

**FOR
AGENDA**

EBS/07/82
Supplement 1

July 9, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Haiti—Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance and Modification of Performance Criteria—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2007 Article IV consultation with Haiti, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, and Haiti's request for a waiver of nonobservance and modification of performance criteria (EBS/07/82, 7/9/07), which is tentatively scheduled for discussion on **Monday, July 23, 2007**. 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. Bauer (ext. 39455) and Ms. Redifer (ext. 36979) 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 Tuesday, July 17, 2007; 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. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

HAITI

Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance and Modification of Performance Criteria—Informational Annex

Prepared by Western Hemisphere Department

July 9, 2007

	Contents	Page
Annexes		
I. Fund Relations.....		2
II. Relations with the World Bank Group.....		5
III. Relations with the Inter-American Development Bank.....		7
IV. Statistical Issues.....		9

ANNEX I. FUND RELATIONS
(As of May 31, 2007)

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	81.83	99.92
Reserve position in Fund	0.07	0.08

III. SDR department:	SDR Million	Percent of Allocation
Net cumulative allocation	13.70	100.00
Holdings	5.01	36.54

IV. Outstanding purchases and loans:	SDR Million	Percent of Quota
PRGF Arrangements	28.10	34.31

V. **Financial arrangements:**

Type of Arrangement	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDRmillion)
PRGF	11/20/06	11/19/09	73.71	28.10
PRGF	10/18/96	10/17/99	91.05	15.18
Stand-by	03/08/95	03/07/96	20.00	16.40

VI. **Projected Payments to Fund (without HIPC Assistance)^{1/}**
(SDR Million; based on existing use of resources and present holdings of SDRs)

	2007	2008	Forthcoming 2009	2010	2011
Principal					
Charges/Interest	0.33	0.51	0.51	0.51	0.51
Total	0.33	0.51	0.51	0.51	0.51

^{1/}When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. **Projected Payments to Fund: (with Board-approved HIPC Assistance)**
(SDR Million; based on existing use of resources and present holdings of SDRs)

	2007	2008	Forthcoming 2009	2010	2011
Principal					
Charges/Interest	0.29	0.51	0.51	0.51	0.51
Total	0.29	0.51	0.51	0.51	0.51

VIII. Implementation of HIPC Initiative

I. Commitment of HIPC assistance	Enhanced framework
Decision point date	November, 2006
Assistance committed by all creditors (US\$ million) ^{1/}	140.30
Of which: IMF assistance (US\$ million)	3.12
(SDR equivalent in millions)	2.10
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.04
Interim assistance	0.04
Completion point balance	---
Additional disbursement of interest income ^{2/}	---
Total disbursements	0.04

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

^{2/} Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

IX. Exchange arrangements:

Managed floating with no predetermined path for the exchange rate. The change from a fixed to managed floating regime took place in January 1990. 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.

X. Safeguards assessment

The update safeguards assessment of the Banque de la République d'Haiti (BRH), completed on March 5, 2007, found slow progress in strengthening the BRH's safeguards framework since the 2005 assessment and made recommendations to address remaining vulnerabilities. Implementation of priority recommendations, comprising a special audit of the monetary data, the formalization of an action plan to fully implement IFRS, and the establishment of an audit committee were part of the conditionality for the first review of the PRGF arrangement. The proposed audit committee will inter alia monitor the implementation of remaining safeguards recommendations.

XI. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on May 16, 2005. Haiti is on a 24-month cycle.

XII. Technical assistance

Technical assistance missions since 2005:

Department	Dates	Purpose
FAD	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration
MFD	March 2005	Monetary operations
	November 2005	Implementation of a bond auction mechanism
	May 2006	Accounting of the central bank
	March 2007	Banking law (jointly with LEG)
STA	November 2005 and May 2006	Multisector statistics
	May, October and December 2006, April-May 2007	Monetary and financial statistics
LEG	March 2007	Banking law

XI. Resident representative

Mr. Ugo Fasano has been the Fund's Resident Representative since October 2005.

ANNEX II. RELATIONS WITH THE WORLD BANK GROUP
(As of May 31, 2007)

The World Bank stepped up its engagement in Haiti in March 2004, as part of a broader partnership between the Transitional Government and donors to address Haiti's social, economic and institutional needs. The government and donors conducted a needs assessment in May 2004 which provided the basis for the Interim Cooperation Framework (ICF). This established a two-year program for reform and recovery and the structures through which it would be pursued. The ICF was presented at an international donor conference in July 2004 at the World Bank headquarters, at which donor countries and international organizations pledged US\$1.1 billion for Haiti. At a subsequent conference in July 2006 in Port-au-Prince, Haiti's new elected Government extended the ICF until September 2007 and revised it to reflect Government priorities. Donors pledged US\$751 million for the period 2006–07.

