PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HAITI

STRENGTHENING FISCAL POLICY AND MANAGEMENT

(HA-L1139)

PROJECT PROFILE

This document was prepared by the project team consisting of: Alejandro Rasteletti (IFD/FMM), Project Team Leader; Agustin Filippo (CID/CID); Edna Armendariz (IFD/FMM); Alberto Barreix (IFD/FMM); Pierre Kénol Thys (INE/ENE); Fritz Octave (INE/ENE); Rosangela Bando (SPD/SDV); Louis-François Chrétien (LEG/SGO); Sandra Corcuera-Santamaría (INT/TIN); Alfred Metellus (CID/CID); Takady Konate (VPC/FMP); Ghislaine Pierre (CID/CHA); Said Suire (CID/CHA); Susana Román-Sánchez (IFD/FMM); and Ida Fernández (IFD/FMM).

PROJECT PROFILE

HAITI

I. BASIC DATA

Project Name:	Strengthening Fiscal Policy and Management	
Project Number:	HA-L1139	
Project Team:	Alejandro Rasteletti (IFD/FMM), Team Leader; Agustin Filippo (CID/CID); Edna Armendariz (IFD/FMM); Alberto Barreix (IFD/FMM); Pierre Kénol Thys (INE/ENE); Fritz Octave (INE/ENE); Rosangela Bando (SPD/SDV); Louis-François Chrétien (LEG/SGO); Sandra Corcuera-Santamaría (INT/TIN); Alfred Metellus (CID/CID); Takady Konate (VPC/FMP); Ghislaine Pierre (CID/CHA); Said Suire (CID/CHA); Susana Román-Sánchez (IFD/FMM), and Ida Fernández (IFD/FMM).	
Borrower:	Republic of Haiti	
Executing Agency:	Ministry of Economy and Finance (MEF)	
Financial Plan:	IDB (GRF):	US$40 millions
	Total:	US$40 millions
Safeguards:	Policies triggered:	None
	Classification:	B.13

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and justification

2.1 **Macroeconomic context.** After a period of higher than average economic growth, the rate of growth has recently declined. In part because of the losses caused by Hurricane Matthew, real GDP reached 1.2% in the Fiscal Year (FY) 2016/2017.[1] In the FY 2017/2018 growth is expected to increase to 2% due to an increase in public investment and greater political stability.[2] Meanwhile, inflation peaked at 14.7% in the FY 2016/2017, and it is expected to decrease to 11.1% in the FY 2017/2018 and remain low afterwards.[3]

2.2 **Public Finances.** After experiencing large fiscal deficits in the aftermath of the 2010 earthquake, Haiti's nonfinancial public sector (NFPS) deficit fell to 2.1% of GDP in the FY 2016/2017,[4] which is mainly explained by cuts to public investment, as revenues and current expenditure remained relatively stable. For the FY 2017/2018, public investment is expected to experience a large rise, increasing the NFPS deficit to 3.1% of GDP.

2.3 **Public Finance Reform Strategy.** To confront the many fiscal challenges, the Government of Haiti presented a comprehensive Public Finance Reform Strategy (PFRS) (2014-2020) aimed at strengthening the different areas of public finance management, in order to increase revenue mobilization and improve the quality of government expenditures. The Government prepared two Triennial Action Plans

---

1 *Banque de la République d'Haïti* (BRH).
2 International Monetary Fund (IMF) (2018). Haiti—Staff Report for Staff-Monitored Program.
3 IMF (2018). Op. cit.
4 Unless cited otherwise, the source of all figures is the MEF.

(TAP) for the implementation of the PFRS and requested the assistance of its technical and financial partners (TFP) for their execution.

2.4 To coordinate the technical and financial assistance, and to increase the efficiency of the reform programs included in the second TAP, a Partnership Framework (PF) was signed between the Government of Haiti and its TFP that defined priority actions in all main areas of public finance management: (i) internal and external resource mobilization; (ii) global budgetary framework; (iii) treasury and accountancy; (iv) external control, transparency, accountability, and fight against corruption; and (v) information system on public finances. The partners signing the PF were the European Union (EU), The World Bank (WB) and the Inter-American Development Bank (IDB), among others. The International Monetary Fund (IMF) signed the PF as an observant.

