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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 20.3 MILLION (US$30 MILLION EQUIVALENT)

TO THE

REPUBLIC OF HAITI

FOR AN

EMERGENCY DEVELOPMENT POLICY OPERATION

July 9, 2010

Caribbean Country Management Unit
Poverty Reduction and Economic Management
Latin America and Caribbean Region

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HAITI - GOVERNMENT FISCAL YEAR
October 1 – September 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of June 2010)

Currency Unit	Haitian Gourde
US$1.00	HT39.75

Weights and Measures
Metric System

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ASYCUDA	Automated System for Customs Data
BRD	Office of Research for Development
BRH	Haiti's Central Bank (*Banque de la République d'Haïti)*
CAMEP	National Water Company responsible for Port-au-Prince (*Central Autonome Metropolitaine d' Eau Potable)*
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CEMLA	Center for Latin American Monetary Studies
CEP	Provisional Electoral Council (*Conseil Electoral Provisoire)*
CIDA	Canadian International Development Agency
CNMP	National Procurement Commission (*Commission Nationale des Marchés Publics*)
CSCCA	Supreme Audit Institution (*Cour Supérieure des Comptes et du Contentieux Administratif)*
DFS	Department of Field Support
DSA	Debt Sustainability Analysis
DSNCRP	National Strategy for Growth and Poverty Reduction (*Document de Stratégie Nationale Pour la Croissance et la Réduction de la Pauvreté*)
EDH	National electricity company (*Electricité d'Haïti*)
ECF	Extended Credit Facility
EGRO	Economic Governance Reform Operation
EGTAG	Economic Governance Technical Assistance Grant
GCAB	Joint Budget Support Group (*Groupe Conjoint d'Appui Budgétaire*)
GDP	Gross Domestic Product
HAD	Haitian Development Authority
HELP	Haiti Economic Lift Program
HIPC	Heavily Indebted Poor Countries
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement
HRF	Haiti Reconstruction Fund
IADB	Inter-American Development Bank
ICR	Implementation Completion Report
IDA	International Development Association
IHRC	Interim Haiti Recovery Commission
IFC	International Finance Corporation
IGF	General Finance Inspectorate (*Inspection Générale des Finances)*
IMF	International Monetary Fund

JSAN	Joint Staff Advisory Note
LDP	Letter of Development Policy
LIC	Low Income Country
LICUS	Low Income Countries Under Stress
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEF	Ministry of Economy and Finance
MINUSTAH	United Nations Stabilization Mission in Haiti
MNE	Ministry of National Education
MOU	Memorandum of Understanding
MTPTC	Ministry of Public Works, Transport and Communications (*Ministere des Travaux Public, Transport et de la Communication*)
PDNA	Post Disaster Needs Assessment
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public Financial Management
PMO	Prime Minister's Office
PRGF	Poverty Reduction and Growth Facility
PREPSEL	Electricity Loss Reduction Project
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
SDR	Special Drawing Rights
SYSDEP	Expenditure Information System (*Système d'Informatisation des Dépenses)*
SYSGEP	Système de Gestion de l'Information sur les Programmes et Projets d'Investissement
TELECO	Telecommunications utility (*Télécommunications d'Haïti)*
TSS	Transitional Support Strategy
ULCC	Anti-Corruption Unit (*Unité de Lutte contre la Corruption)*
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
US$	United States Dollar

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HAITI

EMERGENCY DEVELOPMENT POLICY OPERATION

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GRANT AND PROGRAM SUMMARY
HAITI - EMERGENCY DEVELOPMENT POLICY OPERATION

Recipient	Republic of Haiti
Implementing Agency	Ministry of Economy and Finance
Financing Data	IDA Grant Terms: Grant Amount: SDR20.3 million (US$30 million equivalent) [with a US$25 million co-financing from the Haitian Reconstruction Fund]
Operation Type	One tranche, stand-alone operation
Main Policy Areas	The proposed operation supports policies aimed at strengthening checks and balance mechanisms in view of the negative impact of the earthquake on governance and oversight institutions. It also supports consolidating the gains achieved in governance over the past few years. The operation supports the government's capacity to manage public resources efficiently and transparently. More specifically, the operation supports the following measures: (i) increasing transparency in budget transfers to the electricity sector; (ii) reinstating budget controls and external and internal audit processes; (iii) improving enforcement of the Law on Declaration of Assets; and (iv) reinforcing public procurement regulation and enhancing transparency in procurement practices
Key Outcome Indicators	The following outcomes are expected to be achieved by the end of the proposed operation (September 2011): *Transparency in Transfer Management* (i) All invoice payments by the Ministry of Finance (MEF) to the Independent Power Providers (IPP) follow the rules described in the joint-memorandum signed by the MEF and the Ministry of Public Works (MTPTC). (ii) Payments to IPPs published on the Ministry of Finance's website are reconciled with actual payments. The MTPTC and the MEF carry out this reconciliation. *Budget Control* (i) Improved compliance of external audits and the Budget review Law submission within the statutory timeframe: *first*, the MEF

	submits to the Court of Accounts the 2009-10 government accounts no more than 8 months after the end of the FY2010; *and second* the Court of Accounts communicates to the MEF the results of audits of the 2008-09 and 2009-10 government accounts by September 30, 2011. (ii) All IGF activities comply with the plan of action adopted by the Ministry of Finance (2010-14). The following reports will be given to competent and concerned authorities: (a) an inventory of government and NGOs' projects; (b) the audits of subsidies in the education sector and the transfers by the MEF to the MOE; (c) the analysis of audit reports issued by the Court of Accounts; and the (d) audits of public accountants' activities in the MEF. *Anti-Corruption* The anti-corruption unit (ULCC) sends a report to the Court of Accounts showing that compliance rate with the Declaration of Assets Law of the members of the government increased from 87 percent (as of May 2010) to 100 percent. *Public Procurement* (i) The share of non-competitive procurement in total procurement decreases from 56 percent (as of 2008) to 45 percent. This indicator is measured by the value of contracts awarded without competition as a percentage of all contracts that do not fall under the accelerated procedures invoked by the State of Emergency Law. (ii) The Prime Minister has given prior authorization to all contracts awarded by invoking the Emergency Law's accelerated procedures.
Program Development Objective(s) and Contribution to CAS	The objective of the proposed operation is to strengthen support enhanced accountability and transparency in the management of public resources in the context of the reconstruction. The proposed operation contributes to the CAS objectives supporting to the government's institutional strengthening agenda, the main expected outcome of which is an improvement in the effectiveness, transparency and accountability of public sector institutions. This involves activities to consolidate economic governance reforms and strengthen core institutions.
Risks and Risk Mitigation	The expected outcomes of the proposed operation are subject to a number of substantial risks. There are four main risks related to: macroeconomic framework stability; political and security situation;

	natural disasters; and institutional capacity constraint. The macroeconomic risks associated with the operation reflect the potential negative impact of the low domestic revenue mobilization, which could derail the macroeconomic program. The political and security risks are related to the institutional void created by the postponement of the legislative election, and the difficulty in managing the organization of the upcoming the legislative and presidential. Natural disaster risks reflect the exposure of the country to natural disasters, including potential serious after-shocks as well as hurricanes and flash floods. The risks related to weak capacity reflect capacity constraints to prepare, implement, and oversee reforms. These could jeopardize the government's efforts and undermine the expected impact of the Grant. To mitigate macroeconomic risks, the government has demonstrated ownership and a credible commitment to enhance the efficiency of the meager domestic resources in an effort to compensate for low revenue collection. In addition, the international community has pledged to increase its aid in the form of budget support to supplement government resources. The presence of UN forces and the strong commitment of the international community are expected to support the stabilization process and security situation. Support from the Bank and other donors in the area of disaster management will be a mitigating factor for natural disaster risks, in particular, the Bank's emergency recovery projects in the ongoing portfolio. To reduce the risk posed by weak institutional capacity, the operation focuses on sustaining government reforms that have started generating positive results. Lastly, several technical assistance programs supporting government capacity, including Bank technical assistance, are being implemented.
Operation ID	P118239

I. INTRODUCTION AND OVERVIEW

1. **This Program Document presents a proposed Emergency Development Policy Grant (DPG) for the Republic of Haiti in the amount of SDR20.3 million (US$30 million equivalent).** This is the fourth DPG supporting the Republic of Haiti, after its successful reengagement with the donor community in 2005. The proposed Grant is a single-tranche operation supporting the FY2009-10 budget, with an additional co-financing of US$25 million by the Haiti Reconstruction Fund (HRF), of which the Bank is the partner agency. The US$25 million co-financing has been authorized by the Steering Committee of the HRF.

2. **The proposed operation supports maintaining sound economic governance in the post-earthquake period and strengthening the reforms started before the earthquake.** *First*, the operation supports the implementation of the Government Action Plan for National Recovery and Development of Haiti presented to the international community in March 2010, aimed at re-building the country. The Government Action Plan puts emphasis on decentralization presents economic and social reforms as well as the institutional strengthening strategy of the authorities in the aftermath of the earthquake that devastated Haiti on January 12, 2010. *Second*, it supports the government's program for enhancing transparency and accountability mechanisms, especially in view of the massive pledges made by donors to support the reconstruction process. The Government Action Plan and governance program are in line with the strategy contained in the country's Poverty Reduction Strategy (PRS/DSNCRP) for the period 2008-2010, of which one pillar aims at strengthening state capacity and management of public resources.

3. **The proposed Grant also supports the main pillars of the Country Assistance Strategy (CAS), which was discussed by the Board in June 2009.** The CAS builds on a two-pronged approach, combining longer-term institution building (including economic governance reforms) with support for the government in the delivery of quick and visible results to the population. The CAS identifies development policy operations as a key instrument to foster ownership, alignment with the country's development program, and domestic accountability. Programs supported by the proposed development policy operation seek to strengthen public sector and economic governance with reforms spanning public expenditure management, procurement and anti-corruption.

4. **The Grant helps in meeting urgent financing for reconstruction.** Financing needs have been exacerbated by revenue shortfalls following the earthquake. The damages and losses caused by the earthquake are estimated to be nearly US$8 billion, according to the Post Disaster Needs Assessment (PDNA) carried out in February 2010. The destruction of the Tax Directorate offices and the impact of the earthquake on economic activities have caused tax revenue to be projected at 80 percent of the pre-quake projections for fiscal year 2009-2010. At the same time, expenditure needs to support the reconstruction have increased significantly. The Grant provides resources to finance essential outlays in the last quarter of 2010. The Grant complements the benefits of the Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Reduction Initiative (MDRI) achieved in 2009 as well as further debt cancellation and additional financing announced by Haiti's partners after the earthquake.

5. **The specific reforms supported by the proposed Grant are expected to help strengthen the legal and regulatory frameworks and systems and enhance accountability and transparency in the context of reconstruction and beyond.** The proposed operation complements the overall package of IDA assistance aimed at supporting governance reforms and institution strengthening**.** It focuses on the implementation of the legal institutional frameworks and on a number of priority areas including fiscal transparency in the electricity sector, budget controls, anti-corruption and public procurement. Reforms in these areas had started under the series of Economic Governance Reform Operation (EGRO) approved in 2005, 2007, and 2009 respectively. While building on the institutional foundations created under the past series of EGRO, the proposed operation also takes into account new challenges emerging after the earthquake. As such, the proposed operation serves as a bridge toward a possibly new series of budget support operations.

6. **The proposed Grant also complements efforts under various Bank technical assistance programs,** namely: (i) the Economic Governance Technical Assistance Grant (EGTAG) series which provides capacity-building and technical assistance to strengthen governance and economic management systems; (ii) the economic and governance components of the Infrastructure and Institution Emergency Operation approved in March 2010 aimed at reinstating the economic and financial functions of the government; and (iii) the Electricity Loss Reduction project (PREPSEL) in the electricity sector aimed at strengthening management capacity of the state-owned company (EDH).

7. **The effective implementation of the measures supported by the proposed operation will assist progress in:** (i) strengthening fiscal transparency in the electricity sector; (ii) reinstating and strengthening budget controls through reinforcement of external and internal audits; (iii) enforcing the declaration of assets to reduce corruption; and (iv) putting in practice public procurement regulation.

8. **The proposed operation also draws on the government's governance reform program, which has been supported by partners involved in budget support.** A framework governing the harmonization of budget support operations has been in place since April 2009 with the participation of donors providing budget support, including multilateral institutions (IDA, AIDB, EU) and key bilateral partners (France, Spain), and in collaboration with the IMF. A joint-matrix containing economic and public sector governance reforms was drafted in May 2009 and updated in May 2010. This operation supports policies included in this matrix.

II. COUNTRY CONTEXT AND THE GOVERNMENT PROGRAM

POLITICAL AND SECURITY DEVELOPMENTS

9. **On January 12, 2010, an earthquake hit Haiti and caused widespread damage and massive loss of life.** The earthquake particularly affected the capital, Port-au-Prince, Petit Goâve, Grand Goâve and Léogâne (West Department), Jacmel (South-East Department), and Miragoâne (Nippes Department). According to the government of Haiti, the estimated death toll was 222,570 while thousands of people were injured or permanently disabled. Million and a half people were left homeless. The capacity of the Haitian State was seriously affected because critical staff in various ministries perished and because important official buildings collapsed or were damaged.

Government buildings that were destroyed or seriously damaged include the National Palace, the Supreme Court, the Law Courts, the Parliament and police facilities, and all but one line ministry. Other affected key public entities include the Tax and Customs Administrations, the National Statistical Institute, the National Procurement Commission, the Court of Accounts (CSC/CA), and the Road Maintenance Fund (FER). Major economic, financial and governance activities and functions were disrupted—which represents a major setback for the country following sustained progress in macroeconomic stability and public sector governance in the five years preceding the earthquake.

10. **On April 15, 2010, the Senate approved an 18-month extension of the state of emergency that the President of Haiti decreed after the January-12 earthquake.** The law significantly expands the powers of the Executive branch to implement the reconstruction plan, authorizing the President to approve contracts without bids, to requisition private land and build camps for people displaced by the earthquake, and to evacuate the displaced from their camps in case of emergency.

11. **The earthquake has created a substantial political uncertainty.** Progress had been made in the functioning of democracy before the earthquake, including the political process towards legislative, presidential and municipal elections previously scheduled to be held in 2010. Haiti returned to constitutionality in 2006 with the election of President Préval, which marked the end of a vicious cycle of political instability. The 48th legislature was inaugurated in May 2006, ending three years of legislative paralysis. Municipal elections were held in December 2006 and April 2007. Although delayed, due to the restructuring of the electoral council, elections for twelve of the thirty Senate seats took place in April 2009, with a run-off in June 2009. Both rounds were peaceful in general and the results gave Lespwa (President René Préval's party) six additional seats, strengthening its Senate presence. Progress in political democracy was marked by increasing used of constitutional and democratic procedures to deal with political challenges.[1] In September 2009, both legislative chambers of Haiti approved a proposition in favor of constitutional amendments, which, if ratified, would simplify the electoral calendar and improve the investment climate, including by providing for dual citizenship for Haitians living in the diaspora. In late November 2009, around sixty-nine political parties and alliances registered with the Provisional Electoral Council, *Conseil Electoral Provisoire* (CEP), in anticipation of the elections. Of these, the CEP approved fifty-three. These processes have stalled following the earthquake and the legislative election is now set for November 2010 together with the presidential ballot. However, it is not clear whether such a date is realistic given the challenges ahead.

12. **The risk of political instability has increased**. The elections need to take place but the process will be costly and logistically difficult. In view of such challenges, the Haitian Parliament modified article 232 of the 2008 electoral law so that if new presidential elections cannot be held before end-November 2010, the current President would remain in office until May 14, 2011. Officially, his five-year term ends on February 2011. This situation may be difficult to manage as it may fuel political instability and civil unrest as previewed by a series of protests that have taken

[1] Haiti has handled with a high turnover of Prime Ministers by employing democratic processes. The current Prime Minister, Jean Max Bellerive, was sworn in office on November 12, 2009, replacing incumbent Michèle Pierre-Louis after a vote of censure against her government. Previously, in April 2008, Prime Minister Jacques Edouard Alexis was forced to resign due to mounting public discontent triggered by the difficult economic circumstances following the food crisis.

place in Port-au-Prince and in several secondary cities against such disposition. Demonstrations have been organized by a coalition of opposition groups known as *Tet Kole*, [2] which accuse the President of overstepping his authority by remaining in office beyond his term and have called for his resignation. Most of the *Tet Kole* parties have indicated their intention to participate in the elections upcoming elections to take place in the fall of 2010.

13. **There have been increasing security threats in the months following the earthquake.** Although volatile, the security environment had improved significantly prior to the earthquake. With the help of the UN Peacekeeping mission (MINUSTAH), the Haitian Police regained control of the two most dangerous slums in Port-au-Prince (Cite Soleil and Martisant) following the dismantling of gangs. Public demonstrations related mainly to poor living conditions, were peaceful and small. Recently, security has deteriorated. Former gang leaders escaped from prison, in some cases with uniforms and weapons stolen from the Haitian National Police, pose a threat to security. There has been increasing numbers of kidnappings. The National Police is substantially weakened and has not been able to respond appropriately because of limited law-enforcement capability.

14. **The earthquake has created serious public safety concerns.** The challenge is related to ensuring security, including prevention of violence against women, in large settlements for internally displaced persons, where deteriorating living conditions, overcrowding and poor lighting are expected to contribute to a rise in crime. Physical damage to institutions protecting the rule of law further compounds this problem.

15. **The government is facing significant challenges associated with the need to make progress on various fronts.** *First,* the likelihood of a social unrest is substantial under the current circumstances. The population affected by the earthquake is living in barely-human conditions, crowded in tent camps that fill the spaces in-between collapsed buildings, overflowing onto almost impassable streets clogged with mounting piles of trash and debris. *Second*, the private sector expects strong support from the government to assist entrepreneurs in their efforts to resume economic activity. However, the country's capacity to absorb and support large private investment, either with basic infrastructure or working institutions is limited and requires significant supporting activities of domestic entrepreneurism in the short term. *Lastly*, progress in transparency with respect to the use of public resources is critical for creating a climate of confidence and trust between Haiti's partners and the government. It requires evidence that the government is committed to enhancing accountability and governance, which would also help mobilize external resources for reconstruction.

16. **The government is benefiting from strong support of development partners.** On February 18, 2010, the government launched a post disaster needs assessment to measure damage/losses and reconstruction needs arising from the earthquake. Led by the government of Haiti and supported by the international community, the needs assessment included consultations with Parliament, civil society, the Haitian Diaspora, the private sector and the population. Damages and losses are estimated at approximately US$8 billion. The government developed an Action Plan

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[2] Before the emergency law came to the Senate and was enacted, a number of opposition parties - including the Lavalas Family (FL) of former President Jean Bernard Aristide, the Union party, the Union of Democratic Haitian Citizens for Development and Education (UCCADE), and the alternative coalition – announced the formation of a new coalition *Tet Kole*.

for the Reconstruction and the Development of Haiti, which was presented to international donors at the United Nations in New York in March 2010. In a powerful show of support, donors pledged nearly US$10 billion, of which US$5 billion were pledged for the period 2010-2011.

17. **In order to ensure efficiency and coordination of reconstruction funds, the government has created new institutional arrangements** (See Box 1). The Haiti Reconstruction Fund (HRF), for which the World Bank is the fiscal agent, was created under the Emergency State Law of April 2010. It is one channel for donors to commit funding. The government of Haiti indicated that it would also manage funds through the Interim Haiti Recovery Commission--also created by the Emergency Law. A Steering Committee made of government officials at the ministerial level and representatives of various stakeholders will ensure that projects are in line with the Government Action Plan. The Commission will scrutinize project concepts and oversee project implementation funded by the nearly US$10 billion pledged by Haiti's partners. The Prime Minister and the UN special envoy will jointly chair the Commission until a Haitian development authority is established in eighteen months.

Box 1: Haiti's Reconstruction and Development Architecture

The government of Haiti has established a structure to oversee and coordinate reconstruction efforts following the devastating earthquake of January 12.

Reconstruction will be directed by the **Interim Haiti Recovery Commission (IHRC)**, which was created in April 2010 by a vote of Parliament to implement the Government's Action Plan during the 18-month state of emergency. The commission will be co-chaired by former U.S. President Bill Clinton (the U.N. special envoy for Haiti) and by Haitian Prime Minister Jean-Max Bellerive. The President of Haiti will retain veto power. The Commission's decisions would be guided by a 20-member board comprised of government, private sector, civil society and the donor community. Over the next 18 months the IHRC will identify priorities and projects that best support the objectives of the Government's Action Plan. At the end of the emergency period, the Commission is expected to become the Haitian Development Authority (HDA), a more permanent development entity that would plan, sequence and coordinate projects over 10 or more years.

The **Haiti Reconstruction Fund (HRF)** is one of several mechanisms that will provide funding for rebuilding Haiti based on priorities set by the IHRC. The HRF is a multilateral financing mechanism in which donors will pool their resources to finance reconstruction projects and programs as well as provide budget support to the Government in a coordinated manner. The HRF has been established at the World Bank as a Financial Intermediary Fund (FIF). The World Bank will serve as a trustee for the FIF. The HRF is expected to channel as much as possible of the aid pledged by the international community for reconstruction over the next two years. In May, the fund received its first contribution from Brazil. The HRF will finance investment to support reconstruction and development in accordance with the Government's Action Plan for Reconstruction and Development. Projects will be supervised by partner entities such as the Inter-American Development Bank, UN agencies and the World Bank. Implementation will be carried out by a variety of stakeholders including the Government, UN agencies, NGOs, and the private sector.

Governance of the HRF will be led by a high-level Steering Committee chaired by a ministerial-level government representative and comprising of representatives from key donors, partner entities and the trustee, will be responsible for approving all allocations of trust fund funds for projects and programs based on the Government's Action Plan for Reconstruction, and Development, among others.

POVERTY TRENDS AND RECENT ECONOMIC DEVELOPMENTS

18. **Haiti is the poorest country in the Latin America and Caribbean region**. The latest Household survey available (2001) indicates that 76 percent of the population lives below the US$2-a-day poverty line and 58 percent below the US$1-a-day poverty line. A provisional employment survey carried out by the Haitian Institute of Statistics and Information (IHSI) in 2007 shows a significant increase in poverty in the metropolitan area, in comparison to the figures in the last household survey. While urban poverty has increased, the incidence of poverty in rural areas is still much higher.

19. **Poor access to infrastructure, minimal ownership of assets, low education and literacy levels, and high levels of child malnutrition were identified as the most important causes of poverty in the World Bank's 2006 Country Economic Memorandum.** Inequality is high, with a Gini coefficient of 0.5. A marked gap exists between the rich and the poor in access to economic opportunities and social services. It appears that inequality has not changed much in the last 20 years. Furthermore, unemployment was high at an estimated rate of 30 percent in 2009.

20. **Haiti has an IMF program since 2006, which is on track.** The sixth and final review of the Extended Credit Facility (ECF) was completed on January 27, 2010. In late May 2010, an IMF mission reached agreement with the Haitian authorities on a new three-year ECF-supported program.

21. **The Haitian economy performed well in 2008-09 (FY2009), despite the global economic crisis.** Whereas the GDP of Caribbean nations shrank by 2.2 percent on average during 2009, the Haitian economy grew by 2.9 percent in real terms compared with an average growth of 0.9 percent between 2004 and 2008.[3] Almost half of the growth was concentrated in the agricultural sector, which was hit hard by the 2008 hurricanes. Government reconstruction programs after the 2008 and 2009 hurricanes further buttressed growth in the construction and public works sectors. The manufacturing and retail sectors grew strongly at 3.7 and 2.5 percent, respectively. The limited integration of the domestic financial sector in global markets shielded the economy from direct impact of the global financial crisis. Meanwhile, falling global commodity prices relieved pressure on the high cost of living experienced at the height of the food and commodity price crisis in 2008, bringing annual inflation down to -4.7 percent in FY2009, from 19.8 percent in FY2008. Falling commodity prices, a 10 percent expansion of the textile export sector (despite the global slowdown) and a resilient level of remittances contributed to an improvement in the current account deficit from 4.5 percent of GDP in FY2008 to 3.2 percent of GDP in FY2009. International reserves remained at 2.9 months of imports. The overall fiscal deficit worsened from 3.1 percent to 4.4 percent of GDP because revenues were lower than expected--although expenditure was contained through cuts in capital outlays.

22. **The economic cost of the earthquake has been estimated at over 115 percent of FY2009 GDP.** The Post Disaster Needs Assessment (PDNA) estimates the damage to physical assets at around US$4.3 billion and to economic flows (lost production, fall in turnover, job and salary

[3] This includes a 3.5 percent contraction in 2004 due to domestic political turmoil. Excluding 2004, the average was 2.0 percent.

losses, increased production costs) at US$3.6 billion. The private sector has sustained over 70 percent of total damages, including US$2.3 billion to the housing stock.

Table 1: Macroeconomic Projections Before and After the Earthquake (Haitian Fiscal Year, Oct.-Sep.)

	2006	2007	2008 Est.	2009 Est.	2010 Pre-quake proj.	2010 Post-quake proj.
			Annual percentage change			
Real GDP growth	2.2	3.3	0.8	2.9	3.6	-8.5
Inflation (end of period)	12.4	7.9	19.8	-4.7	6.9	8.5
Central government finances (*Percent of GDP)*						
Total revenue and grants	13.4	15.8	15.1	17.9	16.2	24.4
Domestic revenue	10.2	10.6	10.7	11.2	11.4	10.0
Grants	3.3	5.3	4.4	6.7	6.0	14.5
o/w Budget support	0.3	1.2	1.4	1.5	2.0	3.9
Total expenditure	15.1	15.6	18.2	22.3	19.4	27.4
Current Expenditures	9.7	8.6	10.7	11.5	10.8	11.6
Wages and salaries	3.3	3.7	4.7	5.0	5.1	5.5
Net operations	3.1	1.4	3.3	2.7	2.9	2.4
Interest payments	0.5	1.1	0.7	0.8	0.5	0.6
Transfers and subsidies	2.8	2.4	2.0	2.9	2.3	3.0
o/w energy sector	…	…	…	1.3	0.9	1.3
Capital expenditure	5.4	7.0	7.5	10.8	8.6	15.8
o/w Domestically financed	1.0	1.6	2.2	4.1	3.3	5.3
Primary balance	-1.3	1.3	-2.4	-3.6	-1.5	-2.4
Overall balance	-1.7	0.2	-3.1	-4.4	-2.0	-3.0
Excluding grants	-4.9	-5.0	-7.5	-11.1	-8.0	-17.4
Total public debt (end of period) [4]	39.3	39.8	37.7	24.8	30.7	30.7
External sector						
Current account balance	-1.4	-0.3	-4.5	-3.2	-2.6	-2.1
Excluding grants	-9.4	-6.9	-11.7	-10.6	-9.8	-28.7
Exports of goods and services	14.6	13.4	12.7	14.2	13.6	11.6
Imports of goods and services	44.8	39.6	43.7	43.9	40.7	61.6
Current Transfers	28.7	25.9	26.3	26.3	24.4	47.9
o/w official	8.0	6.7	7.2	7.4	7.2	26.7
Capital account balance	…	3.0	5.1	3.7	2.6	1.8
Overall balance of payments	0.3	2.8	0.6	0.5	-2.1	-0.2
Gross official reserves (months of import cover)	7.5	2.3	2.9	2.9	3.8	3.1
Memorandum items						
Nominal GDP (millions of gourdes)	197,734	219,102	251,464	266,885	316,577	263,736
Gross investment rate (% of GDP)	29.3	25.0	26.0	23.4	28.6	22.3

Source: Government of Haiti – IMF

[4] Prior to implementation of debt forgiveness pledged after the earthquake.

23. **As a result of the earthquake, GDP is projected to contract by 8.5 percent and employment to decline by 8.5 percentage points in FY2010.** Most of the decline in growth will be in the commercial and infrastructure sectors which are projected to fall by more than 25 percent in FY2010. Overall production costs have risen and the collapse of structures has hampered the operation of many businesses. The formal retail sector was particularly affected following the collapse of 90 percent of the commercial centre of Port-au-Prince. The industrial sector is set to contract by 10 percent. Although some damage was sustained to irrigation systems and storage and process facilities, the agricultural sector is anticipated to grow by 7 percent. Annual inflation was projected to rise to 6.9 percent in FY2010 before the quake, but is presently set to rise to 8.5 percent due to the decline in supply, rising transportation costs and inflows of international aid. The Central Bank has expanded the monetary base through the purchase of dollars to counter appreciation pressures on the gourde and provide liquidity to the banking sector.

Table 2: Government Deficit Financing

(Fiscal year ending September 30; in percent of GDP)	**2009/10 Proj.**	**2010/11 Proj.**	**2011/12 Proj.**
Total revenue and grants	24.4	28.7	25.7
Domestic revenue	10.0	10.7	12.2
Grants	14.5	18.0	13.5
Budget support	3.9	1.8	0.1
Total expenditure 1/	27.4	32.6	30.6
Overall balance	-3.0	-3.9	-4.9
Financing	3.0	3.3	3.8
External net financing	3.8	3.0	3.2
Loans (net)	3.8	3.0	3.2
o/w Amortization	-0.1	0.0	-0.2
Internal net financing	-0.8	0.2	0.6
Banking system	-1.8	-0.3	0.0
BRH	0.1	0.0	0.0
Net T-bills for recap	0.0	1.3	1.1
Commercial banks	-1.9	-0.3	0.0
Net purchase of T-bills	0.4	1.4	1.6
Other nonbank financing	1.0	0.6	0.6

Source: IMF

24. **The overall fiscal deficit is expected to deteriorate, from an initial projection of 2.0 percent to 3.0 percent of GDP.** The FY2010 projection of total revenues has risen from 16.2 percent to 24.4 percent of GDP. Underlying this rise is an increase in grants from the 6.0 percent predicted before the quake to 14.5 percent of GDP, which has helped mitigate a 1.4 percent of GDP fall in anticipated domestic revenues. However, expenditures are expected to rise even further, from an initial projection of 19.4 percent to 27.4 percent of GDP.

25. **The earthquake is expected to reduce fiscal revenues for FY2010 and has exposed the disadvantages of relying on a narrow tax base, with more than 85 percent of revenues**

collected in Port-au-Prince. Domestic revenues are predominantly collected from large enterprises and from import tariffs on goods. The collapse in economic activity has reduced income taxes, while customs revenues are also down because much of the inflow of goods has consisted of humanitarian aid (which exempt). The capacity of fiscal entities to collect taxes has been significantly reduced due to the loss of personnel, the collapse of several tax offices and damage to information systems.

26. **By contrast, expenditures have risen due to earthquake response activities and the start of reconstruction efforts.** Most of the increase will come from increased capital expenditures from a pre-earthquake projection of 8.6 percent to 15.8 percent of GDP, as the government reconstructs its buildings. The remainder will mainly originate from increased expenditures on transfers and subsidies.

27. **Concessional financing will cover the government's financing needs for FY2010.** The remaining financing requirements are expected to be met by external financing and domestic borrowing from the Central Bank (BRH) and through the issuance of T-bills, in a new financing initiative undertaken by the BRH with IMF support. For FY2011 and FY2012, the financing needs are expected to rise to 3.9 percent and 4.9 percent of GDP respectively, which are equally expected to be covered by external financing and the issuance of T-bills.

Table 3: Budget Support for FY2009/10 Committed Before and After the Earthquake By Donor

US$ millions	**Committed Before**	**Additional Committed**	**Total**
World Bank	26.5	15.5	42.5
IADB	30.0	20.0	50.0
European Union	76.2	0.0	76.2
France	0.0	26.1	26.1
Spain	6.6	26.1	32.7
United States	9.4	0.0	9.4
CARICOM	0.0	7.8	7.8
Ecuador	0.0	2.0	2.0
UNASUR/Colombia	0.0	3.4	3.4
Brazil	0.0	15.0	15.0
Norway	0.0	15.0	15.0
Total	149.2	130.8	280.0

Source: IMF

28. **The current macroeconomic projections are subject to considerable uncertainty given the size of the shock to the economy and the risks associated to the speed of recovery.** The rate of real growth, the level of inflation and the composition of the balance of payments is highly dependent on how quickly reconstruction activities progress, the timely inflow of foreign aid, as well as the ability to import necessary reconstruction materials.

29. **Haiti is vulnerable to external shocks stemming from imports constraints, which combine with a narrow production and export base**. First, a large proportion of capital and goods consumed are imported, particularly food, exposing the country to volatility in global food markets, as observed in 2007 and 2008. Second, remittances have averaged around 20 percent of

GDP between 2000 and 2009 and have contributed significantly to the financing of the import of goods and services, averaging 41 percent of GDP over the same period, while exports have covered roughly a third of the import value. Remittances are estimated to support the livelihood of over 4 million families. Remarkably, and unlike in other Caribbean countries, remittances have remained resilient during 2009 despite the global recession. Third, the export sector is characterized by limited diversification, with over 80 percent of exports produced by the textile sector.

30. **These vulnerabilities will remain for the near future.** The current account deficit is expected to fall from a pre-earthquake projection of 2.6 percent to 2.1 percent of GDP, driven by a significant increase in current transfers. Exports of goods and services would fall from a previous projected 13.6 percent to 11.6 percent of GDP, while the imports of goods and services are expected to rise from an initially projected 40.7 percent to 61.6 percent of GDP. The FY2010 projection of current transfers is projected to rise from 24.4 percent to 47.9 percent of GDP, predominantly due to increased official transfers, and remittances to a lesser extent. The capital account balance would be slightly worse than previously expected, down from 2.6 percent to 1.8 percent of GDP. The overall balance of payment deficit is expected to improve from an initial projection of 2.1 percent to 0.2 percent of GDP. The Central Bank has been purchasing dollars to sterilize inflows and counter appreciation pressures on the gourde but FY2010 projections of reserve coverage have nevertheless fallen from 3.8 months of imports before the quake to 3.1 months, because of the significant rise in imports.

31. **In the financial sector, non-performing loans (NPLs) have risen to an estimated 12.3 percent of total loans in March 2010 and are likely to increase further, impairing the system's ability to lend.** The banking system, comprised of nine banks, was well capitalized and conservatively run before the earthquake with a capital adequacy ratio of 16.4 percent and a NPL to gross loans ratio of 8.6 percent in December 2009 (with the exception of the 2 state owned banks which had low capital adequacy ratios before the quake and high NPLs). Lending portfolios mostly comprised of low risk short term loans (rarely exceeding 1 year) to the trade and industrial sectors, with limited exposure to agriculture. After the earthquake, NPLs have risen although the full extent of the rise remains to be determined as loans are only classified as non-performing after 90 days past due. However, most of the aid flows thus far have passed through the banking sector, which has strengthened the position of the banks. For the insurance sector, an assessment carried out by a Bank consultant at the request of the Ministry of Finance and Central Bank of Haiti concluded that out of the US$200 million estimated gross cost for insurers, reinsurers would assume about 75 percent, leaving about US$50 million to be borne by the sector itself. As a result, some failures of insurers may occur. Supervision of the insurance sector is almost non-existent but several institutions have indicated their willingness to work on the supervision of the sector (CARTAC, US Treasury).

