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HAITI DEBT RELIEF

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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HAITI DEBT RELIEF

Thursday, March 4, 2010

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Gregory W. Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Waters, Watt, Carson; and Miller of California.

Ex officio present: Representative Bachus.

Also present: Representative Green.

Chairman MEEKS. This hearing of the Subcommittee on International Monetary Policy and Trade will come to order. Without objection, all members will have 10 minutes for opening statements, which will be made a part of the record. And then we will get to our witnesses.

I will start with an opening statement. And I would like to begin by thanking, of course, the ranking member on the full committee, Mr. Spencer Bachus, and my colleagues and the ranking member on this subcommittee, Mr. Miller, for their help in organizing this very important hearing on Haiti Debt Relief.

I also, of course, want to thank all our witnesses who have taken the time to come and share their valued experience on the topic of debt relief for Haiti.

A few notes on procedures before we begin. We are going to have a tight schedule today, with two panels to testify this morning, and a mark-up of H.R. 4573 scheduled to start at 1:00 p.m. this afternoon. And so, therefore, we are going to try to move as quickly as we can. And I am told we're going to have some votes somewhere around 10:30.

Today, we will consider an issue that is close to all of our hearts. Haiti suffered a devastating earthquake on January 12th of this year, a country which was finally making strides to more stable economic growth, and whose government was finally showing signs of becoming more stable, credible, and accountable was rocked by a natural disaster of historic proportions.

The images from the disaster are fresh in our minds. The immediate needs of the people are clear. And the desire of the global community and of average American citizens to help Haiti recover as fast as possible are clear, and give us all hope.

This is a bipartisan issue, because it is a human issue at its simplest. And all of us have come together, as human beings, to deal with this issue. This is not about Democrats or Republicans, or about whether or not we are in an election year. This is about America showing its true compassion and capacity to help our neighbors in their time of greatest need.

Average American citizens mobilized to help Haiti in a way that gives me great pride in my country. Our government stepped up to the challenge in the immediate aftermath. We are now moving to the second and third phase of the process, namely moving from immediate rescue and survival concerns, though they are still critical, to a reconstruction and, ultimately, long-term economic recovery.

A critical step to this transition will be providing Haiti with debt relief, and working with the multilateral development banks and the IMF to ensure that Haiti will be provided the resources it needs in the medium- and longer-term, without adding to the nation's debt burden.

I look forward to hearing our witnesses here today, and I look forward to working with my good friend, Gary Miller—Ranking Member Gary Miller, from California—on moving a bill to empower the Administration to promote Haiti's debt relief from the international institutions in which we are major shareholders, as well as pushing for bilateral debt relief from other nations holding Haiti's debts today.

Finally, I did want to inform you that this will be just the first in a series of hearings focused on Haiti. As some of you know, I chaired a bipartisan, members-only briefing on multilateral aid and financing coordination in February, at which the Treasury Department, the IDB, the World Bank, and the IMF provided clarity into how they planned to collaborate to ensure efficiency, and to eliminate waste and duplication of efforts in their work in Haiti.

The next hearing is scheduled for March the 16th, and we will focus on the longer-term prospects of strategy for Haiti's economic recovery. Long after the news cameras have left, we will continue to monitor the progress in Haiti, and to provide assistance to ensure that the nation can get back on its feet, back on a path to economic growth and political stability.

We believe that this is our moral obligation to do, to help one of the poorest nations, economically, get on its feet by some of the most resilient people that you will ever see. Because if you just go to Haiti, they are a resilient and rich people in that spirit. And we need to stand by them and by their side through this critical period of time.

With that, I will yield to Mr. Bachus for an opening statement.

Mr. BACHUS. Thank you, Chairman Meeks. And I thank you for calling this important hearing, to focus on debt relief for Haiti in the aftermath of the devastating earthquake of January the 12th, and to consider legislation authored by Representative Waters to effectuate that relief. And I commend you and Ranking Member Miller for your strong participation in this effort.

Creditors cannot expect Haiti to service its debt at a time when the country is lying in ruins. As former Under Secretary Adams, one of our witnesses today, says, "It is a cruel hoax on both the people of developing countries and on the taxpayers of donor coun-

tries to pretend that even without an earthquake, a country whose citizens subsist on a dollar or two a day is ever going to pay back billions of dollars in loans."

The United States has always been a benevolent and caring country. Even during our current economic challenges, we have not lost our compassion. In fact, our present travails have, in some respects, engendered us with an appreciation for the desperation and suffering of those facing challenges and hardships in other parts of the world. Of course, to compare what we face here with the struggle to just exist in these countries is really a pale comparison.

Consistent with our principles is forgiving the debt Haiti owes to multilateral agencies, in which the United States, in most cases, is the largest single donor. We can lead by example while we lend a helping hand. And when we do so, we will be doing so consistent with our principles and values as a country.

I support this legislation, and I yield back the balance of my time. And I would also—I think it's my understanding that we are going to move this legislation to the Floor early next week, and hopefully get it over to the Senate without delay.

Chairman MEEKS. As I said, we thank you for the bipartisanship of this.

Mr. BACHUS. Thank you.

Chairman MEEKS. And the timeliness in which we were able to get this done.

I would now like to yield to the gentlelady from California, who is the author of this bill, Maxine Waters.

Ms. WATERS. I would like to thank you, Mr. Chairman, for organizing this hearing on Haiti debt relief, and for agreeing to mark up my legislation on this subject.

I also appreciate the support of several members of the Financial Services Committee for this bill, including Chairman Barney Frank, of course, Chairman Gregory Meeks, and Ranking Member Spencer Bachus.

Haiti was struck by a devastating earthquake on January 12, 2010. According to the U.S. Agency for International Development, 230,000 people were killed, and 1.3 million people were displaced from their homes. There is a desperate need for clean water, food, shelter, and basic sanitation. Three million people, one-third of the country's population, were affected by the quake.

Prior to the earthquake, Haiti was already the poorest country in the Western Hemisphere. I have traveled to Haiti many times, and I have seen the poverty and desperation of the Haitian people with my own eyes. According to the Central Intelligence Agency's World Fact Book, there is widespread unemployment and underemployment, and more than two-thirds of Haitian workers do not have formal jobs. There is a high risk of infectious diseases, including diarrhea, hepatitis, typhoid fever, and malaria. The infant mortality rate is nearly 6 percent. Almost half of the adult population cannot read and write.

One of the simplest but most important things we can do to help Haiti is cancel its debts.

Haiti's democratic government has worked very hard in recent years to qualify for debt relief. In order to qualify, the Government of Haiti successfully developed and implemented a comprehensive

poverty reduction strategy paper under the direction of the IMF and the World Bank. As a result, multilateral financial institutions provided Haiti 1.2 billion in debt relief last June. This was a critical step forward for Haiti.

Nevertheless, despite previous debt relief, Haiti still has a significant debt burden that will interfere with relief, recovery, and development efforts, unless the remaining debts are canceled. According to the most recent figures provided to my office by the U.S. Treasury Department, Haiti still owes $828 million to multilateral development institutions. This includes $47 million to the Inter-American Development Bank—that is, IDB—$284 million to the IMF, and $39 million to the World Bank Group's International Development Association, IDA, and $58 million to the International Fund for Agricultural Development.

