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

January 25, 2008

The following item is a Letter of Intent of the government of Haiti, which describes the policies that Haiti intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Haiti, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19th Street, NW  
Washington, DC 20431  
USA

Dear Mr. Strauss-Kahn:

The purpose of this letter is to inform you on the progress under the PRGF-supported program and to request that the third disbursement under the arrangement, in the amount of SDR 7.6 million, be made available to Haiti following the completion of the second review.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) reviews the progress under the PRGF, and outlines the Government’s policies and objectives and macroeconomic framework for FY2008, the second program year. In the first year of the program, the Government implemented macroeconomic policies that further consolidated stability, raised domestic revenue, and significantly increased public sector spending, including for crucially-needed investment and poverty reduction. At the same time, we made strong progress in consolidating security, and deepening democratic institutions, including through establishing provincial governing structures.

Going forward, the key challenge will be setting a foundation for robust and sustainable growth and employment creation, led by private sector activity and investment, through further increases in public sector spending on infrastructure and basic services. The Government finalized on November 30, 2007 its national growth and poverty reduction strategy, DSNCRP (Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté) in wide consultation with civil society and the international community. The document lays out priority spending for infrastructure building, providing basic services, and promoting employment in key sectors of the economy.

For the second review, all quantitative performance criteria were met with large margins, and four out of six structural performance criteria and three benchmarks were met in time for the end-September test date. The Government requests two waivers for the nonobservance of delayed performance criteria:

- First, lack of locally available expertise delayed the completion of a review of implementation issues for the adoption of IFRS by the BRH. Consistent with advice from the IMF’s Finance Department, the BRH is pursuing a gradual approach to
adopt IFRS. As a first step, the review of implementation issues will provide a qualitative analysis of discrepancies between current accounting practices and IFRS. We intend to complete this report as a prior action for the second review.

- Second, the commencement of an independent assessment of possible recapitalization needs and required financial and operational restructuring of the BNC was not completed prior to end-September, due to additional time needed to find an assessor and get the contract approved. We will retain an assessor as a prior action for the first review, and intend to complete the assessment by end-March 2008.

The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Haiti will consult with the IMF on the adoption of these measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the fund’s policies on such consultation.

In line with our demonstrated commitment to transparency, we agree to the publication of the staff report for the second review under the PRGF.

Sincerely,

Daniel DORSAINVIL /s/  
Minister of Economy and Finance  
Haiti

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

Attachments
Memorandum of Economic and Financial Policies for Fiscal Year 2008

Introduction

1. Haiti is entering its fourth year of stabilization and economic recovery, turning around a long period of stagnant growth, political turmoil and a lack of security. Wide-ranging reforms have been implemented to restore growth and stabilize the economy. There have also been encouraging improvements in security and public sector institutions, and a national dialogue concerning growth and poverty reduction has been launched. These improvements provide a foundation, not only to reduce poverty and boost living standards, but to root democratic institutions, combat corruption and entrench political stability.

2. Despite the progress achieved so far, there are considerable challenges going forward. There is a critical need for increased public sector spending to repair infrastructure, and provide basic services such as clean water, reliable energy, functional transportation networks, as well as a minimum standard of health and education. However, this spending has to be effective in an environment of low absorptive capacity, with some supply constraints. Moreover, a number of legal reforms will be needed to combat corruption, strengthen the judiciary and penal systems, and deepen the financial sector, in order to promote private sector investment, social justice and peace. These are prerequisites for creating a higher level of sustained growth, and for promoting employment creation. Haiti’s poverty reduction and growth strategy (DSNCRP) developed by a wide participatory process, lays out the priorities for achieving many of these crucial objectives.

3. The first year of Haiti’s PRGF-supported program was very successful in its focus on consolidating macroeconomic stabilization gains. The second year of the program will focus squarely on macroeconomic policies that support growth objectives and the priorities of the DSNCRP, while maintaining stability. This will be achieved through even higher quality spending of the public sector, cautious monetary policy, and financial sector reform.