32. **The Central Bank is supporting the banking sector by relaxing capital requirements and by preparing a Partial Credit Guarantee Fund**. Capital adequacy rules have been relaxed for up to two years to provide relief to the banking sector as it restructures loans and consolidates its assets position. The Partial Credit Guarantee Fund is a fund covering affected loans and new loans, and will be supported by the donor community. This mechanism will share risks with banks, encouraging the restructuring of viable loans that have been affected by the earthquake, and support the provision of new loans to SMEs and housing for the reconstruction. The World Bank is working together with the IADB, IMF, IFC and the US treasury on the specifics of the scheme. The Minister

of Finance and the Governor of the Central Bank have set a target of doubling the lending portfolios of the banking sector over the coming five years.

MEDIUM-TERM OUTLOOK

33. **The Government Action Plan for Reconstruction and Development lays out a multi-year development strategy aiming to "build back better" through decentralization, economic stimulus, social sector reform, and strengthening of institutions.** To reduce the vulnerability created by the concentration of 65 percent of the nation's economic activity in Port-au-Prince, a major renovation of population centers outside the capital is envisaged. The development centers, in addition to Port-au-Prince include: in the North, the axis between Cap Haïtien and Ouanaminthe for tourism, textile and agriculture; the region around Gonaïves for agriculture and tourism; and the South for agriculture, textiles and tourism. Incentives will be provided to encourage both foreign and domestic investment in these sectors, including the creation of new special economic zones. Central to the government's strategy will be the upgrading of infrastructure by widening the connectivity of the road network with rural areas and the Dominican Republic, and by building two new international airports and two new deep-water ports.

Table 4: Projected Sectoral Growth Rates (for Fiscal Years in Percent Change)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Primary Sector	5.2	7.0	3.1	3.6	4.0	4.0	4.0
Agriculture, farming and fishing	5.2	7.0	3.0	3.5	4.0	4.0	4.0
Mining	6.3	2.0	21.0	18.0	10.0	10.0	8.0
Secondary Sector	4.1	4.4	27.9	21.2	13.9	10.6	10.0
Manufacturing	3.7	-10.0	4.0	4.0	4.0	4.0	4.0
Electricity, gas, water	30.8	-25.0	26.0	22.0	15.0	12.0	10.0
Construction	3.1	20.0	45.0	30.0	18.0	13.0	12.0
Services	1.4	-15.0	4.0	5.5	5.1	5.2	5.2
Total Gross Value Added	2.8	-6.0	8.4	8.6	7.1	6.4	6.3
VAT	4.1	-38.7	36.6	6.1	4.3	3.4	1.8
Real GDP	**2.9**	**-8.5**	**9.8**	**8.4**	**6.9**	**6.2**	**6.0**

Source: IHSI (National Statistical Institute) - Haiti

34. **Growth is expected to rebound to 9.8 percent in FY2011 and 8.4 percent in FY2012, driven by the reconstruction efforts and growth in the agricultural and manufacturing sectors (Table 4).** The rebuilding of 66 percent worth of GDP of structural damages will buoy the construction sector to a 45 percent growth in FY2011 and a further 30 percent growth in FY2012, provided that bottlenecks in the supply of construction materials can be avoided. The electricity sector is also set to expand rapidly.[5] Steady growth is expected in the agricultural and manufacturing sectors, averaging 3.7 percent and 4.0 percent between FY2011 and FY2015 respectively as the benefits of the growth policy are realized.

[5] Planned electricity projects include the restoration of the Péligre power plant, building the Artibonite C-4 hydroelectric dam, and restoring the power plants at Sault-Mathurin and Caracol-Nord.

35. **Agriculture remains a key component of the growth strategy.** Over 500,000 people have fled the capital after the earthquake putting increased strain on rural resources. Before the earthquake, the sector employed over 40 percent of the labor force. The government is targeting the sector for job creation that will allow for the integration of displaced people and concurrently reduce the country's dependence on food coming from abroad. Planned government programs will fund: (i) the provision of agricultural inputs; (ii) an expansion of the drainage and irrigation system; (iii) an extension of the road network to improve market access; (iv) improved access to credit; and (v) investments in food processing activities.

36. **Expanded preferential market access for textiles to US markets under the new Haiti Economic Lift Program Act (HELP) will provide opportunities for export-led growth.** In May 2010, the US Senate and Congress passed an amendment to the Haitian Hemispheric Opportunity II Ac (HOPE II) Act, the HELP Act, which is more than doubling Haiti's export quota, broadening the range of products that qualify, and extending preferential access to 2020. The HOPE II Act had spurred a 10 percent expansion of the textile sector in FY2009. A pre-earthquake study concluded that the textile sector is highly competitive in US markets, although high electricity costs are a constraint. The World Bank and IFC are providing technical assistance to attract foreign direct investment in the textile sector. Some production sites were damaged in the earthquake; however, textile exports have resumed to US$25 million compared to the average monthly export value of US$40 million before the earthquake. A post-earthquake damage assessment of the industrial park *Parc Industriel Metropolitain*, where most of the factories are located, concluded that 1 out of 49 factories will have to be demolished and 10 others will require major repairs. A bottleneck to the resumption of exports has been the damage sustained to the port of Port-au-Prince, through which the majority of textiles are exported, although presently the port has recovered to 80 percent capacity.

37. **During the challenging period of reconstruction, it is imperative that the government focuses on securing sufficient revenue and ensuring the effectiveness of it expenditures.** The overall deficit is expected to worsen to around 4 percent of GDP in FY2011 and 5 percent in FY2012. Total revenues and grants would rise as domestic revenue returns close to FY2009 levels and grants remain near projected FY2010 levels, but remain insufficient to outweigh the increase in expenditures, driven by a rise of capital expenditures to close to 20 percent of GDP. The government would rely on grants to finance the majority of its capital expenditures and a portion of its operating costs in the foreseeable future. Significant external financing will be needed if the reconstruction program and the projected growth path are to be realized. Improving revenue mobilization capacity is a priority, although the return of domestic revenues to pre-earthquake levels will depend also on the recovery of taxpaying businesses. The government is working on a strategy to revamp the Tax Directorate with IMF assistance. Furthermore, in the long run a return of domestic revenues to the historical level of 10 percent of GDP would constrain the government's ability to achieve its development objectives once aid inflows fall. Expenditures would increase significantly and in view of the considerable aid inflows, public financial management (PFM) will require strengthening to ensure efficiency and an adequate return on investment.

Table 5: Medium-Term Macroeconomic Projections
(Haitian Fiscal Year, Oct. –Sep)

	2008 Est.	2009 Est.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.
		Annual percentage change				
Output and Prices						
Real GDP growth	0.8	2.9	-8.5	9.8	8.4	6.9
Inflation (end of period)	19.8	-4.7	8.5	8.6	7.5	7.0
		Percent of GDP				
Central government finances						
Total revenue and grants	15.1	17.9	24.4	28.7	25.7	24.1
Domestic revenue	10.7	11.2	10.0	10.7	12.2	13.2
Grants	4.4	6.7	14.5	18.0	13.5	10.9
Total expenditure	18.2	22.3	27.4	32.6	30.6	28.3
Current Expenditures	10.7	11.5	11.6	11.3	11.1	11.1
Capital expenditure	7.5	10.8	15.8	21.2	19.5	17.2
Overall balance	-3.1	-4.4	-3.0	-3.9	-4.9	-4.2
Excluding grants	-7.5	-11.1	-17.4	-21.9	-18.4	-15.1
Total public debt (end of period) [6]	37.7	24.83	30.7	31.7	32.3	32.4
External sector						
Current account balance	-4.5	-3.2	-2.1	-3.6	-4.0	-4.0
Excluding grants	-11.7	-10.6	-28.7	-24.3	-19.7	-16.8
Exports of goods and services	12.7	14.2	11.6	11.0	10.3	10.1
Imports of goods and services	43.7	43.9	61.6	54.7	47.4	43.2
Current Transfers	26.3	26.3	47.9	40.1	32.8	28.5
o/w official	7.2	7.4	26.7	20.7	15.7	12.8
o/w private	19.1	18.9	21.2	19.4	17.2	15.6
Capital account balance	5.1	3.7	1.8	3.5	3.5	3.6
Overall balance of payments	0.6	0.5	-0.2	-0.1	-0.5	-0.4
Gross official reserves (months of import cover)	2.9	2.9	3.1	3.2	3.3	3.4
Memorandum items						
Nominal GDP (millions of gourdes)	251,464	266,885	263,736	317,527	373,800	429,162
Gross investment rate (% of GDP)	26.0	23.4	22.3	36.1	36.6	37.8

Source: Government of Haiti

38. **The current account deficit (excluding grants) is expected to remain above 15 percent of GDP in the medium term, highlighting the importance of external aid flows to sustain the level of imports and the need to stimulate the export sector.** The overall current account deficit

[6] Total public debt refers to the legal situation prior to the formal implementation of the majority of the US$965 in debt forgiveness pledged following the earthquake. Including the debt forgiveness total public debt to GDP is projected at 13.8 percent in FY2010, 18.1 percent in FY2011, in 21.1 percent FY2012, and 22.9 percent in FY2013.

(including grants) would rise to around 4 percent of GDP due to a more rapid fall in current transfers than in imports, and a slight fall in exports. The capital account surplus is anticipated to rise to close to 4 percent of GDP driven by rises in public sector loan disbursements and foreign direct investment (FDI). A slight increase in reserves in months of imports of goods and services is predicted.

39. **A Debt Sustainability Analysis (DSA) conducted in June 2010 classified Haiti as at high risk of debt distress on the grounds of a high debt-to-export level.** This assessment is based on the legal external debt situation that excludes post-earthquake debt forgiveness pledges, which remain to be formalized with the exception of that of the World Bank. Under this framework, the PV of debt-to-exports ratio is the one indicator that protractedly exceeds the prudential thresholds for debt sustainability, remaining over 165 percent between FY2010 and FY2015, before eventually falling below the threshold of 100 percent in FY2023. After a nominal debt reduction of US$1.1 billion achieved upon reaching the HIPC completion point in June 2009, the nominal external debt stock stood at US$1.24 billion at end-September 2009. By March 2010, external debt had risen to US$1.48 billion due to the IMF emergency augmentation of January 2010 for post-earthquake balance of payments support, new IADB borrowing, and further PetroCaribe financing.

40. **Most of Haiti's external creditors including the multilateral and bilateral partners have pledged that all outstanding debt will be forgiven. However, this will only temporarily ameliorate high debt-to-export levels.** The post-earthquake external debt forgiveness, once implemented, would reduce the nominal external debt stock by US$965 million to US$515 million. This would lower the PV of debt-to-exports ratio to 39 percent in FY2010, well below the 100 percent risk threshold. Nevertheless, the anticipated government deficits during the reconstruction period would necessitate new external borrowing (assumed to be concessional) that could push the debt to export ratio above the threshold in FY2014, reaching a peak of 115 percent in FY2015, and then drop below the threshold by FY2018, despite export growth exceeding 10 percent annually.

41. **Continued emphasis on grant financing, debt management and export promotion will be important to mitigate risks.** Given the substantial rise in the PV of the debt-to-export ratio through new borrowing, the securing of concessional financing should remain a priority for the government. Also measures further promoting exports would help reduce the risks of foreign exchange bottlenecks.

42. **Haiti's debt sustainability remains vulnerable to adverse shocks.** Stress tests with shocks to export revenues, growth and non-debt creating flows indicate a worsening outlook across all indicators but the debt-to-export ratio remains the only indicator to exceed acceptable levels in the single shock scenarios. Haiti is most vulnerable to a combination of these shocks, which could push the PV of debt-to-exports ratios up to 400 percent in FY 2012, and lift both the NPV of debt-to-GDP and PV of debt-to-revenue above prudential levels. Similarly, the combination shock scenario under the debt forgiveness assumptions would prolong the breach of the debt-exports ratio to FY2027, after reaching a peak of 297 percent in FY2012, highlighting Haiti's continued external debt vulnerability, in part stemming from its very narrow export base.

43. **Notwithstanding the significant challenges posed by the post-earthquake situation, the macroeconomic policy framework is considered adequate for the purposes of the proposed operation.** The supported policy actions aim to improve transparency and accountability in the

management of substantial aid inflows. If adequately used, these inflows will strengthen the framework for sustainable economic recovery and growth. The sustainability of its fiscal program and balance of payments has been assessed using projections of Haiti's macroeconomic outlook. In deeming the macroeconomic policy framework as adequate, Bank staff considered (i) views of IMF staff, (ii) the final review of the IMF ECF program in place since July 2007, and (iii) and the support by the May 2010 IMF mission for a new three-year ECF. The operation's support, together with the budget support provided by other donors will help assure full financing of the budget and external financing needs.

III. THE GOVERNMENT'S PROGRAM AND REFORM AGENDA

44. **The government has prepared an Action Plan for National Recovery and Development of Haiti, drawing on the PDNA, to guide the reconstruction process after the earthquake.** The Action Plan is built around 4 pillars and lays out a long-term vision to rebuild Haiti by turning the January 12 disaster into an opportunity for development:

(a) **Geographical Planning of the rebuilding strategy,** including identifying, planning and managing new development centers; rebuilding affected areas, including economic infrastructure required for growth (roads, energy and communication); and managing land tenure, in order to protect property and facilitate the advancement of large projects.
(b) **Economic rebuilding** which at: modernizing the various components of the agricultural sector; providing export potential for fruits and tubers, livestock farming and fishing, in the interests of food security; developing the professional construction sector with laws and regulations relating to earthquake-resistant and hurricane-resistant materials and implementation and control structures; promoting manufacturing industries; and organizing the development of tourism.
(c) **Social rebuilding** which consists in prioritizing an education system that guarantees access for all children; offering vocational and university education to meet the demands of economic modernization; and creating a health system that ensures minimum coverage throughout the country and social protection for the most vulnerable.
(d) **Institutional rebuilding** focused on rebuilding the capacities of affected government departments by prioritizing the most essential functions; redefining the legal and regulatory framework in line with national requirements; implementing an institutional structure that will oversee the reconstruction process; and establishing a culture of transparency and accountability that deters corruption.

45. **The government is putting particular emphasis on governance reforms, the key aspects of which are described in the governance program presented by the government at the New York conference in March 2010.** The note on governance lays out the priority measures in the short and medium term to ensure that fiduciary standards are in place, budget controls and procurement are effective, and anti-corruption measures are reinforced. The governance program's objective is to create governance conditions and capacity for an efficient management of the massive aid inflows pledged by Haiti's partners to support the reconstruction strategy (see Annex 5). It also intends to demonstrate that the government is actively taking steps to reassure the population that the reconstruction fund will be used in a transparent and credible manner.

46. **These strategies are in line with the DSNCRP that presents the government's long-term vision to foster growth, reduce poverty, and raise living standards, through an ambitious program of institutional reform and public investment.** The DSNCRP was prepared through a participatory process consisting of consultations with civil society, government officials, and development partners. The overall strategic priorities of the DSNCRP are structured around three pillars: (i) enhancing human development, with a focus on improving delivery of basic services; (ii) improving security and the justice system; and (iii) promoting vectors of growth through agriculture and rural development, tourism, and infrastructure. The DSNCRP also includes as one of its cross-cutting policy priorities a strategy to build state capacity, including state modernization and civil service reform. Finally, it emphasizes the importance of a stable macroeconomic framework and sound management of public resources.

47. **The damage caused by the earthquake represents a major setback to progress achieved under the DSNCRP's growth pillar.** The government started implementation of the DSNCRP in January 2008. An assessment of the government's first Annual Progress Report conducted by Bank and Fund staff in June 2009 concluded that progress during the first year of implementation was satisfactory to meet the HIPC completion point triggers. The assessment highlighted in particular the progress made in the areas of agriculture, infrastructure, social sector policies and economic and public sector governance. In 2009 new investment and construction strengthened the infrastructure network. Projects included the rehabilitation of irrigation systems, school construction, the rebuilding of bridges, the construction of new roads, the installation of new power plants, and the rehabilitation of the two main airports. The earthquake caused major damage to the nation's main port and airport. Around 70 km of main roads have been damaged and several bridges have collapsed. Telecommunication infrastructure by contrast emerged relatively unscathed.

48. **Progress in improving basic social service delivery before the earthquake has suffered a major reversal**. *In education*, before the earthquake, a tuition support program for disadvantaged families had been expanded; a new teacher-training program had implemented transfer mechanisms for tuition waivers (subsidies) to schools; and the government had started a US$4.5 million emergency school reconstruction and rehabilitation plan. The earthquake had a devastating impact on the educational sector by destroying or rendering unusable an estimated 1300 schools and killing many teachers. Many schools reopened in April, having staying closed for 3 months after the earthquake. *In health,* some progress had been made before the earthquake. Tuberculosis and HIV incidence rates were falling, and there had been a rise in medically assisted births. In October 2009 and with support from the Carter Center, Haiti and the Dominican Republic launched a program to eliminate malaria and lymphatic filariasis through providing free diagnosis, treatment, and mosquito nets. The earthquake has severely disrupted healthcare provision in the affected areas with 30 of 49 hospitals damaged or destroyed and half of the capital's medical staff living in tents. However, nine out of ten health centers and clinics remain intact.

49. **Significant efforts are needed to sustain the progress made in public finance management and procurement.** In public expenditure management, progress includes:

(i) Modernization of the legal framework for public expenditure management--including the strengthening of budget controls with the creation of the internal audit body (IGF) and actions to reduce the backlog and delay in submitting the Court of Accounts' legal opinion on the Budget Review Law to Parliament;

(ii) The strengthening of budget execution, which resulted in a substantial reduction in the use of discretionary accounts by line ministries, from approximately 60 percent to 3 percent of current expenditures; and

(iii) Improved tracking of public expenditure management through the operationalization of an integrated financial management system (SYSDEP), and the publication of quarterly budget execution reports.

50. With respect to revenue, significant progress was made in tax and customs administration, which helped sustain tax revenue performance over the recent past. The government had implemented a comprehensive package of reforms including: (i) the adoption by Parliament of a new Customs Code; and (ii) the modernization of the information systems in both the Directorate of Customs and Taxes to enhance the effectiveness and transparency in revenue management. A new computerized information system (ASYCUDA World) under UNCTAD assistance was installed in the main customs offices. Similarly, a computerized information system (*Systeme de Gestion des Informations*) was installed in the Directorate of Taxes and in the metropolitan zones[7] as part of the Strategic Plan to strengthen the Directorate of Taxes for the 2006-11 period. In addition, the customs process was formalized, customs personnel capacity was enhanced, and the operating pre-inspection company had started working in the provinces to help ensure effective customs revenue collection.

51. In the fight against corruption, since the beginning of the 2000's, there has been progress in strengthening the legal anti-corruption framework. Haiti has ratified the Inter-American Convention against Corruption (March 29, 1996), the United Nations Convention against Transnational Crimes (December 19, 2000), and the United Nations Convention against Corruption (May 2007)[8]. The signing of these international conventions was followed by the creation of the Anti-Corruption Unit (ULCC) in 2004, the adoption by Parliament of a law requiring the disclosure of assets for Haitian civil servants in February 2008 enforcing the relating provision of the Constitution (Article 42)[9], and the adoption of the National Anti-Corruption Strategy in 2009[10].

[7] Petionville, Carrefour, Croix-des-Bosquets, Delmas, Tabarre, *Service de l'Immatriculation des véhicules, unité de gestion et de contrôle fiscal des grands contribuables.*

[8] These international conventions contain a comprehensive series of norms and regulations, which all countries must enforce in order to strengthen their juridical and statutory regimen to fight corruption. These provisions establish the foundations for a closer cooperation between governments in preventing and detecting corruption, as well as in recovering stolen assets.

[9] According to this law, any individual participating or exercising public authority, or who is in a position whereby he or she is presented with the opportunity to misappropriate public funds must disclose his or her assets at entry and exit. It should be noted however, that the asset declarations are not disclosed to the public (common practice in other countries with such a law) due to the high risk of kidnappings and insecurity, which limits the purpose of the law in promoting transparency and accountability. Rather, the asset declarations are submitted to the ULCC and the information remains confidential.

[10] The National Anti-corruption Strategy was informed by the governance and corruption survey as well as other key analytical pieces on governance and corruption. It included recommendations from various stakeholders. It provides an overview of governments priorities for policy reform. The document was completed with the Bank's support under the

52. Lastly, in public procurement, progress includes the strengthening of the legal framework for procurement with the adoption of a Procurement Law and the key implementing decrees in 2009.[11] These steps were expected to consolidate the progress achieved prior to 2009 as a result of the creation of the procurement regulatory body (CNMP), which helped regulate procurement practices and brought about a significant reduction of the percentage of noncompetitive procurement (defined as contracts awarded "sole source" or after "restricted bidding"). According to the latest statistics available, the use of such noncompetitive procurement methods (*gré-à-gré* and *appel d'offres restreint*) declined from an estimated 85 percent of contract awards in 2004 to 56 percent in 2008. The CNMP also created a website (www.cnmp.gouv.ht) to publish invitations to bid, a list of suppliers, and awarded contracts. As a result of these efforts, procurement practices in Haiti today are much improved compared to those in place prior to the 2005 reform effort. Five years ago, the procurement system was characterized by an inadequate legal framework and almost total lack of transparency and oversight. Line ministries and agencies were virtually free to adopt their own methods for procuring goods and services, and sole source (*gré-à-gré*) contracts and unadvertised bidding were the norm. Chronically slow payments to contractors, combined with a lack of legal recourse, also resulted in higher prices, liquidity problems for vendors, and the potential for additional abuses.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

LINK TO CAS

53. **The FY2009-12 Country Assistance Strategy (CAS) was discussed by the Board on June 2, 2009. It focuses on three pillars: (i) promoting growth and local development; (ii) investing in human capital; and (iii) reducing vulnerability to disasters.** The strategy has two-pronged approach, combining longer-term institution building (including economic governance reform) with support for the government in the delivery of quick, visible results to the population. This results agenda involves activities to: (i) improve the effectiveness, transparency and accountability of public sector institutions; (ii) consolidate governance reforms including public financial management, both from the expenditure and revenue perspectives, and procurement to strengthen core institutions; and (iii) strengthen key sector ministries that are critical for service delivery.

54. **The CAS explicitly identifies budget support as an important aid modality, fostering country ownership, alignment with the national development program, and domestic accountability**. Budget support for a country like Haiti is critical under the current circumstances to ensure that the government has the financial space to safeguard pre-earthquake achievements in the area of public finance management and continue implementation of governance reforms. The impact of the earthquake on revenue collection is significant and concerted financial and technical support is vital for economic recovery and rebuilding. Until some level of normalcy has returned in economic activity and in the capacity to administer the tax system, substantial budget support

EGRO II and two technical assistance operations, the Economic Governance Technical Assistance (EGTAG) project and the LICUS on Economic Governance

[11] (i) Decree establishing all relevant thresholds in respect of public procurement; (ii) decree setting forth the institutional rules and procedures for the CNMP; (iii) decree setting forth the general rules regarding public procurement and public service concessions; and (iv) decree adopting the manual of procedures for public procurement and mandating its general application.

resources from the donor community will be needed to ensure uninterrupted government operations.

RELATIONS WITH IMF AND OTHER DONORS

55. **A large number of donors are active in Haiti.** The EU, the IMF, France, Canada, USAID and the IADB are providing support in a number of areas, including public finance management, electricity sector reforms, and governance.

56. **The proposed operation has been prepared in consultation with the donor community.** A joint-mission of donors involved in budget support took place in May 2010 to coordinate the policy actions underpinning the government's reform program and budget support operations in the aftermath of the earthquake. This mission followed on a series of joint supervision missions and consultations among the members of the budget support group (*Groupe Conjoint d'Appui Budgétaire*, GCAB), including in particular the World Bank, IADB, EU, France, the Spanish Agency for International Cooperation, CIDA) and the USAID, in collaboration with the IMF. The donors signed a Memorandum of Understanding (MOU) in April 2009 with the objective of, in as much as possible, harmonizing budget support operations. The MOU also established a budget support group to provide a forum to exchange information among stakeholders and support policy dialogue with the government. The government drafted a common policy matrix, which draws from the PEMFAR action plan, among other sources. Donors coordinate closely in the supervision of the implementation of the reform program contained in the matrix.

Table 6: Areas of Coordination of Donors' Budget Support

	WB	IADB	EU	IMF	USAID	CIDA	Brazil
Debt Management		X		X		X	
Tax and customs administration	X	X		X	X	X	X
Budget execution/Fiscal report	X		X	X	X	X	X
Utility companies (EDH)	X	X		X		X	X
PRSP implementation			X			X	
Governance and anti-corruption	X				X		X
Procurement	X	X					X

57. **The IMF is preparing a new ECF after the completion of the PRGF in January 2010, the Board date of which is scheduled for July 21, 2010.** The core reforms supported by the program include: (i) enhancing public resource mobilization and efficiency of spending; (ii) improving liquidity management and increasing the financial sector's contribution to growth; and (iii) and improving the business and investment environment. In late May 2010, an IMF mission reached agreement ad-referendum with the Haitian authorities on a new three-year ECF-supported program. The periodic assessment of Haiti's macroeconomic performance by the Fund serves as a key input for dialogue on policies related to macroeconomic stability and for ensuring timely disbursement of budget support.

58. **The IADB supports the government's governance program through various instruments.** In addition to budget support, the IADB is also providing technical assistance in the area of procurement, debt and data management (SYSGEP), budget preparation and execution as well as developing capacities at the Customs and Tax Administration offices to boost revenues collection. IADB assistance seeks to increase tax and customs revenues, improve the efficiency of public spending and strengthen the management of public debt. In the energy sector, the assistance seeks to support the government's efforts to increase the efficiency of the EDH power utility. The IADB will also provide technical assistance to the Haitian government for strengthening the Energy Unit at the Ministry of Transport and Telecommunications to assess the legal framework and develop regulatory measures to modernize the framework for the energy sector development and increase the level of investments in this sector.

59. **CIDA is actively supporting the government's public finance management programs.** It has organized a series of training aiming to strengthen budget preparation, especially the capacity of staff in the Ministry of Planning and other line ministries (Education, Public Works, Health, Agriculture and Justice) to design a medium-term expenditure framework (MTEF) in line with the DSNCRP objectives. In the area of revenue administration, Canada supports the Haitian government in increasing its ability to generate revenue by providing consistent, long-term technical assistance to its income tax and customs administrations. The support provided includes technical assistance and the procurement of equipment that is used to modernize the country's fiscal administration. Another CIDA project (PARGEP) aims to help strengthen governance in Haiti. To achieve this aim, the project relies on the transfer of expertise from the public service of Quebec and the *École Nationale d'Administration Publique* (ÉNAP) to the public service of Haiti. CIDA also finances the provision of the expertise required to enable Haiti's national electricity company (EDH), to provide quality electricity services to the city of Les Cayes.

60. **Brazil is the first donor to transfer funds to the Haiti Reconstruction Fund (HRF). It contributed US$55 million**. The Haiti Reconstruction Fund (HRF) gathered momentum after Brazil contributed to the multilateral mechanism set up to help Haiti rebuild following the January 12, 2010 earthquake. In addition to Brazil, several other countries have indicated intention to donate to the fund, which the World Bank oversees as its fiscal agent and administrator.

61. **Finally, both the EU and USAID are active in the economic governance area**. The EU has a number of long-term experts working in the Ministry of Finance providing technical assistance in the restoration of economic governance systems and more specifically those related to public finance management. Before the earthquake, USAID supported the Integrated Financial Management System (IFMS) to identify and eliminate opportunities for corruption through financial transactions using information and communications technology. Following the physical destruction of a number of PFM related institutions, USAID will help restore the system to improve government transparency and accountability. USAID has also assisted the Directorate of Taxes in the development of Strategic and Tactical Plans for modernization and review of the main tax laws, implementation of sound tax audits, collections, and taxpayer services and education, as well as the development of a plan for data processing.

RELATIONSHIP TO OTHER BANK OPERATIONS

62. **To support the recovery and reconstruction efforts, the World Bank group**: (i) is providing US$100 million of additional grants, US$65 million of this via an emergency IDA project, the Infrastructure and Institutions Emergency Recovery Project, approved in March 2010; (ii) has restructured and redeployed the existing portfolio of 14 projects (commitment: US$198 million, of which US$116 million undisbursed); (iii) has jointly coordinated the Post-Disaster Needs Assessment; (iv) is directly supporting the government in crisis coordination, including through support for the establishment of a crisis secretariat; and (v) is working with the government and donors to develop new structures for reconstruction and aid coordination. IFC has also approved US$35 million of emergency loans to the private sector.

63. **One component of the Infrastructure and Institutions Emergency Recovery Project aims to restore key economic and financial functions of the government**. This includes the provision of technical assistance as well as the rehabilitation of equipment and offices. *Technical assistance* support consists of: (i) enabling the reinstatement of the MEF's basic functions in accounting, reporting, budget monitoring, and control; (ii) enabling the re-establishment of the Court of Accounts and the strengthening of external audit capacity; and (iii) restarting operations at the procurement regulatory body and procurement units in line ministries. In supporting key government entities to re-establish operations, the provision of goods and equipment as well as relocation or physical structure rehabilitation is critical, including for key institutions such as the Central Bank, Procurement Regulatory Agency (CNMP), National Statistical Institute (IHSI), and Auditor General's Office (CSC/CA). This component aims to exploit complementarities with other Bank technical assistance projects, the EGTAG series (please see below).

64. **Recovery of the key functions of the Ministry of Economy and Finance will restore the ability to carry out fundamental public finance functions and enable the government to plan and direct the reconstruction program.** The activities supported by the Infrastructure and Institutions Emergency Recovery Project were selected in close consultation with the government and coordinated with other development partners. These activities include: (i) the provision of prefab-office spaces to the Ministry of Economy and the Directorate of Taxes and Customs in addition to equipment for the Ministry of Finance and most economic and financial institutions (CNMP, CSC/CA, IGF, IHSI); (ii) the restoration of the information technology and systems between the Central Bank and the Treasury as well as between the Central Bank and commercial banks; and (iii) the provision of technical assistance on the capacity to execute and control expenditures.

65. **The proposed operation builds on three previous Economic Governance Reform Operations (EGRO).** The Board approved EGRO I, II and III in January 2005, January 2007 and December 2009, respectively.[12] These operations supported the government's implementation of critical economic governance reforms to increase transparency and efficiency in the use of public resources and external assistance. They had as objectives to: (i) improve budget preparation, execution and control, and public procurement processes; (ii) strengthen public sector human resource management; (iii) step up anti-corruption efforts; (iv) improve efficiency and transparency in the management of public enterprises and the Road Maintenance Fund; (v) create a mechanism

[12] EGRO I was assessed by IEG as satisfactorily, having achieved the stated objectives.

for civil society to monitor economic governance reforms; and (vi) support government communications to raise awareness of governance reforms. EGRO III, the most recent EGRO operation, was designed to be followed by a fourth operation as part of a programmatic series of two operations. The fourth operation was to be triggered by a set of follow-on actions. An assessment of the status of triggers for EGRO IV is presented in Table 7. As of May 2010, only four of the nine triggers for triggers were on track due to the impact of the earthquake on institutions.

Table 7: Summary of EGRO III Follow-On Actions

FOLLOW-ON ACTION AS SPELLED OUT IN EGRO III PROGRAM DOCUMENT	STATUS
The EDH monitoring table showing the use of fiscal transfers is published on a monthly basis on the MEF website beginning in November 2009, including the data for November 2008 – October 2009	*On track*. The MEF has published partial data for November 2008-September 2009 in January 2010. The publication was interrupted after the quake in January 2010.
The information contained in the monitoring table is audited on a bi-annual basis by an independent firm	*Delayed*. The first audit was scheduled for June 2010. However, it is unlikely that the audit be completed given the impact of the quake on the institutions involved (EDH, MEF, and MTPTC) and the interruption of data collection.
The Fiscal Code has been submitted to the lower chamber of Parliament	*Delayed*. This follow-on action is delayed significantly following the destruction of the Tax Directorate.
The MEF has adopted and disseminated the Procedural Manual for budget preparation and integrated the preparation of current and investment budgets	*Delayed*. The Manuals are being finalized. A national workshop is being prepared to include comments from various stakeholders. Adoption is expected to be finalized in September 2010.
Regular controls compliant with budget rules are applied to the deposits and expenditures from *'comptes courants'* monitored by Public Accountants	*Delayed*. This activity is embedded in the budget execution procedures described in the Procedural Manual and will be implemented upon it adoption
Internal Audit Function is strengthened through (i) the adoption and dissemination of the manual of procedure for internal audit; and (ii) the implementation of the internal audit work program established by the MEF for the IGF	*On track*. The Manual of Procedure is being finalized. The internal audit work program for the IGF has been updated after the quake and adopted by the MEF.
The MEF has submitted to CSCCA the 2008-09 public accounts	*On track*. The 2008-09 public Accounts are being finalized by the Treasury
The CSCCA has submitted an opinion (Avis) on the audit report for the fiscal year 2007-08 to Parliament	*On track*. The 2007-08 government accounts are being audited by the CSC/CA, the results of which would be submitted to the MEF for comments for transmittal to the Senate.
Key contracting authorities have submitted to the CNMP procurement plans for FY2009-10 and associated general procurement notices are published	*Delayed*. Procurement Units in line ministries have been weakened by the earthquake.
The CNMP has rendered its database on contract awards fully operational, up-to-date, and accessible to the general public	*Delayed*. The server was damaged and the website down.

66. **Progress in the areas supported by the EGRO series was encouraging before the earthquake**. In public financial management, significant progress was made, in particular with respect to budget management and financial controls. Progress in procurement had been relatively slow with significant delay in the adoption of the Procurement Law and its application. In human resource management, the architecture of a registry of state employees for key line ministries was put in place and the legal framework for the civil service had been strengthened.[13] In anti-corruption, Haiti has now an anti-corruption unit. An anti-corruption strategy was adopted by the government in March 2009 and was widely disseminated. In public entity management, transparency had been enhanced with the completion of the financial audits of the national port authority (APN), the telecommunications utility (TELECO), and the national electricity company (EDH). The Road Maintenance Fund (FER) was fully operational with significant budget resources, and transparency in the FER's resource management had been enhanced with the completion of an audit on a yearly basis. Lastly, the government set up a mechanism for civil society, with competitively hired civil society organizations (CSO) to increase understanding and raise awareness of governance reforms and to monitor the government's program of economic governance reforms.

