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Haiti and the IMF

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March 28, 2014

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

March 11, 2014

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.

March 11, 2014

Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Mme Managing Director:

1. **The Haitian economy continued recovering over the past year, growth increased, and inflation fell.** Our commitment to preserving macroeconomic stability has been essential in providing an environment for reconstruction and sustainable economic growth. Implementation of the ECF-supported program remains broadly on track. All but one end-September 2013 performance criteria were met. Due to some repurchase operations conducted by the BRH in the context of reserve management, the continuous performance criterion on the contracting or guaranteeing by the public sector of non-concessional external debt with maturities up to and including one year was breached. These operations, which had no impact on debt sustainability, were fully unwound in February 2014. On this basis, we request a waiver for the breaching of this continuous performance criterion. Work on the structural agenda has advanced, with the one benchmark for end-September met on schedule and good progress observed in the implementation of end-December benchmarks. The Haitian government is committed to pursue the ongoing reforms under the program. Our utmost priority is to create sustainable jobs and to reduce poverty by fostering higher growth though appropriate macroeconomic and structural policies and adequate financing.

Recent Developments and Outlook for 2014

2. **Economic growth accelerated to 4.3 percent in FY2013 despite damage from Hurricane Sandy.**[1] The agricultural sector rebounded supported by emergency spending and favorable climatic conditions, and growth in apparel exports and construction was strong. Inflation fell to about 4.5 percent, against the backdrop of relatively stable commodity prices and a better-than-expected agricultural production. The depreciation of the gourde remained moderate (at 3.4 percent), in part helped by intervention in the exchange rate market by the Central Bank (BRH) which increased *vis-à-vis* FY2012. The current account deficit increased to 6.5 percent of GDP, mainly on the back of higher imports and lower official grants, which were partially offset by higher apparel exports. Financing came mainly in the form of Petrocaribe loans, some FDI and a decrease in net foreign assets of the BRH.

[1] The Haitian fiscal year runs October 1 to September 30. Unless otherwise noted, years refer to the fiscal year ending on September 30 of the calendar year in question.

3. For FY2014 real GDP growth is projected to remain broadly unchanged at 3 – 4 percent, driven by continued growth of assembly exports and reconstruction spending. Inflation is expected to remain contained at under 6 percent (eop), while the external current account deficit should decline slightly to about 5.8 percent of GDP, which would allow gross reserves to remain above 5 months of imports. This would provide an adequate buffer against temporary shocks. In this context, the government acknowledges that the outlook is subject to downside risks, in particular on the external side. In addition, we believe domestic risks may come in the form of unexpected constraints in the implementation of the reform agenda and of growth supporting policies. Vulnerability to natural disasters remains a source of concern. We remain committed to strengthening preparedness to these shocks, and recognize the importance of buffers (in the form of government deposits at banking system), to remain at comfortable levels.

Fiscal Policy

4. The fiscal deficit increased to about 6.7 percent of GDP in FY2013 (vs. 5.5 percent projected in the program), mainly on the back of higher transfers and foregone revenue on fuel taxes. Transfers to the state-owned electricity company (EDH) almost doubled with respect to the program, (to G5.8 billion), and were largely financed with Petrocaribe-related funds. Fiscal performance in other budgetary lines was broadly as programmed in the sixth review. In particular, poverty related spending reached 3.9 percent of GDP (in line with the program), while public investment financed with domestic resources reached 8.5 percent of GDP (1.1 percentage points above the program). Financing included concessional flows from Venezuela, and the issuance of short-term treasury bills for 1.3 percent of GDP that were mostly placed at commercial banks, among other.

5. The program for FY2014 aims to contain the fiscal deficit to 6.7 percent of GDP. A draft budget for FY2014 was sent to Parliament in June 2013 but was rejected by the Senate. The government is confident that a revised budget, in line with the program, will be approved by Parliament around end-March 2014. The revenue shortfall in oil-related taxes (excises and customs duties) of about 1 percent of GDP will be offset with additional efforts in the collection of other domestic revenues and higher-than-programmed budget support grants. The government will monitor closely the evolution of domestic revenues over the course of the year, and it remains committed to implement any necessary measures to ensure that the fiscal deficit meets the program target. We would meanwhile maintain poverty-related spending at 3.9 percent of GDP. Moreover, the government will redouble its efforts to contain budgetary subsidies, particularly to the electricity company (EDH), while ensuring that electricity bills of government institutions remain current. Post-Catastrophe Debt Relief (PCDR) resources will continue to be used for the development of infrastructure. The deficit will be financed mostly by external concessional resources (4.0 percent of GDP) and the banking system (2.7 percent of GDP).