Recent developments

4. The past fiscal year (FY) saw a continuation and consolidation of the macroeconomic stabilization gains achieved during 2004–06. Most of the macroeconomic program goals were met or exceeded, with all quantitative conditionality attained for end-March and end-September 2007. Economic growth, however, is likely to have fallen somewhat short of expectations. Political turmoil and natural disasters led to a 3.5 percent decline in GDP in 2004; since that time, improvements in security and political and macroeconomic stability have led to a return to positive growth, but the acceleration has been slower than anticipated. For FY2007, preliminary data suggest real GDP growth of 3.2 percent, one percentage point more than in FY2006 but below the 4 percent originally envisaged. Somewhat weaker than expected private demand and constraints on government spending execution, particularly in the first three quarters of the year, accounted partly for the lower-than-expected growth
performance. Inflation declined significantly, in line with program objectives, from 12 percent at the end of FY2006 to 7.9 percent at end FY2007. The absence of domestic demand pressures and significant nominal appreciation of the gourde (10 percent)—reflecting increased stability and continued strong transfers—contributed to the reduction in inflation.

5. After a slow start, central government spending picked up strongly in the fourth quarter of FY2007. In the end, expenditure execution on a cash basis was not too far away from the original budget, but fell significantly short of the additional spending foreseen by the supplementary budget, approved by Parliament in August 2007. As a result of this and higher-than-projected tax revenues, the fiscal balance excluding grants and externally-financed projects was in balance, compared with a deficit of 1.3–1.4 percent of GDP projected at the time of program approval and the first review. There was no resort to net central bank financing to the public sector.

6. Base money growth (7.6 percent) was kept under the indicative target of the program (9.9 percent), by sterilizing significant NIR accrual with net issuance of BRH bonds. NIR increased by US$162 million, far exceeding the revised adjusted program floor of US$99 million, bringing gross reserve coverage to a level of 2.5 months of imports (up from 1.8 months at end-FY2006). At the same time, since July, interest rates in central bank auctions have been competitively determined, triggering a decline in the benchmark 91-day interest rate from 13 percent to less than 5 percent. However, the decline in the policy rate has not yet fully translated into lower private sector lending rates or increased gourde private credit growth, the latter being 3.5 percent in FY2007 as a whole.

7. Important structural reforms were implemented in FY2007. The program’s extensive structural conditionality was mostly met. In the area of fiscal reform, action plans to modernize the internal revenue service (DGI) and customs (AGD) were developed, and the use of the central taxpayer file was extended. Domestic salary and non-salary arrears were surveyed and subsequently settled. Quarterly spending limits by ministry and limits on spending through ministerial current accounts were respected. TOFE coverage was expanded by including own resources and related spending, and a mechanism was adopted for tracking expenditures related to poverty reduction. The BRH implemented its plan to resolve a troubled commercial bank ahead of time, and implemented key recommendations from the 2006 safeguards assessment update. A new draft banking law, which is in line with international best practice, was submitted to Parliament, as well as legal amendments to discontinue BRH involvement with unrelated public entities (BPH, APN, and SONAPI). Two structural performance criteria (PCs) for end-September 2007—a report on implementation issues for the adoption of international financial reporting standards (IFRS) and commencement of an assessment of recapitalization needs of the state bank BNC—are still outstanding, but we intend to complete them as prior actions for the IMF Executive Board’s consideration of the second program review.
Program objectives

Strategy for the remaining Two Years of the Program

8. The objectives through FY2009 remain broadly consistent with those at the time of program approval. Real GDP growth is targeted to accelerate to 4.0 percent in FY2009. This will be achieved through establishing a firmer foundation for private sector activity and investment through increased public sector spending on infrastructure and basic services, as well as measures to promote employment-creation in key sectors of the economy, as outlined in the newly finalized DSNCRP. In the next two years, growth should also benefit to some extent from the HOPE initiative, a scheme to provide U.S. trade preferences to Haitian garment imports, waiving rules of origin requirements. Inflation would be gradually reduced to 7 percent, anchored by prudent base money expansion, while gross international reserve coverage would rise to about three months of imports by FY2009.

9. To accommodate urgently needed spending increases, fiscal policy will aim at increasing Haiti’s domestic revenue intake, from its current level of 10.3 percent of GDP to some 12.5 percent of GDP by FY2009. Monetary policy will focus on achieving inflation targets through quantity management, while financial sector reforms will aim at strengthening prudential regulation and supervision, and deepening financial intermediation. These measures will be reinforced by further strengthening central bank independence, including through the rehabilitation of the BRH’s balance sheet.