I introduced H.R. 4573, Haiti Debt Relief and Earthquake Recovery Act of 2010, to free Haiti from the burden of these debts. H.R. 4573 requires U.S. executive directors at multilateral development institutions to use the voice, vote, and influence of the United States to do three things: one, cancel immediately and completely all debts owed by Haiti to these institutions; two, suspend Haiti's debt service payments until such time as the debts are canceled; and three, provide additional assistance to Haiti in the form of grants, so that Haiti does not accumulate additional debts.

The bill also requires the Secretary of the Treasury to urge other bilateral, multilateral, and private creditors to cancel the debts that Haiti owes them.

Chairman Meeks is planning to offer a manager's amendment to this bill. The chairman worked with full committee Chairman Frank and myself on drafting this amendment. The manager's amendment adds a provision directing the U.S. executive director of the IMF to advocate that some of the excess profits from the sale of IMF gold, which Congress approved last year, be used to provide debt relief and grants to Haiti. The amendment also adds updated statistics on Haiti's debts to the bill's findings, and makes other technical changes. I support the manager's amendment, and I appreciate the efforts of Mr. Meeks, Chairman Frank, and others.

Debt cancellation will allow the Government of Haiti to focus its meager resources on essential humanitarian relief, reconstruction, and development. The people of Haiti are poor, but they are resilient. I know that with the support of the international community, they will recover from this tragedy and create a brighter future for their children.

I urge my colleagues to support the debt relief for earthquake recovery in Haiti, this act of 2010.

Once again, I thank the chairman for holding this hearing and mark-up. I look forward to hearing the witnesses' views on the benefits of debt relief for the people of Haiti. And I yield back the balance of my time.

Chairman MEEKS. I thank the gentlelady, and I now yield to the ranking member of the Subcommittee on International Monetary Policy and Trade, Mr. Miller, from California.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. In June 2009, Haiti completed the requirements of the enhanced Heavily Indebted Poor Countries, HIPC, initiative, which made it eligible

for debt relief from multilateral institutions, and for relief of some of its bilateral debt.

The enhanced HIPC initiative, coupled with the multilateral debt relief initiative, provided Haiti with $1.2 billion in debt relief. A particular note, the American Development Bank, Haiti's largest creditor, forgave $511 million in debt for Haiti. At the time of the cancellation, Haiti still owed the IDB approximately $429 million, because the lending occurred outside the agreed-upon debt relief period.

Also in the agreement, the United States canceled $12.6 million in Haiti debt relief, relieving Haiti of its entire outstanding bilateral debt to the United States.

Currently, Haiti still is burdened with approximately $1.24 billion in external debt. This is comprised of debt owed to both multilateral institutions and other bilateral creditors.

On the multilateral side, Haiti owes approximately $165 million to the International Monetary Fund, IMF; $441 million to the Inter-American Development Bank, IDB; $38 million to the World Bank's concession lending arm, the International Development Association, IDA; and $54 million to other multilateral creditors.

At present, the World Bank is suspending debt service for $38 million debt for 5 years. The IMF will require virtually no payment from Haiti until 2013. The IDB debt service obligation is, by prior agreement, paid by the U.S.-supported trust fund.

As the members of this panel know, on January 12, 2010, Haiti experienced a 7.0 magnitude earthquake centered approximately 15 miles southwest of the nation's capital, Port-au-Prince. What followed were 50 aftershocks of magnitude over 4.0, all occurring within 24 hours. The Haiti Government has estimated 230,000 deaths, and 300,000 injured. Approximately 700,000 people have been displaced in the Port-au-Prince area.

Damage caused by the quake is estimated between $8 billion and $14 billion, and speculation to reconstruct will be about $14 billion.

Following this hearing, the subcommittee will be voting on legislation to require the Secretary of Treasury to instruct the U.S. director of the IMF, the World Bank, and the Inter-American Development Bank, and other multilateral development institutions, to use a voice vote to seek the immediate and complete cancellation of the debt owed by Haiti in such institutions.

There is a serious situation we are trying to deal with, and we could all continue to read. But the issue is we have to help these people. They are good people. They have been devastated beyond what any of us can imagine. And I am really looking forward to hearing from our committee, what they have to say. I yield back the balance of my time.

Chairman MEEKS. I now ask for unanimous consent to allow Mr. Green from Texas to participate in today's hearings. He is a member of the full committee, but he is not on this subcommittee. So I ask unanimous consent.

There being no objection, Mr. Green is acknowledged for an opening statement.

Mr. GREEN. Thank you very much, Mr. Chairman. Mr. Chairman, I especially thank you for hosting this hearing. I thank Ranking Member Bachus, the ranking member of the full committee. I

thank Representative Waters, who has been a friend of Haiti, as has been the case with you, Mr. Chairman, for many years. She has been there for Haiti on many occasions, and continues to fight the good fight for Haiti.

I also thank Chairman Frank, and I especially thank also my friend, Ranking Member Miller, because he and I have worked on a bipartisan basis before, and we continue to do so. I look forward to this bill passing. I support the bill.

I came by this morning to make the moral argument that supersedes the monetary argument. The moral argument for passage of this legislation is one that, in my opinion, must be made for the record. And if the moral argument is to be made, we cannot escape some history that we have to understand.

We have to understand that Haiti was in human bondage—it's no secret; and that it won its independence in 1804. But when Haiti became the first African nation to win its independence, in a sense, in the Caribbean, when it did so, France threatened to reinvade, and would have reinvaded, but for Haiti's agreeing to pay 150 million francs, the equivalent of $21 billion today. And Haiti has been paying ever since. It has gone from human bondage to economic bondage.

And this economic bondage is what this really is about today, eliminating the economic bondage that Haiti has suffered from these many years.

Until last year, Haiti was forced to pay between $60 million and $80 million per year in debt service. At a time before the hurricane, when more than 75 percent of the population was living on less than $2 a day, when more than 50 percent of the population was living off of less than $1 per day, when 80 percent of the people were living in poverty, when the life expectancy of a typical Haitian was 52 years, when there was something called a "hunger season" that lasts from October through February, at a time when this country could barely afford to feed itself, it had to pay this debt service.

It is time to liberate Haiti from economic bondage. And it is also time for us to understand that if we return Haiti to the status that it was in prior to the devastation from the earthquake, it would be sinful. It is time for us to strategize and compromise and work together, so that Haiti can have the future it richly deserves in this hemisphere.

And, Mr. Chairman, I am so grateful that you allowed me to say this. I appreciate very you much, and I commend you very much for what you have done, as well as Representative Waters. And I yield back any time that I have left. God bless you.

Chairman MEEKS. Thank you, Mr. Green. We will now go to our first witness, Ms. Nancy Lee, who is Treasury's Deputy Assistant Secretary for the Western Hemisphere, responsible for managing Treasury's engagement on economic and financial issues with Latin America, the Caribbean, and Canada.