2.5 **Operation Support Strategy.** Given the work being done by other development partners in the area public expenditure[5] and the goal of improving public finances in the short term, the present operation focuses primarily on the priority area of resource mobilization, contributing to both the PFRS and the PF. The operation is also in line with the IMF's Staff-Monitored Program with Haiti.

2.6 The operation support strategy foresees actions to expand the fiscal space in the short term, as well as actions aimed at rationalizing the tax system and strengthening revenue management, actions that will foster revenue mobilization in the medium term. The enhanced fiscal space, together with the other actions taken by the Government to increase the quality of public expenditure, should contribute to improve public finance and foster economic growth.

2.7 The following paragraphs describe the main challenges found in the revenue mobilization policy and management areas.

2.8 **Fiscal Revenues Challenges.** Fiscal revenues in Haiti are moderate and highly dependent on grants and on foreign trade taxation. Even though tax revenues have been increasing in recent years, they remain low when compared to other countries in the region.[6] Tax revenues have lost dynamism recently, due to the poor performance of fuel taxes. In Haiti fuels are sold at administered retail prices. A law dating back to 1995 establishes that retail prices must be modified whenever oil import prices change by more than 5%. Despite this legal framework, administered prices have remained constant since May 2017, even though fuel prices rose by almost 50% in international markets. The government's decision not to increase retail fuel prices has had a sizable fiscal impact[7], and this fiscal cost has for the most part benefited richer households.[8] Despite the regressively of the fuel subsidy, its elimination would affect the poor, mainly through increases in food and transport prices. To reduce these fiscal losses, the Government is designing a

---

[5] The EU and WB are proving technical assistance for strengthening the National Planification System, as well as for the implementation of program budgeting and results-based management.

[6] Haitian tax revenues equaled 14.1% of GDP in FY 2016/17. Meanwhile, tax revenues in Jamaica are 22.6% of GDP; in Trinidad and Tobago 19.1%, in Barbados 26.1% and in Bahamas 19.4%. IDB-Inter-American Tax Center for Tax Administration (2017): Latin America and the Caribbean Fiscal Burden Database.

[7] Lost revenues are estimated at an equivalent of 1.9% of GDP in the FY 2017/18.

[8] World Bank (2014).

strategy that increases fuel retail prices, while it introduces mitigating measures to protect low income households.[9]

2.9 **Tax Policy Challenges.** Haitian tax policy presents design problems, that reduce tax revenues and render the tax system complex. The main tax in terms of revenues is a consumption tax called *Taxe sur le Chiffre d'Affaires* (TCA).[10] The TCA produces relatively little revenue when compared with value added taxes in place in other countries in the region.[11] It also presents design problems that generate cascading effects, distorting resource allocation. Regarding complexity, the tax system presents many excise taxes and levies, with little value from a fiscal perspective, as they have low yields. Moreover, local taxation presents many service charges that sometimes overlap. Fiscal and custom laws present many preferential treatments. The complexity of the tax system also stems from the absence of a general tax code. The legal framework for taxation rests on a multiplicity of texts such as decrees, ministerial letters and directives, which hinders coherency and transparency.

2.10 **Tax and customs administration challenges.** Tax revenue administration presents several weaknesses. Revenue collection is centralized in two institutions, one focusing on internal taxes (*Direction Générale des Impôts* - DGI), and another one focusing on foreign trade taxation (*Administration Générale des Douanes* - AGD). Tracking taxpayers across government agencies is difficult, as there is no requirement of using a unique fiscal identification number referenced by all fiscal agencies. Furthermore, the information systems of DGI and AGD are not interconnected, hindering the sharing of information with auditing purposes. Technological deficiencies also hamper revenue collection. In the case of the DGI, its current revenue management system does not fully capture the different revenue collection processes. In the case of the AGD, several of its branch custom offices are not connected to the ASYCUDA customs management system, affecting the control of custom fraud. Finally, revenue collection is affected by the lack of clear regulation on how to apply the Custom Code.