67. **Bank technical assistance grants support the implementation of governance reform.** Two ongoing Economic Governance Technical Assistance Grants (EGTAG I and II, US$2 million each) have been helping the government to strengthen its institutional capacity in the areas of public resource management. EGTAG I, approved by the Board in January 2005, was a core component of IDA's Transitional Support Strategy (TSS) for Haiti, aimed at restoring the credibility of public institutions in the wake of the political turmoil of the early 2000s. The project built on important advances made by the LICUS Economic Governance Grant (US$1.5 million) program, approved in November 2004, which provided immediate technical and financial assistance for institutional strengthening. EGTAG II, approved in June 2006, has been restructured and extended through 2011. While initially covering a broad agenda across five components (financial resource management, human resource development, monitoring of service delivery and sector policy, anti-corruption and civil society engagement, and communication and project management), the restructured operation focuses primarily on budget management, including budget formulation, execution, monitoring and control. Specific activities include: (i) supporting the newly created General Finance Inspectorate (*Inspection Générale des Finances*, IGF); (ii) strengthening the budget oversight capacity of Parliamentarians by conducting capacity building activities to enhance capacity of key Parliamentary Commissions; and (iii) strengthening the Budget Directorate (*Direction Générale du Budget*) at the Ministry of Economy and Finance to further improve budget by expanding the software- SYGAP- and capacity building activities to strengthen budget formulation.

68. **The proposed operation is also closely linked to the Electricity Loss Reduction Project (PREPSEL, US$6 million).** PREPSEL aims to strengthen the electricity company's (EDH) management systems and practices, improve the quality and reliability of electricity services, and increase revenue collection capacity. Activities under the PREPSEL include: (i) financing the installation of new billing and grid maintenance systems (CMS and TSMS), and remote meters for

[13] A new civil service law and a law for the organization of the central administration were enacted by decree in July 2005. The *arrête* defining the organization and functioning of the *Conseil Supérieur de l'Administration et de la Fonction Publique*, was approved in March 2008. The completion of procedures for merit-based appointment and promotions and the framework organizing and regulating the functioning of Office of Human Resources (OMRH) is underway.

large clients and independent producers (IPPs), which will enable EDH to measure the energy consumed by its clients, and produced by the large IPPs in a more reliable manner; and (ii) reducing opportunities for theft. In addition, PREPSEL is providing capacity building support to strengthen EDH's anti-fraud unit. An additional grant financing of US$5 million was approved in September 2009 to finance private sector management services for EDH, and cost overruns for the existing project. The additional financing also builds on a Public-Private Infrastructure Advisory Facility (PPIAF) study that financed tariff and market studies and set out a proposal for improving EDH management. The PPIAF and EGRO II also supported an increase in the transparency of transfers from the state to the electricity sector through the monitoring mechanism table, which was prepared in cooperation with the IMF and the World Bank.[14] These measures are expected to improve the EDH's profitability, contributing to a gradual reduction in budgetary support from the Treasury in the long term. Higher returns will also help EDH improve the quality of its services, which will have an overall beneficial effect on Haiti's economy.

69. **The Bank is also providing technical assistance to the government of Haiti using resources from the Multi-donor Trust Fund for Trade and Development (US$150,000).** An industry-level cost competitive analysis of the Haitian garment sector is having a tremendous impact on Haiti's ability to market itself to potential investors. The benchmarking data has been used by IFC in investment promotional materials and government officials have used the data in a recent investor forum hosted in Port-au-Prince, as well as to support two recent investment promotion missions to Brazil and Korea.

70. **The South-South Experiences Exchange Trust Fund (SEETF) provided financial support (US$50,000) to facilitate investment and economic cooperation between Haiti and two large apparel producers: Brazil and South Korea.** The trust fund has funded two outreach missions to Brazil and Korea to meet potential investors, apparel buyers, manufacturers and government counterparts with the objective of strengthening economic cooperation and bringing investment to Haiti. The missions yielded good results in terms of image building and lead generation.

71. **A number of Bank projects support the social sector agenda.** Several projects support the government's National Strategic Plan for Education for All, focusing on the first two strategic choices related to increasing access for schoolchildren at the primary levels and supporting the supply side by providing infrastructure with the view of reaching the 2015 goal of universal primary education. First, an ongoing Education for All project (US$25 million) approved in FY2007 supports increasing access to schooling through providing tuition waivers for poor families and school feeding programs. It also aims to strengthen the supply side by constructing/rehabilitating schools, increasing the supply of trained teachers, and strengthening various capacity building activities in the Ministry of Education. Second, a US$5 million Emergency School Reconstruction Project (ESRP), approved in March 2008 supports the National Plan of Action for Safe Schools by restoring educational infrastructure and mitigating the vulnerability of educational infrastructure. It also aims to strengthen the capacity of the Haitian government to enhance disaster resilience across the education sector through training, appropriate

[14] The monitoring mechanism table tracks seven groups of financial indicators, including budgetary transfers to EDH, electricity produced and amount and price of fuel used on a monthly basis.

national guidelines and other measures. Other operations supporting the social objectives of the DSNCRP include projects in social protection and health.

LESSONS LEARNED

72. **Experience points to the need for adopting a simple approach in most fragile countries, in particular after the occurrence of major natural disasters**. In such an environment, the design of a budget support operation should avoid the risk of delaying disbursement or of stalling implementation because of exogenous factors--as was the case in the previous operation. The proposed operation is single-tranche to promote continuity in areas where there has been government ownership while focusing on institution rebuilding.

73. **Institutional rebuilding and strengthening of legal and regulatory frameworks are key factors underpinning budget support operations supporting reconstruction programs.** A key immediate challenge for the government under the proposed operation is to continue strengthening the legal framework for public finance management, anti-corruption and procurement to ensure proper management of aid inflows. Ensuring that these core institutions function appropriately is crucial for improving service delivery and efficient use of resources. Countries that have experienced major natural disasters need strong institutional support to back up critical reforms aimed at restoring the state functions quickly. Public expenditure management and anti-corruption reforms are of paramount importance as massive aid inflows are expected for reconstruction programs. This is a lesson drawn from experience in post-natural disaster countries.

74. T**echnical assistance programs** to support **reforms represent a key factor unsatisfactory implementation of budget support operations and progress in meeting development objectives.** To minimize the risk of slow implementation, the proposed operation has been designed in close coordination with technical assistance programs including the EGTAG operations, the Infrastructure and Institutions Emergency project, and the PREPSEL project. Other donor-financed operations further complement the technical assistance provided by the Bank.

75. **Close coordination among development partners within a simple, commonly agreed reform framework is important**. Core institutions are recovering from the earthquake and experience major difficulties to resume implementation of the government reform programs. Such an approach requires a prioritization of reforms with a reasonable milestone framework based on commonly agreed targets through enhanced coordination of development partners' programs. Drawing from that lesson, the proposed operation is based on the government's matrix supported by a harmonized budget support framework involving budget support actors.

ANALYTICAL UNDERPINNINGS

76. **The proposed operation draws on a wide range of analytical work carried out by the government and the Bank in recent years**. Most notably, the overall design of the operation is based on the government's DSNCRP itself, which was developed in a participatory process and reviewed in detail in the Joint Staff Advisory Note (JSAN) prepared by the Bank and the Fund.

77. **Technical notes have been prepared on key issues of economic governance which receive the financial support of the World Bank under EGTAG1: (i) debt management; (ii)**

anti-corruption; (iii) controls; (iv) procurement; (v) budget preparation and execution; and (vi) public human resources management. These notes have been prepared in partnership with the government of Haiti and experts. They summarize, on each issue, the legal and institutional framework, the main achievements and weaknesses, and the challenges and opportunities ahead. Their objective is to help the World Bank team and the country counterparts communicate internally and externally on ongoing efforts and priorities ahead.

78. **The PEMFAR and its follow-up action plan provide the technical basis for the proposed policy actions under the public financial management and procurement components**. The PEMFAR acknowledges certain progress in strengthening fiscal discipline and improving the efficiency of the public financial management (PFM) and procurement systems over the period 2005-08, despite the difficult context. The PEMFAR identified progress in budget preparation and execution and in particular the improvements resulting from the implementation of the FMIS SYSDEP. In the area of procurement, the establishment of the CNMP helped to standardize tender documentation and improve the management of procurement processes. The report identified a number of remaining challenges, namely the budget's limitation in terms of a forward-looking perspective, and poor link with sector policies; the lack of cash-flow planning and the weak capacity of line ministries; the need to link the different information systems; and the opportunity to further improve the PFM regulatory framework. Policy recommendations in the area of budget preparation included further linking budget and policy planning, incorporating extra-budgetary funds into the budget; and communicating expenditure ceilings to the ministries at the beginning of the budget preparation process. In the area of budget execution and control, recommendations focused on accelerating recruitment of financial controllers, public accountant, and financial inspectors, and continuing the process of reducing the *comptes courants.* Lastly, the PEMFAR assesses Haiti's Public Expenditure and Financial Accountability (PEFA) and rates the country's performance, which allows for comparing Haiti with other countries and highlighting the progress to be made and steps to be taken in order to bring it at par with international standards in the medium-long term.

79. **The Bank prepared a Country Economic Memorandum (CEM) in 2006, which identifies poor economic governance as one of the main constraints to growth and poverty reduction**. The CEM highlights the important advances made between 2004 and 2006 to increase transparency and efficiency in the use of public resources and external assistance. These included changes in the legal framework for budget formulation and execution, the setting up of critical institutions and agencies, and efforts at disseminating basic information. The report's recommendations focused on the need for full implementation of the new legal framework, and the capacity building necessary to achieve the implementation especially with regards to revenue, expenditure and human resource management. Gradually, coverage of the framework could then be extended to offices handling financial management and planning functions in sectoral ministries. In addition, the report points to the need for redistributive policies--through increased collection of progressive taxes to mobilize much needed public resources, and improved efficiency and targeting of public spending. The findings and recommendations of the CEM with regards to economic governance reform were subsequently incorporated into the EGRO series.

V. THE PROPOSED OPERATION

OPERATION DESCRIPTION

80. **The proposed supports the government's Action Plan, which outlines the government's priorities for Haiti's reconstruction**. In particular, the operation supports the governance program. The objective of the proposed operation is to strengthen and implement the legal and regulatory frameworks and systems to create the conditions for accountability and transparency in the context of the reconstruction.

81. **The program design balances the pragmatism required to respond to the earthquake and the urgent need to address existing and emerging governance and fiduciary risks.** The program places emphasis on accountability and transparency in areas with risk of weak governance and where the government's buy-in has been established and where progress has been achieved.

82. **Consistent with the above strategy, attention has shifted towards operationalizing oversight institutions and mechanisms**. The proposed operation focuses on areas deemed critical for creating governance conditions that are conducive to transparent and efficient use of the reconstruction funds, and enhanced accountability. The design of the operation derives from the perceived risk of inefficient use of public resources if oversight institutions are not operational and the legal and regulatory frameworks for adequate public expenditure management, accountability and control as well as procurement systems are not in place during the immediate period following the earthquake. Such a risk, if it materializes, may lead to weak capacity and inefficient use of resources, worsening political and social tension, and therefore could jeopardize the reconstruction efforts.

83. **The proposed operation aims to contribute to**: (i) improved transparency in the management of public transfers to the electricity sector (EDH) and independent power providers; (ii) strengthening the external and internal control audit functions; (iii) strengthening the monitoring mechanisms of the declaration of assets; and (iv) reinforcing procurement regulation to enhance transparency in procurement practices. The heightened focus on these areas has been stressed in the governance program announced and presented by the government in New York, in March 2010.

84. **While the proposed operation is not a continuation of the EGRO series, it uses some of its critical triggers.** The areas of focus do not differ significantly from those addressed in the previous operation (EGRO III), and not only does the proposed operation address the short-term challenges after the earthquake but it also aims to consolidate the gains achieved in the recent past. Areas of continuity include the strengthening of budget controls and audits, and the establishment of transparency in the management of transfers in the electricity sector given the urgency of ensuring adequate monitoring and oversight of public resource use. While retaining procurement as an area of focus, it shifts the focus on implementation of the procurement Law to strengthening the legal framework and capacity given the damages to procurement institutions. The EGRO series will be discontinued, and the Bank will consider a new series of policy loans to better assist Haiti in addressing the new policy and development challenges in the aftermath of the earthquake.

85. **The government is working on a strategy to revamp the Tax Directorate with IMF assistance**. The government is also revising Haiti's tax policy and the upcoming strategies will define the prioritization of measures to enhance tax administration and tax policy. The Bank is assisting the government of Haiti through the provision of prefabricated offices to rebuild the Tax Directorate offices, which is the priority announced by the government in the aftermath of the earthquake.

86. **Prior actions**. The Bank is supporting the government in its efforts to implement its governance program, following assurances that it is committed to carry on with the implementation of these reforms. Box 2 provides a summary of the prior actions that the government has already undertaken to implement the program supported by this Grant.

Box 2: Prior Actions

A. Transparency in transfers management

To Enhance Transparency and Monitoring of Financial Transfers in the Electricity Sector:

The government has strengthened the monitoring of payments to the electricity sector, as evidenced by the issuance of a joint-memorandum from the MEF and the MTPTC (under whose authority EDH is) describing: (i) the procedures to be followed by the MEF and EDH for payments of IPPs pursuant to the IPPs' respective contracts currently under implementation; and (ii) MEF and EDH's respective obligations in this procedure.

The MEF has published on its website the monitoring mechanism table – consolidated by MTPTC – for the period from October 2009 through March 2010. At a minimum, the table includes updated monthly data on: (i) payments made by the State to each IPP, as well as transfers to cover EDH fuel costs, (ii) payments made by EDH to each IPP, (iii) energy produced by each IPP, and (iv) amounts billed by each IPP during the period.

B. Public Finance Management

To reinstate Budget Controls

The CSC/CA has communicated to MEF the results of the external audit of the government accounts (October 2007 to September 2008).

The MEF has submitted the 2008-09 central government accounts to the Supreme Audit Institution (CSC/CA).

The Ministry of Finance has adopted a revised action plan for 2010-2014 and a manual of internal control procedure for use by inspectors of IGF.

C. Public Sector Governance

To Advance Transparency in Public Affairs through Enhanced Enforcement of the Declaration of Asset Law

The Anti-Corruption Unit (ULCC) has submitted a progress report on the Asset Declaration Compliance, including specific recommendations for action, to the MEF, the Senate, and the Court of Accounts.

To reinforce public procurement regulation and enhance transparency in procurement practices

The CNMP has restored its website containing information on procurement bids and contracts awarded.
The recruitment of the new members of the CNMP has been advertized in local newspapers.

The government has issued an instruction to Ministries and other public contracting authorities to clarify that the use of accelerated procurement procedures under the State of Emergency Law must receive prior authorization from the Prime Minister.

Box 3: Good Practice Principles for Conditionality

Principle 1: Reinforce Ownership

The design of the proposed operation is consistent with the government's DSNCRP and the government Action plan for reconstruction. These strategies were prepared in a participatory manner, ensuring broad based stakeholder involvement. Consultations regarding the proposed procurement reforms took place.

Principle 2: Agree Upfront With the government and Other Financial Partners on a Coordinated Accountability Framework

The policy matrix for the proposed operation draws from the government's matrix underpinning harmonized support operations, which was finalized in May 2010 for the FY2009-10.

Principle 3: Customize the Accountability Framework and Modalities of Bank Support to Country Circumstances

The policy actions supported by this operation on the one hand reflect the post-conflict environment from which Haiti has only recently emerged and the impact of the earthquake on key governance institutions, and on the other hand recognize that progress has been made over the past years in governance. For instance, some measures sustain progress achieved in the past and focus on results while others focus on institution rebuilding. The operation was also designed as a single-tranche DPG to take into account the political uncertainty in the next months.

Principle 4: Choose Only Actions Critical for Achieving Results as Conditions for Disbursement

The selected prior actions and conditions for disbursement focus on actions deemed critical for stronger government capacity to manage the reconstruction fund in a transparent manner. Areas addressed by the operations are also highly visible and progress achieved would strengthen Haiti's credibility, thereby maximizing the chances for mobilizing further external support. The proposed operation focuses on areas where the Bank has a comparative advantage and has existing operations providing technical assistance or sectoral expertise through investment operations, which would help ensure efficient monitoring and supervision.

Principle 5: Conduct Transparent Progress Reviews Conducive to Predictable and Performance-Based Financial Support

At the request of the government, two supervision missions (December 2009 and May 2010) of the matrix underpinning budget support operations had been organized by the government, which helped assess progress in targeted areas including among other areas public finance management, anti-corruption, tax reforms, procurement, and prioritize and sequence reforms. It also helped provide a clear calendar of performance-based disbursements. Future budget support operations will be based on the reforms that will emerge from a supervision mission tentatively scheduled for October 2010 by the government.

POLICY AREAS

87. **The proposed operation supports key policy actions under four broad policy areas, organized in three components**: (i) transparency in the management of the transfers to the electricity sector; (ii) public finance management, in particular budget control and audits; and (iii) public sector governance understood as anti-corruption and procurement. Annex 2 summarizes the policy measures taken prior to the Board presentation of this operation and the expected outcomes.

88. **Annex 2 also lays out the follow-on measures, which highlight the main actions the government plans to implement as part of its governance program**. The key next steps as described in this section do not necessarily form the indicative triggers for a follow-on operation. Presenting the government's course of governance activities that follows the measures underlined

in the proposed operation helps understand the rationale for the choice of the prior actions and its links with the broad governance objectives in the medium term.

Component 1: Transparency in the Management of Transfers to the Electricity Sector

Background and Sector Issues

89. **Electricity supply by EDH was largely insufficient relative to demand**.[15] The earthquake further aggravated its EDH operating capacity. The national and vertically integrated utility *Electricité d'Haïti* (EDH) has been in a dire financial situation, with losses averaging 50 percent. Such a situation has resulted from lack of maintenance, which affected the quality of service and fueled a culture of nonpayment. Compounded by weak management and governance problems, it has affected EDH's capacity to generate revenues and its capacity to invest in the sector. Efforts aimed at expanding coverage have led EDH to subcontract the provision of electricity to independent providers. Unable to cover its expenses (including fuel costs) EDH has relied on fiscal transfers from the Treasury, amounting to US$100 million on average annually over the past years. The earthquake damaged power generation, transmission, and distribution. EDH is facing increased difficulties in billing clients and generating revenues. Although electricity services have been restored in several affected areas, sustaining electricity supply represents a difficult challenge for the government.

90. **The earthquake damaged previous efforts to address weak billing, to increase revenue collection, and improve delivery.** In 2009, government designed policy reforms to improve EDH management and reduce fiscal inefficiencies in the sector through a two-pronged effort: (i) improving the financial situation of the utility; and (ii) strengthening institutional capacity in the sector. The government started with the design of a new tariff structure for EDH in August 2009 to gradually improve its financial situation, followed by a reduction in the amount of transfers to the electricity sector in the 2009 budget from approximately US$100 million to US$50 million. Under the new structure, the subscription fee for all clients and the tariffs for non residential customers roughly doubled. With respect to management capacity, contracts for the provision of new billing (Customer Management System - CMS) and grid maintenance (Technical Service Management System - TSMS) systems in EDH were awarded in June 2009 through a competitive bidding process.[16] Implementation of the systems was to be accompanied by the introduction of a new enhanced commercial approach in utility.

91. **At the time the earthquake struck, the system installation was ongoing and surveys for the construction of the new database feeding into the information systems had started**. The installation of both systems only resumed in April 2010. It is expected that the completion of system installations will not take place before October 2010, a four-month delay. With respect to revenue, EDH's revenues have decreased substantially in the aftermath of the earthquake due to a drop in the number of customers in Port-au-Prince and the difficulty for EDH to deploy teams in the

[15] Overall, less than 20 percent of the Haitian population and only a few areas have access to electricity.

[16] The CMS will facilitate proper execution and monitoring of all commercial activities of EDH, in particular metering, billing and collection. The TSMS aims to optimize attention of customer claims related to poor quality of electricity supply, by helping reduce time between the receipt of claims and the restoration of regular electricity supply, which is the critical parameter of quality of service.

capital to bill electricity. In March 2010, revenues were approximately at 30 percent compared with December 2009.

92. **Transfers are expected to increase, contrary to previous forecasts, thereby putting further strain on the budget**. Given the impact of the earthquake on the electricity sector, the FY09-10 amount of the transfers already increased from a budgeted amount of US$50 million in the FY09-10 budget to an adjusted amount of US$87.5 million. It is projected to reach US$110 million in FY10-11. This represents approximately 34 percent and 76 percent of the projected budget support respectively for FY09-10 and FY10-11. The amount of transfer is likely to increase beyond the projected amounts as the government also plans to expand electricity coverage to support industry, trade and tourism zones with the participation of the private sector in the near future (including through a contract awarded to a private provider, which is building a 30 MW Heavy Fuel Oil (HFO) Power Plant in Port au Prince). Planned projects already identified include: the rehabilitation of the Peligre power plant, construction of the Artibonite C-4 hydroelectric dam and the rehabilitation of the power plants of Sault Mathurin and North Caracol.

93. **Increases in transfers require rapid measures to mitigate risk of capture and mismanagement**. The management of transfers to the electricity sector covering the operating costs of EDH and that of independent power providers (IPP) lacks transparency and requires rapid corrective action in view of the projected amounts. Until October 2008, transfers to the electricity sector had been published on a regular basis and audited, although the government had some reservations about the quality of the audits. Publication had been interrupted since 2008 and only resumed in January 2010. Payments to the IPP and the use of transfers within EDH have not been subjected to regular checks and balance. Due to the absence of a formal framework for monitoring transfers and strict rules governing the transfers from the State to the electricity sector, payment modalities also raises serious concerns about public resources management (See Box 4).

Box 4: Contracts with Independent Power Producers (IPPs) in Haiti's Electricity Sector

The government and EDH signed Power Purchasing Agreements (PPAs) with two private firms, respectively in 2006 in 2008, for the production of electricity. The first firm is present in Port au Prince (Varreux I, II and III) with a total installed capacity of 35MW (to increase up to 57MW), while the second one has two plants in Les Cayes and Petit Gôave for a total installed capacity of 24MW. As EDH has been unable to pay part or all of the (energy and fuel) costs incurred under these contracts, the State budget is being used to cover the balance. The payment process, however, lacks basic transparency and accountability principles, due to a systematic absence of communication among the entities involved and inefficiencies throughout the process. Cases have arisen where, following a delay in paying the invoice, withdrawals from the State treasury account at the Central Bank of Haiti (BRH) took place as stipulated in the contract without prior notification to the Ministry of Finance and the Ministry of Public Works, or whereby an IPP was paid although EDH had objected to the invoice.

94. **The government is committed to pursuing fiscal transparency and efficiency in the electricity sector**. To that end, the government is determined to sustain actions toward establishing enhanced transparency in the management of financial transfers, which will help detect weaknesses and reduce fiscal inefficiencies in the sector. The EGRO III budget support operation already supported this action. The monitoring mechanism table was published on the MEF website in January 2010 with data covering the period October 2008 through September 2009. Although it marked a net improvement, some key data - related to the specific fuel consumption under each IPP and amounts billed to the government were still missing. The MTPTC and EDH were in the process

of collecting the data for the next publication in January 2010. However, the delay in publishing the table and the missing data also pointed to a lack of organizational structure within the entities in charge of data collection and institutional weaknesses in the management of electricity provision by the private sector.

Specific Actions Supported By the Proposed Operation

(i) *The government has strengthened the monitoring of payments to the electricity sector, as evidenced by the issuance of a joint-memorandum from the MEF and the MTPTC (under whose authority EDH is) describing: (i) the procedures to be followed by the MEF and EDH for payments of IPPs pursuant to the IPPs' respective contracts currently under implementation; and (ii) MEF and EDH's respective obligations in this procedure.* Difficulties with publishing the monitoring mechanism table on a regular basis have shown that it is necessary to support the implementation of a comprehensive framework for the monitoring of the transfers, instead of only focusing on the publication of the table. This would include formalizing the process by which bills are paid to the IPPs and clarifying the responsibilities of each entity in this process. In particular, it is essential that EDH verify the monthly invoices that it receives from the IPPs within the timeframe defined in the contract (usually 15 days). In the event that EDH cannot make payment, a detailed report on the invoice should be sent to MEF. In addition, each concerned entity (MEF, MTPTC, EDH) has formally nominated a person responsible for transmitting and consolidating the monitoring data.

(ii) *The MEF has published on its website the monitoring mechanism table – consolidated by MTPTC – for the period from October 2009 through March 2010. At a minimum, the table includes updated monthly data on: (i) payments made by the State–to each IPP, as well as transfers to cover EDH fuel costs, (ii) payments made by EDH to each IPP, (iii) energy produced by each IPP, and (iv) amounts billed by each IPP during the period.* Financial transfers to the electricity sector and corresponding electricity production would continue to be monitored and published, as they are key elements of the improved governance in the sector. Nevertheless, taking into account the fact that EDH information systems were damaged by the earthquake, only "essential" data should be published during a transition period. At a minimum, the table will include updated monthly data on: (i) payments made by the State to each IPP, as well as transfers to cover EDH fuel costs; (ii) payments made by EDH to each IPP; (iii) energy produced by each IPP; and (iv) amounts billed by each IPP during the period. This prior action was a trigger for the fourth operation of the EGRO series and was slightly revised to reflect the challenges created by the post-earthquake period.

95. **By the end of this operation, the identified policy reforms are expected to contribute to enhanced transparency in the management of the transfer**. In particular, it is expected: (i) all invoice payments by the Ministry of Finance (MEF) to the Independent Power Providers (IPP) will have followed the rules described in the joint-memorandum signed by the MEF and the Ministry of Public Work; and (ii) data on payments to IPPs published on the Ministry of Finance's website and actual payments will have been reconciled by the MTPTC and MEF.

Key next steps

96. **The government is determined to take further steps towards establishing full transparency in the management of the transfers in the electricity sector**. Over the coming year, it is committed to commissioning a bi-annual audit of the reports by an independent firm to verify if the information is factually correct, and adopt corrective actions if necessary. Such audits would involve a reconciliation of the data reported by EDH with those of its local suppliers (i.e. energy produced as measured by EDH and energy billed by the suppliers).

Component 2: Public Finance Management: Budget Controls

Background and Sector Issues

97. **The Haitian government's system of public expenditure controls, as prescribed by the legal texts, encompasses administrative, jurisdictional, and parliamentary oversight**. Administrative oversight falls within the ambit of the General Finance Inspectorate (IGF), either before or after payment of expenditures. External oversight of public expenditures is exercised, independently of the administration, by the Superior Court of Audits and Administrative Disputes or the Court of Accounts (*Cour Supérieure des Comptes et du Contentieux Administratif* – CSC/CA), which deals with jurisdictional oversight, and by the Parliament, which is responsible for legislative oversight.

98. **Since 2004, the Haitian government has taken some steps to streamline public expenditure controls.** The Supreme Audit Institution was reorganized with the Decree of November 23, 2005 establishing its organization and operations. The IGF was established as a decentralized entity of the MEF through a decree issued in May 2006. It is responsible for the internal audit function of the public sector. The IGF became operational in May 2009, with adequate office space and equipment, and through recruitment of new inspectors.

99. **Progress achieved in terms of external control is being slowed down by the impact of the earthquake on the CSC/CA following the destruction of its offices**. Historically, the certification of general accounts of the government and the issuance of a report to Parliament on the integrity of the government's financial transactions by the CSC/CA was undertaken with significant delay before Haiti's reengagement in 2004. Since its reorganization in 2005 and under the EGRO series, the CSC/CA has undertaken measures to achieve its key objective of clearing the backlog of the audits of government accounts and align its activities with the calendar envisaged within the law. Over the recent years, it has achieved significant progress in budget control, including the completion of the audits of the FY2003-2007 accounts and submission of the corresponding Budget Review Laws. However, this progress was suffered a serious setback when the earthquake struck, causing significant damage to its infrastructure. Since then, the CSC/CA has focused its efforts on finding a new office and protecting and collecting files in the aftermath of the earthquake. It has restored its capacity and it is now operational, with almost all its staff on board.

100. **The role of the CSC/CA in the reconstruction process is key, especially the resumption of certification of government accounts and issuance of a report for the Budget review in accordance with the legal timeframe.** Identifying bottlenecks and integrity issues in the government operations and budget execution is paramount during the reconstruction process given

the significant amount of public resources expected to be channeled through the budget and the need for maximizing the efficiency of the budget. In addition, the recent operationalization of the IGF provides opportunities to translate into corrective measures the recommendations from the audits of the Court of Accounts regarding distortions and/or weaknesses identified in the management of public resources by line ministries. However, realizing these opportunities requires the swift resumption of the activities of the Courts of Accounts.

101. **In order to meet such challenges, close coordination between the Treasury and the Court of Account is required**. The Treasury, as part of the MEF whose building is no longer in use, has been affected by the earthquake, and implementation of its activities has been delayed significantly. Before the earthquake, the Treasury was in the process of finalizing the 2008-09 government accounts, of which the submission to the Court of Accounts for audit purpose has beendelayed. With the MEF resuming its operations, the Treasury is striving to complete this process in order to meet the deadline for their submission, and to complete a similar process for the FY09-10 government accounts. Their audit would help to ensure that any relevant issues arising from the audit conducted by the Court of Accounts would be incorporated in the FY10-11 budget execution cycle. The Treasury considers it a priority to place the FY09-10 budget execution and revenue management under external audit and legislative scrutiny in order to identify weaknesses that may have affected the budget integrity in the current fragile environment and the administration's weakened capacity.

102. **Although the functioning of the internal audit body (IGF) was not significantly disrupted by the earthquake, it has revised its action plan and work program to adjust to the impact of the earthquake on government institutions and the corresponding challenges.** The IGF started implementing the organizational and financial audits in December 2009 according to the action plan that was approved by the Ministry of Finance, following its staffing and the appointment of its Head. The impact of the earthquake, resulting needs and reconstruction activities have led to a changing environment, requiring an adjustment of the IGF's action plan. In particular, the increase in the number of projects and aid flows has contributed to the necessity for this change. Consequently, the IGF has designed a new action plan covering the FY2010-14 period, which includes new audit activities to be submitted for approval to the Ministry of Finance. Audits and controls planned for FY10-11 focus mainly on the post-earthquake activities. Among the planned new tasks feature the audits of the settlement of salary arrears in the education sector and the national police force, those of subsidies and transfers from the budget and all emergency funds as well as the activities of public accountants in all line ministries, the inventory of projects managed by the government or by other non-governmental entities. Lastly, the IGF also plans to finalize and submit for validation and adoption by the Ministry of Finance the operational manual to be used by inspectors to ensure that audits are conducted in full compliance with international standards.

103. **The Bank technical assistance projects (EGTAG and the Infrastructure and Institutional Emergency projects) provide support aimed at strengthening internal control and audit activities in order to achieve these goals**. The EGTAG provides assistance aimed at strengthening capacity of the IGF to enable it to fulfill its planned activities. Such support includes the provision of equipment and capacity building. The IGF also plans to recruit more inspectors in its action plan from nine (9) in FY 2008-09 to fourteen (14) and twenty-one (21) respectively in FY2009-10 and FY2010-11, and coordinate closely with other institutions such as the Court of Accounts and ULCC. These projects also provide support to the Court of Account, including

equipment and capacity building so it can fully operate and improve the quality of the audit reports in line with international standards. Lastly, the Bank also foresees support to the Treasury to speed up the completion of government accounts and improve the quality of revenue and expenditure consolidation and monitoring.

Specific Actions Supported By the Operation

(i) *The CSC/CA has communicated to MEF the results of the external audit of the government accounts (October 2007 to September 2008).* This action initiates the process leading to the submission of the CSC/CA's legal opinion on the draft budget Review Law (*Loi de Reglements*) to the Senate, which would be done upon review by the Ministry of Finance of the results of the audits;

(ii) *The MEF has submitted the 2008-09 central government accounts to the CSC/CA.* This should have taken place eight months after the end of the fiscal year. However, due to the impact of the quake on the MEF, it has been delayed. The Treasury has stepped-up efforts to complete the exercise and proceed with the submission of the accounts to the CSC/CA which in turn will proceed with the related audits for submission of its legal opinion on the 2008-09 Budget Review Law to the Senate. This prior action was a trigger for the fourth operation of the EGRO series; and

(iii) *The Ministry of Finance has adopted an action plan for internal audit for 2010-2014 and a manual of internal control procedure for use by inspectors of IGF.* The revised action plan would prioritize and sequence the planned internal audits taking into account the needs and challenges emerging from the changing environment based on the recommendations of the CSC/CA in the recent external audits. The new procedural manuals would help the IGF proceed with the audits in compliance with the required standards. This prior action was a trigger for the fourth operation of the EGRO series and was slightly revised to reflect the audit needs in the context of the reconstruction.

104. **By the end of this operation, it is expected that**: the compliance of external audits and Budget review Law submission with the statutory timeframe will have been improved. In particular: (i) the 2009-10 government accounts are submitted by the MEF to the Court of Accounts, no more than eight months after the end of the FY2010; and (ii) the results of the audits of the 2008-09 and 2009-10 government accounts are communicated by the Court of Accounts to the MEF by September 30, 2011.

105. With regard internal audit, the IGF will have complied with the audit action plan endorsed by the Ministry of Finance (2010-14), and audit reports are disseminated to the beneficiaries and competent authorities. The audit reports include at least: (i) the inventory of government and NGOs' projects; (ii) audits of subsidies in the education sector and the transfers by the MEF; (iii) analysis of audit reports issued by the Court of Accounts; and (iv) audits of public accountants activities in the MEF.

Key Next Steps

106. **To sustain efforts aimed at fully restoring public expenditure management control and effectiveness, the government intends to adopt actions aimed at:** (i) sustaining previous efforts to improve the orderliness and integration of budget process, and the integrity of government operations. These are addressed in the procedural manual for the preparation and execution of budget to be adopted by the MEF. These manuals would help to address weaknesses in sequencing processes and in the integration of current and investment budgets. They would also help to establish the procedures and controls for ensuring compliance with budget rules that are to be applied to the deposits and expenditures from discretionary accounts (*comptes courants*) monitored by Public Accountants; and (ii) starting deployment of inspectors in line ministries to monitor the implementation of the recommendations of internal audit reports completed by the IGF.

