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HAITI

SELECTED ISSUES

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OPTIMIZING FISCAL POLICY FOR HIGH AND INCLUSIVE GROWTH IN HAITI¹

1. Fiscal policy can serve as an important tool for promoting high and inclusive growth. Not only does fiscal policy warrant macroeconomic stability by ensuring a constant flow of resources to the budget and sustainable debt levels, but revenue and spending components can be powerful inputs in a country's efforts to achieve higher levels of income and improve socio-economic indicators.

2. For fiscal policy to play an effective role in removing constraints to business and growth, and enhance employability in Haiti, it will be important to:

- Raise revenue in ways that minimize its disincentive effects on economic activities (Tanzi and Zee 2000; Birdsall 2007).
- Improve the composition of spending towards growth-enhancing and job-promoting sectors.

A. Raising revenue

Improving tax collection

3. Steps should be taken to increase revenue-to-GDP by improving tax and customs administration and expanding the tax base. Revenue-to-GDP rose from 10.7 percent of GDP in 2008 to 13.1 percent in 2011. Despite this progress, revenue in Haiti is still low compared to international standards and more needs to be done to reach the authorities' goal of 15 percent of GDP. The reasons for low revenue are manifold, stemming from loopholes in the

¹ Prepared by Elva Bova. This SIP updates and expands issues in part raised in the 2007 Selected Issues Paper 'Revenue Mobilization in a Post-conflict Economy', by El-Masry and Funke.

administration and collection process, a taxation structure that does not adequately reflect the underlying socio-economic structure of the country, and a high level of tax expenditure.

4. Important steps have been taken in the area of revenue administration, but more can be done.

The recent improvements in the revenue-to-GDP ratio are associated with a more efficient collection chain, and improved controls over the collection chain. Yet, tax and customs administrations still suffer from weak technical capacity, and an organizational structure where policy direction, monitoring and operational delivery are not separated and that does not fully reflect taxpayers' diversity (Bua et al. 2012). On this last point, a more segmented tax administration would better address the different needs and compliance challenges of large, medium and small taxpayers. Reforms are ongoing regarding an organizational overhaul of the Ministry of Finance which would attribute larger powers to the revenue collection agencies.² On tax segmentation, a unit for large taxpayers and one for medium taxpayers are already running. More efforts are required for improving controls, internal audits, and training at both customs and revenue administration authorities.

	Year	Tax revenue % of GDP
Barbados	2011	27.8
Belize	1997	19.6
Costa Rica	2009	13.7
Dominica	2011	33.6
Dominican Republic	2011	13
Grenada	2011	22
Guatemala	2011	10.9
Haiti	2011	13.1
Honduras	2009	15.1
Jamaica	2009	21.6
Nicaragua	2009	17.7
Panama	2011	13.2
St. Lucia	2011	27.7
St. Vincent & Grens.	2011	29
Trinidad and Tobago	2011	33

Source: WEO, GFS, OECD

Revenue performance (percent of GDP)

Source: Haitian authorities

5. Tax composition reveals weaknesses in the collection of income taxation, as the bulk of taxes comes mostly from international transactions. Looking at the composition of tax revenues provides insights on possible niches of revenue losses, suggesting areas for higher revenue mobilization. The main component of Haiti's revenue consists of taxes from international trade, and dependence on international trade is particularly high (4.6 percent of GDP), much higher than in regional comparators (2.5 percent, on average). The second largest component of taxes is the turnover tax on goods and services. Collection of taxes on income is weaker, generating only 2.5 percent of GDP, as opposed to a regional average of 4.1 percent. Over the last 15 years, income tax has slightly increased, while custom duties have increased much more.

² The initially planned *loi organique* has been turned into two laws which aim at changing the organization and functions of some of the main *Directions Generales*.

Source: authorities

Source: WEO, GFS, OECD

6. Revenue could be expanded by modifying the rate for the personal income tax.

Although inefficiency in administrative capacity is a reason for low income taxation, and, scarce income segmentation is a major factor behind the incapacity of capturing broader sets of taxpayers, a look at the rates applied to the income tax can provide additional explanations for the low level of revenue. A corporate income is levied at a tax equal to 30 percent of the total income, a level not significantly different from the one of neighboring countries.³ Similarly, the highest rate of the personal income tax is set at 30 percent, a rate very close to the

Corporate Income Tax (2011)		Personal Income Tax (2011)	
	Rate		Rate
Antigua & Barbuda	25.0%	Antigua & Barbuda	25.0%
Argentina	35.0%	Argentina	35.0%
Barbados	25.0%	Barbados	35.0%
Belize	25.0%	Belize	25.0%
Bolivia	25.0%	Brazil	27.5%
Brazil	34.0%	Chile	40.0%
Chile	17.0%	Colombia	33.0%
Colombia	33.0%	Costa Rica	25.0%
Costa Rica	30.0%	Dominica	36.0%
Dominica	30.0%	Dominican Republic	25.0%
Dominican Republic	29.0%	Ecuador	35.0%
Ecuador	25.0%	El Salvador	30.0%
El Salvador	30.0%	Guatemala	31.0%
Guatemala	31.0%	Guyana	33.3%
Guyana	45.0%	Haiti	30.0%
Haiti	30.0%	Honduras	25.0%
Honduras	25.0%	Jamaica	35.0%
Jamaica	33.3%	Mexico	30.0%
Mexico	30.0%	Nicaragua	30.0%
Nicaragua	30.0%	Panama	27.0%
Panama	30.0%	Paraguay	10.0%
Paraguay	10.0%	Peru	30.0%
Peru	30.0%	Uruguay	25.0%
Uruguay	25.0%	Venezuela	34.0%
Venezuela	34.0%		

Source: IMF & KPMG

Source: IMF & KPMG

Caribbean and Central America average. Yet, when considering the rates applied to each bracket, a heavy burden weighs on middle levels of income, and current taxation fails to capture important resources coming from higher levels of income.⁴ The 10 percent minimum rate applies only at relatively high levels of income (125 percent of GDP per capita-PPP based), while the highest rate of 30 percent applies to levels of income which are more than 2000 percent higher than the country's GDP per capita.