Objectives for FY2008

10. Key macroeconomic objectives for FY2008 are to attain real GDP growth of 3.7 percent, end-period inflation of 9.0 percent, and increase NIR by US$40 million. Growth in the agricultural sector, which accounts for roughly one-quarter of GDP, is likely to be adversely affected by recent flooding. However, the secondary sector will benefit from improvements already well underway, including better and more reliable provision of electricity and improvement of the road networks. The acceleration of budget execution in the final quarter of FY2007 should continue in FY2008, supporting the growth objective, along with initial implementation of sectoral strategies of the DSNCRP.

Fiscal policy

11. The FY2008 budget envisages a deficit (excluding grants and foreign-financed projects) of 1.1 percent of GDP, to be fully financed by net external flows, including debt rescheduling and HIPC interim relief. We have received firm commitments from donors to cover our external financing needs. A small remainder (US$ 2.4 million) will be covered by miscellaneous donor inflows, which we expect to materialize during FY 2008 in line with the experience of past years. The envisaged deficit reflects strong increases in expenditures that will be met in part by ambitious increases in revenue collection. The government will continue to refrain from using BRH financing. To ensure that this is achieved, we are
prioritizing investment expenditures (some 60 projects for a total amount of G3 bn.), with lower priority expenditures being initiated only as projected revenues and external financing materialize.

12. A key objective of our program is to increase the domestic revenue effort, with emphasis on combating smuggling and tax fraud. Domestic revenues are projected to increase by about 1.8 percent of GDP in FY2008 to G30,935 million (including earmarked revenues for the road maintenance fund). To achieve this, we will make implementation of action plans to strengthen customs and tax administration a priority. In addition to diligent implementation of the action plans, we will implement the following measures in the context of program conditionality:

- Submit a new organic law for the DGI to Parliament (Benchmark for end-September 2008);
- Establish and begin implementation of a plan for the DGI to collect delinquent taxes (Benchmark for end-March 2008); and
- Establish three new customs control posts on major roads (Benchmark for end-September 2008).

Furthermore, we will increase the reliability of revenue data by reconciling weekly data of the BRH and BNC with that of the DGI and AGD, and continue to extend the use of the central taxpayer file to other DGI offices, especially in Carrefour and Tabarre. We will also prepare administrations procedures manuals for the DGI and AGD, and we expect parliamentary approval of the new customs code, submitted in spring 2007.

13. The Petrocaribe agreement has been ratified by Parliament, and the government is working to resolve a number of logistical issues to make it operational. The budget for FY2008 does not yet include any Petrocaribe resources. In any case, we continue to be fully committed to the transparent use of these resources, channeled through the budget.

14. The FY2008 budget envisages increasing public sector expenditures (excluding foreign-financed projects) by 2.8 percent of GDP to G33,783 million. This increase will accommodate further hiring for social sectors and the police, as well as salary increases to allow partial recovery of significant past real-wage losses, with a total increase in the wage bill of 1.3 percent of GDP. It will also facilitate almost a doubling (on a cash basis) of domestically-financed capital expenditures from the FY2007 outcome. The budget aims to increase poverty reducing expenditures from 43 percent in FY2007 to 56 percent of total expenditures in FY2008.

15. In order to boost absorptive capacity so that the budget envelope can be executed, without compromising the quality of expenditures, we are committed to undertake the following actions:
• Implement a program to strengthen programming units of key line ministries, involving hiring and training experts in project identification and implementation (PC for end-March 2008);
• Deploy fiscal accountants and financial comptrollers to key line ministries (Benchmark for end-March 2008); and
• Develop and implement module for investment spending for the public financial management system SYSDEP (Benchmark end-September 2008).

In addition, we intend to take steps to subject the management of government entities’ “own resources” to the same scrutiny as fiscal revenues. We will also continue our efforts to obtain more timely and accurate data on the execution of foreign-financed projects; it will be important for donors to provide the needed information in a timely fashion.