Component 3: Public Sector Governance

3.a Anti-Corruption

Background and Sector Issues

107. **Empirical evidence shows that during emergency and reconstruction processes, opportunities for corrupt practices increase, especially in fragile environments, which requires the strengthening of measures to fight corruption.** In the case of Haiti, the oversight capacity of governance institutions including the control and audit bodies and procurement regulations have been weakened, leaving the state with limited capacity in an already difficult environment. The procurement regulatory body is not operational yet, procurement units in line ministries have been weakened and so has the Court of Accounts. Full restoration of the capacity of these entities is not foreseen in the immediate future. At the same time, despite slight improvements in the 2009 Transparency International survey, Haiti still scores poorly on measures concerning corruption[17] which is perceived as a major problem in the public sector.[18]

108. **Although Haiti is equipped with a panoply of instruments to fight corruption, in general, effective implementation of anti-corruption measures has been slow and difficult.** The poor enforcement of the declaration of Assets Law is particularly striking. A report on first year compliance (indicating the number of declarations received by functions as indicated by the law, with geospatial indications and indicating compliance issues that require follow-up by the Judiciary), submitted by the ULCC to the Supreme Audit Institution (CSC/CA) and to the Senate and Lower House on April 24, 2009, indicated that the compliance rate is very low. Excluding the declarations that should be filed by the police force, to date only about one-fourth of the asset declarations have been submitted. About 87 percent of the high-level members from the Executive branch have complied with the mandatory request to file an asset disclosure form, the compliance rates for members of the legislative and the judicial branches as well as senior management

[17] According to statistics published by Transparency International, Haiti achieved a score of 1.8 on the Index of Perception of Corruption for 2009, a slight improvement from its score of 1.4 in 2008. Although this represents some progress, Haiti still remains near the bottom of the index.
[18] This result came out of a "Governance and Corruption Survey" conducted jointly by ULCC and the World Bank in 2005.

representatives and public accountants, have been very low.[19] In the current context marked by increasing social and political tension, and in view of the massive aid inflows, low compliance rate raises concerns as lagging submissions include those of officials managing public resources. It should be noted that all members of the Interim Commission for the Reconstruction of Haiti should declare their assets upon acceptance of a position in the commission.

109. **In its governance program presented in New York, the government has highlighted the need to ensure the effectiveness of the Declaration of Assets Law. In the same vein, the ULCC is determined to adopt corrective actions to ensure that measures against corruption are in place**. The Law provides ULCC with full authority to act, and especially the Attorney General to bring a case to trial (*Tribunal de Premier Instance*) and to take stern measures each time irregularities are brought to its attention[20]. However, from the legal point of view, a series of actions precedes the adoption of sanctions to defaulters: following the submission and approval of the compliance report to the Senate and the CSC/CA, the ULCC sends official reminders to defaulters, which is then followed by the enforcement of the sanctions as per the Law.

110. The proposed operation supports the ULCC's efforts at following up on the compliance report and providing update to ensure that monitoring and tracking are done in a sustained manner, with the objective of improving compliance with asset disclosure. As a first step, the authorities will seek full compliance of government members with the Law.

Specific Actions Supported By the Operation

111. *The ULCC has submitted the Progress Report on the Asset Declaration Compliance with the MEF, the Senate, and the Court of Accounts.* This operation supports the submission of the second year compliance report prepared by the ULCC to the CSC/CA and to the Parliament. The report highlights progress made in compliance and persistent issues that need to be addressed.

112. **By the end of this operation, it is expected that**: the anti-corruption unit (ULCC) will have sent a report to the Court of Accounts showing that the compliance rate to the Declaration of Assets Law of the members of the government has increased from 87 percent (as of May 2010) to 100 percent.

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[19] The Asset Declaration Law provides for the mandatory disclosure of assets by civil servants, including all ranks of the police force. The coverage is broad and includes political figures, civil servants, and public officials within the framework of institutional, political, judicial and administrative organizations. It therefore includes members of the Government, the National Assembly, the Judiciary, other members of independent institutions, representatives in the regions and departments, and other public administration officials. To date 28 out of 90 congress officials, 9 out of 70 senators and 435 out of 1,500 of civil servants have submitted their asset declaration to the ULCC, not taking into account those declarations required by the police force. In total, the ULCC is expecting about 9,000 declarations of which some 7,500 are for the police force. The main priority for the ULCC is to collect asset declarations from senior civil servants.

[20] ULCC's mission is to work towards fighting all dimensions of corruption in the public administration, as a means to: (i) protect public and collective goods; (ii) ensure the efficiency of the measures and actions aimed at preventing, detecting, sanctioning and eliminating corruption actions and similar infractions; and (iii) promote transparency in public management.

Key Next Steps

113. In the coming year, the government will intensify efforts aimed at strengthening the implementation of Declaration of Assets Law. *First*, the authorities intend to enforce the sanctions as per the Law to defaulters. No concrete actions have been undertaken to address issues raised by the ULCC report last year. The ULCC keeps monitoring and tracking the percentage defaulters and will enforce the Law by sending to those public officials who failed to submit asset declarations reminder notices (exploit de rappel). If defaulters exceed the authorized submission deadline subsequent to the reminder notice, the ULCC will take actions and resort to judicial means. The sanction as defined by the Law is the deduction of 1/4 of defaulters' salary.

114. *Second*, the government intends to adopt by decree the Code of Ethics for the public sector to support the dissemination and training of civil servants. This would follow the adoption of the Anti-Corruption and Illicit Enrichment Law submitted to Parliament in December 2009 expected in the next Parliament session. The code is finalized and the signature of an "ethics protocol" in the context of the reconstruction of Haiti would allow the ULCC to: (i) detect cases of conflict of interest; (ii) verify the legal status (in their countries of origin and in Haiti) of private firms that obtain contracts with the government for reconstruction of infrastructure in Haiti; (iii) monitor the allocation and use of emergency and reconstruction funds and disclose expenditures flows to the public with the use of innovative systems like the government expenditure databases (GED) that encourage budget transparency; and (iv) create the "procurement observatory" in collaboration with the National Commission for Public Procurement (*Commission Nationale des Marches Publics*) for the monitoring of public contracts and their compliance.

3.b Procurement

Background and Sector Issues

115. **The earthquake has caused significant damage to Haiti's procurement system.** Following the adoption of a Procurement Law and subsequently the enactment of the first key implementing decrees, it was expected that progress would continue at an accelerated pace as the procurement regulatory body, the *Commission Nationale de Marches Publics* (CNMP)[21], was finalizing the rest of the implementing decrees and preparing their dissemination. The CNMP had also begun assisting procurement units in line ministries with the preparation and adoption of procurement plans as required by the 2009 Law. However, as a result of the earthquake, the office of the procurement regulatory body was destroyed and the procurement units in line ministries were weakened. Equipment and records have disappeared with the collapse of the public buildings, and some staff were injured or left the country after the earthquake. The web site and data on procurement bids have not been updated. The procurement system has been barely effective ever since.

[21] The roles of the *Commission National des Marchés Publics* (CNMP) are, inter alia, to introduce effective procurement control, strengthen capacity within line ministries, develop procurement policy, draft procurement legislation, and standardize procurement procedures.

116. **Two other elements require strengthening to avoid putting procurement practices and oversight at risk in the current context**. First, following the earthquake an Emergency Law was passed by Parliament to amend the existing Emergency Law of September 9, 2008. The amendment, dated April 19, 2010, specifies in article 7.5 that "*By virtue of a declaration of a State of Emergency, the government will award contracts that it considers necessary according to accelerated procedures specified by the regulations governing public procurement.*" These accelerated procedures are those specified in the Procurement Law of 2009 in article 34.1 on direct contracting (*gré-à-gré*) and articles 33 and 33.1 on restricted bidding procedures (*l'appel d'offres restreint*). Both these non-competitive procedures are designated by the Procurement Law for use only in exceptional cases and subject to authorization by the CNMP. However, if not adequately regulated the lack of transparency associated with such emergency procedures could lead to an increased risk of abuse and corruption. *Second*, the mandate of the CNMP's staff will expire in September 2010. If the five members of the CNMP are not appointed (or reappointed) rapidly it would further weaken procurement oversight and the assistance to line ministries. CNMP members must be appointed by the Prime Minister following an open and competitive selection process.

117. **Reinforcing procurement regulation and strengthening the CNMP's capacity is a priority.** Donors' investment in the reconstruction under the financing of the HRF will be scrutinized by the Commission and the Steering Committee before approval, and executed either by the government or the donors. The approval process for projects includes provision of detailed information on the procurement methods required, which will follow either the national procurement rules or those of the donors. The CNMP monitors only procurement methods for the government's projects but it is expected that a significant amount of investment will be executed by the government. The progress achieved so far is unlikely to be reversed provided rapid and appropriate measures are taken to restore the capacity of the CNMP to fulfill its mandate. Equally important is the restoration of the procurement units' capacity in line ministries. The CNMP already has new offices and Bank technical assistance projects are currently providing support to make the CNMP fully operational through: (i) provision of equipment and furniture; and (ii) capacity building. In particular, the CNMP will recruit experts for a 12 to 18 month period to help provide assistance to line ministries, finalize the remaining implementing decrees, and organize the dissemination process.

Specific Actions Supported By the Operation

(i) *The CNMP has restored its website containing information on procurement bids and contract awards.* Although most of CNMP's files were destroyed in the earthquake, its electronic server was recovered, which facilitated the retrieval of some records to help consolidate data on contract awards. Restoring the website would help ensure transparency and complement the dissemination of new procedures to various government offices, the private sector, civil society, and public and private media. This prior action was a trigger for the fourth operation of the EGRO series and was slightly revised to reflect the context of the reconstruction;

(ii) *The recruitment of the new members of the CNMP has been advertized in local newspapers.* The government has advertized the recruitment of the new CNMP members to take steps toward ensuring continued effectiveness of procurement regulation upon the expiration of the mandate of the CNMP members, expected in September 2010. This would help avoid an institutional vacuum that would impede procurement oversight, and delay key objectives with respect to the strengthening of line ministries and the adoption of the remaining implementing decrees; and

(iii) *The government has issued an instruction to Ministries and other public contracting authorities to clarify that the use of accelerated procurement procedures under the State of Emergency Law must receive prior authorization from the Prime Minister*. The use of noncompetitive procurement methods could be justified in the aftermath of a major natural disaster. However, if not adequately regulated, the lack of transparency associated with such emergency procurement procedures could lead to an increased risk of abuse and corruption, especially in the current context. The requirement for authorization from the Prime Minister of all requests to use the accelerated procedures will ensure increased scrutiny of the accelerated procedures, and limit potential abuse on the part of contracting entities.

118. **By the end of this operation, it is expected that**: (i) the Prime Minister will have given prior authorization to all contracts awarded by invoking the Emergency Law's accelerated procedures; and (ii) compliance with the procurement code will have been improved, as evidenced by a decrease in the share of non-competitive procurement in total procurement, from 56 percent (as of 2008) to 45 percent. This indicator is measured by the value of contracts awarded without competition as a percentage of all contracts that do not fall under the accelerated procedures invoked by the State of Emergency Law.[22]

Key Next Steps

119. **In the coming year, the government will intensify efforts to make the Procurement Law fully effective.** Various steps toward that end include: (i) strengthening the capacity of the CNMP in order to proceed with the adoption of pending implementing decrees and preparing a specific ad hoc decree to stipulate dispute resolution mechanisms; (ii) strengthening capacity within the procurement commissions in line ministries, (particularly those in the Ministries of Public Works, Public Health, Agriculture, Justice and Education); (iii) carrying out an audit of contracts awarded in 2009-10 to assess compliance with the new Code; and (iv) preparation of public procurement plans in key contracting authorities (at least five ministries) and public institutions and communication of said plans to the CNMP for approval. Article 5 of the new Law requires acceptable procurement plans from each public entity before expenditures can be approved. This new practice will help reduce waste and fraud and inform the budget process.

VI. OPERATION IMPLEMENTATION

PARTICIPATION PROCESS

120. **Policy measures selected in this document have been informed by the outcomes of various government consultative processes involving relevant stakeholders.** The proposed operation supports and draws from the government's DSNCRP and the government action plan for

[22] This indicator is the same as the one used in the EGRO III.

reconstruction developed during the Post Disaster Needs Assessment (PDNA) following the earthquake and presented to the donors in March 2010. These two documents outline the main policy measures that went into this document including transparency, procurement, budget controls and anti-corruption. As such, the design of the operation benefited from broad stakeholder consultations conducted by the government. These consultations involved line cabinet ministers, non-governmental organizations (NGOs), members of civil society, the private sector, local authorities, development partners and beneficiary groups. The participatory methodologies of the DSNCRP also included a Strategic Planning and Action Process, focus group discussions and participatory Poverty Assessments.

121. **Extensive consultations were also held throughout the first half of 2009 on the new procurement law.** Over several months, the government engaged in a significant amount of consultation with civil society and parliamentarians to ensure an inclusive process and to reconcile divergent views. Furthermore, in March 2009 the CNMP organized a dissemination seminar to familiarize key players, including representatives from different government agencies and the private sector, as well as parliamentarians, academics and civil society representatives, with the provisions of the law.

POVERTY AND SOCIAL IMPACTS

122. **The actions supported by this operation are likely to have positive poverty and social impacts**. Joint World Bank and IMF staff assessments of the DSNCRP have emphasized the need for more explicit policies on governance reforms. The actions supported under the proposed operation would contribute to an overall improvement in governance: (i) the proposed measures in the electricity sector aim to increase transparency in public resource use to minimize capture and fungibility; (ii) budget control and anti-corruption measures have as objective to enhance accountability; and (iii) procurement reforms are expected to contribute to a reduction in the opportunities for fraud in public contracting, while protecting the private sector's interests. These measures will ultimately make it easier to scrutinize the extent to which voted budget allocations and actual public expenditures are in line with the DSNCRP objectives, and benefit the entire population, including the poor.

ENVIRONMENTAL ASPECTS

123. **The specific policies supported by the proposed operation are not likely to have a significant effect on the environment, forests or other natural resources.** The proposed operation focuses primarily on institutional reforms, with limited environmental implications. Anti-corruption measures supported by the proposed operation may improve environmental enforcement and compliance, and thus have a positive effect on the environment. It should be noted though that the proposed measures in electricity may spur policy changes in the medium-term, which may have positive or negative effects on environment. Any resulting effect needs to be monitored closely to allow for identifying the potential effect and corresponding mitigation measures, if necessary.

IMPLEMENTATION, MONITORING AND EVALUATION

124. **Monitoring and evaluation arrangements will rely on the government with the aim of strengthening government capacity and institutions.** As in the predecessor operations, the

Ministry of Economy and Finance (MEF) is the agency responsible for coordination and implementation of the activities and reforms under the proposed operation as set out in the Letter of Development Policy. Similarly, the MEF will be in charge of reporting progress. As in the first two budget support operations, the review of the goals of the program will be largely based on relevant and easy-to-monitor indicators. In parallel, collaborative monitoring has progressed among donors with the government's support in public sector and economic governance, and all governance-related areas including transparency and the fight against corruption. In particular, implementation will be monitored as part of the joint donor matrix for budget support.

125. **Bank staff will monitor the outcomes of the program and make possible adjustments to the operation as it evolves.** If required, latest country developments, stakeholder support, and feasible options for realizing the intended development goals would also be taken into account. The review will be largely based on the monitoring indicators and the goals of the program. At the same time, the overall status of the government's program will be monitored under the review of the joint-matrix of Haiti's partners to determine whether country conditions and the specific policy actions of the proposed operation are met.

FIDUCIARY ASPECTS

126. **Public Financial Management System.** The Public Expenditure Management and Financial Accountability Review (PEMFAR) was carried out in 2007. It provides a baseline for the assessment of the country's public financial management environment, identifying existing weaknesses and at the same time acknowledging certain progress made to strengthen fiscal discipline and improving the efficiency of the public financial management (PFM).

127. **In spite of the improvement in the PFM environment achieved in the last two years, some critical weaknesses remain.** As developed in the previous chapters of this document, progress has been made on the legal framework, the preparation and execution of the budget, and audits. However, weaknesses remain with respect to: (i) the content of the budget documents and the usefulness of the budget as a planning tool, mainly due to the lack of a forward looking perspective in the budget; (ii) the need for stronger links between the budget for recurrent spending and the investment budget a lack of dialogue between the MEF, the planning ministry, and spending ministries; and off-budget revenues or aid inflows that finance some ministries' spending; (iii) the need for improving accounting and fiscal reporting, particularly the inclusion of final investment expenditures, the timely reconciliation of accounts and preparation of annual accounts; and (iv) weaknesses in cash and treasury management, with progress yet to be made in the rationalization of government bank accounts. The Treasury Department of the MEF, government ministries, other government agencies, and many donor funded projects have their own accounts in the Central Bank of Haiti, the BRH, but these are not consolidated into a single treasury account.

128. **Haiti's fiduciary environment has withstood the impact of the earthquake on institutions.** In February 2010, an exception was granted by World Bank Management as provided in Annex A to BP 10.02, *Financial Management*, to the actions that the Bank normally takes with respect to the audit reports of the financial statements of eleven projects became overdue after January 31, 2010. Since this authorization, the audit reports for three projects have been submitted and the requirements for two have been waived on grounds of limited activity. In addition, the audits in respect of the remaining six projects are underway, with all the reports expected by August

31, 2010. A review of the audit reports that have been submitted, together with a review of the financial management arrangements for some of the projects in the portfolio, has revealed that there are no major fiduciary issues existing in the portfolio. The Bank will be engaged in a very close dialogue with the government to agree on necessary remedial actions that ensure integrity of public funds if any issues are revealed by the remaining audits.

129. **The latest IMF safeguards assessment of the Central Bank of Haiti (BRH) was conducted in 2008.** The assessment identified a number of weaknesses, in particular in the areas of monetary management, financial reporting, internal audit and controls. The BRH has been implementing some of the recommendations and progress is being monitored by IMF staff. BRH's annual financial statements are regularly audited by a private sector audit firm with an unqualified opinion, albeit with some delays. Consultations with the IMF during the preparation of the proposed grant have not revealed any systemic vulnerability that caused to believe that the control environment into which the grant proceeds will flow is other than adequate. As a result, IDA will not use additional fiduciary arrangements as per OP 8.60. However, as in any exceptional circumstances, the IMF foresees an audit of the BRH in the coming months.

DISBURSEMENT AND AUDITING

130. **The proposed grant will follow the Bank's disbursement procedures for development policy loans/credits.** The untied finances will be disbursed against satisfactory implementation of the development policy program and not tied to any specific purchases. Once the grant is approved by the Board and becomes effective, the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two deposit accounts ("Deposit Accounts") on terms and conditions satisfactory to the Bank: (a) a deposit account in Dollars ("Foreign Currency Deposit Account"); and (b) a deposit account in Gourdes ("Local Currency Deposit Account"). At the request of the borrower, the proceeds of the grant will be deposited by IDA into a US$-denominated account designated by the Borrower and acceptable to the Bank at the Central Bank of the Republic of Haiti (*Banque de la République d'Haïti*, BRH). The Borrower shall ensure that upon the deposit of the Grant into said account, an equivalent amount is credited in the Borrower's budget management system, in a manner acceptable to the Bank. The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited to the budget management system. If the proceeds of the grant are used for ineligible purposes as defined in the Development Policy Grant Agreement, IDA will require the Borrower to, promptly upon notice from IDA, refund an amount equal to the amount of said payment to IDA. Amounts refunded to the Bank upon such request shall be cancelled. The administration of this grant will be the responsibility of the Ministry of Economy and Finance.

RISKS AND RISK MITIGATION

131. **The proposed operation takes place in an environment of high risk characterized by significant macroeconomic, political and security, institutional capacity, and natural disaster risks.** These risks reflect the weak revenue mobilization capacity following the destruction of the Tax Directorate and damages to the economy, the country's security and political situation in the aftermath of the earthquake, the destruction of key institutions, and the country's exposure to hurricanes, flood, and possible aftershocks. *First*, low domestic revenue could worsen

macroeconomic performance, and a possible reduction of planned public investment may affect social stability. *Second*, a deterioration in the security and the political situation constitutes an important source of risk for the proposed operation. Uncertainty fueled by the difficult challenges in organizing the presidential elections and the possible extension of the current President's time at the presidency, gave rise to widespread discontent among population and the opposition parties. Sustained and growing discontent and demonstrations have taken place lately. *Third*, the destruction of several key governance institutions also represents a risk to the operation as it could further weaken already fragile institutions, which in turn would affect the implementation of reform and possibly government ownership as well as the reconstruction program. A possible reversal in the political stabilization process, together with a weakening of ownership over the key measures agreed with the government, could undermine the development objectives of the operation. *Lastly*, Haiti is highly vulnerable to natural disasters, including hurricanes, flash floods, and the potential risk of aftershocks of severe magnitude expected by some experts**.** Renewed occurrence of large scale natural disasters would derail the government's reform program and divert resources from the longer term development agenda towards more urgent recovery and reconstruction needs.

132. Mitigating factors are: (i) for macroeconomic risk, the continued commitment of donors to supporting the government's budget and government's efforts aimed at enhancing the efficiency of the use of public resources to mitigate the impact of low revenues in the short term; (ii) for political risk, the commitment of the government to enhanced transparency in public resource management and accountability of the executives could contribute to mitigating such a risk. Together with accelerating the delivery of key public services, it would be critical to strengthen the perception that the government is focusing on providing relief to the population, which in turn would help contribute to releasing political tension; (iii) for weak institutional capacity risk, the operation focuses on sustaining the government's reforms that have started generating positive results in a limited number of reform areas. The Bank also approved an Infrastructure and Institutions Emergency Recovery project in March 2010 to support the restoration of the functions of key institutions (procurement regulatory body, Ministry of Finance, Court of Accounts, Internal Audit Body) and restructured its portfolio by reallocating its funds from existing and pipeline projects or other sources, including trust funds, to respond to the urgent needs. In addition, the government has demonstrated commitment through the prior actions already carried out in a difficult environment, as well as the definition of the follow-on measures targeting critical areas of economic management and governance as part of a medium-term vision; and (iv) for natural disaster risk, the Bank's restructured portfolio of emergency recovery projects directly addresses this risk. However a major natural disaster, including an earthquake of similar magnitude of that of January 2010 could cause significant damage and derail the government's program.

ANNEX 1: LETTER OF DEVELOPMENT POLICY

REPUBLIQUE D'HAITI

MINISTERE
DE L'ECONOMIE ET DES FINANCES

Le Ministre

No. BM/BM/242/06-10

Port-au-Prince, le ....1er juillet 2010....

LETTRE DE POLITIQUE DE DÉVELOPPEMENT

Monsieur Robert B. **ZOELLICK**
Président
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

Monsieur le Président,

J'ai l'avantage de vous soumettre par la présente cette requête pour un décaissement accéléré de l'appui budgétaire en vue d'aider le Gouvernement de la République à poursuivre ses projets de réforme dans la perspective de renforcer la gouvernance, la régulation des marchés publics, et la gestion des dépenses publiques y compris l'intégrité des mécanismes de contrôle des opérations budgétaires.

Les politiques et réformes conduites sur les dernières années ont généré des acquis positifs qui ont amélioré la gestion macroéconomique, notamment : a) la réduction de US $1.2 milliard de l'encours de la dette avec l'atteinte du point d'achèvement PPTE en juillet 2009 qui permettra de dégager des disponibilités budgétaires à des fins d'investissement sur la décennie 2010, plus de $50 millions étant initialement affectés au service de la dette ; b) un cadre macroéconomique plus stable caractérisé par la reconstitution progressive des réserves internationales au niveau de 3.1 mois d'importations à septembre 2009 associée à une plus grande maitrise de l'inflation ; c) une amélioration du cadre des affaires qui a favorisé une reprise de l'investissement privé et une croissance moyenne annuelle de 2.2% au cours des cinq dernières années comparée à la chute de 0.7% sur la première moitié de la décennie précédente ; d) l'assainissement du secteur financier avec le renforcement des normes prudentielles et un niveau de rentabilité acceptable même si la persistance de niveaux élevés de liquidité dans le système rend nécessaire la modernisation de la politique de crédit ; e) des améliorations notables dans la gestion du budget même si des avancées sont toujours nécessaires, notamment en faveur d'une gestion axée sur les résultats.

D'importants progrès dans la mise en œuvre des mesures dans le domaine de la gouvernance économique ont été réalisés durant les six dernières années qui ont précédé le séisme du 12 janvier. Ces progrès concernent notamment la préparation du budget, le suivi de l'exécution du budget et le contrôle tant interne qu'externe des dépenses publiques, et la mise en œuvre d'un système de régulation des marchés publics. Les principaux points qui en ressortent sont décrits ci-dessous.

La loi sur la préparation et l'exécution des lois de finances prévoyant, entres autres, un calendrier d'élaboration du budget a été adoptée. La préparation du budget a été renforcée à travers la mise en oeuvre d'un processus de consultation entre le Ministère de l'Economie et des Finances (MEF) et les ministères sectoriels et la coordination entre le Ministère de la Planification et de la Coopération Externe (MPCE) et celui de l'Economie et des Finances pour mieux articuler les dépenses d'investissement et les dépenses courantes. Les différents secteurs de la société civile ont été associés à l'élaboration et informés des choix budgétaires. Le projet de budget est depuis plusieurs années désormais soumis à temps au Parlement. Des dispositions ont été prises pour la vulgarisation du budget au public à travers le site web du MEF, des dépliants, le Journal Officiel et la presse écrite.

Les systèmes de contrôle des dépenses publiques ont été renforcés par la création et le fonctionnement de l'Inspection Générale de Finances (IGF). En outre, des comptables publics et contrôleurs financiers ont été déployés dans tous les ministères et organismes publics et l'utilisation des comptes courants a été réduite de 60% des dépenses courantes hors salaires en 2004 au niveau historique de 3% en 2009. Le SYSDEP et le SYSGEP, deux systèmes de gestion automatisés des dépenses publiques sont régulièrement utilisés pour assurer une gestion serrée et intégrée des dépenses courantes et d'investissement. Des rapports réguliers sur l'exécution du budget conformes aux normes de comptabilité internationales sont publiés sur une base mensuelle et annuelle. Depuis 2005, les comptes du Trésor sont préparés moins de huit (8) mois après la fin de l'exercice fiscal et transmis pour avis à la Cour Supérieure des Comptes et du Contentieux Administratif (CSCCA) avant d'être soumis au Parlement.

Au niveau des recettes, les efforts soutenus visant à améliorer la gestion des administrations fiscale et douanière ont permis d'augmenter la pression fiscale à 11.2% en 2009 contre 10% en moyenne sur les 10 dernières années. Un nouveau code douanier a été approuvé par la Chambre des Députés. Le processus d'élaboration d'un code fiscal en vue de l'aligner sur les normes régionales a été lancé. Le Sydonia World a été installé dans les principaux bureaux de douane dans l'objectif d'améliorer leur efficacité et réduire les cas de fraude et de sous-facturation. En même temps, le mandat de la SGS, la compagnie en charge de l'inspection des marchandises avant embarquement a été étendu aux bureaux de douane de provinces afin d'aider à assurer leur efficacité dans la gestion des flux de marchandises et la collecte des recettes.

Une Commission Nationale des Marchés Public (CNMP) a été créée pour mieux réguler et normaliser les mécanismes de marchés publics, contribuer à renforcer la capacité des ministères sectoriels au niveau des procédures d'acquisition de biens et de services. Ceci a permis, même avant la mise en place du cadre juridique, une certaine amélioration des pratiques de passation de marchés.

Grâce aux diverses sessions de formations qui ont été organisées. Il a été révélé que la part des achats de biens effectués sans appel d'offre dans le total des marchés passés par l'Etat a baissé de 85% en 2004 à 56% en 2008. De plus, quelques mois avant le séisme, un pas important a été franchi avec l'adoption, par le Parlement en juin 2009, de la nouvelle loi sur la passation des marchés. Quatre importants arrêtés d'application ont été signés et publiés.

La création en 2005 de l'Unité de Lutte contre la Corruption (ULCC) a grandement contribué à la sensibilisation des fonctionnaires publics et de la population générale sur les couts et risques liés à la corruption ainsi que sur les voies et moyens pour la prévenir.

Après l'adoption de la loi sur la Déclaration de Patrimoine, il a été constaté qu'une bonne majorité des fonctionnaires publics s'est soumise aux injonctions de ladite loi. Suite au dépouillement de leur déclaration, un rapport a été déposé par l'ULCC par devant la CSCCA et les Commissions d'Ethique et de Lutte Contre la Corruption des deux chambres.

En affectant directement Port-au-Prince et toute la zone métropolitaine qui abritent les plus importantes infrastructures économiques et sociales ainsi qu'un tiers de la population du pays, le séisme du 12 Janvier 2010 a très fortement affecté l'économie. Les capacités productives du pays ont été affectées. La vulnérabilité de la population et des institutions étatiques s'est accrue avec une décapitalisation considérable des ménages et de l'Etat impliquant une diminution de la capacité de ce dernier à fournir des services de base essentiels à la population. La perte d'un stock important de capital matériel (infrastructures, logements, équipements et matériels) et de ressources humaines place le pays dans des conditions initiales plus défavorables pour amorcer une dynamique soutenue de croissance et de réduction de la pauvreté.

La situation des finances publiques qui était en nette amélioration avant le séisme a connu une détérioration sensible mais heureusement temporaire. Les recettes qui s'élevaient à 3 milliards de gourdes en moyenne mensuelle au cours du premier trimestre (contre 2.4 milliards un an auparavant) se sont brutalement effondrées à 700 millions de gourdes en janvier 2010, puis 1.6 milliard de gourdes en février avant de remonter progressivement jusqu'à atteindre 2.8 milliards de gourdes en mai. Etant donné cette performance, les prévisions de recettes ont été revues à la hausse. Elles ont été établies à 26.3 milliards de gourdes contre 34.9 milliards de gourdes initialement prévus, soit un niveau de récupération de 75% environ.

Sur le plan de l'exécution des dépenses, le Ministère de l'Economie et des Finances (MEF) opère actuellement à partir de deux sites provisoires et avec un personnel réduit. Les principaux serveurs abritant les données ont été sauvés et sont de nouveau opérationnels. Les prévisions de dépenses sur l'exercice fiscal font état d'une réduction légère des dépenses courantes (-0.5% par rapport à l'exercice précédent), les dépenses de salaires ayant été rapidement rétablies et régulièrement payées. Par contre les dépenses d'investissement financées à partir des ressources internes et pour partie redéployées vers les dépenses d'urgence devraient progresser de 26.4%.

Les orientations de politique du Gouvernement après le séisme.

Le Gouvernement a élaboré un plan d'action qui appuie la reconstruction d'Haïti suite au séisme. Il a présenté à la conférence des bailleurs du 31 mars 2010 à New York le cadre de la reconstruction, décrit dans un Plan d'actions pour le relèvement et le développement d'Haïti qui s'articule autour de quatre grands chantiers : :

1. La refondation territoriale, qui passe par l'identification, la planification et la gestion des nouveaux pôles de développement, la stimulation du développement local, la reconstruction des zones affectées, la mise en place des infrastructures économiques nécessaires à la croissance (routes, énergie et communication), la gestion du foncier garantissant la protection de la propriété et facilitant l'avancement des grands projets.

2. La refondation économique qui, avec la valorisation des secteurs clés, va viser la modernisation du secteur agricole dans ses composantes offrant un potentiel exportable, le développement d'un secteur de la construction professionnelle, doté de lois et règlements antisismiques et anticycloniques et des structures d'application et de contrôle, la poursuite des activités de l'industrie manufacturière, l'organisation du développement touristique.

3. La refondation sociale priorisant en tout premier lieu un système éducatif garantissant l'accès à l'école à tous les enfants, offrant une éducation professionnelle et universitaire en adéquation avec l'exigence de modernisation de notre économie, un système de santé assurant une couverture maximum sur tout le territoire, une protection sociale pour les salariés et les plus vulnérables.

4. La refondation institutionnelle qui s'attaquera immédiatement à la remise en fonctionnement des institutions étatiques en priorisant les fonctions les plus essentielles, la redéfinition de notre cadre légal et règlementaire pour mieux l'adapter à nos besoins, la mise en place de la structure qui aura le mandat de gérer la reconstruction, l'établissement d'une culture de transparence et de reddition de comptes qui rende la corruption impraticable sur notre territoire.

Le cadre macroéconomique

La relance est prioritaire et la croissance doit être vigoureuse sur les prochaines années pour permettre d'améliorer les conditions de vie. En raison des dommages et pertes et du net ralentissement de l'activité économique causés par le séisme, il est prévu une chute de 8.5% du PIB, malgré les mesures d'urgence et de relèvement qui s'étendent sur 18 mois après le séisme. Nos projections macroéconomiques à l'horizon 2015 tablent sur une croissance moyenne annuelle de 3.5% du PIB par tête en termes réel. Ceci implique une récupération rapide qui devrait porter le taux de croissance du PIB à 9.8% en 2010-2011, taux qui devrait graduellement baisser jusqu'à se stabiliser à un niveau légèrement supérieur à 6% par an d'ici 2015.

La stratégie de croissance veut favoriser une diversification accrue des sources de la croissance, en valorisant nos potentiels, ce qui favorisera une intégration plus forte des secteurs, et partant un accroissement significatif des emplois et des opportunités offerts aux populations afin de limiter les fuites et permettre une répartition plus équitable des fruits de la croissance.

Le Gouvernement entend aussi consolider les acquis en matière de stabilité macroéconomique en poursuivant les réformes structurelles qui seront encadrées par un nouveau programme triennal conclu avec le FMI supporté par une Facilité Elargie de Crédit qui sera sous peu soumise à l'approbation de son Conseil d'administration. Par ailleurs, une matrice conjointe réduite des mesures de performance en matière de gestion des finances publiques a été approuvée lors de la dernière revue du Cadre de partenariat relatif à l'appui budgétaire avec les bailleurs de fonds octroyant l'appui budgétaire.

Un défi majeur sera de sécuriser les ressources indispensables pour réaliser les investissements notamment en infrastructures, y compris en matière de reconstruction, et fournir les services de base sociaux et économiques nécessaires. Dans ce cadre, la politique fiscale table sur une augmentation progressive de la pression fiscale à 12.2% d'ici 2012. Le déficit budgétaire hors dons et investissements sur financements extérieurs sera contenu à 4.4% en 2009-10 pour chuter graduellement à 3.0% en 2012-13. Ce niveau de déficit sera comblé par des appuis budgétaires externes afin d'éviter de recourir au financement monétaire, source de tension sur les prix et le taux de change. Cette posture sera maintenue sur le reste de la période pendant que seront mises en œuvre les réformes pour renforcer la capacité et les structures internes de financement de l'Etat.

La politique monétaire sera orientée de façon à contenir l'inflation sous la barre des 10% l'an tout en assumant que la priorité est à la relance de l'économie. La maîtrise de l'inflation devra contribuer à notre objectif de compétitivité-prix en minimisant notre différentiel d'inflation défavorable avec nos partenaires et compétiteurs.

Le programme de gouvernance pour lequel cet appui est sollicité

Il ressort de toutes les analyses que la situation de la gouvernance économique mérite d'être renforcée à un moment ou un programme massif de soutien à Haïti a été adopté par la Communauté internationale lors de la conférence de New-York et confirmé plus récemment à Punta Cana.

Le chantier est vaste et le Gouvernement est conscient de l'importance accordée par la population haïtienne et par les partenaires financiers internationaux d'Haïti à la bonne utilisation des deniers publics, à la transparence et la reddition des comptes dans la gestion des ressources mises à la disposition du Gouvernement pour la reconstruction et le développement d'Haïti. Lors de la réunion technique qui a eu lieu les 16 et 17 mars en République Dominicaine, le Gouvernement, à travers ses représentants, a réitéré l'importance qui sera accordée à la gestion saine et transparente des ressources qui seront mobilisées par les contribuables et partenaires d'Haïti.