³ Please see the following section for a discussion about whether the corporate income tax and dispositions attached to this tax are business friendly.

⁴ See also the following section which addresses income distribution.

7. Envisaged reforms that will better align custom duties and a move towards the VAT may raise revenue.

Imports are levied about 3 percent (simple average for all products) for custom duties, a level much lower than in other Caribbean countries and in other Central American countries. To comply with the requirements of the CARICOM membership, however, a reform of import tariffs will soon raise and align these duties with those of other countries in the region. The overall impact on revenues is still uncertain as a revenue loss could result from the reduction or elimination of tariffs within the CARICOM. The authorities are also considering replacing the turnover tax⁵ on goods and services with a fully fledged value added tax. The adoption of a VAT could potentially attract more companies in the taxation system because they will need to be formally registered to claim back the VAT paid on inputs.

Source: World Bank World Development Indicators

Limiting tax expenditure

8. Another major source of revenue loss comes from tax expenditure. Estimates for the fiscal year 2010-11 indicate a level of tax exemptions in Haiti equivalent to about 4 percent of GDP. While the level as such is not particularly high compared to its comparators, the amount still constitutes an important loss in revenue, and efforts could be made to reduce part of this loss. The major source of this tax expenditure comes from exemptions granted on the imports of international organizations and diplomatic missions, which go even beyond the boundaries set by international treaties. Among the items exempted from custom duties, the largest share of tax expenditure regards vehicles, and to a minor extent food, construction and medical items.

Tax Expenditure (percent of GDP)		
Argentina	2009	2.4
Brazil	2008	2.8
Chile	2009	3.9
Colombia	2009	2.6
Costa Rica	2009	4.9
Dom. Republic	2009	5.9
El Salvador	2009	3.6
Guatemala	2007	4.7
Haiti	2011	4.1
Nicaragua	2010	7.6
Peru	2009	1.8
Uruguay	2009	5.4

Source: Fenochietto et al. 2012, Haitian authorities

⁵ The only countries with turnover tax besides Haiti are North Korea with a rate of 2 percent and 15 percent and Netherlands Antilles with rates of 3 percent and 5 percent (Deloitte 2012).

9. Haiti grants exemptions according to the Investment Code and some laws. The Investment Code of 2002 created a privileged status for certain manufacturers, while a 2002 law sets out the conditions for creating free trade zones, along with the exemption or incentive regime applicable to investment in such zones. In addition, firms that import machinery, spare parts, semi-finished products, or materials needed to promote the development of specific sectors within the economy are exempt from duties on imports. NGOs benefit from a special status: they are exonerated from custom duties on all goods necessary for the realization of their objectives.

Exemptions for Fiscal Year 2010/11			
	Million of HTG	% of Imports	% of GDP
Total Customs Administration	7,466	6.15	2.5
<i>of which:</i>			0.0
NGO and charities	1,139		0.4
Diplomatic missions and intern. organizations	4,999		1.7
Projects funded with foreign aid	482		0.2
Public administration	809		0.3
Total Revenue Administration	4,666		1.6
<i>of which:</i>			
Local industry	4,524		1.5
Tourism	16		0.0
Communication	126		0.0
Total	12,132		4.1

Source: Agence Générale des Douanes (AGD); Direction Générale des Impôts (DGI)

10. The 2002 law provides incentives for enterprises located in free trade zones. These are geographical areas to which a special regime on customs duties and customs controls, taxation, immigration, capital investment, and foreign trade applies.⁶ Firms in a FTZ are granted (i) exemption from income tax for a maximum 15-year period, to be followed by a period of partial exemption that gradually decreases; (ii) customs and fiscal exemption (including registration taxes) for the import of capital goods and equipment needed to develop the area, with the exclusion of tourism vehicles; (iii) exemption from all communal taxes (with the exception of the fixed occupation tax) for a period not exceeding 15 years.

11. The 2002 Investment Code allows for a 5- to 10-year income tax exemption for specific investments. To benefit from the exemption, enterprises must meet one of the following criteria: (i) make intensive and efficient use of available local resources; (ii) increase national income; (iii) create new jobs and/or upgrade the level of professional qualifications; (iv) reinforce the balance of payments position and/or reduce the level of dependency of the national economy on imports; (v) introduce or extend new technology more appropriate to local conditions; (vi) create and/or intensify backward or forward linkages in the industrial sector; (v) engage in export-oriented production; (vi) substitute a new product for an imported product; (vii) prepare, modify, assemble, or process imported raw materials or components for finished goods that will be re-exported; or, (viii) utilize local inputs at a rate equal or superior to 35 percent of the production cost.

Composition of custom exemptions (2011)

Source: Haitian authorities

⁶ A free trade zone was established in northern Haiti in 2002. Additionally, an agreement on the creation of another 40-hectare free trade zone in southern Haiti was signed in June 2003.