16. Budget execution will continue to be carefully monitored to ensure that the large increase in spending is used as intended. In this context, we will continue to: (i) limit the use of ministerial current accounts to less than 10 percent of non-wage current expenditures (quarterly PC); (ii) adhere to quarterly ministerial allocations; (iii) publish the TOFE monthly; and (iv) prepare a quarterly report on tracking of poverty reduction expenditures—upgrading the existing presentation to enable a more detailed tracking of spending in priority areas—to ensure that interim HIPC relief has been used to finance additional priority spending.

Monetary policy

17. The program envisages attaining an inflation rate of 9.0 percent by end-September 2008. This rate slightly exceeds the FY2007 outcome, as a result of higher international prices for food and petrol. To ensure that these increases do not translate into broader inflationary pressures, base money growth will be kept slightly below that of nominal GDP, with an indicative target for the year of 9.6 percent. The bulk of monetary expansion will come from an increase in net international reserves, with a program floor of US$40 million. This will boost gross reserves coverage to 2.7 months’ worth of imports. Recognizing that appreciation of the real exchange rate is a reflection mainly of changing fundamentals, the BRH will maintain exchange rate flexibility, limiting interventions to purchases for the achievement of the program NIR target and temporary smoothing of excessive market volatility.

18. To improve the transmission of monetary policy, the BRH has taken steps to make the bond auction more competitive, setting bond volumes and letting prices be determined through competitive bidding. The BRH will extend participation in the bond auctions to non-bank financial institutions (PC for end-March 2008) for the purposes of ensuring that bidding remains competitive and to promote financial market development. Coordination between the MEF and the BRH will be strengthened to improve liquidity forecasting. Moreover, the BRH
will institute more formal, albeit brief, communications to convey its policy intentions and monetary policy actions to the public (Benchmark for end-September 2008).

19. Building on the cessation of non-essential activities in the first program year, we will strengthen the institutional foundation for our monetary policy framework through further reinforcement of the independence of the BRH, including through strengthening its balance sheet. A strategy to divest the BRH’s interest in the state telephone company, Teleco, is currently being prepared (PC for end-March 2008), with support from the IFC. Taking into account the expected proceeds from that operation, the BRH will, together with the MEF, devise a plan for the recapitalization of the central bank (PC for end-March 2008). The plan will contain steps to revert the BRH’s quasi-fiscal losses, and put its balance sheet on a sound financial footing.

20. The BRH is committed to implement the remaining recommendations from the 2006 safeguards assessment update. Members of the Audit Committee have been selected and the committee has begun regular meetings. Because of very limited domestic auditing capacity and a number of structural and legal obstacles, implementation of IFRS will be a medium-term process, with the first step being a qualitative analysis of accounting discrepancies. This will be undertaken as a prior action to IMF Executive Board consideration of the second review. Subsequent steps will call for a quantification of the discrepancies, dual reporting, and finally, compliance with IFRS. During this time, we will identify and seek to deal with all legal and structural impediments to IFRS implementation. The BRH’s monitoring committees will continue to examine and sign off on program monitoring data, and will consider possible options for rotating the BRH auditor.

**Financial sector**

21. The FSAP exercise suggests that Haiti’s banking system is generally sound. At the same time, the FSAP documented a number of developmental and supervisory challenges that need to be addressed to provide a foundation for private sector activity and strengthen the resilience of the financial system. The BRH will implement key recommendations of the FSAP, and address a number of additional issues impeding effective functioning of financial markets, with a view to deepening financial intermediation. This would include approval of the draft banking law, which was submitted to Parliament in June 2007, and submission of legal initiatives to reduce mortgage fees and allow co-ownership of real estate. The BRH will support the creation of a Credit Information Bureau and a centralized public registry of personal property collateral, and is working on modernizing the payments system, through the implementation of a real time gross settlement system. To help reduce the costs of financial intermediation, the BRH intends to gradually lower the high reserve requirements. As a first step, in late October reserve requirements for commercial banks’ gourde deposits were reduced, from 31 to 30 percent. Reserve requirements for deposits in foreign currencies remain at 31 percent, but the gourde component of the requirement was reduced, from 30 to 27.5 percent.
22. The first phase of an assessment of possible needs for operational and financial restructuring of the BNC is expected to be completed in the first half of 2008. Terms of reference for the assessment have been prepared and a contract with the selected assessor will be signed as a prior action for IMF Executive Board consideration of the second program review. The BRH also intends to conduct special inspections of two other large commercial banks to ensure the systemic health of Haiti’s banking sector, one of them by September 2008 (PC). We will improve regulations on credit concentration and connected lending and their enforcement for banks, and strengthen the regulatory framework and supervision of credit unions (benchmark for end-September 2008). The BRH will also define basic requirements for transparency for other non-bank financial institutions. Finally, we have created a group to evaluate options for establishing a deposit insurance scheme.