In 2008, she spent a year on sabbatical, as a visiting fellow at the Center for Global Development in Washington, focusing on the future of regional integration in the Western Hemisphere. She was Treasury's Deputy Assistant Secretary for Europe, Eurasia, and the Western Hemisphere from 2002 to 2007.

Previously at Treasury, she was the Director of the Office of Central and Eastern Europe, Director of the Office of Mideast and Central Asia, and Deputy Director of the Office of Asia and Near East Nations. Also at Treasury, she has served in the Office of International Monetary Policy, working on G7 issues and U.S. policy in the IMF, and in the Office of International Trade Policy. She was Treasury's negotiator in the Uruguay Round trade negotiations, and in the early part of the NAFTA negotiations.

Prior to her work at Treasury, she conducted the economic research on U.S. trade and investment relations with developing countries at the Commerce Department. And in 2002, Dr. Lee became a member of the Council on Foreign Relations. In 2001, Dr. Lee was a recipient of the Meritorious Executive Presidential Rank Award.

She holds a Ph.D. and an MA in economics from Tufts University, and a BA in economics from Wesleyan College, and she is married with two children.

Dr. Lee?

STATEMENT OF NANCY LEE, DEPUTY ASSISTANT SECRETARY FOR THE WESTERN HEMISPHERE, U.S. DEPARTMENT OF THE TREASURY

Ms. LEE. Chairman Meeks, Ranking Member Miller, members of the House Financial Services Subcommittee on International Monetary Policy and Trade, Congressman Bachus, thank you very much for inviting me here today to testify at this important hearing on Haiti.

I know the leadership role that you and others on this subcommittee have played on Haiti, both before the devastating earthquake and after, and it's a privilege for me to testify today.

I returned early this morning from Port-au-Prince, where I met with the senior economic team in Haiti's government, as well as a variety of people from the private sector. And I am pleased to share my findings.

On the ground, I saw the impact of the earthquake on Haiti's economy is going to be massive, is already massive and will be massive. It will vary, though, by region and by sector. It will take some time before we fully understand the magnitude and nature of the impact of the earthquake on Haiti's future.

Today, I will provide our best assessment of the economic and financial challenges ahead for Haiti, and Treasury's efforts to help Haiti address them.

For the financial sector, initial efforts were focused on the successful restart of the banking sector and the payment system, for which, I would add, the Central Bank deserves an enormous amount of credit. An important aspect of the financial system for Haiti is the transfer of remittances, which are playing a vital role in helping people in small businesses weather this enormously difficult period.

The U.S. role—and particularly our military helped—to get financial remittance providers access to the physical cash they needed to distribute remittances around the country. Going forward, a key challenge will be to create the conditions that enable the financial sector to better meet the needs of the Haitian economy.

Credit growth has lagged in Haiti for many years due to risk factors, risk aversion, institutional weaknesses, and a variety of shocks. Post-earthquake, as you can imagine, risk aversion has only increased. But we know that Haiti's businesses are struggling. They have lost inventories, they have lost facilities, and they are going to need access to credit.

On the fiscal side, the government faces a severe financing gap. The International Monetary Fund estimates that revenues may decline by as much as 40 percent while expenditures will surely rise. The IMF has also identified a potential balance of payments gap of upwards of $300 million, which, at the moment, is financed by approximately $100 million.

As you know, and as several have already stated, these pressures come on top of a still significant Haitian external debt burden. A considerable portion of Haiti's external debt was relieved when the country reached HIPC completion point, as was mentioned. At that point, the United States forgave 100 percent of Haiti's bilateral debt to the United States. However, as has also been mentioned, Haiti's multilateral debt stock stands now at $825 million, with $447 million owed to the Inter-American Development Bank alone.

So, let me turn now to the efforts Treasury has taken, with our U.S. Government colleagues, the Haitian Government, and our international partners, to address these challenges.

First, Treasury is focused on Haiti, to not just restart lending, but expand access to lending. The rate of credit growth will be a principal factor, as in any economy, in determining the rate of recovery of the private sector, and job creation. To deal with the very real uncertainties of this period, we are working with the multilateral development banks to develop risk-sharing tools to catalyze bank lending.

The view of the people I talk to inside the country is that a lot of Haitian companies are viable, they are resilient if they are afforded a breathing space to get through this very tough period. So this is an urgent and critical challenge.

We can also help Haiti extend a sound regulatory framework to a broader range of financial services, like microfinance and like insurance, to critical sectors, going forward. And these kinds of efforts yield disproportionate benefits, because the public resources expended leverage much greater amounts of private finance.

Second, to ease the balance of payments pressures, Treasury strongly supported the January augmentation of the IMF program by $100 million. We equally strongly support the commitment by the managing director of the IMF to develop a means of financing Haiti's remaining IMF obligations—that is, canceling that debt—using internal IMF resources. And we are working closely with the multilateral development banks to ensure that they strive to meet the substantial budget support needs generated by the collapse in revenues and the rising expenditures.

Third, Treasury has called on donors to cancel Haiti's remaining multilateral debt. As you know, ahead of the G7 ministerial in Canada earlier this month, Secretary Geithner announced that the United States is seeking commitments by donors to relieve Haiti's debt to the IDB, to IFAD, and to the World Bank, to IDA. In his statement, Secretary Geithner recognized Congress' leadership on

this issue, including the members of this subcommittee. Secretary Geithner was able to secure the commitment at that point of the G7 to cancel Haiti's debt.

Treasury has developed what we think is an innovative debt relief proposal that would relieve Haiti of its debt burden fully, without displacing or using up resources needed for Haiti's recovery. So, let me briefly describe the three key elements of this proposal.

First, transforming funds provided for debt relief into grant resources available now for Haiti. This would provide an immediate source of up-front financing for immediate needs.

Second, converting existing loans that haven't been disbursed into grants, so that this would guard against adding new debt to Haiti's debt stock, which is something that's reflected in the legislation that has been proposed.

And separately, we are pressing, in the context of ongoing negotiations in the IDB with respect to a capital increase, for a commitment by that institution to transfer a portion of its annual income to finance projects for Haiti. This would provide a secure flow of resources going far into the future for the next decade, because, as has been said, this is a long-term effort that has to continue after the television cameras go away.

To be sure, there will be a U.S. component to addressing the cost of debt relief in Haiti. And our hope is that we can build on the strong bipartisan support which has been mentioned, and we look forward to working very closely with you on this proposed approach on the days ahead.

Let me now just very briefly touch on Treasury's on-the-ground presence in Haiti. Following the tragedy, Treasury rapidly deployed staff to work with the Haitian Government to restore budgetary, tax, and financial functions. We now have a temporary senior representative, Treasury representative, in Port-au-Prince. And we sent two seasoned technical assistance advisors to help the Central Bank very shortly after the earthquake. Our ability to provide this kind of advice quickly in crises and in other situations is one of Treasury's strongest strengths. And I think the governments around the world very much value that assistance.

After the immediate post-earthquake efforts, our technical assistance team identified some medium-term priorities, in consultation with the government, and we aim to begin work on those as soon as possible.