2.11 **Electricity state-owned enterprise financial losses.** The state-owned electricity company, *Electricité d'Haiti* (EDH), produces large operational losses which are difficult to estimate, as EDH budget does not include financial projections, and some financing items are accounted for off-budget and in an ex-post manner. The IMF estimated that for the FY 2016/17, EDH's operational losses reached 1.8% of GDP.[12] EDH's poor financial performance is mainly due to low billing and recovery rates and high operating costs. It was estimated that by March 2018 only 40% of energy supplied was billed and only 75% of the energy billed was collected. The high operating costs are mainly explained by the purchasing of electricity at elevated prices. EDH only generates 25% of its electricity needs and depends on independent power producers (IPPs) for the purchase of the remaining energy requirements. Most of the energy purchases are often at high fixed prices through take-or-pay contracts from fossil-fuel-based electricity from IPPs.

---

9 The mitigating measures being considered are: hiring members of low-income households for public works, strengthening social programs for the youth, support transport providers in the renewal of their fleets, among others.

10 The TCA accounts for one third of fiscal revenues, excluding donations.

11 TCA revenues equal 3.5% of GDP, while revenues from the value added tax in Latin-America and the Caribbean average 6.9% of GDP (IDB-CIAT Tax Revenue Database).

12 IMF (2018). Op. cit.

B. Support proposal

2.12 **Objective.** The general objective of this programmatic series is to strengthen public finances by improving fiscal policy and management. This will be achieved by the following specific objectives: (i) improving internal revenue mobilization; (ii) strengthening tax and customs administration; and (iii) reducing subsidies to the electricity state-own company.

2.13 The series is structured as two programmatic policy-based grants (PBG). The grant operations are structured in the following four components:

2.14 **Component I. Macroeconomic framework.** The objective of this component is the maintenance of a macroeconomic context consistent with the program objective, as established in the Policy Matrix and the Sector Policy Letter to be received.

2.15 **Component II. Tax policy.** The objective of this component is to rationalize tax policy. The policy measures included in this component are: (i) an adjustment in fuel retail prices, in compliance with the 1995 law on variable excises;[13] and (ii) the initiation of a fiscal reform process through the elaboration of a roadmap that describes the proposed measures and develop a timeline for: (a) transforming and simplifying the TCA to adopt a value added tax; (b) simplifying and consolidating excise taxes and main levies; (c) reforming local taxation to strengthen revenue mobilization; (d) rationalizing fiscal and custom preferential treatments; and (e) the elaboration of a General Tax Code.[14]

2.16 **Component III. Tax and customs administration.** The objective of this component is to strengthen tax and customs administration. The policy measures included in this component are: (i) implementation of a plan for the strengthening of the AGD, including the following measures: (a) elaboration of regulation for the application of the Custom Code; (b) connection of eight customs offices to the custom management system ASYCUDA; and (c) use of the DGI's fiscal identification number as the unique mean of the identification of new foreign trade operators; (ii) implementation of a plan for the strengthening of the DGI, through the implementation of a new revenue management system in 15 local tax agencies; and (iii) definition of a plan for the interconnection of DGI and AGD's information systems.[15]

2.17 **Component IV. Electricity state-owned enterprise management.** The goal of this component is to reduce fiscal transfers to EDH, through the improvement of the company's financial results and the enhancement of transparency. The policy measures included in this component are: (i) increasing EDH's billing rate to at least 50%; (ii) increasing EDH's recovery rate to at least 80%; (iii) pre-qualification of technically and financially viable contractors for energy production, to replace all expiring energy supply contracts; (iv) publishing a comprehensive EDH Budget for FY 2017/18; and (v) publishing EDH's cash flow statement, on a quarterly basis, and its performance indicators, on a monthly basis.

2.18 The expected impact of this operation is to increase the NFPS balance, excluding grants and investments. The expected results are: (i) increase internal tax

---

13 The estimated required price adjustment at the end of April 2018 was about 30%.

14 The IMF is currently providing technical advice on the tax reform.

15 These measures are expected to be financed with grants from the Government of Canada.

revenues; (ii) increase customs revenues; and (iii) reduce in direct and indirect transfers to EDH. The beneficiary of the operation is the overall Haitian population.

