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Haiti: Staff Monitored Program

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HAITI

Staff-Monitored Program

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Christopher Towe and Carlos Muñiz

June 25, 2004

- **Background**. A previous Staff-Monitored Program (SMP) (April 2003–March 2004) went off track last December, following large spending overruns, and expired as widespread protests and an armed rebellion led to a change of government. The last Article IV consultation was held in January 2003, and the next Article IV consultation discussions are planned to take place later in 2004, once the economic policy situation has stabilized.

- **SMP**. The objectives of the SMP covering April-September 2004 are to stabilize the economy and cope with the immediate impact of the conflict. Real GDP is projected to decline by 5 percent and end-year CPI to reach about 25 percent. It is expected that the macroeconomic framework and structural measures under the SMP will provide a track record of policy implementation in support of future financial assistance from the Fund. The attached memorandum of economic and financial policies (MEFP) outlines the authorities' program.

- **Mission**. Discussions on a SMP took place during May 25–June 3, 2004. The mission met with Prime Minister Latortue, Economy and Finance Minister Bazin, Central Bank Governor Magloire, other senior officials, and representatives from the private sector. The staff team comprised P. Gajdeczka (Head), L. Jaramillo, C. Sancak, J. Toro (all WHD), and L. Redifer (PDR). M. Rached (Resident Representative) assisted the mission. A. Macia (ED's office) and A. Kouame (World Bank) attended key meetings.

- **Publication**. The authorities expressed their intention to publish their Letter of Intent (LOI) and the MEFP on the IMF website.

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I. BACKGROUND

1. **Haiti is in a period of difficult political transition in the aftermath of an armed conflict and change in government**. Following President Aristide's resignation in February 2004, a transition government was formed to lead the country to regional, parliamentary, and presidential elections, which are scheduled for 2005. The immediate tasks before the new government are to restore security, rehabilitate government infrastructure damaged during the conflict, and to stabilize the economy.

2. **Domestic security is being gradually restored with international assistance**. On June 1, the United Nations stabilization force took over peacekeeping operations from the multilateral forces led by the United States. However, full mobilization is expected to take several months, thereby delaying prospects for disarmament of the armed groups that remain in control in the provinces and the restoration of the government's authority. Meanwhile, recruitment and training of Haiti's national police has begun.

3. **The authorities have reached understandings with the staff on a short-term Staff-Monitored Program (SMP)**. The main objectives of the program are to preserve financial stability, support economic recovery, and establish a track record of policy implementation that could build a basis for a possible future request for the use of Fund resources. This program follows an earlier one-year SMP that was put in place in March 2003 and was expected to lead to a successor PRGF arrangement in the second half of 2004. This previous program had gone off-track in December 2003 due to large expenditure overruns, largely to deal with deteriorating security conditions.[1]

II. RECENT ECONOMIC DEVELOPMENTS

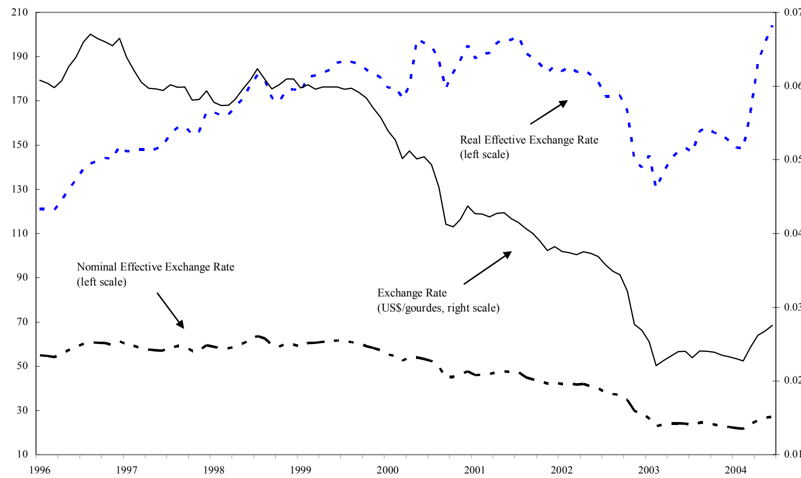
4. **The economic impact of the political crisis and armed rebellion has been severe**. The conflict resulted in property damage in both the public and private sectors that is now estimated at 5½ percent of GDP. Additional losses (including the loss of over 1,000 lives) have resulted from the devastating floods in the southeastern part of Haiti in late May. Property losses and the closure of business disrupted economic activity for weeks, resulting in severe disruptions in the supply system, and private sector confidence has remained weak amid persistent security concerns. In these circumstances:

- **Monthly inflation picked up to 6.5 percent** (25.4 percent on a 12-month basis) in April from 1.5 percent in February, reflecting widespread supply constraints (closure of ports and looting of warehouses) and increases in international commodity prices;

[1] As of end-March 2004, central bank financing of the budget is estimated at G 3.0 billion (2.1 percent of GDP), 1.2 percent of GDP above the indicative SMP target (Table 2).

- **The gourde has strengthened since the end of the armed conflict in March 2004**. The gourde has stabilized at G36/US$ in recent weeks, 17 percent above its pre-conflict level (Figure 1), reflecting the temporary effects of a recovery in remittances and a collapse in imports, as well as expectations of foreign aid inflows. In real effective terms, the gourde is 18 percent higher than in September 2003, basically recovering its level from a year before.

Figure 1. Haiti: Exchange Rate 1/
(1990=100)



Source: Central Bank of Haiti; and Fund staff estimates.
1/ An increase indicates an appreciation.

- **The external position remains fragile**. Net international reserves (NIR) fell to a historic low of US$17 million at end-March, but have recovered somewhat, reaching US$30 million at end-May.

- **Large expenditure cuts were required to keep the fiscal position in check**. Faced with substantial revenue shortfalls,[2] uncertainties regarding external budgetary support and the need for some emergency outlays, the authorities cut recurrent and capital expenditure during April–May 2004 by about 0.7 percent of GDP. However, since these cuts exceeded revenue shortfalls, central bank credit to the government declined by 0.4 percent of GDP.

- **Commercial banks remain reluctant to extend new credit to the private sector**. Although activity appears to be picking up in some sectors, the overall business climate remains poor, and commercial bank representatives expressed concern that nonperforming loans could rise owing to the conflict's impact.[3]

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[2] Shortfalls in government revenues in March-May are estimated at 0.5 percent of annual GDP, even though the revenues were helped by the collection of taxes unpaid in the previous months.

[3] By end-March 2004, nonperforming loans increased to 8.9 percent of total credit, compared with 5.8 percent a year before.

5. **Initial steps have been taken to strengthen governance in the public sector**. New managers have been appointed for public sector enterprises, and tax officers from the large-taxpayer unit have been assigned to oversee their tax payments. The use of discretionary current accounts, which was initially blocked after the change in government, is now subject to close scrutiny, pending completion of a review of expenditure management procedures.

6. **Haiti continues to accumulate arrears to the World Bank and other creditors**. The stock of arrears to the World Bank reached US$40 million at end-March 2004, and debt-service payments due to the Bank between end-March and end-September 2004 are US$7.2 million (Table 5). The stock of arrears to bilateral creditors was US$25 million at end-March 2004, with largest arrears to France (US$16.3 million), followed by Italy (US$5.4 million) and Spain (US$3.1 million). However, Haiti remains current on its obligations to the IDB and the Fund, and the country makes partial debt-service payments to bilateral creditors that are providing new financing.

III. Policy Discussions

7. **The program for April-September 2004 (second half of fiscal year) is focused on macroeconomic stabilization in the aftermath of the conflict**. The key objectives are to contain inflation during the six months at 14 percent (not annualized) and maintain NIR above the agreed floor of US$22 million. The authorities agreed that real GDP would likely decline by 5 percent in FY 2003/04 in view of the magnitude of the property damage and disruptions in economic activity in February and March as well as the general slowdown in economic activity in late 2003. Although the program targets an inflation rate of 25 percent for 2003/04, this partly reflects the sharp increase in the CPI in March and April while monthly inflation is expected to fall to about 1 percent by the end of the fiscal year. The authorities considered this inflation objective as consistent with the assumed level of central bank financing, but noted that the rise in import prices of petroleum and other products posed upside risks.

A. Fiscal Policy

8. **The authorities are committed to respecting the original budget ceiling for April–September 2004 on BRH financing of G1.2 billion (0.8 percent of GDP)**. To keep the fiscal position in check while developing an emergency spending plan, the authorities cut all nonessential expenditure during April-May. They also took measures to improve tax collection and recover tax arrears (paragraph 8, MEFP). However, despite expenditure cuts (0.7 percent of GDP), a revenue shortfall of about 0.3 percent of GDP, and planned emergency outlays (2.3 percent of GDP) would still leave a financing gap of up to G2.8 billion (2.0 percent of GDP).[4] The authorities have requested donor assistance to enable

[4] This financing gap reflects the assumption that the planned emergency outlays can be fully executed. Including financing needed to clear the arrears to the World Bank and other creditors, the gap would amount to 3.3 percent of GDP. The point of reference is the 2003/04 budget; the nominal amounts are expressed in percent of the revised nominal 2003/04 GDP.

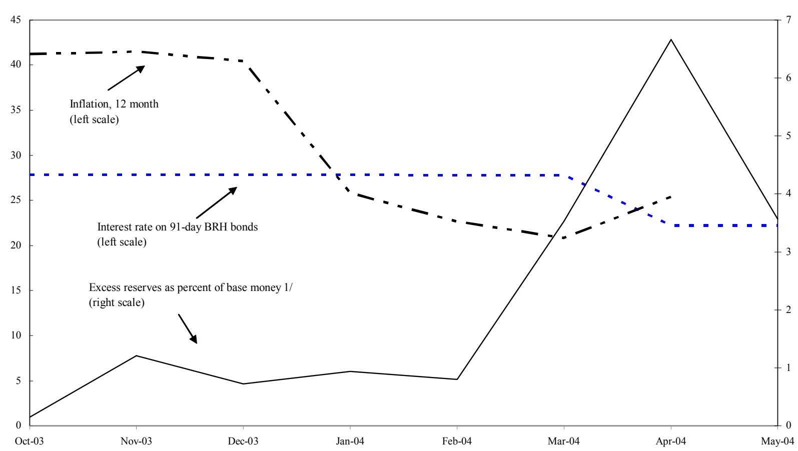
them to close the budget gap without having to resort to further expenditure cuts, which they feared would inhibit the provision of essential services and would undermine political stability.