PRSP, HIPC, and debt management

23. We have finalized our poverty reduction and growth strategy paper. It contains sectoral strategies, which are aimed at providing basic services and promoting job creation. A donors’ conference is being convened to discuss the document and mobilize support for its implementation. As needed, we will submit a supplementary budget to align budgetary spending priorities with those of the DSNCRP and program any additional resources.

24. We are working to implement the conditions stipulated for reaching the floating completion point under the enhanced HIPC initiative, in order to benefit from irrevocable HIPC and MDRI relief as soon as possible. A mechanism to track poverty-related spending has been established, and progress is being made toward the establishment of a centralized database on domestic and external public debt. Strengthening of tax administration is also ongoing, through reinforcing customs control in the provinces and the extension of the use of the central taxpayers’ file. The law on asset declaration has already been submitted to Parliament.

Program monitoring

25. The second year of the program will continue to be monitored using quarterly quantitative benchmarks and semi-annual quantitative performance criteria presented in Table 1. The test dates for the program will be end-March and end-September. Quantitative targets are set on net international reserves and net domestic assets of the central bank; net domestic banking sector credit to the central government; net central bank credit to the central government and to the nonfinancial public sector; base money (indicative benchmark); domestic arrears of the central government; external arrears accumulation; and nonconcessional external loans contracted or guaranteed by the central government. The definitions of these quantitative targets are provided in the attached Technical Memorandum of Understanding (TMU). Given the uncertainty of the amount and timing of disbursement of budgetary assistance, our program includes an adjustor for net external financing (see TMU). Quarterly structural performance criteria are listed in Table 2, as well as prior actions and
benchmarks. The PRGF monitoring committee, composed of officials from the MEF and BRH, will continue to monitor program implementation in the second year. We anticipate the third review of the program on or around July 23, 2008 and the fourth review to be completed in early 2009.

26. The government will not impose restrictions on payments and transfers for international transactions, introduce new or intensify trade restrictions for balance of payments purposes, resort to multiple currency practices, or enter into bilateral payments agreements incorporating restrictive practices with other IMF members. Haiti will consult with the IMF periodically, in accordance with the IMF’s policies on such consultations, concerning the progress made by Haiti in the implementation of policies and measures designed to address the country’s balance of payments difficulties.
### Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, FY 2008

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Actual stock at end-Sep-07</th>
<th>Cumulative Flows since September 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-08</td>
<td>Mar-08</td>
</tr>
<tr>
<td><strong>Ind. target</strong></td>
<td>Test date</td>
<td>Test date</td>
</tr>
<tr>
<td>Net central bank credit to the NFPS (in millions of gourdes)</td>
<td>19,905</td>
<td>522</td>
</tr>
<tr>
<td>Central Government</td>
<td>20,214</td>
<td>522</td>
</tr>
<tr>
<td>Rest of NFPS</td>
<td>-309</td>
<td>0</td>
</tr>
<tr>
<td>Net domestic banking sector credit to the central government</td>
<td>19,294</td>
<td>522</td>
</tr>
<tr>
<td>Net domestic assets of the central bank (in millions of gourdes) - ceiling 1/</td>
<td>15,605</td>
<td>690</td>
</tr>
<tr>
<td>Domestic arrears accumulation of the central government 2/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New contracting or guaranteeing by the central government or the BRH of nonconcessional external debt 2/ 3/ (In millions of U.S. dollars)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Up to and including one year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Over one-year maturity</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net international reserves of central bank (in millions of U.S. dollars) - floor 3/</td>
<td>259</td>
<td>10</td>
</tr>
<tr>
<td>External arrears accumulation (in millions of U.S. dollars) 2/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Indicative target:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in base money</td>
<td>24,930</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Memorandum items:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in currency in circulation (in millions of gourdes)</td>
<td>11,570</td>
<td>1,150</td>
</tr>
<tr>
<td>Net domestic banking sector credit to the rest of the of the non-financial public sector (in millions of gourdes)</td>
<td>-579</td>
<td>90</td>
</tr>
<tr>
<td>Government total revenue, excl. grants (in millions of gourdes)</td>
<td>...</td>
<td>7,645</td>
</tr>
<tr>
<td>Government total expenditure, excl. ext-fin investment (in millions of gourdes)</td>
<td>...</td>
<td>9,071</td>
</tr>
</tbody>
</table>