6. We remain committed to improving tax policy and revenue administration. The government understands that fighting evasion and broadening the tax base are essential for domestic revenue mobilization. This will allow us to pursue our development agenda, as postearthquake assistance decreases. We will therefore adopt measures aimed at expanding the tax base, improving compliance, and enhancing control at the border, including through greater use of IT in both the customs and tax administrations. In particular, we will further strengthen the operations of the large taxpayers office, including with assistance from the IMF Fiscal Affairs Department. We will also strengthen the new medium-size taxpayers office, to which new office space has been provided, and we will open (by June 2014) a new facility for controlling trade at the most-used border post. We started to examine Haiti's mining potential and we are working together with donors to create an adequate legal framework for the sector.

7. The government recognizes that current pump prices of petroleum products generate revenue losses. This is not sustainable in the long-term, and we are committed to develop by end-June 2014, (with the help of the World Bank) a medium term plan to gradually increase domestic petroleum prices, while designing a social safety net that delivers targeted assistance to the most vulnerable. In the short-run, we are committed to curbing cash subsidies for oil products and securing the level of oil-related revenue envisaged in the program.

8. The government will redouble its efforts to gradually restore the financial sustainability of the electricity sector. A gradual reduction of transfers would free resources for infrastructure and priority spending, and would help build buffers. In this regard, the Ministry of Finance will begin producing (by end-March 2014), monthly reports describing the sector's performance. This action is expected to support the strong efforts of other multilateral and bilateral donors (in particular the World Bank and the IDB), to improve the sector's performance.

Financing

9. The program will be in part financed by external budget support grants. Budget support for FY2014 is projected at about US$103 million. Commitments include US$46 million from the European Union, US$27 million from the IDB, US$20 million from Spain, and US$10 million from France.

10. Petrocaribe-related resources will primarily finance investment spending and transfers to the electricity sector. We are committed to using these resources in a manner consistent with macroeconomic stability. Projects with high social return rates will be favored in the allocation of Petrocaribe resources.

Monetary and exchange rate policies

11. Monetary policy continues to be geared to maintaining price stability and adequate international reserve buffers. Given the larger-than-programmed fiscal deficit, and a somewhat significant increase in credit to the private sector through early 2013, the BRH increased (in February and June 2013) legal reserve requirements on deposits and expanded its intervention in the exchange rate market in order to avoid unwarranted fluctuations in the gourde. Given the strong pass-through between the exchange rate and domestic prices, the BRH stands ready to use all available tools and to adjust its policy stance as needed to ensure price stability. In order to strengthen the effectiveness of monetary policy, the BRH will continue to enhance the monetary policy framework, particularly by improving liquidity management, strengthening market-based operations, and by developing macro-prudential regulatory mechanisms. Further financial deepening (through e.g. the development of the domestic T-Bill market), will also provide an additional tool for managing liquidity.

12. We remain committed to strengthening the functioning of the exchange rate market. In this regard, the BRH intends to increase the number of participants in the market and to promote the development of the interbank foreign exchange market. To this end, the BRH will seek technical assistance from the IMF.

13. We will continue to implement the recommendations of the January 2010 Safeguards assessment follow-up mission. We will publish the FY2013 financial statements of the BRH by end-July 2014. Work is underway to accelerate adoption of the IFRS, including the establishment of a special committee to monitor its implementation. We will strengthen the autonomy of the Investment Committee, as an independent oversight body and appoint a compliance officer to monitor observation of investment guidelines. International reserve management will be strengthened with support from the IMF.

Financial sector developments

14. The banking sector remains sound. Credit to the private sector, which has nearly doubled since early 2010, slowed in recent months, following the tightening of monetary policy in February 2013. Broad money grew by about 7 percent (y/y) through end-September 2013. Financial soundness indicators of the banking system do not reveal potential weaknesses. The banking supervision department has strengthened the monitoring of the financial system (banks, transfer agencies and foreign exchange *bureaux*) by intensifying inspections, including with respect to the fight against money laundering. In this context, the BRH benefited from technical assistance from the U.S. Treasury's Office of Technical Assistance (OTA). Joint inspections are carried out by OTA experts and inspectors from the supervision department at the BRH. Moreover, training was provided to inspectors, as well as to employees of banks, transfer agencies and foreign exchange *bureaux*, especially to enforcing officers.