Our senior Treasury representative has been on the ground since early February, working on an array of urgent issues. He is also representing the United States in what's called the post-disaster needs assessment, the PDNA, led by the World Bank, the IDB, the United Nations, and the European Commission. This is the assessment that is fundamental to understanding the multilateral assistance needed and the bilateral assistance needed for reconstruction and development. And the results of that assessment will then inform the high-level donor conference that will happen at the end of March in New York.

In conclusion, under President Obama's strong leadership, the United States mobilized our government to help Haiti weather the aftermath of the devastating earthquake. In close cooperation with the Haitian Government, its people, our international partners,

and the rest of our government, Treasury is resolved to play an active role in helping Haiti build an economy and a financial system that can finally meet the needs and aspirations of the Haitian people.

Thank you again for the opportunity to appear here today, and I would be happy to answer your questions.

[The prepared statement of Deputy Assistant Secretary Lee can be found on page 46 of the appendix.]

Chairman MEEKS. Thank you so very much for your testimony and for your dedication. And I know you're just coming back from Haiti and seeing what's on the ground.

Let me ask this question. In listening to your testimony, what I have always been concerned with is how quickly Haiti seems to incur debt with the IDB. Right after the first round, you see that their debt is up. Why is that? Can you explain this? And especially with us being a major shareholder in the IDB, how do we prevent this from happening in the future? How do we keep a limit there, so that their debt with the IDB doesn't continue to rise as fast as it seems it always does?

Ms. LEE. Along with debt cancellation, this is the other key question, because it's really—as you're pointing out, it's not just a question of paying the cost of canceling Haiti's previous debt, it would really, truly make no sense to start adding debt, as we move forward, in our desire to get assistance flowing for Haiti. So we really have to take a look at this in a kind of fundamentally different way, and we have to create the capacity to mobilize large amounts of grant resources.

And the direct answer to your question is the reason institutions lend is that there is always a shortage of grant finance. And in the IMF case, the IMF does not do grants, and it does highly concessional lending. So, in the IMF case in particular, there is a need to cancel the debt that has already occurred, including the $100 million that was just disbursed, and the IMF will go forward to do that, using its own resources.

In these other institutions, they were trying to be very active in the period over the last 5 years. They disbursed a lot of assistance, a lot more than they had in the earlier period, and it was lent on concessional terms, but nevertheless, lent.

So, at this point, we need to have a new approach. We need to clear the decks, with respect to their existing debt, and we need to find a way to convert future assistance in these institutions to grants, which is why we framed our proposal in a way that would take the resources we are using to cancel the debt, and then use those resources to capitalize a fund for Haiti that would be disbursed in grant form.

So, unlike the usual debt relief procedure in which you cancel the debt and just provide the institution, as a whole, with the resources to offset the impact of the debt relief, in this case we want to provide the resources to the institution, but create a fund for Haiti alone to use these resources as grants to go forward. And that's why we can transform the debt relief financing into grant financing for Haiti. And this is particularly the case in the IDB, which is, by far, Haiti's largest creditor.

Chairman MEEKS. They have the mechanism set up to do this? It seems as though all we have to try—as one of the largest shareholders—to work with them so that a mechanism can be put in place so we don't have this headache time and time again.

Ms. LEE. Yes. I mean there is a grant facility that can be used, and we want to convert it into a grant facility for Haiti alone. And the resources that would be disbursed out of that facility would only be grants. This is a new proposal. We have just formulated it. We are just beginning to talk to the institutions, to donors, to Haiti itself, and to you all, about the nature of this proposal.

So, it will—there will be some discussion on it, and a—

Chairman MEEKS. Let me ask this in the little time that I have left. The other area that I am always concerned with is whether or not—what we're doing in regards to capacity-building, whether it deals with the institutions or individuals, so that they can be working on the ground, whether it's the government. What do you see us doing, or Treasury doing, in regards to capacity-building for the long-term rebuilding of Haiti?

Ms. LEE. Well, I heard a lot about that, actually, in Haiti this past week from the government, itself. And that's an interesting aspect, going forward. I think there is a new—there are sort of two new focuses in Haiti that are worth noting.

One is that—you certainly hear this from the private sector, but the public sector says over and over again, "Unless we build the capacity to make our institutions work better, you can give us an unlimited amount of money, and it's not going to result in development in Haiti." So they take that as a fundamental challenge, going forward. And there is no denial on that point.

The other big issue is this question of decentralization, moving growth centers outside Port-au-Prince to make more diversified growth and more job creation.

On the question of capacity building, that will play a key role in the needs assessment that all these multilateral institutions are—going forward, which is encouraging, because it will be a focus not just of Treasury efforts to build capacity in the Central Bank and in the finance ministry, but of all multilateral donors. So I think there is really a unity of view in the government itself, that it is really a central problem, and in the donor community.

Chairman MEEKS. My time has expired. Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you. We have been talking a lot about debt relief and grants and stuff, but I keep thinking about the people, and seeing their faces. How do we effectively deal with the impact and loss that the government has faced, the private sector has faced, the government being roads, bridges, gas, electrical, sewer, those type of things that you have to provide to get the government operating again? Then the amount of clean-up we have to implement on houses and businesses before we can ever start talking about reconstruction.

But what are we actively doing today? Is the Army Corps of Engineers out there, working on infrastructure to deal with the basic government needs so the private sector can be dealt with? Or how are we systematically dealing with this today?

Ms. LEE. Well, as you're basically pointing out, there are a variety of facets to attack the problem of how do you actually reach Haitian people.

Mr. MILLER OF CALIFORNIA. That's what this is about. We have talked about banks, we have talked about monetary policy, we have talked about loan relief. But the goal here is to mitigate the impact on the people, the government infrastructure and the actual daily lives of people. So how are we doing that?

Ms. LEE. I will describe the array of activities, some of which Treasury is involved in, and some of which Treasury is not involved in. So let's start with the basic issue of beginning reconstruction.

When you drive around Port-au-Prince, there is just an enormous amount of destruction. There is rubble everywhere. So, one of the things that the Administration wants to do is provide jobs for Haitian people in these immediate reconstruction efforts. The USAID has started up cash-for-work programs. And you see teams all over the streets—

Mr. MILLER OF CALIFORNIA. Do they have the capacity and the expertise in those areas of reconstruction that are necessary, without some outside help?

Ms. LEE. Does USAID?

Mr. MILLER OF CALIFORNIA. Yes. Do the Haitian people have those resources, or do they need outside help from the Army Corps of Engineers and others to accomplish this?

Ms. LEE. There is the issue of trying to create immediate jobs, and then there is the issue of where you need technical expertise to figure out what needs to be constructed and how it needs to be constructed.

USAID is also helping to add to engineering capacity. Because, of course, there is an enormous challenge in determining which buildings are salvageable and which are not, and which people can reenter.

So, there is an enormous U.S. military presence, including our Army Corps of Engineers. When you go to our embassy, there are tents all over the grounds of the embassy of people who are working on this. So, we are supplementing engineering capacity. Of course, our government is providing relief commodities: water; food; and shelter.