12. More analysis is needed for a streamlining of exemptions. Given the amount of exemptions and the sectors exempted, there is potential to streamline tax expenditure and raising revenues. Yet, the benefits of higher revenue should be weighed against the possible negative impact on businesses and on international donors and NGOs whose work in social and infrastructure projects could be key for the reconstruction. To this end, the newly established Unit for the Analysis of Fiscal Policy is undertaking an examination of all current exemptions and will suggest streamlining them in ways that ensure adequate revenue gains without dampening the profitability of businesses or discouraging donors. Policies for rationalizing exemptions are needed especially for those exemptions granted locally; however, for customs administration, the large amount of exemptions will be likely reduced by better control of fraud and smuggling.

Promoting a business friendly tax system

13. Taxation is not the most serious constraint to business in Haiti, but the overall burden is high and procedures are cumbersome. The Paying Taxes Indicator ranks high compared to other Doing Business Indicators for Haiti; but it is low if compared to that of countries in the region. More specifically, the rate of specific taxes is not higher than in other countries, but the overall burden falling on profits is high and the number of payments could be reduced.

Paying Taxes (2013). Ranking out of 185 countries							
	Rank	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax and contributions	Other taxes (%)	Total tax rate (% profit)
Belize	45	29	147	24.7	7	1.4	33.2
Costa Rica	125	23	226	18.9	29.5	6.6	55
Dominican Republic	98	9	324	22.1	18.6	1.8	42.5
El Salvador	153	53	320	17	17.2	0.7	35
Guatemala	124	24	332	25.9	14.3	0.7	40.9
Haiti	123	46	184	24.1	12.4	4.3	40.8
Honduras	139	47	224	26.6	5.1	8.6	40.3
Jamaica	163	36	368	25.7	12.9	7	45.6
Nicaragua	158	42	207	22.9	20.3	21.8	65
Panama	172	60	431	12.5	19.8	9.7	42

Source: World Bank, Doing Business Indicators

14. Rates on dividends and specific provisions discourage business. As indicated, the rates of the corporate income tax (CIT) are in line with comparators. On the contrary, dividends are levied at 30 percent, slightly higher than the 29 percent of the Dominican Republic, and much higher than the 10 percent in Nicaragua and Honduras (see appendix). A series of legal provisions for taxation discourages business. First, contrary to in many other countries the tax on dividends has to be added to the CIT, which may imply a tax burden equal to 44 percent. Second, differently from most other countries, companies operating abroad cannot deduct taxes levied on international income, which implies that a company may have a resulting 60 percent tax on its profits coming from abroad and from Haiti (see appendix). Third, companies with a turnover

higher than Gourdes 15 million are required by law to contract an external auditor to verify their accounts, which adds to the company's costs. Finally, the payment of almost 70 percent of the tax is in some cases required at the beginning of the fiscal year.

15. Although incentives are provided to small and medium enterprises, the payment of the turnover tax weighs quite heavily on their business. Small business employs almost 80 percent of Haiti's labor force. For companies with turnover below USD 31,250 per year, a simplified taxation applies. They can subtract USD 12,500 from the tax base and then on this base they are levied a corporate income tax of only 1 percent and a 10 percent turnover tax. For companies with a turnover of USD 2,500 or below, the law imposes only a lump sum payment of USD 50 and a turnover tax of 2 percent. Despite these incentives, the payment of the turnover tax on the inputs of production largely discourages small enterprises and represents a crucial constrain to business (Petit and Geourjon 2010).

Box 1: How equitable is Haiti's tax system?

Taxation is largely tilted to indirect taxes, mostly coming from international trade, and the personal income tax could be more progressive.

The Haitian taxation system is substantially tilted towards indirect taxation. A tax system hinged more on direct taxes tend to be more progressive since the burden of tax contribution falls differently on different levels of income instead of being equally distributed across the population. An increase in the direct to indirect tax ratio is usually associated with a decrease in the Gini coefficient (Chu et al 2000, Gemell and Morissey 2005). In Haiti the ratio of direct to indirect taxes is at 29 percent in 2011 against a regional average of 41 percent. Although significant changes took place over time, indirect taxes remain large.

Direct to indirect tax ratio		
Belize	1997	26%
Costa Rica	2009	40%
Dominican Republic	2011	31%
Guatemala	2011	53%
Haiti	2011	29%
Honduras	2009	31%
Jamaica	2009	48%
Nicaragua	2009	29%
Panama	2011	76%

Source: WEO, GFS, OECD

The personal income tax could be more progressive. As indicated, with the highest rate at 30 percent, Haiti is largely in line with its comparators for the levels of the tax rates. However, the 10 percent minimum rate applies at relatively high levels of income, corresponding to around 125 percent of GDP per capita (PPP based). Only in Costa Rica and Honduras, minimum rates, of 10 and 15 percent respectively, apply to higher level of incomes, (127 and 138 percent of GDP per capita, respectively). More seriously, as indicated, the highest rate of 30 percent applies in Haiti to levels of income which are more than 2000 percent higher than the country's GDP per capita.

B. Upgrading the Country's Infrastructure and Human Capital

Public expenditure can sustain an inclusive growth path: spending in infrastructure helps in fact reduce bottlenecks and constraints on business, while spending in health and education will reinforce human capital and increase employability.

Infrastructure

16. Haiti performs poorly for selected infrastructure indicators. Only 40 percent of the population has access to electricity and 69 percent to water, the lowest ratios in the region. The country has only 15 kilometers of road per 100 square kilometers of land, second to Honduras with 12 kilometers. With only 40 subscribers per 100 people to mobile phones, Haiti ranks low also for access to soft infrastructure.

Selected Infrastructure Indicators for Central America and the Caribbean (2009-10)¹

Source: World Bank, World Development Indicators

¹ Access to electricity is for 2009. Road density is for 2001 for Haiti, Dominican Republic, El Salvador, Guatemala, Honduras and for 2009 for Jamaica and Nicaragua.