15. We will continue to promote financial intermediation while safeguarding financial stability. The BRH continues to boost its capacities in monitoring systemic risks and financial stability. The legal frameworks for microfinance institution (MFIs) and financial cooperatives are ready for submission to Parliament. In line with the recently conducted Financial Sector Assessment, the authorities plan to adopt a new legal framework for the operations and supervision of insurance companies, which will be submitted to Parliament during FY2014.

16. The Haitian Parliament has recently approved a new AML/CFT legal framework consistent with FATF standards. The law was promulgated by the executive in November 2013 and it addresses a number of recommendations by the Caribbean Financial Action Task Force (CFATF). Effective implementation of the AML/CFT framework would also help strengthening governance.

Poverty reduction

17. The government has recently finalized a new Strategic Plan for the Development of Haiti (PSDH) for the period 2014-2016. Implementation of this new strategy will be instrumental in attaining Haiti's economic potential, in particular by improving the living conditions of the Haitian people. The implementation of this strategy will need of high levels of public investment, which the government plans to increasingly finance with domestic resources as international aid gradually declines.

18. The government believes that poverty reduction requires adequate public services, in particular in education and health. Improvement in the living conditions of the Haitian people will require continued investment in economic infrastructure, the modernization of agriculture, the establishment of professional schools and the continued development of manufacturing. Increased competition in the service sector will help improve their quality and efficiency. We expect that these efforts will support the increase of formal employment and the emergence of small and medium enterprises. The Ministry of Commerce and Industry is developing tools to complement the work in this area.

19. The government will continue to provide relief to the most vulnerable segments of the population. Social policies emphasize the access to education to all, the provision of school canteens, and gender equality. These social safety nets are important for social stability, and are essential in promoting private investment and medium-term growth.

Structural reforms

20. The Minister of Finance established a steering committee, in October 2013, which will coordinate the implementation of reforms in public financial management and domestic revenue mobilization. We expect to have a detailed medium-term action plan (prioritizing measures likely to deliver prompt results) by end-April 2014. We recently completed a public finance IT master plan and associated action plan. These and other reform plans will be consolidated into a comprehensive strategy. We are reviewing pending measures, including the draft organic budget law recently sent to Parliament, for consistency with our new strategy. Nevertheless, the most urgent elements of existing reform program will be pursued in parallel with the preparation of the action plan.

21. The Haitian government is fully committed to steadfast implementation of a treasury single account (TSA). The Prime Minister has requested all line ministries and institutions to fast track the implementation of the TSA in order to improve the effectiveness of spending (in particular of investment), budgetary controls, and cash management. Unexpected constraints have slowed down the closing process of accounts and the roll-out of the general ledger (GL) software in a number of line ministries. However, the Treasury has identified and closed dormant accounts in a number of ministries. Moreover, the operations of the Ministries of Finance, Commerce, Tourism and Environment are under the control of the Accounting Center charged with the economic sector (*Poste Comptable No. 1*). This accounting center is fully operational since December 2013 (prior action). The BRH is also adapting its IT system to the

TSA. The process of identification and closing of dormant accounts will continue in line with the various steps planned for the full establishment of the TSA.

22. The government has updated its action plan to ensure that the TSA becomes operational by the end of FY2015. Under this action plan, the Accounting Center No. 2 (comprising the Ministry of the Plan, Public Works and Agriculture) will become operational by March 2014 (new structural benchmark). The government plans to have at least 80 percent of all spending under an accounting center by June 2014 (new structural benchmark). The government intends to start FY2015 with the second phase of the establishment of the TSA, namely (i) the reduction of the number of domestically-funded accounts to three in all remaining institutions (ministries or independent bodies); (ii) the full deployment of account centers at the institutional level and granting control over operational expenditure accounts to public accountants appointed by the Ministry of Economy and Finance; and, (iii) the release of a manual of procedures for public accountants. As all accounting centers must be appropriately housed, the government will identify appropriate locations for their deployment.

23. The TSA will also contribute to strengthened budget formulation, execution, transparency, and reporting. The implementation of GL software will allow the recording of project and imprest account expenditures when they are effectively paid, and not when the account is replenished. Until the TSA becomes fully operational, the Minister of Finance will monitor closely the supporting documentation submitted by line ministries with their request of project account replenishments. Expenditures will be executed in line with the existing normal procedures.

