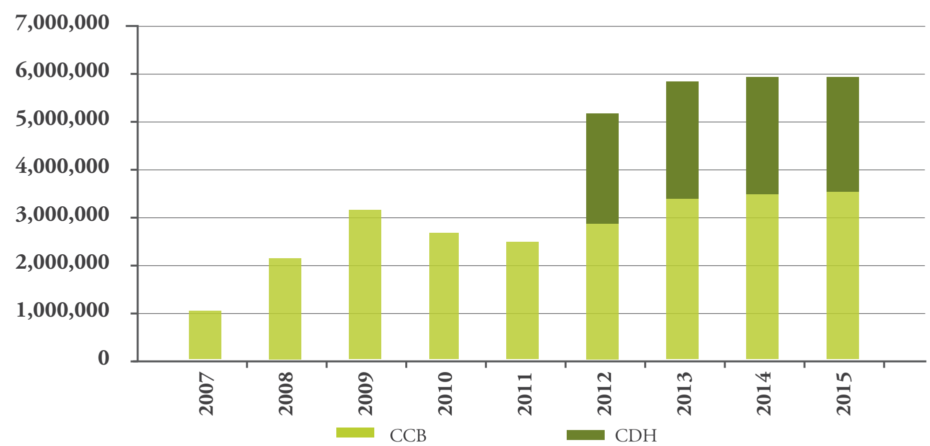
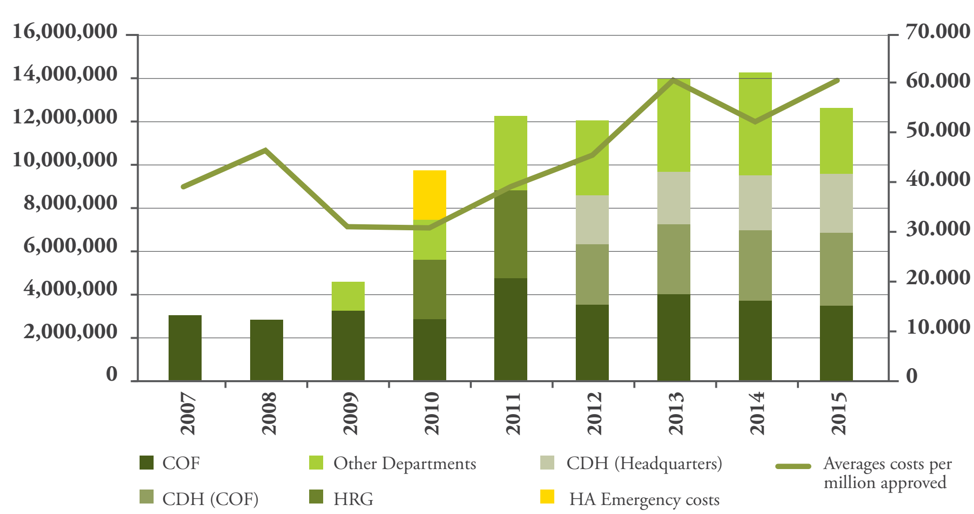


Figure 2.6

Costos operativos totales

Source: OVE calculations based on corporate databases.
Note: HRG refers to Haiti Reconstruction Group. Left vertical axis: operating expenses; right vertical axis: average expenses for every US$1 million approved.



The average disbursement curve for investment operations in Haiti during this period is faster than the average disbursement pace for Fund for Special Operations (FSO) countries (Figure 2.7). However, the disbursement pace of the Haiti portfolio shows significant differences across sectors. Operations in transportation and in the private sector, which include large contracts, fall above the average for Haiti and are close to the IDB average, while water and sanitation, education, and energy operations fall below both averages. Investment operations in agriculture are in the vicinity of the average for Haiti. Box 2.2 shows examples for the private sector and education.

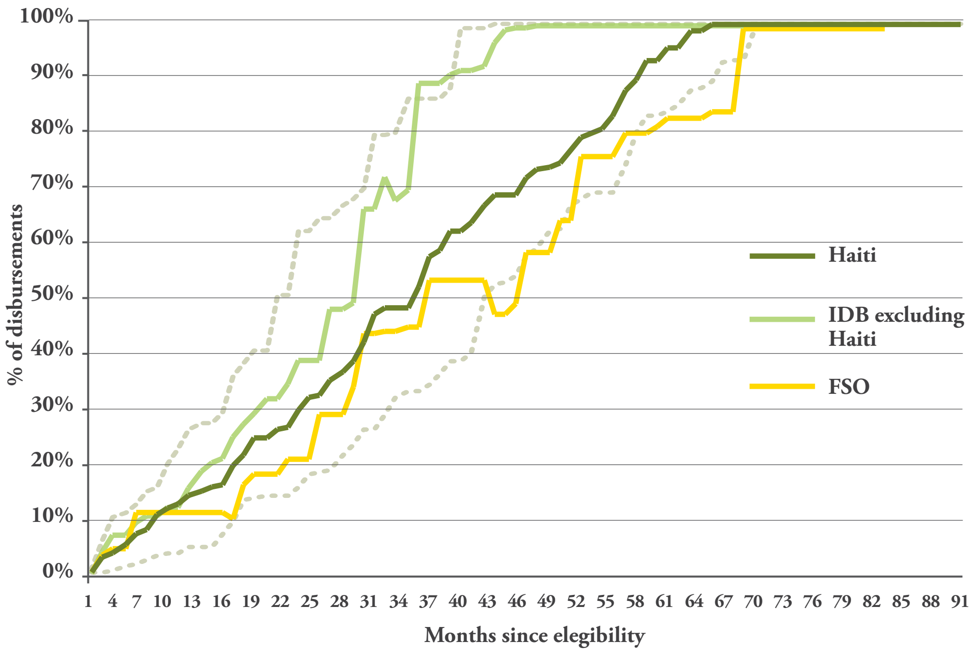


Figure 2.7

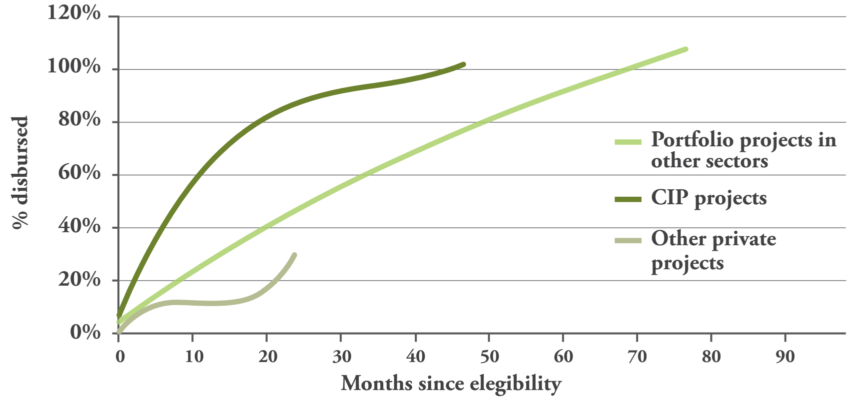
Investment portfolio disbursements (2005-2015)

Source: OVE calculations / corporate databases.

Box 2.2: Disbursement curves: examples from the private sector and education

The private sector projects associated with construction of the Caracol Industrial Park (CIP) showed record disbursements, while the rest of the projects for private sector development faced enormous disbursement challenges (Figure 2.8). In the case of the CIP, the fast pace of disbursements is due in part to factors such as the following: (i) this is a greenfield project; (ii) the Bank and the UTE are in a position of leadership and control over the project; (iii) the construction firm and the executing agency have remained the same throughout all project stages; (iv) there is an incentive to meet delivery deadlines for works for private clients, particularly for the anchor tenant, given the consequences for the CIP's operational and financial stability; and (v) this is a project that, because of its characteristics, contributes significantly to the disbursement targets for the Bank's program in Haiti. In the case of the rest of the projects for private sector development, the pace of disbursements was affected by an unfavorable business environment. The main factors impacting the disbursement pace were: (i) limited financial information on clients; (ii) complexity of recording and enforcing collateral under a loan contract; and (iii) low confidence in terms of legal and institutional certainty for doing business. These operations involve costly and complex financial and legal structures to mitigate risks.

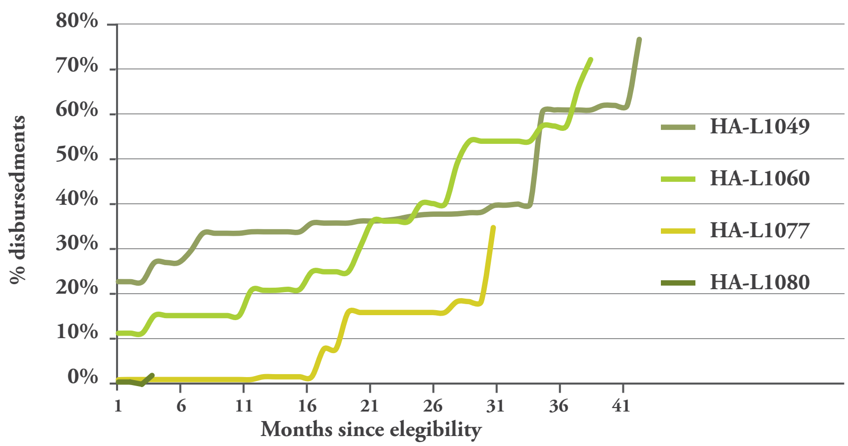
FIGURE 2.8 Disbursement curve. Private sector (2011-2015)



Source: OVE calculations based on corporate databases.

In education, the disbursement pattern appears to confirm the government's limited capacity to absorb the resources approved by the Bank within the proposed time frame. While the Bank was cognizant of the ambitious scope of the program and the execution risks, in practice the program ran up against the counterpart's limited execution capacity. Figure 2.9 shows how each project approved since 2010 has taken longer to disburse. Only one project approved since 2010 has achieved 75% disbursement. With regard to the building of schools, the limited financial, management, and supervision capacity of the construction companies and execution units to ensure compliance with quality standards led to significant execution delays.

FIGURE 2.9 Disbursement curves. Education (2010-2015)



Source: OVE calculations based on corporate databases.

