EBS/03/169

December 17, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **Haiti—First Review Under the Staff-Monitored Program**

Attached for the **information** of the Executive Directors is a paper on the first review under the staff-monitored program for Haiti, together with the letter of intent from the Minister of Economy and Finance of Haiti and the Governor of the Bank of the Republic of Haiti. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Haiti indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Gajdeczka (ext. 37124) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, December 29, 2003; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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HAITI

First Review Under the Staff-Monitored Program

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Markus Rodlauer and G. Russell Kincaid

December 17, 2003

- **Background.** A one-year staff-monitored program (SMP), covering the period April 2003-March 2004, commenced in June 2003 (EBS/03/83). The main objective of the SMP is to consolidate the stabilization gains made since early 2003, clear external arrears, and establish a track record of policy implementation, as a basis for a possible PRGF-supported program.

- **SMP**. The SMP initially specified policies for the first six months of the program (April-September 2003). The main economic objectives were to reduce inflation and stabilize the exchange rate and international reserves, thereby creating conditions for a recovery in output. To attain these objectives, the fiscal deficit was to be cut sharply, and its monetary financing reduced from 4.9 percent of GDP during October 2002–March 2003 to 1.9 percent of GDP in April–September 2003. Understandings on policies for October 2003–March 2004 were to be reached at this (first) review.

- **Mission**. Discussions on the first review took place in Port-au-Prince during September 22–October 3, 2003. The mission met with Economy and Finance Minister Gustave, Central Bank Governor Joseph, other senior officials, and representatives from the private sector. The staff team comprised P. Gajdeczka (Head), O. Adedeji, L. Jaramillo Mayor, J. Toro (all WHD) and S. Jain-Chandra (PDR). A. Macia (ED's office), and A. Kouame (World Bank) joined for final discussions. M. Rached (Resident Representative) assisted the mission.

- **Key review issues**. The SMP is broadly on track. The discussions focused on (i) fiscal adjustment and monetary policy through March 2004; (ii) structural reform measures centered on fiscal governance; and (iii) steps to enhance financial system regulation and supervision and to strengthen the financial position of the central bank. The attached supplementary memorandum of economic and financial policies (SMEFP) outlines the authorities' program for the second half of the SMP.

Contents

I. Background and Recent Developments

1. **The main objectives of the authorities' program monitored by the staff (SMP) are to stabilize the economy, clear external arrears, and establish a track record of policy implementation.** Program policies focus on fiscal adjustment, key reforms to improve fiscal governance, and a monetary program aimed at containing inflation and raising international reserves.

2. **The macroeconomic framework of the SMP has been maintained** (Table 1). Following three years of deterioration, the economic situation has improved in recent months, in response to policy corrections initiated in early 2003. Key among those measures were steps to reduce the fiscal deficit and its financing from the central bank, as well as the tightening of monetary policy. As a result:

- **Inflation continues to decline.** Monthly inflation declined to 1.3 percent in October (17 percent on an annual basis), from 3.7 percent in March.

- **The exchange rate has stabilized** at around G42–43 per U.S. dollar, following a depreciation of about 60 percent between end-September 2002 and mid-February 2003. In real effective terms, the gourde was about 8 percent more depreciated in September 2003 than a year before (Figure 1).

- **The external position has strengthened.** As of end-June, NIR stood at US$44 million, US$14 million above the program floor. Through mid-August, the central bank built up reserves to about US$69 million in anticipation of a seasonal increase in the government's foreign exchange needs; since then, it has refrained from purchases in the market, funding the government's foreign exchange needs from the stock of reserves. As a result, NIR fell to US$36 million by end-September 2003.

- **Central bank financing of the budget has been substantially reduced.** The overall fiscal deficit and its financing from the central bank were kept within the program limits. Revenues were about 0.8 percent of GDP higher than programmed, although a big part of this revenue over performance was spent through discretionary ministerial accounts (see below).

- **Bank deposits continue to grow**, and the decline of dollar deposits in late 2002 has now been more than reversed. Available prudential indicators suggest that the financial condition of the banking system is relatively sound,[1] and the authorities stated that the banking system was not adversely affected by the crisis in the Dominican Republic. Private sector credit growth, however, remains weak.

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[1] The average nonperforming loan ratio stands at 5.5 percent (as of end-September 2003), and the average risk-weighted capital adequacy ratio at 16.1 percent (end-June 2003).

- **There are signs of a recovery in exports,** mostly in the assembly sector. If sustained, it would improve the overall growth outlook.

- **The quantitative targets for end-June and end-September were observed**.

3. **Structural reforms, focused on fiscal governance, are progressing, although some delays have occurred.** Two budget-related structural benchmarks were implemented: pre-shipment customs inspection started in August, and the 2002/03 budget amended by the parliament was published. Two other benchmarks, however, were not implemented as envisaged: a large proportion of spending continued to be channeled through discretionary accounts, while the program objective was to reduce the use of these accounts; and the comprehensive external audit of the electricity (EDH) and telecom (TELECO) companies could not start as envisaged at end-September as these companies were found to require preparation for such audits (see paragraph 12).

4. **Haiti used official reserves to clear arrears to the IDB (US$32 million) in early July, opening the way for renewed IDB lending**. The first tranche (US$35 million) of a reformulated Investment Sector Loan (ISL) was disbursed in late July, allowing the rebuilding of Haiti's official reserves. Nevertheless, arrears to the World Bank (US$32 million at end-September) remain to be addressed, and bilateral assistance is limited to humanitarian aid.

5. **Prospects for resolving Haiti's political impasse and holding safe and fair elections remain highly uncertain.** The Organization of American States (OAS) continues to be engaged in the search for a solution to the crisis. In recent months, a special OAS envoy visited Haiti twice to promote political dialogue and help engage all stakeholders in the political process, and thereby establish conditions for elections that would have both broad domestic support and recognition from the international community. However, there are as yet no signs of a political solution to the impasse, and tensions between the government and the opposition are likely to rise as the end of the current Parliament's term approaches (in January 2004).

II. Policy Discussions

6. **The program for 2003/04 aims at continued macroeconomic stabilization and the resumption of growth**. Real GDP growth is assumed at 1 percent, while inflation is targeted to decline to about 12 percent. The authorities considered the growth projections as conservative in view of the incipient recovery in the export sector, but preferred to use cautious assumptions given the uncertain impact on growth of the significant fiscal and monetary adjustment that was initiated in the second half of 2002/03. While the authorities agreed with the staff that a faster decline in inflation would be desirable, they stressed that the political and social reality did not permit further expenditure cuts, and that domestic monetary financing could not be reduced much further while external aid remained very limited.

Haiti: Key Economic Objectives for FY 2003/04			
	FY 2002/03 Prog.	FY 2002/03 Est.	FY 2003/04 Proj.
(Annual percentage change)			
GDP at constant prices	0.0	0.0	1.0
Consumer prices (12-month, end-of-period)	41.8	42.5	12.0
(In percent of GDP, unless otherwise indicated)			
Net international reserves (millions of U.S. dollars)	30.0	36.0	41.0
Central government overall balance, excluding grants	-4.0	-3.6	-2.4
Central bank financing of the government	3.3	3.2	1.8

A. Fiscal Policy

7. **The 2003/04 budget approved by parliament targets a reduction in the overall deficit to 2.4 percent of GDP from 3.6 percent of GDP in 2002/03.**[2] The authorities agreed with the staff that further deficit reduction is needed to consolidate the stabilization gains. Monetary financing of the budget deficit will be limited to 1.8 percent of GDP. Revenues are projected to reach 9.8 percent of GDP (up from 9.2 percent in 2002/03), reflecting the full-year impact of the measures introduced in the revised budget for 2002/03.[3]

8. **Expenditure control must be strengthened to keep spending within the targeted level.** The expenditure target of 12.1 percent of GDP (down from 13.0 percent of GDP in 2002/03) accommodates exceptional expenditure on elections (0.3 percent of GDP) and a 25 percent increase in the government wage bill.[4] The authorities considered this wage bill increase as necessary to stem the very sharp real wage decline in the last three years (by about 40 percent) and to allow for some new hiring. The staff expressed concern about the weaknesses of expenditure control evidenced by the overrun on discretionary spending; the authorities shared this concern, noting that the continued use of discretionary accounts reflects inefficiencies in the expenditure process which they were working to address.[5]

[2] In the original program (EBA/03/83), the overall deficit was projected at 1.9 percent of GDP in 2003/04, with the difference accounted for by outlays for elections and a higher wage bill (paragraph 8). The budget was approved on December 5 (a prior action for this review)..

[3] These measures included the adoption of a flexible petroleum price mechanism; broadening of the sales tax base; an increase in excise taxes on alcohol and tobacco; and improved valuation of imports with the assistance of a pre-shipment inspection firm.

[4] In addition to outlays included in the 2003/04 budget, external assistance would be provided for elections organized with support from the OAS.

[5] In particular, they explained that spending through other channels was hampered by an overly cumbersome requisition process, reflecting mainly administrative capacity constraints.

Looking forward, they reaffirmed their commitment to phase out the use of these accounts in line with the objective of the SMP, and explained that a mechanism is being established to shorten the requisition process, with support of the IDB. The staff urged the authorities to resist pressures for additional spending, which are likely to intensify in the run-up to parliamentary elections.