9. **The authorities are giving priority to essential outlays such as wages, revitalization of key facilities, and social expenditures that benefit the poor**. The authorities agreed that other outlays should be delayed until donor support was mobilized. They explained that a planned increase in civil service salaries was needed to partly mitigate a 40 percent decline in real wages since 2000 and could not be deferred further without jeopardizing the ability of the public sector to function.[5] The authorities agreed with the staff that financial support to public sector enterprises should be focused on restoring basic services (e.g., electricity). To strengthen expenditure management, the number of discretionary ministerial accounts will be restricted to one such account per ministry and government agency by end-June 2004. Spending through these accounts will be limited to 15 percent of nonwage current expenditure by end-June and 10 percent by end-September.

B. Monetary and Exchange Rate Policy

10. **The staff welcomed the recent move to re-establish a disciplined monetary policy**. The program aims to contain inflation during April–September at 14 percent and rebuild international reserves (paragraph 11, MEFP). In an effort to ease financial conditions following the armed rebellion, the BRH reduced interest rates on 91-day bonds to 22 percent (from 28 percent) and during April commercial banks' reserves increased by the equivalent of 11.4 percent of base money (Figure 2).Since late April, the BRH began to take steps—including through sales of central bank bonds—to absorb excess domestic liquidity with an eye to stemming pressures on prices. The authorities confirmed

Figure 2. Haiti: Inflation, BRH bond interest rates and excess reserves
(In percent)



Source: Central Bank of Haiti; and Fund staff estimates.
1/ Base money is defined as the sum of reserve deposits, cash-in-vault, and currency in circulation.

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[5] The 2003/04 budget envisaged a 25 percent salary increase starting in January 2004. The increase has been postponed until June 2004 and will now average 33 percent.

their commitment to raising interest rates as necessary to achieve the monetary program's objectives.

11. **The monetary program targets an increase in NIR to US$28 million and reserve money growth of 6.1 percent (six-month) by end-September (Table 3)**. However, the BRH and staff agreed that, in view of uncertain money demand and timing of external financial support, the program floor would be set at US$22 million. After September, depending on the evolution of official reserves and of the exchange rate, as well as the progress in lowering inflation, consideration could be given to a gradual easing of monetary policy. The authorities agreed to avoid foreign exchange market intervention, except for transactions aimed at smoothing excessive exchange rate fluctuations and meeting the NIR target.

12. **The BRH continues to monitor the evolution of nonperforming loans and capital adequacy in the aftermath of the conflict**. According to the BRH's most recent assessment, the financial health of the banking system has not been significantly affected by the conflict. The staff urged the BRH not to support private sector proposals to stimulate credit recovery by easing prudential norms and by contributing to guarantee schemes for businesses affected by the conflict. The staff noted that if the private sector needed financial support, this should be provided in a transparent manner through the government's budget subject to availability of resources, including from donors. The authorities requested technical assistance from the Fund to review the financial position and monetary operations of the BRH, and an interim audit of the BRH is planned before end-September, with preparations for a safeguards assessment by the Fund to be initiated shortly.

C. Structural Reforms and Governance

13. **The authorities are strongly committed to strengthening governance in the public sector**. The measures under the SMP focus on central government expenditure management and the audits of public sector enterprises (paragraphs 13-14, MEFP). In particular:

- Carry out by end-July 2004 a census of civil servants in all ministries, government agencies, and public sector enterprises;
- Strengthen governance in key public sector enterprises and undertake international audits of their accounts as soon as financing is identified;
- Develop a plan of action (by end-July) to extend the use of pre-shipment inspections to ports of entry outside of Port-au-Prince and the border with the Dominican Republic;
- Prepare a plan to extend the use of the existing tax management system to all taxpayers with single tax identification numbers;

- Set up an anti-corruption unit and strengthen the operational capacity of the Financial Intelligence Unit;
- Prepare a draft budget for FY 2004/05 before the start of the fiscal year; and
- Publish quarterly information on budget execution.

D. External Financing and Clearance of Arrears

14. **Preparations for a donors' conference are underway**. A report based on a needs assessment exercise conducted by a multi-donor mission is nearing completion and will be submitted shortly to donors. This report—covering the period July 2004-September 2006—will serve as a basis for pledging financial assistance to Haiti at a conference scheduled for July 19-20, 2004. Meanwhile, Haiti remains on track for new loans from the IDB and Taiwan Province of China. The IDB has an already approved lending program of US$400 million.[6] The United States has announced its intention to increase economic assistance to Haiti, including a US$35 million grant for budget support, part of which may be disbursed this fiscal year. Canada and the European Union have also publicly expressed their readiness to increase their financial assistance.

15. **The authorities are working on a plan to clear arrears to the World Bank and other creditors**. Donor financing is expected to facilitate the clearance of World Bank arrears by end-September 2004, and progress toward clearing arrears to bilateral creditors is expected following the donors' conference.

16. **The authorities noted that the country's financial needs were pressing and that they intend to request financial assistance from the Fund**. Accordingly, following the SMP they expect to request Fund support in the form of Emergency Post Conflict Assistance (EPCA). The staff noted that good performance under the SMP could provide a basis for an eventual request for Fund resources. However, the determination of whether Haiti's circumstances were consistent with EPCA, or whether the more appropriate focus should be on developing a policy framework that could underpin other forms of Fund financial support, would be made following the forthcoming donors' conference.

E. Program Risks and Monitoring

17. **The unsettled security situation and uncertain prospects for external assistance remain major risks to the program**. Haiti is experiencing difficult economic and social conditions, and the transition government is seeking a balance between critical social needs and the need to preserve financial stability. There is a significant risk that economic and

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[6] The total includes about US$200 million of IDB's reactivated loans and another US$200 million of new loans approved in 2003.

political stability will prove elusive without a significant improvement in the security conditions and adequate financial assistance.

18. **In view of these risks, the staff will monitor the SMP on a quarterly basis**. The authorities' policies covering April-September 2004 have been specified in the attached MEFP. Performance under the program will be monitored using quarterly indicative targets, and reviews (paragraph 18 and Table 1 of the MEFP). The authorities are establishing a reporting system of key fiscal and monetary indicators (prior action). In view of uncertainties regarding external financing, the SMP includes an adjuster for external budgetary support to allow for a limited increase in central bank credit to the government (paragraph 11, MEFP; and section II.B in the Technical Memorandum of Understanding).

F. Macroeconomic Framework for 2004/05–05/06

19. **At the request of the authorities and donors, the staff prepared a preliminary macroeconomic framework for 2004/05–06 (Table 6)**. Its key targets include annual real GDP growth of 3 percent, a decline in inflation to 10 percent, and an improvement in the reserve position of the BRH. Underpinning these projections would be rapid progress in strengthening administrative capacity, improvements in governance, and expanded provision of public services. Attaining the inflation objective will require a substantial reduction of central bank financing of the budget, in turn requiring a rebound of tax revenues and donor support. On the expenditure front, wages and salaries are projected to increase faster than nominal GDP to allow new hiring (e.g., police) and a wage increase; and capital expenditure (excluding exceptional outlays) would increase to 3.5 percent of GDP from 2.6 percent of GDP in 2003/04, in line with available external financing. The authorities noted that considerable uncertainties attached to these projections, especially given that the magnitude of external assistance had not been established, and these projections would need to be revisited after the donor conference.

IV. Staff Assessment

20. **Haiti is facing difficult economic conditions while undergoing a complex political transition**. In the aftermath of a prolonged political conflict and armed rebellion, the government has taken strong first steps to stabilize the economy and address the immediate consequences of the conflict. However, the tasks ahead remain daunting—the government needs to restart the economy, rebuild key institutions, and prepare the ground for fair and safe elections in 2005. To achieve these objectives, determined efforts by the authorities will be needed, backed by the international community.

21. **The SMP's macroeconomic framework provides room for economic recovery and immediate reconstruction needs**. The staff welcome the early measures to restore fiscal discipline, which have helped forestall a fiscal crisis. In coming months, there will be scope to boost emergency spending on reconstruction and to begin to restore nonessential spending, but the priority will need to remain on sustaining vital government operations and protecting the most vulnerable members of society. Although the staff recognize the need to

increase central government wages, this step must be coupled with a census of the civil service and forceful implementation of expenditure controls.

22. **Monetary policy should remain focused on reducing inflation and rebuilding international reserves**. The staff support the recent tightening of monetary policy and encourage the BRH to ensure that monetary operations are consistent with the inflation and NIR targets under the program. The staff welcome the authorities' commitment to limit intervention in the foreign exchange market to the purchases needed to meet the NIR targets and to smoothing excessive exchange rate fluctuations.

23. **The staff welcome the authorities' commitment to strengthen governance in the public sector**. The phasing out of ministerial current accounts constitutes a major step in improving expenditure control and accountability. The staff urge timely implementation of audits of the public sector enterprises, and support the authorities' efforts to mobilize donor support for this purpose. The staff encourage the authorities to regularly publish information on budget execution, as a signal of their commitment to enhancing transparency of the government's operations and policies.

24. **Determined effort by the authorities and donors is needed to clear Haiti's external arrears and close the financing gap**. The authorities envisage a two-stage approach, first with clearance of arrears to the World Bank, followed by agreement on a process to regularize arrears to other creditors. The staff support this objective and the authorities' intention to mobilize donor assistance to fill the budgetary financing gap.