17. Despite heightened efforts in capital spending, project implementation is still inadequate for the country's needs. Boosted by urgent needs in the aftermath of the

earthquake and stimulated by the presence of international donors, capital spending in Haiti has increased from 1.6 in 2007 to 6.5 percent of GDP in 2012. A slowing down in the rate of increase in current spending indicates the authorities' effort to reduce unnecessary spending and redirect efforts towards infrastructure. Yet, indicators on infrastructure and the slow pace of the reconstruction call for more efforts in this direction.

Capital and current spending
(percent of GDP)

Source: Haitian authorities

18. Higher reported capital spending does not mean improved execution capacity. The actual amount of capital spending always underperforms the envisaged amount in the budget. Data on execution capacity of treasury-financed capital spending shows an increasing trend over the last five years. Yet, this increasing trend only indicates higher transfers of resources from the treasury accounts to project accounts, with no real indication of project implementation. Evidence on capital spending by quarter shows very high spending occurring during the last quarter (almost 57 percent in FY2012), suggesting that the closing of the fiscal year puts pressure in the transfer of money to project accounts; it is unlikely that these resources are actually utilized for project execution until later.

19. Infrastructure spending should be boosted through better coordination among line-ministries and with donors and a more dynamic and efficient information and supervision system. Major reasons for Haiti's low execution capacity and a weak public investment can be identified in the fragmentation of the public investment program, lack of sector-anchored growth policies, cumbersome project execution, and weak information and control systems. Against this background, the reform agenda should be oriented to define clear responsibility among government institutions, enhance a control system, boost the work of the unit of project executions and promote a dynamic information system.⁷

Source: Haitian authorities

Human Capital

Haiti's ranking for social indicators is low. School enrollment remains very low and the health situation difficult; key other social indicators are far from the MDGs target. In 2011, Haiti ranked 158 out of 187 countries according to the UNDP Human Development Index. Life expectancy at birth is below 62 year in 2010, while it is above 70 for all other Caribbean countries. About 49 percent of people older than 15 are literate, as opposed to the Caribbean average of 89.5 percent.

Millennium Development Indicators, 2010			
	Haiti	Dominican Republic	Caribbean
Literacy rates of 15-24 (percentage)	72	96	90
Mortality rate, infant (per 1000 live births)	57	22	38
Maternal mortality ratio (per 100,000 live births)	670	100	170
Prevalence of HIV, total (percentage of population 15-49)	2	1	1
Births attended by skilled health personnel (in percentage)	26	98	69

⁷ Source: The Millennium Development Goals Report 2011, United Nations

⁷ See next SIP chapter on Public Investment in Haiti.

20. Social spending is the lowest in the region, and health spending has declined from its late 1990s level. Spending in education and health is respectively at 2.1 and 1.4 percent of GDP, against 3.8 and 3.4 percent on average for the other countries of the region. Differently from regional trends, health spending in Haiti has actually declined since 1997, going from 2.5 percent of GDP in 1997 to 1.4 percent in 2009. However, a large part of healthcare is provided by international donors and NGOs, especially since the earthquake.

21. To ensure higher job opportunities, the composition of current spending could be more social. While important steps have been made to tilt the envelope of total spending more towards capital spending, the composition of current spending can also be changed more in favor of social spending. Differently from advanced economies where social spending tends to be identified with the creation of safety nets, in the Haitian context this requires more long-lasting and long-term measures. Social infrastructure needs to be build and strengthened, education and health provision has to encompass much larger shares of the population. Hence, while cutting unnecessary current spending, spending should be directed to health, sanitation and education services. Also, the large donors' presence in the field of social spending can indeed offer opportunities for capacity building.

C. Concluding Remarks

With high challenges in terms of poverty, employment and inequality, fiscal policy in Haiti should be oriented towards more developmental objectives, sustaining inclusive growth. While major

steps have been taken in this direction, the current taxation and expenditure frameworks do not completely fulfill the necessary requirements for these objectives.

On the revenue side,

- revenue mobilization is still low, largely based on custom duties, with high inefficiencies in the collection of income revenue;
- taxation does not favor the business environment and is not progressive;
- tax expenditures are large

On the expenditure side,

- investment spending is inadequate for the country's infrastructure needs;
- social spending is not enough to raise the productivity of human capital.

Addressing these weaknesses would require (i) adopting a VAT as opposed to the current turnover tax; and promoting a more progressive income taxation; (ii) strengthening revenue administration; (iii) streamlining exemptions; (iv) and improving project implementation while enhancing social spending.

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A RENEWED PUBLIC INVESTMENT POLICY IN SUPPORT OF GROWTH AND POVERTY REDUCTION¹

A. Introduction

1. Weaknesses in public investment have long been major impediments to growth in Haiti. Starting in 2004, the authorities took steps to enhance the efficiency and quality of public investment, and strengthen coordination among government agencies involved in project management. However, the post-earthquake surge in the number of projects as well as stakeholders like donors and NGOs has put further pressure on an already strained framework and limited administrative and technical capacity. In the process, this has also exposed and exacerbated overall weaknesses in the current investment framework, including project preparation, execution, reporting, evaluation, and control.