B. Monetary and Exchange Rate Policy

9. **The authorities remain committed to a cautious monetary policy**. The monetary program for 2003/04 aims at further reducing inflation and increasing net international reserves, in the context of the floating exchange rate system. The authorities agreed with the staff that, in the months ahead, the stance of monetary policy should remain relatively tight in view of still low reserve levels and to further reduce inflation. To this end, the BRH will continue to issue bonds at market-based interest rates to control gourde liquidity. A gradual easing of monetary policy may be possible in the first half of 2004, depending on overall confidence, and the evolution of official reserves, the exchange rate, and inflation.

10. **NIR should not fall below the present level**. The BRH agreed with the staff that a more comfortable reserve cushion would be desirable, and intends to purchase enough foreign exchange in the market to satisfy the government's needs. To preserve flexibility in the near term, however, the BRH preferred not to raise the NIR floor under the SMP (US$30 million).

11. **The financial position of the central bank needs to be strengthened**. In recent months, the BRH has issued bonds at relatively high interest rates to control domestic liquidity. This policy helped reduce inflation, stabilize the exchange rate, and build up reserves—but also contributed to BRH operating losses (together with below-market interest rates on substantial BRH claims on the government). The staff urged the authorities to develop a plan to address central bank losses and strengthen the autonomy of the central bank. The authorities agreed on the importance of strengthening the central bank's finances, noting that this requires further progress in fiscal consolidation. They intend to start work on revising the law on the central bank (structural benchmark),[6] and have also requested technical assistance from the Fund to review the financial position and monetary operations of the BRH. The authorities also intend shortly to initiate preparations for a safeguards assessment by the Fund.

C. Structural Reforms and Governance

12. **Structural reforms under the SMP are focused on measures to enhance public sector governance**. The authorities agreed with the staff that much remains to be done to improve the effectiveness and management of the public sector.

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[6] The Fund has provided extensive technical assistance in this area in the past few years.

- **Budget process.** A draft law on the preparation and execution of the budget has been submitted to parliament, which, *inter alia*, would establish an annual budget process and set the basis for limiting the use of discretionary accounts. The budget document and data on its execution will continue to be published on the government's website.

- **Expenditure control.** Significant efforts have been made to develop a new nomenclature and system of accounts, essential for good management and financial control. With IDB support, the capacity of existing information systems will be strengthened, thereby allowing better management of government spending.

- **Audit of public sector enterprises.** A recent World Bank mission found that external audits of the EDH and Teleco can be undertaken only after their financial statements are brought to acceptable accounting standards and management audits are completed. An action plan has been developed and terms of reference have been drafted for the accounting firms to prepare these two companies for external audits during 2003/04. Also, terms of reference are being finalized to hire international auditing firms to initiate audits of three smaller enterprises as soon as donor financing is identified.

13. **Financial sector reforms have been initiated.** The staff welcomed the start of prudential supervision of credit cooperatives in July. The authorities indicated that the Financial Intelligence Unit (FIU) will soon become operational, and that a draft banking law will be submitted to parliament as envisaged by end-2003.

14. **The authorities have started discussions with donors on the preparation of an Interim Poverty Reduction Strategy Paper (I-PRSP).** The authorities' goal is to complete the draft of the I-PRSP by March 2004. They have started to consult with representatives of the donor community on their strategy in this area and invited their contributions to the preparatory process. They are also planning meetings with the representatives of civil society to elicit their views on medium-term structural policy issues.

D. Arrears Clearance and External Financing

15. **Following the clearance of arrears to the IDB, the authorities welcomed the Bank's re-engagement in support of Haiti's development program.** As part of the IDB's re-engagement strategy, the first tranche of the reformulated ISL has been disbursed, disbursements under the Economic and Social Investment Fund loan have resumed, and re-activation of four investment loans has begun (Appendix III). The second tranche of the ISL (US$15 million) is expected to be disbursed in late 2003, and a new Policy-Based Loan (US$25 million) was approved by the IDB Board on November 19, 2003.

16. **The process of clearing arrears to the World Bank is still at an early stage.** Following three years of suspension of IDA disbursements to Haiti, the World Bank has only a very limited operational program in place (Appendix II). The challenge ahead is, therefore,

to mobilize adequate resources to clear the stock of arrears to the World Bank which, by the end-March 2004, would reach about US$40 million.

E. Program Risks and Monitoring

17. **The difficult political situation remains a major risk to the program.** Sustaining the stabilization effort and expanding the reform program will require broad domestic consensus as well as a stepped up donor support. Both will necessitate further progress in resolving the political situation and, in particular proceeding toward safe and fair elections. Poor governance and weak implementation capacity are also major constraints, as the relatively small and institutionally weak government faces daunting developmental challenges and pressing social needs. These constraints have been a major challenge even in the relatively focused macroeconomic and structural areas which are addressed under the SMP. Although the authorities have made a determined effort to implement the program, further progress in designing and implementing a comprehensive reform agenda will require more determined efforts by the government, and assistance from donors.

18. **In view of these risks, the staff will continue to monitor the SMP on a quarterly basis.** In the attached SMEFP, policies have been specified for the period October 2003-March 2004. Performance under the program will continue to be monitored by Fund staff using quarterly indicative targets, structural benchmarks, and reviews.

F. A Look Ahead

19. **The next six months will be critical in paving the way for a PRGF-supported program.** Adequate progress will need to be made in the following key areas:

- **Completing the SMP.** The fiscal deficit and central bank financing targets need to be strictly observed, to support a further decline in inflation and achieve the NIR objectives. Governance in the public sector needs to be improved—in particular, the use of discretionary accounts should be substantially reduced and external audits of public sector enterprises initiated.

- **Clearing external arrears.** Clearance of arrears to the World Bank would open the way for a fully financed PRGF-supported program. Arrears to bilateral creditors also need to be regularized.

- **Designing a comprehensive medium-term program.** The following key areas need to be addressed: (i) raising government revenue; (ii) enhancing budget management and expenditure control; (iii) strengthening poverty reducing programs and their monitoring; (iv) strengthening performance of public sector enterprises; (v) modernizing the financial system, including instruments of monetary control, banking regulation and supervision, and strengthening the BRH by addressing its losses and giving it appropriate autonomy; (vi) improving the timeliness and quality of statistics, in particular for the real sector and public sector finances; and (vii) well-coordinated donor support and program financing.

- **Achieving broad domestic consensus on the economic and social strategy**. The process of preparing a poverty reduction strategy should be subject to wide consultation, with full participation of stakeholders. This will be critical to garner a broad-based support for the authorities' medium-term development strategy, and will also require achievement of further progress at the political level, including toward organizing safe and fair elections.

III. Staff Appraisal

20. **Given all the risks, performance under the SMP has been favorable**. A substantial reduction in the fiscal deficit and the associated decline in its monetary financing have contributed to a marked decline in inflation, stabilization of the exchange rate, and some rebuilding of international reserves. Preliminary data point to an incipient recovery of exports and GDP growth; Haiti has cleared its arrears to the IDB. Initial—albeit limited—advances have also been made in strengthening public sector governance. The staff welcomes these achievements which provide a good basis on which further adjustment and reform efforts can build. It is now important to sustain the momentum of reforms, underpin them with growing domestic political consensus, and create the conditions for a full re-engagement of the international donor community. Looking forward, it will be essential to break the political impasse and establish conditions for fair and safe elections.

21. **The fiscal program for 2003/04 aims at consolidating the stabilization gains**. The staff welcomes the authorities' intention to further reduce the fiscal deficit and its financing by the central bank. To meet these objectives, continued expenditure restraint will be critical. While recognizing the need to increase public sector wages, the staff urges the authorities to strictly control current expenditures and, in particular, to forcefully implement the plan to phase out the use of discretionary accounts. Given the limited resources available, reducing nonessential spending is crucial to protect key social and investment programs as well as the planned outlays for parliamentary elections.

22. **Monetary policy should remain geared toward reducing inflation and rebuilding international reserves**. The staff encourages the central bank to conduct monetary operations in line with the inflation and NIR targets under the program. Intervention in the foreign exchange market should be limited to the purchases needed to satisfy the government's needs and to meet the NIR targets.

23. **The staff urges further progress in strengthening governance in the public sector**. The start of pre-shipment customs inspections and publication of the amended 2002/03 budget are welcome initial steps. Looking forward, the staff urges timely implementation of the revised plan to audit the public sector enterprises, and supports the authorities' efforts to mobilize donor support for this purpose. The staff encourages the authorities to publish the 2003/04 budget document and its monthly execution, as a signal of

their commitment to enhancing transparency of the government's operations and policies. The staff supports the plans to revamp the annual budget process, improve control and classification of expenditures, and strengthen the Office of Budget Control (CSCCA).

24. **Continued efforts are needed to strengthen the regulatory and supervisory framework of the financial system**. The staff welcomes the authorities' intention to submit to parliament a draft banking law by end-2003, and encourages early progress in updating the draft central bank law to provide for appropriate independence of the BRH. The staff welcomes the authorities' decision to make the Financial Intelligence Unit operational by this year's end. The weak financial position of the central bank needs to be addressed, and the staff encourages the central bank to initiate the process for a safeguards assessment by the Fund.

25. **The staff welcomes the authorities' commitment to clear Haiti's external arrears**. The repayment of arrears to the IDB, followed by resumed lending operations by the IDB, are an important step toward the normalization of relations with Haiti's external creditors and the full re-engagement of donors. The authorities are urged to work closely with Haiti's creditors to develop a plan to clear arrears to the World Bank and regularize all other external payments arrears.