25. **The staff support the planned improvements in Haiti's statistics, which will help more effective economic monitoring and enhance transparency**. In particular, the staff welcome the authorities' commitment to establish a system of timely reporting of daily and weekly monetary and fiscal indicators. The staff support the authorities' request for technical assistance to improve Haiti's economic statistics.

Table 1. Haiti: Selected Economic and Financial Indicators

Fiscal Year Ending September 30

	1999	2000	2001	2002	Prel. 2003	Proj. 2004
(Annual percentage change, unless otherwise indicated)						
National income and prices						
GDP at constant prices 1/	2.7	0.9	-1.0	-0.5	0.4	-5.0
GDP deflator	7.0	11.1	11.6	10.1	25.5	28.8
Consumer prices (period average)	8.1	11.5	16.8	8.7	32.5	28.1
Consumer prices (end-of-period)	9.9	15.3	12.3	10.1	42.5	25.0
External sector						
Exports (f.o.b.)	13.4	-2.5	-7.8	-10.5	21.0	2.3
Imports (f.o.b.)	23.8	6.8	-2.9	-6.9	13.6	-3.1
Real effective exchange rate (+ appreciation)	8.5	-6.2	7.5	-9.3	-8.9	...
Central government						
Total revenue 2/	17.1	-0.3	3.8	20.2	37.3	8.1
Total expenditure	19.6	13.4	8.7	20.6	39.8	25.1
Money and credit						
Net domestic assets 3/	15.1	18.1	9.4	17.0	26.2	14.8
Credit to public sector (net) 3/	7.7	8.0	8.5	9.4	9.3	7.4
Credit to private sector 3/	4.4	16.9	-3.5	5.9	13.0	7.3
Broad money	17.7	36.2	5.2	17.2	39.8	20.6
Velocity (GDP relative to broad money)	3.1	2.6	2.7	2.5	2.3	2.3
Average interest rate on time deposits	6.8	15.0	13.5	7.6	15.0	...
(In percent of GDP, unless otherwise indicated)						
Gross domestic investment	27.7	27.3	25.9	25.0	31.1	22.5
Gross domestic savings	23.7	23.9	22.3	23.1	28.2	21.8
Of which: Public sector savings	2.0	0.7	-0.6	1.0	-0.3	0.0
Central government overall balance 4/	-1.4	-2.5	-2.8	-3.2	-3.7	-5.0
Central government overall balance including grants 4/	-1.2	-2.2	-2.4	-3.0	-3.5	-5.0
Overall public sector balance	-3.7	-5.2	-3.7	-2.6	-4.1	-5.8
External current account balance (excluding grants)	-7.2	-6.6	-6.5	-4.2	-4.8	-1.9
External current account balance 5/	-4.0	-3.5	-3.6	-1.8	-2.9	-0.7
External public debt (end-of-period)	28.5	29.9	33.6	36.1	45.0	36.5
Total public debt (end-of-period) 6/	32.9	31.3	36.8	39.4	48.8	40.2
External public debt service (in percent of exports of goods and nonfactor services)	8.5	7.8	8.6	8.1	8.6	10.1
(In millions of U.S. dollars, unless otherwise indicated)						
Overall balance of payments	-45.9	-2.1	-52.8	-37.1	-2.9	-64.1
Gross international reserves (end-of-period)	329.2	272.2	277.1	227.7	206.7	235.1
Net international reserves 7/	208.7	162.9	108.8	53.0	38.8	28.0
Net international reserves (in months of imports of goods and services, end-of-period) 7/	2.0	1.4	1.0	0.5	0.3	0.2
Exchange Rate (end-of-period)	16.9	28.3	25.5	29.7	42.0	...

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

1/ The authorities revised nominal GDP for 2000, 2001, and 2002.
2/ Excluding grants.
3/ In relation to broad money at the beginning of the period.
4/ Assumes BRH financing of G1.2 billion in April-September 2004.
5/ External current account excluding capital grants.
6/ Includes external public sector debt, outstanding Central Bank bonds, and credit from commercial banks to the NFPS.
7/ Excludes commercial banks' foreign currency deposits with the BRH.

Table 2. Haiti: Central Government Operations 1/ (Cont.)

	Prel.	Budget 2/ Oct.-Mar.	Prel. 3/ Oct.-Mar.	Prog. 4/ Apr.-June.	Prog. 4/ July-Sept.	Budget 2/ Apr.-Sept.	Prog. 4/ Apr.-Sept.	Budget 2/ Oct.-Sept.	Prog. 4/ Oct.-Sept.
		Fiscal Year Ending September 30							
	2003	2004							
		(In millions of gourdes)							
Total revenue	**10,746**	**6,548**	**5,443**	**3,218**	**2,960**	**6,561**	**6,179**	**13,109**	**11,621**
Current revenue	10,746	6,548	5,443	3,218	2,960	6,561	6,179	13,109	11,621
Internal	7,462	4,562	3,941	2,178	1,957	4,229	4,135	8,791	8,076
TCA	3,161	1,957	1,485	945	1,009	1,957	1,954	3,914	3,439
Taxes on income and profits	1,985	1,376	1,305	541	254	896	794	2,273	2,100
Excises	835	735	495	426	396	797	822	1,532	1,317
Other taxes	1,481	493	655	266	299	579	565	1,072	1,220
External	2,762	1,912	1,370	1,022	1,003	2,244	2,026	4,156	3,396
Other current revenue	526	74	132	18	0	87	18	161	150
Total expenditure	**15,084**	**8,098**	**8,730**	**3,024**	**3,726**	**7,766**	**6,750**	**15,865**	**15,480**
Current expenditure	**11,156**	**5,721**	**6,358**	**2,563**	**2,748**	**5,671**	**5,311**	**11,392**	**11,669**
Wages and salaries	3,862	2,400	2,009	978	1,172	2,401	2,151	4,801	4,159
Net operations	4,845	2,225	3,139	988	964	1,951	1,952	4,175	5,091
Interest payments	1,050	569	605	296	290	560	586	1,128	1,191
External	561	329	359	175	170	320	345	648	703
Domestic	489	240	246	121	120	240	241	480	487
Transfers and subsidies	1,399	528	606	300	322	760	622	1,288	1,228
Capital expenditure	3,928	2,378	2,372	461	977	2,096	1,438	4,473	3,811
Net lending	0	0	0	0	0	0	0	0	0
Current account balance	**-410**	**827**	**-915**	**655**	**212**	**890**	**867**	**1,717**	**-48**
Overall balance excluding exceptional outlays	**-4,338**	**-1,550**	**-3,287**	**194**	**-765**	**-1,206**	**-571**	**-2,756**	**-3,858**
Exceptional outlays	**0**	**400**	**2**	**335**	**3,052**	**0**	**3,387**	**400**	**3,389**
Overall balance	**-4,338**	**-1,950**	**-3,289**	**-141**	**-3,817**	**-1,206**	**-3,958**	**-3,156**	**-7,247**
Financing	**4,338**	**1,950**	**3,289**	**141**	**3,817**	**1,206**	**3,958**	**3,156**	**7,247**
External net financing	**868**	**716**	**270**	**-82**	**-1,906**	**-3,267**	**-1,988**	**-2,552**	**-1,718**
Grants	171	225	21	0	0	225	0	450	21
Loans (net)	630	14	-170	-307	-259	-657	-566	-644	-735
Disbursements	1,583	675	400	0	0	0	0	675	400
Amortization	-953	-662	-570	-307	-259	-657	-566	-1,319	-1,135
Arreas (net)	67	477	418	224	-1,647	-2,835	-1,423	-2,358	-1,004
Accumulation	1,411	477	418	224	229	473	453	950	872
Reduction (-)	-1,344	0	0	0	-1,876	-3,308	-1,876	-3,308	-1,876
Internal net financing	**3,470**	**1,235**	**3,019**	**426**	**800**	**1,165**	**1,226**	**2,400**	**4,245**
Banking system	3,612	1,235	2,960	412	800	1,165	1,212	2,400	4,172
BRH	3,720	1,235	2,997	400	800	1,165	1,200	2,400	4,197
Commercial banks	-108	0	-37	12	0	0	12	0	-25
Other	0	0	0	0	0	0	0	0	0
Arreas (net)	-142	0	59	14	0	0	14	0	73
Accumulation	239	0	227	109	0	0	109	0	335
Reduction	-381	0	-167	-95	0	0	-95	0	-262
Financing gap	0	0	0	-203	4,923	3,308	4,720	3,308	4,720
Financing gap (In millions of U.S. dollars)	*0*	*0*	*0*	*-5.1*	*123.1*	*73.5*	*118.0*	*73.5*	*118.0*
Financing gap excluding external arrears clearance (in millions of U.S. dollars)	...	*0*	*0*	*-5.1*	*76.2*	*0.0*	*71.1*	*0.0*	*71.1*

Table 2. Haiti: Central Government Operations 1/ (Concl.)