2.19 The main risks identified are: (i) the possibility of political resistance or social protests that prevent the adjustment in retail fuel prices; (ii) unexpected increases in global oil prices or currency depreciation, that not only widen the gap between market prices and the administered fuel price, but also raise the electricity costs for EDH; (iii) delays in the tax reform process and in the pre-qualification of EDH contractors; (iv) occurrence of unexpected natural disaster that deteriorates public finances; and (iv) perception by citizens that the large increase in fuel prices is a demand of multilateral organizations.

C. Strategic Alignment

2.20 The operation is consistent with the Update of the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is strategically aligned with the cross-cutting issue of institutions and the rule of law, through the objective of strengthening public revenue management, and with the challenge of economic integration, through the improvement of the customs capacities to manage efficiently foreign trade. The operation is consistent with the Strategy on Institutions for Growth and Social Welfare (GN-2587-2); and the Sectorial Framework for Fiscal Policy and Management (GN-2831-3) by strengthening the government's capacities for revenue collection and strengthening fiscal sustainability. Finally, the operation is congruous with the Energy Sector Framework (GN-2830-3) by improving the efficiency of state-owned enterprises; and with the Integration and Trade Sector Framework (GN-2715-6), as it improves customs operations.

2.21 The operation is also in line with the Country Strategy with Haiti (2017-2021) (GN-2904), by strengthening the government's capacities for revenue collection and strengthening fiscal sustainability. The Country Strategy also emphasizes the need for strengthening government capacity as the country advanced to the second half of the 10-year USD 2 billion grant facility mandate by the Board of Governors and the imminence of the country’s transition out of the grants-only into a concessional debt-based relationship with international organizations.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

3.1 This operation is the first in a series of two programmatic operations in support of policy reforms (PBP) in a single tranche and follows the guidelines on preparation and implementation of PBPs (OP-1698-1). The amount of this first operation is US$40 million, charged to the resources of the Bank's Non-Reimbursable Facility, and represents 13.2% of Haiti’s financing needs for the FY 2017/18.

3.2 The Bank has ample knowledge on tax policy and tax and customs administration in low income countries and is currently engaged in several tax and customs interventions in the LAC region[16]. This knowledge will be used for providing technical advice to guide the implementation of the country’s tax reform program. The Bank is also initiating work to improve the quality of government expenditures. With resources from a technical cooperation, the Bank will review Haitian public investment institutions and propose measures to improve the quality of public investment.

[16] 3214/OC-PE, 3852/OC-ES and PE-L1139 (in preparation).

3.3 The Bank also has a long engagement in the Haitian energy sector. It has financed several energy generation and transmission investment projects.[17] Furthermore, through a series of three programmatic operations[18] in support of policy reforms, the Bank has collaborated with Haiti in developing a policy framework to modernize the energy sector. This programmatic series included measures to strengthen EDH's finances.

3.4 Additionally, the Bank is preparing investment programs that have synergies with the current operation. The program for strengthening public management for improved service delivery (HA-L1131) will professionalize public sector officials, contributing to improve the quality of public expenditure and the strengthening of fiscal management. The program for improving skills for work (HA-L1137) will create employment opportunities for the youth, mitigating some of the negatives effect of the increase in fuel prices. Finally, the program for private sector development through exports and investment (HA-L1133) will strengthen Haitian institutions competent in export, foreign investment, and SMEs support and to improve the business climate.

III. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

3.1 **Environmental safeguards.** Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this program does not require classification. The operation supports the definition of policies, management instruments, and other institutional strengthening actions, so no social or environmental risks are anticipated.

3.2 **Fiduciary screening.** Funds for this operation will go directly to the treasury single account to cover the government's financing needs. Therefore, no fiduciary risks associated with the operation were identified.

IV. RESOURCES AND TIMETABLE

4.1 Annex V details the costs and schedule for the preparation of the proposed operation. The distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review Committee (QRR) should take place on July 3, 2018, the approval of the Draft of Loan Proposal (DLP) by the Operational Policies Committee (OPC) on August 3, 2018, and the presentation to the Board of Executive Directors on September 19, 2018. An estimated amount of US$78,408 is required from the Bank's administrative budget for the preparation of the operation.