26. **The staff supports the authorities' efforts at preparing an I-PRSP**. Preparation of an I-PRSP is a critical step in the development of a broad medium-term strategy aimed at reviving growth and reducing poverty. The staff supports the authorities' goal to complete a draft I-PRSP in the first half of 2004, and encourages them to develop a tracking mechanism for poverty-reducing expenditure, with assistance of the World Bank and the IDB.

Figure 1. Haiti: Exchange Rate 1/
(1990=100)

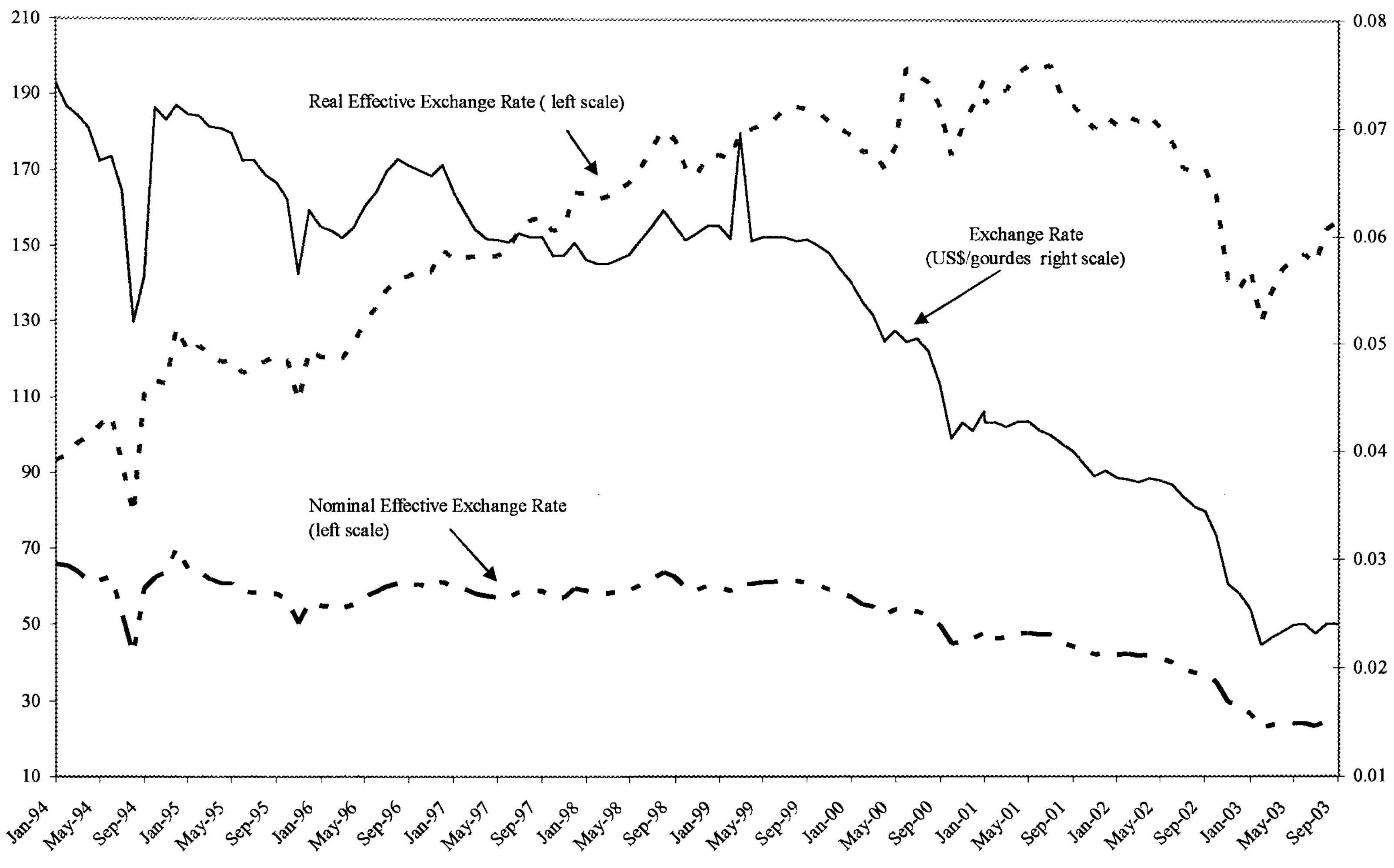

Table 1. Haiti: Selected Economic and Financial Indicators

	Fiscal Year Ending September 30						
	1999	2000	2001	2002	Prog. 2003	Prel. 2003	Proj. 2004
(Percentage change vis-à-vis the preceeding period, unless otherwise indicated)							
National income and prices							
GDP at constant prices	2.7	0.9	-1.1	-0.9	0.0	0.0	1.0
GDP deflator	7.0	11.2	16.3	9.0	20.7	20.7	14.0
Consumer prices (period average)	8.1	11.5	16.8	8.7	32.3	32.5	20.2
Consumer prices (end-of-period)	9.9	15.3	12.3	10.1	41.8	42.5	12.0
External sector							
Exports (f.o.b.)	13.4	-2.5	-7.8	-10.5	17.6	20.8	10.3
Imports (f.o.b.)	23.8	6.8	-2.9	-6.9	4.6	4.7	12.2
Real effective exchange rate (+ appreciation) 1/	8.7	-6.3	7.6	-9.1	...	-9.0	....
Central government							
Total revenue 2/	17.1	-0.3	3.8	20.2	24.1	37.3	22.0
Total expenditure	19.7	13.4	8.7	23.4	33.4	38.9	6.1
Money and credit							
Net domestic assets 3/	15.1	18.1	9.4	17.0	26.8	26.1	9.6
Credit to public sector (net) 3/	7.7	8.0	8.5	9.4	10.3	9.1	5.1
Credit to private sector 3/	4.4	16.9	-3.5	5.9	15.8	12.8	4.5
Broad money	17.7	36.2	5.2	17.2	38.7	39.1	13.7
Velocity (GDP relative to broad money)	3.1	2.6	2.8	2.6	2.5	2.2	2.3
Average interest rate on time deposits	6.8	12.7	13.5	7.6	...	14.5	....
(In percent of GDP, unless otherwise indicated)							
Gross domestic investment	27.7	27.3	22.8	20.4	20.0	20.3	21.3
Gross domestic savings (excluding grants)	20.5	20.8	16.7	16.3	14.7	14.4	13.0
Central government overall balance	-1.4	-2.5	-2.7	-3.1	-4.0	-3.6	-2.4
Central government overall balance including grants	-1.2	-2.2	-2.3	-3.0	-3.9	-3.5	-2.1
Central bank financing of central government	1.6	2.5	2.5	3.0	3.3	3.2	1.8
External current account balance	-7.2	-6.6	-6.1	-4.1	-5.3	-5.9	-8.3
External public debt (end-of-period)	27.6	28.9	31.2	33.0	40.3	41.4	43.4
External public debt service (in percent of exports of goods and services)	8.5	7.8	8.6	8.1	7.2	7.1	7.8
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	23.5	-52.0	-8.0	-71.0	-35.0	-14.9	20.3
Liquid freely usable reserves (end-of-period) 4/	269.9	213.0	159.9	95.6	76.5	69.0	74.0
Net international reserves 5/	208.7	162.9	108.8	50.5	30.0	35.8	40.8
Liquid freely usable reserves (in months of imports of goods and services, end-of-period)	2.6	1.9	1.5	0.9	0.6	0.6	0.6
Exchange rate (end-of-period)	16.9	28.3	25.5	29.7	...	42.0	...

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; and Fund staff estimates.

1/ For 2002/03, through August 2003

2/ Excluding grants.

3/ In relation to broad money at the beginning of the period.

4/ Liquid gross reserves excluding commercial banks' foreign currency deposits with the BRH.

5/ Excludes commercial banks' foreign currency deposits with the BRH.

Table 2. Haiti: Central Government Operations 1/

	Fiscal Year Ending September 30					
		Prog. Oct.–Sep.2/	Prel. Oct.–Sep.3/	Prog. Oct-Mar.	Proj. Apr.–Sep.	Proj. Oct.–Sep.4/
	2002	2003		2004		
	(In millions of gourdes)					
Total revenue	**7,828**	**9,720**	**10,746**	**6,548**	**6,561**	**13,109**
Current revenue	7,826	9,720	10,746	6,548	6,561	13,109
Internal	5,587	6,770	7,462	4,562	4,229	8,791
External	2,069	2,694	2,762	1,912	2,244	4,156
Other current revenue	136	256	522	74	87	161
Total expenditure	**10,772**	**14,368**	**15,089**	**8,098**	**7,766**	**15,865**
Current expenditure	**8,864**	10,454	**11,161**	**5,721**	**5,671**	**11,392**
Wages and salaries	3,480	3,955	3,862	2,400	2,401	4,801
Net operations	3,888	4,052	4,850	2,225	1,951	4,175
Interest payments	729	1,145	1,050	569	560	1,128
External	353	661	561	329	320	648
Domestic	376	484	489	240	240	480
Transfers and subsidies	767	1,302	1,399	528	760	1,288
Capital expenditure	1,908	3,914	3,928	2,378	2,096	4,473
Current account balance	**-1,038**	-734	-415	**827**	**890**	**1,717**
Overall balance excluding elections	**-2,944**	-4,648	-4,343	-1,550	-1,206	-2,756
Elections	17	0	0	400	0	400
Overall balance	**-2,961**	-4,648	-4,343	-1,950	-1,206	-3,156
Financing	**2,961**	**4,648**	4,343	**1,950**	**1,206**	**3,156**
External net financing	**399**	**865**	**742**	716	-3,267	-2,552
Grants	113	135	171	225	225	450
Loans (net)	-482	639	504	14	-657	-644
Disbursements	102	1,688	1,583	675	0	675
Amortization	-584	-1,049	-1,079	-662	-657	-1,319
Arreas (net)	768	91	67	477	-2,835	-2,358
Accumulation	827	1,666	1,411	477	81	0
Reduction (-)	-59	-1,575	-1,344	0	-2,916	-2,358
Internal net financing	2,562	3,809	3,601	1,235	1,165	2,400
Banking system	2,795	3,931	3,743	1,235	1,165	2,400
BRH 5/	2,898	3,905	3,851	1,235	1,165	2,400
Commercial banks	-103	25	-108	0	0	0
Arrears (net)	-233	-128	-142	0	0	0
Financing gap 6/		0	0	0	3,308	3,308