24. Improving debt and cash management remains a priority. Pending approval of the new organic law of the Ministry of Finance, the government has introduced organizational changes permitted under the existing law. This has enabled the Ministry of Finance to begin strengthening the debt unit, and to integrate debt and cash management within a single Directorate. We remain committed to further strengthening the Debt Unit and to staffing the middle and front offices during the rest of FY2014.

25. The Government intends to improve the public investment framework to increase the execution rate and quality of capital spending. A group of experts and officials from the Ministry of Finance and the Ministry of Planning established the Public Finance Reform Committee to lead reforms in this area. A review of public investment was launched with the assistance of the French government (structural benchmark for end-December 2013). Meanwhile we have required all ministries and public entities to submit draft procurement and execution plans for the new fiscal year. Technical assistance is urgently needed to help set up and strengthen project and program evaluation units (UEPs) in main spending ministries. Discussions on this with our development partners are well advanced.

Other reforms

26. The Haitian government believes that improving the business environment is essential to promote growth and job creation. Reforms in this area are needed to raise productivity and competitiveness and attract foreign direct investment. Efforts in 2014 include the establishment of a new institutional framework to attract foreign investment, including a clear framework for public-private partnerships. The government has also started preparing a new law on cadastre, and another on mining, with donor assistance, notably from the World Bank. The Ministry of Commerce and Industry is also preparing a range of measures to modernize the business environment and streamline administrative procedures. We remain committed to export promotion and diversification, investment in tourism, as well as the modernization and development of agricultural production.

27. Strengthening the country's resilience to natural shocks is critical to protect growth. Ahead of Hurricane Sandy, we put in place a stronger disaster managing system that helped alleviate its impact. We continue to work with our partners, including the World Bank, to further strengthen national risk and disaster management systems.

28. We are fully committed to transparency. To this end, we will continue to publish on the Ministry of Finance's website data on government operations, budget execution, and financing in line with the continuous structural benchmarks defined in the ECF, including spending financed with Petrocaribe resources. In addition, the Ministry of Finance will continue publishing data (on a monthly basis) on central government transfers by beneficiary entity. We will also publish transfers to investment project accounts, on a project by project basis. Also, we will continue to provide information on poverty-reducing expenditures on a quarterly basis, as well as reports describing the performances of the tax and customs administrations, including the cost of exemptions and revenue collected in the provinces.

29. The government is convinced that better economic data will improve policy formulation. We have therefore requested IMF technical assistance to strengthen national accounts and external statistics. We plan to implement a revision of the base year and improve source data (including on the informal sector), which would improve our estimates of annual GDP at current and constant prices. With respect to external accounts, we aim at improving data collection for inward direct investment, trade, remittances, foreign aid, and services.

Program monitoring

30. Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised Technical Memorandum of Understanding (TMU). The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria for monitoring program execution in FY2013 and FY2014. Structural benchmarks for the remainder of the program, including a reformulation of the benchmark towards a single treasury account are in Table 2. The eighth review under the ECF arrangement, assessing end-March 2014 performance criteria, is expected to be completed by August 2014.

31. In view of progress recorded in relation to the ECF and the framework for implementing the remaining policies, the government requests the approval of the seventh review of the program, the modification of end-March performance criteria, and the disbursement of SDR1.638 million. We believe that the policies described in this letter are sufficient to meet the objectives of our program and we stand ready to take additional measures that may be needed for that purpose. We will consult with the Fund in advance of any revisions to the policies described in this letter, as well as the adoption of additional measures, in accordance with IMF policies on such consultations.

