International Monetary Fund

Haiti and the IMF

Press Release:
IMF Executive Board Approves First Review Under Haiti's ECF and Approves US$13.1 Million Disbursement
May 11, 2011

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Haiti: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 25, 2011

The following item is a Letter of Intent of the government of Haiti, which describes the policies that Haiti intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Haiti, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

April 25, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

1. The Government of Haiti continues to make good progress in achieving key objectives under its national action plan, which is supported by the IMF under an ECF arrangement. Basic government functions are now restored and the reconstruction is under way. The macroeconomic situation has improved significantly on account of prudent policies and donor support. Despite some delays or postponements in donor disbursements, the outlook for 2011 is favorable, although we are well aware of the risks stemming from domestic factors as well as uncertainties surrounding the global economic outlook and the corresponding need to maintain a cautious macroeconomic policy stance.

2. We are pleased to report that implementation of the program is on track despite the challenging domestic and international environments. All quantitative performance criteria for end-September 2010 were met. However, the indicative target on poverty-related spending was not fully observed, reflecting a slower-than-expected response in the immediate aftermath of the earthquake. All end-December 2010 indicative targets and end-March 2011 performance criteria are expected to be met.

3. Key challenges for FY 2011 are to accelerate the reconstruction, improve public services, and strengthen economic governance to support the recovery while maintaining macroeconomic stability. Facilitating the transition from disaster recovery to policies aimed at ensuring high and sustained growth and reducing poverty and the country's vulnerability to external and natural shocks are also important challenges. We believe that the policies set forth in the attached Memorandum of Economic and Financial Policies, which supplements the July 2010 MEFP, are adequate to achieve these objectives.

4. In support of its policies and in view of the progress made in implementing the program supported by the ECF arrangement, the government requests the completion of the first review and the approval of the second disbursement of an amount equivalent to SDR 8.19 million. The second program review, assessing performance based on end-March 2011 performance criteria and structural benchmarks will be conducted in July 2011. The third review, assessing performance at end-September 2011, is envisaged for November 2011.

5. We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. The government will continue its policy dialogue with the IMF and is prepared to take any further measures as appropriate to meet its program objectives. We will consult with the Fund ahead of any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultation. We have no objection to publication of this letter of intent, the attached MEFP, and the staff report on the first ECF review.

Sincerely yours,

/s/
Ronald Baudin
Minister of Economy and Finance
Republic of Haiti

/s/
Charles Castel
Governor
Bank of the Republic of Haiti
Republic of Haiti

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. Introduction

1. Against the back of a difficult post-earthquake environment, including slow aid disbursements, low capacity, the outbreak in the cholera epidemic, and delays in the electoral agenda, we have been able to keep the ECF-supported program on track. The daunting challenges that lie ahead will continue to require a concerted effort by the government and our development partners.

2. On the political front, the president-elect, Mr. MARTELLY, is to be sworn in on May 14. The new government is expected to be seated in June.

3. This Memorandum of Economic and Financial Policies (MEFP) supplements and updates that of July 2010. It outlines and revises policy objectives and commitments and the macroeconomic framework for the second half of FY 2011 (March-September 2011). Unless explicitly noted, policy intentions from the July 2010 MEFP remain appropriate.

II. Recent Economic Developments

4. **One year after the devastating earthquake, economic recovery is gradually taking hold.** GDP growth is estimated to have contracted by about 5 percent in FY 2010, about 3.5 percentage points less than anticipated in the program. Inflation has remained in the single digits although it rose to 7.2 percent (y/y) in March 2011, driven by higher international food and fuel prices.

5. **The fiscal deficit (excluding grants and foreign-financed projects) in FY 2010 was lower than programmed** (5.2 percent of GDP compared to 6.8 percent). Revenue exceeded the program target by about 20 percent, and current spending remained in line with program levels despite the wage bonus of G 1.2 billion (0.5 percent of GDP) granted in August to help civil servants face additional and unanticipated expenses caused by the earthquake. Domestically-financed investment increased from 4.1 percent of GDP in FY 2009 to 5.5 percent of GDP on account of higher revenue and stepped-up disbursement of budget support (US$225 million). We did not resort to new net central bank financing and our first issuance of T-bills was conducted successfully on September 28. Our decision to freeze the fuel price at the pump in March 2010, in the aftermath of the earthquake, implied foregoing revenues of some US$26 million (0.3 percent of GDP) from March to September 2010 and US$85 million (1.1 percent of GDP) from October 2010 to February 2011. Strong performance in other domestic taxes has helped offset these losses. However, recognizing the lack of fiscal space to continue the price freeze without severely worsening the fiscal position, we raised domestic fuel prices (27 percent on average) on March 22, 2011.

