

HAITI: RECENT PROGRESS IN ECONOMIC GOVERNANCE REFORMS

During 2004-2006, the Haitian Government made significant progress in the implementation of economic governance reforms. These included actions to improve the legal framework, create and strengthen core public institutions, and enhance financial management processes and procedures. This note details reforms implemented during this period in the following areas: (i) budget formulation, execution and reporting; (ii) public procurement; (iii) public enterprise management and road maintenance; (iv) human resource management; and (v) civil society monitoring of economic governance reforms.

Improvements in budget formulation, execution and reporting. Prior to 2004, the Government had at times operated without approved budgets or with budgets approved late into the fiscal year. Procedures for budget formulation and execution were weak and a significant share of public resources was channeled through multiple *comptes courants* held by individual ministries and used non-transparently.¹ In addition, internal controls were impaired by the lack of a well-structured accounting system or external audits of Government budgets.

Recent Government measures to address these weaknesses include: (i) passage of a new Organic Budget Law² and adoption of a new budget classification and chart of accounts; (ii) timely preparation and adoption before the start of the fiscal year of the budgets for FY2005, FY2006 and FY2007; (iii) better alignment of budget allocation and spending with government priorities defined in the Interim Cooperation Framework; (iv) greater transparency in budget preparation and execution through regular public dissemination of key budget allocations and execution information on the Ministry of Economy and Finance (MEF) website (www.mefhaiti.gouv.ht); (v) preparation of the FY2006 and FY2007 budgets according to the new budget classification; (vi) expansion of the automated system for budget management (SYSDEP) from 5 ministries and units to 17;³ (vii) better monitoring of budget execution which resulted, *inter alia*, in a significant reduction in discretionary spending through ministerial *comptes courants*;⁴ and (viii) strengthening the external audit function through a decree on the organization and functioning of the supreme audit institution, the *Cour Supérieure des Comptes et Du Contentieux Administrative* (CSCCA). In addition, the difference between budgeted and actual expenditures has been reduced, transactions are promptly accounted for in the

¹ The “*comptes courants*” (Ministries’ accounts) were originally meant to be used for unexpected and non-budgeted needs such as for assistance to those affected by a natural disaster or unexpected travel by policy makers.

² In addition to establishing the outlines of a new budgetary process, the Law mandates the creation of a new accounting system, and creates the position of internal ex-ante controllers, a new internal auditing office and a cadre of accountants in the public sector.

³ The expansion of the SYSDEP is being undertaken in two phases. The first phase, already completed, includes key ministries and units such as the MEF, the CSCCA, the ministries of Education (MENJS) and Health (MSPP), and the Tax and Customs Directorates. The second phase, including all remaining ministries (6) and the National Police, is scheduled to be completed in late 2006.

⁴ The percentage of non-salary current public expenditures disbursed through *comptes courants* was reduced from 62 percent during October 2003–March 2004 to less than 10 percent from FY2005.

main accounting system, the Government has caught up with the delays in the preparation of the Treasury accounts and a decree has been adopted to create a General Finance Inspectorate responsible for ensuring the correct functioning of internal controls in the administration. The CSCCA is in the process of catching up on Government accounts audits which, together with the resumption of Parliament oversight functions, will strengthen external controls.

Improvement of public procurement system. In the early 2000s, public procurement operated under a 1989 decree which had not been fully implemented and had several flaws. Sole-source contracts and unadvertised bidding were the norm. At the beginning of 2005, the Government adopted a new Procurement Decree to establish the National Commission for Public Procurement (CNMP), affirm the use of competitive procurement methods as the norm and introduce more effective procurement controls in the public administration. The creation of the CNMP, which is now operational, has strengthened the institutional framework for procurement and brought much needed oversight to an increasing number of public procurement processes. An international procurement consulting firm hired in early 2005 is helping the CNMP to perform an extended range of its mandated functions, in particular those associated with strengthening procurement capacity in line ministries and drafting enhanced legislation to regulate the procurement function. Finally, advances in transparency have been achieved through the preparation of standard bidding documents and the publication of lists of government contracts awarded and a supplier database, both available through the CNMP website.

Stepping up of anti-corruption efforts. In 2004, an Anti-Corruption Unit (Unité de Lutte Contre la Corruption - ULCC) was created and staffed as an autonomous entity under the MEF. The Unit has conducted a comprehensive diagnostic survey (households, public, private and the NGO sectors) of the state of governance and the perception and experiences of the population with corruption in Haiti as an input to the design of a national anti-corruption strategy.⁵ The results of the survey will be disseminated at the national level. The ULCC has also prepared a draft law for asset declaration by public sector employees which is expected to be submitted to Parliament in the coming months. The Unit is also developing a staff training plan that focuses on international best practices and lessons learned from efforts in other countries.