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

1/ For program monitoring purposes, NDA is defined as monetary base minus NIR in gourde terms. Program exchange rate of G36/$ through end-Sept.
2/ On a continuous basis.
3/ Excludes letters of credit and guarantee, and earmarked projects.
<table>
<thead>
<tr>
<th>Table 2: Structural PCs and Benchmarks for the Second Program Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior actions</strong></td>
</tr>
<tr>
<td>• Begin independent assessment of possible recapitalization need and required financial and operational restructuring of BNC; and</td>
</tr>
<tr>
<td>• Complete a review of implementation issues for the adoption of IFRS by the BRH.</td>
</tr>
<tr>
<td><strong>Revenue administration</strong></td>
</tr>
<tr>
<td>• Submit a new organic law for the DGI to Parliament (Benchmark for end-September, 2008);</td>
</tr>
<tr>
<td>• Establish and begin implementation of a plan for the DGI to collect delinquent taxes (Benchmark for end-March, 2008); and</td>
</tr>
<tr>
<td>• Establish three new customs control posts on major roads (Benchmark for end-September, 2008).</td>
</tr>
<tr>
<td><strong>PFM</strong></td>
</tr>
<tr>
<td>• Strengthen programming units of key line ministries (PC for end-March, 2008);</td>
</tr>
<tr>
<td>• Deploy fiscal accountants and financial comptrollers to key line ministries (Benchmark for end-March, 2008);</td>
</tr>
<tr>
<td>• Limit current account spending to no more than 10 percent of non-wage current expenditure (PC on quarterly basis); and</td>
</tr>
<tr>
<td>• Develop and implement modules on the investment program for the public financial management system SYSDEP (Benchmark for end-September, 2008).</td>
</tr>
<tr>
<td><strong>Monetary policy framework</strong></td>
</tr>
<tr>
<td>• Prepare a plan to recapitalize the central bank (PC for March, 2008);</td>
</tr>
<tr>
<td>• Adopt a strategy for discontinuing BRH involvement with TELECO (PC for March, 2008);</td>
</tr>
<tr>
<td>• Extend participation in bond auction to non-bank financial institutions (PC for March, 2008);</td>
</tr>
<tr>
<td>• Develop and begin implementation of a plan to improve systemic liquidity forecasting (Benchmark for end-September, 2008); and</td>
</tr>
<tr>
<td>• Initiate regular central bank reporting on monetary policy goals and implementation (Benchmark for end-September, 2008).</td>
</tr>
<tr>
<td><strong>Financial sector</strong></td>
</tr>
<tr>
<td>• Complete independent assessment of an additional systemically important bank (PC for end-September, 2008); and</td>
</tr>
<tr>
<td>• Improve regulatory framework and supervision of credit unions (Benchmark for end-September, 2008).</td>
</tr>
</tbody>
</table>
Technical Memorandum of Understanding

1. Haiti’s performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural performance criteria and indicative targets for the period October 2007–September 2008, specified in Table 1 and 2 of the Memorandum of Financial and Economic Policies (MEFP). It also lays down the monitoring and reporting requirements. The quantitative performance criteria under the program are set for end-March and end-September 2008. Targets for end-December 2007 and end-June 2008 are indicative.

Definitions

Net BRH credit to the central government

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

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH for end-December 2007. For end-March, end-June, and end-September 2008, Table 10R of the BRH will be replaced by its revised version as Table 1SR of the BRH.

   b. Change in the stock of special accounts (“Comptes Spéciaux”) and seized values (Valeurs saisies UCREF) included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.

   c. Change in PetroCaribe accounts of the Bureau de Monetization will be excluded from change in net domestic credit to the central government as defined above.