Table 2. Haiti: Central Government Operations 1/

	Fiscal Year Ending September 30					
		Prog. Oct.–Sep.2/	Prel. Oct.–Sep.3/	Prog. Oct-Mar.	Proj. Apr.–Sep.	Proj. Oct.–Sep.4/
	2002	2003		2004		
	(In percent of GDP)					
Total revenue	**8.1**	**8.4**	**9.2**	**9.8**	**9.8**	**9.8**
Current revenue	8.1	8.4	9.2	9.8	9.8	9.8
Internal	5.8	5.8	6.4	6.8	6.3	6.6
External	2.1	2.3	2.4	2.9	3.4	3.1
Other current revenue	0.1	0.2	0.4	0.1	0.1	0.1
Total expenditure	**11.2**	**12.4**	**12.9**	**12.1**	**11.6**	**11.8**
Current expenditure	9.2	9.0	9.5	8.5	8.5	8.5
Wages and salaries	3.6	3.4	3.3	3.6	3.6	3.6
Net operations	4.0	3.5	4.1	3.3	2.9	3.1
Interest payments	0.8	1.0	0.9	0.8	0.8	0.8
External	0.4	0.6	0.5	0.5	0.5	0.5
Domestic	0.4	0.4	0.4	0.4	0.4	0.4
Transfers and subsidies	0.8	1.1	1.2	0.8	1.1	1.0
Capital expenditure	2.0	3.4	3.4	3.6	3.1	3.3
Current account balance	**-1.1**	**-0.6**	**-0.2**	**1.2**	**1.3**	**1.3**
Overall balance excluding elections	**-3.1**	**-4.0**	**-3.6**	**-2.3**	**-1.8**	**-2.1**
Elections	0.0	0.0	0.0	0.6	0.0	0.3
Overall balance	**-3.1**	**-4.0**	**-3.6**	**-2.9**	**-1.8**	**-2.4**
Financing	**3.1**	**4.0**	**3.6**	**2.9**	**1.8**	**2.4**
External net financing	0.4	0.7	0.6	1.1	-4.9	-1.9
Grants	0.1	0.1	0.1	0.3	0.3	0.3
Net loans	-0.5	0.5	0.4	0.0	-1.0	-0.5
Disbursements	0.1	1.5	1.4	1.0	0.0	0.5
Amortization	-0.6	-0.9	-0.9	-1.0	-1.0	-1.0
Arreas (net)	0.8	0.1	0.1	0.7	-4.2	-1.8
Accumulation	0.9	1.4	1.2	0.7	0.1	0.0
Reduction	-0.1	-1.4	-1.2	0.0	-4.4	-1.8
Internal net financing	**2.7**	**3.3**	**3.0**	**1.8**	**1.7**	**1.8**
Banking system	2.9	3.3	3.1	1.8	1.7	1.8
BRH 5	3.0	3.4	3.2	1.8	1.7	1.8
Commercial banks	-0.1	0.0	-0.1	0.0	0.0	0.0
Arrears (net)	-0.2	-0.1	-0.1	0.0	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	0.0	4.9	2.5
Memorandum item:						
Nominal GDP (millions of gourdes)	96342	116289	116289	133895	133895	133895

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Does not include most expenditures on projects and technical assistance financed with concessional loans and grants.
2/ Revised actual data for October-March and Program for April-September.
3/ Preliminary data for FY 2002/03.
4/ Program for first semester of FY 2003/04 (October 2003–March 2004) and projection for second semester.
5/ For 2003/04, reflects net disbursement from IDB.
6/ To cover the clearance of external arrears and part of current debt service.

Table 3. Haiti: Summary Accounts of the Banking System

	2001	2002	2003 June Prel.	2003 Sep. Prog	2003 Sep. Prel.	2003 Dec. Prog.	2004 March Prog.	2004 Sep. Proj.
	(In millions of gourdes)							
	I. Central Bank							
Net foreign assets 1/	**4,491**	**4,014**	**5,458**	**5,881**	**5,427**	**7,202**	**7,139**	**7,333**
(In millions of U.S. dollars)	176	135	127	131	121	160	159	163
Net international reserves (program)	109	53	44	30	36	46	42	41
Commercial bank deposits	67	82	84	101	85	114	117	122
Net domestic assets	**1,142**	**2,639**	**3,221**	**3,258**	**3,006**	**1,856**	**1,807**	**1,875**
Credit to the nonfinancial public sector 2/	12,169	15,200	18,561	19,123	18,983	19,338	20,218	21,383
Of which: credit to the central government 3/	12,200	15,169	18,520	19,069	18,889	19,244	20,124	21,289
Liabilities to commercial banks	-10,468	-12,123	-16,086	-15,670	-17,515	-18,186	-19,116	-20,213
Of which:								
Cash-in-vault and reserve deposits	-7,691	-8,970	-12,005	-13,183	-13,072	-13,819	-14,556	-15,470
BRH bonds	-2,777	-3,153	-4,081	-2,488	-4,443	-4,367	-4,560	-4,743
Other	-560	-438	746	-194	1,537	705	705	705
Currency in circulation	**5,633**	**6,652**	**8,678**	**9,139**	**8,433**	**9,058**	**8,946**	**9,208**
	II. Consolidated Banking System							
Net foreign assets	**8,354**	**8,421**	**13,380**	**12,780**	**13,261**	**14,805**	**14,895**	**15,349**
(In millions of U.S. dollars)	328	284	312	284	316	350	352	362
Of which: commercial banks NFA	152	148	185	153	195	190	193	199
Net domestic assets	**23,400**	**28,808**	**37,282**	**38,884**	**38,519**	**38,576**	**40,751**	**43,507**
Credit to the nonfinancial public sector 2/	12,257	15,229	18,398	19,123	18,622	19,195	20,075	21,240
Credit to the private sector	12,636	14,512	19,316	20,387	19,271	18,696	19,991	21,582
In gourdes	7,414	8,085	10,243	10,937	10,161	9,316	10,341	11,347
In foreign currency	5,222	6,427	9,073	9,450	9,110	9,380	9,650	10,235
(In millions of U.S. dollars)	205	216	212	210	217	223	229	242
Other	-1,493	-932	-432	-626	626	685	685	685
Broad money	**31,753**	**37,229**	**50,662**	**51,664**	**51,780**	**53,381**	**55,646**	**58,857**
Currency in circulation	5,633	6,652	8,678	9,139	8,433	9,058	8,946	9,208
Gourde deposits	15,395	16,810	21,150	21,645	21,791	22,137	23,974	25,843
Foreign currency deposits	10,725	13,766	20,834	20,880	21,556	22,186	22,726	23,806
(In millions of U.S. dollars)	421	464	486	464	513	527	539	563
	(Percentage change relative to broad money in the preceeding period) 4/							
Net foreign assets	-4.2	0.2	13.3	11.9	13.0	3.0	3.2	4.0
Net domestic assets	9.4	17.0	22.8	26.8	26.1	0.1	4.3	9.6
Credit to the nonfinancial public sector 2/	8.5	9.4	8.5	10.3	9.1	1.1	2.8	5.1
Credit to the private sector	-3.5	5.9	12.9	15.8	12.8	-1.1	1.4	4.5
Broad money	5.2	17.2	36.1	38.7	39.1	3.1	7.5	13.7
Currency in circulation	6.6	18.1	30.5	37.1	26.8	7.4	6.1	9.2
Gourde deposits	9.3	9.2	25.8	28.8	29.6	1.6	10.0	18.6
Foreign currency deposits	-0.9	28.4	51.3	51.7	56.6	2.9	5.4	10.4
Credit to the nonfinancial public sector 2/	26.4	24.2	20.8	25.2	22.3	3.1	7.8	14.1
Credit to the private sector	-7.7	14.8	33.1	40.5	32.8	-3.0	3.7	12.0
Memorandum items:								
End-of-period gourdes per U.S. dollar	25.49	29.70	42.86	…	42.03	…	…	…
Net international reserves								
in percent of broad money	14.1	10.8	10.8	11.4	10.5	13.5	12.8	12.5
Percent in foreign currency								
Bank deposits	41.1	45.0	49.6	49.1	49.7	50.1	48.7	47.9
Credit to the private sector	41.3	44.3	47.0	46.4	47.3	50.2	48.3	47.4
Commercial Bank US$ loan/US$ deposits	48.7	46.7	43.5	45.3	42.3	42.3	42.5	42.9

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.

2/ Excludes special accounts.

3/ Reflects projected disbursement of US$ 15 million in December 2003.