6. **The external position has improved, with relatively high reserves and low public debt**. The external account deficit (including official grants) was somewhat wider than envisaged at 2.3 percent of GDP. The rapid growth of reconstruction-related imports and

lower net private transfers more than offset a strong recovery of exports, and higher official transfers. Private capital inflows and capital transfers from the IDB, IMF, World Bank, Canada, France, Italy, and Venezuela[1] contributed to a significant improvement in the capital account as well as the overall balance. Net international reserves increased markedly to US$1.1 billion at end-January 2011, from US$0.4 billion at end-September 2009.

7. **Monetary and financial developments have been favorable.** Credit to the private sector has picked-up in the first quarter of FY 2011. As a result of a large write-off of Socabank-related non performing loans (NPLs) at BNC in September, system-wide NPLs fell to 5.6 percent of total loans, and financial sector profitability increased. The first pillar of the Partial Credit Guarantee Fund (PCGF) was launched in December 2010 and has started operations to help restructure small loans that were performing well but that had been adversely affected by the earthquake. A comprehensive assessment of the health of the insurance sector is under way, and we have taken initiatives to strengthen its legal and monitoring framework.

III. Performance under the Program

8. **Program implementation has been satisfactory**:

- End-September data indicate that all quantitative performance criteria were met. The net central bank credit to the non-financial public sector stood at G1.3 billion, compared with a ceiling of G0.4 billion of positive financing.[2] The indicative target on base money was exceeded due to increased bank deposits. Base money grew by 31.2 percent at end-September 2010 (y/y), of which 12.1 percent were due to higher growth in currency in circulation and 19.2 percent to higher growth in gourde deposits. The execution of poverty-reducing expenditures was below the indicative floor because of a slower-than-expected response in the immediate aftermath of the earthquake.

- All end-September 2010 structural benchmarks were implemented, albeit some with delays. While the benchmarks on publication of poverty-related spending, government transfers, fiscal expenditures, and externally-audited financial statements of the BRH were met on time, the structural benchmark related to the publication of investment spending by project was observed on October 20. The benchmarks on the publication of monthly consolidated Treasury balances, on the list of government and donor accounts at the BRH and BNC, and on the composition and work program of

---

[1] IFAD's initiative to provide debt relief to Haiti is ongoing (to be financed by member country contributions and, if necessary, IFAD's own resources). Debt owed to Canada, France (only part of the stock), and Italy was cancelled in June 2009, in the HIPC/MDRI context.

[2] The Ministry of Economy and Finance acknowledged and recorded in its fiscal accounts the losses associated with past liabilities arisen from debts to Teleco, the public telecommunication company, and from guarantees to BNC, a large commercial bank, which had both been covered by the BRH.

the working group in charge of the reform of the revenue administration and the tax system were observed in March 2011.

- All end-December 2010 indicative targets are met, with the exception of the poverty-related spending, albeit with a lower margin and the base money targets. We believe that compliance with end-March 2011 PCs is within reach.

IV. Government Program for the Second Half of FY 2011

9. **Our policies aim at consolidating the economic recovery while safeguarding macroeconomic stability**. In this connection, we will continue to implement a coherent set of macroeconomic policies aimed at managing large aid inflows, international food and fuel price shocks and carefully coordinate fiscal, monetary, and exchange rate policies. The main macroeconomic objectives for FY 2011 are: (i) a real GDP growth rate of about 8.6 percent, supported by strong investment in agriculture, and the take-off of reconstruction activities; (ii) an inflation target of about 9 percent, taking into account rising international food and fuel prices; (iii) a current account deficit of 4 percent of GDP; (iv) a fiscal deficit, excluding grants and externally-financed projects, of 7.4 percent of GDP; and (v) a level of reserves equivalent to about 4.1 months of imports.

10. **Downside risks remain.** These risks include possible delays in the establishment of the new government team at the Parliament level; further increases in international fuel and food prices; delays in disbursements of international assistance; sanitary challenges, notably those associated with the cholera epidemic; and continued weaknesses in administrative capacity that tend to hamper program implementation.

A. Macroeconomic Policies

Fiscal policy

11. **The FY 2011 budget appropriately supports our reconstruction objectives while providing sufficient room for poverty-related spending within the context of sustainable public financing**. The fiscal deficit (excluding grants and externally-financed projects) is projected to widen to 7.4 percent of GDP (up from 5.2 percent in FY 2010), reflecting further current expenditure containment, and a significant increase in public investment.

- Revenue is projected to remain at 11.8 percent of GDP despite the introduction of temporary measures (limited to FY 2011) to facilitate the reconstruction,[3] including:

[3] The estimated revenue losses from these measures, which came in effect in January 2011 is equivalent to about G 0.8 billion. To limit fraud and an erosion of the tax base, the fiscal cost of these measures will be subject to an ongoing assessment. However, this will be offset by (i) stepped up revenue collection efforts; and (ii) the car registration fee which was introduced in October 2010, and is expected to yield about 0.4 percent of GDP a year over the program period.

