BUFF/ED/11/66

May 6, 2011

Statement by Mr. Nogueira Batista, Ms. Florestal, and Mr. Gabriel on Haiti
Executive Board Meeting
May 11, 2011

The staff report, the Letter of Intent and the Memorandum of Economic and Financial Policies support well the authorities' request of the conclusion of the first review under the Extended Credit Facility (ECF) and the disbursement of the second tranche of SDR 8.19 million. Despite a recurrence of external shocks, the authorities have stayed the course and maintained fiscal discipline, pursued a prudent monetary policy and implemented all structural measures agreed upon for end-September 2010. Additionally, a successful assessment of accomplishment of program engagements for end-March 2011 is anticipated. Challenges abound but, as staff points out, the outlook is rather favorable although it should be noted that Haiti remains vulnerable to the impact of the rising international prices of agricultural goods and petroleum products. In this regard maintaining a single digit inflation will require skillful use of policy tools and coordination between the fiscal and the monetary authorities.

On the domestic front, a smooth transition can be anticipated. The President-elect, Michel Joseph Martelly has on several occasions expressed his eagerness to start working with Parliament on the basis of a true partnership. He has also refuted the idea that rapports with Parliament would be difficult as he sees no reason for there to be a confrontational relationship between an elected President and Parliament as both the Executive and the Legislative bodies have a mandated obligation to achieve results for the population. In the meanwhile, a multi-sector transition team has been nominated by the President-elect to ensure a speedy and smooth handover of power. The Prime Minister has also designated counterparts.

Performance under the ECF

On behalf of our authorities, we wish to highlight the following key achievements and results touched upon in the staff report: (i) the remarkable domestic revenue collection effort (53% more than programmed) which explains largely the improvement of the overall fiscal balance beyond what was anticipated in the program; (ii) the maintenance and even improvement of the safeguards framework at the Central Bank in spite of the significant loss of physical and human capital that ensued from the earthquake; (iii) the improvement of the financial indicators of the banking sector both on the profitability front as well as on the prudential and risk management side (e.g. significant decrease of NPLs with increased provisioning, increased liquidity) and, (iv) the strengthening of the external position as well as the maintenance of a stable exchange rate in the context of a massive unprecedented inflow of foreign exchange. On the structural reform agenda, efforts to improve the business climate as well as public financial management, particularly through greater transparency in the electricity and procurement sectors, are noteworthy.

Revenue Mobilization and External Assistance

The authorities are determined to strengthen further their efforts to mobilize fiscal revenues including through tax measures and to seek scaled-up access to external funds as they are indispensable to finance requisite investments in economic and social infrastructures. In this regard, two key issues need to be tackled: (i) the post-earthquake surge in the amount of taxes forgone (145% of total revenues) through the exemptions of imports of international organizations and NGOs, (ii) the sub-optimal modalities of disbursement of budget support. We call on the Fund to support the authorities' efforts and to encourage donors to better align their assistance programs with domestic priorities as outlined in the national reconstruction and poverty reduction programs as well as with the programmed timing of budget outlays. In effect, this past year the efficiency of external supports was negatively affected by donors targeting particular projects or indicating strong preferences for the use of the funds granted. As far as budget support is concerned and, as internationally recognized, general budget support is a more efficient delivery mechanism than targeted support. In practice grants for which donors indicate the desired sector as well as the geographic area where they wish the funds to be spent are similar to investment support funds and do not meet the norms of budget support. Targeted support generally does not help the government close the fiscal gap. Additional inefficiencies stem from having budget support funds go through the entire process of the Reconstruction Fund removing in practice a substantial amount of resources from the purview of normal budget execution processes.