4/ Percentage change for June 2003, December and March 2004 calculated with respect to end-September of previous year

Table 4. Haiti: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	Fiscal Year Ending September 30				
			Prel.	Proj	
	2000	2001	2002	2003	2004
Current account deficit (-) (excluding grants)	**-258.8**	**-224.1**	**-144.8**	**-162.1**	**-234.8**
Trade balance (deficit -)	-755.8	-750.2	-709.4	-698.5	-790.5
Exports, f.o.b.	331.0	305.2	273.2	330.0	364.0
Of which: Assembly industry exports	257.7	251.2	220.8	284.9	313.4
Imports, f.o.b.	-1,086.7	-1,055.4	-982.6	-1,028.5	-1,154.5
Services (net)	-96.3	-108.1	-92.6	-122.3	-117.4
Receipts	172.0	137.4	163.7	161.5	179.5
Payments	-268.3	-245.4	-256.3	-283.8	-296.9
Income (net)	15.2	10.6	8.2	-14.3	-6.9
Of which: Interest payments	-13.8	-10.7	-14.5	-14.7	-14.5
Private transfers (net) 1/	578.0	623.6	649.0	673.0	680.0
External grants 2/	**221.3**	**160.6**	**135.1**	**140.2**	**210.8**
Current account deficit (-) (including grants)	**-37.6**	**-63.4**	**-9.6**	**-21.9**	**-24.0**
Capital and financial accounts (deficit -)	**-14.4**	**55.5**	**-61.4**	**14.4**	**44.3**
Public sector capital flows (net)	41.3	0.8	-8.0	34.1	15.3
Loan disbursements	66.9	28.3	13.0	54.3	44.3
Amortization	-25.7	-27.5	-21.0	-20.2	-29.0
Banks (net)	-55.1	16.0	3.4	-47.0	-4.0
Direct investment	8.0	2.0	4.7	20.0	33.0
Other 3/	-8.6	36.7	-61.5	-0.1	0.0
Overall balance (deficit -)	**-52.0**	**-8.0**	**-71.0**	**-14.9**	**20.3**
Financing	**52.0**	**8.0**	**71.0**	**14.9**	**-93.8**
Change in net international reserves (increase -)	46.0	-3.9	43.5	14.0	-42.0
Change in arrears (reduction -)	6.0	11.8	27.4	0.9	-51.8
Rescheduling	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**73.5**
Memorandum items:					
Current account balance, excluding grants (in percent of GDP)	-6.6	-6.1	-4.1	-5.9	-8.3
Current account balance, including grants (in percent of GDP)	-1.0	-1.7	-0.3	-0.8	-0.8
Exports (fob) growth	-2.5	-7.8	-10.5	20.8	10.3
Import (fob) growth	6.8	-2.9	-6.9	4.7	12.2
External debt as percent of exports	226.8	260.6	268.3	233.0	225.8
Debt service as percent of exports	7.8	8.6	8.1	7.1	8.0
Net foreign assets of the central bank (US$ million)	172.3	176.2	132.6	118.6	160.8
Net international reserves (US$ million) 4/	162.9	108.8	50.5	35.8	40.8
Liquid gross international reserves (in months of imports of goods and services) 5/	1.9	1.5	0.9	0.6	0.6
Net international reserves (in months of imports of goods and services) 4/	1.4	1.0	0.5	0.3	0.3

Sources: Data provided by the central bank; and Fund staff estimates.

1/ Based on remittances transferred through authorized "transfer houses" and central bank, estimates of such transfers channeled through other means.

2/ World bank survey of donor-provided external financing, and staff estimates.

3/ Includes short-term capital and errors and omissions.

4/ Program definition, excluding dollar commercial bank deposits at the BRH.

5/ Freely Usable Reserves. Excludes dollar commercial bank deposits at the BRH

Table 5. Haiti: Stock of External Arrears and Projected Debt Service

(In millions of U.S. dollars)

	Fiscal Year Ending September 30						
	1998	1999	2000	2001	2002	2003	2004 1/
External arrears							
Total	**0.0**	**0.0**	**6.0**	**17.8**	**50.9**	**51.8**	**0.0**
Multilateral creditors	**0.0**	**0.0**	**2.1**	**11.3**	**39.0**	**33.3**	**0.0**
IDB	0.0	0.0	0.2	4.0	19.6	0.0	0.0
World Bank/IDA	0.0	0.0	0.8	6.1	19.0	32.4	0.0
IMF	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Other (OPEC and FIDA)	0.0	0.0	0.9	1.1	0.4	0.9	0.0
Bilateral creditors	**0.0**	**0.0**	**3.9**	**6.6**	**11.9**	**18.5**	**0.0**
Projected debt service 2/							
Total	**...**	**...**	**...**	**...**	**...**	**...**	**50.3**
Multilateral creditors	**...**	**...**	**...**	**...**	**...**	**...**	**41.8**
IDB	...	...	...	...	...	...	18.0
World Bank/IDA	...	...	...	...	...	...	14.6
IMF	...	...	...	...	...	...	6.6
Other (OPEC and FIDA)	...	...	...	...	...	...	2.6
Bilateral creditors	**...**	**...**	**...**	**...**	**...**	**...**	**8.5**

Sources: Bank of the Republic of Haiti; the World Bank; and Fund staff estimates.

1/ Projections, assuming full clearance of arrears by end of FY 2004.

2/ Excluding arrears reduction.

Port-au-Prince, Haiti
December 11, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. We would like to inform you that we have completed our discussions with Fund staff on the first quarterly review of the Staff Monitored Program (SMP). These discussions have shown that our program remains on track.

2. The macroeconomic situation has improved notably in recent months. The exchange rate has stabilized, inflation has continued to decline, and net international reserves increased above the program floor. We have also made progress in implementing measures focused on strengthening the finances, governance and transparency in the public sector. The draft budget law for 2003/04 was submitted to parliament on October 7, 2003. The pre-shipment customs inspection started in August as envisaged, and the letter of intent and the staff report for the SMP have been published on the Fund's website. Finally, the terms of reference for external financial audits of key public sector enterprises will be finalized with the support of the World Bank, and we are making every effort to ensure that account restructuring of the electricity (EDH) and telecom (TELECO) companies begin before end-December 2003.

3. The government remains committed to achieve the objectives of the SMP through continued implementation of prudent economic and financial policies. In the context of this review, we have reached understandings on policies and targets for the second half of the SMP, covering October 2003-March 2004. The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reports on program implementation to date and on the measures we intend to implement in the remainder of the SMP, and proposes the quantitative indicative targets and structural benchmarks for December 31, 2003 and March 31, 2004. This MEFP supplements the MEFP that is attached to our letter to you of June 10, 2003 and that continues to represent our policy understandings in all respects not specifically addressed in this memorandum.

4. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Haiti will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. The government will communicate to the IMF all the information needed to monitor progress in implementing the program.

Sincerely yours,

/s/	/s/
Faubert Gustave	Venel Joseph
Minister of Economy and Finance	Governor
Haiti	Bank of the Republic of Haiti

HAITI—SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR THE FIRST SEMESTER OF FY 2003/04

I. BACKGROUND

1. Following three years of decline in economic activity, the government in early 2003 put in place corrective fiscal and monetary policy measures to stabilize the economy and establish conditions to restore economic growth. In particular, the subsidy on petroleum products was eliminated by raising domestic fuel prices and introducing a flexible mechanism for setting domestic prices for petroleum products, monetary policy was tightened, and a revised budget for FY2002/03 was adopted that allowed a significant reduction in central bank financing of the government deficit.

2. To consolidate the stabilization gains, and establish a track record of policy implementation that could lay the basis for a PRGF-supported program with full re-engagement of the international donor community, the government has been implementing a one-year staff-monitored program (SMP), covering the period April 2003–March 2004.

3. The main objectives of our economic program remain as described in the Memorandum of Economic and Financial Policies attached to our letter of June 10, 2003 to the Managing Director of the International Monetary Fund. The SMP initially specified policies for the first six months (April–September 2003), while the present memorandum describes the government's economic program for October 2003–March 2004 that will be monitored by Fund staff. The government intends to publish this memorandum to keep the public informed about its policies and objectives, reaffirming its commitment to transparency and economic reform.

II. PROGRAM IMPLEMENTATION AND PERFORMANCE

4. The macroeconomic situation has improved notably in recent months, reflecting the measures implemented to date. Tight financial policies helped stabilize the exchange rate and reduce inflation.

- Our fiscal program is being implemented consistent with the objectives of the 2002/03 Budget Law amended last June. Tax receipts have been higher than anticipated, largely reflecting strong revenue collection from petroleum products and taxes collected in the provinces. On this basis, we have contained the fiscal deficit and limited borrowing from the BRH within the agreed ceiling.

- Monetary policy has remained tight to support financial stabilization. In recent months, the BRH sterilized the impact of monetary deficit financing and of its purchases of foreign exchange in the market, by issuing bonds at relatively high interest rates. The exchange rate has fluctuated around G 42 per U.S. dollar, and monthly inflation fell to 1.3 percent in October, from 3.7 percent in March.

5. Good progress has been made in regularizing our relations with multilateral development banks. The government cleared arrears (US$32 million) to the Inter-American Development Bank (IDB) on July 9, 2003. Subsequently, the first tranche of the re-activated Investment Sector Loan (US$35 million) was disbursed. As the conditionality for this loan has been largely met, we expect its second tranche (US$15 million) to be disbursed in 2003.

