



## Haiti and the Need for Debt Cancellation

*"Today, we are voicing our support for what Haiti needs and deserves - comprehensive multilateral debt relief."*

*- US Treasury Secretary Geithner, February 5, 2010*

On January 12, 2010, a devastating 7.0 earthquake hit the Haitian capital of Port-au-Prince. More than 200,000 died and 1 million were left homeless. As part of a massive global relief and recovery effort, global civil society groups and leaders in the U.S. Congress called for Haiti's debts to be canceled. In response on February 6, 2010, the Group of Seven (G7) finance ministers echoed Secretary Geithner's message and agreed to use their leadership in negotiating the cancellation of Haiti's debts to international financial institutions.

Haiti's legacy of immense and illegitimate debt burdens, and of their negative impact on the country's development, is not unique among impoverished countries around the world. Debt cancellation is critical for Haiti, as well as for many other countries caught in a trap of indebtedness and impoverishment. The Jubilee Act for Responsible Lending and Expanded Debt Cancellation (HR 4405) addresses this critical need.

### **Haiti's Debts: Diverting Resources From Development**

Haiti's impoverishment is caused by a multitude of factors, yet has been exacerbated by its legacy of indebtedness to international institutions and other creditors, dating back to its independence from France in the 1800s. Until mid-2009, when a portion of its debt was cancelled under the Heavily Indebted Poor Countries Initiative, the Haitian government was paying between \$50 million and \$80 million in debt service every year, sending much of their revenue to external creditors. In 2006, Haiti's external debt was the equivalent of 24% of their annual GDP, while their annual health budget was three times smaller at 8% of the GDP. This disproportionate figure is indicative of how impoverished countries must direct their few resources to pay back external creditors at the expense of the well being of their own people.

As Haiti works to recover from the earthquake, the evidence of underinvestment in basic infrastructure becomes even clearer. Lack of paved roads, overcrowding from makeshift houses, and no sanitation system has made the earthquake even more deadly. In addition, because of onerous debt payments and restrictive loan conditions, the country has never fully invested in building hospitals, purchasing medical equipment, or training doctors and nurses. This is a story seen around the world.

While supporting Haiti in its long road to recovery, the international community must also find ways to prevent similar disasters in other countries. Haiti is the poorest country in the Western Hemisphere, but a country like Lesotho ranks even lower on the UN Development Index. The impact of a natural disaster of similar proportions to the Haitian earthquake in Lesotho would be just as devastating or worse, yet is not eligible for debt cancellation under the current program.

### **Debt Cancellation: A Need for all Impoverished Countries**

The Jubilee Act (HR4405) would help more impoverished countries use their resources to invest in education, health care, and infrastructure through expanded debt cancellation. Instead of

paying back loans to international financial institutions and donor countries, the Jubilee Act (HR4405) frees up country resources so that are able to spend money on their people's basic needs. The legislation would expand debt cancellation eligibility to 22 additional very poor countries, which were left out of past debt relief initiatives, while working to improve the reality that that creates a need for debt cancellation in the first place.

### **The Need for a System of Responsible Lending and Borrowing**

Haiti received \$1.2 billion of its debt cancelled through the Highly Indebted Poor Countries (HIPC) initiative in June, 2009 after taking four years to complete the program. As Haiti's people suffered, the country struggled to first qualify for HIPC, and later apply the program's economic conditions. In the end, the \$1.2 billion only covered debts accrued before 2004, leaving Haiti saddled with a remaining \$1 billion in debt and more than \$100 million in debt service over the next five years. In the wake of the earthquake, the international community rightly recognized that Haiti could not be expected to pay these debts with the immense recovery challenges facing the country. However, there is currently no international framework to deal with problems of debt distress. Haiti's case illustrates that, while the present debt relief initiatives are a step in addressing the problem, they remain voluntary and incomprehensive

Haiti and other countries-at-risk need a solution to this incomplete and cumbersome method of debt cancellation that places them right back in the cycle of indebtedness. At the urging of the Jubilee Act, the U.S. government will play a role in developing an international framework that provides an orderly and permanent solution to poor country debt, by positively engaging with initiatives to create internationally accepted norms that guide the behavior of both lenders and borrowers so as to prevent further problems with odious and irresponsible debts. Furthermore, HR4405 acknowledges the need for a more permanent mechanism for dealing with debt work-outs; instead of confronting unsustainable debts, defaults, and questionable loans in a half-hazard manner, the Act urges the establishment of a more permanent mechanism such as a UN arbitration court for sovereign debt.

### **Debt Audits: Investigating Odious and Onerous Debts**

In addition to safeguarding the future from indebtedness for poor countries, the Jubilee Act recognizes that many past debts are odious and illegitimate because of irresponsibility on the sides of both lenders and borrowers. As seen in Haiti with the notorious dictatorships of Papa Doc and Baby Doc Duvalier, loans were borrowed without the consent or knowledge of the people, and then used for personal enrichment and suppressing the population. Through the Jubilee Act, the US would set an important precedent in recognizing these past injustices by undertaking debt audits of "questionable loans."

As the international community works to assist in Haiti's recovery and reconstruction, it must also act to help other countries break away from the cycles of debt and poverty by continuing to support debt cancellation and a strengthening of responsible finance. Supporting the Jubilee Act is a concrete step to make this reality possible.