The World Bank Group's strategy and program in Haiti for FY 2007 and FY 2008 are set out in the Interim Strategy Note (ISN) reviewed by the Bank's Board on January 30, 2007. A full Country Assistance Strategy (CAS) will be prepared during FY2008 on the basis of the full Poverty Reduction Strategy Paper (PRSP) that the Government plans to complete during 2007. The most recent full CAS was discussed by the Board in 1996.

Since January 2005, when Haiti cleared its arrears to the International Development Association (IDA), IDA has approved 11 projects for Haiti, for a total value of \$199 million. This is in addition to \$12 million of trust fund resources since 2004, primarily from the Post-Conflict Fund and the Low Income Countries Under Stress Trust Fund (LICUS). All assistance has been provided entirely in grant form since July 2005.

The IDA grants program for FY 2007 totals US\$68 million. Of this, the first project (approved in July) was a US\$6 million Electricity Loss Reduction Project, which aims to strengthen operational, financial, and customer management performance in key areas of the state electrical utility. A US\$5 million Rural Water and Sanitation Project, to increase access to safe water and sanitation, and a US\$23 million development policy grant linked to the government's economic governance reform program (Economic Governance Reform Operation II) were approved in January 2007. In addition, a US\$9 million Catastrophe Risk Insurance Project, approved in March, will finance Haiti's entrance fee and participation for three years in the Caribbean Catastrophe Risk Insurance Facility, which will provide rapid payouts in the event of a major hurricane or earthquake. A US\$25 million Education for All (EFA) Project, which aims to expand primary enrollment, was approved in April 26, 2007.

The three investment projects approved in FY 2005 and FY 2006 all remain active: (1) a US\$12 million Emergency Recovery and Disaster Management Project (January 2005), which aims to support the rehabilitation of areas affected by recent disasters and strengthen capacity to manage disaster risks and respond to emergencies at both the national and community levels; (2) a US\$38 million Community Driven Development (CDD) project

(July 2005), which aims to improve access to basic social services and provide income-generating opportunities to poor people in rural and peri-urban areas; and (3) a US\$16 million Transport and Territorial Development Project (April 2006), which pilots a territorial development approach in two micro-regions, through financing improvement of key roads and other infrastructure to promote rural development.

The Bank is also funding technical assistance, primarily through two US\$2 million Economic Governance Technical Assistance Grants (ECTAG I and II, approved in June 2005 and June 2006). It is also providing support to the preparation of the PRSP. An earlier US\$61 million development policy operation in support of economic governance reform (Economic Governance Reform Operation I) is now fully disbursed. Since July 2004, the World Bank's total disbursements to Haiti have amounted to roughly US\$80 million (end-March 2007).

In addition, the Bank has completed six major analytical works, including a Country Economic Memorandum (CEM), a Country Social Analysis, and a Social Protection Strategy. A joint World Bank-IADB Public Expenditure Management and Financial Accountability Review (PEMFAR), in progress, will provide the Government with recommendations for longer-term public expenditure reform and institutional development. The Bank will also undertake a Financial Sector Assessment Program (FSAP) jointly with the IMF in FY 2008.

A Preliminary HIPC Document, prepared jointly by the Bank and IMF staff in collaboration with the Government, was discussed by the Boards of the IMF and the Bank in September 2006. The final HIPC Decision Point document was discussed by both boards in November 2006. An Interim Poverty Reduction Strategy Paper was prepared by the Government and presented to the IMF and World Bank Boards, together with the Joint Staff Advisory Note (JSAN), in November 2006 at the time of discussion of the HIPC Decision Point Document.

The International Finance Corporation (IFC) is working to identify specific actions to promote a sound business enabling environment, while investing in projects that support the development of a sustainable private sector and income-generating activities. Recent investments have been in cellular telecommunications (Digicel—US\$15 million in each of FY 2006 and FY 2007), textiles (Grupo M—US\$20 million in FY 2004), and microfinance (MicroCredit National—US\$0.4 million in FY 2004). In May, the IFC approved a US\$2.0 million trade finance line for Capital Bank. In addition, IFC is discussing with the Government the provision of advisory support in the design and implementation of private sector participation transactions for the airport of Port-au-Prince and for state-owned telecom TELECO. Additional support is envisaged through the IFC LAC Facility and the Foreign Investment Advisory Service (FIAS), possibly in the following areas: (1) business simplification; (2) improving access to finance; (3) investment facilitation (notably textiles); and (4) training, through the SME Toolkit and Business Edge.