2. Investment inefficiency is costly. Direct costs of the weak public investment framework include lower growth, loss of domestic fiscal revenue and employment, and higher project costs. As an illustration of waste, it is estimated that over the past 5 years and for several reasons, including political uncertainty, an equivalent of G20 billion of earmarked resources for projects was not injected in the economy due to weak capacity and poor investment framework. This is equivalent to a fiscal adjustment of about 7 percent of average GDP of G280 billion. Assuming a fiscal multiplier of 0.6 percent, (Ilzetki et al. 2011)² this implies that the economy has lost an estimated 3.5 percentage points of GDP over the past five years. Indirect costs include lower externalities, the presence of which is linked to the use of some inputs like the learning-by-doing effects stemming from the complementarities between physical capital and skilled labor.

3. Strengthening project preparation, execution, and control while ensuring the overall quality and consistency of public investment are critical for a sustainable growth reform agenda. In addition to protracted political instability and lingering security concerns, major technical reasons for Haiti's low execution capacity and a weak public investment framework include the fragmentation of the public investment program (PIP), lack of sector-anchored investment and growth policies, complex and nontransparent capital expenditure procedures, and weak information and control systems. Against this background, the reform agenda should be framed in a comprehensive approach based on a strong political commitment for change, including enhanced transparency, better procurement practices, and stronger governance. In particular, there is a need to redefine and clarify responsibilities among government institutions involved in public investment

¹ Prepared by Abdelrahmi Bessaha. The results of the paper were extensively discussed with the authorities and other donors.

² Ilzetki, E., Mmendoza, E., and Veigh C., 2011, "How Big (Small?) Are Fiscal Multipliers," IMF Working Paper 11/52, Washington, International Monetary Fund.

project management, rehabilitate the work of the units in charge of project execution within ministries, enhance the control system, and promote a dynamic information system.

4. This chapter is organized as follows. Section B outlines the key changes introduced by the authorities over the past few years in order to improve investment efficiency. It also discusses the outstanding issues, including the fragmentation of the public investment program (PIP), weak preparation, lack of sector-anchored investment and growth policy, cumbersome capital spending procedures, and other shortcomings on execution, reporting and control. Section C puts forth an agenda for reform to enhance public investment efficiency and increase its growth impact. Sub-section D concludes.

B. Assessment of the Current Investment Policy Framework and Practices

5. The impact of public investment on growth has been weak in Haiti. A wide array of literature and research has shown that higher public investment, particularly in infrastructure, may positively affect growth through several channels, including higher productivity. However, the acceleration in investment in Haiti has not led to strong growth, mainly because of weaknesses in the public investment framework. Public investment efficiency as measured by the Public Investment Management Index (PIMI) constructed by Dabla-Norris et al. in 2011 ranked Haiti in the lowest quartile of project performance.³

³ The PIMI is built around four key pillars, including strategic guidance and project appraisal, project selection and budgeting, project implementation, and project evaluation and audit.

Ranking Regarding Public Investment Management

	Overall Index	Sub Indices			
		Appraisal	Selection	Management	Evaluation
Highest Score	3.53	4.00	4.00	2.80	3.33
Median	1.65	1.33	1.60	2.00	1.33
Haiti	1.07	0.00	1.20	1.73	1.33
Barbados	1.19	0.50	2.00	0.93	1.33
Trinidad and Tobago	1.10	0.00	2.40	1.33	0.67
Belize	0.27	0.00	0.80	0.27	0.00

Source: Era Dabla Norris, Jim Brumby, Annette Kyobe, Zack Mills, and Chris Papageorgiou, 2011,

"Investing in Public Investment: an Index of Public Investment Efficiency",

Working Paper (WP/11/37), International Monetary Fund, Washington DC.

6. Key reforms were introduced in the past few years to improve the public investment framework. The authorities have adopted several public financial management (PFM) laws and regulations, which set the stage for improving the public investment policy. In this context, they strengthened project preparation and execution, enhanced transparency of budget information, and reinforced budget oversight. In addition, they have endeavored to link budget preparation with priorities set forth in the medium-term poverty reduction strategy. The authorities have also made headway in improving coordination and consultations among ministries and public agencies that design and execute the public investment program. Other reforms include the introduction of a new budget classification system based on the administrative and economic nature of expenditures and the construction of the key elements of a forward-looking public investment framework, including: (i) a national system for planning and development management (SNPGD); (ii) a system for project information system (SYSGEP) aimed at tracking active projects, reporting physical and financial execution and facilitating overall planning of public investment; the creation of Analytical and Programming Units (UEPs) in key ministries tasked with overseeing project planning and execution as well as reporting; (iii) a directorate of investment at the Ministry of Planning and External Cooperation (MPEC) in charge of following up on SNPGD; and the creation of a Unit of Coordination of Projects (UCP) at the Ministry of Economy and Finance (MEF) in charge of improving capacity and executing some projects aimed at improving economic governance.

7. The authorities launched in November 2012, a new mechanism to strengthen the coordination and harmonization of aid. The new mechanism calls for an alignment of international funds to national development goals and government investment programs, and relies on the national budget as the main vehicle for channeling all aid. The new framework includes an aid effectiveness committee (AEC) chaired by the Prime Minister and comprising representatives of international institutions. The AEC will coordinate resource allocation in line with government priorities. Main priority themes as of now include employment, education, environment, rule of law, energy and disaster prevention.

8. Significant weaknesses remain. While the reforms have addressed important issues, further review of the public investment framework reveals continued fragmentation of the PIP, lack of preparation capacity, absence of sector-anchored investment and growth poles, cumbersome capital expenditure procedures, a weak and partial information and reporting system, low execution capacity, and weak enforcement of control procedures.

