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INTERNATIONAL MONETARY FUND

# Minutes of Executive Board Meeting 20/8-1

9:30 a.m., January 24, 2020

## 1. Haiti—2019 Article IV Consultation

Documents: SM/19/283 and SM/19/283 Correction 1; and SM/19/283 Supplement 1; and SM/19/283 Supplement 1, Correction 1; and SM/19/283 Supplement 2; and SM/19/285; SM/19/285; and SM/19/285 Correction 1; and SM/19/285 Correction 2

Staff: Laframboise, WHD; Zettelmeyer, SPR

Length: 55 minutes

**Executive Board Attendance**

T. Zhang, Acting Chair

| Executive Directors | Alternate Executive Directors |
|---|---|
| | J. Essuvi (AE), Temporary |
| | F. Sylla (AF) |
| | D. Vogel (AG), Temporary |
| | C. White (AP) |
| A. Bevilaqua (BR) | |
| | Y. Zhao (CC), Temporary |
| | E. Cartagena Guardado (CE), Temporary |
| L. Levonian (CO) | |
| | C. Just (EC) |
| A. Buisse (FF) | |
| | K. Merk (GR) |
| | Y. Indraratna (IN) |
| | A. Korinthios (IT), Temporary |
| | K. Chikada (JA) |
| | M. El Qorchi (MD) |
| | P. Al-Riffai (MI), Temporary |
| | R. Doornbosch (NE) |
| | J. Sigurgeirsson (NO) |
| | A. Tolstikov (RU), Temporary |
| M. Mouminah (SA) | |
| A. Mahasandana (ST) | |
| | P. Trabinski (SZ) |
| | D. Ronicle (UK) |
| M. Rosen (US) | |

O. Vongthieres, Acting Secretary
P. Cirillo, Summing Up Officer
V. Sola, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

**Also Present**

Communications Department: R. Elnagar. Fiscal Affairs Department: P. Petit. Finance Department: M. Spinella. Legal Department: A. Aly. Middle East and Central Asia Department: K. Mathai. Strategy, Policy, and Review Department: C. Fratto, W. McGrew, R. Turk, K. Wang, J. Zettelmeyer. World Bank Group: J. Suarez Cordero. Western

Hemisphere Department: N. Laframboise, P. Franca Domingues, R. Garcia-Saltos, R. Ghayad, A. Husain, F. Lambert. Executive Director: S. Chodos (AG), L. Villar (CE). Alternate Executive Director: P. Fachada (BR), P. Rozan (FF), B. Saraiva (BR). Senior Advisors to Executive Directors: H. Etkes (NE), F. Fuentes (BR), G. Heim (SZ), Z. Mohammed (BR), O. Odonye (AE), J.Weil (CO). Advisors to Executive Directors: K. Badsi (MD), S. Chea (ST), M. Coronel (BR), D. Crane (US), K. Florestal (BR), T. Iona (AP), H. Koh (GR), R. Lopes Varela (AF), A. Maciá (BR), M. Mulas (CE), L. Nankunda (AF), A. Ribeiro Mateus (IT), M. Shimada (JA), M. Sylvester (CO), Y. Pierre (BR), A. Clark (UK).

## 1. HAITI—2019 ARTICLE IV CONSULTATION

The staff representatives from the Western Hemisphere Department submitted the following statement:

> This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.
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> **Dissolution of parliament**. It was not possible to hold parliamentary elections by end- October 2019 as programmed due to failure to approve a new electoral law, the absence of a budget, and no agreement on the composition of the Provisional Electoral Council. As a result, President Moïse announced that the mandates of all deputies in the legislature and two-thirds of the senate had formally expired on January 13th, leaving the country without a legislative body and creating what he called an "institutional void". However, there is disagreement regarding the number of departing senators and the term of their mandate as determined by the constitution. Pending acceptance by these departing senators that their mandate has ended, and based on precedent, it is understood that the president would rule by decree. The next presidential election is due in December 2021.
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> **Anti-government protests.** Public demonstrations waned towards the end of 2019 and schools and businesses have re-opened. Employees of the Haitian Institute of Statistics (IHSI) have been on strike since October 2019 to protest the dismissal of the head of the institution, halting its activities and the publication of economic indicators.
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> **Fiscal policy.** Staff have received no indication that the authorities have prepared or published a notional budget for FY2020, as recommended by staff (to guide fiscal policy and assist with programming expenditures and cash management). President Moïse announced on January 13th that he would allocate the 2020 salaries of the departed senators and deputies, which he valued at 1.16 billion gourdes (US$11.7 million), to build 10 schools.
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> **Food insecurity.** The WFP reports that 3.7 million people in Haiti (one in three) need food assistance, while the UN Humanitarian Affairs Office (OCHA) warned that this number could reach 4.2 million by March, with some 1.2 million likely to experience “emergency levels”. The deterioration in food security has been driven by supply disruptions related to social unrest during 2019, high inflation and depreciation of the gourd against the U.S. dollar, and a drought in 2018 that lasted until mid-2019 and led to a decline in agriculture production by about 12 percent in many parts of the country.

Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal submitted the following statement:

The discussions for Haiti’s 2019 Article IV consultation took place under exceptional circumstances and are an unequivocal testimony of the strong commitment of the authorities and the IMF team to complete the process. Given the unique circumstances that impeded mission travel to Haiti in November 2019, we commend WHD for making effectual use of the flexibility in Fund’s guidance for completing Article IV consultations in FCS countries. Accordingly, the technical discussions were held mostly through teleconferencing, while the authorities consented to come to Washington for the policy discussions.

The comprehensive set of documents is evidence of the quality of the dialogue between Fund staff and their Haitian counterparts and of the wealth of information gathered during the past four years of continuous Fund engagement. Such engagement led to the adoption and largely successful implementation of the 2018 SMP and to the staff level agreement on an ECF in March 2019. Nonetheless, the repeated socio-political shocks that prevailed since 2015 had impeded the conclusion of program negotiations and Article IV consultations.

The recent socio-economic disruption, which culminated with several weeks of “peyi lok” (country lockdown) whereby all economic and social activities were severely halted, is deemed to have had very damaging and long-lasting impact. In November 2019, at the time of the Article IV discussions, Haiti was at its sixth week of “peyi lok” and at the height of uncertainty. The looming political and social crisis – ignited by the 2018 fuel price hikes – intensified after March 2019 and effectively brought the country to a standstill. For the first time since the devastating 2010 earthquake, GDP is estimated to have contracted, while inflation reached 20 percent yoy, pushed by a 32 percent depreciation of the currency. A humanitarian crisis led by shortages of food and social services has ensued and remains as a major challenge.

Currently, economic activity is gradually resuming, as the security situation has become less volatile and domestic stakeholders seem to tacitly agree that the country must avoid a downward spiral. Challenges abound but there are hopeful signs that the daily life may be starting to normalize, including the reopening of schools after several months. Indisputably, Haiti is at a decisive juncture. However, the complexity of the political situation should not be an impediment to immediately addressing the multiple challenges at hand. While a thorough assessment of the impact of the recent crisis is still pending, it is known that the tourism industry is facing severe challenges, including the closure of hotels. Likewise, with the plunging activity the banking sector and microfinance institutions (MFIs) are confronting the rapid increase of NPLs. In addition, anecdotal evidence of yet another wave of migration of skilled labor suggests that Haiti's dearth of human capital may become a more binding constraint to growth moving forward.

The Government has reaffirmed its commitment to undertake necessary reforms to reestablish macroeconomic stability and restore the conditions for economic growth. The Haitian authorities share staff's view that key priorities at this juncture are: curbing economic deterioration, reforming the energy sector, strengthening governance and developing social safety nets. Despite the challenging environment, measures were taken recently to stave off further deterioration of the fiscal balance and avert unsustainable monetary financing. Most notably, the "Pacte de Gouvernance" – a cash management agreement between the Ministry of Economy and Finance and the Central Bank – was renewed to cover the current fiscal year, in an effort to curb monetary financing. The authorities hope that the signing and observance of the governance pact will contribute to quell some of the uncertainty and reassure investors.

Measures have also been taken to rein in tax expenditures, strengthen tax collection, control the accumulation of domestic arrears and improve public financial management. The authorities seek to ensure that discretionary tax exemptions are effectively prohibited and to limit the abuse of this privilege by NGOs and other beneficiaries. Also, to facilitate tax collection, the payment of taxes through banks was recently tested in pilot form and will become effective once a few technical issues are solved. To quell leakages at the border with the Dominican Republic, in line with the protocol signed in 2017, the exchange of information between the custom offices of Haiti and the Dominican Republic has started in September 2019, while certain technical challenges still need to be ironed out. In addition, a training session for custom officers of both countries is scheduled for February 2020 mostly to enhance their coordinated approach in the management of the border.

Moreover, the authorities have drafted a framework – consistent with the Fund's baseline scenario of no external budget support – to dispel uncertainty and reestablish the budget as a binding fiscal constraint and a tool to promote equity and sustainable growth. The total FY20 budget envelope is to be shrunk by up to 20 percent in comparison to the preceding year due to the sharp drop in fiscal revenues linked to the contraction of economic activity. The details of the budget to be adopted by the new Government during the following few weeks are still being crafted along those lines. It is expected that a positive signaling from the Fund with a possible approval of a program could unleash a more optimistic outlook with further engagement from development partners.

The energy sector is the main source of fiscal imbalance and requires a multi-pronged approach to suppress the leaks and become more competitive, diversified and efficient. The authorities look forward to working with the Fund on fuel subsidy reform in synchrony with the building of appropriate social safety nets. We welcome the analytical chapters on fuel subsidies and the electricity sector and consider the recommendations key inputs for the efforts to be undertaken. As underscored in the staff report, the government has transferred the fuel purchasing responsibility to the private sector. To minimize the risk of fuel shortages, the administration has committed to make regular payments to suppliers of petroleum products in order to reduce arrears. Progress registered in billing and collection at EDH under the SMP continued until early 2019 but were reversed during the recent crisis, since billing and collection were severely hindered by the roadblocks and the interruption in the income flow among the population and businesses. Currently EDH is taking forceful steps to improve its financial performance including by cutting clients in payment arrears off the grid, while being supported by the Ministry of Economy and Finance’s directive instructing public entities to ensure timely payments of their electricity bill.

Strengthening governance and promoting greater transparency and accountability are indeed among the authorities’ highest priorities. Within the framework of accelerating its fight against corruption, the authorities appointed, as the head of the anti-corruption unit (ULCC), a legal expert with a strong track record in previous high-profile functions in the legal system. On January 10, the anti-corruption unit issued a press release informing the rapid increase in compliance to the asset declaration by government officials and setting January 31st as the deadline to comply. Concurrently, the unit is moving forward with at least two high-profile investigations into fraudulent activities, the conclusions of which should be made public once it would not jeopardize its course. Also, this past week the ULCC organized an open-door day to promote a better understanding of its work and knowledge about what is considered acts of corruption.

The Central Bank continues to take steps towards reinvigorating financial markets, easing inflation pressures mainly from exchange rate volatility and maintaining an adequate level of international reserves. BRH officials are pursuing a stable macroeconomic environment, while addressing institutional weaknesses and the vast infrastructure gap to stimulate credit and growth. However, they also acknowledge that the tightening of monetary conditions in the last fiscal year may have impinged on credit in a context of already low credit growth and increased volatility of the exchange rate. Continuous disruptive conditions in the first three months of FY20 and ensuing decline in sales resulted in an increase in failure to service credit, threatening the profitability and stability of the financial system. In this context, with the combination of tighter monetary policy and plunging activity leading to a steadier exchange rate, the Central Bank decided to recalibrate its policy stance, while remaining cautious not to pose threats to price stability.

The Central Bank continues to see the exchange rate as a key policy indicator. The exchange rate severely affects residents' purchasing power, including the most vulnerable, who depend on imports for most of their basic-good needs. The monetary authority remains attentive to tensions on the foreign exchange market that may need to be contained considering the strong pass-through of exchange rate fluctuations to inflation. Notwithstanding the Central Bank foreign exchange interventions during the past year, the net international reserves remained above 700 million US dollars and gross reserves still represent over 5 months of imports.

The authorities are also actively working on the implementation of the national financial inclusion strategy adopted in 2015. Fintech use is being promoted to boost financial intermediation. The recent launching of a web-based platform for economic agents to access the different costs of financial services is expected to foster competition. The National Financial Education Plan is expected to be adopted in the near term, with a view to stimulate financial inclusion through financial education.

Significant progress has also been achieved in addressing issues raised in the Fund's safeguards assessment report. Haiti has received instrumental technical assistance for the legal and banking supervision aspects of IFRS compliance, as well as the drafting of modifications to the macro-prudential supervision framework. Relatedly, seven draft regulations have been shared with the banking sector for feedback before finalization and adoption. They cover capital requirements in relation to Basel II, internal control, governance, cross-ownership of capitals, as well as adequate level of equity shares of banks in non-financial institutions. The Central Bank will implement those measures and establish a risk-based supervision framework with the support of ongoing MCM TA.

With regards to AML/CFT, Haiti is working toward closing the gaps identified at the Fourth round of mutual evaluation undertaken in the summer of 2018. A comprehensive and risk-sensitive strategy has been adopted to address the absence of risk assessments, which is considered to have impeded achieving the international standards of effectiveness and technical compliance. The National Anti-Money Laundering Committee in collaboration with government officials and key stakeholders from the private sector are striving to fulfill all AML/CFT requirements for technical compliance of applicable legislation and regulations by the November 2020 progress report deadline. However, progress has been delayed because of the recent country lockdown and ensuing postponement of delivery of relevant TA by the World Bank.

To secure macroeconomic stability and put the economy back on the path of sustainable and inclusive growth, the adoption of a comprehensive recovery plan with wide-ranging domestic and external support is essential. In this regard, the IMF’s unwavering and active engagement with Haiti has a crucial role. Strong domestic resource mobilization remains critical and will decisively pursued but will not be enough to address the sources of fragility, as well as social and infrastructure needs. Like most LICs, Haiti is particularly vulnerable to sharp swings in commodity prices, natural disasters, and the unpredictability of external financing flows. Without resuming support from development partners, progress made towards meeting the SDGs, may irremediably be reversed with the current economic crisis. Predictable, timely and effective donor support is needed to implement a sustainable program of economic growth and stability with critical measures to mitigate anticipated short-term negative impact of structural reforms on the most vulnerable.

Strengthening social safety nets need to be at the core of any macroeconomic and structural program. Programs initiated during the past couple of years contributed to filling the significant gaps in social safety nets. However, they represented dispersed efforts without a sustainable source of financing. During the past year, with support from the international community, a central registry of beneficiaries has been constructed within the Ministry of Social Affairs and is expected to play an instrumental role in ensuring that the upcoming cash transfer program effectively targets the neediest and is not prone to abuses. In line with Fund’s guidance for work in countries in fragile situations, they see the creation of social safety nets to mitigate potential negative impact of reform measures as an essential prerequisite.