6. We have continued to implement structural reform measures focused on strengthening the finances and governance in the public sector. A cash management system, with quarterly ceilings on BRH financing of the central government, was put in place. A flexible price-setting mechanism for petroleum prices based on the 1985 law is being implemented, and information on its operation is provided to the public. A draft budget law for FY2003/04 was submitted to parliament on October 7 along with drafts laws of a new tariff code, income tax, and a framework for the preparation and execution of the budget. The government consented to the publication of the letter of intent and the staff report for the SMP on the Fund's website.

7. All quantitative indicative targets under the SMP for end-June 2003 were observed, and implementation of the main policy actions is broadly on track. Central bank financing of the central government was below the target level of G 750 million, and net international reserves rose to US$44 million, above the program floor of US$30 million. The key structural benchmarks agreed under the SMP that were implemented include: (i) pre-shipment inspection commenced in August, 2003; and (ii) the budget amended by the parliament in June 2003 was published, with data on budget execution regularly made available to the public. Discretionary ministerial accounts have been made subject to stricter controls exercised by the Ministry of Finance, with a view to reducing the use of these accounts. The structural benchmark of initiating external financial audits of EDH and TELECO by international firms before end-September 2003 is presently being modified following a World Bank mission that completed a preliminary evaluation in mid-September. The mission indicated that for the time being, EDH and TELECO were not ready to be audited by international firms because (i) their financial statements, if they exist, are not presented according to generally accepted accounting standards, and (ii) public enterprises lack the capacity to apply some key recommendations made from previous audits. Moreover, the external financing required to undertake financial audits of EDH and TELECO, as well as APN, AAN, and CAMEP, has not yet been mobilized. As noted in section III below, in the second half of the SMP we intend to implement measures to attain the structural benchmarks.

III. Policies for October 2003—March 2004

8. The government is committed to consolidate the macroeconomic stabilization, and to fully implement the reform measures envisaged under the SMP. Our objective is to create the conditions for sustained rapid growth and poverty reduction, and to gain broad support from the international community for its implementation.

9. The program for the period October 2003–March 2004 focuses on the 2003/04 budget and the corresponding financial program for the whole fiscal year. Our macroeconomic

framework for 2003/04 aims for real GDP growth of 1 percent and consumer price inflation of 12 percent (end of period). Fiscal adjustment and the associated ongoing reduction in central bank financing of the central government are at the heart of the program. Continued fiscal adjustment will ease the burden on monetary policy, allowing a gradual reduction in interest rates and creating room for a recovery in credit to the private sector. We are committed to making further progress in implementing structural reforms aiming at strengthening the finances and governance in the public sector. These reforms will continue to focus on raising fiscal revenues, curtailing discretionary spending, and enhancing the transparency of public sector operations.

Fiscal policy

10. The draft 2003/04 budget submitted to parliament targets an overall deficit of G3,156 million (2.4 percent of GDP). This will permit a further cut in BRH financing of the budget to about G2,400 million (1.8 percent of GDP), from the 1.9 percent of GDP (annualized) programmed for April–September 2003. Somewhat more than half of that financing (nearly one percent of GDP) will be used in the first half of the fiscal year, in part to accommodate exceptional expenditures associated with the celebration of the bicentennial of the Republic in early 2004. Our budget targets for FY 2003/04 are as follows:

11. Revenues are projected to increase to 9.8 percent of GDP, taking into account the full-year impact of the measures adopted in the revised budget for 2002/03—in particular, the continued implementation of a flexible petroleum price mechanism and petroleum taxation, broadening of the base of the turnover tax and the increase in excise taxes on alcohol and tobacco, and improved valuation of imports with the assistance of a pre-shipment inspection firm.

Haiti: Central Government Budget 2003/04
(In percent of GDP)

	I Oct.–Mar. (Prog).	II Apr.–Sep. (Proj.)	Year
Revenue	9.8	9.8	9.8
Expenditure	12.7	11.6	12.1
Wages and salaries	3.6	3.6	3.6
Net operations	3.3	2.9	3.1
Transfers and subsidies	0.8	1.1	1.0
Capital expenditure	3.6	3.1	3.3
Deficit:	2.9	1.8	2.4
(Central bank financing)	1.8	1.7	1.8

12. Government expenditure will be limited to 12.1 percent of GDP (including the cost of elections). Current expenditure will be reduced from 9.6 percent of GDP in 2002/03 to 8.5 percent of GDP, notwithstanding the envisaged 25 percent increase in the government

wage bill, reflecting both a general wage adjustment and new hiring. This increase is necessary to partly mitigate the 40 percent decline in real purchasing power of the civil service during 2000–03. Nevertheless, tightened expenditure control will enable a reduction of non-priority spending. The cost of parliamentary elections planned for later this year will be accommodated within the present level of expenditures.

Monetary and exchange rate policy

13. The BRH continues to implement a cautious monetary policy. The monetary program for the first semester of FY 2003/04 aims at further reducing inflation and a moderate increase in net international reserves (NIR), in the context of the floating exchange rate system. NIR are targeted to rise by US$6 million by March 2004. To achieve these goals, the BRH will continue to issue bonds to control gourde liquidity. The authorities will avoid foreign exchange market intervention, except for meeting the target on its net international reserves. A gradual easing of monetary policy may be possible during 2004, as a function of changes in international reserves, the exchange rate, and inflation.

Structural reforms and governance

14. The government will build on the progress achieved to date in improving governance in the public sector, including public sector enterprises. The budget law for 2003/04 approved by parliament and data on its execution will be published on the website of the Ministry of Economy and Finance. The government has also submitted to parliament the draft law on the framework of budget preparation and execution which establishes well defined criteria that would facilitate reduction in the use of discretionary ministerial accounts. By March 2004, their use (except for project accounts managed jointly with donors) will be gradually restricted to one account per ministry, earmarked for emergency outlays (structural benchmark). We expect to limit current account-based spending to G2,850 million during October 2003–March 2004. With the support of the IDB, we will be implementing measures to enhance expenditure management, control, and classification. Similarly, the government's general chart of accounts and the budgetary nomenclatures for revenues and government spending will be implemented by end December 2003. The material resources needed to strengthen the operational independence of the Office of Budget Control (CSCCA) have been put in place.

15. Good management of public enterprises and consolidation of their financial position remain a government priority. Before end-December 2003, we will hire local public accounting firms to bring the presentation of the accounts of EDH and TELECO to international accounting standards, covering at least the past two accounting years. This accounting restructuring, which to the extent possible will be financed from these companies' budgets, should be completed by end-March 2004. With World Bank assistance, by end-December 2003 the government will prepare the terms of reference for hiring international management consulting firms to conduct a management study of EDH and TELECO, with a view to preparing them for restructuring and positioning themselves for appropriate follow-up on the recommendations of future auditors. With regard to CAMEP, AAN, and APN, by

end-December 2003 we will prepare the terms of reference for hiring international financial auditing firms with a view to conducting the audit before end-March 2004, provided that outside financing is available. Additional governance-related measures will be undertaken in the area of public sector finances with the support of the IDB (see below).

16. The government is working to modernize the regulatory framework of Haiti's financial system. By December 2003, after consultations with the IMF and commercial banks, a new banking law will be submitted to parliament to bring regulation of financial institutions in line with international standards. In the first half of FY2003/04, the authorities will begin to prepare a new central bank law in consultation with the IMF to provide it an adequate degree of autonomy in the conduct of monetary policy. The BRH will also begin preparations for a safeguards assessment by the IMF. The Financial Intelligence Unit (UCREF) will become operational by the end-December 2003. The anti-money laundering measures have been implemented in the banking system, recruitment of qualified personnel is underway, and chief of the UCREF has been appointed by a presidential decree of November 6, 2003. The reform of the credit cooperatives will continue. In particular, the prudential supervision framework has been operational since July 2003, and a first phase of inspections has just begun.

Financing and arrears clearance

17. Following the clearance of arrears, the IDB has resumed its program and lending operations in Haiti. The government is preparing a number of proposals that could be supported by the IDB, in particular in the area of governance with a focus on improvements in the effectiveness, accountability and transparency in the use and allocation of public sector finances. New project financing will also be sought to support improvements in basic services and to reduce poverty. An IDB mission in mid-October determined that conditionality for the second tranche of the investment sector loan was largely completed and disbursement of US$15 million is expected in December 2003. Finally, a new budget support loan was approved by the IDB on November 19, 2003.

18. The government is committed to develop a plan for the clearance of Haiti's arrears to the World Bank and bilateral creditors. We intend to seek donor financing for arrears clearance, with a view to clearing all arrears to the World Bank by June 2004, thus facilitating the transition to a fully financed PRGF-supported program.

Program monitoring

19. Performance under the program will continue to be monitored using quarterly indicative targets, structural benchmarks, and quarterly reviews. Indicative targets for end-December 2003 and end-March 2004, as specified in Table 1, relate to net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the nonfinancial public sector; net central bank credit to the central government; and domestic arrears of the central government. The main policy actions envisaged under the program are listed in Table 2, including those constituting structural benchmarks. Approval by the

management of the IMF of the Letter of Intent and the Memorandum of Economic and Financial Policies (MEFP) and their transmission to the Executive Board are subject to the prior action of parliamentary approval of a budget for FY 2003/04 in line with the fiscal targets established in the program (paragraphs 10 through 12 of this MEFP). The definitions and adjusters associated with data and information to be reported under the SMP are listed in the attached Technical Memorandum of Understanding.