[17] 2073/GR-HA; 2684/GR-HA; 1813-SF/HA, converted to 2394/GR-HA; 2349/GR-HA; GRT/FM-12093-HA; GRT/MC-12067-HA.

[18] 2548/GR-HA; 2735/GR-HA and 2953/GR-HA.

CONFIDENTIAL

[1] The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.

Safeguard Policy Filter Report

Operation Information

Operation		
HA-L1139 Strengthening Fiscal Policy and Management		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
HAITI		
Organizational Unit	IDB Sector/Subsector	
Financial & Municipal Mgmt	REFORM / MODERNIZATION OF THE STATE	
Team Leader	ESG Primary Team Member	
ALEJANDRO GABRIEL RASTELETTI		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	$40,000,000	0.000 %
Assessment Date	Author	
7 Jun 2018	susanar Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	4 Jun 2018	
QRR (Estimated)		
Board Approval (Estimated)		
Safeguard Performance Rating		
Rationale		

Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

B.3 Screening and Classification

The operation (including associated facilities) is screened and classified according to its potential environmental impacts.

B.13. Noninvestment Lending and Flexible Lending Instruments

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

B.16. In-country Systems

In-country systems will be used based on results from equivalency and acceptability analyses.

B.17. Procurement

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)

1.1 According to the criteria established in the Bank's Sustainable Finance Toolkit, it was found that, based on Policy B.13, the project does not require classification. This is consistent with the evaluation of the project team because it is a policy-based operation, aimed at the institutional and fiscal sector. Negative environmental or social impacts have not been identified, therefore, the operation does not present any risk in that sense. Consequently, the preparation of an environmental strategy for the project is not considered necessary.

INDEX OF SECTORIAL WORK

Studies / Technical Documents	Description	State	Electronic References
Component I – **Macroeconomic Framework**	1. Independent Assessment of Macroeconomic Conditions. IDB.	In process	Confidential
	2. Haiti: Staff Report for the 2015 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility. IMF.	Concluded	Electronic Document
	3. Haiti—Staff Report for Staff-Monitored Program. IMF.	Concluded	Confidential
Component II – **Tax Policy**	1. Haiti: IDB Group Country Strategy 2017-2021. IDB	Concluded	Electronic Document
	2. Presión Fiscal Equivalente. BID-CIAT.	Concluded	Electronic Document
	3. Haiti—Staff Report for Staff-Monitored Program. IMF.	Concluded	Confidential
	4. Haïti : Réforme de l’impôt sur le revenu. IMF.	Concluded	Confidential
	5. Haïti : Accises, impôts locaux et prélèvements vexatoires. IMF.	Concluded	Confidential
	6. République d’Haïti : Evaluation de la fiscalité intérieure et propositions de réformes. IMF.	Concluded	Confidential
	7. De la TCA à la TVA : à l’heure de la réforme. IMF	Concluded	Confidential
Component III – **Tax and Customs Administration**	1. Haiti—Staff Report for Staff-Monitored Program. IMF	Concluded	Confidential
	2. République d’Haïti—Renforcement des administrations fiscal et douanière : reformes préalables à l’introduction de la TVA. IMF	Concluded	Confidential
	3. Tax Administration Reforms in the Caribbean. Challenges, Achievements, and Next Steps. IMF	Concluded	Electronic Document

Studies / Technical Documents	Description	State	Electronic References
Component IV – **State-own enterprises**	1. Haiti—Staff Report for Staff-Monitored Program. IMF	Concluded	Confidential
	2. Haiti. Selected Issues. Opportunities and Challenges for Growth. IMF	Concluded	Electronic Document
	3. Haiti. Energy Sector White Paper I. IDB	Concluded	Confidential
	4. Haiti. Energy Sector White Paper II. IDB	Concluded	Confidential
	5. Haiti. Energy Sector White Paper III. IDB	Concluded	Confidential

CONFIDENTIAL

[1] The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.