The authorities took note of the conclusion that Haiti was now assessed to be at moderate risk of debt distress but with a weak debt carrying capacity. They are hopeful that soon their efforts to mobilize domestic resources and implement targeted measures to reestablish macroeconomic stability will be supported by enough grant resources from international partners to take the path of sustainable and inclusive growth. In this regard, they are convinced that Fund's strong signaling through its technical and financial engagement will be paramount.

Our authorities welcome the framing of the Fund's engagement with countries in fragile situations in a medium-term perspective and stand ready to work with the Fund on Haiti's Country Engagement Strategy (CES). The draft CES presented in Annex I of the staff report clearly points to the damage caused by fragmentation of initiatives and lack of coordination among development partners leading to inefficient delivery of goods and services and, most importantly, loss of policy ownership. The strategic focus on four areas is welcome, namely, macroeconomic stability, governance and transparency, social safety net, and energy. That said, one of the main benefits of a CES would be to facilitate a strong engagement of the Fund throughout episodes of increased fragility, avoiding counterproductive stop and go approaches. In addition, it would be important for the CES to address key issues, such as: (i) the profile of country team members and their level of experience and turnover rates; (ii) the streamlining and realistic timing and sequencing of conditionality, to ensure they are more in line with the country institutional capacity; and (iii) the finetuning of the modalities of TA delivery to ensure effective transmission of knowledge and avoid undermining domestic ownership of reform.

Stronger IMF engagement will signal to other technical and financial partners that Haiti is in a position to make progress in adjusting and reforming its economy and needs urgent support now. Ideal conditions rarely exist in countries with multiple sources of fragility. Failure to effectively engage with Haiti may tip the country over into deeper fragility, instability and poverty.

Mr. Doornbosch, Mr. Psalidopoulos, Mr. Etkes, Ms. Korinthios and Ms. Mateus submitted the following joint statement:

We thank staff for the informative set of reports, the interesting choice of Selected Issues papers, Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for their informative buff statement and the Staff Representative on Haiti for his useful statement. Haiti is a country at a crossroad for which a broadly accepted development strategy could be a game-changer. We call on staff to strengthen the Country Engagement Strategy, outreaching in Haiti to garner social support for transformation, helping with a strong communication strategy and engaging the willing civil society. We, moreover, take this opportunity to express our appreciation for the efforts the staff has made in order to conclude the Article IV consultation in very challenging conditions. We would like to offer the following comments:

Haiti would strongly benefit from an effective strategy to tackle inequalities. Inequalities, ranging from income to gender, are pervasive in the economy and society of Haiti. If such conditions are an enormous political, social and human challenge, they also offer the space for significant improvements. We agree with staff that a more progressive tax system is necessary, as this would help mobilizing revenues that could be used decisively for additional social spending. Likewise, structural reforms targeted at fostering competition and decreasing barriers to entry could help in strengthening economic activity and spreading rents, while creating taxable revenues. This could help create better conditions for more efficient social spending, notably on healthcare and education, which can foster human capital, unleash productivity and decrease gender inequality. For this to be possible, we encourage the authorities to develop a functioning social safety net, hinging on a few, simple programs. Indeed, as stressed in several reports (World Bank, IDB, etc.), the fragmentation of social policies is currently one of the major sources of inefficiency and reflects the absence of a coordinated strategy. For this reason, we welcome the new Politique Nationale de Protection et de Promotion Sociales (PNPPS) and we stress the importance to go ahead with this project, phasing out small programs that do not effectively contribute to the objectives defined in the PNPPS.

Stronger public institutions can help in decreasing inequalities, effectively delivering social assistance, strengthening infrastructures and improving trust among the Haitian population and potential investors. The overall sense of corruption in the country has been detrimental to Haiti at many levels. The authorities should clearly strive to revise the legal frameworks on anti-corruption, enabling the judicial system and relevant agencies with the tools and resources to investigate and sanction wrongdoings. Public officers should also be expected to disclose their assets and the authorities should enforce that requirement. The authorities should also enhance the central bank’s framework, by improving its autonomy which can help curtailing the damaging inflation levels. More broadly, Haiti should improve the rule of law, as this would increase the trust in public institutions, helping to attract foreign investors and donors and limiting social unrest. This would only be possible if the elected institutions are functional and fully operational.

In a country sadly plagued by natural disasters, a green economy could be an opportunity. Weighing heavily on public accounts, and only benefiting a minority of the population, the energy sector needs a clear overhaul. While this sector needs a well-sequenced reform, it also presents an opportunity for the country to invest in more efficient renewable energies, benefits of which could be spread more broadly across the population. Moreover, considering that the high risk of natural disasters impacts on short, medium and long term (see Risk Assessment Matrix), we share staff's view on the importance to develop a comprehensive disaster financing framework as well as the urgency to build physical infrastructure to cope with disasters. In this regard, we would appreciate staff's further details as well as a possible roadmap for the Haitian authorities. For instance, according to recent research, Haiti is among the most deforested countries in the world: at the current rate, Haiti will lose essentially all of its primary forest during the next two decades. For this reason, and given that environmental degradation aggravates the country's vulnerability to flooding and natural disasters, we strongly encourage the authorities to work together with other development partners in developing a comprehensive strategy to stop deforestation.

Haiti's risks of external and overall debt are assessed by staff as high based on staff's judgement even though the model-based results indicate moderate risks. While we acknowledge the use of judgement in the assessment of debt distress due to heightened risks to economic growth, we would appreciate further elaboration on these growth assumptions considering Haiti's economic contraction in 2019-20, political instability, slow global growth, increased frequency of natural disasters, as well as the need to re-direct fiscal resources to re-establish local military units. Also, we note that debt-data do not include SOE's guaranteed and non-guaranteed debt of SOE's (excluding the electricity company), nor data on private external debt, and encourage the authorities to collect reliable data on these debts.

We welcome Annex V on Capacity Development (CD) Strategy which is in line with the Fund's aim to align CD provision with the conclusions of the surveillance. Staff noted that despite intensive Technical Assistance (TA) provision by the Fund, "implementation of TA recommendations has been slow in part due to acute capacity constraints …". These acute capacity constraints could perhaps be addressed by training, which is not mentioned in the CD strategy even though it is part and parcel of the Fund's CD. Can Staff comment on the root causes of the acute capacity constraints? Should the

Fund allocate more slots for face-to face training of Haitian officials to match the needs? Do Haitian officials sufficiently use online training?

Ms. Mahasandana, Mr. Chikada, Mr. White, Mr. Chea, Mr. Iona and Mr. Shimada submitted the following joint statement:

We thank staff for their comprehensive report and Mr. Bevilaqua, Mr. Saraiva and Mr. Florestal for their informative buff statement. Over a sustained period, Haiti has faced a complicated political situation and multiple natural disasters, which has led to poor macro-economic policies and outcomes. While we welcome some progress under the 2018 Staff Monitoring Plan (SMP) such as the agreement between the BRH and the Ministry of Finance, and recently some early sings of normalization including the reopening of schools after several months, further policy reform efforts are required to promote equity and sustainable growth. We broadly agree with staff's appraisal and would like to limit our comments to the following points.

We welcome the authorities' new, home-grown, social policy – PNPPS – led by MAST and MPCE. With poverty and inequality identified as among the most important elements fueling the political crisis, we are pleased to note the authorities' prioritization of poverty reduction. We agree that developing an effective social safety net is a fundamental stepping stone to the success of other interventions. Staff rightly points out in the Selected Issues Paper that current social protection programs are fragmented as well as overlapped. In that regard and given the country's limited institutional capacity, we agree with the staff's appraisal that the PNPPS should be focused on a few quasi-universal cash transfer schemes in order to reduce the management cost. We believe that PNPPS could further improve social protection by reducing the level of poverty and inequality.

The financing gap needs to be narrowed in the near term, with close coordination between the monetary and fiscal authorities. We welcome implementation of the January 2019 agreement between the BRH and the Ministry of Finance (the Pacte) to limit BRH financing of the fiscal deficit. While the Pacte aims to address fiscal dominance, the fact that a financing gap will persist warrants continuing caution. Given the current political turmoil, we can accept staff's view that bridging the financing gap through the accumulation of domestic arrears is the least-worst option, given that monetary financing could harm the vulnerable through the higher inflation. However, as staff acknowledges, the accumulation of arrears does undermine the credibility of the authorities and it is therefore important to move quickly to enhance revenue mobilization as well as ensure spending is carefully prioritized.

Advancing on fundamental energy sector reform is critical, given that the electricity sector was estimated to cause direct fiscal losses at 4.5 percent and 6.5 percent of GDP in FY 2018 and FY2019 respectively. We welcome staff's detailed analysis on energy sector reform in the Selected Issues Paper but note with concern that the current energy scheme not only causes direct fiscal losses but also forces the private sector to rely on self-generation due to the lack of reliable on-grid supply. This weighs on both economic activity and the environment. We therefore strongly encourage the authorities to focus on well-communicated energy sector reform.

Addressing the long-standing governance weaknesses is a key priority in order to combat corruption. Given that the current anti-corruption framework lacks the legal powers and financial means to adequately deter corruption, we agree with staff on the need to update the anti-corruption strategy and enhance its enforcement. We welcome the discussion provided in Annex IV on possible areas of collaboration with the Fund and see the setting up of the steering committee with representation by civil society in its membership as an important step to monitor implementation. The Superior Audit Court plays a critical role in promoting transparency and public accountability and therefore should be strengthened: its findings should be systematically published and acted on by the relevant agencies.

We support the draft Country Engagement Strategy and urge staff to take on board the views of the authorities as stated in the buff statement. We commend staff for being candid in their assessment of the main reasons behind the disappointing results of past Fund supported programs. We note with concern the fragmented interventions by development partners and the mis-match between the scope and design of reform programs and the authorities' limited implementation capacity. In this regard we agree that the Fund can play a critical role in facilitating stronger coordination among international partners in the formulation of potential external support programs. In doing so, it is important to consider Haiti's fragility and constrained institutional capacity in the design and phasing of streamlined conditionality. With this in mind and noting the comprehensive scope of the proposed Capacity Development Strategy in Annex V, would staff be able to identify the top few and immediate TA priorities?

Ms. Levonian and Mr. Sylvester submitted the following statement:

We thank staff for their comprehensive and well-written set of papers and Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their informative buff statement. The economic situation in Haiti remains extremely challenging. At this juncture, restoring macroeconomic stability is of utmost priority and should be approached judiciously given Haiti's very fragile context. Accordingly, staff's policy discussions were rightly focused on near-term policies that would be feasible in the current circumstance, supported by Fund TA. Looking further ahead, a comprehensive economic reform strategy should be implemented as political stability allows. As we share the thrust of staff's appraisal and recommendations, we offer the following additional comments for emphasis.

The deterioration in economic conditions needs to be addressed urgently. Growth is expected to be negative in 2019, with inflation projected to exceed 20 percent and public finances to weaken further. The outlook is also very discouraging with significant domestic and external risks arising from, inter alia, continued political instability and extreme natural disasters. These conditions will undoubtedly exacerbate Haiti's longstanding development challenges and vulnerabilities, notably widespread poverty and high inequality. As a critical first step, the authorities will need to stabilize current conditions.

Progress in restoring fiscal stability is key towards a more sustainable fiscal and debt position. We agree with staff that, as a first step in this regard, the authorities should prepare and publish a budget framework for FY2020 with a deficit target consistent with financing constraints. We also agree with the need to curb the massive monetary financing of the budget shortfall. We would be interested in staff's comments on the financing alternatives considered. Going forward, we agree that a well sequenced and implemented fiscal strategy to further raise domestic revenues and increase the quality of spending should be pursued alongside ongoing reforms to strengthen the public finance management (PFM) system. Being a major source of vulnerability for growth and fiscal stabilization, the judicious reform of the energy sector should be pursued, supported by countervailing measures to protect the poor.

We urge the authorities to accelerate reforms to address governance and corruption problems. While some progress has been made, as noted in the report, clearly, a lot more needs to be done. We welcome Annex IV, which outlines key reform priorities to support improving governance, transparency, accountability, and tackling corruption in Haiti. The authorities' commitment to root out corruption and long-standing governance problems is also welcome. We therefore urge the authorities to take urgent steps to address the many shortcomings in this area in line with staff's recommendations, including to close gaps in the AML/CFT framework.

Building capacity in Haiti is of utmost importance and strong support by the Fund and other IFIs remains critical. We welcome the capacity development (CD) strategy in Annex V. We note the useful suggestions to improve ownership and make technical Assistance (TA) more effective, including through the use of long-term experts. We would welcome staff's further elaboration on the CD strategy, including on the streamlining of the two sets of priorities by staff and the authorities and the role of the long-term experts within the context of the existing partnership framework.

Like staff, we commend the authorities for their progress on the new PNPPS policy, which will serve as a key social safety net. This policy will support the authorities' top priority of poverty reduction by reducing program overlap, and boosting coverage, effectiveness, and ownership. We look forward to the finalization and implementation of this important policy.

Finally, over the longer-term horizon, Haiti will benefit from a comprehensive economic reform strategy with strong support from the Fund and other IFIs. In this context, we welcome the very useful Annex I on a proposed engagement strategy for a prospective Fund program. We see merit in the approach outlined in the strategy in that it aims to raise awareness and build consensus and commitment among Haitians on a set of basic economic principles that would underpin the imperative of economic stability and policy continuity. Strong technical and financial support from development partners will be critical to the success of such a program.

Mr. Ronicle and Mr. Clark submitted the following statement:

We thank Staff for the excellent papers, including well-chosen selected issues papers, and Messrs. Bevilaqua & Saraiva and Ms. Florestal for their comprehensive buff statement. We share Staff's assessment of the significant challenges that face the Haitian economy and the risk outlook. In the absence of political stability, the challenges of high levels of corruption, high inequality and pervasive poverty will remain. As such the priorities should be to stabilize the macroeconomic situation, maintaining as much fiscal space for social spending whilst enhancing revenue efforts, tackling pervasive corruption and where possible enhance preparedness and resilience for climate shocks. Over the longer-term, growth opportunities should be pursued.

The authorities' immediate priority should be to prepare and publish a comprehensive budget framework with a clear deficit target, consistent with the current financing constraints. This should also include a plan to stabilize domestic revenues, including removing tax exemptions. The authorities deserve credit for pursuing social safety net reform, despite the challenging political circumstances. Public spending should be reoriented towards social protection and investment; this, coupled with better public financial management and improved governance, will reduce the scope for the misuse of public funds.

Whilst we agree that a financing gap will remain and that in the short-run this should be met by the accumulation of arrears under the baseline – rather than increased monetary financing - we note the significant risks to this approach; in particular, could staff elaborate on any potential financial stability risks that might arise?