The execution of operations showed an increase in disbursements but remained subject to major implementation problems. Delays and cost overruns affected the achievement of outputs and outcomes. The main factors affecting portfolio execution were both endogenous (associated with the Bank's interventions) and exogenous (associated with the country context). The former include the poor quality of designs and preinvestment studies and the logic of annual approval of operations. The latter include the limited contractor market, the volatility of input prices, and the weaknesses of the counterpart's execution units and agencies.

The poor quality of the designs and preinvestment studies impacted the cost of the works and the final scope of the outputs in some sectors, especially at the beginning of the period. The average project preparation times were shortened during the country strategy period, reflecting the urgent need to address the post-earthquake problems and swiftly approve operations.[39] This meant approving projects without final designs and with weak feasibility and socioenvironmental impact studies during the first years of strategy implementation, leading to an increase in the cost of works during execution.[40] In transportation, the works corresponding to projects approved between 2011 and 2012 were bid out in the preliminary design phase, on the premise that the contractor would update the studies. This practice resulted in delays and contributed to cost overruns in a significant number of works.[41] In education, the first 19 schools were bid out without final designs or prototypes establishing basic construction criteria. This, coupled with the limited supervision capacity of the execution unit (Fonds d'Assistance Économique et Sociale [Economic and Social Assistance Fund] (FAES)) and failure to come into line with post-earthquake building codes, led to the construction of structurally compromised schools that had to be rebuilt, with major implications in terms of unit costs.[42] The cost of the CIP project (US$256.9 million) exceeded original estimates (US$180 million) due to a quick and incomplete due diligence process with incomplete geological and hydraulic studies. This cost overrun (42%) is basically the result of civil works that were not part of the original design[43] and of flood risk reduction measures, which translated into a higher cost per m^2.[44] In water and sanitation, the technical aspects of the designs for the midsized cities program showed a certain lack of suitability to the local context, and the design of the first rural water project did not give any priority to social engineering issues in the budgets to ensure community participation and sustainability of the works.

The modality of annual approvals of successive investment projects involved executing several projects at once, with multiple contracts and higher transaction costs. In the case of transportation, several projects are carried out on a single road, giving rise to multiple contracts charged to multiple operations, which increases the Country Office's and the counterpart's workload. In education, the situation is similar.

A narrow market of contractors for the execution and supervision of works and an increase in the price of materials also led to significant cost escalation. The construction market in Haiti is limited, with little competition. Construction materials are mostly imported. These challenges became particularly evident in the post-earthquake construction phase, when significant financing flows were poured into reconstruction. In transportation, the need to advance on the investment program prompted the hiring of international companies with greater financial and technical capacity. However, the contract negotiation processes in a narrow contractor market resulted in increases over the initially agreed amounts and cost escalation of more than 30% over the initially bid amounts for works. In water and sanitation, cost overruns in the construction of works meant that several projects were unable to attain a regional scope as planned and certain activities were either eliminated or financed with other funds. In energy, the rehabilitation of Péligre has led to successive cost overruns totaling nearly US$110 million,[45] equivalent to an average cost of US$2.1 million per rehabilitated MW (compared to the original average cost estimated for the project of US$786,545 per rehabilitated MW).[46] Several agricultural projects (especially in flood protection) were forced to cut back on activities to finance cost overruns in the construction of works and changes in the scope thereof.

The limited effectiveness in managing and supervising projects at the line ministries and associated entities and the heavy workload also affected program execution. In water and sanitation, the limited administrative (procurement and financial management) capacity of the Direction Nationale de l'Eau Potable et de l'Assainissement [National Water and Sanitation Directorate] (DINEPA) gave rise to delays in implementing midsized city and rural water projects.[47] In transportation, the accelerated pace of approvals strained the absorption capacity of the central execution unit, affecting the execution of projects. In education, the pressure of the school construction program, combined with the new functions assigned by the government to the FAES related to a massive subsidy program, overwhelmed the agency's management and supervisory capacity, leading to the suspension of construction on the first 19 schools (June 2012) due to lack of compliance with the agreed-upon structural construction standards.[48] In energy, execution of the program was affected by a lack of decision-making at the apex agencies, which led to delays, and by lack of clarity regarding the roles and responsibilities of sector actors.

The Bank made an enormous effort to expedite the implementation of projects and offset the technical limitations of the executing units and agencies, devoting significant resources to institutional strengthening. In addition to increasing the staff at Headquarters and the Country Office, in accordance with approved project proposals,[49] the Bank allocated roughly US$205.7 million, as part of its 32 investment operations during the evaluation period, to institutional strengthening and capacity-building as well as to consolidate execution units with better salary conditions (Annex IX). The Bank's investments in institutional strengthening may be divided into three distinct groups of activities:

a. **Support for execution of operations.** These resources were used to create/maintain/operate project coordination units (PCUs) within the line ministries responsible for the execution of projects, with a view to mitigating the weaknesses of these agencies. A total of approximately US$78.8 million was approved for this purpose.

b. **Support for public policy implementation and institutional restructuring.** This category includes activities such as developing policy planning instruments (school mapping, road inventory, etc.), support for institutional reorganization (creation of new management and operating units, etc.), and training of technical staff inside the ministries (master's degrees, personnel training, etc.). A total of approximately US$109.7 million was approved for these activities. In addition, support was provided for the preparation of around 20 policies/laws/regulations, many of which are awaiting approval by Parliament.[50] In addition, projects included the creation of some 25 new management and operating entities inside the ministries (not including the PCUs).[51]

c. **Budgetary support for line ministries.** These resources were used to support the current expenditures of sector authorities and hire support consultants on an ongoing basis at the newly created operating and management units (procurement and financial management units at the Ministry of Agriculture, sanitation unit, etc.). In total, US$17.2 million was approved for these activities.

In practice, the operations channeled substantial funds to finance permanent consultants and supplement the salaries of officials at various government institutions. During execution, investment operations provided financing for 715 officials and consultants at the various ministries in the 2014/2015 fiscal year (primarily in water and sanitation and in agriculture) at an approximate cost of US$9.2 million that year (Annex IX).[52] These totals also include financing for personnel at some 16 PCUs that are executing over 27 active investment projects.

While these activities allowed the Bank to revitalize implementation of the projects in Haiti, they also temporarily mitigated the lack of capacity at government institutions. In the long run, the considerable amount of resources directed to these activities could affect the fiscal and operational sustainability of the institutions. In addition, the absence of a functioning parliament prevented the approval of most of the laws, creating a backlog of proposals.

3

The country strategy set the strategic objective of continuing to support sector reform and improving water and sanitation services and solid waste management. The Bank intended to invest in: (i) expansion, rehabilitation, and management of water and sanitation services in Port-au-Prince; (ii) expansion, rehabilitation, and management of the water and sanitation infrastructure in secondary cities and rural areas; and (iii) improvement of solid waste management in Port-au-Prince.

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3 Effectiveness of the IDB Program in Haiti

The country strategy's Results Matrix exhibits significant constraints in terms of accountability, due to its unrealistic strategic objectives as well as to the change in indicators and targets and the limited monitoring information for the original outcome indicators. This section analyzes the contribution of the programs/projects to the country strategy objectives in each sector. The Bank's outcomes are analyzed on the basis of the original targets approved by the IDB Board of Executive Directors under the country strategy, but consideration is also given to the new indicators and targets as reformulated starting in 2013/2014 (Annex VIII).[53] It is worth noting that the execution delays and construction cost overruns led to a gradual reduction of the initial targets. The Sector Annexes (Annexes II to VII) show an itemized list of outcomes on a project by-project basis.

A. Transportation

Support for the sector includes a program consisting of five successive operations approved on an annual basis for a total of US$273 million and a programmatic series in support of sector reform and strengthening. The country strategy objectives were aimed at: (i) improving the quality of the road infrastructure; (ii) reinforcing the sector's institutional capacity; and (iii) improving international connectivity. None of the approved investment projects [HA-L1054, HA-L1058, HA-L1079, HA-L1089, HA-L1098] has been completed; total program disbursements are in the vicinity of 55% of the approved volume.[54] The programmatic series is now in the second of the three programmed operations (HA-L1088, HA-L1099 for US$19 million); thus, the planned institutional strengthening effort has not yet been completed.

In the transportation sector, none of the outcome indicators contained in the country strategy are reported. The only reported outcome indicator is travel time for certain sections of the primary road network, which has been shortened as a result of road rehabilitation. In fact, with the RN7 intervention currently completed, it is estimated that travel by road between Les Cayes and Jérémie, which four years ago took six hours, now takes three and a half hours. Once the work is completed, the travel time is expected to decrease to less than three hours. Similarly, travel time on the RN1 between Bon Repos and Saint Marc was shortened from more than two hours to close to an hour and a half following the Bank's intervention.[55]

As of year-end 2015, in terms of road quality improvement, the primary road network, secondary network, and urban road rehabilitation did not meet the kilometer targets for 2015. As of December 2015, rehabilitation was completed on 104.2 km of primary road network, equivalent to 35% of the target established in the program Support for Haiti's Transportation Sector (HA-L1054) (301 km) and to 40% of the target as reformulated (261 km) in 2014.[56] In total, once implementation of the projects in execution has been completed, 154.4 km of primary road network will have been rehabilitated. The number of rehabilitated kilometers of secondary roads was much lower than planned, totaling only 49 km, barely 20% of the target as revised in 2014 (250 km). In the case of urban roads, 23 km were rehabilitated and an additional 2.8 km are expected to be completed in 2016, totaling 28% of the originally planned 81 km, in accordance with the target reformulated in 2014. No information is reported on the country strategy indicators for reduced vehicle operating costs per kilometer, nor on the roughness index for the highway subject to intervention.