The extent of the accountability of the State is also questionable when Funds are disbursed and spent through mechanisms on which the Government of Haiti has limited or no control over. This concern is particularly relevant with regards to resources from private donors and most particularly those entrusted to NGOs. Important savings could be achieved with greater coordination of external assistance and alignment of NGO projects with the government's development and reconstruction programs. The government has begun to try to tackle these issues. For example, private institutions such as NGOs who indirectly receive public funds (through taxes forgone) will have to be audited by the General Public Auditor like all public entities. Also, the Ministry of Economy and Finance publishes now on the Web the amount of tax exemptions awarded as well as their beneficiary sectors for public awareness and transparency.

Just about 10 days ago the President-elect visited the Fund with a team of personal advisors to seek the Fund's strengthened collaboration and support. He reiterated his determination to deliver on election promises which include (i) universal and free access to education, (ii) re-localization of the tent-dwellers and, (iii) increased attentions to the agriculture sector's needs. Achieving these will also require a stepped up mobilization of resources. The Fund's management is to be commended for its recent commitment to scale up technical assistance to help support the government's revenue mobilization efforts.

Other Policy Issues

Our authorities have also asked us to highlight additional concerns and policies. The population's limited access to financial services constitutes an important impediment to growth. To favor conditions for credit growth and financial intermediation several steps have already been taken, including measures to : (i) ensure the prompt establishment of a Credit Bureau to better assess risks in the financial market, (ii) guarantee the appropriate environment for the establishment of a secondary market for the newly created Treasury Bonds, (iii) effectively regulate and supervise the insurance sector. As regards the latter, support from the international community has been requested particularly to complete a comprehensive audit of insurance companies. A good grasp of how much the earthquake has affected the insurance sector and of what other factors may have contributed to the financial difficulties the sector is confronted with is necessary to design the appropriate policies and programs going forward.

The introduction of the Treasury Bonds seeks to offer the government an additional and more sustainable source of financing for the budget. In order to guarantee the success of the new bond program the legal framework for debt management as well as technical capacity are being strengthened. One of the key objectives is to prepare a medium term debt strategy suitable for the post HIPC context. Effective institution building is crucial to strengthen trust and credibility particularly in light of the public's experiences – although in a distant past - with obligations issued but not honored. Our authorities hope that the Treasury bonds will not be considered a substitute for donors' contributions and other sources of funding. Haiti's reconstruction and development needs are enormous and cannot be met with the current level of disbursements of external assistance. While preserving debt sustainability, Haiti has to be prepared to tap into the loan market if grant funds dry up and/or are not scaled up.

On the monetary policy front, all necessary measures are being taken to ensure a smooth and efficient transition from Central Bank paper to Treasury bonds which will serve as both monetary policy instruments as well as debt instruments. In order to avoid unintended and confusing signals, the full guarantee by the Central Bank of the Treasury Bonds will be carefully phased out.

Several other constraints to private sector initiative are also being addressed. These include improving the delivery of public services which are essential for "doing business" such as telecommunication and electricity. Also, the problems related to the process of establishing a cadastre are being tackled. They have become more complicated and more costly socially and financially after the earthquake.

Relationship with the Fund

The IMF has provided Haiti with essential support to achieve the good results we are taking stock of as we discuss the first review of the ECF program. Management and staff are to be commended for their incessant engagement with Haiti. Technical assistance provided by the Fund was well targeted and the financial support through the Post-Catastrophe Debt-Relief (PCDR) will be instrumental in addressing some of the key reconstruction needs. The Fund's continuous and active presence in the reconstruction commission (CIRH) as well as in the budget support group has also contributed to boost donors' confidence.

Our authorities are particularly appreciative of the constructive dialogue that has taken place throughout the past year. We are hopeful that lessons learnt from this constant dialogue will help strengthen the Fund's partnership with Haiti as well as inspire the implementation of better procedures and practices for the relationship with the members that share some of Haiti's characteristics and/or face similar challenges.

Haiti is at a crossroad. We encourage the Fund and other donor-friends of Haiti through their representatives at the Board to seize this opportunity to strengthen their cooperation with Haiti in a manner that will improve the efficiency of the assistance that is being provided.