Pursuing efficiency and transparency in the management of public enterprises and the Road Maintenance Fund. Public enterprise management was in the past characterized by inadequate financial and operating practices, politicized and excessive staffing, and a lack of managerial accountability. In addition, financial relations with the Government were opaque, obscuring both the siphoning of budgetary resources for the electricity sector and government receipt of profits, particularly from the telecommunications utility, TELECO. Operational inefficiency, institutional incapacity and a lack of external resources for maintenance and investment caused a progressive deterioration in the quality and reliability of service from the 1980s, leaving Haiti with by far the worst infrastructure in the Western Hemisphere. As part of its efforts to improve the management and transparency of key public enterprises, and with the support of

⁵ The diagnostic survey was completed in March 2006 and a final report is expected shortly.

donors, in 2006 the Government hired international audit firms on a competitive basis to undertake financial audits for the national port authority (APN), TELECO and the national electricity company (EDH). It is also in the process of launching financial, technical and administrative audits for the metropolitan water utility (CAMEP). An audit was also planned for the airport authority (AAN) but donor funding has not been available for this. The audits for APN, TELECO and EDH have recently been completed and the first two companies are now preparing action plans to implement audit recommendations. Accounting rehabilitations have also been undertaken for TELECO and EDH.

In 2005–06, the Government took a number of measures to strengthen the Road Maintenance Fund (*Fond d'Entretiens Routier*—FER), created in 2003 as the cornerstone of Haiti's road maintenance strategy. The FER now has reached a basic level of institutional capacity with the recruiting of key staff and the definition of its operational procedures.

The inadequate **quality and quantity of human resources** have been a primary impediment to public sector efficiency in Haiti. The situation is a result of both the general scarcity of skilled people in the country (exacerbated by outward migration) and the lack of an adequate incentives and accountability system to attract, maintain and motivate civil servants. Public sector employment in Haiti is very low by international standards. In 2004, public sector employment corresponded to 0.7 percent of the population, compared with 2 percent in Africa and 7.7 percent among developed market economies.⁶ The concentration of staff in Port-au-Prince aggravates the problem with programs depending on decentralized execution or enforcement suffering. In addition, public sector salaries lost about 50 percent of their real value between 1995 and 2000, and dropped even more rapidly afterwards. Public sector capacity also represents a serious obstacle to aid absorption, as the Government is often ill-equipped to respond to the competing requirements of the different donors. Dealing with these shortfalls in a manner that supports sustained public sector efficiency will require increasing the efficiency in the use of scarce human resources and implementing medium-term reforms involving systemic restructuring of the civil service.

As a first step in this process, a new civil service law and a law for the organization of the central administration were enacted by decree in July 2005. Also, a census of employment in selected ministries has been completed, partly on an attendance list basis. In addition, civil servants wages were increased by 30 percent in 2004, consistent with the macroeconomic program, to mitigate the erosion of real salaries due to high inflation in previous years. In addition, in a significant effort to increase transparency, the FY2007 budget included in an annex a fairly comprehensive list of Government employees with their respective remunerations (this annex is also available on the MEF website). A Coordination Unit in the Prime Minister's Office has taken responsibility for the human resource functions as a first step to overseeing the implementation of the above mentioned decrees and future reforms.

⁶ Jaramillo, L. (2005) "Public Sector Employment in Haiti" IMF Selected Issues Paper, SM/05/149.

In 2005 the Government introduced a mechanism for civil society to monitor its program of economic governance reforms. This mechanism became operational in early 2006, following capacity building by both the Government and civil society organizations. The mechanism is made up of a plural group of “notables” who review monitoring exercises carried out by NGOs in the key reform areas of economic governance and provide feedback to ministries on where more progress needs to be made. A summary of the monitoring report prepared by civil society organizations has been published on the MEF website. A workshop with civil society organizations and key Government agencies and ministries was held in June 2006 to review the experience in implementing the monitoring mechanism and identify measures to improve its effectiveness and a new workshop is being held in end October to further strengthen the mechanism and consider its links to the Parliament and emerging process around a national development plan (PRSP).

Other governance measures have proceeded more slowly. For example, (i) a mechanism for monitoring budgetary transfers to the electricity sector has been established but is not yet effective; (ii) the award of power purchasing agreements to private generators has to be made fully transparent or competitive; and (iii) a survey of domestic payment arrears of the central Government has been completed but not yet fully verified and a strategy to address them has not been formulated. The authorities are working in these areas to accelerate progress.

The economic governance reforms detailed above started from a very low base and focused on critical institutional and legal changes related to public expenditure and public enterprise management. Given the nature and depth of the governance challenges in Haiti and the existing institutional capacity, results will be incremental and take time. In addition, these efforts will require follow-up actions and additional reforms to ensure that (i) procedures and practices are consistent with the revised legal and institutional framework; (ii) mechanisms to better target public resources are set up; and (iii) citizens are empowered in ways that will improve public sector transparency and accountability. In this respect, governance measures aimed at making public service delivery more responsive and effective and improving the comprehensiveness of the budget are needed to increase the effectiveness and transparency of public resource use. In the Interim Poverty Reduction Strategy completed in September 2006, the Government has identified key governance reform measures it plans to undertake in the coming year and is developing a medium-term program of additional reforms. Continued donor support for the Government’s efforts in this area will be critical for its ability to effectively use domestic and external resources for social and economic development.

October 2006