Corruption is likely to remain a key obstacle to a better political environment and a key barrier to both short-run and medium-term progress. A number of actions should be prioritized and implemented in this regard. A new anti-corruption strategy and credible institutional oversight should remain a priority as should providing the relevant agencies with the legal powers to prosecute and sanction offenses. Anti-money laundering measures would help strengthen efforts more broadly, as would updating the asset declaration system and conducting regular audits.

Over the medium term, to enhance fiscal sustainability and increase the probability of higher growth, there should be significant reform to the energy sector including re-negotiating and providing full transparency of contracts. Equally, broad regulatory reforms will be required to strengthen property rights, tackle monopoly power and lower barriers to investment.

We strongly encourage the authorities to maintain engagement with and seek capacity development from the Fund and other development partners and to focus on tackling corruption and short-term macroeconomic actions that will stabilize the economy.

Mr. Merk and Ms. Koh submitted the following statement:

We thank staff for an excellent and candid set of reports recognizing the difficult circumstances under which the conclusion of the Article IV consultations took place. We also thank Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for a helpful buff.

We welcome staff's detailed and comprehensive country engagement strategy but note that an implementation will only bear fruit once the political deadlock has been overcome and credible policy ownership has been created. We therefore urge the Haitian government to work towards establishing a functioning government that will tackle Haiti's immediate economic and social challenges.

Haiti's economy has been facing major imbalances and the situation has further deteriorated significantly over the past year. High inflation, weak governance, widespread corruption and inequality have been plaguing Haiti. In order to bring the economy back on a sustainable growth path, challenging adjustments are needed. Without strong macroeconomic policies and reforms, as well as political stability, it will be hard for Haiti to achieve material progress towards higher incomes and external stability. We concur with staff's candid assessment and recommendations given, and would like to offer the following comments for emphasis:

We recognize that Haiti faces a daunting challenge to close its financing gap. We thus encourage the authorities to strengthen fiscal discipline, limit monetary financing and tackle the fiscal situation. Given that revenues and financial support have collapsed and that prospects are subdued, the authorities need to reallocate their expenditures from non-priority spending toward growth-enhancing capital and social spending. This is all the more relevant given that Haiti faces a number of important domestic risks and is also vulnerable to natural disasters with a strong impact on debt sustainability. In addition, Haiti's public debt is mostly external with strong exposure to exchange rate valuation effects. Therefore, we join staff in its call for a medium-term budget framework and for strengthening public financial management. In this context, we especially welcome staff's technical assistance.

We concur with staff that a comprehensive reform of the energy sector is essential in order to achieve economic growth. The increasing gap between market fuel prices and subsidized prices in Haiti weighs heavily on the budget. This does not only constitute a fiscal burden but it has also led to an increase in smuggling. We take note that the government has terminated energy contracts last year. Could staff comment on whether new negotiations with existing producers have been initiated and on whether the decision had detrimental effects on potential private investors?

We take note that subsidy costs and fiscal deficits have led to unsustainable monetary financing. The vicious circle of monetary financing leading to inflation, depreciation and in turn higher subsidy costs, deficits, and again monetary financing and inflation, have impeded monetary policy. We therefore echo staff’s call for a quantitative monetary target as policy anchor, once fiscal dominance declines. Moreover, we take note that high NPLs and deficiencies in financial inclusion (75 percent of bank lending goes to only 20 borrowers) weigh on the financial sector and on the economy as a whole.

We commend the authorities for their progress on the new policy PNPPS despite the political turmoil. We encourage the authorities to finalize the PNPPS. Haiti has been facing major social challenges, such as a high poverty rate, environmental degradation and high barriers to business entry. In addition, private-sector resources and capital are highly concentrated. We therefore agree with staff that existing resources for social protection should be deployed more effectively.

Weak governance and corruption remain a major impediment to inclusive growth and prosperity. We strongly welcome staff’s detailed proposals on governance reforms to enhance accountability and transparency. We therefore encourage the authorities to pursue their plans under the 2009 national anti-corruption strategy, especially given staff’s assertion that key actions could be implemented in the short term.

Last but not least, we echo staff’s call to improve the quality of economic data in order to make fiscal accounts more transparent, to enable a proper surveillance and thus to improve policy-making and credibility. In this context, we strongly encourage the authorities to consent to the publication of this report. A timely release of the report can help the effectiveness of Fund surveillance.

Mr. Chodos and Mr. Vogel submitted the following statement:

Political instability continues to forge Haiti’s economic situation and outlook. As noted in the staff report, poverty is widespread and inequality high, with over 58 percent of the population living below the national poverty line, real per capita income has stagnated since 2015 at around US$ 870, and recurrent natural disasters exacerbate the humanitarian crisis the country is suffering. Clearly, Haiti will not be able to break this vicious cycle by itself and will need international cooperation. Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal's helpful buff statement has a wise conclusion: "Ideal conditions rarely exists in countries with multiple sources of fragility. Failure to effectively engage with Haiti may tip the country over into deeper fragility, instability and poverty". Therefore, a deeper Fund engagement is imperiously needed to help the country address macroeconomic imbalances, social urgencies, and structural vulnerabilities.

We welcome the authorities' intention to put in place an appropriate budget, which, among other things, contains measures aimed at reducing monetary financing of the NFPS deficit. The staff's recommendations regarding the need to improve the tax system and strengthen revenue administrations are timely, as well as the proposal to strengthen public finance management, which will contribute to addressing governance issues. We take note from the buff statement of the authorities' firm intention to strengthen governance and promote greater transparency and accountability, which are among the highest priorities.

We are encouraged by the authorities' firm indication that poverty reduction is the number one priority. It is clear that without social improvements, there would not have been economic and political stability. Therefore, we fully agree with the need to improve and strengthen the country's social safety net, which should follow appropriate practices that allow Haiti to reach the intended receptors of the transfers while reducing the risks of mismanagement.

We understand the Central Bank's policies that take the exchange rate as a key policy indicator and the related interventions occurred over the past year. While we welcome the Pact de Gouvernance's aim to address fiscal dominance, it is clear that under the current and expected circumstances fiscal dominance will continue to prevail.

Structural reforms may be important in order to increase the very low potential growth in Haiti, estimated at 1.4 percent. The report mentions many important reforms. One of them is associated with the energy sector, in which bold reforms seem to be essential. However, it is important that the authorities and staff take into account that changes in energy prices often have an effect on social stability in general, not only in Haiti.

With these comments, we wish Haiti and its people every success in their future endeavors.

Mr. Rosen, Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the excellent set of papers and their bilateral engagement and Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for their helpful buff statement. We commend staff for their flexibility in carrying out the Article IV discussions under difficult circumstances. Haiti is precisely the type of fragile situation where the use of flexibilities is warranted.

We broadly agree with the staff appraisal in the Article IV, including staff's sobering baseline scenario. We are alarmed by Haiti's deteriorating economic situation, which has been exacerbated by political instability and lack of an empowered government. We are concerned by Haiti's recent negative growth, large fiscal deficit, high risk of debt distress, high inflation, and the persistently high incidence of poverty. We urge Haiti's authorities to facilitate political, economic, and civil society stakeholders to work toward an inclusive national dialogue and set a timetable for elections to form a functioning government. In the meantime, we agree with staff that the authorities should focus on short-term measures to restore macroeconomic stability. We appreciated the Article IV's clear focus on near-term measures, outlined in Box 2.

Fiscal Gap. Haiti's large fiscal deficit of 3.8 percent of GDP, combined with lack of access to external financing, has created a gap that can only be met by monetary financing or arrears accumulation—both unsustainable options. We agree with staff that in order to close the financing gap, Haiti must improve tax collection and remove exemptions, strengthen the Haiti-DR border to improve customs collection, rationalize non-essential spending, and reform the energy sector. Drafting a budget framework is a necessary first step. We encourage continued progress on the Treasury Single Account. We appreciate the difficult trade-off the authorities face with respect to monetary financing and arrears accumulation. Can staff comment on where they expect the government to accumulate arrears? Will IMF staff work with the authorities to identify "least-worst" areas for arrears accumulation?

Energy Sector. Haiti's fiscal imbalances make resolving structural inefficiencies in the energy sector particularly urgent. Losses of the state electricity utility and fuel subsidies, which together amount to about 6½ percent of GDP, harm Haiti's public finances and take much-needed spending away from social services. Fuel prices at the pump are now 50 percent of those in the neighboring DR, and among the lowest in the Caribbean. The staff papers make clear that fuel subsidies are wasteful and regressive—we note the regressive distributional impacts of fuel subsidies, with only 2 percent of subsidies going to the poor in 2012. Measures to reform fuel subsidies are critical to put public finances on a more sustainable path. Considering the serious political and social fallout from the previous abrupt rollout of subsidy reform, we encourage the authorities to be ready to move expeditiously with a well-designed and sequenced fuel subsidy reform and public affairs strategy, as soon as circumstances permit. We underscore that an effective subsidy reform effort should include mitigating measures for the poor. Haiti should continue to strengthen its regulatory oversight over the energy sector, and we applaud the authorities' progress in developing ANARSE, the energy regulator.

Social Spending. Reductions in energy sector subsidies would allow for more social spending and reverse the large decline in capital expenditures. We support the authorities' work on drafting the PNPPS national plan on social policy. We also agree with staff's recommendation to use targeted unconditional cash transfers to help alleviate poverty and strengthen the social safety net.

Debt Sustainability. While we note that staff find Haiti's public debt to be currently sustainable, we are concerned by the high risk of debt distress, based on staff's judgement. Natural disasters pose a significant threat to Haiti's debt sustainability, and we encourage Haiti, with the assistance of donors and development partners, to further develop the country's disaster risk finance framework.

IMF Engagement. We support staff's Country Engagement Strategy and encourage extensive coordination between the IMF, the MDBs, and the donor community. In the absence of an empowered government, we underscore the importance of building a public consensus among key stakeholders around economic reforms. We look forward to a negotiated solution to the current political impasse that can pave the way for policy reforms and economic recovery. We welcome the Country Engagement Strategy's emphasis on laying the groundwork for more intensive IMF engagement when conditions permit, and agree with Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal that the IMF plays an important signaling role for other development partners. Any future program should have limited, realistic conditionality and focus on structural changes to enhance growth and strengthen the fiscal balance.

Mr. Palei and Mr. Tolstikov submitted the following statement:

We thank staff for their informative reports and Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for their helpful buff statement. We acknowledge that Haiti is facing formidable political, economic and humanitarian challenges. After suffering from decades of economic mismanagement and repeated natural disasters, Haiti became the poorest country in the Western Hemisphere. Poverty is widespread, infrastructure is crumbling, and, after the resignation of the prime minister in March 2019 and weeks of "peyi lok", the country is balancing on the brink of becoming ungovernable. Social unrest is fueled by public discontent about inequality, corruption, and dire economic situation. In such circumstances, after restoration of political stability and public order, urgent steps are needed to stop economic degradation, strengthen governance, develop social safety net, and reform the energy sector.

We note a disappointing track record of the previous Fund-supported arrangements and failed reform efforts. In order to break a vicious cycle of poverty, political instability, limited institutional capacity, and poor governance, Haitian policymakers and civil society need to adopt a clear and realistic plan of priority reforms. Its implementation requires strong ownership as well as support from international community.

Normalization of the fiscal situation remains an urgent priority. Contraction of economic activity in 2019 led to a sharp loss of fiscal revenue and decline in infrastructure spending. As the external sources of financing have dried up, the authorities resorted to direct monetary financing, which caused a surge in inflation up to 20 percent. Subsequent agreement with the Bank de la Republique d'Haiti (BRH), which limited the BRH's direct budget financing, resulted in the accumulation of arrears. Going forward, the authorities are facing a similar decline in fiscal revenue in 2020, which will aggravate financing needs and arrears accumulation. In this regard, urgent efforts are needed to raise revenue collection and strengthen public finance management. We welcome the Fund's readiness to provide TA in these areas.

Accumulation of arrears will continue as BRH financing will remain limited and other sources of financing are not available. The experience of other countries shows that fiscal arrears create a sequence of non-payments across the entire economy and distortions in the supply chains, which are detrimental to economic activity. We wonder if some additional fiscal tightening could be less distortive for the economy than arrears accumulation? Staff comments are welcome.

Poor performance of the energy sector is a substantial drag on Haiti's economy and a major source of fiscal problems. Direct fiscal losses, including subsidies and lost taxes, are estimated at 4.5 percent of GDP in 2018 and 6.4 percent in 2019. Moreover, 61 percent of Haiti's population have no access to electricity. Reforming energy sector is a challenging task. The ill-advised attempt to eliminate fuel subsidies in July 2018 resulted in riots and resignation of the prime minister. Therefore, the fuel subsidy reform should be implemented in connection with the introduction of compensating social payments, and we support the relevant staff recommendations. We also note the staff advice to increase the use of solar and wind power, creating cleaner energy mix. Could staff comment on the economic viability of transition to renewable (and presumably more expensive) sources of energy in the Haitian context?

Poor governance and corruption continue to plague Haiti for decades, despite periodic attempts to address these issues. Despite some achievements in strengthening the anti-corruption legal framework, its enforcement remains weak, and the recent crumbling of the governing structures has further weakened anti-corruption capacity. While we agree that addressing corruption should remain a priority, we note that progress could be achieved only through sustained long-term efforts.

Taking into account the severity of Haiti's problems, the support of international community is indispensable. In this regard, we welcome the Country Engagement Strategy (CES) and acknowledge the potential for the Fund's leading role in policy coordination and capacity building efforts. We note that staff envisages a possibility of the Fund's financial support, starting from the RCF/SMP, potentially followed by an ECF arrangement. Program engagement with the country usually suggests close coordination with the authorities, including establishment of the Resident Representative office. We note that the security situation in Haiti is still precarious, and Article IV policy discussions have to be conducted in Washington, DC. Could staff comment on the perspective for closer engagement with Haiti?

Mr. Trabinski and Mr. Heim submitted the following statement:

We thank staff for an insightful set of papers and Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for their helpful buff statement.

Political instability, natural disasters, and widespread corruption have taken a toll on Haiti's economic and social development. Despite some progress in improving governance, institutions remain weak and macroeconomic stability is fragile. Poverty and inequality rates are high. Moreover, the country has experienced considerable currency depreciation, high levels of inflation, and an output contraction in 2019. Against this background, we encourage the authorities to continue their engagement with the Fund and welcome the completion of the latest Article IV consultation. We also take note that the buff statement mentions a possible Fund supported program. Could staff shed more light on the status of their discussions with the authorities in this regard as well as on future Fund engagement more generally?

