

**FOR
AGENDA**

EBS/09/90
Supplement 1

June 16, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Haiti—Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility for Haiti, and Haiti's requests for a waiver of a performance criterion, modification of performance criteria, and an extension of the arrangement (EBS/09/90, 6/16/09), which is tentatively scheduled for discussion on **Monday, June 29, 2009**. 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 Ms. Deléchat (ext. 39681) and Ms. Medina Cas (ext. 38416) 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 Wednesday, June 24, 2009; 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.

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INTERNATIONAL MONETARY FUND

HAITI

Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement

Informational Annex

Prepared by the Western Hemisphere Department
(In collaboration with other departments)

June 15, 2009

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Annex I. Fund Relations

(As of April 30, 2009)

I. Membership Status:

Joined: September 08, 1953; Article VIII member

II. General Resources Account:	SDR Million	%Quota
Quota	81.90	100.00
Fund holdings of currency	81.83	99.92
Reserve Position	0.07	0.08
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	13.70	100.00
Holdings	4.54	33.11

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
PRGF Arrangements	91.26	111.43

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Nov 20, 2006	Nov 19, 2009	114.66	91.26
PRGF	Oct 18, 1996	Oct 17, 1999	91.05	15.18
Stand-By	Mar 08, 1995	Mar 07, 1996	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):

	Forthcoming				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				5.62	10.30
Charges/Interest	0.47	0.50	0.50	0.49	0.45
Total	0.47	0.50	0.50	6.11	10.75

^{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.

Projected Payments to Fund: (with Board-approved HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				5.62	10.30
Charges/Interest	0.40	0.50	0.50	0.49	0.45
Total	0.40	0.50	0.50	6.11	10.75

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	Nov 2006
Decision point date	
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	0.29
Interim assistance	0.29
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	0.29

^{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.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable**IX. Exchange Arrangement**

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 assessment of the Banque de la République d'Haiti (BRH) was concluded in September 2008. The authorities have made progress in implementing safeguards recommendations, but improvements are still needed in a number of areas. The 2007 audit has been completed, but has yet to be published. The qualitative analysis of the main

differences between currently used accounting principles and IFRS did not reveal major differences and suggests that a gradual adoption of IFRS by the BRH is feasible. Another significant step was the adoption of the Audit Committee Charter in March 2007, followed by its constitution in February 2008. However, the capacity of this Committee needs to be strengthened. Vulnerabilities remain in the areas of foreign reserves management, the timely conduct of external audits, and timely production of audited financial statements.

XI. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 9, 2007. Haiti is on a 24-month cycle.

XII. Technical Assistance

Haiti has benefited from the following IMF technical assistance missions since 2005:

Department	Dates	Purpose
FAD	April 2005	Public expenditure management
	May 2005	Tax policy and revenue administration
CARTAC	April 2008	Customs administration
MCM	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)
	November 2007	BRH recapitalization plan
	March 2008	FSAP and ROSC on Banking Supervision
STA	November 2005 and May 2006	Multisector statistics
	May, October and December 2006,	Monetary and financial statistics, Government Finance statistics
	April-May and November 2007	GDPS workshop
LEG	March 2007	Banking law

XIII. Resident Representative

Mr. Ugo Fasano has been the Fund's Resident Representative since October 2005 and will be replaced by Mr. Graeme Justice on July 1, 2009.

ANNEX II. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of May 2009)

From 2003 to 2006 the Bank operationalized its development assistance to Haiti through two successive transition strategies. Currently, the Bank is operating under a new Country Strategy for the period 2007–11, a multi-year approach to support the consolidation of Haiti's economic and social recovery.

