I’d like to thank Chairman Meeks and Ranking Member Miller and all the members of the Subcommittee for the opportunity to discuss the critical issue of debt relief for Haiti today, and also to thank especially Representative Waters who has been a long-time champion of debt cancellation for Haiti and for impoverished countries around the world.

My name is Melinda St. Louis, and I am pleased to represent the Jubilee USA Network, an alliance of more than 75 religious denominations, faith-based organizations, development agencies, and labor, environment and community organizations working to generate the political will for more responsible lending and cancellation of unjust debts to fight poverty in Africa, Asia, and Latin America. Founded in 1997, Jubilee USA is the US arm of the global Jubilee debt cancellation movement. We are grateful for this committee’s leadership in addressing debt relief for Haiti and for many of its members’ long-time support for the campaign for debt cancellation for Haiti and other impoverished countries.

Like all of you, I have watched in horror the images of the aftermath of the 7.1 earthquake that devastated Haiti on January 12. The scope of the disaster is hard even to comprehend – one in 50 Haitians dead, millions homeless, and all this in a country where, before the earthquake, nearly 80 percent of the population lived in poverty. The international community has responded with generosity and solidarity, from governments to ordinary individuals the world over who have given what they could toward the rescue and recovery efforts. A study by the Inter-American Development Bank\(^1\) estimates that the earthquake damage is at least $14 billion. It is indisputable that massive aid will be needed for the foreseeable future to help Haiti tackle the immense challenges to recover and rebuild.

A critical first step is 100% debt cancellation of all of Haiti’s remaining debt to international institutions, both in practical terms and as a matter of justice. From a practical standpoint, as Secretary of State Clinton stated after her visit to Haiti in the days following the earthquake, “it’s just unrealistic to think that Haiti would ever, in the

far foreseeable future, be able to repay,\(^2\) given the billions of dollars that will be needed to rebuild. From a moral standpoint, the international community owes Haiti a fresh start given the legacy of underdevelopment the country has suffered due in part to the burden of odious and illegitimate debts.

In the months and years ahead, it will be critical to help Haiti rebuild and to ensure that the country does not fall back into a cycle of unsustainable debt. In addition to the call for debt cancellation, the Jubilee USA Network is calling for grant – not loan – support for Haiti in the wake of this disaster, as well as for the development of new international frameworks for orderly sovereign debt-workouts and responsible lending and borrowing to address similar future crises.

**Historical Context**

**A Legacy of Odious and Illegitimate Debt**

The origins of Haiti’s debt date back to 1804, when the country won independence from France and abolished slavery. France threatened to reinvoke and re-establish slavery, unless Haiti compensated it for the loss of the “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 (equivalent, with interest, to $21 billion today), 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. The debt was a primary barrier to Haiti’s development. For almost a century, successive Haitian governments dutifully paid its debt service, being all too willing to pass the bill onto Haiti’s poorest citizens. As late as 1908, 51% of revenues of coffee went to service the exterior debt, while 47% went to service the internal debt, leaving 2 percent available for all other expenses.\(^3\) In 1915, when U.S. marines came to occupy Haiti, 80% of custom house revenues were being used to pay off this debt.\(^4\) During this formative period in Haiti’s history, the state lacked resources to develop the educational system, infrastructure, agricultural technology, environmental protection, or invest in healthcare. The world’s first black republic descended into a spiral of debt and underdevelopment from which it has never recovered. Haiti serviced this odious debt to France for well over 100 years.

The country became further indebted during the brutal reign of the father/son dictatorship of Francois “Papa Doc” and Jean-Claude “Baby Doc” Duvalier from 1957 to 1986. For nearly thirty years they spent foreign assistance on fur coats and brutal death


squad like the Tontons Macoutes. As just one example, in 1980 the IMF made a $22 million loan to Jean Claude Duvalier. Within weeks, $20 million of the total $22 million was removed from the government’s account – the IMF recognized that $4 million of this amount went directly to the Tontons Macoutes, while the remaining $16 million disappeared into Duvalier’s personal accounts. These thefts were widely reported, yet donor countries and international financial institutions continued to make loans to the Duvaliers during that period. Despite calls from global civil society repudiating these odious debts, the Haitian people continued to have to service those debts long after the dictatorship was over. Until last year, Haiti was forced to pay between $60 million and $80 million per year in debt service, with no distinction made to the 40% of its external debt that was incurred by the Duvaliers.