Restoring fiscal stability and improvements in Public Financial Management (PFM) are paramount. We share staff's view on the urgency to prepare and publish a budgetary framework for 2020, as well as the importance to increase domestic revenue mobilization, eliminate tax exemptions, and improve expenditure control. In this context, we encourage the authorities to further modernize the tax policy and implement the tax reform roadmap. Could staff provide an update on the progress in implementing this roadmap? In parallel, additional efforts are needed to further strengthen PFM, i.e. by extending the coverage of the Treasury Single Account (TSA) to all ministries and public entities. We understand that staff stands ready to provide additional TA. Could staff provide an update on its latest activities in these areas together with plans for 2020 and elaborate on how Fund TA will address capacity constraints?

The central bank's autonomy and accountability need to be enhanced. We take note of the safeguards assessment's 2019 update, which concludes that the central bank continues to face significant safeguards risks. In this vein, we highlight the importance of (i) refraining from monetary financing of the budget deficit, (ii) preserving exchange rate flexibility, and (iii) maintaining an adequate level of international reserves.

The functioning of financial intermediation and financial inclusion has to be improved. We take note that Haiti's financial inclusion rate remains among the lowest in the Latin American and Caribbean region, with only a small fraction of the adult population having an account with a financial institution. Against this backdrop, we take positive note of the BRH's 2015 National Financial Inclusion Strategy. Could staff elaborate to what extent this strategy has been implemented? We would also be interested in better understanding the authorities' plans for greater use of fintech solutions.

There is an urgent need for structural reforms, particularly in the energy sector. Haiti's electricity sector presents a serious burden on the country’s economic development, and we are concerned about the large fiscal losses. In this context, we thank staff for the insightful SIP that provides a valuable stocktaking of the current state of Haiti’s energy sector and sketches avenues for possible reform, based on international experience. We encourage authorities to pay close attention to these recommendations and prepare a comprehensive reform strategy of the energy sector that includes a sequenced elimination of fuel price subsidies.

Natural hazards, such as hurricanes, floods and earthquakes continue to pose a major risk to Haiti. With the majority of the population vulnerable to natural disasters, building resilience with better risk prevention and management will be critical to safeguard households, livelihoods, and assets. We understand that Haiti has received substantial financing for climate and disaster resilience over the past years. At the same time, there seems to be substantial room for improvement, and we agree with staff that a Climate Change Policy Assessment could be very beneficial to the authorities. Could staff elaborate on where the country stands compared to other small island developing states in terms of ex-ante resilience?

Mr. Bhalla and Ms. Indraratna submitted the following statement:

We thank the staff for a comprehensive set of reports and Mr.Bevilaqua, Mr. Saraiva and Ms. Florestal for their informative buff statement.

Haiti is a fragile state beset with problems of political instability, weak governance and widespread corruption while poverty, inequality, weak capacity and infrastructure and high susceptibility to natural disasters underpin low economic growth. Economic conditions have deteriorated in FY2019 with a contraction in output, double digit inflation and significant currency depreciation. Medium term growth prospects remain subdued in the absence of wide- ranging reforms. These factors warrant a tailor- made program for Haiti with Fund financial facilities based on the Fragile and Conflict States guidelines. We broadly agree with the thrust of the staff report and concur with the staff view that reform priorities should focus on four key objectives of restoring macroeconomic stability: strengthening governance and transparency, building a social safety net and energy sector reforms.

We call upon the authorities to strengthen macroeconomic stability. The preparation of a budget for FY2020 is an immediate priority. We agree with the staff that the new budget should boost revenues by reducing tax expenditures and strengthening tax administration as this would provide fiscal space to increase expenditure on growth enhancing priority sectors such as social and physical infrastructure. Going forward, the Haitian authorities should implement the tax reform roadmap adopted in 2018 in order to broad-base the tax system and enhance revenue mobilization over the medium term. We welcome the Agreement between the BRH and the Ministry of Finance to limit monetary financing of the fiscal deficit as this would slow the pace of decline in international reserves. Going forward, we encourage the authorities to eliminate central bank financing of the budget deficit as external sources of finance are made available and domestic debt markets develop. With regard to the exchange rate, we agree with the staff view that intervention in the foreign exchange market should be limited to instances of disorderly market conditions. In order to deepen the foreign exchange market, the authorities need to enhance exports of goods which, as a percentage of GDP, lag far behind the CARICOM average and are highly concentrated both in terms of products and markets. Improving Haiti’s low rank in the World Bank’s Doing Business Index would help increase exports and thereby the country’s external sector.

We are encouraged by the authorities’ commitment to poverty reduction. We commend the progress on the new PNPPS policy which aims to increase the efficiency of social safety net programs by reducing overlap, increasing coverage and enhancing the ownership of programs. Given the limited resources and the administrative capacity to target welfare expenditure, we urge the authorities to develop the SIMAST database to identify beneficiaries until improved targeting can take place with better access to education and health services. We commend the steps taken by BRH to provide reliable cash distribution channels through new mobile financial services with the adoption of the 2015 Financial Inclusion Strategy which will go a long way towards poverty reduction. Can the staff highlight the progress made by the authorities in this strategy? The authorities can take ownership of these social programs by relying on domestic resources for implementation.

We urge the Haitian authorities to undertake reforms in the energy sector. We concur with the staff view that an overhaul of the management and performance of EDH is needed in the electricity sector followed by renegotiating of contracts with independent producers of electricity. In the fuel sector, administered prices have increased subsidy costs leading to higher fiscal deficits and monetary financing of the deficit which in turn have resulted in a vicious cycle of depreciation and further inflationary pressures.

We encourage the authorities to improve the quality, coverage and timeliness of economic data.

With these comments, we wish the authorities success in their future endeavors.

Mr. El Qorchi and Mr. Badsi submitted the following statement:

We thank staff for a well-written report—that lays out clearly Haiti's difficult current economic situation and grim prospects—and for a set of SIPs that we found relevant and informative. We also thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their insightful statement. Political instability and insecurity have obstructed the continuity of much-needed economic reforms in Haiti. We agree with the authorities that the political crisis is intrinsically related to the country's deep and relentless poverty and inequality, and that external support is critical. Given the depth and extent of economic degradation, all efforts should focus on stabilizing the current unsustainable economic situation within the existing political and institutional constraints. In many country experiences, reforms were pursued despite political turmoil. We found the Country Engagement Strategy (Annex 1) realistic and reasonable within the current political and security parameters.

Addressing the weak and deteriorating public finances is an urgent matter. The priority issues are: introducing a FY2020 budget consistent with resource constraints; reducing the sizable tax expenditures; strengthening tax administration; and reforming the loss-making energy sector. We note that potential revenue loss is indeed significant: staff estimates that the revenue foregone amounts to 7 percent of total revenue only on account of unrecorded trade with neighboring Dominican Republic (SIP). We are also concerned about the loss of external budget support in FY2019 and urge development partners to, at least, try to maintain the past levels of support.

The renewal of the Pacte is a welcome interim measure, but monetary policy could only be effective if fiscal dominance is eroded over time. Under the circumstances, we agree with staff that a monetary aggregate growth target in line with the growth of nominal GDP should anchor monetary policy. Further, the degree of dollarization of the economy also has an important bearing on the effectiveness of monetary policy. We note (Figure 3) that dollarization of bank deposits and loans is significant and has been rising since 2018, and that dollar credit growth has accounted for the bulk of credit growth to the private sector since mid-2017. While we are comforted by staff assessment that prudential regulations limit banks' net open FX position, we appreciate staff comments on ongoing efforts, if any, to limit (and reverse) dollarization and risks to the banking system. We urge the BRH to continue to allow the exchange rate to adjust in an orderly fashion and use the scare foreign exchange only to smooth disorderly exchange market fluctuations.

The importance of reforming of the energy sector in general and stopping the sizable financial hemorrhage of EDH in particular cannot be overstated. Staff indicates (Box 1) that fuel subsidies were eliminated in July 2018 as a part of the 2018 SMP. Was the subsequent rise in subsidies largely related to the gourde depreciation? As regards EDH, we encourage the authorities to reinvigorate the incomplete SMP measures and strengthen EDH management and oversight. We are in full agreement with staff recommendation to ensure that adequate social program offsets are already in place before undertaking energy sector reforms.

As discussed in the SIP, the depth and spread of poverty and income inequality in Haiti are alarming. We would appreciate staff update on the progress made in the approval and implementation of the new national initiative on social protection (PNPPS) since June 2019 when the draft was submitted for national consultation. We underscore the need of reducing the current overlap of various social protection programs to enhance their coverage and effectiveness. Would staff please elaborate on the authorities' concerns about unconditional cash transfer programs in response to staff recommendation? We concur with staff that the social protection mechanism should be transparent and subject to regular monitoring by independent representatives. We encourage foreign donors to intensify their efforts consistent with, and in support of, the national strategy.

We note from the staff report that the implementation of the 2009 anti-corruption strategy has been incomplete and that the anti-corruption framework in place is not adequate in deterring corruption. We urge the authorities to intensify their efforts in this area given that real progress and sustainable growth are not possible without fighting corruption and improving governance and transparency. The full implementation of the 2009 strategy should pave the way for a new strategy for the next decade. We also agree with staff that, going forward, reforms should aim at reducing business and import monopolies and lessen economic concentration among a relatively small but powerful group—a legacy of the past.

Finally, Haiti is highly vulnerable to climate change and has suffered frequently from natural disasters, partly due to environmental degradation. We support staff suggestion of a climate change policy assessment and efforts to diversify towards cleaner renewable energy sources.

We wish the authorities success in addressing the difficult challenges they are facing.

Mr. Villar and Mr. Cartagena Guardado submitted the following statement:

We thank staff for a candid and well-informed Article IV report and Selected Issues that provide insightful research in topics of inequality, social protection spending, energy sector reform, and cross border trade. We also thank Mr. Bevilaqua, Mr. Saraiva and Ms. Floresta for their informative buff Statement. We welcome the engagement by the staff and the strong commitment of the authorities to fulfill this review under difficult circumstances, even when it meant coming to DC for policy discussion, as referred in the buff statement. The staff report, coupled with the selected issues, should be a focal point for economic policies that may be needed to complement the process of policy making and structural reforms. We mostly agree with the thrust of the staff appraisal and want to emphasize a few points.

Haiti has experienced important shocks in its recent history. The impact of natural disasters and devasting shocks, a hurricane (2016) and an earthquake (2010), has constrained the country's capacity for development. In addition, structural weaknesses such as poverty (58 percent of population below national poverty line), corruption, inequality, and weak institutions continue to be a source of political instability that hurts growth and call for urgent policy measures and reforms. We agree with staff on the strong need faced currently by authorities to stabilize the macroeconomic situation in the unstable political context that prevails since 2015. Contraction of Haiti's economy in 2019 – with inflation and depreciation in two digits, and poor economic prospects – makes it urgent to reach a prompt resolution of the political crisis. We will welcome further comments on the current political situation.

Haiti needs to continue the reform process while protecting the most vulnerable population. We welcome progress achieved by the authorities on key reforms of the energy sector given the large fiscal imbalances generated by that sector. We note with concern the high losses of the energy sector that reached 6.5 percent of GDP in FY2019, and the low coverage for the population -less than half of Haitians have access to electricity- affecting productivity and the people's well-being. Although pace should pick up, reforms need to be accompanied by a set of policies that compensate the social impact of their implementation on the most vulnerable. In this sense, we welcome the progress achieved by authorities with the national plan on social policy (PNPPS) and support its prompt approval and execution. Help by international organizations in the implementation of reforms will be crucial.

Strengthening governance and fighting corruption is key for advancing reforms. We concur with staff in the importance and urgency of strengthening and approving the anticorruption framework to provide powers, mandates and financial means to fight corruption that is constraining the country's economic performance and prospects. We welcome the Country Engagement Strategy contained in Annex I of the report and agree it is important to focus on strengthening governance and transparency as one of the key objectives of the country's reforms.

We agree with staff on the urgent need to strengthen revenue collection and on promoting financial inclusion. We welcome the roadmap for tax reforms adopted in 2018 and the measures that authorities are currently taking to boost revenue collection. We concur on the importance of approving and publishing the 2020 budget that includes measures to boost domestic revenues and restrict non-priority spending. Staff comments on the stage of preparation and publication of the 2020 budget will be welcomed.

We also welcome the authorities' commitment to advance reforms to promote financial inclusion. With a low financial depth (credit to the private sector represents 19 percent of GDP and only 33 percent of the adult population owns a bank account), policy measures that promote financial inclusion are urgent to support growth. We welcome the 2015 National Financial Inclusion Strategy and encourage the authorities to take advantage of the IMF and WB's capacity development facilities to boost financial inclusion.

Mr. Sylla and Mr. Diakite submitted the following statement:

We thank staff for the well-written report, and Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their informative buff statement.

Haiti continues to face significant challenges, including political crises, large macroeconomic imbalances, weak institutional capacity and governance, and elevated poverty, which requires greater support from the international community. Vulnerability to natural disasters aggravates the fragility of the country and hampers its efforts to foster a higher and broad-based economic growth. In this context, it is essential that the authorities' actions put emphasis on restoring macroeconomic stability in a growth-friendly manner, while enhancing social programs, developing capacity and improving governance. To this end, increased and coordinated support from the international community, including the Fund, is critical. Adequate technical assistance and capacity building are of the essence. Although implementation of past Fund-supported programs has been challenging, it is worth noting that some progress has been made under the 2018 SMP. Going forward, we broadly agree with staff's policy recommendations and provide the following comments for emphasis.

The sequential approach outlining both short-term and medium-term fiscal measures is appropriate to address the elevated fiscal imbalances. Given the difficult sociopolitical environment, we agree that first and foremost, the authorities need to formulate and execute a budget for 2020 with appropriate targets for the fiscal deficit and financing. The budget should reflect measures to preserve tax revenue and rebalance current expenditures in favor of infrastructure and social sectors. In this regard, it will be important to lower exemptions and other tax expenditures, streamline current spending and clear arrears. Over the medium-term, the authorities are encouraged to continue implementing the March 2018 tax reform strategy, including the adoption of a new tax code, the introduction of new taxes, and the shift from a sales tax to a value-added tax. On the expenditure side, improving the efficiency and quality of public spending will also be needed to enhance the effectiveness of public services while reducing fiscal deficit. Therefore, reforms aimed notably at controlling energy subsidies and the wage bill and improving public finance management and governance should be pursued.

On monetary and exchange rate policies, the authorities should focus on reducing inflation which requires further restrictions on the monetization of fiscal deficits. We welcome the « Pacte de Gouvernance Economique et Financière » between the fiscal and monetary authorities which aims to limit the monetary financing of budget deficits and promote fiscal discipline. The central bank's ability in this regard should also be further strengthened by adopting a quantitative monetary target. Moreover, we encourage the authorities to amend the Central Bank law and improve the management and regulation of foreign reserves, with a view to strengthening monetary policy effectiveness.