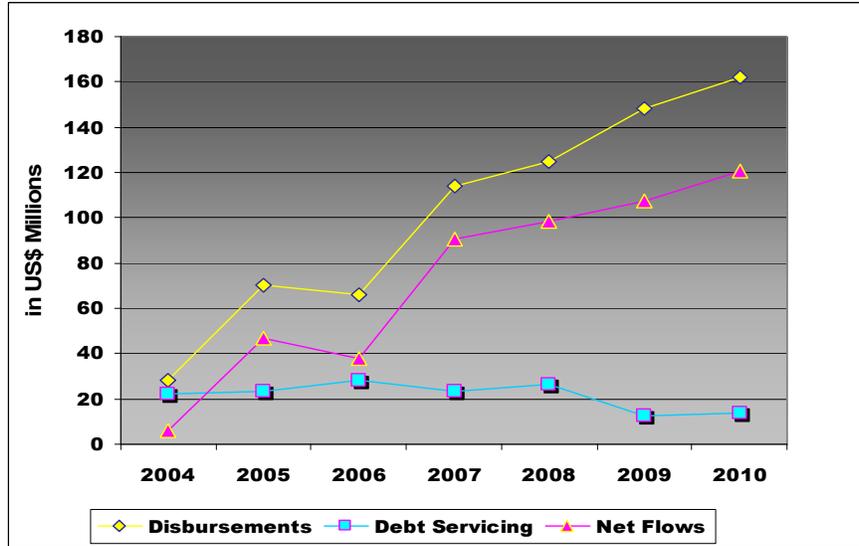
As of May 2009, the IDB's active portfolio has 22 investment operations for a total of US\$675 million. The available balance, US\$334 million, represents 49 percent of the total portfolio amount, underscoring portfolio implementation as an important challenge.

The IDB administers a total of US\$126 million from other donors. This figure includes a US\$5 million grant from the CDB to support the Bank's vocational training program and a US\$15 million loan from OFID to rehabilitate the Péligré hydroelectric power plant. Both operations are expected to be approved in 2009.

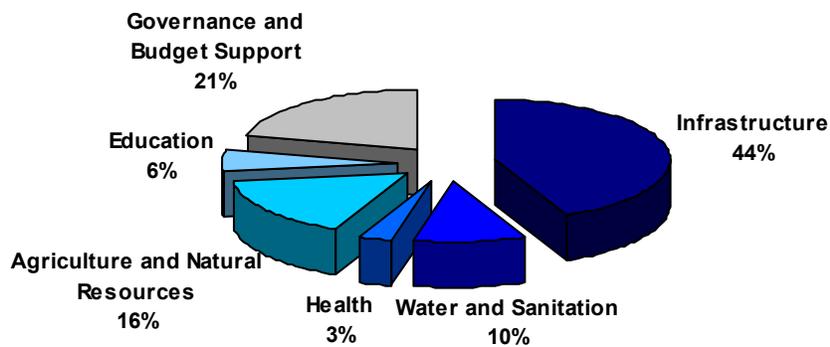
	Projects	Multilateral Investment Fund	Bank Administered Funds	Technical Cooperation
Number of Operations	22	18	10	24
Approved Amount (US\$m)	675	6	126	10
Available Balance (US\$m)	334	4	105	4

* The Bank currently administers funds from CDB, CIDA, EC and OFID

The close collaboration of the Bank's enhanced field presence with Haitian executing agencies has improved absorptive capacity. In 2008, disbursements reached US\$125 million even with the multiple shocks and are projected to be about US\$150 million for 2009. These levels are well over double those registered in 2005 and 2006. Such a trend will ensure that net cash flows to the country remain positive, as shown below.



The IDB has active investment projects in four key areas: a total of US\$141 million or 21 percent of the active portfolio for economic governance and budget support, US\$297 million or 44 percent for infrastructure (energy and transport), US\$108 million for agriculture and the environment, and US\$128 million for access to basic services (water, health, and education). These investment projects are complemented by a US\$10 million active portfolio in non-reimbursable technical cooperation and another US\$6 million in grants from the Multilateral Investment Fund, and by nonfinancial products that underpin program and policy support.



In March 2007, the IDB approved debt relief for all of Haiti's debt with the Bank accumulated prior to December 31, 2004, a total of US\$525 million. Although this relief will come into effect when the country reaches the HIPC completion point, the IDB has already provided US\$34.15 million in interim debt relief since 2007.

As part of this debt-relief initiative, the Bank implemented the new Debt Sustainability Framework (DSF) and Performance Based Allocation System (PBA) for concessional financing, which allocated US\$50 million in grants per year to Haiti in 2007 and 2008.

