



Policy Update **Debt Cancellation for Haiti: An Important Victory but an Unfinished Agenda** August 2009

Haiti achieved \$1.2 billion in debt cancellation under the Heavily Indebted Poor Countries (HIPC) program in late June 2009. It's an important step – but by no means the end of the story—for a country with a violent past, extreme poverty and faced by recent humanitarian emergencies.

By Mimi Lytje

It has been a very bumpy ride for Haiti towards debt cancellation right from the start, trying to wind its way through the HIPC process. The international debt relief program was set up under the International Monetary Fund and World Bank to reduce impoverished countries debt burden. But the program's strict requirements have often been equaled to an obstacle course for struggling nations.



Despite its substantial debt burden and its status as the hemisphere's poorest country, Haiti was not initially accepted into the HIPC program because it did not meet the technical debt burden indicators. Haiti was officially included in HIPC in 2006 only after these requirements were revised.

After being accepted into HIPC, Haiti was projected to finish the program and receive full cancellation of its debt by September 2008. However the World Bank and IMF repeatedly pushed back the completion point. In the US this led a bi-partisan coalition of 72 Members of Congress to sign a letter to World Bank President Robert Zoellick in February 2009 urging immediate debt cancellation for Haiti. Under pressure from campaigners, in April 2009, the Obama Administration announced it would cover up to \$20 million in debt service payments from Haiti until Haiti reached completion point – an important step recognizing Haiti's tremendous need

Haiti achieved its much needed and much anticipated victory at the end of June 2009 when the board of the World Bank finally approved Haiti's progression to completion point under HIPC. Haiti will now have \$ 1.2 billion in external debt owed to both bilateral and multilateral creditors such as IMF, World Bank and the US government cancelled.

In a country where more than 76% of the population lives in poverty and only half of the population are able to read, money freed up by debt cancellation can now be spent on poverty reduction.

A history of illegitimate debt

Haiti's legacy of debt began shortly after the country won independence from France and abolished slavery. France threatened to reinvade unless Haiti compensated it for the loss of its "property", including slaves. With French warships positioned off the coast, Haiti gave in to French demands in 1825, and agreed to pay 150 million francs, financed by a loan to a designated French bank in return for recognition of Haiti's sovereignty.

This enormous debt – equal to fourteen times Haiti's export revenues – placed a heavy burden on the new country. Haiti was forced to send any available cash to France, diverting revenues from investments in infrastructure, education and government services. The world's first black republic descended into a spiral of debt and underdevelopment from which it has never recovered.

From 1957 to 1986, Haiti was controlled by the father/son dictatorship of Francois "Papa Doc" and Jean-Claude "Baby Doc" Duvalier. For nearly thirty years they spent huge amounts of foreign assistance to enrich themselves and suppress the Haitian people. This misuse of resources was widely reported, yet donor countries and international financial institutions continued to lend money to the regime.

Surviving a global financial crisis

The fact that Haiti has now received \$1.2 billion in external debt cancellation is a step towards justice for the historical injustice Haiti has suffered.

But even with this progress, the story does not end here. This amount only accounts for 2/3 of Haiti's total debt burden. The debt relief will give Haiti some much needed breathing space in their budgets but the 1/3 of the debt burden that hasn't been cancelled has been incurred after 2004. When world leaders agreed to the Multilateral Debt Relief Initiative (MDRI) in 2005 in Gleneagles, it was agreed that only debts accrued through 2004 would be cancelled. The remainder of Haiti's debt has been accrued since then.

The remaining debt is owed mainly to the Inter-American Development Bank and IMF. The World Bank aid Haiti has received after 2004 has come primarily in the form of grants. Haiti also has taken out substantial loans to Venezuela under the "PetroCaribe" agreement. Repayments of the Venezuela loans – despite being given on concessional terms – is expected to reach as much as 1% of GDP in 2013.

Haiti suffered through a series of humanitarian crises in 2008 caused by the devastating effects of four hurricanes. Sharp increases in food and energy prices have also led to an escalation of hunger among the poorest sectors of the population. Now, more than ever, Haiti faces the severe and negative effects the recent downturn in the global economy.

Haiti is not alone: the overall picture for developing countries is bleak and the United Nations Conference on Trade and Development (UNCTAD) predicts a \$ 2 trillion financial shortfall for developing countries, along with a 30% drop in exports income. A decline in food production is also likely, as is recurrence of food crises in some parts of the developing countries.

The urgency of the situation has led UNCTAD to call for a temporary moratorium for developing countries on their debt service obligations. The UNCTAD General Secretary Supachai Panitchpakdi has stated that: "In the current global crisis situation both debtor and creditor countries would probably be better served if scarcer foreign exchange earnings in the debtor economies were used for the purchase of imports rather than for debt servicing".¹

Haiti is a prime example of a country that could benefit from such a moratorium.

Since debt cancellation under HIPC can not stand alone and since measures such as responsible lending mechanisms have been widely neglected, Haiti like many other countries in the same situation could very well be headed for another debt crisis.

Building on Haiti's debt cancellation, a moratorium on Haiti's remaining debt is a critical next step in ensuring continued progress and a way out of poverty for this small island state.

For more information, and to take action, see www.jubileeusa.org or www.HaitiJustice.org.

¹ 30 Apr 09 - Temporary debt moratorium needed for some poor nations, says UNCTAD Secretary-General, <http://www.unctad.org/Templates/Page.asp?intItemID=4819&lang=1>