But we very quickly have to move from these relief efforts to providing ways for the Haitian entrepreneurs themselves to start providing goods and services. And one of the things we have to be concerned about is if you give away food and water and shelters for too long a period of time, you're essentially displacing the small businesses that do precisely that kind of business.

Mr. MILLER OF CALIFORNIA. Yes, but that's not the question. Yes, we need to help feed the people. Yes, we need to provide water for the people. And, yes, we need to provide some type of structure or whatever.

But is the heavy equipment there that they own themselves? Do they have the expertise to repair the sewer, the gas lines, put the infrastructure back in, repair the bridge rapidly? There is a difference between repairing a bridge over 4 years and putting a bridge back into functionality in 60 days. Do they have the capacity to do that?

Ms. LEE. The answer is no. They have some capacity, but—

Mr. MILLER OF CALIFORNIA. That, Mr. Chairman, is where we need to be focusing. It's nice to say that debt has occurred, debt relief needs to be dealt with. But if we don't make sure the expertise and the experience that we have in this country are put to work there with the people—putting the people to work if they don't know what they're doing doesn't help anybody. Putting the people to work with individuals who do know how to accomplish something is what we need to be focusing on.

And I am not imputing in any way—a lot of the conversation in this committee has been putting the cart before the horse. And we need to determine how to get the horse leading, and the expertise to that country, and the facilities and resources they need to get this done rapidly with the assistance of the Haitian people, necessarily. But I'm not sure they have the capability themselves, if we provide all the money they need, to do that without the expertise.

And I hope we will get into that as we move along, but I see that my time has expired. And I thank you very much. If you would like to conclude in a comment, please?

Ms. LEE. Yes. If I could just link your point with the debt relief, because there is a very strong link, we need the multilateral institutions to help add to the capacity, precisely the infrastructure building capacity that you're talking about. And we need the multilateral institutions that do it well—not all of them do it well—to come in quickly.

That has to be financed. In the past, it has been financed by lending—concessional lending, but lending. We want it to be financed by grants, going forward. And so we need a lot of up-front grant finance. And that's what we're trying to do with this debt proposal.

Chairman MEEKS. The gentleman's time has expired. Ms. Waters?

Ms. WATERS. Thank you very much, Mr. Chairman. There are a couple of quick questions that I have, and then I want to engage a little bit in the way that Mr. Miller was trying to deal with the infrastructure development and the long-term development of Haiti.

First of all, I want to know whether or not Taiwan and Venezuela, did they actually do debt relief yet? They had promised, according to the information I received. Haiti owes about $295 million to Venezuela, and $92 million to Taiwan. President Chavez announced that Venezuela would forgive Haiti's debt. Do you know if that has been done?

Ms. LEE. Those are the correct numbers, that's absolutely right. Those are very large numbers, and so they were substantial additions to Haiti's debt.

Ms. WATERS. Has it been done?

Ms. LEE. President Chavez has announced the cancellation of Haiti's debt, as of—

Ms. WATERS. And what about Taiwan?

Ms. LEE. Taiwan, as we understand it, is exploring the question. It understands that this is a—

Ms. WATERS. Okay, it has not been done. I have to move quickly—

Ms. LEE. It has not.

Ms. WATERS. I only have 5 minutes.

Ms. LEE. Okay.

Ms. WATERS. According to the Treasury's justification for appropriations, the United States owes more than $478 million in arrears to the World Bank Group's International Development Association. We also owe $75.4 million in outstanding pledges to the HIPC trust fund.

Do our arrears make it more difficult for Treasury to negotiate additional debt relief for countries like Haiti? I am very pleased with the President, with Treasury, with my colleagues. Everybody would like to do this debt relief. But are we going to be hampered in any way because of our arrears?

Ms. LEE. Well, I can just say from my personal experience on my particular region, the arrears influence—the arrears are raised with us when we engage with the institutions that deal in this part of the region—

Ms. WATERS. Can we overcome that?

Ms. LEE. We have to do something about the arrears. But we are pursing this negotiation seriously, and we wouldn't have proposed it if we didn't think we could get agreement to do what we proposed to do.

Ms. WATERS. You are planning to do—well, we are planning to do an appropriations request letter, urging support for the Administration's request of $1.235 billion for IDA's replenishment, $50 million for IDA's arrears, and $50 million for the HIPC trust fund. Jubilee USA asked us to do this.

However, I want to know if this is what you want us to do, if this is what you would urge us to get done.

Ms. LEE. You mean the arrears clearance?

Ms. WATERS. Yes.

Ms. LEE. I'm not quite sure I understand the question. The arrears clearance would not cover these additional debt relief costs. Is that—

Ms. WATERS. Yes, well, actually, my bottom line concern is that we are all wanting to do this debt relief. And I am very appreciative for Treasury's support to move forward, to be our voice and our vote. Are we going to run into any problems doing it?

Ms. LEE. To do this debt relief, this very ambitious proposal as we proposed it, it will require a substantial cost, somewhere—for all of the institutions together, the entire—sort of the bill for converting the undisbursed money into grants and for canceling—

Ms. WATERS. Are we going to run into any problems doing this?

Ms. LEE. —all the institutions will be substantial. But we think—

Ms. WATERS. Is there anything else that we should do to be supportive, to make sure that we don't get bogged down, and we can actually do the debt relief, particularly by way of grants? That's really what my bottom line concern is.

I know that everybody wants to do this. Is there anything that we should be doing to help give support to your voice and your vote to get this done?

Ms. LEE. The signal you have already sent is critical, because we can go to donors and say, "This is an idea that is attractive on the Hill," so that was a key part of why we proposed what we proposed. But, of course, we will be coming for resources to finance this proposal.

Ms. WATERS. Okay. And I think what my staff is telling me—that there is an Administration request, and we should be gathering support over here for that request, if that would be helpful in helping to get the job done.

Ms. LEE. We are evaluating the need for a supplemental budget request for Haiti's relief and reconstruction and recovery needs. And a decision will be made very soon about that. So we will then come back to Congress.

Ms. WATERS. All right. Thank you very much. Mr. Miller—is he still here? One of the concerns I—oh, my time is up. Okay, thank you very much, Mr. Chairman.

Chairman MEEKS. I'm going to try to get to Mr. Bachus and Mr. Carson. Mr. Bachus?

Mr. BACHUS. Thank you. And I will yield part of my time to the sponsor of the bill, Ms. Waters.

I want to commend the Treasury for your presence on the ground, and all you have detailed in your testimony. I appreciate that. I appreciate the Administration's leadership in coordinating efforts with other countries.

Ms. LEE. Thank you.

Mr. BACHUS. I commend you for that. Let me ask one question. How aggressive is the Department of the Treasury, in ensuring that other actors or countries, whether they be private creditors or sovereign nations such as China, are not saddling Haiti with new debt, or taking advantage of the nation's resources?

I think there is a history of that happening in other countries. Would you comment on that?

Ms. LEE. Well, in the context of the HIPC debt relief, we—which is the bilateral debt—all of the Paris Club creditors get together. And when the HIPC debt relief decision was taken, all bilateral debt in the Paris Club was supposed to be canceled. And we use our voice in that club to urge others to get on with it.