20. The government will not impose restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members. Haiti will consult with the IMF periodically, in accordance with the IMF's policies on such consultations, concerning the progress made by Haiti in the implementation of policies and measures designed to address the country's balance of payments difficulties.

Table 1. Haiti: Indicative Targets, June 2003–March 2004 1/

	Actual stock at end-March 2003	Cumulative flows since March 2003					
		Prog.	Actual	Prog.	Prel.	Prog.	Prog.
		June 03		Sept. 03		Dec. 03	Mar. 04
Net central bank credit to the central government (in millions of gourdes) 2/	17,891	750	629	1,200	997	1,555	2,435
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes) 2/	17,847	770	551	1,220	1,109	1,575	2,455
Net domestic assets of the central bank (in millions of gourdes) 2/	7,194	-200	-484	350	-372	-192	-124
Domestic arrears of the central government		0	0	0		0	0
Publicly contracted or guaranteed nonconcessional external loans (In millions of U.S. dollars)							
Up to one year	...	0	0	0		0	0
Over one-year maturity	...	0	0	0		0	0
Net international reserves of central bank (in millions of dollars) 2/	35	0	8	0	7	10	6
Memorandum items: 3/							
Government current revenue (in millions of gourdes)	...	2,700	3163	5,369	6,395	3,298	6,548
Government total expenditure (in millions of gourdes)	...	3,650	4,013	7,064	7,654	4,174	8,098

Sources: Ministry of Finance, Central Bank of Haiti, and Fund staff estimates.

1/ Refer to technical memorandum for definitions of indicative targets.

2/ All disbursements of nonproject budgetry support will be set aside to finance the clearance of arrears and current debt service to unilateral development banks. Program floor for NIR was set at US$30 million at end-March 2003.

3/ Not targets.

Table 2. Haiti: Main Policy Actions under the SMP

	Status	Comments
I. Fiscal Policy		
• Parliament to approve the draft budget for FY 2002/03, which would contain central bank financing of the deficit at G1,200 million (1.9 percent of GDP) during April–September 2003.	Observed	Prior action for SMP approval; Fiscal year starts on October 1.
• Implement a cash management system, with quarterly ceilings on central bank financing of the central government agreed with staff.	Observed	Prior action for SMP approval.
• Pre-shipment inspection firm to start operating by July 31, 2003.	Observed	Structural benchmark.
• Implement revenue measures aiming at a permanent increase in the revenue-to-GDP ratio, including the draft laws annexed to the budget law for FY 2002/03.	Observed	
• Continue with implementation of a flexible price-setting mechanism for petroleum prices based on the 1995 Law.	Ongoing	
• Authorities to present the draft budget for FY 2003/04 to Parliament, which would contain central bank financing of the deficit at G2,400 million (1.8 percent of GDP).	Presented on October 7, 2003	Prior action for completion of the first review.
• Authorities to present to Parliament a new customs code and organic law on budget preparation and execution.	Presented on October 7, 2003	To be presented jointly with the draft budget for FY 2003/2004.
• Authorities to implement new revenue and expenditure nomenclature.		
II. Monetary and Exchange Rate Policies		
• Issue central bank bonds as necessary to sell a volume of bonds consistent with the monetary framework and containment of inflation.	Ongoing	
• Prevent a further decline in net international reserves; refrain from intervention in the foreign exchange market; and increase interest rates if necessary to prevent a significant nominal depreciation of the gourde.	Ongoing	NIR accumulated above indicative target.

Table 2: Haiti: Main Policy Actions under the SMP

	Status	Comments
III. Financial sector		
• Continue to refrain from bailing out failed credit cooperatives. Refrain from bailing out depositors unless it is socially justified, within the budgeted limit (G 50 million).	Ongoing	
• Submit to parliament the draft banking law by December 2003.	Structural benchmark	In consultation with the IMF and banking sector.
• Start work on updating the central bank law during first half of FY 2003/04.	Structural benchmark	In consultation with the IMF .
• Make the Financial Intelligence Unit operational by July 2003.	Not observed	Proposed implementation by end-December 2003.
• Initiate preparations for the IMF safeguards assessment.		
IV. Program financing and arrears clearance		
• During the period of the SMP, present a plan for the comprehensive clearance of external arrears, agreed by the IMF and the World Bank. Identify financing for the clearance of arrears to MDBs during the SMP period.	Ongoing	Arrears to the IDB have been cleared.
V. Governance		
• Start to publish regularly (at least monthly) on the web and/or other media updated information on the operations of the flexible domestic fuel pricing mechanism.	Ongoing	Published..
• Outlays channeled through discretionary accounts (comptes courants) will be limited through end-December 2003 to G1,650 million and through March 2004 to G2,850 million (cumulative from October 1, 2003).		This ceiling will hold until current accounts are reduced to one per Ministry by end March 2004.
• Maintain one account per ministry earmarked for small emergency outlays by March 2004.	Structural benchmark	To be implemented with the 2003/04 budget law.
• Publish the budget approved by the parliament and regularly (monthly) publish budget execution data on the web.	Structural benchmark	Ongoing.

Table 2, Haiti: Main Policy Actions under the SMP

	Status	Comments
• Strengthen the operational independence and operating budget of the Cour Superieure des Comptes et du Contentieux Administratif.		March 2004 The operational budget for the CSCCA was included in the draft 2003/2004 budget.
For TELECO and EDH: • By end-December 2003, hire local accounting firms to verify financial statements and present accounts of at least previous two years according to international accounting standards by the first quarter 2004, so as to provide a sound basis for preparing the accounts of FY 2003/04 in preparation for the external audit. • By December 2003, prepare terms of reference for the hiring of international management consulting firms to undertake management consulting reviews, and launch them as soon as external financing is available. • By end March 2004, prepare draft TOR for the hiring of audit firms to undertake financial audit of 2003/2004 accounts and launch them as soon as external financing is available and fiscal year 2003/04 accounts are prepared.	Structural benchmark	The preparation of terms of reference, both for management and financial audits, will be in consultation and with technical support from the World Bank.
For AAN, CAMEP and APN • By December 2003, prepare terms of reference for the hiring of audit firms to undertake external financial audit. • Launch audit of accounts of fiscal year 2002/03 as soon as external financing is available.	Structural benchmark	The preparation of terms of reference, both for management and financial audits, will be in consultation and with technical support from the World Bank.

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

Definition of cumulative targets and adjustments

The Ministry of Economy and Finance, the Bank of the Republic of Haiti (BRH), and Fund staff will use the following definitions of indicative targets and adjustments of the indicative targets to monitor the quarterly performance under the staff monitored program for October 2003–March 2004 (first semester of FY 2003/04).

I. DEFINITIONS

a. Net BRH Credit to the Central Government[7]

1. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH from the stock of end-September 2003;

   b. Change in the stock of special accounts (EU, PL480, rice of Japan, and United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-September 2003 will be excluded from change in net domestic credit to the central government as defined above.[8]

2. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 1.b above.

3. The changes will be measured on a cumulative basis from the program stock at end-September 2003.

Ceilings for the Cumulative BRH Credit
to the Central Government[9]
(In millions of gourdes)

December 2003	March 2004
355	1235

[1] The central government comprises the presidency, prime minister's office, parliament, federal courts, treasury, and line ministries. It includes expenditure financed directly by foreign donors through ministerial accounts (comptes-courants).

[2] Special accounts are transitory accounts of the central government for specific foreign-financed projects or external assistance.

[3] Reflecting net disbursement from the IDB; gross disbursement of US$15 million less debt service due to the IDB during October 2003–March 2004.

b. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[10]

1. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:

   a. Change in the stock of net domestic credit to the public sector from the BRH according to Table 10R of the BRH from the stock of end-September 2003;

   b. Change in the stock of net domestic credit to the public sector from the BNC according to Table 610 of the BRH from the stock of end-September 2003;

   c. Change in the stock of net domestic credit to the public sector at other domestic banks; and

   d. Change in the stock of special accounts (EU, PL480, STABEX, rice of Japan, and United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-September 2003 will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

2. Changes in any other special account (as defined in footnote 2) maintained or established in the BRH, BNC, or BPH will be excluded.

3. The changes will be measured on a cumulative basis from the program stock at end-September 2003.

Ceilings for the Cumulative Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[11]
(In millions of gourdes)

December 2003	March 2004
355	1235

c. Net International Reserves

1. The change in net international reserves will be expressed in US dollars and measured using:

   a. Change in net international reserves (Table 10R that will be provided by BRH) from the stock of end-September 2003; and

[4] The NFPS includes the central government, the public enterprises (TELECO, EDH, APN, AAN, and Camep), and foreign-financed projects.

[5] Reflecting net disbursement from the IDB; gross disbursement of US$ 15 million less debt service due to the IDB during October 2003–March 2004.

b. Minus the change in U.S. dollars deposits of commercial banks at the BRH ("Dépôts a vue US$ des BCM à la BRH" of the BRH Table 10R) from the stock of end-September 2003.

2. Data will be valued at the corresponding end-of-period exchange rate.

3. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all liquid claims on nonresidents) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, foreign exchange loans from resident commercial banks, use of Fund credit, excluding trust funds, and any revolving credit from external financial institutions). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

4. The changes will be measured on a cumulative basis from the program stock of US$30 million.

Floor for Cumulative Change
in Net International Reserves[12]
(In millions of dollars)

December 2003	March 2004
10	6

d. Net Domestic Assets of the BRH

1. The change in net domestic assets of the BRH is defined as, and will be measured using:

a. Change in currency in circulation ("Monnaie en circulation" of the BRH Table 10R); and

b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to C above), converted into gourdes at the program exchange rate.