Dans la période post-séisme, le Gouvernement est déterminé à protéger les acquis en matière de gouvernance économique, voire aller encore plus loin. Même si le séisme a porté un coup dur à des institutions clés ainsi qu'aux moyens logistiques en place avant le 12 janvier, le Gouvernement s'est rapidement attelé à récupérer les équipements et serveurs clés qui n'étaient pas complètement endommagés, et mobilisé l'appui des partenaires clés pour remettre sur pied les systèmes de gestion et de contrôle existants avant le séisme.

Il a en outre élaboré un programme de gouvernance qui vise à consolider les progrès effectués au cours du passé récent et à s'attaquer aux nouveaux défis de gouvernance créés par l'impact du tremblement de terre sur les institutions. Ce programme s'appuie sur le point quatre (4) du Plan d'Action de Reconstruction. En particulier, le Gouvernement entend mettre l'accent sur les efforts consistant àrenforcer la transparence dans la gestion des transferts dans le secteur de l'électricité, l'application de la loi sur la déclaration de patrimoine pour réduire les risques de corruption, les contrôles internes et externes de l'utilisation des ressources budgétaires et le soutien aux institutions en charge de ces contrôles, la consolidation de la réglementation en matière de passation des marchés publics.

La transparence budgétaire dans le secteur de l'électricité.

L'objectif du gouvernement est d'étendre la couverture d'électricité dans les zones non couvertes, d'améliorer la gestion de la firme publique (EDH), et d'améliorer l'efficience des transferts publics au secteur de l'électricité qui se chiffrent à environ 100 millions de dollars EU par an.

Deux réformes majeures ont été engagées dans le secteur de l'électricité au cours des années passées. Elles ont été orientées de façon à améliorer la situation financière du secteur et à renforcer ses capacités institutionnelles. Les transferts du budget ont été réduits dès 2009 et une nouvelle structure tarifaire a été définie pour EDH et adoptée en août 2009. Le séisme a eu des répercussions très négatives sur EDH, avec les dommages subis, la réduction sensible de ses clients à Port au Prince et les difficultés accrues dans le recouvrement des factures. Ainsi, en mars 2010, les recettes étaient de l'ordre de 30% par rapport aux projections avant le tremblement de terre. Le tremblement de terre a également retardé la mise en place des deux systèmes de facturation et d'entretien du réseau sensés renforcer l'efficacité de la gestion d'EDH. Le paiement des factures des producteurs indépendants de l'énergie électrique souffrait d'une certaine faiblesse. Cela a occasionné des irrégularités dans les paiements et l'utilisation fréquente des lettres de garantie ouvertes auprès de la BRH.

A la suite du tremblement de terre, les transferts risquent d'augmenter de manière substantielle pour faire face au besoin de maintenir et d'augmenter le taux de couverture de l'électricité. Ainsi, le Gouvernement compte renforcer la transparence dans le cadre de la gestion des transferts qui consistent à couvrir les besoins de l'EDH en matière de mazouts et les paiements des factures des fournisseurs privés d'électricité.

Pour ce faire, le gouvernement a renforcé le suivi et la validité des dispositifs de transfert en faveur du secteur, par la publication d'une note servant à clarifier les procédures de paiement des factures présentées par les producteurs indépendants à toutes les entités concernés afin d'en observer la stricte application. Le Gouvernement a également publié sur le site internet du MEF ces données.

Dans un futur proche, des audits indépendants seront organisés pour s'assurer de la véracité et de la conformité des transferts réalisés, en relation avec la vérification des factures présentées et payées.

La lutte contre la corruption

L'étude sur la gouvernance et la corruption de 2005 a démontré qu'une très large majorité des acteurs de la société civile considéraient la corruption comme un problème majeur dans le secteur public. La lutte contre la corruption est un des objectifs majeurs du Gouvernement. Cet objectif est d'autant plus valable dans le cadre de la reconstruction qui anticipe l'injection de ressources importantes en Haïti.

Des étapes critiques ont été franchies au cours des années récentes pour doter Haïti d'instruments de lutte contre la corruption. Haïti a ratifié les principales conventions internationales en la matière et a créé en 2004 une Unité de lutte contre la corruption, tout en adoptant une stratégie de lutte contre la corruption en 2009, confirmée après le séisme par une déclaration formelle en faveur de la bonne gouvernance. Une loi sur la déclaration du patrimoine des principaux responsables publics a été votée en 2008 et fait l'objet d'une surveillance par l'ULCC.

Depuis la promulgation de cette loi, plusieurs rapports de suivi ont été préparés par l'ULCC et transmis à la CSCCA et aux deux commissions d'éthique du Parlement. En vue d'améliorer le taux de déclaration, le gouvernement entend renforcer ce processus à travers la mise en œuvre de ladite Loi par l'adoption d'un décret sur le code d'éthique pour le secteur public.

Les contrôles budgétaires

Le contrôle administratif relève de l'Inspection Générale des Finances (IGF), que ce contrôle soit à priori ou à posteriori. Le contrôle juridictionnel, externe et indépendant, est assuré par la Cour supérieures des comptes et du contentieux administratif (CSCCA), tandis que le contrôle législatif est assuré par le Parlement.

Le séisme du 12 janvier a contribué à affaiblir les organismes de contrôle et à ralentir les progrès réalisés dans ce domaine. Des retards ont été constatés au niveau de la publication de l'audit des comptes du gouvernement par la CSCCA. Des mesures ont été prises afin de rattraper les retards pour faire en sorte que les résultats produits puissent être transmis aux entités concernées afin de corriger les faiblesses constatées à temps.

Afin de poursuivre les réformes visant à renforcer l'effectivité et le rôle attendu des contrôles budgétaires, et de renforcer l'intégrité de la gestion des dépenses publiques, le Gouvernement a finalisé les audits préliminaires des comptes du Gouvernement 2007-08. Afin de continuer le processus de rattrapage, le Trésor a soumis à la Cour des Comptes les comptes du Gouvernement pour l'année 2008-09. En outre, l'IGF a adopté un nouveau plan d'action pour la période 2010-14 et un manuel d'opération pour l'usage des inspecteurs. Ces actions visent à rendre effectives les recommandations des audits par le raccourcissement du cycle de mise à disposition des audits et la mise en œuvre des résultats d'audits par l'IGF.

Par la suite et au cours de l'année 2010-11, le programme du Gouvernement consiste à renforcer ses propres procédures de préparation et d'exécution du budget, à poursuivre le processus de déploiement du corps des inspecteurs en direction des ministères dépensiers et à prendre toutes les dispositions pour que la CSCCA soit effectivement en mesure d'exercer ses prérogatives en matière de vérification et de certification des comptes publics dans les délais prescrits par la loi.

La passation des marchés

L'objectif du Gouvernement est de pleinement mettre en œuvre la nouvelle Loi de passation des marchés. Ceci passe forcement par le renforcement de l'organe de régulation.

La situation post-séisme a amené le gouvernement à faire adopter une loi d'urgence autorisant les entités publiques à utiliser les procédures célères prévues par la Loi de passation de marchés publics. Le Gouvernement a publié une note explicitant les procédures à suivre selon la Loi de passation des marches en vigueur sous le couvert de la loi d'urgence. Ceci permettra de rappeler aux entités publiques contractantes ces procédures et de veiller à l'application de la Loi. Il a également lancé les procédures de recrutement des membres de la CNMP dont le mandat expirera en Septembre pour éviter un vide institutionnel qui pourrait être préjudiciable à la régulation des marchés publics. Enfin, la CNMP a opérationnalisé de nouveau son site web pour publier les contrats récents de manière à assurer la transparence.

Par ailleurs, les autorités intensifieront leurs efforts en vue de rendre la loi sur la passation de marchés pleinement opérationnelle, ce qui impliquera de renforcer les moyens, en particulier humains, de la CNMP, de soutenir les commissions des marchés au sein des grands ministères dépensiers, de procéder à l'audit des marchés passés depuis l'entrée en vigueur de la loi actuelle et de promouvoir l'adoption des plans de passation des marchés par les entités publiques, soumis à l'approbation de la CNMP, préalablement à tout engagement de dépenses.

STRATEGIE D'EXECUTION ET DE SUIVI DU PROGRAMME

Pour assurer l´exécution et le suivi du programme, le gouvernement a mis en place avec le MEF une structure pour le suivi stratégique des réformes et des politiques y compris la coordination des contributions des différentes institutions financières et techniques qui appuient nos efforts dans ce domaine.

Je réitère notre engagement de travailler avec votre institution, en particulier pour mettre en œuvre notre politique de renforcement de la bonne gouvernance, de la transparence et de la redevabilté.

En vous remerciant pour l´attention que vous accorderez à cette demande, je profite de l'occasion pour vous féliciter, au nom du Gouvernement, pour les engagements de la Banque Mondiale en Haïti et plus spécifiquement à l'occasion du tremblement du 12 janvier dernier et vous présenter, Monsieur le Président, l´expression de ma considération distinguée.

Marie Michèle REY
Ministre ai

LETTER OF DEVELOPMENT POLICY
(English Version)

President
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

Mr. President,

The government of the Republic of Haiti hereby submits this request for accelerated disbursement of budgetary aid, with a view to helping it to pursue its reform projects aimed at strengthening its capacity to manage the public finances in a more optimal and efficient way, while ensuring the accountability and transparency of budgetary operations.

The policies and reforms implemented over recent years have produced some positive changes which will definitely facilitate macroeconomic management, including: a) the reduction of US$1.2 billion in outstanding debt, reaching the HIPC point in July 2009 which will make it possible to free up budget funds for investment purposes for the 2010 ten-year period, with over US$50 million being initially allocated to debt service; b) a more stable macroeconomic context characterized by the progressive reconstitution of international reserves to a level of 3.1 months of imports as of September 2009, and greater control of inflation; c) an improvement in the business climate which favored a resumption of private investment and annual average growth of 2.2 percent over the last five years compared with the decline of 0.7 percent over the first half of the preceding ten-year period; d) a strengthening of the financial sector by tightening of the prudential rules and requiring an acceptable level of liquidity even if the persistence of high liquidity levels in the system renders an adjustment of the credit policy necessary; and e) some noteworthy improvements in budgetary management, even if some advances are still necessary, particularly in favor of results-based management.

Significant progress had been made in governance before the earthquake in budget preparation, monitoring of budget execution and controls, and procurement regulation. The main achievements are highlighted below.

The legal framework for budget preparation was adopted, which allowed for submitting the budget to Parliament in a timely manner. Budget preparation has been strengthened with a consultation process involving the Ministry of Finance and Planning as well as line ministries. The civil society has been involved in the design of the budget. The government budget is now widely disseminated on website and the official journal.

The control system has been strengthened with the creation of the internal audit body (IGF). Public accountants had been deployed in all line ministries and the use of the *comptes* *courants* went from approximately 60 percent of total expenditures in 2003-04 down to an estimated 3 percent for FY 2009-10. A financial management system was implemented throughout the central administration, which integrates the budget, treasury and accounting functions (SYSDEP), and monitoring of investment has been launched with another monitoring system (SYSGEP). Reporting had been strengthened with through actions to reduce the backlog and delay in submitting the Court of Accounts' legal opinion on the Budget Review Law to Parliament.

With respect to revenue, tax revenue increased to 11.2% in FY09 compared to an average of 10% over the past years. Significant progress was made in tax and customs administration, which helped sustain tax revenue performance over the recent past. The government had implemented a comprehensive package of reforms including, the adoption by Parliament of a new Customs Code. A new computerized information system (ASYCUDA World) under UNCTAD assistance was installed in the main customs offices. The pre inspection company's mandate has been extended ensure effective customs revenue collection.

In procurement, the creation of a procurement regulatory body (CNMP) helped regulate procurement practices and brought about a significant reduction of the percentage of noncompetitive procurement (defined as contracts awarded "sole source" or after "restricted bidding"). According to the latest statistics available, the use of such noncompetitive procurement methods (*gré-à-gré* and *appel d'offres restreint*) declined from an estimated 85 percent of contract awards in 2004 to 56 percent in 2008. Before the earthquake a Procurement Law was adopted with four implementing decrees.

The creation of an anti-corruption unit (ULCC) has helped raise awareness among civil servants and the population about the consequences of corruption and the way forward in combating corruption. Subsequent to the adoption of the Law on Declaration of Assets, several categories of targeted groups have submitted their declarations, and a monitoring report has been submitted to the Senate and the ULCC.

Because it directly impacted Port-au-Prince and the entire metropolitan area where the most important economic infrastructure facilities are located and a third of the country's population resides, the earthquake of January 12, 2010, very severely disrupted the economy and the public finances system. The country's productive capacities have been devastated. The vulnerability of the population and of the state institutions has been increased by a pronounced recapitalization of households and of the State which has eroded the latter's ability to provide essential basic services for the people. The loss of a considerable quantity of physical capital (infrastructure, housing, equipment and materials) and also of human resources has put the country in an initially unfavorable position for moving into a sustained dynamic of growth and poverty reduction.

The position of the public finances, which was posting distinct improvement before the earthquake, is now displaying a definite but fortunately temporary downward trend. Revenue, which was running at a monthly average of 3 billion gourdes during the first quarter (against 2.4 billion gourdes a year earlier) slumped abruptly to 700 million gourdes in January 2010, then 1.6 billion gourdes in February, prior to progressively moving back up to 2.8 billion gourdes in May. The target for the 2009-2010 fiscal year has now been scaled back to 26.3 billion gourdes against the 34.9 billion initially set, hence a performance of just 75 percent. Although the majority of the regional offices contributing to the State's resources were not affected by the earthquake, the revenues collected in the provinces have remained pitifully low and the bulk of all revenue is currently being generated in the metropolitan area, which also includes the country's main port and airport.

Regarding the implementation of expenditure, the Ministry of Economy and Finance (MEF) is presently operating out of two provisional locations and with a reduced number of personnel. The main servers holding the data were saved and are once again operational. The expenditure forecasts for the fiscal year point to a slight reduction in current expenditure (-0.5 percent compared with the previous year), while wages and salaries were swiftly restored and are being paid on schedule. Locally financed capital expenditures, which have been diverted in part to cover emergency needs, are expected to increase by 26.4 percent.

Policy emphases of the government

The Haitian government presented the policy framework for reconstruction to the Donor Conference held in New York on March 31, 2010, broken down into an Action Plan for the recovery and development of Haiti and organized around four main thrusts:

1. Territorial recasting, involving the identification, planning and management of new development areas, stimulation of local development, reconstruction of impacted areas, establishment of the economic infrastructure necessary for growth (roads, energy and communications), and real estate management that ensures protection of property ownership while facilitating the progress of major projects.

2. Economic recasting, which with the development of the key sectors, must seek the modernization of the agriculture sector in its components offering an exportable potential, development of a professional construction sector governed by anti-earthquake and anti-hurricane laws and regulations and including application and supervision agencies, and pursuit of manufacturing industry and organization of tourism development.

3. Social recasting, assigning priority in the first place to an education system that guarantees access to schooling for all children, offering vocational and university education aligned on the modernization requirements of our economy, a health system assuring full coverage nationwide, and social protection for the employed and the most vulnerable.

4. Institutional recasting, which will immediately tackle the task of getting the state institutions up and running again and giving priority to the most essential functions, the redefining of our legal and regulatory framework to make it better suited to our needs, the setting up of the agency that will be tasked with managing the reconstruction, and establishment of a culture of transparency and accountability which renders corruption out of the question nationwide.

The aim will be to develop a dynamic focus on catching up and improving the standard of living and the quality of life, together with rapid growth and a pursuit of competitiveness that will guarantee the possibility of Haiti being classified as an emerging country by 2030.

The program for which the budgetary aid is requested

In general terms and in connection with the other partners which include the IMF, the program will strengthen the stability of the macroeconomic framework.

The macroeconomic framework

Recovery is the priority, and growth must be vigorous over the coming years to permit improvement of living conditions. As a result of the damage and losses suffered and the marked slowdown in economic activity caused by the earthquake, a drop of 8.5 percent is expected in GDP, notwithstanding the emergency and rehabilitation measures scheduled to extend over 18 months after the quake. Our macroeconomic projections for the period up to 2013 point to annual average growth of 3.5 percent GDP per capita in real terms. This implies a rapid recovery which would conceivably bring the rate of GDP growth up to 9.8 percent in 2010-2011, a rate which would gradually slow until it stabilizes on a trend slightly above 6 percent p.a. between now and 2015.

Our growth strategy is designed to favor greater diversification of the sources of growth by taking maximum advantage of our potentials, which will spur intensified integration of the sectors and, following on from a significant increase in the number of job openings and opportunities, will serve to slow emigration and allow more equitable distribution of the fruits of growth.

We also intend to consolidate the progress made in regard to macroeconomic stability by pursuing the structural reforms that will be implemented in the context of a new, three-year program agreed on with the IMF and supported by an Extended Credit Facility that will be submitted for approval by the Executive Board this coming September. In addition, a reduced joint matrix of performance measurements in management of public finances was approved during the last review of the partnership arrangements relating to budgetary aid with the donors providing the aid.

A major challenge will be securing the resources essential for carrying out the investments in infrastructure in particular, including reconstruction, and providing the necessary basic social and economic services. In this connection, the fiscal policy envisages a progressive increasing of the tax burden to 12.2 percent between now and 2012. The budget deficit excluding grants and external financings will be contained at 4.4 percent in 2009-2010 and will then gradually decline to 3.0 percent in 2012-2013. We hope to be able to cover these deficits by external budgetary aid in order to avoid resorting to monetary financing, which could be a source of inflation. This stance will be maintained over the rest of the period while the reforms designed to strengthen capacity and internal financing mechanisms, such as the financial autonomy of the State, are implemented.

The monetary policy will endeavor to hold inflation below the 10 percent per year level while assuming that the priority is recovery of the economy. Control of inflation will have to contribute to our goal of price competitiveness by reducing our unfavorable inflation differential with our partners and competitors.

Regarding the program itself, four specific components will receive special attention.

Budgetary transparency in the electricity sector

The objectives of the government are to expand electricity coverage, to improve the management of the utility company (EDH), and to improve the transparency in the management of transfers to the electricity sector, which amounts to approximately US$100 million a year.

The government has undertaken two major reforms in the electricity sector aimed at improving the sector's financial position and strengthening its institutional capacities. Budget transfers were reduced in 2009, and a new rate structure was devised for EDH and adopted in August 2009. The earthquake had some very negative repercussions on EDH, with the appreciable thinning of its clients in Port-au-Prince and the heightened difficulties in collecting invoices. Thus, in March 2010, receipts were of the order of 30 percent of the pre-quake projections. The quake also delayed introduction of the two billing and system-maintenance systems designed to improve EDH's management efficiency.

Management of the transfers to the electricity sector has suffered up until now from the absence of strict application of the institutional rules supposed to govern it, in particular regarding payment of independent producers' invoices. This has led to an irregular payment situation involving use of a BRH guarantee letter for independent producers, and at times the absence of agreement between the parties on the payments made. As a result, clarity was lacking regarding the amounts paid to the independent producers and the subsidies to EDH, which were only partially published notwithstanding the government's transparency objectives.

After the earthquake, a substantial increase in transfers was likely in order to meet the need to maintain and increase electricity service coverage. The government accordingly enhanced transparency in the management of transfers for covering EDH's needs for fuel oil and payments to independent electricity producers. To achieve this, the government strengthened the monitoring and validity of the transfer arrangements in favor of the sector by the legal clarification mechanisms in effect governing payment of invoices submitted by independent producers to all entities concerned so as to ensure strict application of all pertinent rules. The government also ensured that these data are published on the MEF, MTPTC [*Ministry of Public Works, Transportation and Communications*] and EDH websites and updated monthly. Independent audits will be organized to verify the veracity and conformity of the transfers made, in connection with the auditing of the invoices submitted and paid.

Combating corruption

The 2005 study on governance and corruption revealed that a very large majority of the leading members of civil society considered corruption to be a major problem in the public sector. Combating corruption is one of the government's primary objectives. This objective is all the more valid in the context of the reconstruction efforts that can be expected to involve the injection of considerable resources into Haiti.

Some critical milestones have been passed in recent years in the process of equipping Haiti with instruments for combating corruption.

Haiti has ratified the principal international conventions on the subject and established in 2004 an Anti-Corruption Unit [*Unité de Lutte Contre la Corruption* ULCC], while adopting a strategy for the purpose in 2009, that was confirmed after the earthquake by a formal declaration in favor of good governance. A law on asset declaration by political officials, civil servants and other public agents was passed in 2008 and is the subject of monitoring by the ULCC. This law has only been partially implemented for the moment, and the government undertook to strengthen this process by means of the sending by the ULCC to the supervisory authorities, including the Ministry of Finance, the Court of Accounts and the Senate, of a report setting out the status of asset declaration by the different agents concerned. This stage will initiate a set of actions designed to either increase the rate of declarations or else to apply the provisions of the law to those balking at complying. The government will strengthen the tools for implementing said law by adoption of a decree on the code of ethics for the public sector, with special emphasis on the reconstruction efforts and the extensive public procurement that will be involved.

The budgetary controls

The administrative control, whether performed *a priori* or *a posteriori*, is the responsibility of the General Finance Inspectorate [*Inspection Générale des Finances* IGF]. The jurisdictional control, external and independent, is performed by the Court of Accounts [*Cour Supérieure des Comptes et du Contentieux Administratif* CSC/CA], while the legislative control is done by Parliament.

In practice, the control agencies remain relatively weak, in terms of human resources and verification tools, and the earthquake of January 12 did not help to strengthen them. As it happens, the auditing of the government accounts by the CSC/CA has fallen considerably behind and the audit of those for 2007-2008 is only now being wrapped up, a circumstance which diminishes the relevance of such exercises. While the CSC/CA was in the process of making progress with these audits so that the findings could be communicated to the entities concerned to permit prompt correction of weaknesses found, after the damage caused by the quake the CSC/CA's audit work could be further delayed. There was also no coordination between the CSC/CA and the IGF, although the IGF is responsible for applying the CSC/CA's recommendations in the budget implementation process. The government accordingly brought this entity into operation around the third calendar quarter of 2009, while the activities contained in its action plan adopted in the same period were to be started right away. This plan will now have to be revised, in light of the quake and of the reconstruction work and related activities now to be done.

In order to pursue the reforms designed to strengthen the effectiveness of the role expected of the budgetary controls, and to improve the integrity of the management of public expenditure, the government has: (i) finalized the audits of the government accounts for 2007-2008. To move the catching-up process forward, the Treasury has submitted the government accounts for 2008-2009 to the Court of Accounts; and (ii) adopted a new action plan for the IGF together with an operating manual for the inspectors.

Subsequently and in the course of 2010-2011, the government's program will consist in strengthening its own budget preparation and implementation procedures, in deploying the corps of inspectors to the spending ministries and in taking all steps required for the CSC/CA to be fully capable of performing its assigned functions with regard to auditing and certifying the public accounts within the time limits set by law.

Procurement

The objective of the government is to fully implement the Procurement Law, which requires strengthening the procurement regulatory body. The past practices in regard to procurement were weak and the most often resulted in the awarding of private contracts lacking in transparency and showing little concern for the efficaciousness of public expenditure. The efforts made in the recent past have made it possible to gradually reverse this trend, in particular as a result of the establishment of the National Public Procurement Commission [*Commission Nationale des Marchés Publics* CNMP], whose role consisted in controlling the procurement procedures and applying the standard procedures in effect. This made possible a significant reduction in the number of contracts awarded without competition. Then there was also the adoption of a Public Procurement Law in August 2009 and the main implementing decrees, with a view to introducing tighter control of public procurement.

The post-earthquake situation has led the government to adopt an Emergency Law authorizing governmental entities to use the fast-track procedures provided for by the Procurement Law, but without suspending the strict rules governing procurement. The government undertook to publish a note clarifying these points and explaining in detail the procedures to be followed under the Emergency Law. The government commenced the hiring procedures for members of the CNMP whose mandate expires in September 2010 in order to prevent any interruption, even temporary, of the activity of this institution of crucial importance in these times when reconstruction is the order of the day and taking into account the Emergency Law. Finally, the CNMP got its website up and running and to publish the contracts awarded.

In addition, the authorities will intensify their efforts to make the Procurement Law fully operational, which will involve strengthening of the CNMP's resources, and especially its human resources, supporting the procurement committees in the major spending ministries, performing the audit of the contracts awarded since the entry into force of the present law, and promoting the adoption of procurement plans by public entities, subject to CNMP approval, prior to any expenditure commitment.

These activities will require technical assistance from the World Bank, particularly through EGTAG II and the emergency project supported by the group institutions.

STRATEGY FOR IMPLEMENTATION AND MONITORING OF THE PROGRAM

For ensuring implementation and monitoring of the program, the government has established with the Ministry of Economy and Finance an entity for the strategic monitoring of the reforms and policies, including coordination of the contributions of the different financial and technical institutions that support our efforts in this field.

I reiterate our commitment to working with your institution, in particular in the implementation of our policy of strengthening good governance, transparency and accountability.

Very truly yours,

ANNEX 2: HAITI EMERGENCY RECOVERY OPERATION POLICY MATRIX

Objectives	Prior Actions	Baseline	Expected Outcomes	Key Next Steps
I. Transparency in Transfers Management				
To enhance transparency and monitoring of financial transfers in the electricity sector	(i) The government has strengthened the monitoring of payments to the electricity sector, as evidenced by the issuance of a joint-memorandum from the MEF and the MTPTC (under whose authority EDH is) describing: (i) the procedures to be followed by the MEF and EDH for payments of IPPs pursuant to the IPPs' respective contracts currently under implementation; and (ii) MEF and EDH's respective obligations in this procedure (ii) The MEF has published on its website the monitoring mechanism table – consolidated by MTPTC – for the period from October 2009 through March 2010. At a minimum, the table includes updated monthly data on: (i) payments made by the State to each IPP, as well as transfers to cover EDH fuel costs; (ii) payments made by EDH to each IPP; (iii) energy produced by each IPP; and (iv) amounts billed by each IPP during the period.	No formal framework is in place to monitor the transfers to the IPP and EDH, and the use of such transfers lacks transparency	All invoice payments by the Ministry of Finance (MEF) to the Independent Power Providers (IPP) follow the rules described in the joint-memorandum signed by the MEF and the Ministry of Public Work (MTPTC) Data on payments to IPPs published on the Ministry of Finance's website and actual payments are reconciled by the MTPTC and MEF	An independent firm has carried out an audit of the published monitoring tables

Objectives	Prior Actions	Baseline	Expected Outcomes	Key Next Steps
		II. Public Finance Management: Budget Controls		
To reinstate budget controls	(i)The CSC/CA has communicated to MEF the results of the external audit of the government accounts (October 2007 to September 2008); (ii) The MEF has submitted the 2008-09 central government accounts to the Supreme Audit Institution (CSC/CA); and	Submission of the results of external audits by the CSC/CA has experienced major delays following the quake	Improved compliance of external audits and Budget review Law submission within the statutory timeframe: (i) the MEF submits to the Court of Accounts the 2009-10 government accounts no more than 8 months after the end of the FY2010; and (ii) the Court of Accounts communicates to the MEF the results of the audits of the 2008-09 and 2009-10 government accounts by September 30, 2011.	The Ministry of Finance has adopted and disseminated a procedural manual for the preparation and execution of the budget.
	(iii) The Ministry of Finance has adopted a revised action plan for 2010-2014 and a manual of internal control procedure for use by inspectors of IGF	The operationalization of the internal audit body has been delayed and no audits have been carried out	The IGF activities comply with the plan of action endorsed by the Ministry of Finance (2010-14) and audit reports are disseminated to the beneficiaries and the competent authorities, including at least: (i) the inventory of government and NGOs' projects; (ii) audits of subsidies in the education sector and the transfers by the MEF; (iii) analysis of audit reports issued by the Court of Accounts; and (iv) audits of public accountants activities in the	The IGF has started deploying inspectors in line ministries to ensure enforcement of the recommendations of internal audit reports

Objectives	Prior Actions	Baseline	Expected Outcomes	Key Next Steps
			MEF	
III. Public Sector Governance: Anti-Corruption and Public Procurement				
To advance transparency in public affairs through enforcement of the dispositions of the declaration of asset law	The Anti-Corruption unit (ULCC) has submitted a progress report on Asset Declaration Compliance, including specific recommendations for action, to the MEF, the Senate and the Court of Account	A small percentage of high officials have submitted their declaration of assets including members of the Executives, elected officials (members of parliament) and public accountants. No follow-up actions have been taken by the authorities	The compliance rate with the Declaration of Assets Law of the members of the government increased from 87percent (as of May 2010) to 100 percent.	The government has started enforcing sanctions as per the Law to defaulters The government has issued a decree adopting the Code of Ethics.
To reinforce procurement regulation and enhance transparency in procurement practices	The CNMP has restored its website containing information on procurement bids and contracts awarded The recruitment of the new members of the CNMP has been advertized in local newspapers The Government has issued an instruction to Ministries and other public contracting authorities to clarify that the use of accelerated procurement procedures under the State of Emergency Law must receive prior authorization from the Prime Minister	The share of non-competitive procurement in total procurement, measured by the value of contracts awarded without competition as percent of all contracts awarded is 56 percent.	The Prime Minister has given prior authorization to all contracts awarded by invoking the Emergency Law's accelerated procedures The share of non-competitive procurement in total procurement has decreased from 56 percent (as of 2008) to 45 percent. It is measured by the value of contracts awarded without competition as a percentage of all contracts that do not fall under the accelerated procedures invoked by the State of Emergency	The Government has adopted of pending implementing decrees Audit of contracts awarded in 2008-9 and 2009-10 by an independent firm to assess compliance with the new Code. Key line Ministries have prepared public procurement plans (at least five ministries) and communicated said plans to the CNMP for approval

ANNEX 3: FUND RELATIONS NOTE (JUNE 21, 2010)

This letter provides an assessment by IMF Staff of policies in Haiti, in the wake of the January 12, 2010, earthquake. The reconstruction outlook remains subject to some uncertainty, in part due to delays in donors' disbursements.

In recent years, Haiti made steady progress toward macroeconomic stability. Under continuous IMF-supported programs since 2004, economic growth was positive, rising to close to 3 percent in 2009. Inflation declined from about 40 percent in 2003 to virtually zero at end-2009, and reserves increased. Prudent policies and structural reforms resulted in the delivery of US$1.2 billion in HIPC/MDRI debt relief to Haiti in June 2009. On January 27, 2010, the Executive Board of the Fund approved the sixth and last review under the ECF arrangement, together with an emergency augmentation of access equivalent to 80 percent of quota. The ECF was also extended until end-May 2010.

Given the considerable damage caused by the earthquake, the main challenge is to rebuild the country. Damages to economic and government infrastructure are estimated at 120 percent of 2009 GDP. The humanitarian situation remains dire, with 1.3 million people in temporary shelters. At a conference in New-York, donors announced total pledges of US$9.9 billion for Haiti's reconstruction, including US$5.3 billion for the next two years. A key challenge for donors and the authorities will be to ensure the rapid delivery and productive absorption of these inflows.

In late May 2010, staff and the authorities agreed ad referendum on a new three-year ECF-supported program. The new program aims at supporting the authorities' reconstruction and growth plan, while maintaining macroeconomic stability in the context of large expected aid inflows. The authorities' economic strategy focuses on: (i) raising revenue collection, and increasing the efficiency and transparency of spending; (ii) enhancing monetary operations through improved liquidity management and inflation forecasting, and the introduction of Treasury bills; (iii) restarting credit while maintaining financial sector stability through a partial credit guarantee scheme; and (iv) attracting investment and expanding the export base, by improving infrastructure and the business environment.

The macroeconomic outlook for FY 2010–13 will depend heavily on the path of aid disbursements. Reconstruction-related aid inflows are expected to peak over the next 2–3 years. After a sharp drop this fiscal year, economic growth is expected to rebound to 9 percent on average over the next two fiscal years. In FY 2010, the adverse impact of the earthquake is being mitigated by a recovery in agriculture, construction, and manufacturing. Twelve-month inflation would reach 8.5 percent by the end of this fiscal year. In the fiscal area, the authorities are reducing expenditure from budgeted levels in order to adjust to the decline in tax revenue caused by the earthquake. The overall deficit after grants is projected to widen to close to 7 percent of GDP this year and narrow to 5.7 percent in FY 2011.

Haiti's debt outlook is expected to improve, reflecting the debt relief that is being provided by multilateral and bilateral donors. Haiti was at high risk of debt distress before the earthquake, which further worsened the debt outlook. Debt relief committed by multilateral donors and Venezuela is estimated at 14 percent of 2009 GDP (the World Bank effectively cancelled US$38.8 million of Haiti's debt in May). In the coming weeks, the IMF Executive Board will further consider a framework that would allow delivery of debt relief to Haiti on its outstanding obligations to the IMF. Board discussions of a new 3-year ECF and the 2010 Article IV consultation could take place shortly thereafter.