In December 2008, amid the devastation caused by four back-to-back storms that hit the country in August and September and a deteriorating global economic context, the IDB Board of Governors approved the doubling of Haiti's grant allocation in 2009, from US\$50 million to US\$100 million. In May 2009, the Board of Directors again confirmed its support to the country by forwarding to the Governors for consideration a proposal to increase the grant allocation to US\$120 million in 2010, thereby tripling the allocation envisioned in the Country Strategy. Both of these measures were considered vital in order to help Haiti face the aftermath of 2008's devastating shocks, to cover part of its financing needs, and to support the government's Economic Recovery Plan), launched during the Donors Conference in April.

The Bank's current program as articulated in the Country Strategy is aligned with the government's Plan. Looking ahead to the Bank's program covered by the government's next two fiscal years shows continued alignment:

Area of Focus from Government Economic Recovery Plan	Bank Pipeline		TOTAL
	2009	2010	
Strategic Infrastructure (Roads, electricity)	25.0	37.5	62.5
Access to Basic Services (water/sanitation, education, nutrition, civil registration for CCT)	37.5	35.0	72.5
Environmental Sustainability (watershed management)	12.5	17.5	30.0
Economic Governance (budget support)	25.0	30.0	55.0
Total	100.0	120.0	220.0

On April 14th, 2009, the IDB hosted a Donors' Conference where an agreement was reached on a common strategy focusing on infrastructure, the provision of basic services, agriculture, disaster preparedness and private sector development. The Donors' Conference marks the beginning of a new partnership between Haiti and donors as well as between Haiti and other stakeholders (e.g., the private sector, NGOs, and other civil society).

The Donors Conference helped to reaffirm the IDB and the International Community's commitment to providing comprehensive support to the country. The Bank's programming will be reviewed and updated each year to meet the development objectives and their prioritization in the government's Economic Recovery Plan and the broader PRSP.

ANNEX III. RELATIONS WITH THE WORLD BANK GROUP (As of June, 2009)

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. Additional budget support resources were mobilized during a follow-up Donors Conference held in Madrid (Spain) in end-November 2006. Recently, during the April 2009 Donor's Conference in Washington, DC, donors pledged US\$331 million in support of the government's Economic Recovery Program.

The World Bank and the IFC have jointly prepared a Country Assistance Strategy (CAS) for Haiti for FY 2009-2012, to align their assistance with the country's National Growth and Poverty Reduction Strategy Paper (the DSNCRP), released in November 2007. The CAS also reflects the strategic imperatives of recovery, reconstruction, and risk mitigation, in the aftermath of the devastating 2008 hurricane season. The CAS was approved by the Bank's Board on June 2, 2009.

Total IDA allocations for FY 2009-FY 2012 are projected at roughly US\$121 million, or an average of US\$30 million a year. The basic indicative IDA 15 envelope (FY 2009-FY 2011) is approximately SDR 48.3 million, or roughly US\$72 million. In addition, Haiti has in FY2009 received an additional US\$1.6 million reallocation (from earlier cancelled IDA funds) for Avian Flu prevention and control, and an additional US\$20 million under an IDA provision allowing for further funding to respond to major natural disasters. A further proposed US\$20 million allocation under this provision was announced on April 14.

This new US\$20 million of IDA funding is expected to be used primarily for additional budget support (US\$9 million, raising a planned operation to US\$12.5 million) and activities in support of the government's 18-month priority program (up to US\$11 million), through additional financing for existing projects. These operations are expected early in FY 2010.

No firm estimate is available for FY 2012, the first year of IDA 16. The program for FY 2012 is expected to include a budget support operation and additional financing for one or more investment projects already underway. It will be more fully developed in the CAS progress report scheduled for FY 2011.

IDA allocations have fallen sharply from FY 2005–FY 2007, when Haiti received more than US\$60 million per year. The country tapped the maximum of three exceptional allocations permitted under IDA 14 for nonpost-conflict countries re-engaging with IDA in those years. FY 2009 and FY 2010 include a small phase-out allocation (introduced in IDA 15). New allocations are further reduced by the netting out of MDRI relief from new IDA allocations, required by IDA rules.¹ The projections included here assume that MDRI will trigger at the start of FY 2010, following expected HIPC completion point in end-June 2009.