Sincerely yours,

/s/	/s/
Charles Castel	Wilson Laleau
Governor	Minister
Central Bank of Haiti	Ministry of Economy and Finance

Table 1: Indicative Targets and Quantitative Performance Criteria, September 2013 - June 2014

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009									
		Sep. 2013			Dec. 2013			Mar. 2014		Jun. 2014	
		PC	Adjusted	Actual	Indicative target	Adjusted [5/]	Estimate	PC	Proposed PC	Indicative target	Proposed Indicative target
(In millions of gourdes, unless otherwise indicated)											
I. Quantitative performance criteria											
Net central bank credit to the non-financial public sector - ceiling (including PCDR)	21,379	-13,199	-12,809	-16,530	-11,816	-10,184	-10,819	-10,432	-11,063	-9,049	-9,763
Central Government [1/]	22,947	-11,578	-11,188	-11,663	-10,278	-8,646	-6,703	-8,978	-9,063	-7,678	-7,763
Rest of non-financial public sector	-1,569	-1,621	-1,621	-4,868	-1,538	-1,538	-4,116	-1,454	-2,000	-1,371	-2,000
Net domestic assets of the central bank - ceiling	14,447	-9,036	-10,152	-15,061	-5,472	-4,112	-10,431	-709	215	2,135	3,459
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	582	610	804	517	483	735	422	422	375	375
II. Continuous performance criteria											
Domestic arrears accumulation of the central government	0	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) [2/]	0	33	33	334	33	33	410	33	33	33	33
Up to and including one year [3/]	0	0	0	301	0	0	377	0	0	0	0
Over one-year maturity	0	33	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	0
III. Indicative targets											
Change in base money - ceiling	31,080	14,262	14,262	17,082	15,225	15,225	18,955	16,189	17,095	17,153	18,459
Net domestic credit to the central government - ceiling [1/]	19,370	-19,271	-18,881	-14,580	-16,917	-15,285	-13,695	-14,562	-10,830	-12,208	-8,210
Poverty reducing expenditures - floor [4/]	…	38,656	38,656	38,856	42,531	42,531	42,731	46,406	46,606	50,281	50,481
Memorandum items											
Change in currency in circulation	13,448	9,009	9,009	7,904	9,285	9,285	11,569	9,560	9,456	9,836	9,284
Net domestic credit to the rest of the non-financial public sector	-1,641	-1,894	-1,894	-5,142	-1,811	-1,811	-4,597	-1,727	-2,500	-1,644	-2,500
Government total revenue, excluding grants	29,881	156,289	156,289	158,685	169,962	169,962	172,908	182,623	186,078	194,331	198,411
Government total expenditure, excluding externally-financed investment	42,096	218,739	218,739	226,618	235,944	235,944	247,677	248,752	268,193	265,156	287,587

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

1/ Adjusted targets exclude the use of IMF PCDR debt relief.

2/ Excludes guarantees to the electricity sector in the form of credit/guarantee letters. The US$33 million in non-concessional external lending of over one-year maturity refers to a BANDES (Venezuela) loan for airport construction.
3/ Figures for September 2013 and December 2013 reflect the contracting of repos for international reserve management; these operations were fully unwound by end-February 2014.
4/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.
5/ Adjusted figures for December 2013 are preliminary, based on available and incomplete information.

Table 2: Prior Actions and Structural Benchmarks through 2014 [1/]

Measure		Timing	Status	Comments
Operationalize the first accounting center (*Poste Comptable No. 1)* comprising the Ministries of Finance, Commerce, Tourism, and Environment (TMU, paragraph 17)	PA		Met	
Allocate offices to the medium-sized taxpayer unit.	SB	End-September 2013	Met	
Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	SB	End-December 2013	Not met	Progress observed: debt unit moved to Treasury; back office operational.
Set up a a task force of experts to review the public investment framework.	SB	End-December 2013	Met	
Roll out in all ministries the general ledger (GL) software and start to record projects and imprest accounts expenditure when they are effectively paid, and no longer when the replenishment of the account is made. [2/]	SB	End-December 2013	Not met	Progress observed: first accounting center operational and advanced work towards operationalizing second accounting center
Reduce the number of domestically-funded imprest accounts to three by ministry or institutions (for revenue collection, capital spending, and other transactions) and deploy the network of public accounting offices at the line ministries level and grant signature authority on these accounts to public accountants appointed by the Ministry of Economy and Finance. [2/]	SB	End-March 2014		
Operationalize the second accounting center comprising the Ministries of the Plan, Public Works, and Agriculture (TMU, paragraph 18) [3/]	SB	End-March 2014		
Operationalize the accounting centers so that at least 80 percent of budgetary expenses are collectively covered (TMU, paragraph 19) [3/]	SB	End-June 2014		

1/ PA: Prior Action; SB: Structural Benchmark

2/ These SBs were reformulated into a PA and two new SBs.