Mr. BACHUS. Sure.

Ms. LEE. As there are some—so—

Mr. BACHUS. Of course what I'm talking about is a country coming in and trying to take advantage—

Ms. LEE. Yes.

Mr. BACHUS. —by buying resources for less than value or by saddling them with new and onerous debt to—

Ms. LEE. Yes. I would say our intervention on that, when Haiti takes on what we call non-concessional debt, it's really through the international financial institutions, in particular, because they—and particularly the IMF, because that is the institution which is supposed to worry about debt sustainability.

Mr. BACHUS. Yes.

Ms. LEE. Haiti is a sovereign country, and it has decided to take on this debt. But our role is really to try to fit this into some sort of—

Mr. BACHUS. But the Treasury, I think, is one of the departments that could be uniquely positioned to—since you're involved in the debt relief, not to really keep your eye on this, and at least come up with a game plan, as opposed to leaving it just to the international organizations.

Ms. LEE. Yes.

Mr. BACHUS. Or, take a leadership role with them on the—

Ms. LEE. Yes. There are some countries, though, where we have very—we, in terms of the creditor countries, we have very little influence. I would say the most effective thing that Treasury can do is to try to mobilize the grant resources, so that Haiti doesn't have to—

Mr. BACHUS. Right, and—

Ms. LEE. —go to a country and take on non-concessionary—

Mr. BACHUS. And, I'm talking about somebody coming in or—

Ms. LEE. Yes.

Mr. BACHUS. —taking advantage, going forward.

Ms. LEE. Yes.

Mr. BACHUS. Congresswoman Waters, I will yield my remaining time to you. And I commend you for your leadership.

Ms. WATERS. And I appreciate the relationship that we have developed over the years. Many in the Jubilee movement helped to bring us together years ago, we have been working together, and it has been very rewarding. And I appreciate that.

Mr. Miller, you asked about the water systems and the infrastructure and the development. And those are the kinds of questions that I think that the Congress of the United States is really going to have to get involved with, some real public policy about Haiti.

What has happened is we have allowed some of our international funding organizations to be very slow in the way that they gave out the money. We have allowed too much of our resources to go to some—I don't know, it's 6,000 NGOs in Haiti now, rather than helping to see that there is a strong government, and that there are contracting systems put in place for specific projects.

They need a water system in Haiti, even if the earthquake never hit. And they don't have potable water. And that's shameful, for the length of time that this has gone on. We have had the City of Gonaives that has been wiped out, promises that are made about the kind of reconstruction that would divert water that comes down off of the mountain that flooded out Gonaives, the historic City of Haiti. We have bridges and roads that were wiped out in the hurricane—

Mr. MILLER OF CALIFORNIA. Let me respond to a little of that, I think it's important. The Haitian people are very hard-working people, but they don't necessarily have the talent.

Ms. WATERS. That's right.

Mr. MILLER OF CALIFORNIA. We have a tremendous amount of talent unemployed in this country today.

Ms. WATERS. That's right.

Mr. MILLER OF CALIFORNIA. We are spending—American taxpayers, to help good people—we're spending their dollars. Why don't we invest that into American labor, too, to assist the people of Haiti in reconstructing the areas we need to get their infrastruc-

ture back, providing the basic services they need, and accomplish it rapidly, rather than some of the ways we're doing it? We're throwing money out to organizations who are not getting it to the ground, where it needs to be put.

And I would like to have this committee, whether it be in a formal hearing or on the Floor, talk about investing the talents of the American people. We are investing their monies, we might as well put it to the people who need the work in this country, who can benefit the Haitian people. And I would love to talk to you some more about that.

Chairman MEEKS. The gentleman's time has expired. Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman. Mr. Chairman, I want to compliment you. You used a term that I think we need to revisit, and that term was a "Marshall Plan" for Haiti. I am not sure that it will be called "Marshall," but I am sure that kind of thinking will be helpful. I compliment Treasury on what you have done, the creative thinking, in terms of how you would use grants so as to eliminate debt. I think that's a wonderful thing.

But I see this as compartmentalized into three components. There has to be this initial response, which is almost an emergency response that's still continuing. Then you have to have a mid-term response, because you have to deal with the infrastructure, as Congresswoman Waters has indicated. Contracting. You have to deal with the constabulary. You have to deal with the transit. You have to deal with all of the mobility questions that have to be dealt with.

But then, long term, there has to be the leadership provided by the United States. We are the preeminent leader of the world, when it comes to helping countries redevelop themselves, and help themselves to extricate themselves from some of their economic woes. To do this, I think we have to get the rest of the world engaged in this Marshall Plan, as it were, that the chairman talked about, a plan that views Haiti as a long-term, independent, autonomous nation that can sustain itself in this hemisphere.

I think that aid is great. Aid gives people hope, and they need hope now. But, in the final analysis, it's trade that provides the help that they need. And I want us to move from that aid to trade, so that they will have the help to have the autonomy that they richly deserve.

I thank you, and I especially thank Mr. Miller. Your words have warmed my heart, sir. He has been a dear friend, we have worked together on many things. But this one is exceptional, and I appreciate the way you and Ranking Member Bachus have embraced this.

I yield back the balance of my time, Mr. Chairman. Thank you so much.

Chairman MEEKS. Thank you, Mr. Green. And thank you, Ms. Lee, for your testimony here today, and for your cooperation in working with us on behalf of the United States of America with people in Haiti.

At this time, we have three votes. So we are going to recess and come back after the three votes, and commence with the second panel. Thank you.

Ms. LEE. Thank you.

Chairman MEEKS. This committee stands in recess.

Ms. LEE. Thank you.

[recess]

Chairman MEEKS. I have been informed that Mr. Adams has time constraints, and so we will start right out, as soon as I get myself organized here, with Mr. Tim Adams, who is the managing director of The Lindsey Group.

Previously, Mr. Adams served as Under Secretary of Treasury for International Affairs. As Under Secretary, Mr. Adams was the Administration's point person on international financial issues, including exchange rate policy, G7 meetings, and the IMF and World Bank issues. He regularly interacted with counterparts in key emerging markets, including China, India, and Brazil, and traveled extensively throughout Asia, the Middle East, and Europe.

Prior to assuming his post as Under Secretary, Mr. Adams had served as Chief of Staff to both Treasury Secretary Paul O'Niell and Treasury Secretary John Snow. He was the Policy Director for the Bush-Cheney reelection campaign from November 2003 through the end of 2004, and also served as a full-time member of the Bush-Cheney campaign staff in Austin in the 2000 campaign.

Mr. Adams also served in the White House under the first President Bush at the Office of Policy Development. And he holds a BS in finance and a master's in public administration and an MA in international relations from the University of Kentucky. Mr. Adams, welcome.

STATEMENT OF THE HONORABLE TIMOTHY D. ADAMS, THE LINDSEY GROUP

Mr. ADAMS. Thank you, Mr. Chairman, and Congressman Bachus. It is an honor to be here today to talk about such an important issue. I obviously can't speak to it with the same eloquence and passion that I have heard from the members of this committee today, so I won't even begin to try. And, for the sake of time, I will be quite brief—and also to create time for my good friends here on the panel.