ANNEX III. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of May 31, 2007)

Since 2003, the Bank has operationalized its presence in Haiti through two successive transition strategies. At the present time, the IDB has 20 loans under execution, totaling US\$624.9 million. The balance available for disbursements is US\$458 million, which represents 73 percent of the approved amount. Hence, the main challenge for the country and the Bank is the implementation of the portfolio.

The IDB finances projects in three of the ICF's key pillars: US\$65 million for economic governance and institutional development, US\$312 million for economic recovery, and US\$247.9 million for access to basic services.

During the period 2004–2006 the Bank disbursed about US\$163.7 million for ICF-related programs. During the period January 1st to May 31st, 2007, the Bank disbursed US\$27.4 million exceeding, one month in advance, the January to June target (105 percent). Revised targets for 2007 and 2008 are respectively US\$ 105.2 million and US\$ 160.5 million. From these amounts, US\$27.4 and US\$27.5 million respectively will be for budgetary support.

Out of the total approved portfolio of US\$ 624.9 million, US\$ 100.5 million representing four new operations and one increase are pending legal effect (legislative ratification or official publication). The following table shows the programs that were approved during the current government:

Table. IDB Programs Approved During the Preval's Government (2006–2011)

Number	Name	US\$ Million	Date of approval	Ratification / expected date
HA-L1007	Rural Water and Sanitation Program	15.0	20/09/2006	Ratified
HA-L1003	Rural Supply Chain Development Program	17.8	24/10/2006	21/05/2007
HA-L1008	Financial Sector Reform Support Program	25.0	06/12/2006	Ratified
HA-L1014	Rehabilitation of Electricity Distribution System in Port au Prince	18.1	06/12/2006	21/05/2007
HA-L1018	Support Human Resource Management in Public Sector *	10.0	13/12/2006	21/05/2007
HA-L1010	Transport Infrastructure Rehabilitation Program (increase)	14.6	08/03/2007	21/05/2007
Total		100.5		

Note: * The Parliament did not ratify this program last month. The Government has been working on this issue with the presidents of both chambers of Parliament. The program will be submitted again for ratification on May 21, 2007.

The main challenges in order to accelerate the implementation of the programs are the weak institutional capacity; the small local private market and the saturation of the national firms; and the low level of participation of foreign private firms. To improve the delivery of its aid, the Bank has taken specific measures, as special procurement measures and the delegation of authority to the Representative. To go further, the Bank is currently working on the implementation of additional measures such as the establishment of performance contracts

between the MEF and the executing units in order to promote a culture of results-based management. However, to succeed, the Bank needs strong support of the Government. With the support of the Bank, the Government should: organize presentations of business opportunities in Haiti in order to attract foreign firms to the country; expand agreements with foreign universities and technical institutions in order to improve the human capital, etc.

Ongoing Bank interventions, combining investment and policy-based loans, are complemented with a sustained program of non-reimbursable technical assistance and non financial products to underpin program and policy preparation and implementation and increase country knowledge.

The IDB is working with the government of President Préval in carrying out his vision for Haiti, which looks beyond electoral terms and calls for national unity on a development agenda based on sustainable and inclusive economic growth. For example, in collaboration with the OAS the IDB will sponsor the Foreign Trade and Investment Conference in Port Au Prince (September 2007). Also, the IDB has offered to support the development of a single three-year matrix of economic governance reforms, on the basis of which future budget support could be extended.

The Bank has elaborated a New Debt Sustainability Framework (NDS) and Performance Based Allocation System (PBA) that considers that Haiti will receive yearly grants up to US\$50 million from 2007 to 2009, inclusive. After 2009, Haiti would be eligible to receive a mix of grants and loans from the Fund of Special Operations (FSO). In terms of the allocation for Policy Based operations, rules similar to those of the International Development Association (IDA) shall be applied. Additionally, in 2006 the Bank approved a debt relief to Haiti under the HIPC initiative of US\$60.4 million. The interim debt relief will be US\$20 million for 2007–2008. The complete relief will be effective when Haiti reaches the Completion Point.