3/ New proposed SBs.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. All aspects of the Technical Memoranda of Understanding (EBS/10/139, Attachment III; EBS/11/63, Appendix III; EBS/12/22, Appendix III; EBS/12/93, Appendix III; EBS/13/14, Attachment 2; and EBS/13/100, Attachment 2) issued on August, 2010; May, 2011; April, 2012; August, 2012; March, 2013; and, August, 2013, respectively, remain valid, except for new revisions incorporated in the March 2014 Letter of Intent and those indicated below.

2. The program will be monitored by quantitative performance criteria and indicative targets as shown in Table 1 of the Letter of Intent. The quantitative performance criteria under the program are set for end-March 2014. The targets for end-June 2014 are indicative. The changes will be measured on a cumulative basis from the stock at end-September 2009. Structural benchmarks are shown in Table 2 of the Letter of Intent.

Definitions

3. Net domestic financing to the central government will comprise the change in net banking sector credit to the central government plus nonbank financing. Net domestic banking sector credit to the central government is defined as the sum of: (i) the change in the stock of net domestic credit to the central government from the BRH (as defined in paragraph 6 in EBS/13/100, Attachment 2); and (ii) the change in the stock of net domestic credit of the central government from domestic banks according to Table 20R of the BRH. The latter includes commercial bank lending to the central government (including through the net issuance of treasury bills and other government securities), net of the change in central government deposits (including Petrocaribe). Securities issued for the recapitalization of the BRH are excluded from this definition. Nonbank financing includes net issuance of Treasury bills and other government securities by the central government to non-banks, the net change in checks issued and not cashed, financing to the electricity sector, and any other net payments including for debt recognition.

Table 1: Net International Reserves, BRH, End-September 2013 1/

(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2,479.1
B. Gross Liabilities	685.5
C. Net Foreign Assets (=A-B)	**1,793.5**
D. FX deposits of commercial banks and CAM transfer at the BRH	686.3
E. Project accounts	5.6
F. Special accounts in U.S. dollars and euros	2.7
G. Seized values	0.0
H. SDR allocation (liability)	120.4
J. NIR (=C-D-E-F-G+H)	**1,219.4**

Source: Haitian authorities; and Fund staff estimates.

1/ Figures are still preliminary.

4. Net international reserves (NIR) are defined as in paragraph 11 in EBS/13/100, Attachment 2. Their stock at end-September 2013 is as included in Table 1.

5. The program exchange rate to calculate the change in net domestic assets of the BRH is G40.0 per U.S. dollar for the period June 2010 - September 2014.

6. Petrocaribe-related resources managed by the *Bureau de Monetisation* (BMPAD) are deposited at the Banque Nationale de Credit (BNC). Since September 2013, BMPAD has also accounts at the BRH. The payment of expenses associated with investment projects financed with Petrocaribe flows involves the transfer of resources from accounts at the BNC to the dollar-denominated account of the Treasury at the BRH. Given that most projects involve making payments in foreign currency, BMPAD accounts at the BRH are used as transitory accounts to exchange gourdes for dollars when needed, before the transfer reaches the Treasury account at the BRH. Transfers affect the balance of the dollar-denominated Treasury account at the BRH only temporarily, as they are only made when there is supporting documentation of service rendered concerning an investment project (i.e., whenever a transfer is made from a BMPAD account into the dollar-denominated treasury account at the BRH, there is a payment order that follows almost immediately after). Thus, any effect on NIR and NCG associated with such transfers are minor and of limited duration, and thus, not relevant for program monitoring purposes. On the other hand, NCG can be affected by changes in the stock of BMPAD deposits at the BRH. As of September 2013, the outstanding balance of all Petrocaribe deposits totaled US$197 million (Table 2).[2]

Table 2. PetroCaribe Deposits

	September 2009	September 2013	December 2013	March 2014	June 2014	September 2014
Total deposits in government accounts in the banking system						
Cumulative flows (G mlns)	...	4917	5112	4262	3262	1262
in US dollars (US$ mlns)	...	111	96	75	52	6
Stocks (G mlns)	3713	8630	8825	7975	6975	4975
in US dollars (US$ mlns)	89	197	200	180	156	110
Deposits in government accounts at the BRH						
Cumulative flows (G billion)	...	-96	704	704	704	704
Stocks (G mlns)	171	75	875	875	875	875
in US dollars (US$mlns)	4	2	20	20	20	19
Deposits in government accounts in commercial banks						
Cumulative flows (G mlns)	...	5013	4408	3558	2558	558
Stocks (G mlns)	3542	8555	7950	7100	6100	4100
in US dollars (US$ mlns)	85	196	180	160	136	91

Sources: Haitian Authorities and IMF Staff estimates and projections

[2] Gourde-denominated deposits are converted into US dollars at the market exchange rate. The authorities will provide information of transfers of Petrocaribe-related resources into the dollar-denominated Treasury account at the BRH. See paragraph 21.