	2003	2004							
		Fiscal Year Ending September 30							
	Prel.	Budget 2/ Oct.-Mar.	Prel. 3/ Oct.-Mar.	Prog. 4/ Apr.-June.	Prog. 4/ July-Sept.	Budget 2/ Apr.-Sept.	Prog. 4/ Apr.-Sept.	Budget 2/ Oct.-Sept.	Prog. 4/ Oct.-Sept.
	(In percent of GDP)								
Total revenue	**9.1**	**4.9**	**3.8**	**2.2**	**2.0**	**4.9**	**4.3**	**9.8**	**8.0**
Current revenue	9.1	4.9	3.8	2.2	2.0	4.9	4.3	9.8	8.0
Internal	6.3	3.4	2.7	1.5	1.4	3.2	2.9	6.6	5.6
TCA	2.7	1.5	1.0	0.7	0.7	1.5	1.4	2.9	2.4
Taxes on income and profits	1.7	1.0	0.9	0.4	0.2	0.7	0.5	1.7	1.5
Excises	0.7	0.5	0.3	0.3	0.3	0.6	0.6	1.1	0.9
Other taxes	1.3	0.4	0.5	0.2	0.2	0.4	0.4	0.8	0.8
External	2.3	1.4	0.9	0.7	0.7	1.7	1.4	3.1	2.3
Other current revenue	0.4	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1
Total expenditure	**12.8**	**6.0**	**6.0**	**2.1**	**2.6**	**5.8**	**4.7**	**11.8**	**10.7**
Current expenditure	9.4	4.3	4.4	1.8	1.9	4.2	3.7	8.5	8.1
Wages and salaries	3.3	1.8	1.4	0.7	0.8	1.8	1.5	3.6	2.9
Net operations	4.1	1.7	2.2	0.7	0.7	1.5	1.3	3.1	3.5
Interest payments	0.9	0.4	0.4	0.2	0.2	0.4	0.4	0.8	0.8
External	0.5	0.2	0.2	0.1	0.1	0.2	0.2	0.5	0.5
Domestic	0.4	0.2	0.2	0.1	0.1	0.2	0.2	0.4	0.3
Transfers and subsidies	1.2	0.4	0.4	0.2	0.2	0.6	0.4	1.0	0.8
Other current expenditure	0.0	0.0	0.4	0.1	0.0	0.0	0.1	0.0	0.5
Capital expenditure	3.3	1.8	1.6	0.3	0.7	1.6	1.0	3.3	2.6
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance	**-0.3**	**0.6**	**-0.6**	**0.5**	**0.1**	**0.7**	**0.6**	**1.3**	**0.0**
Overall balance excluding exceptional outlays	**-3.7**	**-1.2**	**-2.3**	**0.1**	**-0.5**	**-0.9**	**-0.4**	**-2.1**	**-2.7**
Exceptional outlays	**0.0**	**0.3**	**0.0**	**0.2**	**2.1**	**0.0**	**2.3**	**0.3**	**2.3**
Overall balance	**-3.7**	**-1.5**	**-2.3**	**-0.1**	**-2.6**	**-0.9**	**-2.7**	**-2.4**	**-5.0**
Financing	**3.7**	**1.5**	**2.3**	**0.1**	**2.6**	**0.9**	**2.7**	**2.4**	**5.0**
External net financing	0.7	0.5	0.2	-0.1	-1.3	-2.4	-1.4	-1.9	-1.2
Grants	0.1	0.2	0.0	0.0	0.0	0.2	0.0	0.3	0.0
Net loans	0.5	0.0	-0.1	-0.2	-0.2	-0.5	-0.4	-0.5	-0.5
Disbursements	1.3	0.5	0.3	0.0	0.0	0.0	0.0	0.5	0.3
Amortization	-0.8	-0.5	-0.4	-0.2	-0.2	-0.5	-0.4	-1.0	-0.8
Arreas (net)	0.1	0.4	0.3	0.2	-1.1	-2.1	-1.0	-1.8	-0.7
Accumulation	1.2	0.4	0.3	0.2	0.2	0.4	0.3	0.7	0.6
Reduction	-1.1	0.0	0.0	0.0	-1.3	-2.5	-1.3	-2.5	-1.3
Internal net financing	**2.9**	**0.9**	**2.1**	**0.3**	**0.6**	**0.9**	**0.8**	**1.8**	**2.9**
Banking system	3.1	0.9	2.0	0.3	0.6	0.9	0.8	1.8	2.9
BRH	3.1	0.9	2.1	0.3	0.6	0.9	0.8	1.8	2.9
Commercial banks	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arreas (net)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Accumulation	0.2	0.0	0.2	0.1	0.0	0.0	0.1	0.0	0.2
Reduction	-0.3	0.0	-0.1	-0.1	0.0	0.0	-0.1	0.0	-0.2
Financing gap	0.0	0.0	0.0	-0.1	3.4	2.5	3.3	2.5	3.3
Financing gap excluding external arrears clearance	...	*0.0*	*0.0*	*-0.1*	*2.1*	*0.0*	*2.0*	*0.0*	*2.0*
Memorandum item:									
Nominal GDP (in millions of gourdes)	118,169	133,895	144,643	144,643	144,643	133,895	144,643	133,895	144,643

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Does not include most expenditures on projects and technical assistance financed with concessional loans and grants.
2/ External payments and disbursements at G45 per U.S. dollar. Assumed clearance of all external arrears by end-September 2004.
3/ Preliminary data for the first half of FY 2003/04.
4/ Proposed SMP; external payments and disbursements at G40 per U.S. dollar. Assumes clearance of arrears to the World Bank by end-September 2004 and continued accumulation of arrears to bilateral creditors.

Table 3. Haiti: Summary Accounts of the Banking System

	2001/02	2002/03	Actual December 2003/04	SMP 1/ March 2003/04	Actual March 2003/04	Prog. June 2003/04	Prog. September 2003/04
	(In millions of gourdes)						
	I. Central Bank						
Net foreign assets 2/	**4,014**	**5,273**	**5,430**	**7,139**	**5,269**	**5,709**	**6,177**
(In millions of U.S. dollars)	135	125	129	159	131	142	154
Net international reserves (program)	53	39	34	42	17	22	28
Commercial bank deposits	82	87	95	117	114	120	126
Net domestic assets	**2,639**	**3,170**	**4,413**	**1,807**	**3,931**	**3,904**	**3,563**
Credit to the nonfinancial public sector 3/	15,200	19,060	20,803	20,218	21,799	22,199	22,999
Of which: Credit to the central government	15,169	18,838	20,687	20,124	21,835	22,235	23,035
Liabilities to commercial banks	-12,123	-17,604	-18,619	-19,116	-19,703	-20,130	-21,271
Of which:							
Cash-in-vault and reserve deposits	-8,970	-13,161	-13,623	-14,556	-13,848	-15,030	-15,667
BRH bonds	-3,153	-4,443	-4,996	-4,560	-5,855	-5,100	-5,603
Other	-438	1,714	2,229	705	1,835	1,835	1,835
Currency in circulation	**6,652**	**8,443**	**9,843**	**8,946**	**9,200**	**9,613**	**9,740**
	II. Consolidated Banking System						
Net foreign assets	**8,421**	**13,475**	**14,285**	**14,895**	**14,005**	**16,034**	**16,474**
(In millions of U.S. dollars)	284	321	339	352	348	399	410
Of which: Commercial banks NFA	148	195	210	193	217	257	256
Net domestic assets	**28,808**	**38,553**	**42,933**	**40,751**	**44,446**	**44,274**	**46,277**
Credit to the nonfinancial public sector 2/	15,229	18,700	20,339	20,075	21,329	21,729	22,529
Credit to the private sector	14,512	19,365	21,171	19,991	20,870	21,947	23,149
In gourdes	8,085	10,150	10,982	10,341	11,029	11,705	11,516
In foreign currency	6,427	9,215	10,189	9,650	9,842	10,242	11,633
In millions of U.S. dollars	216	219	242	229	245	255	280
Other	-932	488	1,423	685	2,246	598	598
Broad money	**37,229**	**52,028**	**57,217**	**55,646**	**58,450**	**60,308**	**62,751**
Currency in circulation	6,652	8,443	9,843	8,946	9,200	9,613	9,740
Gourde deposits	16,810	21,903	23,372	23,974	25,173	25,298	25,498
Foreign currency deposits	13,766	21,683	24,002	22,726	24,077	25,397	27,512
In millions of U.S. dollars	464	516	570	539	599	632	662
	(Percentage change relative to broad money in the preceeding period)						
Net foreign assets	0.2	13.6	1.6	3.2	1.0	4.9	5.8
Net domestic assets	17.0	26.2	8.4	4.3	11.3	11.0	14.8
Credit to the nonfinancial public sector 3/	9.4	9.3	3.2	2.8	5.1	5.8	7.4
Credit to the private sector	5.9	13.0	3.5	1.4	2.9	5.0	7.3
	(12-month percentage change)						
Broad money	17.2	39.8	10.0	7.5	12.3	19.0	20.6
Currency in circulation	18.1	26.9	16.6	6.1	9.0	10.8	15.4
Gourde deposits	9.2	30.3	6.7	10.0	14.9	19.6	16.4
Foreign currency deposits	28.4	57.5	10.7	5.4	11.0	21.9	26.9
Credit to the nonfinancial public sector 3/	24.2	22.8	8.8	7.8	14.1	18.1	20.5
Credit to the private sector	14.8	33.4	9.3	3.7	7.8	13.6	19.5
Memorandum items:							
End-of-period gourdes per U.S. dollar	29.70	42.03	42.08	…	40.22	…	…
Net international reserves in percent of broad money	10.8	10.1	9.5	12.8	9.0	9.5	9.8
Percent in foreign currency							
Bank deposits	45.0	49.7	50.7	48.7	48.9	50.1	51.9
Credit to the private sector	44.3	47.6	48.1	48.3	47.2	46.7	50.3
Commercial Bank US $ loan / US $ deposits	46.7	42.5	42.4	42.5	40.9	40.3	42.3

Sources: Bank of the Republic of Haiti; and Fund staff estimates.

1/ Refers to previous SMP. The program exchange rate was 45 gourdes per dollar.

2/ Includes commercial banks' foreign currency deposits. For program monitoring, they are excluded from net international reserves.

3/ Excludes special accounts.