The Bank and the Government (GOH) met on April 17, 2007 to formalize the 2007–2008 work program and strategic priorities for the new Country Strategy, currently under preparation. The new operations for the period 2007 will continue supporting the key pillars of the extended ICF as well as the priorities of the Haitian government. The agreed 2007–2008 lending program is as follows:

2007		(US Million)	2008		(US Million)
HA-L1017	Strengthening Public Resource Management I	12.5	HA-L1023	Strengthening Public Resource Management II	12.5
HA-L1019	Rehabilitation of Road Infrastructure for Productive Sector I	25.0	HA-L1024	Rehabilitation of Road Infrastructure for Productive Sector II	25.0
HA-L10221	Supplementary Financing for Agriculture HA0016	12.5	HA-0033	National Watershed Management Program	12.5
TOTAL		50.0	TOTAL		50.0

ANNEX IV. STATISTICAL ISSUES

Economic statistics are broadly adequate for surveillance purposes, but further improvements in coverage, periodicity, and timeliness are desirable. Haiti is taking steps to begin participation in the General Data Dissemination System.

Real sector: A March 2000 STA technical assistance (TA) mission recommended that the Haitian Institute of Statistics (IHSI) establish a new base year for national accounts and a revised CPI. In 2004, the IHSI began publishing a new CPI rebased to August 2004 and using expenditure weights derived from a 2000 household survey. Also, the IHSI has made progress in implementing recommendations of several Fund TA missions to improve the quality of real sector statistics, and it has published annual national accounts for the period 1986/1987 to 2005/2006 based on the interim base year 1986/1987. The IHSI publishes limited quarterly data on economic activity, including indices of industrial production, energy, construction, and domestic and external trade. Preparations are underway for a survey of the informal sector, as well as a limited household survey. Further TA may be needed to address the deficiencies that continue to affect the quality of the real sector statistics. Also, the production of quarterly GDP data would be highly desirable for program monitoring purposes.

Government finance: In the course of three STA missions since November 2005 that included government finance statistics (GFS) issues, a two-tiered action plan was developed. One set of short-term measures to improve the consistency of monetary and fiscal data, and another intended to develop more fundamental, longer-term improvements to extend the coverage and breakdowns of central and general government operations and to develop functional and economic classifications of expenditure. While the longer-term improvements require additional human and financial resources, many of the shorter-term measures have been advanced or completed by the Interministerial Committee established following the November 2005 multisector statistics mission. Haiti reports monthly and annual GFS on a regular basis for publication in *IFS*. However, no data have been provided for publication in the *GFS Yearbook* for the past 15 years due to the lack of human and financial resources. Data provided in 2001 to STA were not published in the 2001 *GFSY* owing to insufficient detail and consistency problems. There is a need to improve the timeliness of dissemination of government finance statistics and to encourage the broader dissemination of balance sheets and income statements of units in the nonfinancial public sector.

Monetary accounts: Following the November 2005 multisector statistics mission, the authorities fully implemented STA recommendations to improve the sectorization and classification of accounts of the BRH and the commercial banks. This includes a move to greater automation of inputs, and a change in reporting formats consistent with the standards established under the *Manual of Monetary and Financial Statistics*. The BRH reports its integrated monetary database monthly to STA which communicates the data to WHD. Until

recently, WHD has sometimes required supplemental data, together with clarifications and further information from the BRH. Reporting via standardized reporting forms was recently initiated, and monetary data will disseminated electronically starting with the July 2007 edition of the *Supplement to the International Financial Statistics on Monetary and Financial Statistics*. The BRH has also created two interdepartmental committees to provide better oversight on the quality of data for program monitoring, and a special external audit of program monitoring data was undertaken on data as of September 30, 2006.

Balance of payments: Although progress has been made towards increasing the reliability of balance of payments data, further improvements, notably in the area of external debt data, are needed. In particular, further efforts need to be undertaken in order to centralize all information on external debt in foreign currency in a single database, by reconciling MEF and BRH debt data. Furthermore, notwithstanding the improvement in the quality and coverage of trade statistics, there is still scope for improvements in the compiling methodology and collection of trade data, notably by making a more systematic use of existing sources such as customs, port and airport authorities, airlines, and oil companies.

Haiti: Table of Common Indicators Required for Surveillance
(As of June 26, 2007)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	April 07	May 07	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	April 07	May 07	D	D	M
Reserve/Base Money	April 07	May 07	M	M	M
Broad Money	April 07	May 07	M	M	M
Central Bank Balance Sheet	April 07	May 07	M	M	M
Consolidated Balance Sheet of the Banking System	April 07	May 07	M	M	M
Interest Rates ²	April 07	May 07	W	W	M
Consumer Price Index	April 07	May 07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	April 07	May 07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec 06	May 07	M	M	M
External Current Account Balance	Sept 06	May 07	A	V	A
Exports and Imports of Goods and Services	Sept 06	May 07	M	M	M
GDP/GNP	Sept 06	May 07	A	A	A
Gross External Debt	Sept 04	Nov 04	M	M	M

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).