9. Fragmentation of the PIP. The fragmentation of the PIP raises concerns about the intra and inter sectoral consistency of the investment program as well as over the projects' cost and impact on economic integration and growth. Public investment in Haiti is undertaken by 3 entities: (i) the central government which channels domestic resources through the Treasury to fund local projects included in the PIP; (ii) the donor community, including the numerous NGOs that conduct significant investment operations; and (iii) the "Bureau de Monetisation" which finances projects from PetroCaribe resources. However, the PIP only covers ongoing or pipelined projects funded by the government budget and part of PetroCaribe resources. Donor-funded projects are not included into the national budget and the authorities have little information on their execution. The fragmentation of the PIP complicates project planning and coordination.

Current Investment Flows, 2012
A Fragmented Investment Program

10. Weak preparation capacity. Project design and preparation remain incomplete and weak. In many cases, project preparation is reduced to a mere summary note; there is no thorough economic, financial, or social assessment and no basic indicators on which project selection is made. Furthermore, many projects included in the national budget lack a contract for execution as well as an implementation schedule. Consequently, these incompletely prepared projects slow down the pace of execution considerably, complicate project management, and unduly tax Haiti's limited absorptive capacity.

11. Lack of sector-anchored investment and growth poles. The investment portfolio lacks sector-anchored growth poles. The global portfolio under government control comprises 752 projects. Most projects are medium-sized, of which 2/3 is intended to expand administrative capacity. There are few large infrastructure projects, which could have provided a structuring base for a much-needed growth strategy anchored around key sectoral/regional development poles.

During FY2012, 362 new projects were added to the PIP. This significant rise in the number of projects, particularly in a context of low capacity for thorough technical project preparation, heightens concerns about the quality and cohesiveness of the investment program.

12. Complex and non-transparent capital expenditure procedures. Procedures for execution of project spending are regulated by the October 3 1984 decree that created the Public Investment Fund. Disbursement plans for public investment projects are produced in the context of a top-down process, instead of an interactive bottom-up system; the channeling of resources is unusually layered (Box 1); and controls on funds allocated to project managers are lacking.

13. Lack of transparency and control of earmarked funds for project implementation. Disbursements made from project accounts to pay for project spending are not subject of controls by the Minister of Planning (MPEC) nor the Minister of Economy and Finance (MEF). In addition to budgetary credit disbursements from the MEF, project managers may have access to other revenues, which they may use to support outlays linked to the project or for other purposes.

14. Weak and partial information and reporting system. The information system is weak and the tracking mechanism for investment execution (SYSGEP) is in its infancy stage. As a result, data for assessing progress in the implementation of the investment program is incomplete. Data for Treasury-financed projects is available on the financial side and is reported in the TOFE. However, the reporting from project managers is irregular and does not include a full accounting of the physical and financial progress in project execution. Information on PetroCaribe projects is not comprehensive and is not provided in a timely fashion. Donor-funded investment data are partial and reported with significant lags. The current tracking mechanism for investment implementation SYSGEP lacks the resources and staff required to be fully operational.

15. Lower execution rate and uneven implementation across sectors. The effective execution rate is low. It is estimated that project execution falls within a 35-45 percent range. This underperformance is attributable to a range of factors, including poor design of projects, low execution capacity, lack of coordination between government agencies, weak reporting, political uncertainty, volatile security, and loose enforcement of internal control mechanisms. At the same time, and as long as these issues are not addressed, they exacerbate the weaknesses of the investment framework and continue to lessen the efficiency of the projects and their impact on growth.

Box 2. Haiti: Lack of Controls on the Execution of Capital Spending

A top down process guides the preparation of disbursement plans of project funds. The MPEC updates project notes (FIOPs) at the beginning of each fiscal year based on budgetary allocations agreed by the government without the direct involvement of project managers and without a comprehensive report on execution from managers in the field. Project managers are informed at a later stage about the amount of resources allocated to their projects. The MPEC forwards the projected disbursement schedule to the MEF. The MEF takes over and plays a central role in the supply of funds to project accounts.

The channel for public resources allocated to projects is flawed. The MEF Directorate General of Budget (DGB) of the MEF reviews the projected disbursement plan and establishes a payment order to the Minister of Finance, which is then sent to BRH for transfer of funds (equivalent to the first two months of the annual capital budget envelope) from the central Treasury account to a transit account called “Compte Tresor Special Developpement (CTSD)”. Once the latter is replenished, the Treasury Directorate issues payment orders to individual project accounts. BRH then transfers the fund to each of these project accounts. Treasury notifies the project managers and the line ministry that oversees the project account. No copy is issued to the MPEC, except for quarterly notification of subsequent transfers of resources to project accounts. The whole procedure does not involve a public accountant. The usefulness of the CTSD remains to be proven; furthermore, it merely lengthens the transfer process of project funds. The operating revenue of the CTSD (airport tax) is not linked to outlays financed by it. Also, the MPEC is not supplied – or is only with delay--with information on project disbursements.

Spending controls are missing. Spending by the project manager is subject to neither a fiduciary control nor the review of a public accountant. At the beginning of each quarter, project managers are expected to submit to the MPEC a progress report indicating financial and physical execution of the project, together with supporting documents detailing the use of the resources advanced; and a projected disbursement schedule for the subsequent quarters. Those reports rarely provide the required information on the use of funds or on the end period balance of the project account. This does not prevent the MPEC from preparing another quarterly disbursement plan to the MEF and resupply the project accounts managers with additional fund.

Haiti: Disbursement Process for Treasury-Funded Projects, 2012

C. An Agenda for Reform

16. More efficiency in capital spending is crucial. The major reconstruction process under way is likely to be protracted and span the next decade due to the immense needs and time needed to build appropriate capacity. At this time, the investment program financed by domestic resources comprises several hundred projects. To ensure the most efficient use of these resources, there is need for a comprehensive reform plan to improve the design and preparatory phases of projects, but also execution, reporting, and controls. These reforms are key to enhance investment spending efficiency and ensure the highest impact on economic growth and employment creation. This section outlines a road map for reform and discusses the related timeline.