(i) a reduction by half in the registration fees for mortgage registration; (ii) an exemption of capital goods for the productive sector from custom duties; (iii) an exemption of insurance payments from taxes if the proceeds are invested; (iv) a 10 percent tax rebate on revenues from real estate to promote investment in housing; (v) an exemption on imports of prefabricated housing of up to G 0.5 million from customs duties; (vi) a deduction by landlords of higher expenses from their taxable income, up to the amount of rent declared before the earthquake; and (vii) the subtraction by private firms of their donations to non-profits organizations from their tax payments. Budget support from international donors is expected to reach G 6.9 billion or 2.2 percent of GDP.

- Current expenditure budget will be limited to 11 percent of GDP, down from 11.4 percent in FY 2010.

  - The wage bill will remain unchanged at 5.4 percent of GDP despite provisions to: (i) regularize past appointments that had not been added to the regular payroll; (ii) pay salaries for new recruitments, in particular in the justice, education, and health ministries; and (iii) adjust low and intermediate salaries to bring the lowest salaries to the legally-prescribed minimum level, and eliminate disparities among similar categories of civil servants.

  - Transfers will be reduced by 0.1 percentage points of GDP to 2.4 percent of GDP. To achieve this target, we will closely monitor all transfers, especially those to the electricity company (EDH) which gets additional support through counterpart funds and off-budget transfers from PetroCaribe resources.[4] All transfers for EDH will be consolidated in monthly reports by June 2011 (*structural benchmark*). We have signed a Memorandum of Understanding (MoU) with partners, including the IDB, the USAID, and the U.S. State Department, to outline a strategy for the overall energy sector. In the short-run, we will sign an interim management contract with an international private firm for the management of EDH.

  - Operations are projected to be lower by 0.2 percentage points of GDP, amounting to 2.8 percent of GDP.

12. **We are determined to improve access to basic social services and strengthen the resilience against natural disasters.** We will raise priority social expenditures by at least 30 percent in FY 2011 compared with FY 2010. We will focus on the delivery of public services, social safety nets, educational and health care systems, as well as transportation and

[4] Preliminary data suggest that total transfers to EDH could amount to as much as 3 percent of GDP in FY 2011.

communication infrastructure. In that context, we will take advantage of current technical assistance on PFM to enhance our capacity to meet poverty-related spending targets.

- The partial use of resources freed up by the PCDR debt relief (US$68 million), the use of PetroCaribe-related resources (US$245 million), and an increase in Treasury-financed investment projects (US$275 million) will allow us to increase domestically-financed investment from 5.5 percent of GDP in FY 2010 to 8.2 percent in FY 2011. The expanded public investment program will incorporate projects reflecting the priorities identified in our national action plan for reconstruction and development.

- We are committed to enhancing the quality of spending through a close monitoring of investment projects, including projects financed with PetroCaribe resources and PCDR debt relief. In the particular case of projects financed with resources freed up by the PCDR, and as a first step we have: (i) created an escrow account at the central bank from which spending will be executed; (ii) prepared the roadmap guiding the management of these projects; (iii) designated the existing Project Coordination Unit (UCP), a unit of the Ministry of Economy and Finance which is already in charge of World Bank and IDB projects to oversee implementation of those projects; (iv) drafted terms of references to hire a reputable international firm of consultants to assist UCP in executing projects financed with freed up resources by the PCDR; and (v) shared with IMF staff the project summaries as well as those related to the two projects (Bowen Field and Fort National housing projects).

- Looking further, by end-June 2011 we will select, in line with national procurement procedures, the international consulting agency that will assist UCP (*structural benchmark*). Meanwhile, we will start to: (i) strengthen the UCP, including through staffing with a multidisciplinary team of experts in project management and responsibility for ordering payments for project work orders; (ii) closely associate the Procurement Commission (CNMP) to the management of these projects, in particular on procurement processes; (iii) reinforce coordination mechanisms between the UCP, the Procurement Commission (CNMP) and the Ministry of Planning and External Cooperation (MPCE) with a view to better defining responsibility between institutions, speeding up project implementation while ensuring a continuous scrutiny of all phases of the project cycle, and adherence to national accounting and budget execution procedures.

- In addition, we will prepare by end-September 2011 a manual of operations (*structural benchmark*) and a procurement plan. The manual of operations will include procedures and internal controls mechanisms to be implemented in order to ensure that the goods and services purchased are effectively delivered according to the terms and specifications agreed with the providers. We will continue to share with IMF staff the summaries of projects financed with resources freed up by the PCDR and publish on a regular basis reports on their implementation. Future steps will be based on the roadmap we have shared with IMF staff.