Regarding the financial sector, we urge the authorities to implement a comprehensive financial inclusion strategy to build solid foundations for economic recovery. To increase private sector's access to credit, it will be important to deepen financial intermediation, notably by promoting financial technologies such as mobile banking. Efforts should be made to effectively implement the 2015 national financial inclusion strategy and remove the legal impediments to contract enforcement and banking competition.

Priority structural reforms should encompass improving governance and transparency to attract private investments and promoting economic diversification. We take positive note of the authorities' recognition of the governance issues and inspire them to follow through their plan to design a more effective anti-corruption strategy. It will also be important to continue improving the identification and coverage of recipients of cash transfer programs which are critical to addressing poverty. Moreover, an effective implementation of deep reforms in the energy sector will help boost economic growth.

Finally, we strongly support the authorities' call for a stronger IMF engagement with Haiti as called for by Mr. Bevilaqua, Mr Saraiva, and Ms Florestal in their buff statement. Such engagement would signal the country's determination to make progress in the implementation of a well-designed reform program to unleash Haiti's growth potential. Staff's elaboration on Fund engagement with Haiti going forward is welcome.

With these remarks, we wish the Haitian authorities success in their endeavors.

Mr. Just and Mr. Bukovina submitted the following statement:

We thank the staff for the well-focused set of reports and Messrs. Bevilaqua and Saraiva and Ms. Florestal for their informative buff statement.

The continuing political instability and inability of the government to take even basic legislative action take a heavy toll on the Haitian economy and an already vulnerable population. Poverty and corruption are widespread, inequality is high and natural disasters are frequent. During the last Fund-engagement under the Staff Monitored Program (SMP) which expired in August 2018, Haiti had made only limited progress in some areas, while overall implementation was mixed, clouded by violent protests following the fuel subsidy reform and rising petroleum pump prices which had to be reversed.

Passing a budget that puts Haiti back on a sustainable fiscal trajectory is of the highest priority. Staff's update that the authorities have not prepared a notional budget in 2020 is therefore disconcerting as it increases the risk of a vicious circle of further economic deterioration, inflationary pressures, shortages of good and fuel driving social unrest and entrenching the political paralysis. Short-term fixes will most likely be costly and the financing gap will worsen public debt levels and result in even more arrears. As the problem is political and society is polarized, we appreciate staff's candid Country Engagement Strategy. The Fund could play the catalytic role to initiate the dialogue and cooperation among stakeholders to build a consensus around a basic set of general economic principles necessary for reviving the economy and developing some degree of political stability and policy continuity. Given the lack of institutional and political ownership for sustained reforms, we share staff's thinking to incentivize an alternative 'commitment device' to transmit these principles by exploiting the strong Haitian culture of an active civil society and relatively free media.

We note staff's assessment that the implementation of TA has been relatively slow. While we agree that the presence of a long-term expert could improve the implementation record, acute capacity constraints will continue to impede effectiveness. We highly welcome the active coordination of TA partners and take note of the beneficial impact of partnership agreements.

In view of the dire situation of the electricity company and the fiscal drain it imposes, we commend staff for exploring ways to switch to alternative and renewable energy sources. We would thus be very supportive of a Climate Chance Policy Assessment.

Strengthening social safety nets need to be at the core of any macroeconomic and structural program. In this vein, the new Politique Nationale de Protection et de Promotion Sociales (PNPPS) is a commendable national initiative to develop a more effective and efficient social safety net that can be further developed with the cooperation of the World Bank.

Mr. Buissé, Mr. Rozan and Ms. Goupille submitted the following statement:

We thank staff for their useful set of reports as well as Mr. Bevilaqua, Mr. Saraiva and Ms. Florestal for their insightful buff statement. We thank staff Representatives for the statement providing updated information and take note of the recent political developments. We commend staff for conducting the Article IV consultation in the midst of the political and social turmoil of the end 2019, as it exemplifies the ability of the Fund to work in fragile contexts.

We agree with the thrust of the report and support its recommendations, particularly the near-term measures to restore macroeconomic stability. The economy is paying a heavy price for the current political crisis, and even in the scenario of political normalization, growth prospects would remain subdued. We note the recent efforts made by the authorities to maintain the stability of the macroeconomic situation; stronger and more inclusive growth will ultimately hinge on further decisive actions. Development needs in the country are very significant with a large part of the population, mostly rural, remaining poor or extremely poor, and there remains immediate concerns on food insecurity.

The economic outlook has been strongly impacted by the political crisis and there is no evidence that the economic situation will improve in the short run. There is anecdotal evidence that Haiti will be affected by the departure of skilled workers, thus further decreasing the country's growth potential and capacity to develop. Insecurity has worsened. Yet we note that protests have eased and that schools and businesses have re-opened. A pick up in the outlook and a stabilization of the macroeconomic situation would require a significant reduction in political uncertainty.

The fiscal situation raises concern, as the deficit has increased further. The last budget dates back to fiscal year 2017/2018 and was reconducted since then. Support from major international development partners have mostly been delayed since 2018. In the short run, we echo staff's call to implement a budgetary framework for 2020 that would include both revenues measures and a containment of non-priority spending. Could staff provide an update on the current budgeting process? Could staff elaborate on the impact of delays in external budget support? Staff's advice and technical assistance will be instrumental in this regard. In the medium to long run, given the sizable fiscal risks underlined in the Debt sustainability Analysis, there is significant room for progress in terms of public finance management, energy sector reform and more generally, better anchoring the fiscal target. We also note that the country's DSA classification has been changed from moderate to high risk of debt distress, with the application of judgement. Given its significance for the country's macro framework and its debt sustainability, could staff elaborate on the factors, internal and external, influencing remittances?

On governance, we share staff's concerns regarding the actions taken regarding corruption. We note the authorities' recent efforts to increase the compliance to the asset declaration by government officials. However, the toll of corruption is still high, and we call upon further efforts to detect, prevent and sanction such actions. Setting up the steering committee envisaged under the 2009 anti-corruption strategy will be an important step, so as to close the gaps in terms of anti-money laundering requirements. Involving civil society in this field, so as in the strategies on growth and fighting poverty, is paramount.

Reforms in the energy sector are needed to reduce its fiscal imapct and to progressively move towards a more sustainable energy mix. Dependency to fossil fuels makes the economy vulnerable given its reliance on imports and variations of international prices of oil. In the medium term, developing renewable sources of energy, thanks to the support of international donors, could improve the local situation. Could staff provide further information on the potential social impact of suspending subsidies to EDH, especially on the most vulnerable?

Strengthening social protection remains key to protect the poorest and to make sure that structural reforms are a success. We agree with staff on the urgency to finalize the PNPPS (Politique nationale de protection et de promotion sociale) and to improve the coverage of beneficiaries. We support the idea of reallocating fiscal resources to these priorities, via cash transfers, whilst making sure that these effectively reach the end-beneficiaries. We thank staff for their particularly insightful select issues paper on social protection, in particular the practical modalities highlighted to step up support, as well as a possible calendar for reform implementation.

Mr. Mouminah and Ms. Alzamel submitted the following statement:

We thank staff for a very well-written set of reports and Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their helpful buff statement. We broadly concur with the thrust of the staff assessment and policy recommendations and would therefore limit our comments to a few issues.

Haiti’s economic condition remains difficult and thus we urge the authorities to accelerate their efforts to stabilize the macroeconomic situation. The country faces several daunting challenges, including domestic instability, weak governance, and high levels of corruption and inequality. In addition, the human development indicators remain among the lowest in the world. At this time, the policy priority is to stabilize the macroeconomic situation and we welcome the authorities’ commitment in this regard.

On the fiscal front, we concur with staff on the urgent need to restore fiscal stability. In this context, we echo staff’s call to implement a budgetary framework for FY2020 that includes measures aimed at boosting revenue mobilization and containing non-priority spending. Also, we encourage the authorities to implement comprehensive energy sector reforms to reduce the large losses and resource misallocation. Together, these efforts would help in creating the much-needed fiscal space to address social and capital spending needs. At the same time, while we see merit in reducing subsidies and increasing tariffs, these reforms have to be considered carefully given the low access to electricity, and insufficient and ineffective social spending. Also, continued efforts towards strengthening PFM, including by expanding TSA coverage to all public entities and enhancing accounting and audits, would help improve governance and reduce public fund misuse.

Deepening financial intermediation is critical to support inclusive growth. Here, accelerated efforts towards enhancing bank competition, investing in connectivity infrastructure, and developing fintech and mobile banking could help in supporting access to finance for individuals and small businesses. The authorities should be commended for significant progress achieved in addressing issues raised in the Fund's safeguards assessment.

Accelerating structural reforms to tackle corruption, strengthen social safety nets, and enhance business environment are important priorities. We also urge the authorities to accelerate the pace of implementing pro-growth reforms to address poverty and gender inequality. In this connection, we welcome the planned national initiative (PNPPS) and look forward to its finalization. Here, we would appreciate staff update on the likely timeline for its implementation. We also encourage the authorities to strengthen the anti-corruption framework. In addition, the authorities should improve the quality and coverage of economic data.

Finally, we encourage the authorities to strengthen their engagement with the Fund. As noted in the buff statement, stronger Fund engagement will signal to other partners that Haiti is in a position to make progress in adjusting and reforming its economy.

With these remarks, we wish the authorities success in their future endeavors.

Mr. Beblawi and Ms. Abdelati submitted the following statement:

We thank staff for the useful set of papers, including a number of Selected Issues on some highly relevant topics: inequality, social protection, energy sector reform, and cross-border trade. We very much appreciate the efforts staff has made to carry out the Article IV consultation process in very challenging conditions.

Haiti is going through a prolonged political, economic, social, and humanitarian crisis, aggravated by multiple natural disasters. Downside risks remain sizeable and, as seen from the Staff Supplement issued last week, disorderly conditions continue with a serious deterioration in the food security situation. Political and economic stabilization are essential, as is significant donor support. As highlighted by the authorities in the buff statement of Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal, it is essential for the Fund to be engaged and to help guide the country toward stabilization. We agree that the adoption of a comprehensive recovery plan with wide-ranging domestic and external support is badly needed. In this regard, we found Annex I useful in laying out a country engagement strategy to help build consensus on policy priorities, with due regard to the guidelines for engagement on Fragile and Conflict States. It is clear coordination of donor support needs improvement.

Staff's emphasis on short-term measures that would be feasible under the current circumstances, is appropriate. Key among these is to publish a notional budget and to stabilize domestic revenues, prepare a plan for the resolution of the stock of budget arrears, and reduce tax expenditures. Reducing the estimated exemptions under the three main taxes, which amount to at least 2.6 percent of GDP, would go a long way toward limiting the need for monetary financing of the budget deficit.

We welcome the authorities' social policy program-PNPPS, which prioritizes poverty reduction. We agree that there is a need to act swiftly to establish an adequate social safety net, especially ahead of contemplating energy subsidy reform. Staff's proposal to phase in the subsidy reform makes sense, as does the suggestion to focus on a few quasi-universal cash transfer schemes. Staff calls on the authorities to work with the World Bank on cash transfer programs, and we would like to know the extent of World Bank engagement in this area and what would be a realistic timetable to complete the information system's coverage of beneficiaries and put the system in place?

Energy sector reforms are urgently needed to improve the fiscal position and the composition of fiscal spending, and to support growth. Addressing the high technical and commercial losses in the sector and weak management, is an important first step, as identified by the authorities. Is this also an area where the World Bank is engaged with the authorities?

We look forward to hearing from staff whether more training is needed to address the acute capacity constraints, and the extent to which this has to do with migration of qualified officials and the need to recruit and train new hires.

The Acting Chair (Mr. Zhang) made the following statement:

Good morning, everyone. Let me start the day by sending my holiday greetings to all of you, particularly to those who observe the lunar new year day, which has started today. Best wishes to all of you. Have a happy holiday.

Let’s turn to the subject. The subject is on Haiti - 2019 Article IV Consultation. As you know, this is the first Article IV consultation for Haiti since 2015. We know the country has been facing extremely difficult years, including 2019.

The authorities agreed to undertake the Article IV consultation, despite the challenging circumstances. I would like to commend the authorities for their commitment and effort, including for coming here to Washington in November 2019 with the team. The authorities’ intention was also reiterated in the buff statement and was expressed in the letter recently sent to the Board from the minister and the governor. I believe the letter was received yesterday.

At the same time, I would like to thank the staff for persevering. Throughout the period, the Fund remained engaged with the authorities and provided extensive technical assistance (TA). As expressed in your gray statements, all of you agreed that we should stand ready to assist further.

Twenty Directors issued 17 gray statements. World Bank staff is also attending this session.

Mr. Bevilaqua made the following statement:

I reserve my right to speak at the closing of the meeting. At the outset, I want to make a couple of points, including in reference to the letter sent by my Haitian authorities to Board members which was circulated yesterday.

First, let me thank management and staff for the productive and continuous dialogue with the Haitian authorities and our office. Our authorities were very pleased to have had the opportunity to discuss the Fund’s future engagement with management during their visit this week. Moreover, I want to express our full appreciation for the work of Ms. Laframboise and her team. We appreciate their commitment and mobilization to take up the task of supporting Haiti in stabilizing and reforming the economy. It is critical that, in future engagement, we are able to secure such high-quality work and strong commitment.

Second, I want to reassure you that my Haitian authorities are fully aware of the enormous challenges they face in order to take the country out of fragility and bring it back onto a path of development. They understand that undertaking a bold reform agenda is in their best interest. They are also fully aware that building a political consensus that is as broad as possible around the reforms is the only way to make progress. The political situation is still complex and fragile. And the president has committed to foster national unity as soon as possible with the establishment of a more politically diverse government.

It is not only the authorities but a broad range of stakeholders in Haiti that are convinced that finding a solution to the current political crisis is an urgent necessity. In fact, since December, the situation has improved significantly. Besides the reopening of schools, there are clear signs of the resumption of economic and social activity: daily traffic jams, the holding of the annual international jazz concert, and people circulating again on the streets and going about their business. However, this is a very delicate incipient pace, but it opens a crucial window of opportunity to move on with the needed reform agenda. This is exactly the essence of the letter sent to you by the authorities. In reaffirming their commitment to abide by the established democratic principles, they announced that they will proceed with the impactful reforms that were already in the pipeline, including a bold step regarding the management of the electricity company. In addition, they committed to publish not only the budget to be approved but also periodic information about its execution.

Finally, they highlighted that two consequential decrees will have to be issued, even without a functioning congress--one to establish a realistic and appropriate budget and another one to organize the elections for the parliament this year.

The Acting Chair (Mr. Zhang) - I believe staff wants to say something to address some of the key issues raised in your gray statements.