In terms of road maintenance, although there has been no progress in terms of physical maintenance of roads, progress is being made in the area of planning. The international connectivity portfolio (ports and airports) is in the initial phase of execution. The country strategy set a target of expanding the percentage of highways with proper maintenance from an estimated 10% at the baseline (2011) to 20%. However, despite the Bank's multiple efforts to enhance planning and the maintenance management and execution capacity of the relevant agencies, as of year-end 2015 none of the rehabilitated highways was under maintenance.[57]

The sustainability of highways and other rehabilitated infrastructure faces serious difficulties arising from limited technical and financial capacity to perform proper and timely maintenance. While the Bank and the country have made efforts to move forward in this regard, the fragility of the responsible agencies and the scarcity of financial resources channeled through the Fonds d'Entretien Routier [Road Maintenance Fund] (FER) continue to jeopardize the sustainability of investments in the medium and long term.

The outcomes in improvement of institutional capacity pursued through the PBGs are being formulated and must be written into law to reduce risks. The institutional changes pursued to date are insufficient to ensure effective road management that includes road maintenance and safety. The Bank's support through PBGs and funds for institutional strengthening has made it possible to move forward in preparing reform proposals, creating specialized units inside the ministry, and developing planning instruments and operational improvements. However, the task of consolidating the institutional and regulatory changes designed to strengthen the sector institutional framework faces two challenges: (i) the political transition, impeding parliamentary approval of proposed legislation and other sector framework instruments; and (ii) the low availability of financing to ensure the presence of specialized personnel at the agencies and their operability, making it necessary for the Bank and other donors to partially finance personnel and operating expenses. As a result, the sustainability of the institutional changes pursued will depend on whether the Government of Haiti can provide the required financial resources and budgetary contributions.

B. Energy

Institutionally transforming the sector and overcoming the shortcomings of the electric utility (EDH) have been central components of the Bank's work and the action of other agencies since 2010.[58] The strategic objectives of the country strategy included: (i) modernizing the sector and enhancing the efficiency and transparency of EDH; (ii) improving electricity service coverage and quality in Port-au-Prince; and (iii) expanding electricity and energy coverage in rural areas. The executed portfolio amounted to US$179 million, 67% of which was approved during the country strategy period.[59] Two thirds of the resources were aimed at improving electric service coverage and quality in Port-au-Prince, while the remaining 40% was used in three PBG operations to modernize the sector and enhance the efficiency of EDH. The objective of expanding rural coverage was addressed through technical cooperation operations executed directly by the Bank.

In terms of outcomes, most of the programs have not been completed and the targets for 2015 have only been partially achieved. In fact, with the exception of the institutional transformation program (PBG), the projects aimed at improving service coverage and quality are in execution and it has not been possible to achieve their outcomes in a context of limited progress on institutional and regulatory change. No progress has been observed on country strategy indicators related to an increase in service coverage, or those related to the percentage of network losses. Infrastructure programs are partially completed and an increase in power generation (54 MW) is expected by 2017, well below the generation target originally set in the country strategy (200 MW). As for the indicator corresponding to EDH's cost recovery ratio, the expected progress was not made.[60] Although an increase in EDH's revenue for the 2014-2015 fiscal year was verified in the areas covered by the rehabilitated distribution circuits, this increase was not enough to offset the reduction in municipal payments to EDH discontinued by the Ministry of Finance.

With regard to the program for sector modernization and increased EDH efficiency and transparency, the outcomes achieved by the PBGs, while lower than planned, show some advances in sector governance. The main advances include: (i) approval by the

Council of Ministers of the document New Ecosystem for Electricity, which contains the policy that regulates the sector; (ii) creation of an energy unit (Cellule de l'énergie) at the Ministry of Public Works, Transportation, and Communication (MTPTC) for sector planning and monitoring purposes, although this unit was financed by the World Bank and is still too weak to perform these duties; and (iii) remittance to Parliament of a bill criminalizing electric energy theft that has yet to be submitted for discussion. In addition, support was given during the period for performing technical and financial studies and analyses of EDH's current contracts with private energy providers, model contracts were developed, and the contract renegotiation committee was given support, although no progress was made on this renegotiation.

Despite the enormous challenges that limited achievement of the sector reform objectives, the efforts promoted by the IDB and other international cooperation agencies enabled the creation of a legal body that in early 2016 succeeded in overcoming inertia and fostering a new legal framework for the sector. The country's political instability, the difficulty in achieving agreements within the government, and the lack of commitment to the proposed changes on the part of EDH were the reasons most frequently cited as impediments to the reform process. Nevertheless, three executive decrees with the force of law approved during the final phase of the Martelly administration (Gazette 23, 3 February 2016) substantially modify the institutional framework for the sector. The core components of the approved reform largely rest on the analytical work conducted by the IDB and other international cooperation agencies (white papers) and call for ending EDH's monopoly, opening up all industry activities to private sector participation, creating a regulatory agency, and reforming EDH.[61]

Strides have been made in expanding and improving the quality of electricity supply through works to rehabilitate the Péligre hydroelectric plant and the program to rehabilitate the distribution system, albeit with significant cost overruns in the case of Péligre and major delays in the case of rehabilitation of the distribution system. The rehabilitation of Péligre has been subject to significant cost overruns (close to US$110 million),[62] associated with a change in the methodology of the rehabilitation works (post-bidding process) from "emptying of the dam" to "underwater rehabilitation works" and changes in the scope of the project upon verification that the plant was in worse condition than originally thought (Annex III). By late 2015, rehabilitation work on the first 18 MW unit[63] was under way, with expected delivery in 2016 (compared with the original estimated date of completion of December 2013). The distribution system rehabilitation program began at a slow pace but, starting in 2013, the works commenced and the problems with the easements for construction of the Tabarre substation were resolved. By 2015, three of the seven initially examined circuits had been rehabilitated and 21,000 remote reading meters had been installed. The project is expected to conclude around July 2016 (compared with the original estimated date of completion of July 2012).

With regard to expanding electricity coverage in rural areas, two pilot projects financed with technical cooperation resources and implemented by the IDB were in execution by late 2015.[64] The first of these projects, a hybrid system (13 KW of solar energy and 13 KW through a diesel generator), is designed to supply energy to roughly 75 households and a microcenter comprised of nine self-employed individuals operating small businesses. The second project is a pilot system in the southwest region aimed at supporting the country's first rural electricity cooperative and providing electric service to 1,600 households in three villages using a hybrid system (250 KW of energy through diesel generators and 140 KW of solar energy). Though the country does not have a rural electrification program to direct these initiatives, the pilot projects financed and executed by the IDB are not making much of a contribution to the strategic objective of increasing rural coverage established in the country strategy.

C. Agriculture

The Bank's strategic objectives in the sector were identified in general terms: on the one hand, protect the environment and respond to climate change through flood protection; and on the other, promote food security through an increase in agricultural income. The operational program included a line of intervention that primarily contributed to the first strategic objective by promoting flood protection and agricultural intensification (40% of the portfolio), and three lines of intervention that primarily contributed to the second objective by promoting sustainable agricultural practices and technology transfer (24% of the portfolio), strengthening agricultural services (16% of the portfolio), and supporting improved land tenure (9% of the portfolio). In addition, a PBG programmatic series was approved, with institutional strengthening objectives (10% of the portfolio).

While no outcomes are reported regarding the country strategy's development indicators, the data for Haiti at the national level suggest that economic losses due to floods increased while agricultural income declined. The available data at the national level indicate a rise in total economic losses due to floods and storms (from US$102.5 million between 2000 and 2007 to US$254 million between 2007 and 2015).[65] With respect to agricultural income, the most recent survey on living conditions reports a drop in agricultural income of approximately 50% between 2007 and 2012,[66] in part due to the serious drought that has hit Haiti in recent years. There are attribution problems with both of the development indicators included in the country strategy.

The Bank's portfolio in the sector is extensive, the total disbursement level is in the vicinity of 40% (December 2015), and portfolio execution creates a significant institutional burden. Between 2011 and 2015, 14 operations were approved (US$208.2 million): 7 investment projects (US$176.5 million),[67] 2 budgetary support projects (US$30 million),[68] and 4 technical cooperation operations (US$1.7 million). The inherited portfolio consists of eight operations (US$85 million): five investment projects (US$82.9 million)[69] and three technical cooperation operations (US$2.2 million). The agriculture portfolio in the sector has accumulated significant undisbursed balances (US$126.3 million as of December 2015, accounting for 21% of all undisbursed balances in Haiti). Accordingly, most of the portfolio results for the sector correspond to the inherited portfolio. The responsibility for execution is distributed among several offices in the Ministry of Agriculture, the Comité Interministériel d'Aménagement du Territoire [Interministerial Committee for Land-use Planning] (CIAT), and the Ministry of Environment. Nevertheless, the high number of operations creates a significant institutional burden. The IDB has channeled significant resources to shore up capacity at the Ministry of Agriculture.

Progress in the area of environmental protection and climate change response mainly consisted of the construction of infrastructure for flood protection and an increase in the area of irrigable land. Both the Ennery Quinte Project (HA-L1009) and the Natural Disaster Mitigation Program (NDMP) (HA-L1041) achieved their targets for the construction of protective infrastructure and carried out the majority of their watershed management activities. While there is no empirical evidence for measuring the impact of these operations on the original country strategy indicator of 50% reduction in losses from flooding in all targeted watersheds (Artibonite, Grande Rivière du Nord, Ravine du Sud, and Cavaillon), the ex post economic evaluation performed under the NDMP estimates that the four large protection works built under the project in the Artibonite and Cavaillon watersheds will prevent annual economic losses of US$10.9 million.[70] On the other hand, the early warning program (HA-L1005) did not succeed in establishing a permanent warning system due to the complexity of the solution that was used and insufficient institutional ownership of it by the government.