- We will also: (i) adopt by end-March 2012 a comprehensive action plan to improve the quality of the overall public investment spending (*structural benchmark)* with technical assistance from donors; and (ii) explore ways to consolidate the various multi-sectoral project management units under the authority of the MEF to ensure consistency between all projects and further strengthen the overall quality of public investment.

- We will use PetroCaribe resources prudently to preserve debt sustainability. The projected increase in demand for reconstruction-related oil imports combined with higher international fuel prices are expected to increase PetroCaribe-related concessional financing, which will likely put upward pressure on debt ratios. In this connection, PetroCaribe-related spending will be directed to growth-enhancing investment projects within the limits of the envelope programmed after the earthquake (a total of 4.3 percent of GDP over FY 2010 and FY 2011). In addition, we will explore avenues for investing future PetroCaribe resources in safe long-term assets.

Monetary and exchange rate policies

13. **The monetary authorities will continue to implement a sound monetary policy, consistent with the inflation objective**.

- The monetary program for FY 2011 targets a 15.2 percent increase in money growth and 21.6 percent increase in credit to the private sector. BRH stands ready to tighten the monetary policy stance to pre-empt monetary-driven inflationary pressures and second round effects that could arise from rising international food and oil prices. In support of a more active liquidity management, we will gradually develop a market for government securities and rely on open-market operations based on T-bills rather than BRH bonds.

- We are committed to maintaining flexibility in the exchange rate in the context of large capital inflows. By end-December 2011, we will develop an exchange rate management strategy encompassing a reform of the foreign exchange market (*structural benchmark)*. With technical assistance from the Fund, we will design a system of weekly two-way FX auctions, where market participants can buy and sell foreign exchange. Such a system would help introduce more flexibility in the exchange rate while providing banks with a market in which they can trade positions.

- To enhance visibility of our monetary policy actions, we will first publish a six-month monetary note covering April through September 2010, and we will restart thereafter the publication of our quarterly monetary policy notes.

B. Structural Reforms

Revenue measures and tax administration

14. **We will continue our efforts to broaden the tax base and simplify the tax system, in line with best practices.** Consistent with our medium-term strategy to boost revenue collections to 13.6 percent of GDP by FY 2013, we have introduced car registration fees in October 2010, expected to yield about 0.4 percent of GDP a year over the program period. We intend to implement a set of measures in FY 2011 aimed at strengthening our management and accountability frameworks, including: (i) the development and adoption of a set of internal performance indicators for DGI and AGD by end-December 2011 (*structural benchmark)*; and (ii) the implementation of the new customs code after it has been approved by Parliament. We will also finalize our action plan for both tax policy and administration, which will be presented to donors in the near future to elicit their financial and technical support.

Public financial management (PFM) and economic governance

15. **Improvements in PFM and economic governance remain at the core of our strategy.** We will continue to work together with our main development partners, and have identified key measures to further strengthen PFM and economic governance. These measures are summarized in the common conditionality matrix which presents the set of reforms that we will implement in the short-term and our objectives. To that effect, we will strengthen:

- ***The framework of annual budget preparation***. To enhance our ability to prepare medium-term macroeconomic and expenditure frameworks, we will establish a new direction/office in charge of economic promotion. It will oversee both the direction of economic studies (DEE) and the already-established macro-fiscal unit at the Ministry of Economy and Finance, which has benefited from the assistance of an external consultant. The unit will model economic and fiscal developments and provide inputs to shape active fiscal policy and budgeting in a changing and complex environment.

- ***Budget execution and reporting***. We will continue our efforts toward accurate and transparent reporting of budget execution, including through online publication of various reports, to help inform budget preparation and improve Treasury management, while enhancing overall accountability and governance. In particular:

    - We are committed to finalizing the implementation of the computerized management system SYSGEP. We plan to publish reports from that system by end-September 2011.

    - Starting in September 2011 we will eliminate discrepancies between the accounts provided by BRH, Treasury, revenue agencies, and the TOFE.

- ***Treasury management***. The preparation and publication of a monthly cash plans including PetroCaribe spending and financing needs will help better align the timing of donor support to the country's needs, and enhance transparency and prioritization in spending execution

- ***Government financing framework***. Building on our successful issuances of T-bills in September 2010 and January 2011, we will gradually step up our issuance of government securities to smooth out cash management. This should also have a catalyst effect on the development of financial markets. Our goal is to finalize by end-June 2011 preparation of the reform to expand the primary T-bill market and allow for the issuance of government bonds. In this process, we will take full advantage of the recommendations of the Consultative Committee for the Implementation of the T-bill program. A predetermined public auction calendar for T-bills will also be established, based on an assessment of the government's quarterly financing requirements and domestic market absorption capacity. This calendar will also specify the amounts of T-bills to be issued for government financing and those for the securitization of the debt to BRH.