Table 1. Haiti: Selected Economic and Financial Indicators

(Fiscal year ending September 30)

Nominal GDP (2009): US$6.56 billion
Population (2009): 9.9 million
Share of pop. living with less than $1 a day (2003): 54 percent

GDP per capita (2009): US$661
Adult literacy (2008): 53 percent
Unemployment rate (2003): 27 percent

	2007/08	2008/09		Proj.			
	Est.	Actual GDP 1/	Prel.	2009/10	2010/11	2011/12	2012/13
	(change over previous year unless otherwise stated)						
National income and prices							
GDP at constant prices	0.8	2.0	2.9	-8.5	9.8	8.4	6.9
GDP deflator	13.8	6.3	3.2	8.0	9.7	8.6	7.4
Consumer prices (period average)	14.4	5.1	3.4	5.0	8.7	8.6	7.3
Consumer prices (end-of-period)	19.8	1.0	-4.7	8.5	8.6	7.5	7.0
External sector							
Exports (f.o.b.)	-6.2	0.1	12.4	-12.1	10.6	10.5	12.3
Imports (f.o.b.)	30.2	-0.8	-3.3	15.6	25.9	6.2	8.0
Real effective exchange rate (+ appreciation)	2.9	…	1.0	…			
Central government							
Total revenue and grants	9.2	29.4	25.9	34.9	41.5	5.4	7.9
Total revenue excl. grants	15.7	8.2	11.3	-12.1	29.0	34.4	24.4
Current expenditure	42.8	21.8	13.8	-0.5	18.1	14.7	15.6
Total expenditure	33.4	37.4	30.3	21.3	43.3	10.6	6.2
Money and credit							
Credit to the nonfinancial public sector (net) 2/	-29.8	63.7	25.3	-32.3	-9.3	1.1	-27.8
Credit to private sector	25.2	12.8	14.7	-7.7	29.5	29.4	24.6
Base money	13.9	9.3	9.5	15.0	16.9	16.5	13.3
Broad money (incl. foreign currency deposits)	17.7	10.0	11.0	12.0	18.8	17.6	15.4
	(in percent of GDP, unless otherwise stated)						
Central government							
Overall balance	-3.1	-5.0	-4.4	-3.0	-3.9	-4.9	-4.2
Overall balance (excl. grants)	-7.5	-12.5	-11.1	-17.4	-21.9	-18.4	-15.1
Overall balance (excl. grants and externally-financed projects)	-2.3	-5.8	-4.4	-6.9	-5.7	-4.1	-3.0
Overall balance (excl. ext.-financed projects and project grants)	-0.9	-3.5	-2.9	-3.0	-3.9	-4.1	-3.0
Central bank net credit to the central government	0.0	0.9	0.2	0.1	0.0	0.0	0.0
Savings and investment							
Gross investment	26.0	38.2	23.4	22.3	36.1	36.6	37.8
Gross national savings	21.5	34.9	20.2	20.3	32.5	32.6	33.8
Of which: Central government savings	1.4	0.9	1.2	2.3	1.2	1.2	2.1
External current account balance (incl. official grants)	-4.5	-3.3	-3.2	-2.1	-3.6	-4.0	-4.0
External current account balance (excl. official grants)	-11.7	-13.4	-10.6	-28.7	-24.3	-19.7	-16.8
Public Debt							
External public debt (end-of-period)	28.2	13.8	15.1	22.2	23.3	25.9	25.9
Total public debt (end-of-period) 3/	36.4	23.2	23.3	30.9	33.4	36.2	36.7
External public debt service (in percent of exports of goods and nonfactor services) 4/	8.2	10.0	3.9	1.8	3.3	3.5	3.2
	(in millions of U.S. dollars, unless otherwise stated)						
Overall balance of payments	41.5	-57.4	33.4	-15.9	-4.0	-48.0	-40.0
Net international reserves (program) 5/	288.1	238.1	314.5	300.5	339.1	425.2	454.6
Liquid gross reserves 5/6/	707.8	754.7	947.5	1,082.4	1,150.9	1,214.3	1,294.4
In months of imports of the following year	2.9	3.0	2.9	3.1	3.2	3.3	3.4
Exchange rate (gourdes per dollar, end-of-period)	40.0	…	41.8	…	…	…	…
Nominal GDP (millions of gourdes)	251,464	266,885	266,885	263,736	317,527	373,800	429,162
Nominal GDP (millions of U.S. dollars)	6,572	6,560	6,560	6,468	7,584	9,042	10,381

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

1/ GDP ratios are calculated using nominal program figures for 2009 (numerator) and actual nominal GDP (denominator).
2/ In 2008 it reflects accumulation of Petrocaribe-related resources; in 2009, it reflects the use of Petrocaribe-related resources accumulated in 2008.
3/ Coverage has been modified since EBS/09/16. Includes external public sector debt, domestic debt of the central government, but excludes BRH bonds issued for monetary purposes. Reflects HIPC/MDRI debt reduction in 2009.
4/ Includes HIPC/MDRI relief beginning in 2010.
5/ Excluding commercial bank forex deposits, letters of credit, guarantees, and earmarked project accounts. In 2010, NIR jumps as the program definition of NIR changed with the SDR allocation no longer netted out as a liability. NIR at end-2009 under the new definition is US$438.6 million.
6/ As of August 28, 2009, also includes the (general and special) SDR holdings of SDR 64.8 million.

ANNEX 4: DEBT SUSTAINABILITY ANALYSIS

HAITI—DEBT SUSTAINABILITY ANALYSIS

The updated DSA was prepared jointly by the Fund and Bank staffs in accordance with the revised Joint Fund-Bank Debt Sustainability Framework (DSF) for low-income countries (LICs). Under the a baseline scenario that does not include any debt relief provided or committed by official creditors following the January 2010 catastrophic earthquake, the updated DSA shows that Haiti's risk of debt distress remains high due to the deterioration of the macroeconomic outlook and new borrowing. Although HIPC and MDRI relief have substantially reduced Haiti's debt burden since June 2009, the updated DSA findings indicate that the net present value (NPV) of the debt-to-exports ratio would breach the relevant policy-dependent threshold in the baseline scenario for the medium-term.[23] Haiti's weaker near-term macroeconomic outlook following the January 2010 earthquake, a narrow export base, together with new and projected borrowing, are key factors in the risk of debt distress.[24] An alternative scenario shows that delivery of announced debt relief by multilateral and bilateral creditors would improve the debt sustainability outlook. That scenario also stresses the need for new borrowing to remain limited and on highly concessional terms. Staff will continue to closely monitor the evolution of external debt and the government's ability to secure highly concessional financing and mobilize domestic resources.

I. BACKGROUND

4.1. **Haiti reached the completion point in June 2009 and received US$1.2 billion in debt relief under the HIPC Initiative and MDRI.** Debt service savings amounted to US$265 million under the HIPC Initiative and US$972.7 million under MDRI. The debt stock in NPV terms was reduced from US$1,320 million at end-September 2008 to US$641 million at end-September 2009.[25] While most relief has been provided, conclusion of bilateral agreements with some Paris Club creditors is still pending.[26] As a result of the debt relief initiatives, Haiti's nominal external public and publicly guaranteed debt stock reached US$1.24 billion at end-September 2009 (about 19 percent of GDP), down from US$1.88 billion at end-September 2008 (Text Table 1). Assuming full delivery of Paris Club debt relief, debt stock at end-September 2009 would stand at US$1.06 billion (16.6 percent of GDP).

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[23] Haiti is classified as a weak performer based on its three-year average score of 2.86 on the World Bank's Country Policy and Institutional Assessment (CPIA). For a weak performer (defined as those with three-year average CPIA ratings below 3.25), the indicative thresholds for external debt sustainability are PV of debt-to-GDP ratio of 30 percent, PV of debt-to-exports ratio of 100 percent, PV of debt-to-revenue ratio of 200 percent, debt service-to-exports ratio of 15 percent, and debt service-to-revenue ratio of 25 percent. Haiti is currently classified as in high risk of debt distress.

[24] EBS/09/91, Appendix II, June 16, 2009.

[25] Haiti's fiscal year ends in September.

[26] Bilateral agreements for Italy, Spain, and France have been prepared and are awaiting signature by the Haitian authorities. Staff will continue to follow up with the authorities on the status of this process.

4.2. **Haiti's public debt as of end-September 2009 was estimated at about 24.8 percent of GDP**. Most of the public and publicly guaranteed (PPG) debt is owed to external creditors (about 67 percent), and the rest is domestic debt (equivalent to about 8.2 percent of GDP). The domestic debt corresponds to credit to the government from the central bank (BRH).

Text Table 1. Haiti: Debt Stock as of end-September 2009 and end-March 2010
(In millions of U.S. dollars, unless otherwise specified)

	September 2009 *		March 2010		
	Amount	Share (percent of total)	Amount	Share (percent of total)	Creditors Providing Full Debt Relief (percent of March debt stock excl. IMF)
Multilateral creditors	676.7	54.4	828.9	56.0	45.4
IBRD/IDA 2/	38.8	3.1	*37.2*	2.5	3.1
IMF	165.6	13.3	273.6	18.5	
IDB 2/	417.5	33.6	*452.5*	30.6	37.5
IFAD 2/	48.3	3.9	*57.8*	3.9	4.8
OPEC	6.6	0.5	7.8	0.5	
Bilateral creditors	566.5	45.6	650.9	44.0	46.6
Paris Club 1/	*181.6*	*14.6*	*167.0*	11.3	13.8
Canada	2.1	0.2	0.0	0.0	
France	81.5	6.6	69.2	4.7	5.7
Spain	39.7	3.2	39.5	2.7	3.3
Italy	58.3	4.7	58.3	3.9	4.8
Non-Paris Club	*384.9*	*31.0*	*483.9*	32.7	32.7
Taiwan, Province of China	89.7	7.2	88.9	6.0	
Venezuela 2/	295.2	23.7	*395.0*	26.7	32.7
Total	1,243	100.0	1,480	100.0	92.0

Source: Haitian authorities; and IMF staff calculations.

* Haitian fiscal year ending September.

1/ Debt to be cancelled as part of Paris Club agreement in June 2009 but for which some bilateral agreements have yet to be concluded.

2/ Creditors that have announced debt relief initiatives on Haiti's outstanding debt stock.

4.3. **The level of external PPG debt at end-September 2009 rose by more than previously projected at the time of the Completion Point in June 2009.**[27] In nominal terms, Haiti's debt was expected to reach 13.2 percent of GDP in 2009 under the Completion Point DSA—3 ½ percentage points lower than actual debt stock. The larger-than-expected increase reflects higher bilateral debt between 2008 and 2009 due to new borrowing (on concessional terms) from Venezuela under the PetroCaribe agreement, on which no relief

[27] The Completion Point DSA prepared in June 2009 is deemed a more reliable comparator in terms of macroeconomic assumptions (EBS/09/91), given that the January DSA Update was based on very uncertain data immediately following the earthquake (EBS/10/14, Supplement 1). The January 2010 DSA Update also found Haiti's risk of debt distress to have increased markedly, reflecting both a worsened near-term outlook and new higher borrowing. The updated DSA also reflects a lower discount rate, which increases the PV of debt.

was provided under the HIPC initiative.[28] Haiti's external debt rose to US$1.48 billion at end-March 2010, reflecting the IMF emergency augmentation of January 2010, new IDB borrowing, and further PetroCaribe financing.

4.4. **Haiti's debt situation is being reassessed in light of the catastrophic damage to the economy.** Damages and losses from the earthquake are estimated at more than 120 percent of 2009 GDP. A multi-year reconstruction and growth strategy has been developed by the Haitian authorities in conjunction with the international community, for which a total of US$9.9 billion have been pledged at the New York Donors' Conference in March 2010. Several creditors have announced their intentions to provide debt relief on Haiti's outstanding debt stocks, as part of a broader initiative to alleviate debt service constraints. These include:

- The **World Bank** provided debt relief on Haiti's outstanding debt of SDR 24.3 million (about US$36 million as of May 21, 2010). Debt relief became effective in May 2010 when the 14 donors to the Debt Relief Trust Fund agreed to allocate the resources needed to cover the debt cancellation.

- The **IDB** would provide US$479 million to cancel Haiti's outstanding debt as of end-December 2009 and convert the undisbursed loans in the existing project portfolio into grants. Debt relief, which was approved in March 2010 by the Board of Governors, will become effective in the near future, as soon as the committed donor financing is available.

- **IFAD** announced in April that it would cancel about US$50.7 million in outstanding debt (in NPV terms) to be delivered in the form of grants against debt service due, on a pay-as-you-go basis.

- **Venezuela** officially confirmed it would provide debt relief on Haiti's outstanding debt as of January 25, 2010 in the amount of US$395 million. Modalities for debt relief have yet to be clarified.[29]

- **Taiwan, Province of China,** has offered to pay about US$12 million in interest and to provide a five-year moratorium on principal payments on Haiti's outstanding debt.

4.5. **In June 2010, the Fund Board approved the establishment of the Post-Catastrophe Debt Relief (PCDR) Trust.** The PCDR is a dedicated instrument to assist countries affected by catastrophic natural disasters like Haiti. Such a mechanism would

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[28] In the Completion Point DSA, resources accumulated under the PetroCaribe agreement (US$104 million) were treated as private debt on the understanding that the binational company (Societe Mixte) would be set up in early 2009, in which case financing from PetroCaribe flows would become the debt of the binational company and not of the government. The binational company is yet to be established, and total PetroCaribe flows, including new flows accumulated as of end-FY2009, in the amount of US$295 are now considered part of government debt.

[29] The DSA scenario with debt relief assumes cancellation of US$295 million outstanding as of end-September 2009, plus US$100 million in subsequent (future) flows in 2010.

enable the Fund to provide debt relief to Haiti and would also be available to other very poor countries that are hit by similar shocks in the future. Debt relief from the Fund would complement a concerted international effort to cancel Haiti's remaining debt. Official creditors accounting for about 92 percent of Haiti's outstanding debt as of end-March 2010 (excluding the Fund) have already delivered or are firmly committed to providing debt relief on outstanding debt stocks (Text Table 1). If Haiti's eligibility for assistance under the PCDR is approved, debt stock relief could be provided on Haiti's outstanding obligations to the Fund in the amount of SDR 178.18 million.

4.6. **The current DSA framework includes new borrowing accumulated since the Completion Point in June 2009, as well as projected new borrowing through FY 2015**. In particular, accumulated concessional trade financing from Venezuela under the PetroCaribe agreement of US$295 million is now included. The treatment of this portion of debt follows the same approach as in the January 2010 DSA Update.[30] The framework also incorporates the new airport loan (US$33 million) contracted in December 2009 with the Development Bank of Venezuela (BANDES).[31] In terms of new flows, the framework includes projected ECF disbursements through FY 2013, together with accumulated PetroCaribe flows of US$160 in FY 2010 and projected future PetroCaribe borrowing in the range of US$230-250 million a year through FY 2015.

II. EXTERNAL DEBT SUSTAINABILITY OUTLOOK, 2010-2030

Baseline Scenario

4.7. **The baseline macroeconomic framework for the long-term debt sustainability analysis has been revised to take into account recent developments as well as the macroeconomic impact of the 2010 earthquake.** Key macroeconomic assumptions are summarized in Box 1 and Text Table 2. Long-term assumptions are somewhat more optimistic compared to those used in the Completion Point DSA. Specifically, long-run growth is now assumed to be slightly higher, reflecting the massive reconstruction effort projected to take place over the medium-term. This is also projected to raise government revenues (excluding grants). Exports of goods and services would grow by 10-12 percent a year, but decline in percent of GDP until FY 2013. They would subsequently recover gradually to their pre-earthquake levels and rise to more than 17 percent of GDP by 2030. Imports would surge by more than 60 percent in FY 2011, in line with the reconstruction plan. Imports are expected to remain somewhat elevated in the medium-term and revert to about 35 percent of GDP in 2030.

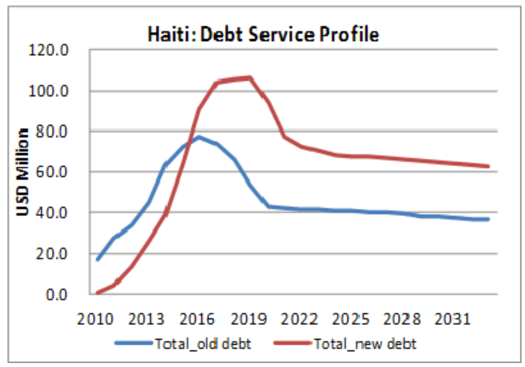
4.8. Given a weaker near-term macroeconomic outlook compared to the Completion Point DSA and higher borrowing, Haiti remains at high risk of debt distress after the earthquake (Figure 1). Haiti's present value (PV) of external debt relative to exports breaches the

[30] In the January 2010 DSA Update, resources accumulated under the PetroCaribe agreement were considered part of government debt.

[31] The terms of the airport loan from BANDES did not meet the minimum concessionality criteria required under the ECF arrangement and therefore a waiver on the performance criterion on contracting of external non-concessional debt was requested at the time of the Sixth Review under the ECF (EBS/10/14).

indicative threshold until 2022, reaching a peak of 187 percent in 2013 before declining gradually to less than 100 percent in 2022. Despite higher average GDP growth between FY 2011 and FY 2013 compared to the Completion Point, exports (in percent of GDP) are projected to be lower and imports and government expenditure much higher. The PV of the debt-to-revenue ratio is slightly below the relevant policy threshold in 2010 (at 23.5 percent) but declines steadily over the projection period.

4.9. **Higher borrowing in 2009, and projected continued borrowing under the PetroCaribe arrangement through 2015, raises risks to debt sustainability substantially.** Haiti's debt sustainability outlook has worsened since reaching the HIPC Completion Point in June 2009, mainly due to new bilateral borrowing. Based on the January 2010 DSA Update, accumulated PetroCaribe debt of US$295 million alone raised the PV of external debt by more than 45 percentage points of exports in FY 2010. Although the terms of PetroCaribe financing are highly concessional, the continued accumulation of PetroCaribe borrowing, which is expected to increase by about US$230-250 million a year based on current projections of oil imports, poses a risk to medium-term debt servicing capacity.[32] However, the terms of future PetroCaribe borrowing have yet to be clarified. The possibility of creating a private binational corporation that would use accumulated inflows to finance energy and social projects is still on the table. If and when that happens, future PetroCaribe flows would become private liabilities and no longer add to public debt. On the other hand, at the June 2nd Punta Cana summit in the Dominican Republic, Venezuela indicated that a large share of future PetroCaribe inflows over the coming years could be converted into grants.



4.10. **Based on the sensitivity analysis, Haiti's debt situation remains vulnerable to a combination of shocks, but in particular to less favorable export performance.** With the exception of the debt service-to-revenues ratio, the alternative and shock scenarios worsen all of Haiti's debt stock and service indicators. Importantly, the ratios would exceed the relevant thresholds in the case of the NPV of debt-to-exports, debt-to-revenue, as well as debt-to-GDP ratios. In the particular case of the PV of the debt-to-exports ratio, Haiti is most vulnerable to a combined shock to growth, exports, and non-debt creating flows. Together, these shocks could push the PV of debt-to-exports ratios up to 400 percent in FY 2012 before declining, although it would remain above the threshold for the projection period.

[32] Under the PetroCaribe arrangement, financing of oil imports is provided on concessional terms, namely, two-year grace period, 25-year maturity and 1 percent interest. The size of the portion financed is determined based on prevailing oil prices and varies between 30 percent of total shipments for oil prices US$40-50 per barrel to 70 percent for oil prices US$150 and above.

4.11. **The prolonged nature of the breach in the baseline scenario precludes a modification of Haiti's risk of debt distress rating using the remittance-based framework**. The revised debt sustainability framework (DSF) for low-income countries approved in August 2009 allows for the effect of remittances in the determination of a country's risk of debt distress. Under the new guidelines, however, taking into consideration remittances can change the risk of debt distress only if breaches to the thresholds under the baseline or stress tests (i.e. before taking into account remittances) are not very protracted. A benchmark for the maximum permissible length of the breach of the thresholds could be 10 years starting from the current year (i.e. about half of the projection period) (SM/10/16). In the case of Haiti, the debt-to-exports ratio is breached until 2022 in the baseline scenario, and all indicators except for the debt service-to-revenues ratio sustain a protracted breach under the stress tests.

Debt Relief Scenario

4.12. **Delivery of announced debt relief would significantly improve long run debt sustainability** (Figure 2). The debt relief scenario assumes delivery of relief on debt stocks as of end-September 2009 as outlined in paragraph 5 by the World Bank, IDB, IFAD, and PetroCaribe. The scenario also assumes debt relief on outstanding credit to the Fund as of end-January 2010 (i.e. SDR 178.13 million).[33] This would translate into a debt stock relief of about US$965 million in nominal terms as of end-2009. The debt relief scenario maintains the assumption in the baseline regarding the projected accumulation of PetroCaribe borrowing outlined in paragraph 6. Based on these assumptions, all debt indicators remain below the policy relevant threshold in the baseline scenario, with the exception of the debt-to-exports indicator which temporarily breaches the policy relevant threshold between 2014 and 2018.

4.13. **Debt dynamics would however remain sensitive to external shocks.** Breaches would persist under the most extreme shock scenario (the combination shock) for the three stock indicators: (a) PV of debt-to-GDP; (b) PV of debt-to-exports; and (c) PV of debt-to-revenue. The breach is particularly protracted for the debt-to-exports indicator (peaking to 297 percent in 2012 and remaining above 100 percent until 2027). This highlights Haiti's continued external debt vulnerability, in part stemming from its very narrow export base.

III. PUBLIC DEBT SUSTAINABILITY ANALYSIS

4.14. **In the baseline scenario, public debt indicators remain somewhat unchanged over the projection period** (Figure 3). The PV of public debt-to-GDP remains at about 30 percent throughout the projection period. This stability reflects a decrease in the level of external debt that is offset by an increase in domestic borrowing, which increases from 8 percent of GDP in FY 2010 to 20 percent of GDP by 2030. The PV of the debt-to-revenue ratio rises gradually to about 160 percent by 2016 and maintains that level over the projection period.

[33] This includes SDR 105 million outstanding as of end-September 2009 in addition to SDR 73.13 million disbursed in January 2010.

4.15. **Shock scenarios put public debt on a sharper rising trajectory over the projection period.** Public debt indicators are particularly sensitive to growth shocks and to debt-creating flows. Moreover, a combination of a growth shock and lower primary balance would significantly raise the PV of debt-to-GDP and debt-to-revenue ratios well above the baseline scenario.

IV. DEBT MANAGEMENT

4.16. **The earthquake is thought to have severely disrupted existing debt management systems.** The Ministry of Finance building has been damaged. Based on an assessment of the damages, further technical and financial support will be needed to recover data, set up a working computer system, and rehabilitate physical infrastructure.

4.17. **The earthquake is a major setback, given recent steady progress.** Debt management capacity had improved in Haiti since the decision point was reached in December 2006. In the area of debt recording, the BRH and the MEF had completed the installation of the most recent version of UNCTAD DMFAS system, version 5.3, which allows for improvements in the availability, quality and security of debt data. In part resulting from the upgrade to the latest DMFAS system, debt reporting by the government had also improved.

4.18. **Prior to the earthquake, satisfactory progress had also been made in establishing the debt unit at the Ministry of Finance**, although the finalization of the draft operations manual, and the legal and institutional framework for debt management did depend on the results of ongoing technical assistance by UNCTAD and CEMLA.

V. CONCLUSIONS

4.19. **Haiti's risk of external debt distress remains high even after HIPC and MDRI debt relief.** The PV of debt-to-exports ratio breaches the 100 percent threshold for a prolonged period, even though other debt indicators remain below their relevant thresholds. The analysis, however, shows that implementation of debt relief commitments would significantly improve the debt sustainability outlook and contribute to the reconstruction effort, provided donors meet Haiti's large and immediate financing needs through grants and highly concessional loans.

Box 1: Macroeconomic Assumptions

Growth and inflation. After contracting by 8.5 percent in FY 2010 following the devastation of the earthquake, growth is expected to rebound to almost 10 percent in FY 2011, averaging about 7.5 percent a year between FY2011 and FY2015 on the back of significant reconstruction related aid inflows, before reverting to its long-run trend. Long-run growth is projected to be slightly higher than the rate assumed in the Completion Point (CP) DSA (5 percent against 4.5 percent), assuming effective utilization of the surge in aid-inflows and reforms to expand to absorptive capacity of the economy. Inflation is projected to increase to about 8 percent in FY 2011 and FY 2012 on account of increased domestic demand and short-run supply side bottlenecks associated with large reconstruction aid inflows. Inflation is expected to revert to about 6.5 percent starting FY 2014.

Fiscal policy. Revenue, which reached 11 percent of GDP in FY 2009, is projected at about 10 percent of GDP due to severe losses in government administrative and physical capacities. Government revenues are expected to recover gradually, in line with the rebound in economic activity, and to increase to 14 percent of GDP in 2015. Primary spending is projected to peak to about 32 percent of GDP in 2011 and 2012 in line with the surge in reconstruction-based aid inflows before falling to about 22 percent of GDP in the long run. The fiscal deficit is expected to peak at 5 percent of GDP in 2012, and to average 3.4 percent of GDP from 2016 onwards.

Grants and financing. Grants are assumed to peak to about US$1.5 billion per year in FY 2011–12 as reconstruction and economic activity rebound and average about US$1.1 billion per year through FY 2015. It is assumed that Haiti would remain eligible for concessional assistance from IDA and IDB which would cover most of Haiti's external borrowing needs from 2018 onwards. The assumed grant element of new external borrowing is 35 percent. Following the introduction of a Treasury-bill market during 2011, domestic financing will remain capped to maintain medium-term public debt sustainability.

Current account. After contracting by 20 percent in FY 2010 due to damage in textile production capacity and to distribution infrastructure, exports of goods and services are projected to rebound and grow by an average of 12 percent in FY 2011–15 and reach their pre-earthquake value by 2016. Exports are assumed to increase to about 18 percent of GDP by 2030, slightly higher than CP assumption. Imports of goods and services, on the other hand, are projected to surge to about 52 percent of GDP in FY 2011–12 reflecting reconstruction related imports, and to revert to about 37 percent of GDP by 2030. The current account deficit excluding grants in percent of GDP is projected to widen significantly in FY 2010 and FY 2011 to about 29 percent and 24 percent, respectively, before declining to about 13 percent by FY 2015. The current account deficit is expected to be covered largely by grants and is projected to average 3.5 percent of GDP in FY 2013–15 and 4.4 percent through 2030.

Text Table 2. Haiti: Long-Term Macroeconomic Assumptions, FY 2010-2030

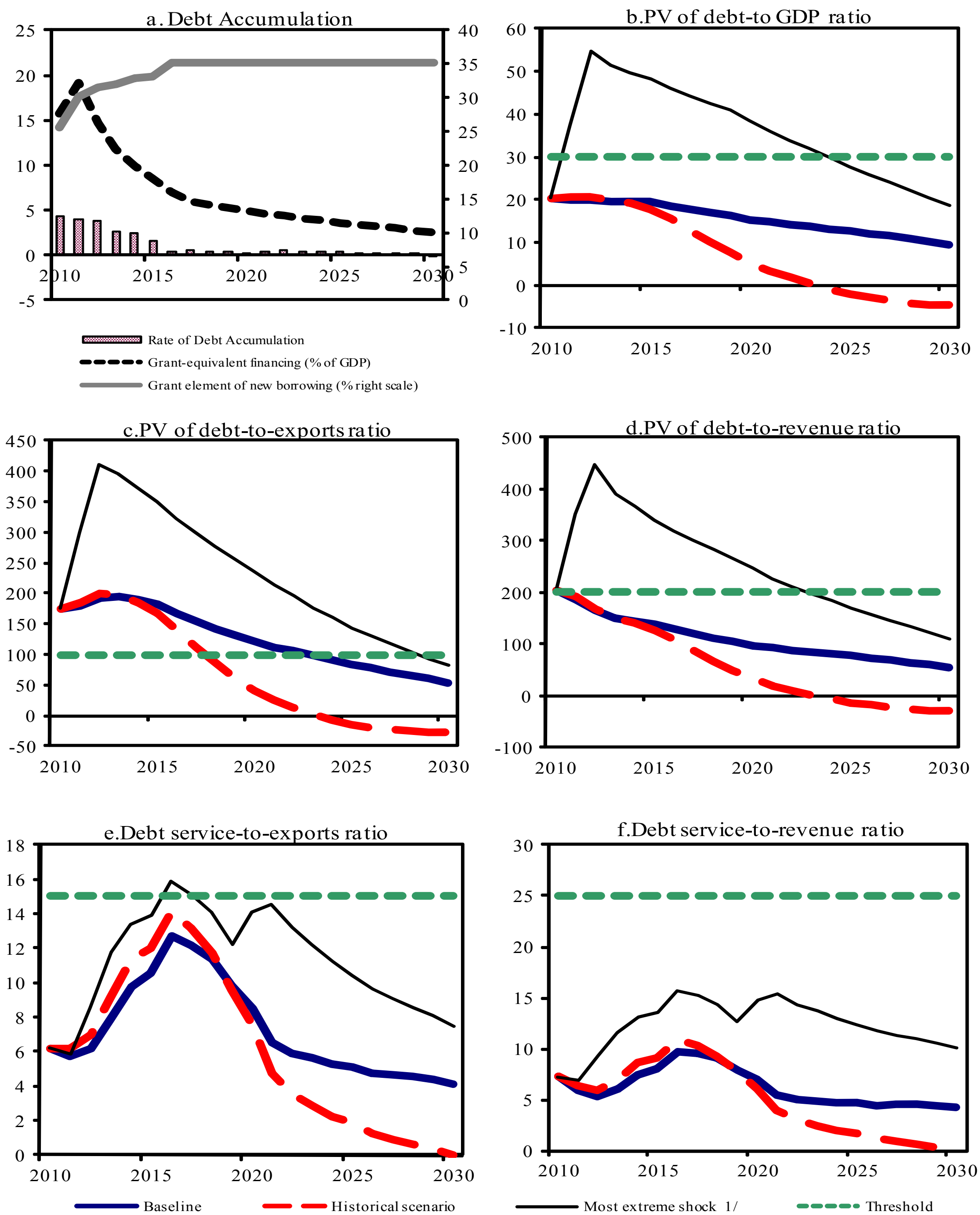
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Averages 2010-19	Averages 2020-30
												(Annual percentage change)												
National income and prices																								
GDP at constant prices	2.9	-8.5	9.8	8.4	6.9	6.2	6.5	5.5	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	3.2	8.0	9.7	8.6	7.4	6.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.5	5.0
Real GDP per capita (local currency)	1.2	-7.9	5.6	6.7	5.2	4.6	4.9	3.9	3.7	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.4	3.6
Consumer prices (period average)	3.4	5.0	8.7	8.6	7.3	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.9	6.5
External sector (value in USD)																								
Exports of goods and non-factor services	12.0	-19.6	11.6	11.8	12.1	14.8	12.2	11.6	11.1	10.8	10.6	10.5	10.4	10.3	11.0	10.9	10.7	10.6	10.5	10.4	10.3	10.2	8.7	10.5
Imports of goods and non-factor services	0.4	38.2	4.2	3.3	4.5	3.3	3.1	7.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	8.5	7.0
Central government (value in Gourdes)																								
Total revenue and grants	25.9	34.9	41.5	5.4	7.9	5.6	8.0	6.0	6.6	10.5	10.6	10.3	10.4	9.4	9.5	9.5	9.6	9.7	9.7	9.8	9.9	9.9	13.7	9.8
Central government revenue 1/	11.3	-12.1	29.0	34.4	24.4	16.1	16.9	13.1	12.8	12.5	12.4	12.4	12.4	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	16.0	11.2
Central government primary expenditure	30.9	22.7	43.8	10.9	5.7	6.4	6.3	6.5	6.8	9.3	9.3	9.3	10.2	9.7	9.3	9.3	9.3	9.3	9.3	9.3	9.2	8.3	12.8	9.3
												(In percent of GDP, unless otherwise indicated)												
National income																								
Nominal GDP (Gourdes, billions)	267	264	318	374	429	485	543	601	665	733	808	891	982	1,083	1,194	1,316	1,451	1,599	1,763	1,944	2,143	2,363	468	1,461
Nominal GDP (USD billions)	6.6	6.5	7.6	9.0	10.4	11.6	12.6	13.6	14.6	15.6	16.7	17.9	19.1	20.5	21.9	23.4	25.1	26.9	28.8	30.8	32.9	35.3	10.8	24.9
GDP per capita (US dollars)	661	656	740	868	981	1,082	1,157	1,226	1,295	1,366	1,441	1,521	1,606	1,695	1,791	1,892	1,999	2,113	2,235	2,363	2,498	2,642	1,003	1,983
							-27.1	-26.7	-26.3	-25.8	-25.4	-25.0	-24.6	-24.2	-23.6	-23.1	-22.6	-22.1	-21.6	-21.0				
External sector																								
Non-interest current account deficit 2/, 3/	-4.7	-3.4	-1.8	-3.0	-3.7	-4.1	-4.0	-3.7	-4.8	-5.3	-5.3	-5.2	-5.3	-5.3	-5.2	-5.1	-5.0	-4.8	-4.6	-4.4	-4.2	-4.0	-3.9	-4.9
Exports of goods and non-factor services	14.2	11.6	11.0	10.3	10.1	10.4	10.7	11.1	11.5	11.9	12.3	12.7	13.1	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0	17.5	11.3	14.8
Imports of goods and non-factor services	43.9	61.6	54.7	47.4	43.2	39.8	37.8	37.8	37.8	37.8	37.7	37.7	37.7	37.7	37.7	37.6	37.6	37.6	37.6	37.6	37.5	37.5	44.2	37.6
External current account balance (excl grants) 1/	-10.6	-28.7	-24.3	-19.7	-16.8	-14.3	-12.5	-10.9	-11.1	-11.2	-10.9	-10.5	-10.2	-9.9	-9.6	-9.2	-8.9	-8.5	-8.1	-7.7	-7.3	-6.9	-16.0	-9.0
External current account balance (incl grants) 2/	-3.2	-2.1	-3.6	-4.0	-4.0	-3.6	-3.3	-3.5	-4.5	-4.9	-4.9	-4.8	-4.8	-4.8	-4.8	-4.7	-4.5	-4.4	-4.2	-4.0	-3.8	-3.6	-3.7	-4.4
Liquid gross reserves (in months of imports of G&S)	2.8	3.1	2.9	3.0	3.1	3.2	3.5	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0	2.9	2.9	2.8	2.8	2.7	2.7	2.7	3.2	2.9
Central government																								
Central government overall balance (incl grants) 2/	-4.4	-3.0	-3.9	-4.9	-4.2	-4.2	-3.7	-3.8	-3.8	-3.6	-3.4	-3.2	-3.3	-3.3	-3.3	-3.3	-3.2	-3.2	-3.1	-3.0	-2.9	-2.6	-4.0	-3.1
Total revenue and grants	17.9	24.4	28.7	25.7	24.1	22.5	21.8	20.8	20.1	20.2	20.2	20.2	20.2	20.1	19.9	19.8	19.7	19.6	19.5	19.4	19.3	19.3	22.6	19.8
Central government revenue (excl grants) 1/	11.2	10.0	10.7	12.2	13.2	13.5	14.2	14.5	14.8	15.1	15.4	15.7	16.0	16.1	16.2	16.3	16.4	16.5	16.6	16.7	16.8	16.9	12.9	16.3
Central government primary expenditure	21.7	26.9	32.2	30.3	27.9	26.2	24.9	24.0	23.2	23.0	22.8	22.6	22.6	22.5	22.3	22.1	21.9	21.7	21.5	21.3	21.1	20.7	26.0	21.9

1/ Excluding grants

2/ Including grants

3/ Includes interest earned on foreign exchange reserves.

Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt
under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Table 1a. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0	Standard 0	Projections																						
	2007	2008	2009	Average	Deviation	2010	2011	2012	2013	2014	2015	2010-2015 Average	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2016-2030 Average
External debt (nominal) 1/	**25.6**	**29.5**	**16.6**			**22.0**	**21.6**	**21.9**	**21.6**	**21.6**	**21.9**		**21.1**	**20.4**	**19.7**	**18.9**	**18.1**	**17.4**	**16.9**	**16.4**	**15.8**	**15.1**	**14.5**	**13.8**	**13.0**	**12.2**	**11.4**	
o/w public and publicly guaranteed (PPG)	25.6	29.5	16.6			22.0	21.6	21.9	21.6	21.6	21.9		21.1	20.4	19.7	18.9	18.1	17.4	16.9	16.4	15.8	15.1	14.5	13.8	13.0	12.2	11.4	
Change in external debt	-2.9	3.9	-12.9			5.4	-0.4	0.3	-0.3	0.0	0.3		-0.8	-0.7	-0.7	-0.7	-0.9	-0.6	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	
Identified net debt-creating flows	-6.3	1.3	2.7			2.4	0.5	1.5	1.8	1.6	1.2		1.4	2.4	2.8	2.7	2.6	2.5	2.4	2.4	2.2	2.1	1.9	1.7	1.5	1.3	1.0	
Non-interest current account deficit	**0.1**	**4.2**	**3.0**	**1.5**	**1.8**	**1.5**	**3.2**	**3.6**	**3.6**	**3.2**	**2.9**		**3.1**	**4.1**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.4**	**4.3**	**4.1**	**4.0**	**3.8**	**3.6**	**3.4**	4.1
Deficit in balance of goods and services	26.3	31.0	29.7			50.0	43.7	37.1	33.1	29.5	27.1		26.7	26.3	25.8	25.4	25.0	24.6	24.2	23.6	23.1	22.6	22.1	21.6	21.0	20.5	20.0	
Exports	13.4	12.7	14.2			11.6	11.0	10.3	10.1	10.4	10.7		11.1	11.5	11.9	12.3	12.7	13.1	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0	17.5	
Imports	39.6	43.7	43.9			61.6	54.7	47.4	43.2	39.8	37.8		37.8	37.8	37.8	37.7	37.7	37.7	37.7	37.7	37.6	37.6	37.6	37.6	37.6	37.5	37.5	
Net current transfers (negative = inflow)	-25.9	-26.3	-26.3	-27.4	2.7	-47.9	-40.1	-32.8	-28.5	-25.1	-23.1		-21.6	-20.8	-20.4	-20.0	-19.6	-19.2	-18.8	-18.4	-18.0	-17.7	-17.3	-17.0	-16.7	-16.5	-16.2	-18.5
o/w official	-6.7	-7.2	-7.4			-26.7	-20.7	-15.7	-12.8	-10.7	-9.2		-7.4	-6.6	-6.4	-6.1	-5.7	-5.4	-5.1	-4.8	-4.6	-4.3	-4.1	-3.9	-3.7	-3.5	-3.4	
Other current account flows (negative = net inflow)	-0.2	-0.5	-0.3			-0.6	-0.4	-0.6	-1.0	-1.1	-1.1		-2.0	-1.4	-1.0	-0.9	-1.0	-0.9	-0.9	-0.7	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4	
Net FDI (negative = inflow)	**-1.3**	**-0.5**	**-0.6**	**-0.9**	**1.1**	**-1.1**	**-1.3**	**-1.0**	**-0.9**	**-0.8**	**-0.8**		**-1.0**	**-1.1**	**-1.2**	**-1.3**	**-1.4**	**-1.5**	**-1.6**	**-1.6**	**-1.7**	**-1.7**	**-1.8**	**-1.8**	**-1.9**	**-1.9**	**-2.0**	-1.5
Endogenous debt dynamics 2/	**-5.2**	**-2.5**	**0.2**			**2.0**	**-1.4**	**-1.2**	**-1.0**	**-0.8**	**-0.9**		**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.6	0.4	0.4	0.4	0.4	0.4		0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-0.8	-0.2	-0.9			1.4	-1.8	-1.5	-1.3	-1.2	-1.3		-1.1	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	
Contribution from price and exchange rate changes	-4.5	-2.6	0.9			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**3.4**	**2.6**	**-15.6**			**3.0**	**-0.9**	**-1.1**	**-2.1**	**-1.6**	**-0.9**		**-2.2**	**-3.0**	**-3.5**	**-3.4**	**-3.4**	**-3.2**	**-3.0**	**-2.9**	**-2.9**	**-2.7**	**-2.6**	**-2.4**	**-2.3**	**-2.1**	**-1.8**	
o/w exceptional financing	-0.4	-0.3	-15.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	15.5			19.6	18.8	19.1	18.9	18.9	18.8		17.9	17.1	16.4	15.6	14.8	14.3	13.8	13.3	12.8	12.3	11.7	11.1	10.5	9.9	9.2	
In percent of exports	...	...	108.8			169.2	170.0	184.1	187.2	182.7	176.0		161.3	149.0	137.5	126.9	116.7	108.8	102.2	95.1	88.3	81.8	75.7	69.6	63.8	58.0	52.5	
PV of PPG external debt	**...**	**...**	**15.5**			**19.6**	**18.8**	**19.1**	**18.9**	**18.9**	**18.8**		**17.9**	**17.1**	**16.4**	**15.6**	**14.8**	**14.3**	**13.8**	**13.3**	**12.8**	**12.3**	**11.7**	**11.1**	**10.5**	**9.9**	**9.2**	
In percent of exports	**...**	**...**	**108.8**			**169.2**	**170.0**	**184.1**	**187.2**	**182.7**	**176.0**		**161.3**	**149.0**	**137.5**	**126.9**	**116.7**	**108.8**	**102.2**	**95.1**	**88.3**	**81.8**	**75.7**	**69.6**	**63.8**	**58.0**	**52.5**	
In percent of government revenues	**...**	**...**	**138.3**			**197.0**	**175.9**	**156.4**	**143.3**	**139.7**	**133.1**		**124.0**	**116.2**	**108.7**	**101.8**	**94.7**	**89.4**	**86.0**	**82.5**	**78.8**	**75.1**	**71.3**	**67.3**	**63.2**	**58.9**	**54.6**	
Debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**6.2**	**5.7**	**5.9**	**7.6**	**9.5**	**10.3**		**12.5**	**12.0**	**11.2**	**9.7**	**8.4**	**6.5**	**5.8**	**5.6**	**5.2**	**5.0**	**4.6**	**4.6**	**4.4**	**4.3**	**4.1**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**6.2**	**5.7**	**5.9**	**7.6**	**9.5**	**10.3**		**12.5**	**12.0**	**11.2**	**9.7**	**8.4**	**6.5**	**5.8**	**5.6**	**5.2**	**5.0**	**4.6**	**4.6**	**4.4**	**4.3**	**4.1**	
PPG debt service-to-revenue ratio (in percent)	**8.5**	**6.9**	**4.7**			**7.2**	**5.9**	**5.0**	**5.8**	**7.3**	**7.8**		**9.6**	**9.4**	**8.9**	**7.7**	**6.8**	**5.3**	**4.9**	**4.8**	**4.7**	**4.6**	**4.4**	**4.4**	**4.4**	**4.3**	**4.2**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.3	0.2			0.1	0.2	0.3	0.4	0.4	0.4		0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	
Non-interest current account deficit that stabilizes debt ratio	3.0	0.4	15.9			-3.9	3.6	3.3	4.0	3.2	2.6		3.9	4.7	5.2	5.2	5.3	5.2	5.0	5.1	5.0	4.9	4.8	4.7	4.6	4.4	4.2	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.5	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	18.8	11.2	-3.0	9.1	13.9	7.8	6.8	10.0	7.4	5.4	1.9	6.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	1.0	0.7	-0.4	1.4	3.6	2.2	2.0	1.9	2.0	2.0	2.3	2.1	2.0	2.0	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	12.1	6.5	12.0	11.5	4.4	-19.6	11.6	11.8	12.1	14.8	12.2	7.2	11.6	11.1	10.8	10.6	10.5	10.4	10.3	11.0	10.9	10.7	10.6	10.5	10.4	10.3	10.2	10.7
Growth of imports of G&S (US dollar terms, in percent)	8.7	23.6	0.4	13.0	7.7	38.2	4.2	3.3	4.5	3.3	3.1	9.4	7.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	25.6	30.3	31.5	31.6	32.8	33.0	30.8	35.2	34.5	34.3	34.1	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.0
Government revenues (excluding grants, in percent of GDP)	10.6	10.7	11.2			10.0	10.7	12.2	13.2	13.5	14.2		14.5	14.8	15.1	15.4	15.7	16.0	16.1	16.2	16.3	16.4	16.5	16.6	16.7	16.8	16.9	16.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.4			0.9	1.4	1.3	1.2	1.1	1.0		1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
o/w Grants	0.3	0.3	0.4			0.9	1.4	1.2	1.1	1.0	1.0		0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.7	19.2	14.8	11.8	9.9	8.5		7.0	6.0	5.6	5.3	4.9	4.7	4.4	4.1	3.9	3.6	3.4	3.2	3.0	2.8	2.6	4.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			80.9	87.6	84.3	85.7	83.6	82.3		86.5	83.8	84.4	85.4	87.4	86.9	85.8	85.7	86.2	86.4	86.6	87.3	87.4	88.5	88.9	86.5
Memorandum items:																												
Nominal GDP (Billions of US dollars)	5.9	6.6	6.6			6.5	7.6	9.0	10.4	11.6	12.6		13.6	14.6	15.6	16.7	17.9	19.1	20.5	21.9	23.4	25.1	26.9	28.8	30.8	32.9	35.3	
Nominal dollar GDP growth	22.8	12.2	-0.2			-1.4	17.3	19.2	14.8	12.0	8.6	11.7	7.6	7.3	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.1
PV of PPG external debt (in Billions of US dollars)			1.0			1.2	1.4	1.7	2.0	2.2	2.4		2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.3	3.3	3.3	
(PVt-PVt-1)/GDPt-1 (in percent)						3.6	3.2	3.9	2.7	2.3	1.5	2.9	0.4	0.5	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.3
Gross remittances (Billions of US dollars)	1.1	1.3	1.2			1.4	1.5	1.6	1.6	1.7	1.8		1.9	2.0	2.1	2.3	2.4	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.6	3.8	4.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.0			16.2	15.7	16.3	16.4	16.5	16.5		15.7	15.0	14.4	13.8	13.1	12.6	12.2	11.8	11.4	10.9	10.5	10.0	9.4	8.8	8.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	46.7			59.7	61.7	69.3	73.5	76.3	75.2		71.0	67.4	63.8	60.4	56.9	54.3	52.2	49.8	47.4	44.9	42.4	39.9	37.3	34.5	31.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.6			2.2	2.1	2.2	3.0	4.0	4.4		5.5	5.4	5.2	4.6	4.1	3.2	3.0	2.9	2.8	2.7	2.6	2.6	2.6	2.5	2.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections																				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio																					
Baseline	20	20	20	20	20	20	19	18	17	16	**15**	15	14	14	13	13	12	12	11	10	9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	20	20	21	20	19	18	16	13	10	8	**5**	3	2	0	-1	-2	-3	-4	-4	-5	-5
A2. New public sector loans on less favorable terms in 2010-2030 2	20	21	22	22	22	23	22	22	21	21	**20**	20	19	19	18	18	17	17	16	16	15
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	20	22	25	24	24	24	23	22	21	20	**19**	18	18	17	16	16	15	14	13	13	12
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	20	20	21	21	20	20	19	19	18	17	**16**	15	15	14	14	13	12	12	11	10	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	20	23	26	26	26	25	24	23	22	21	**20**	19	19	18	17	17	16	15	14	13	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	20	31	36	34	33	32	31	30	28	27	**26**	24	23	21	20	19	18	16	15	14	13
B5. Combination of B1-B4 using one-half standard deviation shocks	20	37	55	52	50	48	46	44	43	41	**39**	36	34	32	30	28	26	24	22	20	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	20	28	28	28	28	27	26	25	24	23	**22**	21	20	19	19	18	17	16	15	14	13
PV of debt-to-exports ratio																					
Baseline	175	181	193	195	190	183	167	155	143	132	**121**	113	106	98	91	85	78	72	66	60	54
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	175	186	200	197	185	167	140	112	85	61	**41**	25	13	2	-7	-14	-19	-23	-25	-27	-27
A2. New public sector loans on less favorable terms in 2010-2030 2	175	190	210	217	217	213	200	190	179	169	**158**	150	143	135	127	120	113	105	98	91	85
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	175	182	194	196	191	184	168	156	144	132	**122**	113	106	99	92	85	79	72	66	60	55
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	175	193	220	221	215	206	189	175	162	149	**137**	127	119	111	103	95	88	80	74	67	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	175	182	194	196	191	184	168	156	144	132	**122**	113	106	99	92	85	79	72	66	60	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	175	284	348	338	319	302	278	257	239	221	**202**	184	169	153	139	126	114	103	92	82	73
B5. Combination of B1-B4 using one-half standard deviation shocks	175	301	410	396	372	350	323	299	278	258	**235**	214	195	177	160	144	130	117	104	93	83
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	175	182	194	196	191	184	168	156	144	132	**122**	113	106	99	92	85	79	72	66	60	55
PV of debt-to-revenue ratio																					
Baseline	204	187	164	149	146	138	129	121	113	106	**98**	93	89	85	82	78	74	70	65	61	56
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	204	192	170	151	141	126	108	87	67	49	**33**	21	11	2	-6	-13	-18	-22	-25	-27	-28
A2. New public sector loans on less favorable terms in 2010-2030 2	204	197	178	166	166	161	153	148	142	135	**128**	123	120	117	114	110	106	102	97	93	88
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	204	210	201	183	179	170	158	148	139	130	**121**	114	109	105	100	95	91	85	80	75	69
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	204	191	172	156	151	144	134	126	118	110	**102**	96	92	88	84	80	76	71	67	62	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	204	211	214	194	189	180	168	157	147	138	**128**	121	116	111	106	101	96	91	85	79	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	204	294	296	259	244	228	213	201	189	177	**164**	151	142	133	124	116	107	99	91	84	76
B5. Combination of B1-B4 using one-half standard deviation shocks	204	351	449	391	367	342	320	301	283	266	**246**	226	212	197	184	170	158	145	133	122	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	204	262	229	209	203	193	180	169	158	148	**137**	130	125	119	114	109	103	97	91	85	79

Table 1b. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	6	6	6	8	10	11	13	12	11	10	**9**	7	6	6	5	5	5	5	5	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	6	6	7	9	11	12	14	13	12	10	**7**	5	4	3	2	2	1	1	1	0	0
A2. New public sector loans on less favorable terms in 2010-2030 2	6	6	6	8	11	13	13	13	12	11	**10**	9	9	8	8	7	6	7	6	6	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	6	6	6	8	10	11	13	12	11	10	**9**	7	6	6	5	5	5	5	5	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	6	6	7	9	11	12	14	13	12	11	**9**	7	7	6	6	6	5	5	5	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	6	6	6	8	10	11	13	12	11	10	**9**	7	6	6	5	5	5	5	5	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	6	6	8	11	12	13	15	14	13	11	**13**	12	11	10	10	9	8	8	7	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	9	12	13	14	16	15	14	12	**14**	15	13	12	11	10	10	9	9	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	6	6	6	8	10	11	13	12	11	10	**9**	7	6	6	5	5	5	5	5	4	4

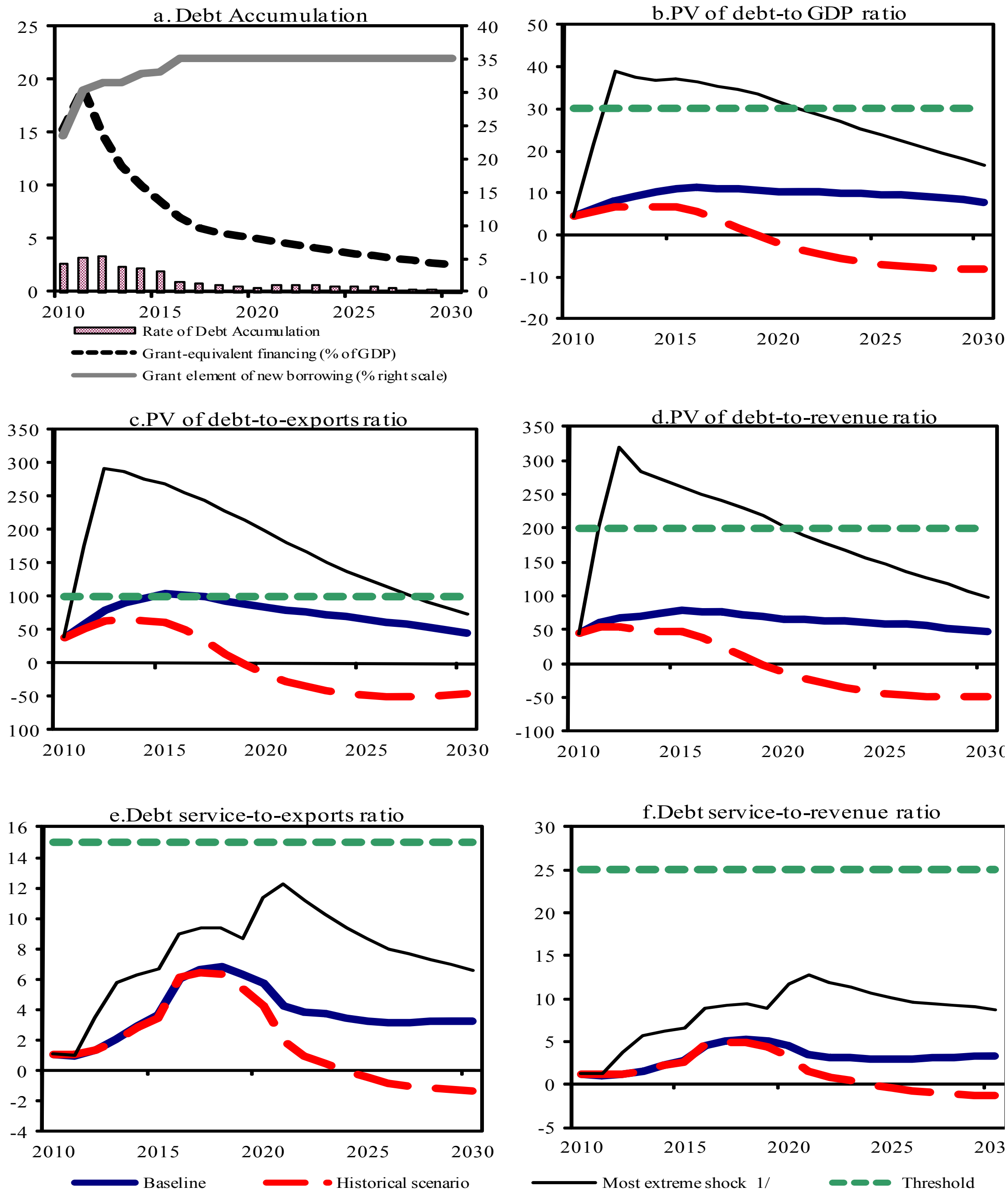
Debt service-to-revenue ratio

Baseline	7	6	5	6	7	8	10	10	9	8	**7**	5	5	5	5	5	4	4	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	7	9	9	11	10	9	8	**6**	4	3	2	2	2	1	1	1	0	0
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	5	6	9	10	10	10	9	9	**8**	8	7	7	7	6	6	6	6	6	6
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	7	6	7	9	10	12	12	11	10	**8**	7	6	6	6	6	5	5	5	5	5
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	5	6	8	8	10	10	9	8	**7**	6	5	5	5	5	5	5	5	5	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	7	7	8	10	10	13	12	12	10	**9**	7	6	6	6	6	6	6	6	6	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	7	8	9	10	11	11	10	9	**10**	10	9	9	8	8	8	8	7	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	9	12	13	14	16	15	14	13	**15**	15	14	14	13	12	12	11	11	11	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	8	7	8	10	11	14	13	13	11	**10**	8	7	7	7	6	6	6	6	6	6
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33	33	33	**33**	33	33	33	33	33	33	33	33	33	33

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure2. Haiti--Debt Relief Scenario: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Table 2a. Haiti--Debt Relief Scenario: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	0 Standard Deviation	Projections																						
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2016-2030 Average
External debt (nominal) 1/	**25.6**	**29.5**	**16.6**			**5.1**	**8.0**	**10.7**	**12.1**	**13.5**	**15.0**		**15.1**	**15.1**	**15.0**	**14.7**	**14.3**	**14.1**	**13.9**	**13.8**	**13.5**	**13.2**	**12.8**	**12.4**	**11.9**	**11.2**	**10.6**	
o/w public and publicly guaranteed (PPG)	25.6	29.5	16.6			5.1	8.0	10.7	12.1	13.5	15.0		15.1	15.1	15.0	14.7	14.3	14.1	13.9	13.8	13.5	13.2	12.8	12.4	11.9	11.2	10.6	
Change in external debt	-2.9	3.9	-12.9			-11.5	2.9	2.7	1.4	1.4	1.4		0.1	0.1	-0.1	-0.3	-0.4	-0.2	-0.1	-0.2	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-0.7	
Identified net debt-creating flows	-6.3	1.3	2.7			2.3	1.8	2.3	2.3	2.0	1.6		1.8	2.8	3.2	3.1	3.0	2.9	2.8	2.7	2.6	2.4	2.2	2.0	1.8	1.5	1.3	
Non-interest current account deficit	**0.1**	**4.2**	**3.0**	**1.5**	**1.8**	**1.9**	**3.4**	**3.8**	**3.8**	**3.3**	**3.0**		**3.3**	**4.4**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.7**	**4.5**	**4.4**	**4.2**	**4.0**	**3.8**	**3.6**	4.4
Deficit in balance of goods and services	26.3	31.0	29.7			50.0	43.7	37.1	33.1	29.5	27.1		26.8	26.5	26.0	25.6	25.2	24.8	24.4	23.8	23.3	22.8	22.3	21.8	21.2	20.7	20.2	
Exports	13.4	12.7	14.2			11.6	11.0	10.3	10.1	10.4	10.7		11.0	11.3	11.7	12.1	12.5	12.9	13.3	13.8	14.3	14.8	15.3	15.8	16.3	16.8	17.3	
Imports	39.6	43.7	43.9			61.6	54.7	47.4	43.2	39.8	37.8		37.8	37.8	37.8	37.7	37.7	37.7	37.7	37.7	37.6	37.6	37.6	37.6	37.6	37.5	37.5	
Net current transfers (negative = inflow)	-25.9	-26.3	-26.3	-27.4	2.7	-47.9	-40.1	-32.8	-28.5	-25.1	-23.1		-21.6	-20.8	-20.4	-20.0	-19.6	-19.2	-18.8	-18.4	-18.0	-17.7	-17.3	-17.0	-16.7	-16.5	-16.2	-18.5
o/w official	-6.7	-7.2	-7.4			-26.7	-20.7	-15.7	-12.8	-10.7	-9.2		-7.4	-6.6	-6.4	-6.1	-5.7	-5.4	-5.1	-4.8	-4.6	-4.3	-4.1	-3.9	-3.7	-3.5	-3.4	
Other current account flows (negative = net inflow)	-0.2	-0.5	-0.3			-0.2	-0.2	-0.4	-0.8	-1.0	-1.0		-1.9	-1.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	
Net FDI (negative = inflow)	**-1.3**	**-0.5**	**-0.6**	**-0.9**	**1.1**	**-1.1**	**-1.3**	**-1.0**	**-0.9**	**-0.8**	**-0.8**		**-1.0**	**-1.1**	**-1.2**	**-1.3**	**-1.4**	**-1.5**	**-1.6**	**-1.6**	**-1.7**	**-1.7**	**-1.8**	**-1.8**	**-1.9**	**-1.9**	**-2.0**	-1.5
Endogenous debt dynamics 2/	**-5.2**	**-2.5**	**0.2**			**1.5**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.6**		**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-0.8	-0.2	-0.9			1.4	-0.4	-0.6	-0.6	-0.7	-0.8		-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	
Contribution from price and exchange rate changes	-4.5	-2.6	0.9			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**3.4**	**2.6**	**-15.6**			**-13.7**	**1.1**	**0.4**	**-0.9**	**-0.6**	**-0.1**		**-1.6**	**-2.7**	**-3.3**	**-3.4**	**-3.4**	**-3.1**	**-2.9**	**-2.9**	**-2.8**	**-2.7**	**-2.5**	**-2.4**	**-2.3**	**-2.1**	**-1.9**	
o/w exceptional financing	-0.4	-0.3	-15.6			-13.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	1.8			4.5	6.4	8.7	10.1	11.4	12.3		12.2	12.2	11.9	11.6	11.2	11.0	10.9	10.8	10.6	10.3	10.1	9.7	9.3	8.8	8.3	
In percent of exports	...	...	12.3			38.9	58.1	84.3	99.9	109.8	114.7		111.2	107.5	101.9	95.8	89.7	85.4	82.0	77.9	73.7	69.7	65.7	61.4	57.1	52.6	48.2	
PV of PPG external debt	**...**	**...**	**1.8**			**4.5**	**6.4**	**8.7**	**10.1**	**11.4**	**12.3**		**12.2**	**12.2**	**11.9**	**11.6**	**11.2**	**11.0**	**10.9**	**10.8**	**10.6**	**10.3**	**10.1**	**9.7**	**9.3**	**8.8**	**8.3**	
In percent of exports	**...**	**...**	**12.3**			**38.9**	**58.1**	**84.3**	**99.9**	**109.8**	**114.7**		**111.2**	**107.5**	**101.9**	**95.8**	**89.7**	**85.4**	**82.0**	**77.9**	**73.7**	**69.7**	**65.7**	**61.4**	**57.1**	**52.6**	**48.2**	
In percent of government revenues	**...**	**...**	**15.7**			**45.2**	**60.2**	**71.6**	**76.5**	**84.0**	**86.8**		**84.7**	**82.4**	**79.2**	**75.5**	**71.7**	**69.1**	**67.9**	**66.6**	**64.9**	**63.1**	**61.1**	**58.7**	**55.9**	**52.8**	**49.5**	
Debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**1.1**	**1.0**	**1.3**	**2.2**	**3.3**	**4.1**		**6.5**	**7.0**	**7.1**	**6.6**	**6.0**	**4.5**	**4.0**	**3.9**	**3.6**	**3.4**	**3.3**	**3.3**	**3.4**	**3.4**	**3.3**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**5.8**	**3.7**			**1.1**	**1.0**	**1.3**	**2.2**	**3.3**	**4.1**		**6.5**	**7.0**	**7.1**	**6.6**	**6.0**	**4.5**	**4.0**	**3.9**	**3.6**	**3.4**	**3.3**	**3.3**	**3.4**	**3.4**	**3.3**	
PPG debt service-to-revenue ratio (in percent)	**8.5**	**6.9**	**4.7**			**1.3**	**1.0**	**1.1**	**1.7**	**2.5**	**3.1**		**4.9**	**5.3**	**5.5**	**5.2**	**4.8**	**3.6**	**3.4**	**3.3**	**3.2**	**3.1**	**3.0**	**3.2**	**3.3**	**3.4**	**3.4**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.3	0.2			0.1	0.2	0.3	0.3	0.3	0.3		0.4	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Non-interest current account deficit that stabilizes debt ratio	3.0	0.4	15.9			13.4	0.5	1.1	2.3	1.9	1.6		3.1	4.3	5.0	5.1	5.2	5.0	4.9	5.0	4.9	4.8	4.7	4.7	4.6	4.4	4.2	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.5	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	18.8	11.2	-3.0	9.1	13.9	7.8	6.8	10.0	7.4	5.4	1.9	6.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	1.0	0.7	-0.4	1.4	0.4	1.4	1.3	1.5	1.7	1.7	1.3	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.6
Growth of exports of G&S (US dollar terms, in percent)	12.1	6.5	12.0	11.5	4.4	-19.6	11.6	11.8	12.1	14.8	12.2	7.2	10.6	10.2	10.8	10.7	10.6	10.5	10.4	11.1	10.9	10.8	10.7	10.5	10.4	10.3	10.2	10.6
Growth of imports of G&S (US dollar terms, in percent)	8.7	23.6	0.4	13.0	7.7	38.2	4.2	3.3	4.5	3.3	3.1	9.4	7.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.5	30.3	31.5	31.6	32.8	33.0	30.5	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2
Government revenues (excluding grants, in percent of GDP)	10.6	10.7	11.2			10.0	10.7	12.2	13.2	13.5	14.2		14.5	14.8	15.1	15.4	15.7	16.0	16.1	16.2	16.3	16.4	16.5	16.6	16.7	16.8	16.9	16.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.4			0.9	1.4	1.3	1.2	1.1	1.0		1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
o/w Grants	0.3	0.3	0.4			0.9	1.4	1.2	1.1	1.0	1.0		0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.3	19.2	14.8	11.8	9.9	8.5		7.0	5.9	5.6	5.3	4.9	4.7	4.4	4.1	3.9	3.6	3.4	3.2	3.0	2.8	2.6	4.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			85.2	87.6	84.3	85.7	83.6	82.3		86.5	84.6	85.5	86.7	87.4	86.9	85.8	85.7	86.2	86.4	86.6	87.3	87.4	88.5	88.9	86.7
Memorandum items:																												
Nominal GDP (Billions of US dollars)	5.9	6.6	6.6			6.5	7.6	9.0	10.4	11.6	12.6		13.6	14.6	15.6	16.7	17.9	19.1	20.5	21.9	23.4	25.1	26.9	28.8	30.8	32.9	35.3	
Nominal dollar GDP growth	22.8	12.2	-0.2			-1.4	17.3	19.2	14.8	12.0	8.6	11.7	7.6	7.3	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.1
PV of PPG external debt (in Billions of US dollars)			0.1			0.3	0.5	0.8	1.1	1.3	1.6		1.7	1.8	1.9	1.9	2.0	2.1	2.2	2.4	2.5	2.6	2.7	2.8	2.9	2.9	3.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.6	3.2	4.0	2.9	2.7	2.0	2.9	0.9	0.8	0.6	0.5	0.4	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.1	0.5
Gross remittances (Billions of US dollars)	1.1	1.3	1.2			1.4	1.5	1.6	1.6	1.7	1.8		1.9	2.0	2.1	2.3	2.4	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.6	3.8	4.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	1.5			3.7	5.4	7.4	8.7	9.9	10.7		10.7	10.7	10.5	10.2	9.9	9.7	9.7	9.5	9.4	9.2	9.0	8.7	8.3	7.9	7.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	5.3			13.7	21.1	31.7	39.2	45.8	49.0		48.7	48.1	46.9	45.2	43.4	42.3	41.5	40.5	39.3	38.0	36.6	35.0	33.2	31.2	29.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.6			0.4	0.4	0.5	0.9	1.4	1.7		2.8	3.1	3.3	3.1	2.9	2.2	2.1	2.0	1.9	1.9	1.8	1.9	2.0	2.0	2.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2b.Haiti--Debt Relief Scenario: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections																				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio																					
Baseline	5	6	8	9	10	11	11	11	11	11	**10**	10	10	10	10	10	10	9	9	8	8
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	5	6	7	7	7	7	6	4	2	0	**-2**	-3	-5	-6	-6	-7	-8	-8	-8	-8	-8
A2. New public sector loans on less favorable terms in 2010-2030 2	5	7	10	11	13	14	15	15	15	15	**15**	15	15	15	15	15	15	14	14	14	13
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	7	10	11	12	14	14	14	14	13	**13**	13	13	12	12	12	12	11	11	10	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	5	7	9	10	11	12	12	12	12	11	**11**	11	11	11	10	10	10	10	9	9	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	7	11	12	13	15	15	15	14	14	**14**	13	13	13	13	13	12	12	12	11	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	5	18	24	24	24	24	23	23	22	22	**21**	20	19	18	17	16	15	14	13	12	11
B5. Combination of B1-B4 using one-half standard deviation shocks	5	22	39	37	37	37	36	36	35	34	**32**	30	29	27	25	24	23	21	20	18	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	5	9	11	13	14	16	16	16	15	15	**15**	14	14	14	14	14	13	13	12	12	11
PV of debt-to-exports ratio																					
Baseline	39	58	79	91	98	104	102	99	94	89	**84**	80	77	73	70	66	62	58	54	50	46
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	39	52	64	65	64	62	51	34	15	-2	**-16**	-26	-34	-40	-44	-47	-49	-50	-50	-49	-47
A2. New public sector loans on less favorable terms in 2010-2030 2	39	67	96	113	125	135	134	133	130	125	**120**	116	113	109	105	101	96	92	87	81	76
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	39	59	80	92	99	105	102	100	95	89	**84**	80	77	74	70	66	63	59	55	50	46
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	39	64	95	107	115	121	118	114	108	102	**96**	91	88	83	79	74	70	66	61	56	51
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	39	59	80	92	99	105	102	100	95	89	**84**	80	77	74	70	66	63	59	55	50	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	39	161	235	234	227	223	213	204	192	180	**166**	152	141	129	118	108	99	90	81	73	65
B5. Combination of B1-B4 using one-half standard deviation shocks	39	175	292	288	276	269	256	244	229	215	**198**	181	166	152	138	125	114	103	93	83	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	39	59	80	92	99	105	102	100	95	89	**84**	80	77	74	70	66	63	59	55	50	46
PV of debt-to-revenue ratio																					
Baseline	45	60	67	70	75	79	78	76	73	70	**67**	65	64	63	61	60	58	56	53	50	47
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	45	54	55	50	49	47	39	26	11	-2	**-13**	-21	-28	-34	-39	-43	-46	-48	-49	-49	-48
A2. New public sector loans on less favorable terms in 2010-2030 2	45	69	81	86	95	102	102	102	101	99	**96**	94	94	93	93	91	90	87	85	82	78
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	45	67	83	86	92	97	95	93	90	86	**82**	79	78	77	75	73	71	68	65	62	58
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	45	63	74	76	81	84	82	80	78	74	**70**	68	67	65	64	62	60	58	55	52	48
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	45	68	88	91	98	103	101	99	95	91	**87**	84	83	82	80	78	75	73	69	65	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	45	166	199	179	174	169	162	156	149	142	**132**	123	117	110	104	98	92	86	80	73	67
B5. Combination of B1-B4 using one-half standard deviation shocks	45	204	319	284	272	262	251	241	230	219	**204**	189	178	167	156	146	137	127	117	108	98
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	45	84	94	97	105	110	109	106	103	98	**93**	90	89	88	86	83	81	78	74	70	66

Table 2b.Haiti--Debt Relief Scenario: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	1	1	1	2	3	4	6	7	7	6	**6**	4	4	4	3	3	3	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	1	1	1	2	3	3	6	6	6	5	**4**	2	1	0	0	0	-1	-1	-1	-1	-1
A2. New public sector loans on less favorable terms in 2010-2030 2	1	1	2	3	3	7	7	8	8	8	**8**	8	7	7	6	6	5	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	6	**6**	4	4	4	3	3	3	3	3	3	3
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	1	2	2	3	4	7	7	8	7	**6**	5	4	4	4	4	4	4	4	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	6	**6**	4	4	4	3	3	3	3	3	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	1	3	5	5	6	8	8	8	8	**10**	10	9	8	8	7	7	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	3	6	6	7	9	9	9	9	**11**	12	11	10	9	9	8	8	7	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	1	2	3	4	6	7	7	6	**6**	4	4	4	3	3	3	3	3	3	3