Haiti’s Pre-Earthquake Development Challenges

The billions in debt service Haiti has paid to its creditors has come at the expense of investments in health care, education, and infrastructure, among other essential investments to ensure development and poverty reduction. The results have been staggering. Even before the earthquake, more than 70% of the population lived on less than $2 per day. Life expectancy remains low at 61 years and HIV/AIDS rates are the highest in the hemisphere. There are only 3 doctors per 10,000 people in Haiti. One in 12 children die before reaching her fifth birthday. The maternal mortality rate is the highest in the hemisphere at 670 per 100,000 births. Only 35 percent of Haitian children are able to finish elementary school.

In addition to its unfortunate legacy of indebtedness and political turmoil, Haiti suffered recent exogenous shocks that further devastated the economy. In 2008, Haiti suffered four devastating tropical storms, bringing floods that killed more than 800 people and caused nearly $1 billion of damage. The global spike in prices for fuel and food in 2008, and then the global economic crisis in 2009 hit Haiti and other impoverished countries hard. Without the means to purchase basic staples such as rice, flour, and corn that doubled in price, many Haitians driven by extreme hunger resorted to eating

6 Ibid.
mud pies. Due to the fuel crisis, public transportation became overcrowded because there simply was not sufficient fuel to power enough vehicles. In one instance, fifteen people were killed when an overloaded ferry capsized, and the closest rescue boat lacked the gas to respond.

Past conditions imposed on Haiti by the World Bank and IMF had adverse impacts on poverty reduction in the country, including the imposition of user fees on health care and education services, at a time when only 35 percent of Haitian children finished primary school. Prescriptions to drastically reduce tariffs on rice devastated Haiti’s domestic rice farmers, who had been previously self-sufficient.

Debt Relief: An Effective Tool to Fight Poverty

As it became clear that many the world’s poorest nations, like Haiti, had become so indebted that they simply could not afford to pay their debts without exacerbating poverty, the global Jubilee debt cancellation movement, of which Jubilee USA is a part, began to advocate in the 1990s for debt cancellation for impoverished countries. The international financial institutions responded by creating the Highly Indebted Poor Countries (HIPC) Initiative in 1996. G8 governments made high level commitments in support of debt relief through the HIPC Initiative in 1999 and then again through the Multilateral Debt Relief Initiative (MDRI) in 2005.

Since the creation of the IMF/World Bank HIPC initiative in 1996, more than 35 nations have now received some form of debt relief, totaling more than $100 billion. 28 nations have received 100 percent cancellation of eligible debt stock. Debt relief has delivered striking results in the fight against poverty. Total poverty-reducing expenditures in countries that received debt relief increased from $6.4 billion in 2001 to an estimated $28.8 billion in 2009, or from six percent to nine percent of GDP on average. For every dollar received in debt relief, African governments have increased social spending by two dollars.

Haiti’s Debt Relief Process

Despite being the most impoverished country in the western Hemisphere, Haiti was initially excluded from the HIPC Initiative and MDRI due to a technicality related to its

21 List of HIPC Countries on World Bank website.
22 IDA and IMF, September 15, 2009.
debt to export ratio.\textsuperscript{24} At the time Jubilee USA and other civil society organizations argued that Haiti’s exclusion was inappropriate given Haiti’s level of poverty. The World Bank and IMF finally made Haiti eligible for the HIPC Initiative in 2006. But the delay meant that Haiti waited for debt relief longer than other poor countries in the region such as Nicaragua, Honduras, and Bolivia.

Once a country is eligible for the HIPC Initiative, the country must demonstrate a track record of macroeconomic stability, prepare an Interim Poverty Reduction Strategy Paper (PRSP), and clear any outstanding arrears, in order to reach what is called the “decision point”. Decision point countries receive a limited amount of debt relief while they work toward “completion point”. Countries then must maintain macroeconomic stability, as proscribed through an IMF Extended Credit Facility (formally the Poverty Reduction Growth Facility) program, carry out key structural and social reforms as agreed upon at the decision point, and implement a PRSP satisfactorily for one year, in order to reach the HIPC “completion point,” and receive 100% cancellation of eligible debt stock.

Jubilee USA and our partners advocated strongly for Haiti to reach “completion point” under the HIPC Initiative, which was delayed several times, due to the numerous and onerous conditions placed on the debt relief by the World Bank and IMF.

