Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 12-Sep-2018 | Report No: 129918

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Haiti	P162452	REPUBLIC OF HAITI: FISCAL AND SOCIAL RESILIENCE DEVELOPMENT POLICY FINANCING (FSRDPF)	
Region	**Estimated Board Date**	**Practice Area (Lead)(s)**	**Financing Instrument**
Latin America and Caribbean	09/20/2018	Macroeconomic, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Haiti	Ministry of Economy and Finance		

Proposed Development Objective(s)

The objectives are to:
(1) strengthen fiscal management; and
(2) enhance the efficiency of social spending.

Financing (in US$, Millions)

SUMMARY

Total Financing	20,000,000

DETAILS

Source:
IDA

Decision

B. Introduction and Context

Country Context

Haiti is the poorest country in the Western Hemisphere and among the most economically unequal countries in the world. Due to the country's long history of political instability, repeated fiscal crises, and extreme vulnerability to a wide range of shocks, slow economic growth punctuated by frequent contractions has yielded a per capita income equivalent to just US$738 (or US$1,575 in purchasing-power-parity terms). In 2012, the latest year for which poverty data are available, the overall poverty headcount rate was 59 percent, and the extreme poverty rate was 24 percent. Almost 6.3 million Haitians are unable to meet their basic consumption needs, while 2.5 million cannot cover their essential food needs. Poverty rates are highest in rural areas, and recent gains in poverty reduction have been heavily concentrated in urban centers. Progress in improving social development outcomes has been slow and uneven, and in 2016, Haiti ranked 163rd out of 188 countries on the UNDP Human Development Index.

Successive administrations have struggled to provide basic public goods and accountable governance. Although Haiti has been an independent nation for over 200 years, it has failed to develop the impartial, effective institutions necessary to establish and maintain popular legitimacy. A 2006 World Bank Country Social Assessment found that "Haitian politics swings between two key dangers: capture by privileged elites who harness government to protect their dominant position in society; and populism that neglects the country's long-term institutional and economic development while paying lip service to the poor." The country's deep partisan divisions have contributed to a series of coups, insurrections, and clashes between political factions. While an abrupt increase in fuel prices was the proximate cause of the recent outbreak of violent demonstrations, the public's swift recourse to street protests reflects deep-seated frustration with a political system that is widely perceived to be unresponsive to normal democratic processes.

Haiti's widespread poverty, tenuous fiscal balances, and volatile political situation are compounded by the country's exposure to natural disasters and other exogenous shocks. With an estimated 96 percent of the population at risk from one or more type of natural hazard, Haiti is among the world's most disaster-exposed countries. Major threats include hurricanes, floods, erosion, droughts, earthquakes, and landslides. Between 1976 and 2012, the annual average economic losses from extreme weather events alone were estimated at almost 2 percent of annual GDP. Poor households are especially exposed to disasters: 80 percent of extremely poor households and 70 percent of moderately poor households experience an average of at least two shocks per year. Improved emergency-response and social safety nets systems will help shield poor households from the damaging effects of natural disasters.

Relationship to CPF

Haiti is a country facing multiple risks and this operation is an opportunity to improve its global resilience against adverse shocks. The proposed operation is closely aligned with the World Bank's Haiti Country Partnership Framework (CPF) for 2016-19, which emphasizes the importance of adjusting to tighter fiscal constraints while protecting priority expenditures on health, education, and infrastructure. Its design also reflects the government's development strategy, which aims to reinforce fiscal stability while gradually expanding the budgetary space for social spending and investment.

C. Proposed Development Objective(s)

The proposed operation will support the government's efforts to strengthen fiscal management, and enhance the efficiency of social spending to better protect poor and vulnerable households.

Key Results

The policy actions supported in this operation aim to raise domestic revenues from their low current level to improve the efficiency of social protection policies and expand access to social services among poor and vulnerable households. Key expected results include: increased customs revenues; annual updates of the tax exemptions database; an increased number of accounts incorporated into the Treasury Single Account; an increase in the percentage of beneficiaries included in the Unified Social Registry; an increase in the number of student received fee waivers; and an increase in the number of physically disabled job placement beneficiaries.