I would like to just make three quick points, Mr. Chairman. One is that I enthusiastically support debt relief for Haiti. The conditions there, as Dr. Lee described this morning, as we have witnessed through various forms of media, certainly demand all that we can do. And debt relief is an important piece to the puzzle of support for this country, which has gone through such a terrible tragedy.

Two is that we shouldn't kid ourselves into believing that debt relief, however important it is, is a panacea, a silver bullet, for what ails this country, the challenges it faces in the short-term and medium- and long-term. It can't substitute for other forms of support, whether it's in-kind support or grants, or technical assistance, or humanitarian assistance. It's an important piece, but there are so many other things that need to be done. And we need to commit ourselves for a long period of time to provide the resources that this impoverished country is going to need. It will require our attention for not weeks and months, but years and decades.

And, three, an issue which is important to me and was important to me in my previous position at the Treasury Department, and that is to take an opportunity to reaffirm an approach to develop-

ment which tries to move away from excessive lending for the poorest countries, and focuses more on grant funding for development. I was a part of the process, the multilateral development relief—debt relief initiative, and it was a highlight of my tenure in government, and I think certainly one of the highlights of the previous Administration's tenure.

But I hope that we never have to go through that again, that we don't find ourselves repeating the lend-and-forgive cycle that we have seen that has occurred before. It is—as I note in my testimony—a cruel hoax to load up poor countries with debt that we know they can't sustain, we know they can't pay back, and to find at some point in the future that we have to cancel that debt. And it calls into question foreign assistance and development assistance generally, and it creates enormous cynicism among our voters and our taxpayers. And you most certainly must feel that and hear it when you go back to your districts.

So, if I could do anything other than share the concerns you will hear with this panel—and again, we have heard from the members of the committee today—to help this country and do everything in our power, including debt relief, it is to think about how we do development assistance in the future, to move away from lending and to focus more on a grants-focused development assistance strategy, so that we don't repeat this cycle in the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Adams can be found on page 37 of the appendix.]

Chairman MEEKS. Thank you, Mr. Hart. We now will hear the testimony of Ms. Melinda St. Louis. Melinda St. Louis is the deputy director of Jubilee USA Network, an alliance of more than 75 religious denominations, faith-based organizations, human rights and environmental groups, and the development agencies dedicated to the debt cancellation for impoverished countries.

She has more than a decade of experience in policy advocacy, communications, and nonprofit management both in Washington, D.C., and on the ground in Latin America and the Caribbean, as well as a master's degree in international policy and development from Georgetown University.

Welcome, Ms. St. Louis.

STATEMENT OF MELINDA ST. LOUIS, DEPUTY DIRECTOR, JUBILEE USA NETWORK

Ms. ST. LOUIS. Thank you. Thank you for having me. Chairman Meeks and Ranking Member Miller and other members of the subcommittee, I want to thank you for the opportunity to discuss debt relief for Haiti today. I would also like to especially thank both Representative Waters, who isn't here right now, and Representative Bachus for being such long-time champions of debt cancellation, not only for Haiti, but for impoverished countries around the world. We have been very gratified to work with you over the years.

I am pleased to represent the Jubilee USA Network and our alliance of our 75 organizations. It's important for us to be here today because, as has been said, the people of Haiti have already suffered so much. And now they face a disaster that the scope is hard to

imagine: 1 in 50 Haitians have died; and millions are affected. And, as many have highlighted, that means Haiti clearly needs and deserves our generosity and solidarity.

A critical first step for Haiti's long-term recovery is 100 percent debt cancellation for all of its remaining debt. We are gratified by all the efforts taken thus far, both in Congress and by the Administration, to work towards full debt cancellation for Haiti, both in practical terms and because we all know Haiti can't possibly repay, but also as a matter of justice.

I say justice, because when we talk about Haiti's current debt burden, we must not forget the historic legacy of unjust debt that was so eloquently stated by Representative Green earlier. Dating back to its independence from France, the legacy continued when the international community made loans to the Duvalier dictatorship, despite widespread reports of brutality and massive corruption.

So, until last year, Haiti was paying $60 million to $80 million per year in debt service, without any distinction to the 40 percent of its debt that was incurred under the Duvalier dictatorship.

The injustice of these debts, and the staggering development challenges facing Haiti as a result, compelled our member organizations, allies in Congress, and the Administration to advocate for many years for debt relief for Haiti. My written remarks detail how we accompanied Haiti through the very bumpy ride of the highly-indebted poor countries, or the HIPC initiative, which finally culminated in June of last year with $1.2 billion in debt relief, which we celebrated as a victory for the Haitian people.

But, as we have heard, that wasn't the end of the story. Because the HIPC initiative had set the cut-off date as the end of 2003, and Haiti had taken out loans since that time, Haiti still owed more than $1 billion to external creditors when the earthquake hit.

Also, in the days following the earthquake, we have heard the IMF offered Haiti $100 million in emergency assistance through its extended credit facility, which was an extension of its previous loan. We and others reacted with very deep concern at this nearly doubling of Haiti's debt to the IMF, urging them to not add to Haiti's debt burden, and not to apply the conditions that normally are placed on IMF loans.

The IMF's managing director's statements, intent to turn the loan into a grant and to cancel the rest of its debt, is very welcome. But it does require board action. And we are—but as of now, a $102 million loan has added to Haiti's debt burden.

But the very good news is that our swift call for full debt cancellation for Haiti from members of our network—ONE and many others—together with allies here in Congress, including the bill that will be marked up this afternoon, already has had a tremendous impact, as we heard earlier. We saw a high level of commitment from G7 finance ministers. And on February 6th, they indeed made a strong statement in support of multilateral debt relief for Haiti, which is an important victory, and it's a critical first step to assuring its cancellation of Haiti's multilateral debt.

However, as we know, as the devastation in Haiti begins to fade from the public spotlight, we have to move quickly to negotiate debt cancellation, to ensure that it actually does happen. The up-

coming meeting, annual meeting of the IDB's board of governors in Mexico later this month, and the joint spring meetings of the World Bank and IMF in April, are key opportunities to secure an agreement. We hope the U.S. directors will work with their colleagues to negotiate without a delay. And I am glad to hear that some of that is already happening.

As we have heard, how to finance debt relief is clearly a key concern, as debt relief must not replace other donor assistance for Haiti. Where possible, institutions should use internal resources to cover the modest reduction in their income from debt relief. The managers amendment, which was mentioned earlier, would suggest that windfall profits from IMF gold sales could be allocated to debt relief for Haiti. I am glad to hear that the U.S. Treasury and the IMF are pursuing to use internal resources to benefit Haiti.

I also want to underscore what has been said before, in that we must provide support as grants, and not loans. The United States needs to play a leadership role. It sounds like we're already doing that. And to ensure that assistance is provided solely as grants.