Financial sector

16. **A robust banking sector is essential to sustain a private sector-led growth**. In order to help restart private credit, and after the successful launch of the first pillar of the PCGF which guarantees existing loans, we are planning to launch the second pillar to guarantee new loans. We will use up to US$70 million of the resources freed up by the PCGF to support both pillars as needed, beginning immediately with support to pillar 1 and then to pillar 2 as soon as it is launched. We will ensure that the fee structure and coverage of the guarantee provide adequate incentives to banks and avoids moral hazard; that the resources of the PCGF are fully ring-fenced and kept separate from the central bank's own capital; and the proposed management structure avoids conflicts of interests.

17. **We will continue to strengthen banking supervision in FY 2011**. In particular, we will: (i) inspect all banks in order to assess their situation after the earthquake; (ii) enhance and update the prudential legislation, to ensure consistency with the banking law, once approved by the Senate, and the Basel rules; and (iii) establish a credit information bureau.

18. **We will take measures to reinforce the insurance sector, which has been severely weakened by the earthquake**. Some insurance companies suffered significant losses from the earthquake because they were not adequately reinsured. With the help of our international partners, we will audit and assess the health of all insurance companies. We will also set up a regulatory and supervisory framework for insurance companies during FY 2011.

19. **During FY 2010–11, we will take further steps to enhance BRH independence**. We will sign a memorandum on the partial securitization of the government's debt to the

BRH by end-May 2011, as part of the T-bill implementation project. This memorandum will allow the government to issue T-bills to BRH for a period of three years in exchange of a reduction of other BRH claims with the government. Securitization of remaining debt will be considered over the next two years. A new central bank law will be prepared and submitted to parliament by December 2011. This law would also enshrine central bank independence and further strengthen external audit and reserves management.

20. **Implementation of the pending recommendations from the 2010 safeguards assessment update will be completed before the end of FY 2011**. The NIR audit has been completed confirming the level of reserves for end-September 2009 and end-September 2010. By end-July 2011, we will select an international firm to conduct ISA compliant external audits of the BRH for the next 3–6 years, starting from the 2011 audit (*structural benchmark*). We will strive to publish annual audited financial statements within a period of six months after the end of each fiscal year. Before end-June 2011, the investment committee of the BRH will also adopt a global reserves management policy, covering all foreign exchange reserves (*structural benchmark*).

External debt management

21. **Steps will be taken to rebuild our debt management capacity, which was adversely affected by the earthquake.** To that effect, we will introduce a set of measures, including: (i) strengthening the existing debt directorate capacity, including the conduct of debt sustainability analysis by end-March 2012 with fully operational middle and back office functions, clear assignments of functional responsibilities and the drafting of memoranda of understanding between the MEF and other ministries and the BRH to clearly establish responsibilities and avoid overlapping (*structural benchmark)*; (ii) submitting to Parliament by end-March 2012 a public debt law that establishes a sound legal and institutional framework for public debt management (*structural benchmark)*; and (iii) developing a medium-term debt management strategy, based on a comprehensive analysis of the sustainability of total public debt in FY 2012. This will help us make informed choices on how to meet the government's financing requirements and better manage contingent liabilities, while taking due account of constraints and potential risks.

Other structural reforms to promote private sector activity and investment

22. **Our economic development and decentralization strategy is anchored on large transportation and energy infrastructure projects to improve networks, connect local markets, and create jobs in the provinces**. We are working to establish a robust legal framework for Public-Private Partnerships to help promote investment in specific sectors with the assistance from technical partners. This will help sustain the development of export industries, including textiles, agribusiness, and tourism.

23. **We are actively strengthening the framework for business and investment.** Our reform program seeks to significantly improve Haiti's image as a country open for business

and foreign investment, through improvements in governance and in the legal framework for investment, financial market deepening, and increased private investment. An improved investment climate will also be important to enable Haiti's textile sector to fully benefit from the US HELP Act and an expanded access to that market.

24. **We are simplifying the legal and regulatory framework for investments in export-processing zones**. As part of these efforts, we intend to revamp the investment promotion office as an effective one-stop shop for potential investors.

25. **As part of its efforts to promote financial sector development and encourage investment, the government attaches high priority to the development of a cadastre**. These plans will initially focus on development zones and include a timetable for the surveying and establishment of specialized cadastres to encourage investment in these zones. We have published new construction guidelines for residential buildings based on international best practices, and are in the process of establishing and enforcing a new building code for commercial buildings. This will be critical for increasing foreign direct investment in the textile and tourism sectors and in developing new industrial zones. To address the current land title issues facing investors, we have identified specific pieces of land that will be purchased by the government to build government buildings and implement specific private-sector projects. Other key measures will be the reform of the legal regime for collateral, the establishment of a registry for the use of movable assets as collateral and the adoption of a new law for microfinance institutions.