The Bank sought to promote food security and higher agricultural income through activities in all lines of intervention, with partial outcomes. In terms of flood protection, it is estimated that the small infrastructure works built under the NDMP (HA-L1041) in the upper portions of the watersheds of Grande Rivière du Nord, Ravine du Sud, and Cavaillon allowed the beneficiary parcels to have an average differential in the gross added value per hectare of G 70,057 (associated with an increase in arable land with higher-yield crops and greater fertility of upstream land), which roughly corresponds to 50% of the average monthly income of rural households engaged in the primary sector. In agricultural services, the most recent interventions under the Technology Transfer to Small Farmers Program (TTSFP) (HA-L1059) to strengthen the national seed service and the Land Tenure Security Program in Rural Areas (HA-L1056) are reporting early progress (Annex V). However, on the other hand, the Rural Supply Chain Development Program (HA-L1003) had limited outcomes in promoting agricultural research, and the outcomes of some technology packages of Ennery-Quinte (HA-L1009) aimed at increasing certain crop yields were not sustainable given producers' inability to continue buying inputs after the project. Moreover, while the NDMP and the TTSFP distributed coupons to 27,378 producers to favor the adoption of technology packages, the preliminary results of the evaluations suggest that the TTSFP supplier support system does not function sustainably in all regions, and that there is no evidence thus far of a positive impact on crop yields (particularly annual crops). The sustainability of the agricultural practices promoted by these programs will also depend on their financial feasibility and producer access to farm credit.

The PBG reinforced all of the Bank's lines of intervention in the sector, showing a high degree of complementarity with the investment portfolio and a fluid sector policy dialogue. However, the success of the reforms will depend on the approval, implementation, and regulation of the laws called for in the third phase of the program. The main advances made through the PBG were: (i) creation of a temporary health unit and approval by the Ministry of Agriculture, Natural Resources, and Rural Development of a work plan and a strategic plan to modernize the agricultural health services; (ii) development of a methodology framework for a national registry of producers and development of a strategy for transitioning from subsidy mechanisms to agricultural inputs; (iii) formation of an interministerial monitoring committee for water management in the Péligre dam; (iv) creation of a single procurement unit at the Ministry of Agriculture, Natural Resources, and Rural Development to streamline the investment portfolio; and (v) support for the creation of a national research agency (FONRED). The programmatic series was designed so as to leave the more extensive reforms to the second and third operations in the series. Accordingly, the conditions of the third grant in the series include a set of proposed laws in five subsectors (plant and animal health, irrigation, research, institutional framework, and land tenure) that are considered important for moving forward on the reform, including: (i) a law to convert the temporary health unit into an autonomous governmental agency; (ii) a new organic law to modernize the ministry and other proposed legislation on the legal status of producers; (iii) the transfer of irrigation perimeters to user associations; (iv) the establishment of FONRED and a financing mechanism for research; and (v) land tenure. If the third operation and the proposed legislation are not approved, the reform process would remain incomplete. Furthermore, the majority of the entities created under the PBGs are being financed by donors, and this poses a sustainability risk.

D. Education

The country strategy echoed the Government of Haiti's commitment to foster a comprehensive reform of the educational sector by providing free and universal access to education financed by the public sector. The Bank program was built on four pillars to which all approved operations were to contribute. The first pillar, school infrastructure, included an original plan to build/rebuild 200 public schools. This target was reduced to 92 schools in the 2014 PMR (Annex VIII) and the new target is now expected to be 97 schools.[71] The second pillar, improvement in the quality of education, includes the Bank's commitment to support curriculum reform, teacher training, and development and implementation of early childhood policies, among other things. The third pillar, vocational training, was introduced in the second operation but was discontinued following the midterm evaluation (2013). The fourth pillar, governance, includes considerable resources for institutional strengthening, with an emphasis on strengthening the Ministry of Education (MENFP) to improve its capacity to set policy and supervise the sector. Most of the country strategy's outcome indicators have not been measured[72] and the overall indicators of the education sector have not shown any significant advances in recent years. The sector's reform as such has not progressed, and the Government of Haiti has been unable to leverage resources to finance a program of free education.

Projects faced major delays in execution. The portfolio was partially restructured following a midterm evaluation performed in 2013. Starting in 2010, the Bank approved a program that includes four investment operations and six technical cooperation operations for a total of US$175 million. In addition, the Bank approved US$43.8 million in cofinancing.[73] As previously mentioned, the midterm evaluation performed in 2013 underscored the need to adapt the originally proposed financial commitment (US$250 million) to the institutional and absorption capacity of the sector. In addition, the implementation delays and strategic decisions of the division prompted a slower pace of approvals and a reduction in the amount of the operations.

In terms of improvements in access, the outcomes achieved by building schools have been limited so far, while the tuition waiver program has seen better progress. Adding up the resources of the four operations, the Bank approved more than US$75 million for building schools. With these resources, it is expected that approximately 97 schools (out of an original target of 200) would be built, for the most part replacing existing schools that were operating in substandard structures. As of December 2015, only six schools were completed and operating. An additional 66 schools were at various stages of construction, while for the remaining 25 schools, the bidding process had been completed. The Bank approved US$26 million for the tuition waiver program (*Education pour tous* [Education for all] (EPT)), and in the 2014-2015 school year, subsidies were issued to 162 schools.[74] Despite the lack of clarity surrounding the school selection criteria for participation in the program,[75] this intervention achieved its objectives in terms of higher enrollment rates, with a relatively low student-teacher ratio (40 students per teacher) and a reduction in grade repetition and over-age students (World Bank, 2015). These gains are subject to the schools maintaining a certain level of quality and monitoring the children who participate in the program. However, the ministry does not have disaggregated information on the beneficiaries at each of the schools. Lastly, the evaluation (2014) on the school kit distribution confirmed that although the school kit delivery targets were met and exceeded, there were a number of problems, noting that "the quantities received at some schools have often been insufficient" and citing the "quality of the backpacks," and the fact that "some schools rejected the school uniforms because they did not comply with ministry standards."

Outcomes in terms of quality have also been limited so far. In its various projects, the Bank included several activities aimed at helping to improve the quality of education (Table 3.2, Annex VII). One of the main activities was teacher training, as called for in the first operation (HA-L1049). According to the evaluation from 2014,[76] improvements have been observed in areas such as class planning and presentation, use of distributed materials, and student-teacher interactions at the schools where teachers received training. The evaluation also emphasizes the need to measure improvements in teaching and learning among students. According to the specialists, the principal challenge for this pillar has been the constant change in the sector's leadership.

With regard to vocational training, the Bank decided to withdraw from the sector following the completion of activities planned for the operation approved in 2011. The Bank's program had planned to improve the opportunities for technical and vocational training for more than 1,000 young people per year. However, only the second operation (HA-L1060, approved in 2011) included a US$8.2 million component for this pillar. The component was subject to significant delays and problems associated with a disconnect between the business community and the Institut National de Formation Professionnelle [National Vocational Training Institute].[77] Following the recommendation of the midterm evaluation (2013), the Bank partially withdrew from the sector to focus the portfolio on a smaller number of priorities, ceding its leadership in this subsector to other donors.[78]

Significant strides have been made in the governance pillar, and instruments developed for policy planning and decision-making are beginning to be used. The main outputs achieved with support from the Bank and other donors are: (i) school census and mapping; (ii) launch of thematic working groups; (iii) transfer of financial and human resources to support the ministry (MENFP); (iv) development of early childhood and health subsector policies in schools; (v) implementation of the Office National de Partenariat en Éducation [National Education Partnership Office]; and (vi) the implementation of national reading and mathematics evaluations. However, problems in compiling information led to a significant delay of the initiatives aimed at enhancing the sector's regulatory and supervisory capacity. In addition, although the IDB and the Government of Haiti have made targeted use of the educational census and school mapping instruments for activities such as grade-level testing (4th grade) for 2015 and 2016 and the distribution by MENFP of provisional accreditations for teachers, the potentialities of these instruments have not been fully maximized for policy formulation purposes in the sector.

E. Water and sanitation

The country strategy set the strategic objective of continuing to support sector reform and improving water and sanitation services and solid waste management. The Bank intended to invest in: (i) expansion, rehabilitation, and management of water and sanitation services in Port-au-Prince; (ii) expansion, rehabilitation, and management of the water and sanitation infrastructure in secondary cities and rural areas; and (iii) improvement of solid waste management in Port-au-Prince. Between 2011 and 2015, US$69.5 million was approved, plus cofinancing from the Spanish Agency for International Development Cooperation (AECID) for US$14 million.[79] Of these resources, 84% went to increase service coverage and improve service management, with a particular emphasis on Port au-Prince; 16% went to support institutional reform of the sector (PBG); and the remaining 1% went to solid waste management. The evaluation includes operations previously approved and partially executed during the country strategy period, for a total of US$185 million. These operations are further along in execution, and the reporting on outcomes is based on the information available for them.[80]

The water and sanitation program for Port-au-Prince has posted limited advances in expanding drinking water coverage and incipient improvements in the financial performance of the operator. The country strategy's original target called for a 15% increase in drinking water coverage in Port-au-Prince. In total, it is estimated that the first project (HA-L1044/HA-X1021), with 85% disbursement, expanded drinking water coverage by 5,206 households through new connections (compared to an original target of 10,000 households and a revised target of 2,793 in the 2014 progress report), and that the second project (HA-L1075), with 15% disbursement, provided rehabilitated connections for an additional 1,728 households, totaling 6,934 households from both operations (an impact of approximately 5% of the estimated coverage in Port-au-Prince for 2012). Sanitation activities did not achieve outcomes and their respective targets were eliminated.[81] Improvements from the 2010 baseline to the 2015 levels were identified in the operators' cost recovery indicators and other commercial indicators. However, in several cases, these improvements slowed down or were even reversed starting in 2012, leaving many indicators far from the targets.[82]

The outcomes in terms of institutional strengthening of the Port-au-Prince operator, obtained through an operational technical assistance contract, were not sufficient to meet the objectives. Twenty percent of the resources for investment operations in Port-au-Prince financed the contracting of an international operator to provide comprehensive assistance in operating the services and enhance the operational and management capacity of the operator (Centre Technique d'Exploitation [urban water utility] (CTE)). The first operational technical assistance contract has been performed, while the second one is in execution. In terms of outcomes, the Port-au-Prince CTE is not yet providing water and sanitation services on a sustainable basis and only two of the six performance targets included in the contract have been partially achieved (Box 4.1 Annex VI). Despite this, there has been progress in some key areas of operation, enabling an increase in average hours of water supply, as well as in amounts collected, organization of the CTE, and the plan for key investments.