---

1 The central government comprises the presidency, prime minister’s office, parliament, national courts, treasury, line ministries and “organismes déconcentrés.” It includes expenditures financed directly by foreign donors through ministerial accounts (comptes-courants).

2 This replacement applies to all below references to Table 10R.

3 Special accounts are accounts of the government at the BRH which can only be used with the authorization of donors. If included, movements in these accounts would appear as BRH credit to the government.
3. Changes in any other special account (as defined in footnote 3) maintained or established at the BRH will be treated as in 2.b above.

4. The changes will be measured on a cumulative basis from the stock at end-September 2007.

**Net domestic banking sector credit to central Government**

5. The change in net domestic banking sector credit to the central government is defined as, and will be measured using:

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

   b. Change in the stock of net domestic credit of the central government from domestic banks;

   c. Change in the stock of special accounts according to Table “Comptes Spéciaux” of the BRH will be excluded from the definition of net domestic banking sector credit to the central government.

6. Changes in any other special account (as defined in footnote 3) maintained or established in the BRH, BNC, or BPH will be excluded.

7. The changes will be measured on a cumulative basis from the stock at end-September 2007.

**Net international reserves**

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

   a. Change in net foreign assets (“Réserves de change nettes” of the BRH Table 10R for 2007 and 2008);

   b. Minus the change in foreign currency deposits of commercial banks at the BRH (“Dépôts à vue en US$ et en EURO des bcm à la BRH” of the BRH Table 10R).

   c. Minus the change in earmarked project accounts and letters of credit and guarantee.

   d. Minus the change in PetroCaribe accounts of the Bureau de Monetization.
9. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate.

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

11. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Net domestic assets of the BRH

12. The change in net domestic assets of the BRH is defined as, and will be measured using:
   a. Change in base money (program definition according to section H below);
   b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to section C above), converted into gourdes at the program exchange rate.

13. The program definition of net domestic assets of the BRH will use a program exchange rate of G36 per U.S. dollar for the period October 2007–September 2008.

14. The changes will be measured on a cumulative basis from the stock at end-September 2007.

Nonconcessional external and foreign-currency denominated debt

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

16. The concessional nature of debt will be determined on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of the debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).
17. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, and guarantees for the electricity sector in the form of letters of credit.

18. The ceilings for contracting and guaranteeing nonconcessional debt by the central government and the BRH will be set at zero continuously throughout the program period.

**Government current accounts**

19. Ministerial current accounts are mechanisms for channeling expenditures. In principle, the use of these accounts should be limited to unforeseen emergency outlays. The BRH will provide monthly information on the stock of these current accounts for the central government (as defined in footnote 1).

20. The target is calculated on a cumulative basis. The ceiling on the use of current accounts will be met if year-to-date (starting on October 1st) expenditure executed through current accounts is less than 10 percent of nonwage budget appropriations at the end of each of the two quarters preceding the end-March and end-September test dates.

**Arrears**

21. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

22. Domestic arrears are defined to include: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 45 days after the due date of payment; (ii) wage, salary, and other payment to government employees, including direct and indirect allowances, that were due to be paid in a given month but remained unpaid on the 30th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment. This definition excludes changes in the stock of arrears on account of interest, penalties and valuation changes.

**Base money**

23. The change in base money is defined as, and will be measured using:

   a. Change in the stock of currency in circulation from Table 10R of the BRH.

   b. Change in the stock of reserve deposits of commercial banks at the BRH, from Table 10R, using gourde sight deposits of commercial banks (depots a vue
gourdes des BCM a la BRH) and cash-in-vault of commercial banks (Encaisses des BCM).

24. The changes will be measured on a cumulative basis from the stock at end-September 2007.

**Quarterly adjustments**

25. The quarterly performance criteria and indicative targets will be adjusted for the following amounts:

**Adjustment for domestic arrears accumulation**

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

**Adjustment for net program external financing**

27. The program ceilings on BRH net credit to the central government, and on BRH net domestic assets and the floor on NIR reflect an assumed flow of net external financing, defined as disbursements of cash budgetary assistance, exceptional financing (including rescheduled principal and interest) and debt relief minus debt service.