Table 4. Haiti: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	Fiscal Year Ending September 30				
	2000	2001	2002	Prel. 2003	Proj. 2004
Current account deficit (-) (excluding grants)	**-259.7**	**-232.8**	**-144.8**	**-141.0**	**-70.3**
Trade balance (deficit -)	-755.8	-750.2	-709.4	-785.4	-742.9
Exports, f.o.b.	331.0	305.2	273.2	330.4	338.1
Of which: Assembly industry exports	257.7	251.2	220.8	278.1	283.8
Imports, f.o.b.	-1,086.7	-1,055.4	-982.6	-1,115.8	-1,081.0
Of which: Petroleum products	-44.2	-163.8	-157.3	-146.3	-165.3
Services (net)	-96.3	-108.1	-92.6	-152.1	-163.1
Receipts	172.0	137.4	163.7	130.9	122.9
Payments	-268.3	-245.4	-256.3	-283.0	-286.0
Income (net)	14.4	1.8	8.2	-14.3	-14.4
Private transfers (net) 1/	578.0	623.6	649.0	810.8	850.0
External grants	221.3	160.6	135.1	95.8	75.0
Current account deficit (-) (including grants)	**-38.4**	**-72.2**	**-9.6**	**-45.1**	**4.7**
Capital and financial accounts (deficit -)	**-13.6**	**64.2**	**-35.3**	**42.2**	**-68.7**
Public sector capital flows (net)	41.2	0.8	-8.0	24.5	-10.4
Loan disbursements	66.9	28.3	13.0	49.6	18.0
Amortization	-25.7	-27.5	-21.0	-25.1	-28.4
Banks (net)	-55.1	16.3	3.1	-46.8	-61.1
Direct investment	8.0	2.0	4.7	7.8	5.0
Other 2/	-7.8	45.2	-35.2	56.7	-2.3
Overall balance (deficit -)	**-2.1**	**-52.8**	**-37.1**	**-2.9**	**-64.1**
Financing	**2.1**	**52.8**	**37.1**	**2.9**	**-54.0**
Change in net international reserves (increase -)	-3.9	41.0	9.7	2.0	-28.9
Change in arrears (reduction -)	6.0	11.8	27.4	0.9	-25.1
Rescheduling	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**118.0**
Memorandum items:					
Current account balance, excluding grants (in percent of GDP)	-6.6	-6.5	-4.2	-4.8	-1.9
Current account balance, including grants (in percent of GDP)	-1.0	-2.0	-0.3	-1.5	0.1
Exports (fob) growth	-2.5	-7.8	-10.5	21.0	2.3
Import (fob) growth	6.8	-2.9	-6.9	13.6	-3.1
External debt as percent of exports	234.7	273.3	286.1	284.7	286.2
Debt service as percent of exports	7.8	8.6	8.1	8.6	10.1
Net foreign assets of the central bank (US$ million)	176.2	135.1	125.5	153.7	191.4
Net international reserves (US$ million) 3/	162.9	108.8	53.0	38.8	28.0
Net international reserves (in months of imports of goods and services) 3/	1.4	1.0	0.5	0.3	0.2

Sources: Data provided by the central bank; and Fund staff estimates.

1/ Based on remittances transferred through authorized "transfer houses" and central bank, estimates of such transfers channeled through other means.

2/ Includes short-term capital and errors and omissions.

3/ Program definition, excluding dollar commercial bank deposits at the BRH.

Table 5. Haiti: Stock of External Arrears and Projected Debt Service and Stock of External Debt

(In millions of U.S. dollars)

						Fiscal Year Ending September 30							
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 1/	2005
External arrears													
Total	**83.5**	**120.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**6.0**	**17.8**	**50.9**	**52.1**	**69.6**	**…**
Multilateral creditors	**45.6**	**79.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.1**	**11.3**	**39.0**	**33.3**	**42.1**	**…**
IDB	17.6	27.4	0.0	0.0	0.0	0.0	0.0	0.2	4.0	19.6	0.0	0.0	…
World Bank/IDA	8.7	15.1	0.0	0.0	0.0	0.0	0.0	0.8	6.1	19	32.4	40.8	…
IMF	17.3	34.4	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	…
Other (OPEC and FIDA)	2	2.9	0.0	0.0	0.0	0.0	0.0	0.9	1.1	0.4	0.9	1.3	…
Bilateral creditors	**37.9**	**41.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.9**	**6.6**	**11.9**	**18.8**	**27.5**	**…**
Projected debt service 2/													
Total		**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**15.4**	**45.9**
Multilateral creditors		**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**12.7**	**37.3**
IDB		…	…	…	…	…	…	…	…	…	…	4.2	13.5
World Bank/IDA		…	…	…	…	…	…	…	…	…	…	6.3	16.1
IMF		…	…	…	…	…	…	…	…	…	…	2.2	4.8
Other (OPEC and FIDA)		…	…	…	…	…	…	…	…	…	…	0.0	2.9
Bilateral creditors		**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**2.7**	**8.6**
Stock of External Public Debt													
Total						**1122.8**	**1197.5**	**1222.3**	**1252.7**	**1300.5**	**1361.5**	**…**	**…**
Medium and long-term debt 4/						**1122.8**	**1197.5**	**1216.3**	**1234.9**	**1249.6**	**1309.4**	**…**	**…**
Of which:													
Bilateral creditors						173.2	155.8	163.0	176.2	189.0	208.4	…	…
United States 2/						10.8	10.6	10.3	9.8	9.4	8.7	…	…
France						53.9	48.4	41.5	41.1	49.7	57.3	…	…
Others						108.5	96.8	111.2	125.3	129.9	142.4	…	…
Multilateral creditors						931.0	983.4	972.0	976.8	983.4	1039.5	…	…
IDA						502.5	514.7	486.2	484.8	495.5	528.4	…	…
FIDA						21.4	22.3	22.0	21.7	25.6	28.8	…	…
IDB						344.9	397.7	420.1	426.6	430.3	462.7	…	…
OPEC Special Fund						4.8	4.0	4.2	5.6	5.2	6.1	…	…
IMF						57.4	44.7	39.5	38.1	26.8	13.5		
Of which: Rescheduled debt 3/						19.4	16.3	14.4	13.9	14.3	15.5	…	…
Other debt						0.0	0.0	6.0	17.8	50.9	52.1	…	…
Short term						0.0	0.0	0.0	0.0	0.0	0.0	…	…
Arrears						0.0	0.0	6.0	17.8	50.9	52.1	…	…

Sources: Bank of the Republic of Haiti; the World Bank; and Fund staff estimates.

1/ Stock of arrears at end-May 2004

2/ For 2004, excluding arrears reduction, debt service due from June-September 2004

3/ Rescheduled debt to USA, France, Venezuela, Argentina and Canada.

4/ Includes rescheduled debt.

Table 6. Haiti: Medium-Term Scenario

	2001	2002	2003	Projections 2004	2005	2006
Real sector (annual percentage rate)						
Real GDP growth	-1.0	-0.5	0.4	-5.0	3.0	3.0
Inflation (CPI end-of-period)	12.3	10.1	42.5	25.0	12.0	10.0
Fiscal sector (in percent of GDP)						
Central government overall balance	-2.8	-3.2	-3.7	-5.0	-2.1	-1.5
Central government revenue1/	7.6	8.3	9.1	8.0	9.5	11.2
Central government expenditure 2/	10.4	11.5	12.8	13.0	11.6	12.7
Domestic financing	2.6	2.7	2.9	2.9	0.0	0.0
External financing	0.2	0.4	0.7	2.1	2.1	1.5
Monetary sector						
Growth in Broad Money	5.2	17.2	39.8	20.6	21.2	14.4
External sector (in percent of GDP)						
External financing gap	0.0	0.0	0.0	3.3	4.1	4.7
Of which : Central government	0.0	0.0	0.0	3.3	2.7	2.3
Net international reserves 3/						
In millions of U.S. dollars)	108.8	53.0	38.8	28.0	40.0	100.0
In months of imports of goods and services	1.0	0.5	0.3	0.2	0.3	0.8
Memorandum Items						
Nominal GDP (millions of gourdes)	85,700	93,840	118,169	144,643	175,892	201,325

Sources: Haitian authorities; and Fund staff estimates.

1/ Includes current revenue and transfers from the BRH.
2/ Includes expenditure for structural measures, hurricane relief, and elections.
3/ Excludes commercial banks deposits with the central bank.

Port-au-Prince, Haïti
June 17, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. Haiti is in a period of difficult political transition in the aftermath of an internal conflict and a change in government. The transition government that was formed in early March 2004 is committed to leading the country to regional, parliamentary and presidential elections in 2005, while restoring macroeconomic stability. The immediate priority, however, is to re-establish key public services and restore security amidst a grave humanitarian crisis. Beyond the next few months, the government is faced with the daunting task of restarting the economy and rebuilding the institutions of Haiti in the areas of health, education, justice, infrastructure, human rights and police, all of which virtually collapsed during the conflict.

2. The economic impact of the conflict has been severe. The physical damage is estimated at about 5.5 percent of GDP. In addition, the conflict led to the closure of businesses for several weeks and restricted movement of commercial goods, resulting in disruptions in the supply system. This is expected to cause real GDP to decline by about 5 percent in this fiscal year. The decline in economic activity and the breakdown of security undermined the flow of government revenues, severely disrupting the government's already precarious financial position. To avoid monetary financing of the soaring budget deficit, we have been curbing government expenditure. However, these austerity measures are socially and politically unsustainable beyond the next few months, and financial assistance from bilateral and multilateral donors is urgently needed.

3. The transition government is determined to re-establish financial stability and improve governance and transparency in the public sector. To this end, we have formulated an economic program for the period April–September 2004 that focuses on macroeconomic stabilization. We believe that the macroeconomic framework underpinning this program can provide the basis for stabilizing the economy and establishing a track record of policy implementation toward a program that could receive financial support from the Fund. It will also help in mobilizing donor assistance. Key elements of this program are summarized in the attached Memorandum of Economic and Financial Policies. The government requests that IMF staff monitor and follow up the execution of this program over the indicated period.

4. The government will communicate to the IMF the information needed to monitor progress in implementing the program. The authorities intend to review with IMF staff the progress made during the first three months of the program by September 2004 at the latest.