2. The program definition of net domestic assets of the BRH will use a program exchange rate of G 45 per U.S. dollar for the period October 2003–March 2004.

3. The changes will be measured on a cumulative basis from the program stock at end-September 2003.

[6] Reflecting net disbursement from the IDB; gross disbursement of US$ 15 million less debt service due to the IDB during October 2003–March 2004.

Ceilings for Cumulative Change
in Net Domestic Assets of the BRH[13]
(In millions of gourdes)

December 2003	March 2004
-202	68

e. Nonconcessional Loans

1. The definition of debt comprises all instruments, including new financial instruments that share the characteristics of debt, as set forth in paragraph No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No.12274-(00/85), August 24, 2000).

2. Concessional loans are those loans that provide a grant element of at least 35 percent based on the corresponding OECD's Commercial Interest Reference Rates (CIRRs) as of September 2000.

3. The indicative target limits exclude conventional short-term import-related credits.

4. The ceilings for contracting nonconcessional loans will be set at zero throughout the program period.

f. Government Current Accounts

1. Ministerial discretionary accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays.

2. The BRH will be providing monthly information to the Fund staff on the stock of these current accounts for the central government. Central government is as defined in footnote 1.

3. The Ministry of Economy and Finance will be providing monthly information to the Fund staff on transfers to these current accounts for the central government. Central government is as defined in footnote 1.

II. Quarterly Adjustments

The quarterly indicative targets will be adjusted for the following amounts:

[7] Reflecting net disbursement from the IDB; gross disbursement of US$ 15 million less debt service due to the IDB during October 2003–March 2004.

g. Adjustment for Domestic Arrears Accumulation (BRH Credit to CG and NFPS)

The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the nonfinancial public sector will be adjusted downwards for the amount of domestic arrears accumulation.

Programmed Flow of Domestic Arrears of the Central Government (In millions of gourdes)

December 2003	March 2004
0	0

h. Adjustment for External Loan Budgetary Support (NIR and NDA of BRH, and BRH Credit to CG and NFPS)

1. If there is a shortfall in external budgetary support, the ceilings on BRH financing of the government, the public sector and on BRH net domestic assets will be adjusted upward by such a shortfall or the amount of the debt service paid to the IDB, whichever is smaller, converted into gourdes at the program exchange rate. The floor on the NIR will be adjusted downward by the corresponding amount. The adjusters will be calculated on a cumulative basis from October 1, 2003.

2. If external loan disbursements for budgetary support exceed the level of financing assumed in the program, the ceilings on BRH financing of the government, the public sector and on the net domestic assets will be adjusted downward, and the floor on the NIR will be adjusted upward, by the amount of excess financing. The adjusters will be calculated on a cumulative basis from October 1, 2003.

Cumulative Programmed Flow of External Loans (In millions of dollars)

December 2003	March 2004
15	15

Haiti: Fund Relations

As of September 30, 2003

I. **Membership status**: Joined September 8, 1953; Article VIII.

II. **General resources account**	**SDR Million**	**Percent of Quota**
Quota	81.90	100.00
Fund holdings of currency	83.73	102.23
Reserve position in Fund	0.07	0.08

III. **SDR department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13.70	100.00
Holdings	0.24	1.73

IV. **Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
PRGF arrangements	10.62	12.97
First Credit Tranche	1.90	2.32

V. **Financial arrangements**:

Type of Arrangement	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR million)**
PRGF	10/18/96	10/17/99	91.05	15.18
Stand-by	03/08/95	03/07/96	20.00	16.40
Stand-by	09/18/89	12/31/90	21.00	15.00

VI. **Projected obligations to the Fund**: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	**2004**	**2005**	**2006**	**2007**
Principal	3.41	3.04	3.04	3.04	
Charges/interest	0.09	0.25	0.23	0.22	0.21
Total	**3.51**	**3.29**	**3.27**	**3.25**	**0.21**

VII. **Exchange arrangements:**

Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

VIII. **Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on January 24, 2003. Haiti is on the standard 12-month cycle.

IX. **Technical assistance**: A long-term macroeconomic advisor worked in the president's office from May 1999 to February 2001.

Technical assistance missions since 1997:

Department	Dates	Purpose
BTS	October 1997; February 1999	Information technology
FAD	March 1997–September 1998	Exemptions system and investment code
	November 1997	Direct taxation and exemption system
	October 1998	Large taxpayer unit
	June 1999	Industrial exemptions
MAE	October 1995–April 1998	Banking supervision
	January 1997	Role of the central bank
	August 1997	Banking law and monetary
policy		
	July 1998	Banking law
	August–October 1998; June-July 1999; October 2000	Banking supervision
	June 1999	Central bank organization
	January 2000	Dollarization and policy response
	October 2000	Banking supervision
	October 2000	Money laundering
	May 2001	Banking supervision
	January 2002	Banking supervision
	July–August 2002	Money laundering
STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998;	Money and banking statistics

	August 1998 November 1996; March 2000	Balance of payments statistics
LEG	March, June, and September 2000	Banking and central bank laws
INS	April 2002	Course on financial

programming

X. **Resident representative**: Mr. Mounir Rached has been the Fund's Resident Representative since October 2002.

Haiti—Relations with the World Bank

After nearly three years of suspension of IDA disbursement to Haiti due to arrears to the World Bank, the Haitian authorities are working closely with the staff of the Bank to facilitate a resumption of IDA lending and disbursement in the near future. The timing of IDA's re-engagement in Haiti will depend on the resolution of Haiti's arrears to the Bank; and the nature and size of IDA assistance to Haiti will depend on the Government's demonstrated commitment to macroeconomic stability as well as on Haiti's performance in the implementation of sound programs and reforms in the social sectors as well as in key areas of economic governance.

The last World Bank Country Assistance Strategy (CAS) for Haiti was reviewed by the Board of the Bank in 1996. Total World Bank commitments to Haiti peaked in fiscal year 1996, reaching US$293.6 million, after which no new IDA credits were presented to the Board. Disbursements to the Government of Haiti were suspended in January 2001 due to the accumulation of arrears to the World Bank. A health project closed in March 2001 as scheduled, and credit balance for a total of US$16.5 million for two remaining operations (road rehabilitation/maintenance and forest/parks protection technical assistance) were canceled in June 2001. Haiti was placed on non-accrual status in September 2001 and the two remaining operations closed on December 31, 2001. Haiti has continued accumulating arrears to some of its creditors and the stock of arrears owed to IDA stood at US$31.9 million at end-September 2003. A Country Assistance Evaluation (CAE) finalized in February 2002 by the Bank's Operations Evaluation Department (OED) concluded that the development impact of the Bank's assistance to Haiti had not been significant. With weak institutional capacity and poor economic governance, the CAE noted, traditional development finance programs tended to have a limited impact on poverty reduction. The CAE however, acknowledged the effectiveness of channeling assistance through NGOs and autonomous agencies. The CAE also noted the success of IFC's investment in a micro-credit project.

In January 2003, while awaiting the conditions for a resumption of IDA lending, the Bank's Board discussed a program of interim activities in support of Haiti. In addition to analytical work, these activities are packaged in a US$4.7 million small Post Conflict Fund grants program to be implemented mainly through international organizations and NGOs, targeting urgent needs in health, community driven development and economic governance. On October 10, 2003, the IFC Board approved a US$20 million investment in the largest Dominican textile company for the opening of the first free trade zone in Ouanaminte, on the Haitian side of the border.

The World Bank recently launched technical work with the Haitian authorities to identify sectors and projects that may form the backbone of a future Work Bank lending portfolio in Haiti. Initial discussions have focused on the social sectors and economic governance. In the latter area, the World Bank is currently working with the Haitian authorities on the identification of areas where the Bank can provide technical assistance.

November 3, 2003

Haiti—Relations with the IDB

The process of re-engagement between Haiti and the Bank was further bolstered by economic reform measures taken in early 2003, and the approval of the SMP with the IMF in June 2003. Shortly thereafter, Haiti cleared its arrears to the IDB, thereby enabling the Bank to resume disbursements on the balance of the remaining old loan in the portfolio, launch the reactivation of its pending loans and renew its development assistance to the country in the context of a Transition Strategy (September 2003-September 2004) leading to full re-engagement. The maintenance by the Haitian authorities of an adequate macroeconomic framework, including satisfactory performance under the SMP, is one of the key conditions for policy-based lending (PBL) support by the IDB.

Following the clearance of arrears on July 9, 2003, the IDB resumed disbursements on the balance of the remaining Economic and Social Investment Fund (FAES) loan (US$ 1.6 m), reactivated its four investment loans in priority sectors (education, health, water and sanitation and road infrastructure), and approved the reformulation of the pending Investment Sector Loan (ISL) supporting financial reform and enhanced public sector accountability. On July 24, the Bank disbursed the first tranche of US$35 million of this loan on July 24; the remaining tranche of US$15 million is tentatively expected to be disbursed by late 2003.

Additional lending operations for 2003 and 2004 are also being prepared in the context of the Transition Strategy. A PBL of US$25 million, and new investment loans included in the 2003 lending program, will soon be considered by the IDB Board of Executive Directors. The PBL will deepen the governance reforms initiated under the ISL by improving capacity to report and control expenditures, assisting the implementation of a new budget nomenclature, and further supporting the implementation of the systems plan expenditure module. New project financing supports priority high-impact investments in basic social services and to reduce poverty at the local level.