PRSP

26. **We are preparing a PRSP update, which should be ready ahead of time of the second review.** In this connection, we will broaden the definition of poverty outlays to better reflect our anti-poverty spending efforts.

C. Program Monitoring

27. **The program will continue to be monitored using quarterly quantitative benchmarks and semi-annual quantitative performance criteria and structural benchmarks**. New PCs are set for end-September 2011 and end-March 2012. Quantitative targets are set on net international reserves, net domestic assets of the central bank, net central bank credit to the central government and to the entire nonfinancial public sector, public sector external arrears accumulation, and non-concessional external loans contracted or guaranteed by the public sector (all performance criteria); base money, net domestic financing by the central government, domestic arrears accumulation of the central government, and a floor on poverty-reducing spending (indicative targets) (Table 1). The definitions of these quantitative targets and program adjustors are provided in the Technical Memorandum of Understanding (TMU) of which an update is attached. Structural benchmarks are set for end-September 2011 and listed in Table 2. They are further defined in the TMU. We expect the second review to be completed by end-September, 2011, and the

third and fourth reviews to be completed by end-February 2012, and by end-September 2012 respectively.

28. In accordance with the terms of the ECF arrangement, we will refrain from imposing restrictions on payments and transfers for international transactions, introducing new nor intensify trade restrictions for balance of payments purposes, resorting to multiple currency practices, or entering into bilateral payments agreements incorporating restrictive practices with other IMF members.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria

	Actual stock at end-Sept. 09	Cumulative Flows from September 2009								
		Sept. 2010		Dec. 2010		March 2011	June 2011	Sept. 2011	Dec. 2011	Mar. 2012
		Test date PC /1	Actual	Indicative target (EBS/10/186) /1	Prel.	PC (EBS/10/186) /1	Indicative target	New Proposed PC	Indicative target	New Proposed PC
		(In millions of gourdes, unless otherwise indicated)								
I. Quantitative performance criteria										
Net central bank credit to the non-financial public sector - ceiling	21,549	370	-12,522	370	-10,161	370	-11,608	-9,740	-8,525	-7,309
Central Government 2/	23,118	171	-11,289	171	-8,636	171	-10,375	-8,507	-7,291	-6,076
Rest of non-financial public sector	-1,569	198	-1,233	198	-1,525	198	-1,233	-1,233	-1,233	-1,233
Net domestic assets of the central bank - ceiling 3/	13,987	-493	-18,008	2,003	-14,619	2,437	-30,807	-20,894	-15,784	-17,448
Net international reserves of central bank (in millions of U.S. dollars) - floor	417	129	693	139	718	148	550	355	370	384
II. Continuous performance criteria										
Domestic arrears accumulation of the central government	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the public sector										
of nonconcessional external or foreign currency debt (In millions of U.S. dollars) 4/	0	33	33	33	33	33	33	33	33	33
Up to and including one year	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	33	33	33	33	33	33	33	33	33
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0
III. Indicative targets										
Change in base money - ceiling	31,080	4,671	9,703	7,551	14,113	8,371	11,966	15,902	21,352	20,027
Net domestic credit to the central government - ceiling 5/	18,199	-2,909	-17,214	-684	-17,455	-433	-14,282	-10,937	-6,067	-6,585
Poverty reducing expenditures - floor 6/		9,597	8,094	12,716	11,213	15,835	17,451	20,570	23,689	26,808
Memorandum items										
Change in currency in circulation	13,448	2,142	3,835	4,768	6,900	5,039	5,713	6,223	12,117	9,728
Net domestic credit to the rest of the non-financial public sector	-1,624	145	-1,291	145	-1,630	145	-29,196	-1,338	-17,582	-20,539
Government total revenue, excluding grants	7,549	26,258	31,425	34,168	41,329	42,469	58,439	67,520	78,402	89,649
Government total expenditure, excluding ext-fin investment	9,523	44,239	45,251	57,950	57,597	70,391	82,061	99,388	117,637	134,584

Sources: Ministry of Finance, Bank of the Republic of Haiti, and Fund staff estimates and projections.

1/ Reflecting modified targets for NIR and NFA, as per EBS/10/186.

2/ Excluding spending of resources freed by PCDR.

3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G40 per US$.

4/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.

5/This includes central bank, commercial bank, and non-bank financing to the government. It includes net T-bill issuance for government financing.