D. Program Description

The proposed Fiscal and Social Resilience Development Policy Financing (FSRDPF) is a single-tranche, stand-alone operation designed as part of an international effort to maintain macro-fiscal stability against the backdrop of tightening financial constraints to the budget. The FSRDPF is designed around two strategic pillars. The operation supports the government's efforts to: (1) increase revenue mobilization; and (2) enhance the efficiency of social spending.

The supported prior actions have been selected to reflect Haiti's distinctive circumstances and prevailing political-economic environment and are designed to advance the government's stated objectives in key policy areas. In an environment of limited compliance, weak implementation capacity, and difficulty sustaining political will, the proposed operation judiciously identifies prior actions in areas where the authorities have a clear and ongoing commitment to reform, where implementation efforts could be expected to be maintained over time, and where reforms might be institutionalized to limit the potential for backsliding or policy reversals.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Economy and Finance (MEF) will be responsible for coordinating and implementing the activities and reforms supported under the proposed FSRDPF as set forth in the Letter of Development Policy (LDP). The MEF will be charged with reporting on progress, and the World Bank will confirm and verify the achievement of the prior actions. The confirmation and verification process may involve audits, statistical sampling, or other approaches deemed appropriate by the World Bank team. The verification process will be an integral component of the World Bank's supervision of the operation and will be handled with great diligence.

The MEF and other relevant government institutions will monitor performance indicators and report on the status of specified performance targets. Haiti's external development partners increasingly engage in collaborative monitoring across multiple sectors with the government's support. Other partners, including the IMF, will contribute to monitoring FSRDPF performance indicators. World Bank staff will continuously monitor macroeconomic performance in collaboration with the IMF and other external development partners engaged in macroeconomic management.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed operation is expected to have positive direct and indirect impacts on poverty reduction and equitable growth. The two pillars of the proposed operation are in line with the World Bank's twin goals of eliminating poverty and promoting shared prosperity. No element of the proposed operation is expected to have negative, or even mixed, impacts on poor and vulnerable households.

The three prior actions included under Pillar 1 of the FSRDPF support measures designed to increase public revenue mobilization, thereby boosting the available resources for public investment and service delivery, with positive implications for both poverty and equity. Total public spending on education, healthcare, and social services averages just 3.8 percent of GDP, well below the levels of comparable countries. Increasing revenue mobilization will be vital to boost social spending. Prior actions under pillar 2 have positive effects on poverty. As administrative fragmentation undermines the efficiency of Haiti's social-protection interventions, the creation of a Unified Social Registry will target more accurately social-protection programs. The establishment of the National Education Fund (FNE) is expected to facilitate education access, particularly among poor households. People with disabilities are often among the poorest and most vulnerable members of society. Many lack access to employment and to other sources of income and are highly exposed to income and health shocks. Establishing the National Solidarity Fund for the Integration of People with Disabilities (FSNIPH) will improve the health and employment prospects of people with disabilities, strengthening their economic resilience and the resilience of their households.

Environmental Aspects

None of the activities supported by the proposed operation are likely to have any significant negative environmental effects. Prior Actions related to revenue mobilization and PFM (Pillar 1) are not expected to have any significant positive or negative environmental impacts. The same is true for Prior Actions related to Pillar 2, which focus on the provision of education and health services.

G. Risks and Mitigation

The proposed operation's overall risk is assessed as High. While there is a strong consensus around the World Bank-supported reform agenda, there are several risks that could affect achievement of the Program's development objectives. These include political and governance risks, domestic and external macroeconomic risks, and fiduciary and stakeholder risks. Continued political and social tensions narrow the scope of possible reforms. The proposed operation would support a highly selective set of achievable reforms focusing on customs administration, tax expenditures, and public financial management. While deeper revenue-side measures could yield critical gains over the medium term, their inherent political sensitivity would require a potentially longer-term operational series backed by harmonized donor support. Meanwhile, the country's aborted attempt to ease the burden of subsidy spending through the failed fuel price reform has demonstrated that an extraordinarily careful and judicious approach will be required to rationalize expenditures sustainably. While the proposed operation's design incorporates risk-mitigation measures, some risks cannot be fully attenuated. However, Management considers the short and long-term benefits of the proposed operation to outweigh its risks.

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