The midsized cities program has obtained outcomes that exceed the water coverage targets, but with limited advances in sanitation and with operational results that vary from one city to another. With 81% disbursed, the program's targets (HA-L1039/HA-X1013) in terms of household access to "improved" water have been met, although the collective access targets are lagging. In total, it is estimated that the program has expanded access to "improved" water by 28,114 households,[83] which is equivalent to an increase in coverage of approximately 45% in relation to the estimated coverage for the five cities in 2010, thus exceeding the 30% target under the country strategy. Sanitation activities have been limited to building nine bathroom facilities in schools and conducting some awareness campaigns.[84] Regarding advances in management by the operators, the five CTEs are set up and running, with good management performance and cost recovery being reported in Port de Paix and Jacmel, results are still early in Ouanaminthe and Les Cayes, and performance is poor in Saint Marc.

The rural water program met its beneficiary targets but did not achieve its coverage targets. With 100% disbursed for the first operation (HA-L1007) and 80% for the second operation (HA-X1014), and despite the fact that the target number of beneficiaries of "improved" water was met,[85] progress in terms of coverage (35,537 households) is equivalent to a 7% increase in estimated improved water coverage in the rural areas of the country by 2015 (compared to a target of 14% under the country strategy). In addition, the final project report indicates that only a fraction of the population served receives an "adequate" supply of drinking water due to limitations in the availability of water resources, weaknesses in the physical condition of the works, lack of maintenance, and low financial sustainability of operators. In terms of sanitation,[86] it is worth noting that the service provided by the project through collective solutions cannot be considered "improved access" to sanitation. Furthermore, limited public awareness activities restricted the use of these solutions, making them inoperable.

The PBG is in its initial phase and only the first operation of the programmatic series has been approved, making it impossible at this stage to evaluate the intervention as a whole. However, the success of this intervention will hinge on the viability of the planned institutional framework. From the outset, the sector reform process was vigorously promoted by the Bank through support for the design of a framework law for the sector (included in operation HA0014 of 1998). Almost twenty years after the institutional structure was first proposed under this law, building it continues to require continuous external support in order to make it sustainable. The sector structure that was promoted, with multiple decision-making levels and high salary expenses, means a significant institutional and salary burden for the sector and financing it seems unrealistic given the sector's endemic financing gaps.

F. Private sector development

Private sector development took on particular importance in the 2011-2015 country strategy, unlike the case in previous strategies. During the period under evaluation, the IDB Group (NSG and SG) approved operations for private sector development for US$327 million: US$292 million in SG operations, US$7 million in NSG operations, US$11 million from the IIC, and US$16 million from the MIF, adding up to a significant increase with respect to the preceding period.[87] The country strategy proposed a broad strategic objective focused on "promot[ing] private investment to create jobs, achieve medium-term sustainable growth and reduce long-term poverty." The expected outcomes were identified at three strategic levels: (i) creation of a business environment conducive to investment and entrepreneurship; (ii) increase in SME investment through access to financing, business development services, and training; and (iii) creation of new SMEs and jobs through the development of productive clusters, particularly construction of the CIP.[88]

The country strategy Results Matrix set ambitious targets that would be hard to attribute to the Bank's actions, such as increasing foreign direct investment and credit for the private sector, which were not achieved. As indicated in the chapter on country context, progress on improving the local business environment has been very limited, and the environment has in some respects deteriorated. In combination with the political uncertainty of 2015-2016, this had a major impact on private activity. Foreign direct investment flows for 2015, highly volatile in Haiti due to the small number of annual transactions, declined in comparison to 2010 levels. While no accurate information is available on SME access to credit, there has been no increase in credit to the private sector.

Of the three strategic levels, the majority of the resources approved during the period were for building the CIP. Approximately 80% of the public window resources approved for development of the private sector in Haiti went to finance infrastructure and expenses associated with the CIP (HA-L1055, HA-L1076, HA-L1081, HA-L1101, HA-X1036 for US$256.8 million), along with the associated technical cooperation operations (for US$4.3 million).[89] With regard to the creation of a favorable business environment, the Bank played a limited role, focused primarily on supporting the investment promotion agency (HA-L1078 for US$17.5 million). The rest of the public window resources went to promoting SME formalization, growth, and credit access (HA-L1057 and HA-L1068 for US$14.5 million).[90]

At the project level, the CIP program is the one that has achieved the greatest progress. With more than 78% of the resources disbursed, the CIP has made strides in developing a high-quality infrastructure and creating jobs, overcoming the contextual challenges. The CIP is now a functioning industrial park, with a basic infrastructure consisting of 113,500 m^2 of industrial warehouses (compared to the initially contemplated 238,250 m^2). The Korean company SAE-A has been the anchor tenant since the park's inception and is using 4 of the 12 industrial facilities planned for its use. In addition, the CIP has five other tenants. The infrastructure is first-rate and has a reliable supply of public services. The six companies set up at the CIP are creating close to 8,000 direct jobs. Park employees have (i) a formal job; (ii) a minimum salary, which nevertheless generally exceeds the salaries associated with the job opportunities available in the region; (iii) benefits; and (iv) skills training. The Bank has successfully navigated a complex business environment for large infrastructure projects in the country's north, where a project of this scale had never before been carried out.

However, the outcomes are below expectations in terms of job creation, the cost per job position is relatively high, and the program has failed to generate more interest in potential tenants for the CIP. According to the initial operation (HA-L1050, 2011), it was expected that, by year-end 2015, the park would have created close to 23,500 jobs (the initial target under the country strategy was 50,000 jobs by 2015[91] and the target as revised in 2014 is 18,143 jobs) and have a payroll of roughly US$23.3 million and an operating income of US$5.4 million. By year-end 2015, the park had created approximately 8,000 direct jobs and had a payroll of roughly US$16 million and US$1.8 million in earnings (30% of which from transportation services). The cost per job created by the CIP appears to be particularly high. According to the initial estimates and without taking the time value of money into account, each job created by the CIP has a cost of close to US$11,600, which is equivalent to approximately eight years of minimum salary in Haiti.[92] Moreover, the majority of jobs (90%) have been created by a single tenant, the Korean company SAE-A which occupies 80% of the industrial area of the park. The interest of potential clients in the park was initially overestimated: as of 2015, only two companies (SAE-A and Peintures Caraibes) in the list of 11 potential tenants included in the first program became park tenants. Most of the park's other tenants do not appear to be the best option of company for the park's purpose, having a limited impact in terms of job creation.[93]

Several factors threaten the CIP's competitiveness and sustainability in the long term: (i) the absence of a reliable port in the vicinity of the park, forcing the use of the port in the Dominican Republic; (ii) the high costs of transportation from urban areas to the park; (iii) the limited supply of skilled labor suited to the business in the region; and (iv) the CIP development model, based on financial and fiscal incentives to attract tenants.[94] These incentives have been acknowledged as critical obstacles to the success of "special economic zones" such as that of the CIP.[95]

Projects that support the business environment and business development have had significant implementation delays, low disbursement levels, and limited progress. The project with the Centre de Facilitation des Investissements [Center for Investment Facilitation] (CFI) (HA-L1078) made limited progress (40% disbursement) in terms of institutional support and policies aimed at addressing the primary identified obstacles to improving investment promotion.[96] The projects for SME support (HA-L1057 for business development services and HA-L1068 for micro-parks), with 30% disbursement, have also not shown significant advances to date, and the pilot nature of the interventions limits their impact to the extent that these initiatives fail to include a clear scalability strategy or demonstration effect.[97]

Operations under the private sector window (OMJ and SCF) were affected by the credit quality of the clients, loan prepayments, and delays in processing operations, and did not achieve the expected outcomes. One loan took more than four years to be approved and disbursed. This led the company to finance the planned expansion project with other resources and use the Bank's resources (disbursed in late 2015) to refinance this debt. In the case of another operation, the loan was prepaid when less than half the initial term had been completed. Lastly, a third operation was classified under Special Assets as a result of payment delays. The outcomes of the IIC projects are summarized in the Sector Note (Annex IV).

The 2011-2015 evaluation period was characterized by major changes in the government that affected implementation of the IDB's program. Also, Haiti remains in a state of extreme institutional fragility and social and economic vulnerability.

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4 Conclusions and Recommendations

The 2011-2015 evaluation period was characterized by major changes in the government that affected implementation of the IDB's program. Also, Haiti remains in a state of extreme institutional fragility and social and economic vulnerability. While the reconstruction efforts following the 2010 earthquake and the significant amounts of external financing provided a powerful boost to economic growth, it is clear that the post-disaster and reconstruction stage, including the considerable flows of financial aid from the international community, is coming to an end. Yet the structural problems that characterize Haiti as a fragile state have not been resolved. Instead, there has been a deterioration of the country's macroeconomic and fiscal conditions, political governance, and social conditions,[98] jeopardizing the construction of a true social contract. Local institutional capacity remains limited, with high turnover in the civil service. The decline in economic growth and fiscal revenues strains the sustainability of public finance. The decrease in concessional resources underscores the importance of mobilizing domestic resources and both managing and using them more efficiently. The limitations associated with governmental efficiency and the quality of institutions threaten the functioning of the State. These factors translate into a difficult context for interventions in the short and medium term.

Moreover, Haiti is in a period of political transition following the end of the presidential term and the installation of a provisional government (February 2016), which is expected to hold new presidential elections in October 2016, with a new administration to take office in February 2017. Against a backdrop of economic slowdown and local currency depreciation, this political situation aggravates the country's already fragile condition.

The 2011-2015 country strategy was approved in November 2011 in response to the IDB-9 mandate, which included the commitment to transfer an unprecedented amount of concessional resources to the country by means of a grant portfolio. Partly as a result of the pressure of the IDB-9 commitments, the Bank designed and implemented an ambitious strategy, anchored in Management's decision to approve and disburse US$200 million on an annual basis.[99] OVE believes that this strategic approach did not sufficiently take into account the challenges associated with Haiti's fragility and the country's limited institutional and absorption capacity. The country strategy proposed unrealistic objectives and targets that did not seem to recognize the need to adapt the Bank's action to the actual circumstances of a fragile country in a post-disaster context, particularly the Haitian government's limited strategic planning, management, and implementation capacity. The sectoral program did not appear to sufficiently take into account the crosscutting issues regarding the operational, fiscal, and institutional sustainability of the program.[100] As a result, the Bank ended up financing an oversized operational program in relation to the country's institutional and absorption capacities.