Sincerely yours,

/s/	/s/
Henri Bazin Minister of Economy and Finance Haiti	Raymond Magloire Governor Bank of the Republic of Haiti

Attachments

HAITI—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP) FOR THE SECOND SEMESTER OF FY 2003/04

I. BACKGROUND

1. Haiti has experienced a period of severe and drawn-out political crisis that culminated in an uprising in early 2004. The effects of several months of civil disorder and of the internal conflict have been severe, and have been felt in all spheres of social and economic life. Numerous lives were lost, hundreds of people were injured, and economic activity was disrupted for weeks. There was substantial damage to government infrastructure and to private property. Many businesses are still unable to re-start normal operations, and it is becoming clear, as the full extent of the damage is tabulated, that many others will not recover at all, resulting in the elimination of thousands of direct and indirect jobs. Additional losses have resulted from the devastating floods in the southeastern part of Haiti in late May.

2. The government that took office on March 17 inherited an economy in deep crisis. In the months preceding the change in government, the economy was barely growing while financial discipline was breaking down. The budget deficit widened to 2.3 percent of GDP in the first half of 2003/04 as government spending expanded sharply. As a result, central bank financing of the budget breached the indicative target under the previous SMP by the equivalent of 1.2 percent of GDP at end-March 2004. Haiti's net international reserves had been at a historic low (US$17 million), and external payments arrears continued to accumulate.

3. The severe impact of the political conflict and armed uprising in early 2004 has worsened the already difficult economic situation. Infrastructure and property damages are estimated at about 5.5 percent of GDP, and output is expected to decline by 5 percent in 2003/04. Monthly inflation increased to 6.5 percent in April from 1.5 percent in February reflecting widespread supply constraints. The government's financial position further deteriorated as revenues declined substantially due to the fall in economic activity, weakened administrative capacity and concerns about security. At the same time, the transition government has undertaken emergency outlays to rehabilitate key government facilities and to safeguard the provision of basic public services. Faced with revenue shortfalls, the government has been curbing nonessential expenditures while developing an emergency plan to prioritize other expenditures.

II. PROGRAM FOR APRIL–SEPTEMBER 2004

5. The key objective of our program is to stabilize the economy and cope with the immediate economic impact of the political conflict and armed uprising earlier this year, and to gain support of the international community. Toward this goal, we have developed a macroeconomic framework for the months ahead that seeks to balance our objective of financial discipline with the need to safeguard social cohesion and protect the most vulnerable groups. We believe that the policies specified below would provide the basis for

stabilizing the economy and facilitate mobilization of assistance ahead of the donors' conference in mid-July.

6. The government's macroeconomic program for the second half of the fiscal year (April–September 2004) aims at containing inflation at 14 percent (six-month basis) and maintaining net international reserves (NIR) above the program floor of US$22 million. Achievement of these targets depends crucially on budget discipline and easing the burden on monetary policy, in order to create room for bank financing of business recovery. Accordingly, the government is committed to raising fiscal revenues, curtailing discretionary spending, and enhancing transparency and accountability of public sector operations, including in those of the public sector enterprises. The key economic objectives of the program are as follows:

Haiti: Key Economic and Financial Indicators

	FY 2002/03	Est. I 1/	Prog. II 2/	Year 3/
		FY 2003/04		
(Annual percentage change)				
GDP at constant prices	0.4	...	...	-5.0
Consumer prices (12-month, end-of-period)	42.5	20.8	25.0	25.0
(In percent of GDP, unless otherwise indicated)				
External current account balance 4/	-4.8	...	…	-1.9
Net international reserves (millions of U.S. dollars) 5/	38.8	16.9	28.0	28.0
Central government overall balance, excluding grants	-3.7	-2.3	-2.7	-5.0
Central bank financing of the government	3.1	2.1	0.8	2.9

1/ October 2003–March 2004.
2/ Program for the second semester of FY 2003/04 (April–September 2004).
3/ Actuals for the first semester and program targets for the second semester.
4/ Excluding grants.
5/ Excludes commercial banks' foreign currency deposits with the BRH.

A. Fiscal Policy

7. The 2003/04 budget law envisaged for the period April–September 2004 revenues of G 6.6 billion, expenditures of G 7.8 billion, and the overall deficit of G 1.2 billion, to be financed mostly by net credit from the BRH. Given that the objectives of the original budget law are no longer attainable, the government has formulated an emergency budget plan for the rest of the fiscal year. This plan is centered on containing central bank financing of the deficit to the original budget ceiling of G1.2 billion (0.8 percent of GDP), improving tax compliance, and curbing and prioritizing expenditure. Our revised budget projection for FY 2003/04 are presented in a table below.

8. During April-September 2004, revenues are projected to reach 4.3 percent of GDP, as monthly revenue collection gradually recovers in response to our efforts to strengthen tax administration in the capital city, steps being taken to enhance administrative capacity in the

provinces, and forceful recovery of tax arrears. Despite these efforts, however, revenues are expected to reach only about 90 percent of the levels targeted in the original budget. The better-than-expected revenue collection performance during April and May is in part attributable to the collection of arrears.

Haiti: Central Government Budget 2003/04
(In percent of GDP)

	Original Budget	I Oct.–Mar. (Estimate)	II Apr.–Sep. (Program)	Year (Program)
Revenue	9.8	3.8	4.3	8.0
Expenditure	11.8	6.0	4.7	10.7
Wages and salaries	3.6	1.4	1.5	2.9
Net operations	3.1	2.2	1.3	3.5
Transfers and subsidies	1.0	0.4	0.4	0.8
Capital outlays	3.3	1.6	1.0	2.6
Overall balance, excluding exceptional outlays	-2.1	-2.3	-0.4	-2.7
Exceptional outlays	0.3	0.0	2.3	2.3
Overall balance, including exceptional outlays	-2.4	-2.3	-2.7	-5.0
(Central bank financing)	(1.8)	(2.1)	(0.8)	(2.9)
Financing gap (including arrears)	0.0	0.0	3.3	3.3

9. Regarding expenditure, the government has stopped all nonessential outlays, and spending has been authorized only for wages and goods and services necessary to sustain basic government operations. During April–May, expenditure cuts (relative to budgeted levels) amounted to G1.0 billion, consistent with the shortfalls in government revenue. For the period ahead, we have developed a mechanism to authorize expenditure levels consistent with the resources we have at our disposal. We will continue to give priority to essential expenditures such as wages, emergency outlays, and social expenditures that benefit the poor, and all other outlays will be delayed until donor support is mobilized.

10. Even taking into account these expenditure cuts, projected revenues and the central bank financing envisaged in the budget law for April-September 2004, there would still remain a financing gap of G 2.8 billion (2.0 percent of GDP). An even larger financing gap is estimated when the financing needed to clear the arrears to the World Bank and other creditors is taken into account. To close this gap without recourse to potentially destabilizing further expenditure cuts and central bank financing, we have requested donor assistance.

B. Monetary and Exchange Rate Policy

11. The monetary program for the second semester of FY 2003/04 aims at lowering inflation and increasing NIR to US$28 million; NIR in any case will not fall below the program floor of US$22 million. To this end, the BRH will continue to issue bonds to control gourde liquidity. If external financing is insufficient to cover the budget gap during the

second half of the present fiscal year, the BRH could temporarily increase its net financing of the government by an additional G400 million, but this financing would be fully sterilized by issuing BRH bonds. The government will repay this amount to the BRH once additional external budgetary support is mobilized. The authorities will avoid foreign exchange market intervention, except for meeting the target on net international reserves of the BRH. Depending on the evolution of official reserves and of the exchange rate, and the progress in lowering inflation, consideration may be given to a gradual easing of monetary policy later in 2004.

12. Although the banking system has not been severely affected by the conflict, the BRH will continue to monitor banks' financial condition, and in particular the evolution of nonperforming loans and capital adequacy. The BRH will consult with Fund staff if emergency measures are necessary to restore the financial health of commercial banks. We have requested technical assistance from the IMF to assess the financial position of the central bank and to review the monetary policy framework. In addition, before end-September 2004 we will undertake an interim external audit of the BRH for the first half of 2003/04 and initiate preparations for an IMF safeguards assessment.

C. Structural Reforms and Governance

13. We are determined to take forceful steps to improve governance and transparency, and in particular implement the measures that had been already initiated under the previous SMP.

- The government is already designing procedures (with IDB support) to strengthen expenditure management, including by substantially reducing the use of discretionary current accounts. We will reduce the number of current accounts to one per ministry and per government agency by end-June 2004. Spending through these accounts will be limited to small emergency outlays not exceeding 15 percent of budgetary credits by June 2004, and not exceeding 10 percent of said credits by September 2004.

- We will also carry out a census of employees in all ministries, government agencies, and key public sector enterprises to verify actual employment with payrolls of each entity, by end-July 2004.

- Regarding revenue collection, we have appointed new managers for public sector enterprises, and assigned tax officers from the large-taxpayer unit to public enterprises to oversee their tax payments.

- The authorities will begin preparations to extend the operations of the pre-shipment inspection firm (SGS) to ports of entry outside of Port-au-Prince and the border with the Dominican Republic. In particular, by end-July 2004, we intend to agree with SGS on a plan of action and a calendar for the extension of its operations to the above entry points.

- We will also establish a program for the reinforcement and use of the central taxpayer file on the basis of taxpayers' Fiscal Identification Number (NIF) (end-September 2004).

14. The government is deeply committed to improving governance in the public sector. To this end, external audits of five major public enterprises (based on the terms of reference already prepared by World Bank staff) will be undertaken, once external financing is identified. We have requested financial assistance from the World Bank, IDB, and European Union to help prepare the financial accounts of the electricity company, EDH, and telecommunications company, Teleco, for subsequent management and financial audits by international firms, and to launch international audits of the three smaller public enterprises, AAN (Airport Authority), APN (Seaport Authority) and CAMEP (Metropolitan Port-au-Prince Potable Water Authority). We are setting up an anti-corruption unit within the Ministry of Economy and Finance, and we will strengthen the operational capacity of the Financial Intelligence Unit (UCREF) by September 2004.

15. We intend to publish the letter of intent (LOI) and the MEFP for this program to keep the public informed about the government's policies and objectives and to reaffirm our commitment to transparency and economic reform. We will also publish the interim budget and regularly (at least quarterly) publish budget execution on the web and/or other media. The government will prepare a draft budget for FY 2004/05 before the start of the fiscal year and will discuss this budget with IMF staff by September 2004 at the latest.