In addition, the Bank has completed seven major analytical works, including a Country Economic Memorandum (CEM), a Country Social Analysis, and a Social Protection Strategy, and a joint World Bank-IADB Public Expenditure Management and Financial Accountability Review (PEMFAR). The PEMFAR provides an analytical basis in support of the government's medium and longer-term public finance reform program. The PEMFAR examines the linkages between public finance, growth and poverty with a view to helping policymakers in Haiti design the new generation of public finance reforms centered on policy actions to promote sustained and equitable growth and reduce poverty. Following the PEMFAR findings and policy recommendations, the government prepared in November 2007 its action plan, which includes priorities to advancing public finance reforms in the short and medium terms. The action plan will be a unique policy matrix on which donors will base their support to the government's public finance reforms in the next three to five years. The Bank has also undertaken a Financial Sector Assessment Program (FSAP) jointly with the IMF in FY 2008.

A Poverty Reduction Strategy Paper (*Rapport Annuel de la Mise en Oeuvre du Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté, RA-DSNCRP*) was prepared by the Government of Haiti, through a participatory process consisting of consultations with civil society, government officials, and development partners. The DSNCRP was approved by the government and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on November 30, 2007. The annual progress report was submitted to IDA and the IMF on April 27, 2009. The DSNCRP was prepared through a participatory process consisting of consultations with civil society, government officials, and development partners. A Joint Staff Advisory Note (JSAN) of one year implementation of the DSNCRP is scheduled for discussions by the Boards of the IMF and the World Bank on June 29 and 30, respectively. A HIPC Completion Point Document is being prepared jointly by the Bank and IMF staff in collaboration with the government, and is scheduled for discussions by the Boards of the IMF and the Bank on June 29 and 30, respectively. World Bank and IMF staffs have closely monitored progress in implementing the HIPC Completion Point triggers. Bank and Fund staffs have also monitored closely

¹ While MDRI relief will reduce new IDA allocations, it is important to note that it will free up considerable budget resources that the government will be able to apply to priority areas and is thus an implicit form of budget support.

Haiti's debt situation. In this regard, the staffs of the two institutions prepared a new Debt Sustainability Analysis in June 2009.

The International Finance Corporation (IFC) has supported the government's priorities of promoting economic growth and improving access to quality basic services, particularly for the most vulnerable groups. IFC has expanded its activities in Haiti over the past two years and established a full-time presence in the country, with three staff in its office, co-located in the World Bank office.

IFC's activities have focused on four key areas: (i) the financial sector; (ii) infrastructure; (iii) textiles; and (iv) investment climate. IFC made five investments in Haiti during FY 2000-07 for a total of US\$47 million:

- **Digicel I & II.** In FY 2006 and FY 2007 IFC provided two loans of US\$15 million each to support the establishment and expansion of Digicel's infrastructure and services in the country. This investment has resulted in significant impacts (e.g. an increase in mobile penetration from 375,000 in 2006 prior to Digicel's entry to over 3 million in 2009).
- **Capital Bank, S.A.** IFC approved in early May 2007 a US\$3.0 million trade finance line to Capital Bank, Haiti's third largest bank.
- **CODEVI Textile Park (Grupo M).** IFC provided a US\$14 million loan in FY 2004 to Grupo M, a garment manufacturer in neighboring Dominican Republic, to establish the CODEVI textiles industrial park in Ouanaminthe, Haiti. Today, CODEVI employs around 3,500 Haitian workers and is expected to continue to grow.

Micro Credit National (MCN). IFC invested equity with private sector partners to establish Micro Credit National (MCN), Haiti's first private sector microfinance institution.

In the financial sector, IFC addresses challenges including banks' risk aversion through investment and advisory activities, strengthening financial institutions and improving access to finance, particularly for micro entrepreneurs and SMEs. For example, IFC is providing advisory services to Haiti's largest bank, Sogebank, S.A., to create a dedicated SME unit. It is also providing ongoing advisory support to the central bank to establish a credit bureau.

To improve Haiti's inadequate infrastructure, IFC focused on enhancing private sector participation, attracting foreign direct investment and "know-how," and assisting the Government in improving capacity. IFC has two advisory mandates to: (i) assist in developing a private sector participation solution for the main airports; and (ii) structure and implement the privatization of the state-owned fixed line telecom operator TELECO. In addition, IFC has started training and capacity building for SMEs.