The staff representative from the Western Hemisphere Department (Ms. Laframboise), in response to questions and comments from Executive Directors, made the following statement[1]:

> Thank you, Mr. Zhang, for the introduction. And thank you to Directors for the very thoughtful gray statements.
>
> We have responded to most of the questions in our written answers. I would like to provide a brief update on some economic developments, a few observations on the points raised in the authorities' letter to the Board, and then will respond to some questions that were raised in gray statements about the future Fund engagement.
>
> A quick housekeeping note: To meet the rule under the transparency policy, I want to report that yesterday, we submitted a few factual corrections in paragraph 1 of the staff statement and in Annex II of the selected issues paper on the energy sector.
>
> On the recent developments, in the monetary sector, preliminary data showed that central bank financing of the government amounted to 16 billion gourde in the October to December period, which surpasses the ceiling of 10 billion gourde set for the fiscal year.
>
> With respect to fiscal developments, we have recent partial data suggesting that fiscal revenues stopped declining in the first quarter, which is very good news. Other than that, we have not received complete fiscal data since September. Data on fuel and electricity subsidies was last provided to us in August and March respectively.
>
> On the external sector, the current account deficit provisional data show it shrunk to 0.3 percent of GDP in fiscal year 2019, as compared to our projection of a deficit of 2 percent of GDP. The lower deficit was driven mostly by weaker imports, while exports and remittances evolved, as we had expected. With the Statistics Institute closed, we have no updated data on national accounts, output, or inflation, unfortunately, since September.
>
> In the area of governance, the recently appointed head of the anticorruption unit, described in the buff statement, was removed from his position on Wednesday night. We are not familiar with the new appointee.

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[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

With respect to the letter from the authorities, we very much welcome the information and the initiative and many of the points made by the authorities. We want to just mention our observations on a few of the points.

With respect to releasing the budget after the inauguration of a new government, we do not have information on when this might occur, but we would encourage the authorities to share the budget framework with the staff informally.

On the unification of the personnel databases, this is part of an Inter-American Development Bank (IDB) loan, strengthening public management to improve service delivery. The IDB expects the personnel databases to be unified by 2022. It has not yet been completed.

Regarding the new director of the anticorruption unit, we continue to recommend strongly the appointment of a steering committee, with independent members of civil society.

With respect to TA from the Legal Department on the draft central bank law, Legal has not been provided with the draft law, despite repeated requests to the central bank. We would like to move that forward, but we are awaiting the draft law.

Regarding the final phases of preparing a new cash transfer program, we very much welcome this news. However, on placing this program under the Economic and Social Assistance Fund (FAES), we do not support giving responsibility or a leadership role to the FAES. This is in line with the views of other development partners. We continue to recommend strongly to consolidate the social programs under the Ministry of Social Affairs and Labor (MAST) and to strengthen its capacity.

First, the MAST has the primary coordination role. The MAST, having that role, is crucial to avoid the fragmentation and program interruption that we have discussed in the selected issues paper. It is the agency under Haitian law with the mandate to design and implement social spending.

Second, the FAES was a unit created under the Ministry of Economy and Finance. It was the main recipient of social funds from the PetroCaribe program. However, in the public report by the Haitian supreme audit court, it was cited as a source of numerous irregularities in the management of the funds, for example, with quote “hundreds of thousands of fictional beneficiaries" end quote. So, we still continue to recommend that new programs be placed under the MAST.

It is my belief that the authorities are genuinely committed to restoring stability and moving Haiti to a more prosperous path, but this just shows that the challenges of implementation are significant and will require political stability and continuity.

Finally, Directors asked about the prospects and nature of Fund engagement going forward. As Mr. Zhang said, we have tried to remain as engaged as possible over the last six to nine months during this difficult period, preparing the background analysis that we believe would form key inputs for effective policy advice, and trying to move forward with the TA work plans.

I would like to thank Minister Jouthe and Governor Dubois for their significant efforts, cooperation, and commitment to making this consultation happen, including coming to Washington.

Looking forward, what happens next? And when can we engage on a Fund-supported program? I think that the first answer is, when conditions permit. What does this mean? Under the guidelines on conditionality, a member's request to use Fund resources will be approved if the Fund is satisfied that the member's program is consistent with the Fund's provisions and policies and that it will be implemented and, in particular, the member is sufficiently committed and has the capacity to implement. In other words, we need sufficient confidence that the necessary economic policies that would put the economy on a path to stability and sustainability will be implemented and that we can monitor that.

Given the recent history, the complex political situation, and the recurrent and debilitating social unrest over the past 18 months, we will need some time to gain this confidence. We would also need to assess the circumstances in the country--in other words, the security conditions--to judge whether these policies, aimed at macro stabilization, can be implemented. At the same time, we will start to work with the authorities immediately to identify the measures and policies that will get us to that starting point, a point where we can engage in program discussions.

With respect to moving to an upper-credit tranche program, we think some record of policy implementation under a staff-monitored program (SMP) would be needed, given the challenges noted earlier and the recent track record. Some combination of up-front Rapid Credit Facility (RCF) and SMP would be the most likely path on the way to a full ECF-supported program. Of course, we would need to assess the situation in real time.

Finally, I would add that, in parallel to this work, we will immediately move forward to advance the goals of the country engagement strategy, in consultation with the authorities and led, importantly, on the ground by our resident representative. We believe it will be critical to build stronger awareness, engagement, and commitment across a broader set of stakeholders in the country if future reform efforts are to succeed.

Just to reiterate again, we will start working immediately with the authorities to help them formulate a plan to put the economy on a path to sustainability and growth.

Mr. Sigurgeirsson made the following statement:

I would like to start by thanking staff for the report, Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the buff statement, and Mr. Bevilaqua for the helpful opening statement.

We fully share the view of the staff appraisal on the extreme economic, political, and humanitarian challenges facing Haiti. The focus clearly needs to be aimed at adopting clear and realistic goals to rebuild trust in the system, to enable further international engagement, and to regain confidence. That will require engaging domestic, political, and economic agents, and civil society.

The country engagement strategy appears to address some of the challenges of the past. While we need to be realistic, it may, with some adjustments, provide a path forward for the above-mentioned agents to agree on credible reforms, where ownership should be at the forefront.

Under the current complex circumstances, the IMF should continue to focus its engagement on technical assistance toward supporting the authorities’ efforts to enhance public administration and provide advice on the design of the necessary reforms. In this regard, Annex V on capacity development is very well placed. However, for this assistance to be effective, ownership will be required to build a track record.

Finally, we very much welcome the authorities’ engagement on this consultation. I would especially like to commend the staff’s engagement and their efforts in putting together this set of comprehensive analyses under these very difficult circumstances, and any suggestion otherwise is not constructive.

Mr. Rosen made the following statement:

I thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the buff statement, which was very helpful. We also want to thank staff for the papers and for the frequent bilateral engagement with our office. We would like to commend staff for their flexibility in carrying out this Article IV in difficult circumstances and for doing it well. It is good to see this quality of staff work in an important fragile state, such as Haiti.

The United States is a top bilateral donor in Haiti, and our government continues to be very much engaged in trying to assist Haiti in addressing both its humanitarian and development needs. We support the approach outlined by staff in the country engagement strategy. We think it is sensible to help Haiti build an internal consensus for economic reform principles and objectives, around which they can mobilize international support.

We are pleased that the IMF is ready to engage with an SMP and RCF when a government is in place that can commit to and implement policies that will put Haiti on a path toward economic stability and sustainability. This readiness by the IMF is a positive signal. We urge the authorities to publish the Article IV and to use this signal to help drive forward consensus building among stakeholders.

We take note of the authorities’ letter to Executive Directors, in which they appeal for more immediate financing, but we do not see the IMF’s planned approach to financing as a lack of engagement; rather we see this as an important period of laying the groundwork so that future IMF financing can play a more effective role in supporting a sustained reform effort. This does not mean waiting for perfect conditions; instead, it means continuous and proactive engagement, including through capacity development. We encourage staff to remain proactive and flexible so that we can provide financing as soon as conditions permit, alongside other international financial institutions and international donors.

We recognize that Haiti faces difficult policy choices in addressing a fiscal financing gap. We thank staff for the answer to our question on arrears accumulation. We welcome the renewed pact between the central bank and the ministry of finance to limit the central bank’s financing of the fiscal deficit. Could staff provide an update on how the implementation of the pact is going?

We strongly support staff's intention to form a tripartite working group with the World Bank and IDB staff. Inadequate coordination and fragmentation of assistance to Haiti, more generally, has been a major issue and needs to be remedied.

The Acting Chair (Mr. Zhang) noted that Mr. Rosen's support for staff to remain engaged with the authorities was well recognized.

Mr. Sylla made the following statement:

We issued a gray statement and would like to stress the following.

Haiti continues to face significant challenges, including a political crisis, large macroeconomic imbalances, institutional capacity and governance problems, and elevated poverty which requires greater support from the international community.

We fully endorse the sequential approach outlined in both the short-term and medium-term fiscal measures for addressing the fiscal imbalances. Therefore, we urge the government to speed up measures aimed to increase revenue, curb nonpriority spending, as well as improve public finance management to help restore a fiscal balance.

On monetary policy, the authorities should focus on reducing inflation, which requires further restrictions on the monetization of the fiscal deficit. In this regard, we welcome the Pacte de Gouvernance Economique et Financière between the Bank de la Republique d'Haiti and fiscal authorities. We invite Ms. Laframboise to send a clear message to the authorities that central bank money can never develop a country; otherwise, we would all print paper. They should be discouraged from that practice.

Priority structural reforms should encompass improving governance and transparency to attract private investment and promote economic diversification. The authorities are also encouraged to vigorously implement measures to enhance resilience to natural disasters and social safety net.

Finally, we support the authorities' call for a stronger IMF engagement with Haiti, as mentioned by Mr. Bevilaqua in his buff statement, a call also reiterated by the governor of the central bank and the minister of economy and finance in their letter to Executive Board members. We have to stay engaged and not expect a quick result, as in many other fragile states.

With these remarks, we wish the Haitian authorities success in their endeavors.

Ms. Levonian made the following statement:

I thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their informative buff statement and for the opening remarks this morning.

I want to begin by commending the mission team, headed by Ms. Laframboise, for their extraordinary efforts in concluding Haiti's 2019 Article IV consultation under very difficult circumstances and for their comprehensive and well-written set of papers, including the very useful SIP.

I also commend the authorities for their determination in facilitating the completion of the Article IV review and for their strong signals to work toward improving conditions in Haiti, as outlined in their buff statement and in the letter to the Executive Board.

We issued a comprehensive gray statement, so I will focus my remarks on a few items.

Haiti faces a plethora of challenges, not the least protracted political instability, frequent and intense natural disasters, corruption, high levels of inequality, and widespread poverty. Surmounting these challenges will require Herculean efforts by the Haitian people, with strong support from the international community.

I particularly wanted to welcome Annex I of the report, the country engagement strategy; in particular, building consensus around a basic set of economic objectives, working with the World Bank and IDB to act as facilitators, initiating dialogue among key stakeholders and foreign partners, and the ongoing provision of TA so that there is continuous IMF engagement during this crisis period. I also want to mention that any prospective program in Haiti should be approached with the greatest attention to detail and country specificity and due regard to the Fund's guidance on engagement with fragile and conflict-affected states.

I also wanted to comment on governance. We appreciate staff's focus in the report on the governance and corruption issues which must be tackled in order to reduce the scope of misuse of public funds and on the need to build resilience to natural disasters and climate change in Haiti. We would like to add our support to the staff's suggestion of a Climate Change Policy Assessment (CCPA) for Haiti in due course, together with transitioning toward a clean energy mix.

With that, I wish the authorities well.

Mr. Trabinski made the following statement:

We thank staff for the insightful report and the responses to our many questions, as well as Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for their well-written buff statement.

We agree with the thrust of the Staff Appraisal. We also thank the Secretary's Department for circulating the letter from the Haitian authorities. It was very timely.

Indeed, Haiti currently faces many risks and challenges; while weak institutions, high political volatility, and low trust create a very complex situation. Let me emphasize a few points.

First, we agree with Mr. Doornbosch and Mr. Psalidopoulos, that Haiti needs an effective and comprehensive strategy to fight inequality. The creation of strong public institutions will be of particular importance. It will also require sustained, focused, accountable, and transparent public policy to strengthen inclusiveness and trust in society. To this end, it will be key to carry out a fundamental judicial reform and to tackle the country's widespread corruption.

Second, on fiscal policy, we share the view of other Directors on the need for mobilizing tax revenues. A more progressive tax system will be necessary to ensure adequate resources for both the proper levels of social spending and for reforms aimed at increasing potential growth, like the much-needed educational reform.

Third, given Haiti's geographic location, the authorities would be well advised to put more emphasis on ex ante resiliency to natural disasters. In this regard, the CCPA could play an important role in helping the authorities with creating a road map for an ex ante response to natural disasters. Therefore, we would be interested in whether staff had offered the authorities possible support in this regard.

Finally, regarding the financial sector, we encourage the authorities to develop a state-of-the-art supervisory and regulatory framework, specifically within the context of increased use of fintech in the country. Also, we call on the authorities to ensure a timely provision and proper quality and coverage of data statistics.

Mr. Buissé made the following statement:

We thank staff for the comprehensive set of reports and Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the buff statement.

Haiti has not been discussed at the Board in a few years, and we are grateful that this very substantive work was done on the challenges that the country faces. We thank the authorities for the letter which was sent yesterday, which underlines their commitment to reform. The way forward presented by Ms. Laframboise seems to be the way to go. The Fund has to remain actively engaged to be able to create as soon as possible the conditions to have financial support. I will underline a few points.

First, I would like to express our support to the authorities' efforts to draft a framework to re-establish the budget and would encourage them to adopt it as soon as possible. Their commitment to the governance pact, in order to avoid monetary financing of the deficit, remains an important signal in that respect.

Second, I would like to specifically thank staff for the country engagement strategy. It is paramount to draw lessons from the Fund's previous engagements, given the difficulty to substantially tackle economic reforms after the 2010 earthquake. It remains important to set up a tailor-made approach, considering the domestic fragilities when designing assistance program funding by international donors. Involving all stakeholders will be necessary to move forward. The Fund's engagement in this fragile context is paramount. We welcome the authorities' willingness to have a strong relationship going forward.

Third, we encourage the authorities to keep on leveraging the Fund's technical assistance. In that respect, I would like to thank staff for the very comprehensive annex done in this regard, explaining the progress and areas of risk.

Fourth, I wish to stress the importance of efficiently setting up measures to fight corruption and money laundering, two issues which are hindering stable economic development. Furthermore, deepening the dialogue with civil society actors will be key in order to ensure expectations related to public spending.

Last, I would like to stress the medium-term opportunities for the country to shift away from a fossil fuel-based energy mix toward renewable options, based on off-grid solutions which would benefit the economy, create jobs, and contribute to energy price stability.

Ms. Korinthios made the following statement:

We would like to thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the informative buff statement, as well as the staff representative on Haiti for the useful statement. We would also like to thank staff for the informative set of reports and the interesting choice of selected issues. Let us take this opportunity to express our appreciation for the efforts the staff has made in order to conclude the Article IV consultation under such challenging conditions.