17. The investment framework needs to be strengthened. It will be anchored on (i) a clearly defined set of responsibilities between government institutions in charge of project management; (ii) articulated sequencing regarding project management; (iii) an enhanced role for the UEPs; (iv) a dynamic information system; and (v) an active control process. Most importantly, these reforms should be accompanied by a medium-term strategic budgeting.

A clearly defined set of responsibilities across government institutions

- **The sector ministries** will remain responsible for the production of coordinated sector projects and programs. They will update their sector strategies and put together clear guidelines on sector projects (Figure 1).
- **The MPEC** should (i) ensure consistency of sector plans, projects and programs; (ii) consolidate the latter into a comprehensive national strategy; (iii) issue cross-sector guidelines for project management; (iv) manage the information system based on SYSGEP; (v) produce regularly reports on project execution from UEPs; and (vi) assess public-private partnerships ventures in order to determine their costs and benefits.
- **The MEF** should take a more active role in preparing project disbursement projections with inputs from UEPs, consolidating financial reports on project execution, and working closely with control institutions to ensure the best use of the public resources allocated to investment. The MEF should also coordinate with MEPC in the issuance of project management guidelines.
- **The UEPs** should play a central role in a newly designed institutional framework. The UEPs are not new as they were created by the May 17, 2005 decree aimed at reactivating a fledgling national investment management system. Political uncertainty and low capacity have delayed the implementation of this crucial component. There is a strong need to establish UEPs in all line ministries. These units are to be in charge of (i) sectoral analysis and data compilation; (ii) program and project design; (iii) sectoral, regional and local coordination; (iv) monitoring execution of programs and projects; and (v) control. The UEPs will also be in charge of preparing disbursement projections, review progress report from project managers and prepare payment orders for work execution. Payment of this work will be done by the Ministry of Economy Finance. This will eliminate the need to transfer resource to project managers and most

importantly ensure that payment orders functions are clearly separated from payment functions. The UEPs prepare a quarterly progress report to be sent to both MPCE and MEF. They will also have the ability to conduct control of project execution through in site visits or on the basis of documentation sent by the project managers. Experts funded by donors would be assigned to support the UEPs if necessary

An articulated sequencing of project work

- **Project preparation work should focus on producing all the preliminary studies** (technical, economic, commercial, and/or social) and indicators that would guide the decision to select a project. The selection process should be completed by the negotiation of a contract (confirmed by the procurement agency, CNMP), a financing plan and a comprehensive work schedule to facilitate reporting and control (Figure 2).
- **Project should be incorporated in the national project database and the official investment program.** Upon completion of the preparatory phase and recording in the national project database which is run by the MPEC, the new project should then be incorporated in the medium-term budgetary framework (MTBF) for execution and the sectoral budget.. At this stage, the project is fully under the responsibility of the UEP of the sectoral ministry. The UEP will monitor execution, work on disbursement plans, and issue payment orders. It also conducts controls of the project through in site visits as well as on the basis of documents.
- **The current institutional framework procurement is weak.** The national commission requires additional resources and equipment to operate properly. However, in view of the significant amount of projects, the current institutional arrangement will continue to produce bottlenecks. Therefore, we suggest that regional commissions be reactivated and fully equipped with appropriate staff and equipments and their authorities fully restored, at least for sectors running major investment programs. Second, project thresholds are needed. Regional commissions should review only projects below a certain threshold while the national commission should take up projects exceeding that threshold.

A dynamic information system

- **The SYSGEP fed with information on execution of all public investment projects is the cornerstone of the investment framework.** A reliable integrated information system is critical to ensure execution in a timely manner and the use of resources in a transparent fashion (Box 2). The system is predicated on a steady supply of information from project managers, and from donors and PetroCaribe managers.

Box 3. SYSGEP: A Critical Tool for Project Management

The Système de Gestion de l'Information sur les Programmes et Projets (SYSGEP) is a critical tool put together by the authorities to monitor project execution and facilitate assessment of public investment policy.

The SYSGEP module is in place as it loads data and information related to all the phases of domestically-financed active projects, including project identification in the context of the National Project Nomenclature, progress in execution on both the physical and financial aspects, disbursement projections, and other aspects of a project under execution. For a full performance of this computerized tool that is a central element of a comprehensive information system in support of economic development, there is a need to:

- Upgrade the National Project System, the legal framework for Public Investment, the General Guide for Investment Projects, and the technical module to manage projects.
- Install SYSGEP in all line ministries to ensure comprehensive flows of information on project implementation; because of capacity constraints, the extension of this system will cover in a first phase large ministries, including education, health, agriculture, and public works. By 2016, SYSGEP is expected to cover all ministries.
- Link SYSGEP to other modules and economic and financial databases to enhance its efficiency and produce real time data on execution, including the module of external aid, the module of current spending (for recurrent spending that projects give rise to), the central bank information system.

In addition to improving the efficiency and transparency of the public investment policy, SYSGEP is expected to facilitate project design and preparation in line with national priorities defined in the country strategy and associated sectoral development plans, while strengthening coordination with the donor community.

An active control process

- **The control phase is crucial in the revised framework for public investment policy.** Internal controls should be conducted on a quarterly basis and reports sent to the MEF and MPEC. SYSGEP should also receive copies of the control reports. A posteriori controls are also expected to be conducted by the Inspection Generale des Finances, the Unité de Lutte Contre la Corruption if necessary, and the Cour Supérieure des Comptes et du Contentieux Administratifs.