28. If actual net external financing is lower than programmed net external financing, the ceilings on BRH credit to the government and on BRH net domestic assets will be adjusted upward, and the floor on NIR will be adjusted downward, by the amount of the difference between actual and programmed net external financing, converted into gourdes at the program exchange rate. The amount of this adjustment will be limited to US$40 million. The adjuster will be calculated on a cumulative basis from October 1, 2007.

<table>
<thead>
<tr>
<th>Program Net External Financing (In millions of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Program net external financing</td>
</tr>
</tbody>
</table>
Clarification of structural performance criteria

Prior actions

29. To complete the review of implementation issues for the adoption of IFRS by the BRH, a gap analysis disclosing the main qualitative differences between the BRH's current accounting practices and IFRS should be undertaken, for inclusion in the next published financial statement.

30. To commence the assessment of the needed financial restructuring of the BNC, the contract with an expert assessor will be signed.

Public financial management

31. The criterion to strengthen programming units of key line ministries will involve the hiring, training, and procuring equipment for 3 experts in project planning and implementation for each of seven ministries. The seven ministries are: Public Works, Agriculture, Education, Health, Justice, Commerce, Women’s Affairs, and Environment. The Ministry of Planning will produce a list of the individuals hired and equipment procured for them.

32. The criterion to deploy fiscal accountants and financial comptrollers to key ministries will involve hiring, training and procuring equipment for their operation in each of the following ministries: Public Works, Agriculture, Education, Health, Interior, Foreign Affairs, Primature, and the President’s office.

33. The benchmark to develop and implement modules on the investment program for the public financial management system SYSDEP involves the installation of SYSDEP modules to record, and present on a monthly basis, domestically financed public investment expenditures. This reporting will be used to develop the monthly TOFE for at least September 2008.

Monetary policy and financial sector

34. The plan for improving systemic liquidity forecasting would include dates for implementing the following steps:

- Initiating regular exchange of information between the MEF and the BRH on in/outflows of the Treasury account;
- producing regularly the BRH's balance sheet;
- establishing liquidity forecasts for each autonomous factor for the coming week;
- based on the liquidity forecasts, adjusting the size of the BRH auction in line with monetary targets; and
• assessing and analyzing the forecast errors and finding possible corrections.

35. Completion of an independent assessment of an additional systemically important bank, would include a report on the on-site examination the bank, including an assessment of the financial condition, internal controls, and risk management practices, produced with the assistance of an independent foreign expert or team of experts, and signed and certified by the expert or experts, in accordance with terms of reference and procedures for the selection of experts that have been agreed between the BRH and the IDB.

36. As regards strengthening supervision of credit unions, the BRH should upgrade its prudential regulations and corresponding guidelines on supervisory practices regarding credit unions, and the government submit to Parliament a new draft law on credit unions. The draft law should address the following key concerns: (i) supervisory responsibilities should be limited; (ii) governance, transparency and self-regulation should be stressed; (iii) members’ responsibility to monitor management, and possibly change it, should be upheld; and (iv) the risk to overwhelm the supervisor by directly assuming the control of credit unions should be minimized.

**Provision of information to IMF staff**

37. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, as well as other data upon request.

**Daily**

38. *Monetary Indicators:* (a) Exchange rate; (b) Volume of foreign exchange transactions, of which BRH sales and purchases; (c) Gross international reserves; and (d) Net international reserves.

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

**Weekly**

40. Monetary Indicators: (a) Stock of BRH bonds; (b) Deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) Credit to central government and public sector (net); and (e) Currency in circulation.

41. *Fiscal Indicators:* (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts).

42. These data will be reported with maximum five-day lag preliminary data (four weeks for final data).
Monthly

43. Table 10 R and Table 20 R with a maximum of 30-day lag final data.
44. Tableau on the comptes courants with a maximum of 30-day lag final data.
45. Tableau de trésorerie de devises with a maximum of 30-day lag final data.
46. Tableau des Operations Financiere d’Etat (within 14 days).
47. Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts.
48. Set of external debt tables with a maximum 30-day lag final data.
51. Balance of PetroCaribe accounts of the Bureau de Monetization.

Quarterly