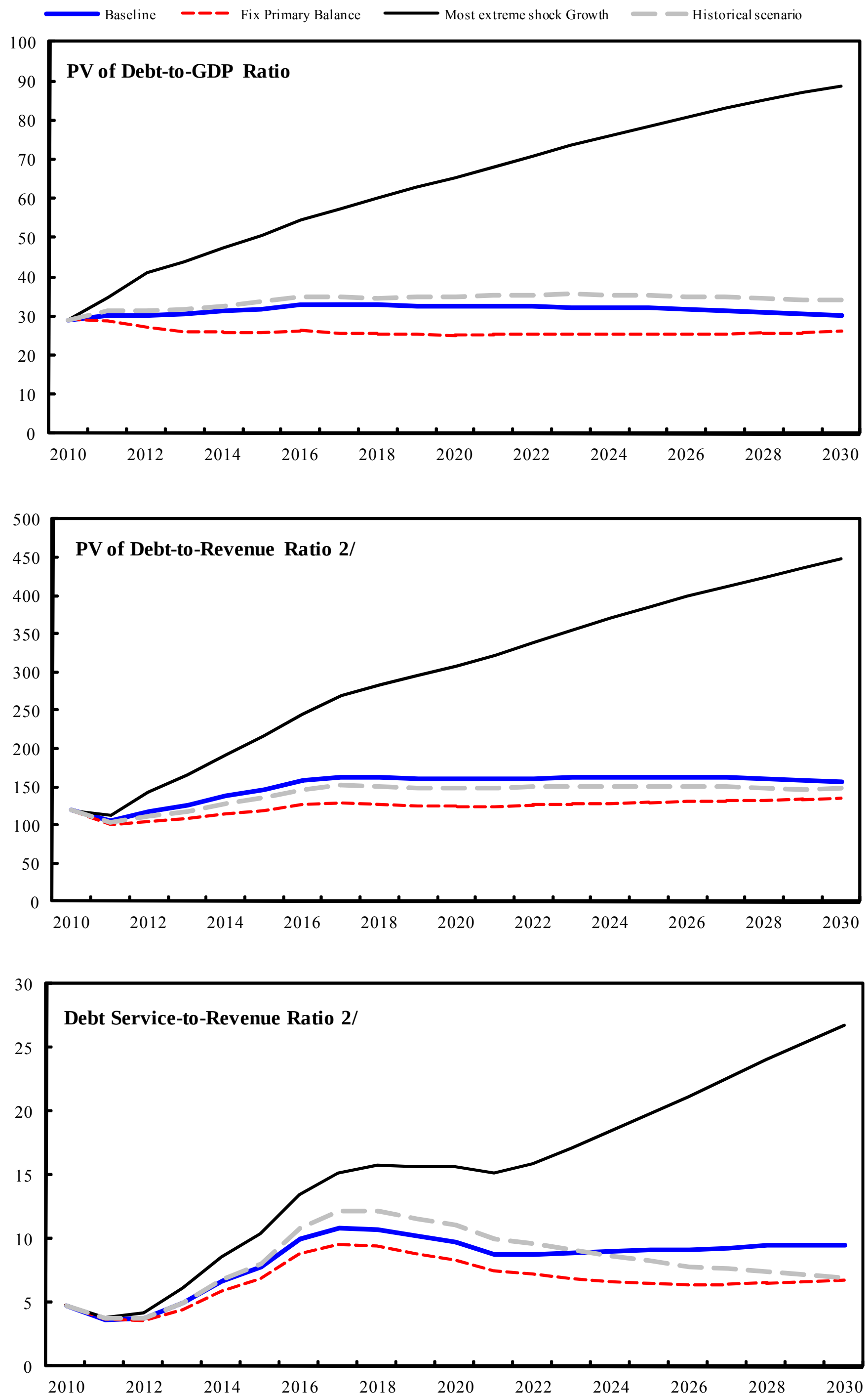
Debt service-to-revenue ratio

Baseline	1	1	1	2	2	3	5	5	5	5	**5**	3	3	3	3	3	3	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2010-2030 1/	1	1	1	2	2	3	5	5	5	4	**3**	2	1	0	0	0	-1	-1	-1	-1	-1
A2. New public sector loans on less favorable terms in 2010-2030 2	1	1	1	2	3	5	5	6	6	7	**7**	6	6	6	5	5	5	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	3	6	6	6	6	**6**	4	4	4	4	4	4	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	1	1	1	2	2	3	5	5	5	5	**5**	4	3	3	3	3	3	3	3	3	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	2	3	4	6	7	7	7	**6**	4	4	4	4	4	4	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	1	1	3	4	4	4	6	6	7	6	**8**	8	8	7	7	6	6	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	4	6	6	7	9	9	9	9	**12**	13	12	11	11	10	10	9	9	9	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	2	2	3	4	6	7	7	7	**6**	5	4	4	4	4	4	4	4	5	5
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33	33	33	**33**	33	33	33	33	33	33	33	33	33	33

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 3. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Table 3a.Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	34.9	37.7	24.8			30.7	31.7	32.3	32.4	33.2	34.2		35.1	32.2	
o/w foreign-currency denominated	25.6	29.5	16.6			22.0	21.6	21.9	21.6	21.6	21.9		18.1	11.4	
Change in public sector debt	-4.4	2.7	-12.9			5.9	1.0	0.5	0.2	0.8	1.1		-0.3	-0.6	
Identified debt-creating flows	-5.9	0.8	3.5			3.4	-1.6	0.0	0.0	0.6	0.8		0.5	-0.2	
Primary deficit	-1.1	2.5	3.8	1.9	1.6	1.9	3.1	4.3	3.4	3.3	2.8	3.1	2.0	1.2	2.0
Revenue and grants	15.8	15.1	17.9			24.4	28.7	25.7	24.1	22.5	21.8		20.2	19.3	
of which: grants	5.3	4.4	6.7			14.5	18.0	13.5	10.9	9.0	7.6		4.6	2.4	
Primary (noninterest) expenditure	14.7	17.6	21.7			26.3	31.8	29.9	27.5	25.8	24.5		22.2	20.5	
Automatic debt dynamics	-4.7	-1.7	-0.3			1.5	-4.7	-4.3	-3.4	-2.7	-2.0		-1.5	-1.4	
Contribution from interest rate/growth differential	-1.8	1.9	-1.0			2.6	-2.9	-2.8	-2.3	-2.0	-1.9		-1.5	-1.7	
of which: contribution from average real interest rate	-0.5	2.2	0.0			0.3	-0.1	-0.4	-0.3	-0.1	0.1		0.2	-0.2	
of which: contribution from real GDP growth	-1.3	-0.3	-1.1			2.3	-2.7	-2.5	-2.1	-1.9	-2.0		-1.7	-1.6	
Contribution from real exchange rate depreciation	-2.9	-3.6	0.7			-1.1	-1.8	-1.4	-1.1	-0.7	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.5	1.9	-16.4			2.4	2.6	0.6	0.2	0.1	0.3		-0.7	-0.4	
Other Sustainability Indicators															
PV of public sector debt	9.4	8.2	23.7			28.3	28.9	29.4	29.7	30.5	31.2		31.8	30.0	
o/w foreign-currency denominated	0.0	0.0	15.5			19.6	18.8	19.0	18.9	18.9	18.8		14.8	9.2	
o/w external	...	...	15.5			19.6	18.8	19.0	18.9	18.9	18.8		14.8	9.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.3	11.7	12.5			11.4	11.4	13.8	13.6	14.4	14.8		18.8	21.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	59.0	54.4	132.5			116.0	100.6	114.4	123.2	135.4	143.1		157.1	155.4	
PV of public sector debt-to-revenue ratio (in percent)	88.3	76.8	211.6			284.5	270.6	241.2	225.3	225.3	220.1		202.9	177.8	
o/w external 3/	…	…	138.3			197.0	175.9	156.4	143.2	139.6	133.1		94.3	54.5	
Debt service-to-revenue and grants ratio (in percent) 4/	10.6	7.1	5.4			4.8	3.6	3.6	4.9	6.6	7.7		9.7	9.4	
Debt service-to-revenue ratio (in percent) 4/	15.8	10.1	8.5			11.8	9.8	7.6	8.9	11.0	11.9		12.5	10.8	
Primary deficit that stabilizes the debt-to-GDP ratio	3.2	-0.2	16.7			-4.0	2.0	3.7	3.2	2.5	1.7		2.3	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.3	0.8	2.9	0.8	2.0	-8.5	9.8	8.4	6.9	6.2	6.0	4.8	5.0	5.0	5.1
Average nominal interest rate on forex debt (in percent)	0.5	1.0	0.7	-0.4	1.4	3.6	2.2	2.0	1.9	2.0	2.0	2.3	1.9	1.7	1.8
Average real interest rate on domestic debt (in percent)	0.7	-8.5	2.3	-8.9	7.9	-2.4	-3.6	-4.5	-2.7	-1.1	0.5	-2.3	1.0	1.0	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.9	-12.6	2.6	-7.0	13.8	-5.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.2	13.8	3.2	15.0	8.1	8.0	9.7	8.6	7.4	6.5	5.0	7.5	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	0.3	0.1	0.2	0.1	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	25.6	30.3	31.7	31.8	32.8	33.5	31.0	35.2	35.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes gross external debt of or guaranteed by the central government and central bank, and gross domestic debt of the central government.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3b. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	29	30	30	31	31	32	32	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	31	31	32	32	34	35	34
A2. Primary balance is unchanged from 2010	29	29	27	26	26	26	25	26
A3. Permanently lower GDP growth 1/	29	30	31	31	32	33	37	46
A4. Alternative Scenario :[Costumize, enter title]	29	40	47	53	57	60	61	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	29	35	41	44	47	51	65	89
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	29	31	30	30	31	32	32	30
B3. Combination of B1-B2 using one half standard deviation shocks	29	32	33	37	40	43	57	79
B4. One-time 30 percent real depreciation in 2011	29	37	36	36	36	36	37	35
B5. 10 percent of GDP increase in other debt-creating flows in 2011	29	40	39	38	39	39	38	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	119	105	118	127	139	146	160	157
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	119	103	111	118	128	136	149	148
A2. Primary balance is unchanged from 2010	119	101	105	108	115	119	125	136
A3. Permanently lower GDP growth 1/	119	105	119	129	143	152	181	234
A4. Alternative Scenario :[Costumize, enter title]	119	464	357	331	319	314	282	184
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	119	113	143	165	193	216	308	448
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	119	107	117	126	138	146	159	156
B3. Combination of B1-B2 using one half standard deviation shocks	119	106	118	139	165	187	272	399
B4. One-time 30 percent real depreciation in 2011	119	130	141	149	161	167	182	184
B5. 10 percent of GDP increase in other debt-creating flows in 2011	119	140	152	160	172	179	190	181
Debt Service-to-Revenue Ratio 2/								
Baseline	5	4	4	5	7	8	10	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	4	4	5	7	8	11	7
A2. Primary balance is unchanged from 2010	5	4	4	4	6	7	8	7
A3. Permanently lower GDP growth 1/	5	4	4	5	7	8	11	13
A4. Alternative Scenario :[Costumize, enter title]	5	13	9	11	12	13	13	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	5	4	4	6	9	10	16	27
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	5	4	4	5	7	8	10	9
B3. Combination of B1-B2 using one half standard deviation shocks	5	4	4	5	7	9	14	23
B4. One-time 30 percent real depreciation in 2011	5	4	5	6	9	10	12	13
B5. 10 percent of GDP increase in other debt-creating flows in 2011	5	4	5	7	8	9	11	12

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3b. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	29	30	30	31	31	32	32	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	31	31	32	32	34	35	34
A2. Primary balance is unchanged from 2010	29	29	27	26	26	26	25	26
A3. Permanently lower GDP growth 1/	29	30	31	31	32	33	37	46
A4. Alternative Scenario :[Costumize, enter title]	29	40	47	53	57	60	61	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	29	35	41	44	47	51	65	89
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	29	31	30	30	31	32	32	30
B3. Combination of B1-B2 using one half standard deviation shocks	29	32	33	37	40	43	57	79
B4. One-time 30 percent real depreciation in 2011	29	37	36	36	36	36	37	35
B5. 10 percent of GDP increase in other debt-creating flows in 2011	29	40	39	38	39	39	38	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	119	105	118	127	139	146	160	157
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	119	103	111	118	128	136	149	148
A2. Primary balance is unchanged from 2010	119	101	105	108	115	119	125	136
A3. Permanently lower GDP growth 1/	119	105	119	129	143	152	181	234
A4. Alternative Scenario :[Costumize, enter title]	119	464	357	331	319	314	282	184
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	119	113	143	165	193	216	308	448
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	119	107	117	126	138	146	159	156
B3. Combination of B1-B2 using one half standard deviation shocks	119	106	118	139	165	187	272	399
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Debt Service-to-Revenue Ratio 2/								
Baseline	5	4	4	5	7	8	10	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	4	4	5	7	8	11	7
A2. Primary balance is unchanged from 2010	5	4	4	4	6	7	8	7
A3. Permanently lower GDP growth 1/	5	4	4	5	7	8	11	13
A4. Alternative Scenario :[Costumize, enter title]	5	13	9	11	12	13	13	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	5	4	4	6	9	10	16	27
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	5	4	4	5	7	8	10	9
B3. Combination of B1-B2 using one half standard deviation shocks	5	4	4	5	7	9	14	23
B4. One-time 30 percent real depreciation in 2011	5	4	5	6	9	10	12	13
B5. 10 percent of GDP increase in other debt-creating flows in 2011	5	4	5	7	8	9	11	12

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

ANNEX 5: GOVERNANCE PROGRAM OF THE GOVERNMENT OF HAITI

Introduction

5.1. The January 12, 2010 earthquake in no way shook the determination of the Haitian government to continue its quest to build a State that aspires to and demonstrates the highest degree of transparency and accountability in managing the funds entrusted to it by taxpayers and its international financial partners.

5.2. This note is aimed at reaffirming the commitment of the Haitian government to manage public resources properly and apply the highest standards of transparency and accountability to the use of these resources during this critical phase of reconstruction of the national economy and sweeping reform of the Haitian society.

5.3. The note is composed of two parts. The first part takes stock of the significant strides made in the area of economic governance prior to the January 12 earthquake, and the second lists the activities that the government pledges to undertake to build on and even surpass the gains made in the past.

I. Progress Made Prior to the Earthquake

5.4. Significant progress was made with the implementation of economic governance measures in the six years preceding the January 12 earthquake. This progress relates, in particular, to budget preparation, budget execution monitoring, and internal and external auditing of public expenditure.

5.5. The law on the preparation and execution of budget laws has been adopted, providing, inter alia, a budget preparation timetable. Budget preparation has been strengthened through the implementation of a consultative process between the Ministry of Economy and Finance (MEF) and the sectoral ministries, as well as coordination between the Ministry of Planning and External Cooperation (MPCE) and the Ministry of Economy and Finance, with a view to better linkage of investment expenditure and current expenditure. The various civil society sectors have been included in the drafting process and have been informed of budget choices. For several years, the draft budget has been submitted to Parliament in a timely manner. Measures have been adopted with a view to making the budget available to the public on the MEF's website, via pamphlets, and in the print media.

5.6. The public expenditure oversight systems have been strengthened by the establishment and commencement of operations of the Inspectorate General of Finance [*Inspection Générale de Finances* IGF]. In addition, public accountants and financial comptrollers have been assigned to all ministries and government agencies and current account use has been reduced from 60 percent of current expenditure, excluding salaries, in 2004 to the historic level of 3 percent in 2009. SYSDEP and SYSGEP, two public expenditure automated management systems, are used on a regular basis to ensure close and integrated management of current and investment expenditure. Budget execution reports, prepared on a periodic basis in accordance with international accounting standards, are published monthly and annually. Since 2005, national revenue accounts have been prepared in fewer than eight months after the end of the fiscal year and transmitted for the opinion of the Superior Court of Auditors and Administrative Law Disputes [*Cour Supérieure des Comptes et du Contentieux Administratif* CSCCA] prior to submission to Parliament.

5.7. In the area of revenue, ongoing efforts to improve the management of the tax and customs administrations facilitated an increase in taxes to 11.2 percent in 2009 compared to an average of 10 percent over the past decade. A new customs code has been approved by the Chamber of Deputies. The process of drafting a tax code with a view to aligning it with regional standards has started. Sydonia World has been installed in the main customs offices with the aim of enhancing their effectiveness and reducing cases of fraud and underbilling. At the same time, the mandate of the SGS, the company responsible for inspecting merchandise prior to loading, has been expanded in provincial customs offices in order to help ensure effective management of the flow of merchandise and revenue collection.

5.8. A National Public Procurement Commission [*Commission Nationale des Marchés Public* CNMP] has been established to better regulate and normalize public procurement procedures and help build capacity in the area of the procurement of goods and services in sectoral ministries. This entity, even more so than the establishment of the legal framework, has facilitated some improvement in procurement practices, as a result of the various training and dissemination sessions organized. Available statistics indicate that the share of procurement not subject to bidding relative to total government procurement fell from 85 percent in 2004 to 56 percent in 2008. In addition, a few months prior to the earthquake, an important step was taken with the adoption by Parliament in June 2009 of the new procurement law. Four important implementing decisions have been signed and published.

5.9. The establishment of the Anti-Corruption Unit [*Unité de Lutte contre la Corruption* ULCC] has contributed greatly to raising awareness among government employees and the general population of the costs and risks associated with corruption and the ways and means of preventing it.

5.10. After adoption of the law on asset disclosure, it was noted that a significant majority of government employees complied with the provisions of this law. After going through their disclosure statements, a report was submitted by the ULCC to the CSCCA and the Anti-Corruption Commissions of both chambers.

II. Actions to be Taken to Preserve and Strengthen the Progress Made in the Area of Economic Governance

5.11. The government is cognizant of the importance accorded by the Haitian people and Haiti’s international financial partners to the proper use of public funds, transparency, and accountability in the management of resources provided to the government for Haiti’s reconstruction and development. During the March 16-17 technical meeting held in the Dominican Republic, the government, through its representatives, reiterated the importance to be accorded to sound and transparent management of the resources that will be mobilized through Haiti’s taxpayers and partners.

5.12. Consequently, in the post-earthquake period, the government is resolute in its desire to preserve and even build upon the gains made in the area of economic governance. Although the earthquake dealt a severe blow to key institutions and logistical resources in place prior to January 12, the government quickly focused on salvaging the main equipment and servers that were not completely destroyed and mobilized assistance from its chief partners to get pre-earthquake management and oversight systems up and running again.

5.13. The Haitian government is taking the following actions:

A. Short term (6 months)

- Reaffirming the government's commitment to the medium-term reforms set forth in the joint budget support matrix adopted by the Ministry of Economy and Finance and donors prior to the earthquake. Conducting a monthly review and possible updating of matrix. Making the matrix available to input from possible new partners.
- Making it mandatory for all public procurement in excess of the amount set forth in the implementing decision to the public procurement law to be subject to competitive bidding or to substantiation by the CNMP, in the case of exceptions to this rule.
- Building the intervention capacity of the Inspectorate General of Finance and the CSCCA by making technical assistance available to them.
- Making the transfer of budget resources to public enterprises, in particular the EDH, fully transparent and making transparency and accountability mandatory for these enterprises in the use of these transfers as well as their own resources.
- Having the government prepare the supplementary budget reflecting the new needs arising from the earthquake and the funding provided by the international community to support public expenditure.
- Publishing periodically the list of projects directly financed by donors or with the government's own resources.
- Having all government employees responsible for funds earmarked for Haiti's reconstruction meet asset disclosure requirements.
- Managing multi-donor funds in such a way as to ensure speedy disbursements and verification of all expenditures.
- Publishing a monthly note on the implementation of economic governance measures, intended to provide information and assurances to the people of Haiti and the country's financial partners. The note will assess measures implemented, results obtained, and difficulties encountered in their application.

B. Medium term (6-12 months)

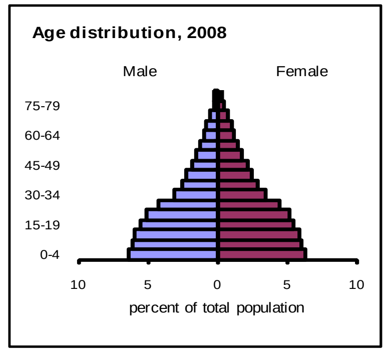
- Providing the financing and technical assistance necessary for the functioning of all institutions that play a key role in the sound, responsible, and transparent management of public finances, namely, the specialized agencies of the MEF (in particular the IGF), the CSCCA, the CNMP, and the ULCC.
- Ensuring that a public accountant and a financial comptroller are assigned to all agencies.
- Strengthening the role of civil society in public expenditure monitoring.
- Strengthening the legal system so as to enable it to fully discharge its role in combating corruption.

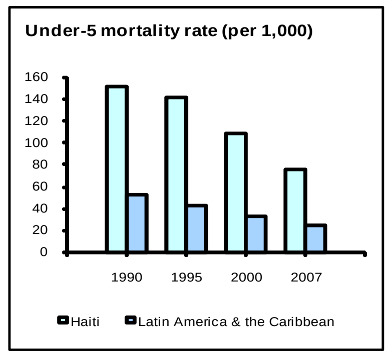
ANNEX 6: COUNTRY AT A GLANCE

Haiti at a glance

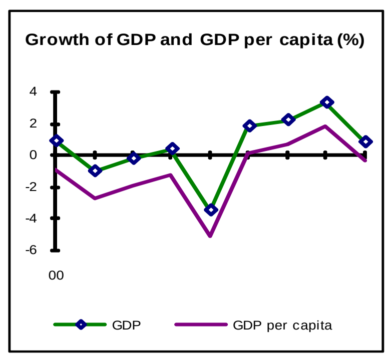
6/9/10

Key Development Indicators	Haiti	Latin America & Carib.	Low income
(2009)			
Population, mid-year (millions)	10.0	566	976
Surface area (thousand sq. km)	*28*	20,421	19,313
Population growth (%)	16	11	2.1
Urban population (% of total population)	*47*	79	29
GNI (Atlas method, US$ billions)	*5.2*	3,831	510
GNI per capita (Atlas method, US$)	*540*	6,768	523
GNI per capita (PPP, international $)	..	10,318	1,355
GDP growth (%)	*2.9*	4.3	6.3
GDP per capita growth (%)	*13*	3.2	4.1
(most recent estimate, 2003–2009)			
Poverty headcount ratio at $1.25 a day (PPP, %)	56	8	..
Poverty headcount ratio at $2.00 a day (PPP, %)	76	17	..
Life expectancy at birth (years)	61	73	59
Infant mortality (per 1,000 live births)	54	20	76
Child malnutrition (% of children under 5)	19	4	27
Adult literacy, male (% of ages 15 and older)	59	92	76
Adult literacy, female (% of ages 15 and older)	63	91	63
Gross primary enrollment, male (% of age group)	..	119	105
Gross primary enrollment, female (% of age group)	..	115	97
Access to an improved water source (% of population)	58	91	67
Access to improved sanitation facilities (% of population)	19	78	38





Net Aid Flows	1980	1990	2000	2009 [a]
(US$ millions)				
Net ODA and official aid	104	167	208	912
Top 3 donors (in 2008):				
United States	35	50	91	259
Canada	5	10	20	148
European Commission	1	11	11	117
Aid (% of GNI)	7.2	5.9	5.7	*11.5*
Aid per capita (US$)	18	24	24	92



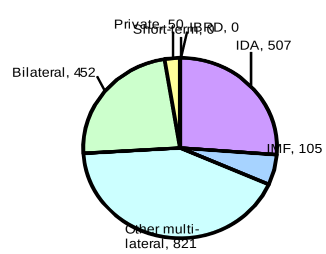
Long-Term Economic Trends	1980	1990	2000	2009	1980–90	1990–2000	2000–09
Consumer prices (annual % change)	17.8	21.3	13.7	*15.5*			
GDP implicit deflator (annual % change)	21.4	14.1	11.1	*21.2*			
Exchange rate (annual average, local per US$)	5.0	5.0	21.2	*39.1*			
Terms of trade index (2000 = 100)	..	..	..	..			
					(average annual growth %)		
Population, mid-year (millions)	5.7	7.1	8.6	10.0	2.2	2.0	1.7
GDP (US$ millions)	1,462	2,864	3,665	*7,205*	-0.2	4.5	*0.5*
		(% of GDP)					
Agriculture	..	..	26.5	*25.5*	-0.1	*9.0*	*-0.6*
Industry	..	..	15.4	*15.5*	-1.7	*10.5*	*0.9*
Manufacturing	..	..	8.4	*7.6*	-1.7	*2.3*	*0.6*
Services	..	..	51.2	*50.3*	0.9	*15.5*	*0.8*
Household final consumption expenditure	81.9	81.4	90.6	*91.5*	0.9	..	..
General gov't final consumption expenditure	10.1	8.0	7.8	*9.0*	-4.4	..	..
Gross capital formation	16.9	13.0	27.3	*25.7*	-0.6	12.2	*1.1*
Exports of goods and services	21.6	17.5	12.7	*11.1*	1.2	8.9	*3.7*
Imports of goods and services	30.5	20.0	33.4	*36.8*	2.3	20.1	*1.5*
Gross savings	..	*5.6*	22.8	*28.4*			

Balance of Payments and Trade	2000	2009
(US$ millions)		
Total merchandise exports (fob)	331	*551*
Total merchandise imports (cif)	1,091	*2,037*
Net trade in goods and services	-863	*-1,486*
Current account balance	-82	*-211*
as a % of GDP	-2.2	*-3.2*
Workers' remittances and compensation of employees (receipts)	578	*1,410*
Reserves, including gold	182	*948*

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	8.5	*17.9*
Tax revenue	7.8	*11.2*
Current expenditure	8.4	*11.5*
Overall surplus/deficit	-2.3	*-4.4*
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	1,173	2,008
Total debt service	44	83
Debt relief (HIPC, MDRI)	147	..
Total debt (% of GDP)	32.0	*15.1*
Total debt service (% of exports)	4.0	*3.9*
Foreign direct investment (net inflows)	13	*38*
Portfolio equity (net inflows)	0	*0*

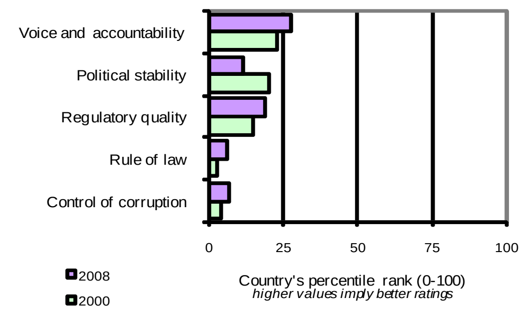
Composition of total external debt, 2008



US$ millions

Private Sector Development	2000	2009
Time required to start a business (days)	–	195
Cost to start a business (% of GNI per capita)	–	227.9
Time required to register property (days)	–	405
Ranked as a major constraint to business	**2000**	**2008**
(% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2008



Source: Kaufmann-Kraay-Mastruzzi, World Bank

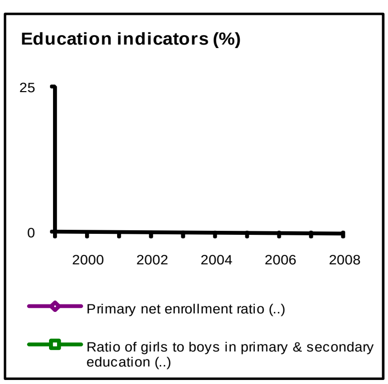
Technology and Infrastructure	2000	2008
Paved roads (% of total)	24.3	..
Fixed line and mobile phone subscribers (per 100 people)	1	33
High technology exports (% of manufactured exports)	*3.5*	..

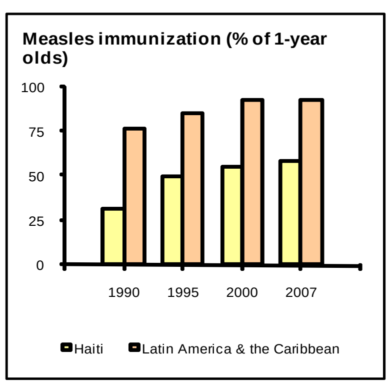
Environment		
Agricultural land (% of land area)	62	*61*
Forest area (% of land area)	4.0	*3.8*
Nationally protected areas (% of land area)	..	*0.3*
Freshwater resources per capita (cu. meters)	*1,453*	1,317
Freshwater withdrawal (billion cubic meters)	1.0	..
CO2 emissions per capita (mt)	0.16	*0.19*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	4.9	*3.6*
Energy use per capita (kg of oil equivalent)	232	*286*

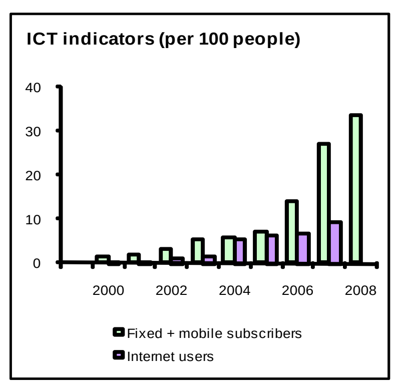
World Bank Group portfolio	2000	2008
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	–	–
Disbursements	–	–
Principal repayments	–	–
Interest payments	–	–
IDA		
Total debt outstanding and disbursed	480	507
Disbursements	8	0
Total debt service	10	5
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	0	0
of which IFC own account	0	0
Disbursements for IFC own account	0	0
Portfolio sales, prepayments and repayments for IFC own account	0	30
MIGA		
Gross exposure	–	–
New guarantees	–	–

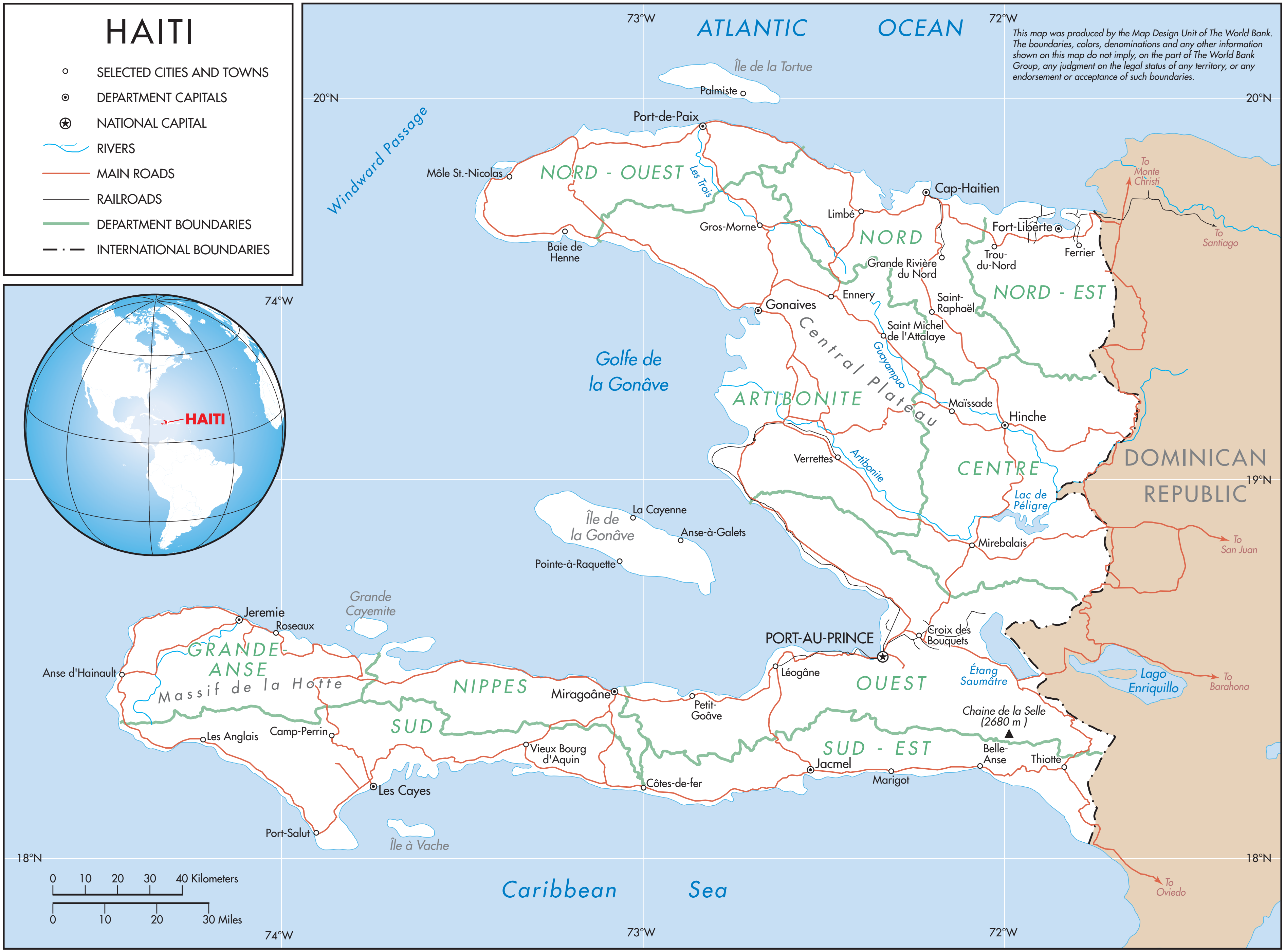
With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Haiti			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2008**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	*54.9*	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest qunitile (%)	..	..	*2.5*	..
Prevalence of malnutrition (% of children under 5)	..	24.0	13.9	*18.9*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*21*	..	..	..
Primary completion rate (% of relevant age group)	29	..	..	..
Secondary school enrollment (gross, %)	21	*28*	..	..
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*94*	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	44	..	..	..
Proportion of seats held by women in national parliament (%)	..	*4*	4	4
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	151	141	109	72
Infant mortality rate (per 1,000 live births)	105	98	78	54
Measles immunization (proportion of one-year olds immunized, %)	31	49	55	58
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*670*
Births attended by skilled health staff (% of total)	*23*	20	24	*26*
Contraceptive prevalence (% of women ages 15-49)	*10*	18	28	*32*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	12	2.1	2.2	*2.2*
Incidence of tuberculosis (per 100,000 people)	247	247	271	246
Tuberculosis cases detected under DOTS (%)	..	*2*	19	*49*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	52	54	56	*58*
Access to improved sanitation facilities (% of population)	29	27	24	*19*
Forest area (% of total land area)	4.2	4.1	4.0	*3.8*
Nationally protected areas (% of total land area)	..	..	..	*0.3*
CO2 emissions (metric tons per capita)	0.1	0.1	0.2	*0.2*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	*6.4*	5.1	4.9	*3.6*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.6	0.8	0.8	1.1
Mobile phone subscribers (per 100 people)	0.0	0.0	0.6	32.4
Internet users (per 100 people)	0.0	*0.0*	0.2	10.1
Personal computers (per 100 people)	..	..	*0.1*	*5.1*









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