D. Financing and Arrears Clearance

16. The Interim Cooperation Framework based on the May 2004 multi-donor needs assessment mission will serve as a basis for pledging financial assistance at the donor's conference, now scheduled for mid-July. Meanwhile, we are contacting our bilateral and multilateral donors to identify possible external budgetary support, and in particular the financing that could be disbursed before end-September 2004. Conditionality for the second tranche of the investment sector loan from the IDB is largely completed and disbursement of US$14.5 million is expected in the last quarter of this fiscal year. Also, discussions have been initiated on the conditionality for a new budget support loan from the IDB of up to US$25 million. The United States has announced its intention to provide a budget support grant of US$35 million, a part of which could be disbursed this fiscal year. In addition to the financing of the budget gap, the government is preparing a number of projects that could be supported by financing from multilateral and bilateral donors.

17. The government is committed to develop a plan for the comprehensive clearance of all of Haiti's external arrears, in consultation with the staffs of the IMF and the World Bank. We intend to mobilize donor financing to enable clearing all arrears to the World Bank by end-September 2004. We are also working with our bilateral creditors to agree on the process for clearing other arrears.

E. Program Monitoring

18. Performance under the program will be monitored using quarterly indicative targets, and quarterly reviews. Indicative targets for end-June 2004 and end-September 2004, as specified in Table 1, relate to net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the nonfinancial public sector; net central bank credit to the central government; and domestic arrears of the central government. The main policy actions envisaged under the program are listed in Table 2. Approval by the management of the Staff-Monitored Program is subject to the implementation of the prior action of establishing a system of timely reporting of daily and weekly monetary and fiscal indicators, as stipulated in the Technical Memorandum of Understanding, to ensure adequate monitoring of the program.

19. The government will not impose restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members. Haiti will consult with the IMF periodically, in accordance with the IMF's policies on such consultations, concerning the progress made by Haiti in the implementation of policies and measures designed to address the country's balance of payments difficulties.

Table 1. Haiti: Indicative Targets, March 2004–Sept 2004 1/

	Actual stock at end-March 2004	Cumulative flows since March 2004			
		Prog.	Actual	Prog.	Actual
		June 04		Sept. 04	
Net central bank credit to the central government (in millions of gourdes)	21,835	400	…	1,200	…
Net domestic banking sector credit to the nonfinancial public sector (in millions of gourdes)	21,329	400	…	1,200	…
Net domestic assets of the central bank (in millions of gourdes)	8,521	212	…	99	…
Domestic arrears of the central government		0	…	0	…
Nonconcessional external loans contracted or guaranteed by the central government (In millions of U.S. dollars)					
Up to one year	...	0	…	0	…
Over one-year maturity	...	0	…	0	…
Net international reserves of central bank (in millions of U.S. dollars) 2/	17	5	…	11	…
Memorandum items: 3/					
Government current revenue (in millions of gourdes)	…	3,211	…	6,172	…
Government total expenditure (in millions of gourdes) 4/	…	2,842	…	6,544	…

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

1/ Refer to technical memorandum for definitions of indicative targets.
2/ The floor NIR under the program is set at US$22 million.
3/ Not targets.
4/ Total expenditures do not include exceptional outlays of G3.4 billion.

Table 2. Haiti: Proposed Main Policy Actions under the SMP

Prior Action

1. Produce fiscal and monetary indicators as stipulated in the Technical Memorandum of Understanding (one week).

Other Policy Actions

Fiscal Policy

1. Agreement with Fund staff on an interim budget from April-September 2004, which would contain central bank financing of the deficit to G1.2 billion.

2. Agreement with SGS by end-July 2004 on an action plan to extend the operations of the pre-shipment inspection firm (SGS) to ports of entry outside of Port-au-Prince and to the border with the Dominican Republic.

3. Establishment of a program for the reinforcement and use of the central taxpayer file on the basis of taxpayers' Fiscal Identification Number (NIF); (end-September 2004).

4. Implement revenue and expenditure nomenclature for the 2004/05 budget.

5. Prepare draft budget for FY 2004/05 before the start of the fiscal year.

Monetary and financial sector policy

20. Issue central bank bonds as necessary consistent with the monetary framework.

21. Refrain from intervention in the foreign exchange market except for transactions aimed at smoothing excessive exchange rate fluctuations, and meeting the NIR target.

22. Undertake an interim external audit of the BRH (end-September 2004).

23. Initiate preparations for the IMF safeguards assessment.

Program financing and arrears clearance

1. Develop a plan for the comprehensive clearance of external arrears, in consultation with the staffs of the IMF and World Bank, and present a plan for clearance of arrears to the World Bank during the period covered by this SMP.

Governance

1. Reduce the number of current accounts to one per Ministry and per government agency by end-June 2004, earmarked for small emergency outlays.

2. Limit outlays through current accounts to 15 percent of budgetary credits for nonwage current spending by June 2004 and to 10 percent by September 2004.

3. Prepare the accounts of EDH and Teleco for international audits, and launch international audits of AAN, APN and CAMEP once external financing is identified.

4. Carry out census of employment in public sector enterprises to eliminate "ghost workers" (end-July 2004).

5. Establish an anti-corruption unit within the Ministry of Finance.

6. Publish the interim budget and regularly (at least quarterly) publish budget execution on the web and/or other media.

HAITI—TECHNICAL MEMORANDUM OF UNDERSTANDING

Definition of cumulative targets and adjustments

The Ministry of Economy and Finance, the Bank of the Republic of Haiti (BRH), and Fund staff will use the following definitions of indicative targets and adjustments of the indicative targets to monitor the quarterly performance under the staff monitored program for April 2004–September 2004 (second semester of FY 2003/04).

I. DEFINITIONS

A. Net BRH Credit to the Central Government[7]

1. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH from the stock of end-March 2004;

   b. Change in the stock of special accounts (European Union, PL-480, rice of Japan, and United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-March 2004 will be excluded from change in net domestic credit to the central government as defined above.[8]

2. Changes in any other special account (as defined in footnote 2) maintained or established at the BRH will be treated as in 1.b above.

3. The changes will be measured on a cumulative basis from the stock at end-March 2004.

Ceilings for the Cumulative BRH Credit
to the Central Government
(In millions of gourdes)

June 2004	September 2004
400	1200

[7] The central government comprises the presidency, prime minister's office, parliament, national courts, treasury, and line ministries. It includes expenditure financed directly by foreign donors through ministerial accounts (comptes-courants).

[8] Special accounts are transitory accounts of the central government for specific foreign-financed projects or external assistance.

B. Net Domestic Banking Sector Credit to the Nonfinancial Public Sector[9]

1. The change in net domestic banking sector credit to the nonfinancial public sector is defined as, and will be measured using:

   a. Change in the stock of net domestic credit of the public sector from the BRH according to Table 10R of the BRH from the stock of end-March 2004;

   b. Change in the stock of net domestic credit of the public sector from the Banque Nationale de Credit (BNC) according to Table 610 of the BRH from the stock of end-March 2004;

   c. Change in the stock of net domestic credit of the public sector at other domestic banks; and

   d. Change in the stock of special accounts (European Union, PL-480, STABEX, rice of Japan, and United States) according to Table "Comptes Spéciaux" of the BRH from the stock of end-March 2004 will be excluded from the definition of net domestic banking sector credit to the nonfinancial public sector.

2. Changes in any other special account (as defined in footnote 2) maintained or established in the BRH, BNC, or BPH will be excluded.

3. The changes will be measured on a cumulative basis from the stock at end-March 2004.

Ceilings for the Cumulative Net Domestic
Banking Sector Credit to the
Nonfinancial Public Sector
(In millions of gourdes)

June 2004	September 2004
400	1200

[9] The NFPS includes the central government, the public enterprises (e.g., Teleco, EDH, APN, APP, and Camep), and foreign-financed projects.

C. Net International Reserves

1. The change in net international reserves will be measured using:

   a. Change in net international reserves ("Réserves de change nettes" of the BRH Table 10R) from the stock of end-March 2004; and

   b. Minus the change in U.S. dollars deposits of commercial banks at the BRH ("Dépôts à vue US$ des bcm à la BRH" of the BRH Table 10R) from the stock of end-March 2004.

2. Data will be valued at the corresponding end-period market exchange rate.

3. For definition purposes, net international reserves are the difference between the BRH's gross foreign assets (comprising gold, special drawing rights, all claims on nonresidents, and claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, excluding trust funds, and any revolving credit from external financial institutions). Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from net international reserves.

4. The changes will be measured on a cumulative basis from the stock at end-March 2004.

Target for Cumulative Change
in Net International Reserves
(In millions of dollars)

June 2004	September 2004
5	11

D. Net Domestic Assets of the BRH

1. The change in net domestic assets of the BRH is defined as, and will be measured using:

   a. Change in currency in circulation ("Monnaie en circulation" of the BRH Table 10R); and

   b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to C above), converted into gourdes at the program exchange rate.

2. The program definition of net domestic assets of the BRH will use a program exchange rate of G 40 per U.S. dollar for the period April 2004–September 2004.

3. The changes will be measured on a cumulative basis from the stock at end-March 2004.

Ceilings for Cumulative Change
in Net Domestic Assets of the BRH
(In millions of gourdes)

June 2004	September 2004
212	99

E. Nonconcessional Debt

24. The definition of debt comprises all instruments, including new financial instruments that share the characteristics of debt, as set forth in paragraph No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No.12274-(00/85), August 24, 2000).

25. Concessional loans are those loans that provide a grant element of at least 35 percent based on the corresponding OECD's Commercial Interest Reference Rates (CIRRs) as of September 2000.

26. The indicative target limits exclude conventional short-term import-related credits.

27. The ceilings for contracting nonconcessional loans by the central government will be set at zero throughout the program period.