As stressed in our gray statement, poverty is pervasive in the economy and the society of Haiti. At the same time, such conditions offer the space for the significant improvements that are so needed for the Haitian people. Moreover, addressing climate change is paramount, in particular, in a country so prone to natural disasters. In this context, it is important that the IMF stands ready to provide training and, more broadly, to help develop capacity in the Haitian economy in this and in other areas to help the authorities address the many challenges they face.

We take good note of the commitment of the Haitian authorities to uphold democratic values and good governance. We wish that the Haitian people can soon reap the benefits of stronger institutions and stable economic conditions.

Mr. Mouminah made the following statement:

We thank staff for the comprehensive work and Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the helpful buff statement.

We share staff views, given the difficult situation in Haiti. We issued a gray statement; therefore, I will be brief and focus my remarks on three main issues.

First, like Ms. Levonian and Mr. Buissé, we would like to start by welcoming the completion of the Article IV consultation. Indeed, we strongly encourage the authorities to continue their engagement with the Fund. We also thank staff for the efforts they had to go through to conclude this Article IV. We also thank the authorities for sending the letters to update the Board on the recent developments.

In this connection, like some other Directors in their gray statements, we agree that Haiti will not be able to break this vicious cycle by itself and will need international cooperation to do so. Technical assistance should continue, and it is a priority at this stage. But I agree with Mr. Sigurgeirsson, that ownership is key to the technical assistance that is given as well.

Second, we take note of the track record of the previous Fund-supported arrangements. Here, we would like to thank staff for Annex I, a country engagement strategy, and agree on the importance of focusing on raising awareness and building consensus among Haitian civil society. I agree that we need some time to regain confidence to start any program discussion.

Third, we have a concern about the delayed process of the new national initiative on social protection, as rightly indicated by staff. Therefore, we urge the authorities to intensify their efforts in this area, given the very significant development needs in the country, with widespread poverty, inequality, and food insecurity. I share staff's views on this, especially on the importance of closing some of the loopholes in the system.

Finally, we welcome the authorities' indication that fighting money laundering and the illegal trafficking of children are among their priorities.

With these remarks, we wish the Haitian authorities all the best and success on their way ahead.

Mr. Just made the following statement:

It is difficult to talk about monetary and fiscal policy when a country seems to be collapsing in front of our eyes and where we can only hope that the political crisis will be resolved very, very soon so that the Fund and others can go to work. Here, we would like to commend staff for their excellent work and the report which lays out well a possible program.

We also fully share the staff's outline of the Fund's engagement with the Haitian authorities during this period of political dysfunction. As others have already noted, the Fund's active engagement at this stage can only be in the form of surveillance and technical assistance.

The Acting Chair (Mr. Zhang) - Mr. Cartagena.

Mr. Cartagena made the following statement:

We thank staff for the candid and well-formed Article IV report and the selected issues paper. We also thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the informative buff statement. We agree with the thrust of the Staff Appraisal and want to emphasize a few points.

First of all, we want to highlight the strong engagement shown by staff with their report and the set of papers and the commitment of the authorities to fulfill this review under difficult circumstances, as referred to in the buff statement and in the opening remarks.

We agree with the staff on the current strong need faced by the authorities to stabilize the macroeconomic situation in the unstable political context.

We welcome the progress achieved by the authorities with the reforms. And although the pace should be kept, reforms need to be accompanied by a set of policies that compensate for the social impact of the implementation on the most vulnerable people.

Finally, we concur with the staff on the importance and urgency of strengthening and approving the anticorruption framework to provide the power, mandates, and financial means to fight corruption. We welcome the country engagement strategy and agree on the importance of focusing on strengthening governance and transparency as one of the key objectives of the country's reform.

Mr. El Qorchi made the following statement:

I would like to thank staff for the comprehensive set of reports and working under very difficult conditions. I also want to thank Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal for the very comprehensive buff statement.

I welcome the very good coverage of macroeconomic and social issues in the report to address urgent issues. However, in Haiti, 58 percent of the population lives below the national poverty line, which invites specific policies, of course. Therefore, beyond stability and sustainability, I would welcome staff’s views on a long-term vision for the sectoral policies that would restructure the economy, identify a new economic model that would address the major development impediments that are plaguing Haiti, and also boost growth, with a view to lifting large segments of the population out of poverty.

Mr. Ronicle made the following statement:

Let me start by thanking Mr. Bevilaqua and his colleagues for the helpful buff statement and for his remarks this morning. We issued a detailed gray statement, and we agree with the staff report. I do not intend to elaborate on what we said there, but I did just want to make a few remarks, primarily to commend staff on what I think is an excellent job.

Firstly, they were innovative in terms of process and in terms of the advice they gave. Having a debate about whether the appropriate fiscal policy is consolidation versus arrears-based financing versus monetary-based financing is extraordinary. It is a testament to the complexity of the situation. I really welcome the fact that you have had that debate and you gave us an honest assessment of the situation. I also think the reports were of extraordinarily high quality, not only the main report but the country engagement strategy, the technical assistance annexes, and the selected issues paper.

I also commend the authorities for their level of engagement and the sense of ownership that comes through in their letter. They clearly face challenges, and the political situation is very difficult. But I see that as being promising in very difficult circumstances.

Finally, let me say that I thought the process outlined by staff going forward was very sensible: maintaining engagement, surveillance, technical assistance, and the potential for an RCF/SMP, when the situation is right. Like Mr. Rosen, I would also like to say that I think setting up a coordination mechanism between the Fund, the Bank, and the IDB is very welcome.

The staff representative from the Western Hemisphere Department (Ms. Laframboise), in response to further questions and comments from Executive Directors, made the following additional statement:

Mr. Trabinski asked if we had offered the CCPA assessment. The simple answer is: No, not yet, but we certainly will. This will be, of course, a critical pillar or a background aspect of all the work we do going forward, the whole issue of resilience building. That will be a factor that will inform our development of the macro framework and policy advice going forward.

Mr. Rosen asked for an update on the fiscal pact between the ministry of finance and the central bank. As I mentioned, the preliminary data for first quarter of the fiscal year shows that the change in net claims on the government-amounted to 16 billion gourde, which surpasses the annual limit set in the ceiling. As Mr. Ronicle just said, this shows the complexities of the issue. I think the governor and the minister are doing their best to manage a difficult situation, but this was one of the key challenges of formulating a macroeconomic framework, and an outlook for this Article IV consultation under significant political uncertainty and in the absence of a normative set of policies. We had to face the task of closing the financing gap under a less than optimal situation. We did what we thought would help the authorities the best, and they agreed with this approach. Of course, this shows the difficulty they will have in implementing the pact.

Finally, there was a question by Mr. El Qorchi, about the future sources of growth and poverty reduction. I agree, absolutely, that we would have liked to have put a lot more emphasis on poverty reduction, and we certainly will, going forward, as part of our approach. There are many potential sources of growth and employment. This could come from the agriculture sector, in particular; the energy sector, with moving to alternative energy; construction; tourism; the mining sector has a lot of potential; light manufacturing which is now probably the most thriving sector; and, of course, services. Under the circumstances, we were focused on macro stabilization and, in the short term, limiting the long-term damage that has been happening as a result of the almost complete cessation of the functioning of the economy and private business and government.

We have also focused on two areas that will form a foundation of macroeconomic policy formulation going forward and that should contribute to the starting point for poverty reduction and the government’s potential contribution to that. That is, of course, in the areas of social protection and social policy promotion, as well as ways to address the huge problem related to the fiscal and economic costs of the energy sector.

Once we can move forward in these areas, as part of the work we will be doing going forward, we will focus on more specific measures to advance poverty reduction, raise growth and employment, and set up an environment in which that can happen, including with investment and the involvement of the private sector.

Mr. Bevilaqua made the following concluding statement:

I thank colleagues of the Board, management, and the country team for this collective effort to understand the sources of fragility in Haiti, the institutional and financial constraints, as well as to provide appropriate inputs and advice for the future engagement of the Fund with Haiti. I took careful note. Please rest assured that your support and constructive recommendations will faithfully be transmitted to the authorities.

Our authorities' visit to management this week is an illustration of their eagerness to move forward with the urgent measures to stabilize the economy and the reform agenda, in partnership with the Fund.

With the conclusion of this Article IV, we have taken several steps forward.

First, the flexible arrangements for the consultation allowed to close the three-year gap and provided the lessons to avoid such a delay in the future.

Second, we initiated the dialogue on a country engagement strategy with a country in a fragile situation, even though Haiti was not one of the pilot countries. Here, I take the opportunity to reiterate my authorities and my office's gratitude to Ms. Laframboise and her team for their flexibility and motivation.

Now we expect that the momentum created with this consultation unfolds into further dialogue to develop a near-term program to assist the country. My authorities are ready to move forward with the concrete steps to make this happen in the shortest possible time frame. We look forward to this enhanced Fund engagement with the authorities, making a groundbreaking difference in Haiti.

We are confident that management's support, with a strong commitment of the country team and the determination of the authorities will catalyze the increasing mobilization of other international partners, allowing Haiti to sustainably move out of fragility.

My authorities have a track record of publishing IMF reports and are considering the publication shortly after an internal consultation within the government.

Finally, on behalf of my authorities and my office, once again, I thank management, the country team, and my Board colleagues for their engagement and support.

The Acting Chair (Mr. Zhang) - Haiti is an Article VIII member and no decision is proposed. The 2019 Article IV consultation with Haiti is hereby concluded.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They expressed concern about the socio-political crisis in Haiti, and stressed the urgency of restoring political and macroeconomic stability, addressing poverty and inequality, and tackling corruption. They called on all stakeholders to work toward a broad-based national dialogue to address the country's daunting challenges and realize the potential scope for much stronger and more inclusive growth. Directors encouraged continued close cooperation with donors and the Fund, including through technical assistance, and welcomed the Country Engagement Strategy as a basis for future Fund engagement.

Directors stressed that severe fiscal constraints necessitate shifting scarce resources away from non-priority spending toward social programs and investment. They underscored the importance of limiting monetary financing of fiscal deficits and preparing a notional budget for FY2020. Directors encouraged the authorities to focus on measures to boost domestic revenues and reduce exemptions in the near term, while working to strengthen tax administration, prepare a resolution plan for budget arrears, and bolster public financial management. Directors commended the authorities for progress on the new national plan for social protection, and stressed the need to advance its approval and focus on a limited number of cash transfer programs.

Directors underscored the urgency of updating the anti-corruption policy priorities, including setting up the steering committee envisioned in the 2009 anti-corruption strategy. They also stressed the need to enforce the asset declaration system and conduct regular audits of state-owned enterprises and other public entities.

Directors encouraged the authorities to allow the exchange rate to adjust in an orderly fashion. Looking ahead, they recommended setting a quantitative monetary target, and encouraged the monetary authorities to advance other institutional reforms. Directors supported the central bank's efforts to continue deepening financial intermediation and inclusion, including via fintech.

Directors emphasized that well-sequenced reform of the energy sector will be crucial for fiscal sustainability and higher growth, and must be accompanied by clear communications and measures to offset the impact on vulnerable groups. They encouraged the authorities to overhaul the management and performance of EDH, work with stakeholders to reduce electricity costs, improve the reliability and efficiency of energy supply, and lower the related fiscal burden. Broader structural reforms are needed to improve the economy's competitiveness, including efforts to streamline regulations, remove infrastructure bottlenecks, strengthen property rights, and enhance governance. Building resilience to natural disasters is also a priority.

Directors urged the authorities to take steps to improve the quality and timeliness of economic data, with the help of further Fund technical assistance.

It is expected that the next Article IV consultation with Haiti will be held on the standard 12-month cycle.

APPROVAL: May 29, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

**Outlook/Risks**

**1.** ***While we acknowledge the use of judgement in the assessment of debt distress due to heightened risks to economic growth, we would appreciate further elaboration on these growth assumptions considering Haiti's economic contraction in 2019-20, political instability, slow global growth, increased frequency of natural disasters, as well as the need to redirect fiscal resources to re-establish local military units.***

- The application of judgment to change the rating from ""moderate"" to ""high"" risk of debt distress is justified by the high probability of threshold breaches under the baseline scenario from FY2034, and by Haiti's institutional fragilities and exceptional vulnerability to natural disasters.

- The likelihood of natural disasters is accounted for in the 1.5 percent long-term growth projection, which corresponds to the average observed real growth rate over 1996-2018, a period during which 77 natural disasters where recorded in Haiti.

**2.** ***Given its significance for the country's macro framework and its debt sustainability, could staff elaborate on the factors, internal and external, influencing remittances?***

- Remittances constitute an important component of the Haitian economy. As a percentage of GDP, Haiti is one of the top five remittance recipients in the world (World Bank). Remittances to Latin America and the Caribbean grew by 7.8 percent in 2019 (World Bank), a faster pace than the world average. We estimate that remittances to Haiti grew by 8.5 percent in FY2019, to 34.9 percent of GDP. This pattern can be in part attributed to the continued robustness of the U.S. economy, where almost half of the Haitian diaspora resides. The second and third sources of remittance flows are Chile and Canada. As Haitians migrate increasingly to other countries in Latin America, the economic cycle in those economies is expected to play a role on the pattern of remittances and will need to be monitored.
- Another key element is the situation in the receiving economy. Economic hardships in Haiti related to the socio-political crisis may have influenced the flow of remittances in FY2019. Over the last 20 years, remittances have been noticeably countercyclical, with larger increases when the Haitian economy was weak and weaker inflows when economic growth was stronger.

**Fiscal Policy**

**3.** We wonder if some additional fiscal tightening could be less distortive for the economy than arrears accumulation? ***Staff comments are welcome.***

- This is a valid question although it is difficult to answer in the absence of information on the composition and nature of arrears and absence of a plan and timeframe for their resolution. It is also unclear if this choice is even available to the authorities. Over the past three years, the government has made significant cuts in expenditures on wages, goods and services, and non-energy transfers (see Table 2b of the Staff Report) while arrears have surged and are forecast by staff under the baseline at 3.1 percent of GDP at end-2020. The scope to further compress spending is very limited at this time and becoming more so, with one exception related to energy subsidies, which have roughly quadrupled over this period, but which Directors have rightly flagged are very difficult to reform, particularly on short notice.

**4.** ***Staff comments on the stage of preparation and publication of the 2020 budget will be welcomed.***

- The authorities reported that a draft budget is being prepared and would be released after a new government is formed.