6/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

Table 2a. Haiti: Structural Reform Measures

Macro-criticality	Objective		Structural Benchmarks	Status
Prior Actions				
Safeguards assessment	Improve reliability of program data		Completion of the audit of foreign reserves to confirm the levels of end-September 2009 and end-September 2010 level of unencumbered reserves.	Completed
End-September 2010				
1-Improve the tracking of poverty-reducing expenditures	Publish regular reports on poverty-reducing spending on the MEF website.	1a	Continue publishing quarterly reports on poverty-reducing expenditures on the MEF website, including domestically-financed health, education and agriculture	Met
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Strengthen the transparency of expenditure policy.	2a	Start publishing central government monthly transfers to investment project accounts, project by project, including PetroCaribe projects.	Met with delay
		2b	Start publishing central government monthly transfers by beneficiary entity.	Met
	Improve control of budget execution and fiscal reporting.	2c	Start preparing monthly consolidated Treasury balances (TMU ¶38).	Met with delay
	Improve cash management.	2d	Prepare an inventory of all government and donor accounts at the BRH and BNC (TMU ¶39).	Met with delay
3-Raise government revenue	Strengthen operation of tax and customs administrations.	3a	Prepare quarterly reports with monthly data on the performances of the tax system and the tax administration, including the cost of exemptions and revenue collected in the provinces (TMU ¶40).	Met
	Enhance the transparency of the tax exemption policy.	3b	Start publishing a quarterly report that identifies all fiscal expenditure by beneficiary sectors.	Met
	Introduce a new tax code that would increase revenue and rationalize the tax system.	3c	Set up a working group that would be tasked to prepare a study to simplify the tax system, increase revenue, improve tax productivity, custom and fiscal administration, establish a work program with specific deadlines (TMU ¶37).	Met with delay
4-Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	4a	Completion and publication of externally audited financial statements for 2008/09.	Met

Table 2b. Haiti: Structural Reform Objectives Measures

Macro-criticality	Objective		Structural Benchmarks	Timing
End-March 2011				
1-Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 3a, 3b	End-March 2011
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve cash management.	2f	Start preparing and publishing monthly cash plans including PetroCaribe spending and financing needs.	End-March 2011
	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	2g	Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.	End-March 2011
Through end-September 2011				
Improve the monetary policy framework and its effectiveness	Enforce rotation of external auditors to audit BRH accounts.		Select an international firm to conduct ISA compliant external audit for the FY 2011 audit, for a period of 3 to 6 years.	End-July 2011
	Strengthen foreign exchange reserves management.		Adoption of a global reserves management policy by the investment committee, covering all foreign exchange reserves.	End-June 2011
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve the transparency of government transfers to the energy sector	2h	Identify and consolidate all sources of transfers to EDH in regular monthly reports.	End-June 2011
	Enhance the quality of spending of investment projects, including those financed with PetroCaribe resources and PCDR debt relief.	2i	Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011
		2j	Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End- September 2011
Through end-March 2012				
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 2f, 2g, 2h, 3a, 3b	End-Sept. 2011
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and	Enhance the quality of spending of investment projects, including those financed with PetroCaribe resources and PCDR debt relief.		Adopt a comprehensive action plan to improve the quality of the overall public investment spending.	End-Mar. 2012
Improve tax administration	Raise government revenue		Design and implement monitorable performance indicators for DGI and AGD.	End-Dec. 2011
Improve the monetary policy framework and its effectiveness	Strengthen exchange rate management.		Develop an exchange rate management strategy encompassing also reform of the foreign exchange market.	End-Dec. 2011
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.		Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	End-March 2012
	Strengthen the legal framework for debt management.		Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	End-March 2012

TECHNICAL MEMORANDUM OF UNDERSTANDING—UPDATE

Monitoring of the ECF-supported program continues to be guided by the Technical Memorandum of Understanding with the following changes.

1. Paragraph 1 is replaced with the following:

"Haiti's performance under the program supported by the Extended Credit Facility (ECF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, specification of certain structural benchmarks, and indicative targets for the period July 1, 2010-June 30, 2012, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. New quantitative indicative targets for end-June 2011, and end-December 2011; and performance criteria for end-September 2011 and March 2012 have been set."

2. Section 7.e is meant to be a stand-alone paragraph; it should be paragraph 8 and subsequent paragraphs should be renumbered accordingly.

3. Paragraph 15 is replaced with the following:

"The program definition of net domestic assets of the BRH will use a program exchange rate of G40.0 per U.S. dollar for the period June 2010 – March 2012."