Medium-Term strategic budgeting

- **Improved project management will require a break with the current annual budgeting process.** A one-year authorization for capital spending is not appropriate since most projects are implemented within time horizons exceeding one year and lasting up to 3 years. Therefore, it is important to establish medium-term strategic budgeting (MTB). This will ensure smooth execution of projects as well as incorporating in due time the recurrent costs that arise from projects that enter the operational phase. With medium-term spending comes medium-term revenue planning. In any event, the authorities will have to introduce new tools, including variable length budget authorizations and appropriations, long-term contracts, thorough reviews of execution plans, and regular reports on quarterly and six-month execution.

Timing of the reform agenda

18. This reform is ambitious and will require time to be implemented. That said, the institutional know-how is available and building blocks are in place, including the UEPs and SYSGEP. The reform process will not start from scratch as development partners have already built solid knowledge bases. However, any further progress will require a strong political will, as the proposed changes will affect deeply-entrenched interests.

19. The reform could be conducted in a progressive fashion in two main phases.

- **First phase** (2013): consolidation of the foundations of the public investment framework. In this phase, the authorities would (i) define the mandate of the UEPs to include all phases of project management and strengthen them with adequate resources with support from the World Bank; (ii) enhance the SYSGEP with support from IDB; (iii) increase procurement capacity with the help of the World Bank; (iv) clarify the roles of the government agencies involved in project management; and (v) reform capital expenditure procedures, in line with the introduction of the Treasury Single Account with the assistance of the IMF. This would include the elimination of the transit account (CTSD) for disbursement of capital outlay funds.
- **Second phase** (2014): assign international experts to UEPs, introduce a new disbursement plan and execution under the control of the MEF, and lay the ground for extending reporting on project execution for all stakeholders operating in Haiti.

D. Conclusion

20. Public investment is critical to the development of Haiti. However, investment efficiency has been low. Reforms are needed. Causes of this situation are numerous and include poor project management and a fragmented investment portfolio. Low investment efficiency is also attributable to lack of transparency, poor coordination among branches and levels, and low capacity. Inefficient public investment and lack of transparency have not only resulted in lower growth, lower fiscal revenue, and higher costs but are also the cause of macro imbalances and limited competitiveness and slow economic integration. Haiti is at a cross roads. Large aid inflows are not expected to continue on the scale observed so far. It is imperative for the country to take advantage of the available financial assistance and step up efforts to improve public investment quality. This assistance should be used to: (i) design and prepare and coordinate public investment on the basis of well-developed sectoral strategies and plans and assessment tools to ensure high quality and stability; (ii) streamline the institutional framework to ensure better coordination between government institutions in charge of projects and adequate monitoring of execution and control; and (iii) improve bidding processes. Implementation of such an agenda is expected to take place gradually over the next two years. Once the system is fully operational by 2015, the authorities should be ready to make adjustments if necessary to ensure investment efficiency at all times and have a greater impact on economic growth.

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Appendix

Tax on business: Provisions

Brazil	Exemptions for very underdeveloped areas
Chile	Exemptions for income derived from activities of certain regions
Colombia	15% for industrial or service users in a free-trade zone [0% for years 1-2; 25% for years 3-5; 33% from year 6]
Costa Rica	10% for income below 87,609 USD; and 20% for below 176,224 USD. Free Trade Zone Regime companies located in the Great Extended Metropolitan Area (GEMA) benefit from full exemption for first 8 years, and 50% exemption for next 4 years. Outside GEMA, full exemption is for 12 years and 50% exemption for 6 years.
Dominican Republic	After 24 months, tax rate from 29% to 25%. Zone of Free Trade are fully exempt up to 15 to 20 years
El Salvador	If company turnover is smaller than USD 150,000 the tax rate is 25%
Guatemala	Drawback Regime or Free-Trade Zone Regime benefit from full exemption for 5 to 10 years. ¹
Honduras	Exempt Free Trade Zones, Industrial Processing Zones, Temporary Import Regimes, Agroindustrial Export Zones, Free Tourist Zones
Jamaica	Exempt from 5 to 15 years companies under the Export Industry Encouragement Act or Hotel Incentives Act and company engaged in approved agricultural activities. For Export Free Zones exemptions are forever
Nicaragua	Exemptions for Free Trade Zones

Source: Ernst & Young 2012

¹ This will apply until 2015.

Tax on dividends: rates and provisions

Argentina	Dividends from local corporations are not taxed
Brazil	15% to 22.5%
Chile	Dividends are aggregated to personal income
Colombia	Paid as personal income
Costa Rica	15%, but if listed on the Costa Rican stock exchange 5%
Dominican Republic	29% withholding tax
Ecuador	Exempt if dividends distributed after CIT/ if not, tax on progressive basis
El Salvador	Exempt if dividends distributed after CIT/ if not, 10% withholding tax
Guatemala	Exempt if dividends distributed after CIT
Haiti	30%
Honduras	10%
Mexico	Exempt from tax if the dividends are distributed after CIT/ if not, 30%
Jamaica	5 or 25%
Nicaragua	10%
Panama	10% (5% in free zones or 20% on bearer shares)
Peru	4%

Source: Ernst & Young 2011 and Petit 2010

Figure 1. Redefined Role for Institutions in Charge of Public Investment Management

- 1/ The new framework is anchored on sectoral strategies; the Ministry of Plan is in charge of the national system for planning and development of management
- 2/ Economic, technical, commercial. The objective is to establish key performance indicators. For large projects, there is a need to assess also externalities.

Figure 2. Proposed Project Sequencing and Institutional Framework