Faced with the challenge of executing an oversized operational program in a difficult intervention context, the Bank staff made substantial efforts to expedite the implementation of its program and invested significant resources to make up for the institutional limitations of the counterpart. During the evaluation period, the Bank doubled the volume of approvals and tripled the volume of disbursements. This was achieved thanks in part to an increase in staff at Headquarters and in the Country Office assigned to the Haiti program and in part to an investment of significant resources to strengthen governmental capabilities and assist the officials and consultants who were performing ongoing work in support of project implementation, fostering continuous dialogue with the local counterparts. The Bank invested significant resources to support the project execution units, promote the development of public policies, and shore up institutional restructuring processes. In particular, the Bank is financing current expenditures at several ministries and governmental agencies, which translates into a significant annual expense that is being financed with the resources of the operations. While Haiti's particular situation may have justified this type of financial support in an initial phase, these resources and structures create asymmetries at the governmental agencies, as well as fiscal sustainability risks, and so a clear exit strategy is needed.

Despite these efforts, the Bank's program was faced not only with the country's structural constraints but also with the problems related to the planning of operations in the post-earthquake context. Most of the operations were affected by structural constraints resulting from the limited management and execution capacity of the government agencies, the volatility of the political leadership at the level of line ministries, and the limitations of the business environment. The operations also faced conceptualization and design problems associated, in part, with the speed of preparation times in the post-earthquake context. These problems created implementation difficulties and delays that in turn led to significant cost overruns. In addition, given the limited information on markets and prices, the cost-benefit analyses of the interventions were not very realistic. These problems restricted the scope of the works and the outcomes.

Given this context, the outcomes of the country strategy were limited, particularly with regard to the initially proposed targets, with challenges in terms of the operational and financial sustainability of the investments. With considerable differences from sector to sector, the investment portfolio made good progress on the infrastructure works but did not achieve the initially proposed coverage and expansion targets. In the medium term, the investment operations face operational and financial sustainability risks. For their part, the PBG operations served to support a policy dialogue at a sectoral level but encompassed incomplete reform processes and the budgetary support was not linked to centralized planning. The institutional reforms supported by the Bank at various ministries helped to identify and promote new pillars of sectoral reform as well as to expand sectoral dialogue. However, the PBGs were carried out independently in each sector, without any centralized planning from the national government and without integrating the financial flows into the national budget. The PBGs fostered the conceptualization of an extensive body of legislation that largely continues to await approval by Parliament, which has not functioned properly since 2012. Furthermore, the new institutional structures created under the program have not been accompanied by the budgetary allocations needed to ensure their proper functioning and foster genuine institutional development.

In view of this context, OVE considers that the Bank's new country strategy with Haiti for the five remaining years of the IDB-9 mandate cannot be a business-as-usual strategy. The future strategy should allow the Bank to position itself as a true partner for development focusing on solutions to the country's structural problems. The current period of political transition and Management's decision to refrain from approving new operations provide an opportunity to redimension the program to reflect the country's real execution and institutional capacity, in line with the recommendations made by OVE in previous evaluations (Box 3.1). OVE also feels that the Bank needs to consolidate its portfolio so as to show tangible results at the conclusion of the IDB-9 mandate and achieve them on a cost-effective basis. Thus, OVE recommends for the Bank to:

1. Set the next country strategy in realistic terms, focusing on building the country's long-term institutional capacity. The strategy needs to incorporate diagnostic components that can identify the fragility of the Haitian State and the absorption capacity of its institutions, and promote progressive action to develop internal institutional capacity and make government agencies accountable. In addition, the objectives and targets should be set on the basis of this capacity and be measurable so as to favor accountability.

2. Initiate a process with the Government of Haiti to integrate the Bank's resources into the national general budget, supporting the Government of Haiti in consolidating this budget. This would align the incentives and reinforce the role of the central government (through the Ministry of Finance) in the strategic management of budgetary support and investment resources, putting the IDB in a leading position with regard to other donors. In addition, the Government of Haiti should be equipped with ongoing fiscal management and public policy execution capabilities, strengthening ownership of the program and its sustainability. To this end, the IDB should also provide support to the Government of Haiti to strengthen mechanisms for accountability and transparency in the use of public resources.

3. Prepare an exit strategy for financing permanent officials/consultants in the government institutions. This strategy would require the use of fiscal resources to finance the operating capacity of the ministries and government agencies and would help to ensure the sustainability of interventions in the medium term. To this end, the IDB should also provide support to the Government of Haiti to move forward with organizational reforms and improvements in human resources management in the civil service.

4. Review and consolidate the current investment portfolio using a cost-effective approach aimed at sequencing the interventions so as to strengthen the sustainability of the Bank's portfolio outcomes. The IDB should rationalize the portfolio, prioritizing interventions based on a realistic cost benefit analysis and combining operations based on common strategic objectives. It should proceed with new operations only when there is evidence of significant progress on the existing portfolio and when the institutional capacity is shown to be sufficient to undertake a new commitment effectively.

5. Target the use of sovereign-guaranteed resources to improving the business climate in order to facilitate private sector activity. Resources from the public sector window should be keyed to the fundamental mission of supporting initiatives likely to improve the business climate in Haiti. The IDB could also explore new ways of supporting private sector initiatives through structuring and financing mechanisms that reduce the risk associated with such initiatives.

[1] The Haitian authorities have estimated that the earthquake was responsible for more than 200,000 deaths and the displacement of more than one million people. The Post-disaster Needs Assessment (PDNA) estimated the damages and losses associated with the earthquake at more than US$7.900 billion (equivalent to 120% of GDP) and the total recovery needs at US$11.500 billion.

[2] In 2013-2014, the agricultural sector accounted for 23% of GDP, compared to 36% in 1993-1994. The low productivity of the sector reflects challenges associated with the inadequate quality of the infrastructure, limited legal certainty regarding land tenure, limited institutional capacity, and public expenditures aimed at subsidizing the supply of inputs, with scant investment in public goods (Annex V).

[3] Petrocaribe is an initiative of the Government of Venezuela that allows Caribbean countries to buy Venezuelan oil on preferential payment terms and to finance debt.

[4] The public investment program consists of projects that are neither fully evaluated nor prioritized. See (World Bank, 2015): "Haiti, Towards a New Narrative: System Country Diagnostic".

[5] As a simple average, the manufacturing sector's contribution to GDP growth rose from 2% in the 2006-2009 period to 3.8% in the 2012-2015 period. See Annex I, Table I.1.

[6] Although Haiti has been filling a larger share of its quotas in recent years, according to the association of Haitian industrialists, the country is currently using close to 25% of the total quotas under the Tariff Preference Levels. With an annual growth rate of 8% in exported square meters, the quotas would not be filled until 2035.

[7] The preferences are contained in the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) legislation approved in December 2006. This legislation was expanded / extended (to 2018) through the HOPE II Act of October 2008. After the earthquake, it was once again expanded / extended (to 2020) through the Haiti Economic Lift Program (HELP) of April 2010. In June 2015, the terms of preferential access were extended to 2025.

[8] The average is 4.4% of GDP in low-income countries and 3.5% of GDP in the rest of the region.

[9] Following a fiscal surplus of 2.2% in 2010, the deficit was 3.6% in 2011, 4.8% in 2012, 7.1% in 2013, 6.4% in 2014, and 2.5% in 2015 (most recent available data).

[10] Between May 2011 and September 2014, Petrocaribe committed a total of US$1.200 billion which financed 234 public projects, with a disbursement of US$960 million.

[11] The changes in revenues reflect the efforts expended over the past 10 years to strengthen fiscal policy and policy management. These efforts were supported by the International Monetary Fund (IMF) and other donors, such as the IDB and the World Bank (Box 3 – Annex I).

[12] Half of these transfers are meant to cover the losses of Electricité d'Haïti (EDH). EDH losses are equivalent to 2.5% of GDP (2014). Government transfers are 1.6% of GDP.

[13] In 2001, the poverty and extreme poverty rates were roughly 76% and 56% respectively. These rates are not comparable to the 2012 rates because they are based on the number of people who are below the international thresholds of US$2/day (poverty) and US$1/day (extreme poverty) (PPP). The 2012 rate is based on a methodology that measures the cost of basic needs, which was estimated at 81.7 gourdes (G), equivalent to US$2.41 using the 2005 PPP conversion.

[14] The coverage rate in urban areas fell due to rapid population growth and a deterioration in water and sanitation services caused by lack of public investment (Annex VI).

[15] The capacity of States to deliver goods and services to society is a key factor that affects the welfare of the population. State weakness in performing this function can lead to a loss of legitimacy, a dysfunctional government, an institutional collapse, or a breakdown of the social contract.

[16] Both in health and in education, expenditures are skewed to cover administrative expenses instead of "front-line" personnel expenses (medical staff and teachers), and allocations for medical supplies and teaching materials are very limited.

Notes

17 At a global and regional level, Haiti continues to have low indicators in terms of road quality (135th place) and coverage of the basic network and logistical infrastructure (144th place, the second lowest in the region). As a result of insufficient maintenance and lack of investment, only half of the country's 950 km of primary road network is in good condition (22% in the case of the secondary network). The government does not have sufficient resources to carry out maintenance tasks. Haiti has limited maritime and air transportation connectivity: the country is in 124th place in ports and in 127th place in airports at a global level. The average of road accidents is the highest in the region.

18 In Doing Business 2016, Haiti is given a score of 0 (on a scale from 0 to 8) in the reliability of energy supply and transparency of tariffs index. The score for Latin America and the Caribbean is 4. Haiti has the lowest electricity use and coverage in the region. Dependence on biomass, particularly in rural areas, strains already scarce natural resources. Rates are particularly high: in 2014, the effective average rate was US$0.29/kWh as compared to a mean of US$0.194/kWh for Latin America and the Caribbean.

19 In the 2016 edition of Doing Business, Haiti places 182nd (out of 189 countries).

20 The Global Competitiveness Report 2014-2015 classifies property rights as the weakest aspect of the institutional arrangements for the country's competitiveness (143th place out of 144).