**5.** ***Could staff provide an update on the current budgeting process? Could staff elaborate on the impact of delays in external budget support?***

- The authorities reported that a draft budget would be released after a new government is formed. There are many obstacles to the preparation and delivery of this budget, notably the paucity of key macroeconomic data due to the current situation at the national statistical agency which would pose serious challenges and likely cause deficiencies in the budget's underlying assumptions. The forthcoming March 2020 PFM mission (to be fielded if the security situation allows) should help staff to better understand the current state of the budgeting process, although it would be desirable to obtain additional detailed macro and fiscal information before that mission (short of a comprehensive notional budget). Delays in the production of a budget could also further hinder external support, in turn causing greater financial stress that would need to be met by additional budget cuts or larger arrears (given the cap on central bank financing). The preparation and release of a notional budget should in this respect be the top priority of the fiscal authorities.

- Delays in the disbursement of external financing over the past year had two major consequences. It led to a sharp increase in arrears and monetary financing of the government, the latter contributing to higher inflation. Second, the reduction in project grants and project loans led to a pronounced contraction in public investment, which in turn contributed to negative GDP growth.

**6.** ***Could staff provide an update on the progress in implementing this [tax reform] roadmap?***

- The authorities closely followed their roadmap on tax policy and have prepared, with TA support from FAD and LEG, a simple, complete, comprehensive and coherent Tax Code—the first in the history of the country—that incorporates most of the tax policy recommendations over the past 10 years made by FAD (and those of many other donors, including the EU). This is a major achievement. Two additional missions are ready to go to Port-au-Prince to finalize a Tax Procedure Code as soon as the security situation allows. The draft Tax Code is ready for a series of consultations as soon as there is a government in place. In that respect, FAD and WHD staff consider that tax policy development work now mostly accomplished, save for implementation. In the staff view, the focus should shift to reform of tax and customs administration, where the effective reorganization of the tax Department (DGI) is necessary, most notably and urgently with a reform of the large taxpayers' unit. FAD has therefore programmed a mission on revenue administration in its FY2020 activities, towards a deeper involvement regarding reforms of the DGI.

**7.** ***Could staff provide an update on its latest activities in these [PFM] areas together with plans for 2020 and elaborate on how Fund TA will address capacity constraints?***

- While recent TA activity on PFM has been limited due to the security and political situation, a full TA mission on PFM is planned for March 2020, focused on the medium-term budget framework (if the security situation allows) and two STX follow up missions on related topics are also programmed. FAD hopes to install a long-term PFM expert—pending funding sources and constraints—to support the implementation of the medium term budget framework and the treasury single account. In the staff's view, the presence of an LTX will be a critical element in the effectiveness of Fund TA in both the areas of PFM and tax administration.

**8.** We also agree with the need to curb the massive monetary financing of the budget shortfall. ***We would be interested in staff's comments on the financing alternatives considered.***

- In the very short term, the only alternative financing available appears to be strong and rapid revenue mobilization, a rationalization of spending that includes a reduction in energy subsidies, and a better budget process that guarantees efficient use and monitoring of resources. After such actions are effectively initiated, additional multilateral/bilateral financing may be forthcoming or could be easier to attract. In this respect, the four most important reforms comprise: (1) implement recommended reforms (from prior TA) in the area of tax administration, particularly as regards the large taxpayers' unit; (2) introduce a medium-term budget framework compatible with the Country Engagement Strategy (PFM mission originally planned for 2019 expected in the coming weeks); (3) extend and strengthen the treasury single account, a project that has been dragging on for several years; and (4) move forward to update and implement a strong anti-corruption framework with the accompanying institutional reforms required, most notably for the monitoring and oversight of public finances. While a deepening of financial markets is envisaged to tap longer term private financing, this could take time to yield results.

**9.** Whilst we agree that a financing gap will remain and that in the short-run this should be met by the accumulation of arrears under the baseline – rather than increased monetary financing - we note the significant risks to this approach; ***in particular, could staff elaborate on any potential financial stability risks that might arise?***

- NPLs were relatively low but increased rapidly during 2019. Potential financial stability risks could arise if the government's direct suppliers or indirect suppliers (suppliers of suppliers) are affected and, with cash flow shortages, are not able to service loans. This would further increase NPLs. Although banks remain well capitalized and liquid, other risks related for example to loan concentration suggest that financial stability risks from the accumulation of government arrears need to be monitored closely.

**10.** ***Can staff comment on where they expect the government to accumulate arrears? Will IMF staff work with the authorities to identify ""least-worst"" areas for arrears accumulation?***

- To staff's knowledge, arrears have been accumulating across all spending categories, although the government is trying to minimize wage arrears and those with a direct impact on the population. There is no IMF guideline on which arrears are ""worse"" but prioritization should, in principle, be aligned with clear and explicit economic and social goals, such as prioritizing small businesses and other fragile suppliers whose bankruptcy may have a strong social impact. The IMF will work closely with the authorities to stop arrears accumulation, take full stock and proper recording in the fiscal and debt statistics, and develop a plan for their clearance and restructuring. At the same time, and in the absence of available external financing, the Fund's focus is expected to remain on reducing the arrears through revenue mobilization and spending rationalization and control.

**Social Policy**

**11.** ***We would appreciate staff update on the progress made in the approval and implementation of the new national initiative on social protection (PNPPS) since June 2019 when the draft was submitted for national consultation.***

- After the nationwide consultation took place during the summer, work has been undertaken to incorporate feedback and revise the plan. The next step was to have the draft presented and approved by the council of ministers before the end of 2019. However, the ongoing political crisis has delayed this phase and it is unclear when the policy will be approved or launched.

- Regional implementation plans will be finalized once the new policy is approved by the council of ministers.

**12.** ***Would staff please elaborate on the authorities' concerns about unconditional cash transfer programs in response to staff recommendation?***

- The authorities were concerned that cash transfers without eligibility conditions related to income would benefit non-poor households in a wasteful way. Staff's assessment, which was informed by discussions with development partners including the World Bank, WFP, IDB and USAID, was that such waste would nevertheless be lower than the losses generated by the costs of administration and leakage of programs with narrow targets.

**13.** **Staff calls on the authorities to work with the World Bank on cash transfer programs, and *we would like to know the extent of World Bank engagement in this area and what would be a realistic timetable to complete the information system's coverage of beneficiaries and put the system in place?***

- Staff consulted closely with the World Bank and other development partners in preparing its recommendations on social policy. Staff are in discussions with colleagues at the Bank and IDB regarding their possible participation and support to advance a pilot cash transfer program.

- According to the World Food Program, which is supporting the development of the information system of the Ministry of Social Affairs and Labor (SIMAST), 340,000 households were registered in the system as of June 2019 (15 percent of the population). The goal was to reach a 20 percent coverage by end-2019 and 25 percent by July 2020. The system is already operational and has been used by several NGOs to help better target their assistance.

**Structural**

**14.** Considering that the high risk of natural disasters impacts on short, medium and long term (see Risk Assessment Matrix), we share staff's view on the importance to develop a comprehensive disaster financing framework as well as the urgency to build physical infrastructure to cope with disasters. ***In this regard, we would appreciate staff's further details as well as a possible roadmap for the Haitian authorities.***

- Haiti should develop a comprehensive disaster resilience strategy (DRS), based on a clear diagnostic of disaster vulnerabilities. This should be prepared in consultation with other development partners and stakeholders. It would support *ex ante* planning, provide a framework for coordinating the work of partners before and after disasters, and help catalyze donor support. The process would be guided by analysis and recommendations in the paper *Building Resilience in Developing Countries Vulnerable to Natural Disasters* (2019).

- As a first step toward a DRS, and as several Directors noted in their Grays, Haiti would benefit from a Climate Change Policy Assessment (CCPA) by the Fund and the World Bank. This would be critical to establish a robust diagnostic of risks and vulnerabilities to inform the DRS. The Fund could in parallel help the authorities develop a macroeconomic policy framework that would reflect disaster costs and estimates of returns from resiliency investments, and identify fiscal actions, including domestic revenue mobilization and expenditure management, to support the policy framework.

**15.** ***Could staff elaborate on where the country stands compared to other small island developing states in terms of ex ante resilience?***

- While Haiti has scaled up efforts over the last 10 years to integrate disaster risk management (DRM) into national policies and long-term development plans, it continues to fall behind other Caribbean countries when it comes to *ex-ante* resilience. Following the 2010 earthquake, the government conducted a post-disaster needs assessment (PDNA) and created an Action Plan for the National Recovery and Development of Haiti. DRM is a key cross-cutting priority in the government's Strategic Development Plan for Haiti (PSDH). As part of its first pillar on ""territorial rebuilding,"" the PSDH emphasizes regional and local development as well as improved DRM through better land-use planning.

- The World Bank is also supporting the implementation of disaster risk reduction and climate change adaptation in Haiti. Projects include investments aimed at enhancing the resilience of critical infrastructure through retrofitting, rehabilitation or reconstruction.

- *Ex-ante* resilience is more advanced in the Eastern Caribbean where countries are further advanced in their assessments of risks and costs and elaboration and implementation of DRS, and have leveraged additional financing from the Climate Investment Funds through the Pilot Program for Climate Resilience.

**16. *Could staff comment on whether new negotiations with existing producers have been initiated and on whether the decision had detrimental effects on potential private investors?***

- Negotiations are taking place with existing producers, including E-Power. However, staff does not have information on developments and it is too early to assess if the negotiations have had detrimental effects on potential private investors.

**17. *Staff indicates (Box 1) that fuel subsidies were eliminated in July 2018 as a part of the 2018 SMP. Was the subsequent rise in subsidies largely related to the gourde depreciation?***

- The government reversed the decision to eliminate fuel subsidies the next day. Staff submitted a correction yesterday to clarify the ambiguity. Fuel subsidies have since then increased because of the rise in world fuel prices and the depreciation of the gourde.

**18. *Could staff comment on the economic viability of transition to renewable (and presumably more expensive) sources of energy in the Haitian context?***

- Haiti has great wind and solar resources that could possibly be exploited to generate renewable energy. Potential exists for hydropower and biomass generation as well and some hydropower potential has been developed. While expansion of large-scale hydropower capacity may not be economically or environmentally feasible, smaller hydropower projects could be suitable for localized rural electrification efforts.

**19. *Could staff provide further information on the potential social impact of suspending subsidies to EDH, especially on the most vulnerable?***

- A reduction in energy subsidies could have different effects depending on assumptions about pass-through to suppliers and consumers. However, there is room for revenue-enhancing and cost-cutting measures that would allow the electricity sector to absorb most of the reduction in subsidies. These measures include an increase in the cost recovery rate at EDH by more effective billing of actual customers and collecting payments due, reviewing and rationalizing EDH expenditures, and gradually sourcing energy from cheaper sources, including with savings and efficiencies gained from more transparent and competitive contracts with suppliers obtained through open tender offers. Staff's recommendation is to prepare for the reduction in government subsidies by introducing offsetting social benefits and other structural energy sector reforms to avoid negative effects on the poor and to raise competitiveness. If tariff increases are chosen, we would recommend raising tariffs on commercial rates after initial assessment of the incidence of the impact, for example to ensure small enterprise concerns are taken into consideration. Broader reform of tariffs should ensure that adequate social protections are in place prior to any tariff increase.

**Financial Sector**

**20.** ***Could staff elaborate to what extent this [financial inclusion] strategy has been implemented? We would also be interested in better understanding the authorities' plans for greater use of fintech solutions.***

- Full implementation of the 2015 financial inclusion strategy has faced legislative obstacles. For example, draft laws on leasing, micro-finance institutions, a credit registry, and land registry still await Parliament approval several years after their submission. Nonetheless, the BRH has created a financial inclusion unit and is making efforts to improve financial literacy through educational videos posted on its website. In 2019, it released a smart phone application "BRH Mobile", allowing users to access educational content, make currency conversions, and compare prices of financial services across banks. Staff encourage the authorities to continue the development of Fintech applications that could be used to advance mobile payments, remittances, and distribute cash transfers to vulnerable populations as part of the new social protection policy. This would need to be matched by appropriate regulatory and supervisory oversight to manage stability and privacy risks.

**21.** ***While we are comforted by staff assessment that prudential regulations limit banks' net open FX position, we appreciate staff comments on ongoing efforts, if any, to limit (and reverse) dollarization and risks to the banking system.***

- Attempts by the authorities to limit dollarization through legal restrictions have had mixed effects. A 2018 regulation to force firms to quote prices in gourdes was withdrawn after a few months as firms were using an exchange rate higher than the market rate to convert prices, which had the reverse effect of encouraging payments in dollars. As in many other dollarized economies, a reduction and stabilization in inflation remains the surest way to reduce dollarization. Other macroprudential measures could be considered to support the objective after disinflation, such as more differentiated reserve requirements or remuneration rates.

**Capacity Development**

**22.** ***Can Staff comment on the root causes of the acute capacity constraints? Should the Fund allocate more slots for face-to face training of Haitian officials to match the needs? Do Haitian officials sufficiently use online training?***

- The lack of skilled labor, infrastructure, and information technology resources constrain the government's capacity to implement reforms. The Fund strongly encourages Haitian officials to apply to all relevant courses offered by ICD, and the country team systematically supports the application of candidates proposed by the authorities.

- Out of 585 Haitian applicants to ICD classes (including online, HQ, regional centers, and RTAC training) over the past five years (2015-19), 247 (42 percent) participated in training activities and 173 (about 30 percent) either declined the invitation, withdrew from the course, or left early. About 96 (16 percent) were rejected as not qualified, while the rest could not attend because of a lack of available seats. With regards to online classes only, ICD recorded 265 Haitian registrations over 2015-19; 103 of these participants (39 percent) completed their courses.

**23.** ***With this in mind and noting the comprehensive scope of the proposed Capacity Development Strategy in Annex V, would staff be able to identify the top few and immediate TA priorities?***

- The immediate priorities for Fund TA are reforms to tax and customs administrations and PFM (FAD), strengthening monetary statistics (STA), the transition of the central bank's financial reporting to IFRS (MCM), and amendments to the central bank law to strengthen the central bank's autonomy (LEG).

**24.** ***We would welcome staff's further elaboration on the CD strategy, including on the streamlining of the two sets of priorities by staff and the authorities and the role of the long-term experts within the context of the existing partnership.***

- As noted above, the immediate priorities for Fund TA are tax and customs administrations and PFM (FAD), monetary statistics (STA), the transition of the central bank's reporting to IFRS (MCM), and amendments to the central bank law to strengthen the central bank's autonomy (LEG). In addition, staff is recommending capacity development in the areas of real sector and fiscal statistics (mission pending in the coming weeks on the latter), AML-CFT (World Bank), foreign exchange regulation and management, and expenditure policy (including social spending).

Long-term experts have played a decisive role in the past to implement recommended reforms in the face of strong capacity constraints and lack of policy continuity.

**Fund Engagement**

**25.** ***Could staff shed more light on the status of their discussions with the authorities in this regard as well as on future Fund engagement more generally?***

**26.** ***Staff's elaboration on Fund engagement with Haiti going forward is welcome.***

**27.** ***Could staff comment on the perspective for closer engagement with Haiti?***

- Staff will respond to these questions in an opening statement at the Board.