F. Government Current Accounts

28. Ministerial discretionary accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays.

29. The BRH will be providing monthly information to the Fund staff on the stock of these current accounts for the central government. Central government is as defined in footnote 1.

30. The Ministry of Economy and Finance will be providing monthly information to the Fund staff on transfers to these current accounts for the central government. Central government is as defined in footnote 1.

II. Quarterly Adjustments

The quarterly indicative targets will be adjusted for the following amounts:

A. Adjustment for Domestic Arrears Accumulation

The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the nonfinancial public sector will be adjusted downwards for the amount of domestic arrears accumulation.

Programmed Flow of Domestic
Arrears of the Central Government
(In millions of gourdes)

June 2004	September 2004
0	0

B. Adjustment for External Loan Budgetary Support

31. If external budgetary support (other than for arrears clearance) falls short of the budget gap by September 30 (as identified in paragraph 10 of the MEFP), the ceilings on BRH financing of the government, the public sector and on BRH net domestic assets will be adjusted upward by such a shortfall or G 400 million, whichever is smaller, converted into gourdes at the program exchange rate. The floor on the NIR will not be adjusted downward by the corresponding amount. The adjusters will be calculated on a cumulative basis and apply to the September 30, 2004 test date.

32. If external loan disbursements for budgetary support (other than for arrears clearance) exceed the budget gap by September 30, 2004, the ceilings on BRH financing of the government, the public sector and on the net domestic assets will be adjusted downward, and the floor on the NIR will be adjusted upward, by the amount of excess financing. The adjusters will be calculated on a cumulative basis from April 1, 2004.

III. Provision of Information to IMF Staff

To ensure adequate monitoring of the program, the authorities will provide daily and weekly monetary and fiscal indicators to IMF staff.

A. Daily

Monetary Indicators: (a) exchange rate; (b) volume of foreign exchange transactions, of which BRH sales and purchases; (c) gross international reserves; and (d) net international reserves.

These data will be reported with maximum three-day lag (14-day final).

B. Weekly

Monetary Indicators: (a) stock of BRH bonds; (b) deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) credit to public sector (net); and (e) currency in circulation.

Fiscal Indicators: (a) receipts and (b) expenditures.

These data will be reported with maximum five-day lag (four-week final).

HAITI: FUND RELATIONS

As of April 30, 2004

I. **Membership status**: Joined September 8, 1953; Article VIII.

II. **General resources account**	**SDR Million**	**Percent of Quota**
Quota	81.90	100.00
Fund holdings of currency	81.83	99.92
Reserve position in Fund	0.07	0.08

III. **SDR department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13.70	100.00
Holdings	2.17	15.84

IV. **Outstanding purchases and loans:**	**SDR Million**	**Percent of Quota**
PRGF arrangements	9.11	11.12

V. **Financial arrangements**:

Type of Arrangement	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR million)**
PRGF	10/18/96	10/17/99	91.05	15.18
Stand-by	03/08/95	03/07/96	20.00	16.40
Stand-by	09/18/89	12/31/90	21.00	15.00

VI. **Projected obligations to the Fund**: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	**2005**	**2006**	**2007**	**2008**
Principal	3.04	3.04	3.04		
Charges/interest	0.19	0.21	0.20	0.19	0.19
Total	**3.22**	**3.25**	**3.23**	**0.19**	**0.19**

VII. **Exchange arrangements**:

Managed floating with no predetermined path for the exchange rate. The change from a fixed to a managed floating regime took place in January 1990.Haiti's exchange system is free of restrictions on the making of payments and transfers for current international transactions. Since September 1991 all transactions have taken place at the free (interbank) market rate.

VIII. **Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on January 24, 2003. Haiti is on the standard 12-month cycle.

IX. **Technical assistance**: A long-term macroeconomic advisor worked in the president's office from May 1999 to February 2001.

Technical assistance missions since 1997:

Department	Dates	Purpose
BTS	October 1997; February 1999	Information technology
FAD	March 1997–September 1998	Exemptions system and investment code
	November 1997	Direct taxation and exemption system
	October 1998	Large taxpayer unit
	June 1999	Industrial exemptions
MAE	October 1995–April 1998	Banking supervision
	January 1997	Role of the central bank
	August 1997	Banking law and monetary policy
	July 1998	Banking law
	August–October 1998; June–July 1999; October 2000	Banking supervision
	June 1999	Central bank organization
	January 2000	Dollarization and policy response
	October 2000	Banking supervision
	October 2000	Money laundering
	May 2001	Banking supervision
	January 2002	Banking supervision
	July–August 2002	Money laundering
STA	January 1996–October 1997; June 1996; July 1996; February 1999; March 2000	Real sector statistics
	February 1997; March 1998; August 1998	Money and banking statistics
	November 1996; March 2000	Balance of payments statistics

LEG	March, June, and September 2000	Banking and central bank laws
INS	April 2002	Course on financial programming

X. **Resident representative**: Mr. Mounir Rached has been the Fund's Resident Representative since October 2002.

Haiti—Relations with the World Bank
(Prepared by World Bank Staff)

1. The last World Bank Country Assistance Strategy (CAS) for Haiti was reviewed by the Board of the Bank in 1996. Total World Bank commitments to Haiti peaked in fiscal year 1996, reaching US$293.6 million. Disbursements to the Government of Haiti were suspended in January 2001 due to the accumulation of arrears to the World Bank. Haiti was placed on non-accrual status in September 2001 and all remaining operations closed on December 31, 2001. Haiti has continued accumulating arrears to some of its creditors and the stock of arrears owed to IDA will reach US$44 million at end-June 2004.

2. Since late 2003, the World Bank and the Haitian authorities have been working closely to facilitate a resumption of IDA lending and disbursement. Technical work was carried out in September 2003 to identify sectors and projects that may form the backbone of a future Work Bank lending portfolio in Haiti. Initial discussions have focused on the social sectors and economic governance. In the latter area, the World Bank is currently working with the Haitian authorities on the identification of areas where the Bank can provide technical assistance. The Bank will outline its reengagement strategy in a Transitional Support Strategy (TSS) expected to be presented to the Board in the first half of FY05. The TSS will incorporate the lessons of a Country Assistance Evaluation (CAE) finalized in February 2002 by the Bank's Operations Evaluation Department (OED) which concluded that the development impact of the Bank's traditional assistance to Haiti had not been significant largely because of weak institutional capacity and poor economic governance. The CAE however, acknowledged the success of IFC's investment in a micro-credit project.

3. Following the change of Government in February 2004, the World Bank re-engagement work has been integrated in a broader Government/multi-donors exercise to identify Haiti's social, economic and institutional needs over the next two years. In that context, a multi-agency field work carried out in May has provided the elements for a Government-owned Interim Cooperation Framework to be presented at a donor pledging conference scheduled to take place during July 19–20, 2004 at the World Bank Headquarters in Washington D.C.

4. The Bank's Management is expected to soon make a decision on an exceptional IDA allocation for Haiti. This would allow the Bank to provide, in the first year of its re-engagement, a fast-disbursing adjustment credit to Haiti. The credit would disburse, after arrears to IDA are cleared, an amount sufficient to cover arrears cleared as well as Haiti's annual debt service to IDA. The Bank would also provide financing to support development and emergency projects in key areas. The IDA allocation being considered would allow for additional exceptional financing in the second year of World Bank re-engagement. The final amount of the exceptional financing package will be subject to the approval of the Bank's Board.

5. Moreover, the World Bank is keen on providing grant financing to Haiti. In January 2003, a US$4.7 million grant program was approved (from the Small Post Conflict Fund) to finance urgent needs in health and community driven development. The World Bank will soon consider a US$5 million grant financing from the Trust Fund for Low Income Countries

Under Stress (LICUS) to support the provision of critical basic services (including in the regions affected by the May 23–24 floods), institution-building initiatives and economic governance reform efforts.

6. On October 10, 2003, the IFC Board approved a US$20 million investment in the largest Dominican textile company for the opening of the first free trade zone in Ouanaminthe, on the Haitian side of the border.

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(Prepared by IDB Staff)

The process of re-engagement between Haiti and the Bank was further bolstered by economic reform measures taken in early 2003, and the approval of the Staff-Monitored Program (SMP) with the IMF in June 2003. Shortly thereafter, Haiti cleared its arrears to the IDB, thereby enabling the Bank to resume disbursements on the balance of the remaining old loan in the portfolio, launch the reactivation of its pending loans and renew its development assistance to the country in the context of a Transition Strategy 2003/2004 (September 2003-September 2004) leading to full re-engagement. The maintenance by the Haitian authorities of an adequate macroeconomic framework, including satisfactory performance under the SMP, is one of the key conditions for policy-based lending (PBL) support by the IDB.

Following the clearance of arrears on July 9, 2003, the IDB resumed disbursements on the balance of the remaining Economic and Social Investment Fund (FAES II) loan (US$1.6 m), reactivated its four investment loans in priority sectors (education, health, water and sanitation and road infrastructure), all currently disbursing, and approved the reformulation of the pending Investment Sector Loan (ISL) supporting financial reform and enhanced public sector accountability. On July 24, the Bank disbursed the first tranche of US$35 million of this loan; the remaining tranche of US$15 million is pending compliance with specific conditions and the restoration of an adequate macroeconomic framework

Building on these reactivated operations, new investment loans for 2003, within the context of the above Transition Strategy, totaling US$201.7 million, were approved by the IDB Board of Executive Directors in November 2003, and ratified by the Haitian Parliament in December 2003. These operations support priority high impact investments in basic social services, rehabilitation of productive capacity and poverty reduction at the local level (rehabilitation of basic economic infrastructure, local development program/FAES III, and agricultural intensification). In addition, a fast disbursing PBL of US$25 million, was also approved by the IDB Board, to deepen the governance reforms initiated under the ISL by improving capacity to report and control expenditures, assisting the implementation of a new budget nomenclature, and further supporting the implementation of the systems plan expenditure module. New lending operations included in the 2004 assistance program within the Transition Strategy are under preparation.