21 In Haiti, credit to the private sector as a proportion of GDP is a mere 20%, compared to 49% in the region and 31% in low-income countries (World Bank, 2015).

22 The IDB Board of Executive Directors agreed to convert all undisbursed volumes of active Fund for Special Operations (FSO) loans with Haiti to grants in September 2010 pursuant to Resolution DE 109/10. In October 2010, an amendatory contract was signed to convert the undisbursed balances of 18 FSO loans (totaling US$143.7 million) to nonreimbursable financing under the IDB Grant Facility (GRF) (LEG/SGO/HA-35308807-10).

23 For example, in education, it proposed an overhaul of the education system with objectives that included improvements at all levels of education—early childhood development, primary school, secondary school, tertiary or vocational school, and university—as well as improvements in governance and policy reform. In transportation, it also proposed interventions throughout the road network (primary, secondary, and tertiary).

24 The Bank supported policy reform processes at the sector level but did not prioritize specific institutional rebuilding activities of a crosscutting nature, such as democratic governance, strengthening of central administration and local government capacities, and public administration reform.

25 Of the 38 original outcome indicators and corresponding targets included in the country strategy results matrix, only 4 indicators were included in the revised 2014 matrix: 12 indicators were completely replaced, 11 had the unit of measure changed, and 3 were eliminated. Most of the indicators had their targets changed with respect to the country strategy. Annex VIII shows the targets reported in the progress reports from 2013 to 2016. In the majority of the cases, and where information was available, OVE used the reformulated indicators and targets from 2014, in addition to the country strategy indicators and targets, to evaluate the progress achieved with the interventions. The 2016 progress report presents the targets included in the PMRs, which do not correspond with the previous reports.

26 The inherited portfolio includes all operations that at 1 January 2011 had an undisbursed balance of more than 50% of the originally approved amount. It totals 103 operations in the aggregate amount of US$1.753 billion.

27 Petrocaribe was on a par with the Bank, but with concessional loans.

28 At the start, this repositioning of the Bank as the main financing agent in certain sectors created some conflicts. However, donor coordination issues have been improving through the Bank's participation and leadership in sector roundtables.

29 This suggests that the level of cofinancing of the approved portfolio in 2010 (US$0.37 for every dollar approved) was exceptional and that cofinancing has returned to pre-earthquake levels.

[30] In contrast, the previous Bank program (2007-2009) approved almost one third of its resources in (crosscutting) institutional strengthening, followed by transportation (18%), agriculture (18%), water and sanitation (10%), education (10%), private sector (9%), and energy (8%).

[31] The technical cooperation program, meanwhile, accounted for 6% of the portfolio. The approved technical cooperation program (2011–2015) totaled US$71.6 million (60 operations). Half of the operations were financed with Ordinary Capital and the other half with funds administered by the Bank, including cofinancing. Half of the operations (30) were to support project preparation or execution, 18 were for pilot project and reconstruction activities, and the rest were for travel / knowledge sharing and action plans for Group C and D countries.

[32] For example, there were four agriculture ministers and two environmental ministers between December 2014 and December 2015.

[33] In a country with high credit risk, investment officers face major limitations that restrict the type of agreement that is "acceptable" from the viewpoint of risk and require costly legal and financial structures to render operations "bankable."

[34] In April 2016, a midterm performance review of the Country Department Haiti (CDH) (document PP 735) was presented to the Board of Executive Directors, in which the recommendation was made to reintegrate the CDH into the Country Department Caribbean Group (CCB) and reestablish the Representative based in Haiti. Unfortunately, the review was not exhaustive, nor did it compare the costs and benefits of having a permanent structure to support the Haiti program.

[35] Sixteen new positions at Headquarters and transfer of the management line from the CCB's Country Office in Haiti to the new CDH.

[36] These undisbursed balances are relatively low with respect to other countries, especially in relation to the size of the portfolio.

[37] In 2016, the IDB Governors approved a proposal to optimize the transfer of Ordinary Capital resources to the Grant Facility by creating a reserve fund and a conditional disbursement clause (document GN-2442-50).

[38] The (operating and nonoperating) expenses went from US$7.6 million (2011) to US$12.5 million (2014).

[39] The average time from pipeline to approval was 9.2 months for projects approved between 2011 and 2015, compared to 17.6 months for projects approved between 2005 and 2009 (and only 1.6 months for projects approved in 2010). The time from approval to eligibility (8.2 months) was also shorter in comparison to the preceding period (11 months), while for projects approved in 2010 it was only 3.2 months.

[40] This despite the fact that the preparation costs increased from US$5,958 (2005-2009) to US$7,058 (2011-2015) for every dollar approved and execution costs went from US$13,997 to US$16,308 for every dollar disbursed.

[41] Including the operation for the rehabilitation of the Les Cayes-Jérémie (RN7), approved prior to the country strategy, and the Bon Repos-Saint Marc (RN1), and Croix des Bouquets-Fond Parisien (RN8) highways. In 2013, works with final designs, cost-benefit evaluations (HDM), and social and environmental considerations started to be bid out.

[42] The estimated cost was US$300,000 per school, while the average cost of the schools built to date is approximately US$1 million. Starting in 2014, final designs have been required for all schools prior to initiating works, and construction prototypes were subsequently introduced that are being used in the rest of the schools.

[43] The additional works included the first water treatment plant and lines (residential and industrial) and construction of additional works such as *Eglise Baptiste de Lombard,* 7.5 km of bicycle lanes, bus parking, and a hazardous waste drop-off facilitly.

[44] The cost per m^2 was estimated at US$150-US$254 (for industrial facilities). It currently ranges from US$585 to US$1,200, depending on the specifications. Given this discrepancy, the cost escalation for the 12 sewing factories alone is on the order of US$62.6 million.

Notes

[45] There are two reasons for this escalation in costs. First, the 2010 earthquake affected the original work schedule and raised costs due to limited competition and a price hike in basic construction materials. Second, subsequent to bidding, a methodology for the rehabilitation work was changed to underwater work as opposed to emptying the reservoir as originally planned.

[46] The cost of capital for developing and installing new hydroelectric plants is estimated at US$750,000 to US$2.5 million per MW. OVE Working Paper OVE/WP-02/14. November 2014. Cost estimates for Haiti could be higher.

[47] The midterm evaluation of the rural project (HA-L1007) indicates that the sum of US$82,278 was canceled due to DINEPA's difficulties in providing support documentation for expenses in the project's financial closing process.

[48] The Bank's solution was to hire an international firm for review and supervision of the projects. This process gave rise to a US$2.5 million cost increase. In addition, the Bank transferred the school construction program approved in 2012 (HA-L1077) to the UTE.

[49] The figures cited in the paragraph refer to the budget allocated to the various components and subcomponents of investment projects, in accordance with the original budgets presented in the approved project proposals.

[50] They include the laws proposed in the PBGs (for example, law on the transfer of irrigation perimeters, implementing act on the producer bylaws, policies, and procedures of the Offices Régionaux de l'Eau Potable et de l'Assainissement [Regional Water and Sanitation Authorities] (OREPAs), law to regulate the electric energy sector), as well as laws or policies that were supported through investment loans (for example, the vocational training and early childhood policy).

[51] Newly created entities include, among others, the Regional Water and Sanitation Authorities and the Unités Rurales Départementales [Departmental Rural Units] (URDs) in water; (transitional) sanitation and procurement units in agriculture; and road safety and maintenance units in transportation.

[52] The estimate of the number of officials (either financed or supported through a salary supplement), ongoing support consultants, and support and coordination consultants at the PCUs is based on a review of institutional studies conducted by the Bank and on contracts and information provided by the project teams. It should be noted that the financial support varies from year to year.

[53] Annex VIII compares with results frameworks of the various PMRs presented to the Board of Executive Directors from 2013 onwards where changes in the indicators are observed.

[54] This disbursement percentage does not include the project HA-L1098, which was not eligible as of June 2016.

[55] Information provided by the Country Office, March 2016.

[56] Although the country strategy did not include targets related to kilometers of intervened roads, in accordance with the loan proposal for HA-L1054, the Bank and the Government of Haiti agreed on a comprehensive program titled "Program to Support Transportation Sector Development in Haiti." The Bank's proposal was to provide US$250 million in grants over the next five years and work proactively to secure the remaining US$150 million from other donors. During the 2011-2015 period, 421 km of road were to be rehabilitated, of which 301 km were primary roads, 100 km were rural roads, and 20 km were urban roads.

[57] The projects approved in or after 2015 provide for resources for the rehabilitation contracts to include two years of maintenance.

[58] The program to support sector modernization was designed as a joint effort by the IDB, the World Bank, the United States Agency for International Development (USAID), the European Union, and the IMF. To this end, a conditionalities matrix was built on the basis of the Energy Sector White Paper, which performed an exhaustive diagnostic assessment of the sector and proposed a strategy to overcome the most daunting sector challenges. The IDB, USAID, and World Bank coordinated their investment plans and in 2011 decided to approve US$400 million for five years.

[59] During the 2011-2015 period, the Bank approved seven operations for a total of US$120.8 million [HA-L1065, HA-L1073, HA-L1083, HA-G1027, HA-L1100, HA-G1030, and HA-L1038]. In addition, four operations (US$59.6 million) approved in the preceding period were executed.

[60] The cost recovery index remained around 30% during the period (for more information, see paragraph 3.10 of Annex III), below the original target of 50% and the reformulated target of 40%.

[61] The transition government is reviewing decrees approved since October 2015.

[62] The Péligre operation was approved in 2008 for US$12.5 million. This amount was augmented by cofinancing from the German development bank KfW in the amount of (approximately) US$12 million plus US$15 million from the OPEC Fund for International Development (OFID), raising the cost of rehabilitation to US$41.2 million. By year-end 2011, supplementary financing for the project was approved as follows: US$20 million from the Bank, US$12 million from KfW, and US$20.4 million from OFID.

[63] Upon completion, the three turbines are expected to increase total available generation capacity by 54 MW, which hits the reformulated target, but the original target was for "at least 200 MW."