Conditions required for debt relief included selling off of government-owned businesses such as the power, water, and phone services, as well as the airport administration.\textsuperscript{25} The privatization of such services meant a major loss of revenue-generating activities for the government, an influx in foreign-owned companies, and accelerated capital flight. As recent as Haiti’s current Extended Credit Facility loan with the IMF that spanned the period of exogenous shocks of 2008 and 2009, requirements included raising prices for electricity, freezing public sector wages except for minimum wage employees, and keeping inflation as low as possible.\textsuperscript{26} In addition to the delay in receiving relief, the required focus on macroeconomic stability under the IMF’s program may have had a negative impact on Haiti’s economic growth and employment, the two macroeconomic indicators that most contribute to poverty reduction.\textsuperscript{27}

To assist Haiti in achieving needed debt relief, Members of Congress began advocating for quick progression towards “completion point”. On February 28, 2008, 54 members of Congress signed a letter to then-Treasury Secretary Paulson urging that debt cancellation for Haiti be expedited. On April 16, 2008, the Jubilee Act (HR 2634), which included an amendment in support of full debt cancellation for Haiti, passed on the floor of the House with a strong bipartisan majority. When Haiti’s progress through HIPC was further delayed due to natural disasters, economic shocks, political developments, and

\textsuperscript{26} Analysis of IMF loan documents by ActionAid staff, January 2010.
a number of conditions from the IMF, on February 29, 2009, 72 members of Congress sent a letter to World Bank President Robert Zoellick, calling for immediate cancellation of debt owed to the Bank.

In April 2009, Secretary of State Clinton announced that the US would pay Haiti’s debt service payments to the World Bank and the Inter-American Development Bank, up to $20 million, an important step to finally relieve Haiti of the burden of its debts.

Finally, on June 30, 2009, the World Bank and IMF announced that Haiti had reached “completion point,” and cancelled 100% of the debt to those institutions, incurred before the cutoff date of 2003.28 As is customary when countries reach completion point, the Paris Club creditor countries and other international financial institutions, including the IDB, agreed to cancel their debts to Haiti as well. This amounted to $1.2 billion in debt cancellation. The international advocacy community celebrated this important step – which reduced Haiti’s debt service from upwards of $50 million to $20 million per year (of which a large portion would be covered by the U.S. debt service plan).

**Haiti’s Current Debt Burden**

So if Haiti’s debts were cancelled in June 2009, wasn’t that the end of the story? Unfortunately not.

Haiti has taken out loans since the end of 2003, the cutoff date for debt relief through HIPC and MDRI. Therefore, despite the debt relief provided as of last June, when the earthquake hit, Haiti still owed $1.05 billion to external creditors:

$709 million were in debts to the following multilateral financial institutions:

- $447 million to the Inter-American Development Bank (IDB)
- $165 million to the IMF,
- $39 million to the World Bank, and
- $58 million to the International Fund for Agricultural Development (IFAD)29.

In addition, Haiti owed $295 million to Venezuela30 and $92 million to Taiwan.31

Since Paris Club creditors, including the United States, had not provided loans to Haiti after 2004, Haiti did not hold any outstanding debt to Paris Club members.


29 Information on Haiti’s multilateral debt provided by U.S. Treasury officials in January 2010.


Debt Incurred After the Earthquake

In the days following the earthquake, the IMF announced it intended to provide Haiti with a $100 million in emergency assistance through its Extended Credit Facility – basically an extension of its previous $165 million loan.

Jubilee USA and many allied organizations reacted with deep concern at this near doubling of Haiti’s debt to the IMF, urging the institution not to add to Haiti’s debt burden and not to apply the conditions normally placed on IMF loans. In an interview on January 20, IMF Managing Director Dominique Strauss-Kahn asserted that the IMF’s intent was to turn the new loan into a grant and cancel the rest of Haiti’s debt to the institution.\(^{32}\) Nevertheless, on January 27 the IMF board approved the $102 million loan, without mention of debt cancellation.\(^{33}\)

Mounting Pressure for Debt Relief

Following the earthquake, Jubilee USA and partners swiftly issued a call for full debt cancellation. On January 26, more than 80 U.S. faith, labor, and human rights organizations – representing more than 30 million Americans – sent a letter to Treasury Secretary Timothy Geithner urging him to support full debt cancellation for Haiti and to make grants, rather than loans, when providing relief and assistance. Ninety-four members of Congress, led by Representatives Maxine Waters (D-CA) and Ileana Ros-Lehtinen (R-FL) sent a similar letter to Secretary Geithner prior to a meeting of the Group of Seven Finance Ministers in Canada. Bipartisan bills calling for debt cancellation for Haiti were introduced in both houses of Congress—S 2961 introduced on January 28 by Senators Dodd and Lugar and HR 4573 introduced on February 2 by Representatives Waters, Ros-Lehtinen and 28 others.

More than 400,000 petitions, organized by ONE, Avaaz, Jubilee USA and Oxfam were delivered to the G7 Finance Ministers meeting in Iqaluit, Canada on February 6.