7. For the duration of the program, Petrocaribe-related resources (either new inflows or those deposited at the banking system) will be considered to be under the direct control of the central government, and thus any related transactions are recorded in the budget, and reflected in program documentation. The program considers any inflows as budget support loans, and any spending of these resources (including through the drawdown of Petrocaribe deposits at the banking system) as central government spending or on-lending, as appropriate.

8. The definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-09/91)[3]: Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being loans[4], suppliers' credits[5], and leases.[6] Under the definition of debt set out above, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

9. Public sector external debt is defined as all debt that is contracted or guaranteed by the total public sector. This covers private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the total public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

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[3]Decision available at http://www.imf.org/external/pubs/ft/sd/index.asp?decision=6230-(79/140

[4] Loans are advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

[5] Suppliers' credits are contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.

[6] Leases are arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property.

10. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[7] The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. The government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

11. This definition of non-concessional public sector external debt applies equally to debt of less than one year and to debt of one year or more. The quantitative performance criteria concerning nonconcessional public external debt exclude: (i) normal import-related commercial debts having a maturity of less than one year; (ii) rescheduling agreements; (iii) drawings on the IMF; (iv) non-resident purchases of treasury bills; and (v) and existing (as of end-September 2013) guarantees to the electricity sector in the form of letters of credit. The ceilings for contracting and guaranteeing of non concessional debt by the total public sector are set at zero continuously throughout the program period.[8]

Quarterly Adjustments

12. The quarterly performance criteria and indicative targets will be adjusted as indicated below:

Adjustment for Domestic Arrears Accumulation

13. The ceilings for net BRH credit to the central government, the net domestic banking sector credit to the central government, and the net domestic assets of the central bank will be adjusted downwards for the amount of outstanding domestic arrears accumulation.

Adjustment for the use of Petrocaribe-related resources

14. The ceiling for net domestic credit to the central government reflects expected changes in Petrocaribe-related deposits in the banking system. The ceiling will thus be adjusted for the difference between the actual stock of Petrocaribe deposits in the banking system and the programmed stock of these deposits, as shown in Table 2. The ceiling for net BRH credit to the central government reflects projections in the change of Petrocaribe deposits at the BRH. Such

[7] The grant element calculator can be found at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx. The grant element calculations will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees

[8] Excluding the debt of US$33 million contracted in 2009 with the Development Bank of Venezuela (BANDES) for airport construction.

targets will be adjusted for the difference between the actual stock of Petrocaribe deposits at the BRH and the programmed stock for these deposits, as shown in Table 2. The adjustor will be calculated on a cumulative basis from October 1, 2009. The upward adjustment during FY2014 will be limited to US$50million, calculated at the market exchange rate.

Adjustment for Budgetary Support Grants

15. The ceilings on BRH net credit to the central government, net domestic credit to the central government, and on BRH net domestic assets, and the floor on NIR reflect expected budgetary donor grants of the equivalent of US$103 million during FY2014 (US$27 million from the IDB, US$46 million from the EU, US$20 million from Spain, and US$10 million from France, Table 3). If actual grant inflows are lower than programmed, these performance criteria ceilings will be adjusted upwards and the performance criterion floor will be adjusted downwards by the amount of the difference between actual and programmed inflows. This adjustor will be applied provided the deviations are temporary and only reflect delays in the disbursements of programmed, already identified, amounts. The adjustor will not be applied if the deviations are not temporary. Staff and the authorities will consult with donors to determine whether any deviations (in the timing of disbursements and in amounts) can be considered temporary. Staff will consider that deviations are temporary if amounts are to be disbursed within FY2014, or during the first quarter of FY2015, at the latest. The authorities will consult with Fund staff on the appropriateness to spend (or save) any budgetary support grants, including those arising from

Table 3: Projected Quarterly Budget Support Disbursements

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(cummulative flows, in millions of U.S. dollars)