4. The heading of Section III.B is replaced with the following:

"**B. Adjustment for PetroCaribe-related inflows**"

5. The table in paragraph 34 is replaced with the following table:

Haiti. PetroCaribe Deposits

	September 2010	December 2010	March 2011	June 2011	September 2011	December 2011	March 2012	June 2012	September 2012
Total deposits in government accounts in the banking system									
Cumulative flows (G mlns)	3204.9	4057.5	4292.1	5883.6	6102.8	-222.5	3268.2	6758.8	10249.5
in US dollars (US$ mlns)	84.3	106.0	108.9	146.7	150.5	-3.9	81.0	165.6	250.0
Stocks (G mlns)	6918.1	7770.7	8005.3	9596.8	9815.9	3490.7	6981.4	10472.0	13962.7
in US dollars (US$ mlns)	173.2	194.8	197.8	235.6	239.4	85.0	169.9	254.5	338.9
Deposits in government accounts at the BRH									
Cumulative flows (G mlns)	-96.0	-96.0	-96.0	-96.0	-96.0	-171.0	-171.0	-171.0	-171.0
in US dollars (US$ mlns)	-2.2	-2.2	-2.2	-2.3	-2.3	-4.1	-4.1	-4.1	-4.1
Stocks (G mlns)	75.0	75.0	75.0	75.0	75.0	0.0	0.0	0.0	0.0
in US dollars (US$mlns)	1.9	1.9	1.9	1.8	1.8	0.0	0.0	0.0	0.0
Deposits in government accounts in commercial banks									
Cumulative flows (G mlns)	3300.9	4153.5	4388.1	5979.6	6198.7	-51.5	3439.2	6929.9	10420.5
in US dollars (US$ mlns)	86.5	108.2	111.2	149.0	152.8	0.2	85.1	169.7	254.1
Stocks (G mlns)	6843.1	7695.7	7930.3	9521.7	9740.9	3490.7	6981.4	10472.0	13962.7
in US dollars (US$ mlns)	171.3	193.0	196.0	233.8	237.6	85.0	169.9	254.5	338.9

Sources: Haitian Authorities and IMF Staff estimates and projections

6. Section III.C is replaced with the following:

C. Adjustment for Budgetary Cash Grants in Second Half of FY2011

7. The performance criteria ceilings on BRH net credit to the central government, net domestic financing to the government, and on BRH net domestic assets, and the floor on NIR reflect expected budgetary donor grants of the equivalent of G 5,928 million (about US$148 million) in the second half of FY 2011 (EU €26 million, France €20 million, Norway $5 million, USA $12.5 million, Canada Can$15 million, World Bank US$20 million, and IDB US$35 million).

8. If actual grant inflows are lower (higher) than programmed, these performance criteria ceilings will be adjusted upward (downward), and the performance criterion floor will be adjusted downward (upward), by the amount of the difference between actual and programmed inflows."

Structural area:

1. To ensure continuous publications of some benchmarks and incorporate new structural conditionality into the program the section IV on "Clarification of Structural Conditionality" is augmented as follows:

A. Fiscal Sector

a. As specified on tables [1a and 1b], the publications of the following items related to benchmarks will continue over the program period: 1a, 2a, 2b, 2c, 3a, 3b, and 2h

b. New structural conditionality:

   i. The structural benchmark on improving the transparency of government transfers to the energy sector involves identifying and consolidating all sources of transfers to the electricity company (EDH) in regular monthly reports through a monitoring all transfers to EDH which gets additional support through counterpart funds and off-budget transfers from PetroCaribe resources. It will be set for end-June 2011, and the monthly publication of this report should continue over the program period.

   ii. The structural benchmark on enhancing the quality of investment projects, including those financed with PetroCaribe resources and with freed up resources by the PCDR debt relief are:

      1. Launch the bids for the selection and hiring of the international consulting agency that will assist UCP (by end-June 2011).

      2. Prepare an action plan or operational manual describing: (a) Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders; (b) A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning; (c) Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of Economic Cooperation and Planning (MPCE), in full compliance with national budget execution rules (by end-September 2011).

      3. Adopt a comprehensive action plan to improve the quality of overall public investment spending (by end-March 2012).

   iii. The structural benchmark on raising government revenue will involve designing and implementing monitorable performance indicators for DGI and AGD (by end-December 2011).

B. Monetary Policy and Financial Sector

New structural conditionality:

i. The benchmark on enforcing the rotation of external auditors to auditing BRH accounts will involve selecting a new reputable international firm to conduct SIA compliant external audit for the FY 2011 for a period of 3 to 6 years. This will be set for end-July 2011.

ii. The benchmark on strengthening foreign exchange reserves management will involve the adoption of a global reserves management policy by the investment committee, covering all foreign exchanges reserves. This will be set for end-June 2011.

iii. The benchmark on strengthening exchange rate management will involve the development of an exchange rate management strategy also encompassing reform of the foreign exchange market. This will be set for end-December 2011.