These successful advocacy efforts by civil society as well as by Congress led officials within the international financial institutions as well as shareholder governments to respond. In addition to IMF Managing Director’s comments in support of debt relief on January 20,\(^{34}\) the World Bank announced a debt service moratorium for five years and said it would consider debt cancellation.\(^{35}\) After IDB President Roberto Moreno’s visit to Haiti on January 18, the IDB stated that its Board of Governors may consider debt cancellation.


Because these institutions cannot provide debt cancellation without the support of their Boards, having the support of the United States government as well as other large shareholder member governments is critical.

Secretary Geithner’s February 5 announcement in support of debt relief for Haiti, where he plainly stated "Today, we are voicing our support for what Haiti needs and deserves—comprehensive multilateral debt relief," helped pave the way for a commitment by the G7 Finance Ministers gathered in Canada on February 6 to support full debt cancellation for Haiti. This high level commitment from these major shareholders of the multilateral institutions was indeed a victory for the Haitian people.

**The Path Ahead: Policy Recommendations**

Jubilee USA and our partners around the globe celebrated the G7’s announcement as a critical step in achieving full debt cancellation and assisting in the country’s long-term recovery. As the devastation in Haiti begins to fade from the public spotlight, we will need to watch closely how this commitment is implemented.

1. **Move quickly to negotiate debt cancellation**

As the reality on the ground in Haiti will remain critical for months and even years to come, it is extremely important that we ensure that all the international financial institutions (IMF, World Bank, IDB and IFAD) move quickly to cancel Haiti’s debt. The U.S. government holds 16.4 percent of voting shares at the World Bank’s International Bank for Reconstruction and Development, 11.3 percent at the World Bank’s International Development Association, 16.8 percent at the IMF, and 30 percent at the IDB. Therefore, the U.S. representatives to these institutions must aggressively pursue Secretary Geithner’s February 5 commitment, building support with other shareholders to ensure full debt cancellation without onerous conditions.

The IDB’s Board of Governors will have the opportunity to negotiate debt cancellation for Haiti at their Annual Meeting of the Board of Governors to be held in Cancun, Mexico, March 19-23. The IMF and World Bank debt cancellation should be negotiated by the time of the upcoming joint spring meetings of the World Bank and IMF to be held in Washington April 24-25.

Because debt relief will provide just one piece of the necessary assistance to the country, this debt relief must be in addition to other grant assistance for Haiti provided by donor countries and institutions. Therefore, where possible, institutions should use internal resources to cover the very modest reduction in their income from Haiti’s debt relief. As Senators Dodd and Lugar suggest in their Haiti Recovery Act (S 2961), the windfall profits that the IMF has received from the ongoing sale of 12,965,649 ounces of gold acquired since the second Amendment of the Fund’s Article of Agreement could be

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allocated to debt stock and debt service relief for Haiti.\textsuperscript{38} The U.S. Treasury should work with its colleagues in the World Bank and IMF to pursue this suggestion on gold sales as well as other avenues to redirect internal resources toward debt relief for Haiti and other poor countries.

2. Provide Haiti Support as Grants, Not Loans

Another necessary, critical piece for Haiti’s recovery will be that additional assistance be in the form of grants, rather than loans. The Haitian people have historically carried debilitating debt burdens incurred through no fault of their own. In addition to the debts incurred during periods of dictatorship, Haiti’s debt problem was compounded by the multiple natural disasters and food and fuel crises that wracked the country in recent years. The United Nations Conference on Trade and Development (UNCTAD) has found that natural disasters add on average 24 percentage points to the debt-to-GDP ratio for low-income countries in the three years following the event. UNCTAD concluded that “shocks on such a scale can lead to a vicious cycle of economic distress, more external borrowing, burdensome debt servicing, and insufficient investment to mitigate future shocks.”\textsuperscript{39}

Given the immense challenges facing Haiti before the earthquake, the international community should provide Haiti with a fresh start by ensuring that all aid is provided as non-debt-creating assistance. Secretary Geithner expressed support for this in his February 5 statement, and therefore the U.S. should play a leadership role in ensuring that the $102 million IMF loan approved on January 27 is cancelled and that during the Haiti donor’s conference on March 31, any commitments of assistance should be made solely as grants until Haiti is strongly on a path to responsible borrowing.

