

Haiti: Request for Extension of the Arrangement Under the Poverty Reduction and Growth Facility—Staff Report

In the context of the request for extension of the arrangement under the poverty reduction and growth facility, the following documents have been released and are included in this package:

- The staff report for the Haiti - Request for Extension of the Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on December 14, 2009, with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 12, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

HAITI

Request for an Extension of the Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Dominique Desruelle

January 12, 2010

- 1. In the attached letter, the Haitian authorities request an extension of the Poverty Reduction and Growth Facility (PRGF) arrangement to May 31, 2010.** This arrangement was approved on November 20, 2006 and access was augmented twice, bringing total access to 138 percent of quota (SDR 114.7 million). The fifth review was completed on June 29, 2009 and, at that time, the arrangement was extended from November 19, 2009 to January 31, 2010. Given that the date of the Executive Board meeting for approval of a new program and for the completion of the sixth PRGF review is tentatively scheduled for February 22, 2010, a new extension is required. The proposed extension to May 31, 2010, will provide additional time for the completion of the sixth and final review, and for making the final disbursement under the PRGF arrangement.
- 2. Macroeconomic performance through end-September 2009—the test date for the sixth review under the PRGF arrangement—was broadly in line with the program, although the zero ceiling on contracting non-concessional external debt was breached.** All quantitative performance criteria being evaluated at end-September were met. A US\$50 million shortfall in budget support disbursements was compensated by higher-than-programmed net international reserves and a lower fiscal deficit, though annual base money growth was slightly above the indicative target. However, the authorities have recently contracted a sovereign loan of US\$33 million with the Development Bank of Venezuela (BANDES) to rehabilitate the Cap Haitian airport, in a zone with high potential for tourism development. With a grant element of 30.2 percent, the loan is below the 35 percent level required under the continuous performance criterion on contracting of new non-concessional external debt, and a waiver of nonobservance will be needed. The authorities are seeking ways to improve overall financing terms for this airport project, and an assessment of these remedial actions will be part of the review.
- 3. Although five out of seven structural benchmarks were not met, overall progress toward meeting structural conditionality was satisfactory** (Table 1). The final report on

emergency spending was submitted to staff with a one-week delay. Satisfactory progress has also been made in establishing the debt unit at the Ministry of Finance, but finalization awaits forthcoming technical assistance. A memorandum of understanding between the Ministry of Finance and the BRH on the first phase of the BRH recapitalization was signed on October 22, 2009. The customs code was approved by Parliament on December 22, 2009, and Senate approval of the banking law is expected in the coming weeks. The unfinished structural reform agenda will be addressed under the new ECF arrangement.

4. **Completion of the sixth review under the PRGF arrangement has been delayed, because of the change in government.** On October 30, 2009, the Haitian Senate voted former Prime Minister Pierre-Louis and her cabinet out of office. A new government was inaugurated on November 11, 2009, in which the new Prime minister, Mr. Bellerive, remains in charge of the Ministry of Planning. These developments have led to a delay of about one month in the mission for the sixth PRGF review, request for a new three-year arrangement under the Extended Credit Facility and the 2009 Article IV consultation. The mission took place during December 2-15, 2009.

5. **Staff supports the authorities' request for an extension of the PRGF arrangement through May 31, 2010.** The authorities remain committed to macroeconomic stability and completion of the review. They have also requested a new three-year ECF arrangement to help sustain economic growth. Accordingly, the attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

Table 1. Haiti: Structural Benchmarks for the Sixth PRGF Review

Benchmarks	Test date	Status
Provide, along with normal monthly budget execution tables, execution of emergency spending, by normal budget classification.	Quarterly during the arrangement period, starting on March 31, 2009 and until all off-budget emergency spending is executed	Met with delay
Limit to 10 percent nonwage current spending through current accounts.	Quarterly (evaluated at end-March and end-September 2009)	Met
Legislative passage of new banking law.	End-September 2009	Not met
Implement first stage of BRH recapitalization plan.	End-September 2009	Not met
Set up and train debt management unit in MEF – both to use centralized external debt database, but also to manage domestic Treasury debt in context of BRH recapitalization.	End-September 2009	Not met
Legislative passage of customs code.	End-September 2009	Met with delay
Publish and implement a new electricity tariff structure that would increase and maintain electricity prices at cost-recovery levels.	End-September 2009	Met

Appendix I

Port-au-Price, Haiti
December 14, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn,

1. On November 20, 2006, the IMF's Executive Board approved a three-year arrangement for Haiti under the Poverty Reduction and Growth Facility (PRGF). The fifth review under the program was completed on June 29, 2009 and, at the time, the arrangement was extended to January 31, 2010. However, the recent change in government led to a small delay in the timetable of the staff mission for the sixth PRGF review. On behalf of the government, we hereby request that the PRGF arrangement be extended until May 31, 2010, to provide enough time for the completion of the sixth and final PRGF review, and for making the final disbursement under the PRGF.
2. Discussions with IMF staff on the overall policy and macroeconomic framework for FY 2010 took place during December 2-15, 2009, in the context of the mission for the 2009 Article IV consultation, sixth PRGF review, and request for a new three-year Extended Credit Facility. The date for the Executive Board meeting for approval of the sixth review is tentatively scheduled for February 22, 2010. This extension of the PRGF arrangement will help ensure that endorsement of policy measures to preserve macroeconomic stability and sustain growth in Haiti can be undertaken before the current PRGF expires.

Sincerely yours,

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

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