Donor	Dec-13	Mar-14	Jun-14	Sep-14
European Union	34	46	46	46
IDB	0	0	25	27
Spain	0	8	8	20
France	0	0	0	10
Total	**34**	**54**	**79**	**103**

Adjustment for Investment Spending financed with Post-Catastrophe Debt Relief (PCDR) resources

16. The ceilings on BRH net credit to the central government and net domestic financing to the central government reflect spending of PCDR resources for G3 billion on investment projects with the characteristics defined in EBS/10/141-Proposal for a Post Catastrophe Debt Relief Trust Fund. Quarterly spending is projected in four equal shares. The ceilings will be adjusted upwards (downwards) if cumulated spending is higher (lower) than programmed. The authorities will share with Fund staff the details of the expenditures financed with PCDR resources.

Clarification of Structural Conditionality

17. **Prior Action on making operational the TSA's Accounting Center No. 1**. The Accounting Center No. 1 (*Poste Comptable No. 1*) comprises the Ministries of Finance, Commerce, Tourism, and Environment. The prior action entails: (i) rolling-out GL-software in all ministries included in PC-1; (ii) begin recording projects and imprest accounts expenditure when they are effectively paid and no longer when the replenishment of the account is made; (iii) reduce domestically-funded imprest accounts to three in each ministry and by institutions that depend on such ministries, what requires the appropriate action of the BRH; (iv) granting signature authority on this accounts to public accountants appointed by the MEF. The MEF will share with Fund staff any dispositions or communications needed to confirm that the PC-1 is fully operational at least 5 business days prior to the Executive Board meeting that will discuss the seventh review. The authorities will also share with Fund staff written communication by the PM's Office to line Ministries specifying the intention to fast track the implementation of the TSA, and giving the MEF the role of coordinating body in this regard.

18. **End-March 2014 Structural Benchmark on making operational the TSA's Accounting Center No. 2.** The Accounting Center No. 2 (*Poste Comptable No. 2*) comprises the Ministry of Planning, Public Works, and Agriculture. The structural benchmark entails the same actions as described in paragraph 17, but applicable to PC-2.

19. **End-June 2014 Structural Benchmark on extending the first phase of TSA implementation to cover at least 80 percent of total central government spending.** The government will advance in the implementation of remaining Accounting Centers throughout FY2014, with a view of extending the coverage of the TSA to at least 80 percent of central government spending. To this end, the government will implement the actions specified in paragraph 17, to ministries not included in PC-1 and PC-2. The Ministry of Finance will communicate progress in this regard to IMF staff on a monthly basis.

Reports, Studies and Provision of Information

20. To ensure adequate monitoring of the program, the authorities will provide daily, weekly, and monthly monetary and fiscal indicators to IMF staff as described in EBS/10/139, Attachment III and its updates. As described in paragraph 10, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

21. **Quarterly Report on Investment financed with treasury and Petrocaribe-related resources.** The authorities will share with Fund staff a copy of a quarterly report on the implementation of the PIP that differentiates between effective implementation and cash advances to project accounts and provides a breakdown (by gourde amounts) of projects awarded by type of contract award (competitive bidding, sole-source procurement, amendment to existing contract, etc.). The report will closely monitor and inform on the percentage of total contracts and of contract amounts for which supporting documentation is made available to the

Ministries of Finance. The Ministry of Finance will use this information as a device to require further information from spending ministries before authorizing a replenishment of project accounts, until the TSA is adopted. A similar procedure will be implemented *vis-à-vis* investment spending financed with Petrocaribe-related resources. The quarterly report will be shared with Fund staff one month after the end of the quarter. The first report (corresponding to the first quarter of FY2014) will be shared with staff at the end of March 2014. The report will begin to be posted at the MEF website, beginning in the third quarter of FY2014.

22. **Monthly Report on EDH finances.** The Minister of Finance (in collaboration with EDH), will share with Fund staff, on a monthly basis, a report on the electricity sector, that includes a monthly cash flow of EDH; and also, a monthly report describing the stock of cross debts between the different agents in the sector. The first of such reports will be shared with Fund staff at the end of March 2014, and will comprise FY2013 and the first quarter of FY2014.

23. **Analysis on Fuel Price Subsidy.** With assistance from the World Bank, the government is committed to develop by June 2014, a medium term plan to gradually increase the price of petroleum prices, while designing a social safety net that delivers targeted assistance to the poor. The study will be shared with Fund staff by end-July 2014.