3. Broader solutions

While the HIPC Initiative and MDRI have provided 28 countries - including Haiti - with needed debt relief, Haiti’s debt situation points to the limitations of current mechanisms to deal with sovereign debt crises. Some of these limitations include: the often lengthy delays in providing relief due to the onerous conditions that accompany these initiatives; the voluntary nature of the relief; and the inability to respond to debt challenges that arise from external shocks such as Haiti’s recent earthquake. Thus, in the wake of the earthquake, debt relief, and how it will be financed, must be negotiated separately, on an ad hoc basis, through each creditor institution or government. This can be both inefficient and inequitable. Furthermore, it does not address broader questions of responsible lending and borrowing to avoid this type of crisis in the future.

a. A New Mechanism to Respond to Shocks

In a brief released after the earthquake, UNCTAD suggested that the international community should consider developing a mechanism that would reduce the debt burden

\textsuperscript{39} UNCTAD. “Haiti’s recovery should start with cancelling its debt,” UNCTAD Policy Briefs, No. 11, January 2010.
of disaster-stricken countries. They suggest that an integrated approach could include the following: a multilateral global disaster fund that would provide predictable financing without the heavy policy conditionalities often attached to multilateral loans; an automatic mechanism to extend a moratorium on debt servicing with a meeting of all creditors to coordinate the process in a single operation; and built-in natural disaster insurance clauses in loan agreements by international financial institutions.40

The Center for Global Development has recommended a similar contingency facility of limited duration, based at an appropriate international institution, to provide financing to reduce debt burdens in the case of exogenous shocks to the economies of low income countries beyond their control. This would include natural disasters and sharp spikes in commodity prices.41 We believe that, moving forward, all of these ideas are interesting and should be investigated and considered by the U.S. government.

b. Towards Fair and Transparent Arbitration

More broadly, given that Haiti continued to face high debt distress even after HIPC debt relief, there clearly needs to be another way for fair and transparent arbitration of sovereign debt restructuring outside of the HIPC framework. Both sovereign debtors and their creditors would benefit from means and procedures to which a country could resort if balance of payments issues arise. Similar to a bankruptcy proceeding in the national context, a sovereign debt workout mechanism at the international level is needed to allow both creditors and debtors the opportunity to seek an orderly workout to avoid chaotic defaults. Civil society organizations and legal experts have long called for the establishment of an international insolvency procedure along the lines of ad-hoc arbitration mechanisms or in the form of a standing insolvency court under the administration of a specialized UN body. This call was strongly echoed in the findings of the UN commission chaired by Nobel Laureate Joe Stiglitz 42 and enjoys the support of developing and developed country governments.

c. Toward Responsible Lending and Borrowing

As previously discussed, the legacy of odious, illegitimate and unsustainable debts has forced the Haitian people to divert resources away from health care, education and infrastructure, contributing to the country’s underdevelopment and vulnerability to natural disasters. While debt relief is important, equally critical are needed structural reforms to change the practices of lending and borrowing globally to ensure these practices are not repeated.

40 UNCTAD. “Haiti’s recovery should start with cancelling its debt,” UNCTAD Policy Briefs, No. 11, January 2010.


As the United States and other world leaders undertake efforts to re-regulate global finance in the wake of the global economic crisis, a global framework for responsible lending and borrowing for sovereign countries should be a key element of that reform. Such a framework should include mutually agreed upon and binding terms for responsible finance, including enhanced transparency, attention to human rights, and consumer protection.

The U.S. government could begin by playing a constructive role in a new initiative on responsible lending and borrowing recently launched by the United Nations Conference on Trade and Development (UNCTAD). UNCTAD’s major three-year project will develop a set of guidelines on responsible lending and borrowing covering new lending/borrowing as well as evaluation of existing debt. They have put together a commission of experts from the legal field, academia, governments, and NGOs to draft the guidelines and have established an “advisory group” of governments who will ultimately negotiate and approve a set of guidelines for responsible lending and borrowing.

Conclusion

There is no question that the road ahead for Haiti will be an extremely difficult one and that our Haitian sisters and brothers will need the solidarity of the international community as they struggle to recover and rebuild. Immediate and full debt cancellation, as well as massive new grant assistance, are critical pieces of that solidarity. The 75 member organizations of the Jubilee USA Network have been very gratified by the positive response so far from the U.S. government and G7 leaders with respect to debt cancellation for Haiti. We look forward to working with members of Congress and officials within the administration to ensure satisfactory implementation of these promises, as well as to address broader issues related to ensuring that Haiti and other impoverished countries can break the cycle of unsustainable indebtedness.

In addition to supporting debt cancellation for Haiti through HR 4793, we urge Congress to move toward quick passage of The Jubilee Act for Responsible Lending and Expanded Debt Cancellation (HR 4405), which begins to address the broader issues previously mentioned. We must avoid the mistakes of the past and ensure a brighter future for Haiti and other impoverished countries.

Thank you for your kind attention.

43 UNCTAD. “UNCTAD to launch project on responsible sovereign lending and borrowing,” from UNCTAD website.