[64] HA-T1176, HA-T1178, and HA-T1183 for US$3 million with financing from the Sustainable Energy and Climate Change Initiative (SECCI), the Knowledge Partnership Korea Fund for Technology and Innovation, and the Haiti Reconstruction Fund.

[65] Center for Research on the Epidemiology of Disasters (CRED) (2015), "EMDAT, the international disaster database," http://www.emdat.be/database.

[66] According to the Haitian Statistics Institute (IHSI) (2014), "L'évolution des conditions de vie en Haïti entre 2007 et 2012" [Changes in living conditions in Haiti between 2007 and 2012], and data from the Survey on Post-earthquake Household Living Conditions (ECVMAS) (2012), the average monthly income for rural households employed in the primary sector was G 1,380 in 2012, as compared to G 2,870 in 2007; this is equivalent to annual average agriculture income per household in 2012 of US$394 if market exchange rates are used, versus US$494 and US$768 if the 2005 and 2011 PPP rates, respectively, are used.

[67] HA-L1059/G1025 (Technology Transfer to Small Farmers Program), 2011, US$40 million; HA-L1056 (Land Tenure Security Program in Rural Areas of Haiti), 2012, US$27 million; HA-G1023 (Sustainable Management of Upper Watersheds of South Western Haiti - Macaya National Park II), 2013, US$9 million; HA-L1087 (Water Management Program in the Artibonite Basin - PROGEBA), 2013, US$25 million; HA-L1094 (Modernization of Agricultural Health and Food Safety Public Services), 2014, US$14 million; HA-L1096 (Artisanal Fisheries Development Program), 2015, US$15 million; HA-L1097/HA-G1031 (Natural Disaster Mitigation Program II), 2015, US$46.5 million.

[68] HA-L1074 (Fortalecimiento Institucional y Reforma del sector I), 2012, US$15 millones; HA-L1082 (Fortalecimiento Institucional y Reforma del Sector II), 2013, US$15 millones.

[69] HA-L1005 (National Program of Flood Early Warning), 2005, US$4.5 million; HA-L1009 (Ennery Quinte Agricultural Intensification Project), 2005, US$27 million; HA-X1002 (Sustainable Land Management of the Upper Watersheds of South Western Haiti – Macaya National Park I), 2009, US$3.4 million; HA-L1041 (Natural Disaster Mitigation Program in Priority Watersheds I), 2009, US$30 million; and HA-L1003 (DEFI), 2006, US$17.8 million.

Notes

[70] It is also likely that the progress made under the Ennery-Quinte project in terms of increasing the area of irrigable land (1,628 hectares covered with adequate irrigation infrastructure and 1,961 rehabilitated hectares) has had positive effects on the targeted area, even if unquantifiable.

[71] As mentioned in the previous chapter, this reduction has to do in part with an underestimate of initial costs and an increase in the costs associated with upgrading the schools to meet post-earthquake building codes.

[72] The only country strategy indicator that is measured in Management's progress reports is the "% of schools accredited." The target for this indicator was reformulated from 100% (in the country strategy) to 25% in the 2014 progress report and the level of advance reported in the PMRs is 0%.

[73] The majority of these cofinancing resources (82%) were approved in 2011. The Bank did not obtain the planned financial contribution amount (the original commitment was for US$248 million – HA L1049). After the first two operations, the Bank had already scaled back its efforts to arrive at these agreements. The Bank specialists confirmed that the cofinancing agreements increased personnel workload and transaction costs.

[74] The EPT finances a complete primary school cycle (grades 1 through 6), providing tuition waivers to non-public schools.

[75] This is particularly worrisome, not only because of the targeting errors that this intervention might have, but also given the published results of the Programme de scolarisation universelle, gratuite et obligatoire [Universal, tuition-free and mandatory education program] (PSUGO), a tuition waiver program based on the ETP model, which identified a high incidence of "ghost" schools attributable to a lack of verification mechanisms and record-keeping by the ministry (World Bank, 2015).

[76] *Pour une transformation de l'enseignement en Haïti (TEH),* 2014 Activity Report (for the 2013-2014 school year) Summary, MENFP.

[77] Just since 2014, the National Vocational Training Institute, with financing from the IDB, has set up professional training centers, conducted various studies on the sector, and drafted laws for sector reform.

[78] With regard to progress on the outputs included in project HA-L1060, the most recent Progress Monitoring Report (2016) indicates that 2 of the 3 training centers have been built, although to date only 1 of the 14 training programs has been reformulated.

[79] Includes an investment operation in Port-au-Prince (HA-L1075), a budgetary support operation with AECID cofinancing (HA-L1090/HA-G1032), and six technical cooperation operations.

[80] Includes two investment operations in rural areas (HA-L1007 and HA-X1014), one in midsized cities (HA-L1039/HA-X1013), and one in Port-au-Prince (HA-L1044/HA-X1021), all of the above with AECID cofinancing, as well as five technical cooperation operations.

[81] This is explained in part by changes in the sanitation strategy approved by DINEPA in 2012 that stipulate that only those communities that are already connected to the water supply can be connected to the sanitation system and that subsidies will not be made for individual or household sanitation solutions, but rather only for collective solutions in public buildings.

[82] The cost recovery ratio and collection to invoicing ratio remained on average at 55% from September 2014 to September 2015, with considerable fluctuations (from 42% to 78% for the collection rate and from 26% to 77% for the operating ratio). This figure represents an improvement over the 2010 baseline of 30%, but is lower than the country strategy target, which was originally 65% for 2015 and was then raised to 75%.

[83] That is, 11,403 through access to new individual connections, 6,111 through rehabilitated individual connections, and 10,600 through access to a kiosk (assuming that each kiosk supplies an estimated 200 households).

[84] In addition, a condominium sanitation pilot project is under construction in Saint Marc.

[85] Operation HA-L1007 provided access to drinking water to 113,679 individuals (exceeding the original target of 90,000 and achieving all output targets), and operation HA-X1014 provided access to drinking water to approximately 50,630 individuals (exceeding the target of 30,000).

[86] The first project financed the construction or rehabilitation of 53 latrines and 100 bathroom facilities, meeting the output targets and providing collective access to sanitation to an estimated 4,000 households (12,782 individuals, compared to an original target of 15,000 individuals with access to individual sanitation solutions). The second project reports having benefited 2,074 individuals (compared to a target of 5,000) through bathroom facilities in markets and schools.

[87] The inherited portfolio includes the operation approved in 2010: HA-L1050 Partial Credit Guarantee Fund for US$20 million, and its cofinancing HA-G1022 for US$12.5 million.

[88] The CIP is a 250-hectare industrial park located in the country's northeast region, close to the city of Cap Haïtien, whose primary purpose is to create formal jobs by attracting foreign direct investment in the manufacturing sector and providing the appropriate industrial infrastructure.

[89] This strategic level includes two non-sovereign guaranteed operations that supported businesses in the textile industry outside the CIP.

[90] This strategic level includes one insurance operation from the non-sovereign guaranteed window. While the IIC is not subject to the country strategy programming, OVE considers that IIC operations could be included in this strategic level since they are either operations for SME funding through financial intermediaries (Haiti Social Investment Fund (SIF) and FINCA Haiti) or corporate operations in sectors identified as a priority.

[91] The prefeasibility study Etude des Impacts Environnementaux et Sociaux (EIES) du Parc Industriel dans la Région du Nord d'Haïti, conducted by Koios Associate in 2011 (pages 11 and 12) estimated the creation of 2,800 temporary jobs during construction, 40,000 permanent full-time jobs at park facilities; and at least 40,000 additional indirect jobs (companies providing goods and services for the park and its tenants), for a total of 80,000 jobs attributable to the park. OVE highlighted, in its previous evaluation, that the indirect job estimates were high given the maquila industry's weak linkages in the Haitian economy.

[92] OVE considers the IDB's total investment in the CIP at program completion (US$256.8 million) divided by the estimated number of new jobs created (22,000). This figure is underestimated because it does not include the investments made by other donors. While it is particularly difficult to make a fair comparison with the cost per job in similar industrial parks, rough approximations of the cost per job in the CODEVI industrial park (US$7,400 per job) appear to confirm that the costs at the CIP are high. Meanwhile, Management estimates that to date, the incremental employment cost is US$5,200 per job. This calculation uses only the additional cost of construction of an industrial facility and the number of employees it supports, while disregarding the sunken cost of the infrastructure that has already been brought on line. OVE feels that this is an underestimation and does not reflect the real cost of job creation at the CIP.

[93] The "ideal" tenant for an industrial park should be a labor-intensive business with significant job creation potential, a proven business model, and a business scale in line with the size and characteristics of the industrial facilities. The fact that the majority of tenants are not paying full rent at the park in relation to the number of employees points either to limited demand for the facilities or to suboptimal selection of tenants.

[94] Most of the companies that set up business in the CIP received some type of "incentive" to move their operations to the park. These incentive packages include a combination of the following: (i) "free" rent for a certain number of months; (ii) discount on rental rates; (iii) discount on the price of public services; and/or (iv) "tax-free" income.

[95] "Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development". WBG 2008 (Box 2 Annex IV).

Notes

[96] The Bank supports initiatives such as the development of an electronic platform to register companies, the development of software for the credit bureau, and the development of a legal framework for public-private cooperation. As of December 2015, these efforts have not had a significant impact: the electronic platforms have not been applied and the absence of a functioning parliament has impeded consideration and enactment of laws to support these initiatives.

[97] According to the latest available supervision report: 9 loans for start-ups were made under project HA L1068, and some 70 companies received some type of business service under project HA-L1057.

[98] Deteriorating social conditions are associated with depreciation of the local currency and an increase in inflation that are affecting the most vulnerable sectors of society.

[99] This despite the OVE recommendations in the IDB-9 report that suggested moderating the short term pressures to approve and disburse operations, taking into consideration the country's capacity for absorption.

[100] This was recognized by Management in its latest progress report (May 2016) (paragraph 5.4): A lesson learned in the institutional reform process for the agriculture sector is the need for the office of the prime minister and president to lead these processes given that sector reforms require crosscutting reforms, such as in public finances and human resources management.