And, in addition to these immediate recommendations, I think the Haiti case should also encourage us to think more broadly about how to better deal with sovereign debt issues. The fact that we have to talk about negotiating voluntary debt relief on an ad hoc basis separately for each institution, and for a country that has already completed HIPC, highlights the limitations of our current mechanisms.

Interesting ideas for future consideration, which I have briefly elaborated in my written remarks, include creating a multilateral disaster global fund, and mechanisms to coordinate debt reduction in a single process, pursuing procedures for fair and transparent arbitration for sovereign debt, and establishing international frameworks for responsible lending and borrowing to avoid build-ups of odious and illegitimate debts.

I want to conclude by urging support of Haiti debt cancellation through H.R. 4573, as well as quick passage of the Jubilee Act, which is H.R. 4405, which begins to address some of these broader sovereign debt challenges. We really must work to avoid the mistakes of the past, and ensure a brighter future for Haiti and for other impoverished countries. Thanks so much for taking the time to listen.

[The prepared statement of Ms. St. Louis can be found on page 52 of the appendix.]

Chairman MEEKS. Thank you. And I think I previously misspoke upon the conclusion of Mr. Adams's testimony. I said, "Thank you, Mr. Hart, for your testimony." And we know we didn't hear Mr. Hart yet.

And so, now we will hear the testimony of Mr. Hart. But let me thank Mr. Adams for his testimony.

STATEMENT OF THOMAS H. HART, SENIOR DIRECTOR OF GOVERNMENT RELATIONS, ONE

Mr. HART. Mr. Chairman, it is an honor to be confused with Tim Adams in this regard. So I am happy to associate all my remarks with him, as well as Melinda. Mr. Chairman and Mr. Bachus,

thank you so much for the honor of coming before you today to talk about this important issue.

My organization, ONE, is a global advocacy and campaigning organization backed by more than two million people nationwide, dedicated to fighting extreme poverty and disease. We are probably best known by our co-founder, Bono, who actually began his advocacy in the United States working with Mr. Bachus and Ms. Waters and others 10 years ago on the Jubilee 2000 movement for the first round of HIPC debt relief.

Members of this committee, frankly, should be proud of all that has happened in the last 10 years on debt cancellation. Chairman Frank, Ms. Waters, Mr. Bachus, Chairman Meeks, and so many others, as well as President Clinton, President Bush, and now President Obama have all been deeply committed to debt cancellation and bringing the poorest countries out from underneath unpayable debts.

I am not going to take time this morning to review all that has happened over the last 10 years. Suffice it to say 35 out of the 40 poorest countries on the planet have qualified for debt service relief, 26 of them have now received both full bilateral and multilateral debt stock cancellation, freeing up $117 billion, so far, of debts that couldn't be repaid. And, in fact, this freed up around $2 billion annually, that these countries were paying back to these institutions, and are now going in to service the needs of their countries and to fight poverty.

We have been pleased to see that the World Bank has tracked social service spending during the course of this debt relief, and we have seen a nearly fivefold increase in social sector spending, such as education and health, for these 35 countries during the HIPC and MDRI programs.

Last summer, as has been said a number of times, Haiti qualified for this debt relief. They got about $1.2 billion of debt that was incurred prior to 2005 written off. Venezuela and Taiwan did not participate in that, which is why their debt remains on the books, and is a real concern today.

But at the time of the earthquake, Haiti still had more than $1 billion of loans from 2005 to present. And I think the committee is now well familiar with the major shareholders: the IMF; the World Bank; the Inter-American Development Bank; the International Fund for Agricultural Development; Taiwan; and Venezuela.

I do want to note that the large volume of debt from the Inter-American Development Bank in such a short time is of particular concern. And, Mr. Chairman, you raised this earlier with Treasury. I think the Treasury Department has a particular burden, as the largest shareholder at that institution, to seek ways to avoid such a rapid debt reaccumulation there.

Fortunately, all the major bilateral donors, including the United States, have gone to grant-only assistance to Haiti, and that should be applauded.

I want to echo Tim's sentiment that debt relief is not a silver bullet. In the immediate aftermath of the quake, of course, urgent relief is the most appropriate and most effective mechanism. Haiti was actually servicing very little of its current debt. Therefore, debt

relief relieves very little immediately. But, over the long term, that $1 billion would have to be paid back. And so, we believe debt relief occupies a very smart and important piece of the long-term reconstruction puzzle.

I think the case for relieving Haiti's debt really boils down to two very practical things. First, these loans were taken on with certain economic assumptions in mind. Haiti appeared to be on the way up, the IMF thought that it would grow at an annual rate of 4.5 percent, exports were growing, governance indicators were improving. And so, one might have assumed that some of these loans could be serviced.

Well, all of those assumptions are no longer appropriate. And to continue to hold Haiti accountable for a bunch of debts under assumptions that are no longer appropriate makes little sense.

Second, holding Haiti to its international debts diminishes the impact of the assistance that the U.S. Government is providing, and the support the American people are providing. Donor assistance will hopefully continue to pour in. And if Haiti is still burdened with debt, some of that assistance will go to repaying those old debts.

So, this "revolving door" of assistance—we provide assistance that then gets turned back into debt payments to donor-led institutions—defies common sense. Fortunately, I think common sense is prevailing, and I really applaud the committee, members of the committee and the Administration for having moved forward very rapidly in seeking support for debt cancellation for Haiti.

We experienced a tremendous outpouring of support for this initiative among ONE's own membership. Over 200,000 people signed a petition in support of debt cancellation. And we joined with Jubilee and other organizations to collect another 200,000 people's names.

The G7 finance ministers typically find the most remote location on the planet to meet, so that people like us don't find them. We were lucky to have a ONE member, a Haitian-born citizen of the 6,000-person Arctic village where the G7 finance ministers were meeting a month ago, deliver these 400,000 names to them. It was a very poignant moment, and also a moment showing broad public support for an initiative that the United States and Canada and others were adopting, to relieve Haiti of its debts.

We applaud Secretary Geithner's announcement of this and the G7 finance ministers' support.

In my written testimony, you will see a chart of all the institutions Haiti owes money to, and who the major shareholders are. Of course, the G7 countries are the major shareholders in these institutions. But key players like Argentina, Brazil, and Mexico are key players in the IDB, for example. And so, securing their support is going to be very, very important.

Just quickly, on next steps, the IDB board meets in a couple of weeks in Cancun, where we hope they will deal with this subject very rapidly. Then, in April, the spring meetings of the IMF and World Bank meet, where again we hope they will approve cancellation.

Another essential step is that each of the donors contribute a bit to a fund to help cover the cost of the cancellation. The cost of can-

cellation is not usually the face value of the loans that were lent, but donors do need to contribute in order to secure a global deal. We expect the Administration to request such funding in their Haiti package, which will hopefully soon be before Congress. ONE strongly supports this request.

Let me conclude, given that time is short, by once again thanking the committee, Mr. Chairman, and my colleagues. I think, again, the argument in favor of canceling Haiti's debt is compelling and very, very urgent. And I am happy to answer any questions. Thank you.

[The prepared statement of Mr. Hart can be found on page 39 of the appendix.]

Chairman MEEKS. Thank you. Thank all of you for your testimony. And knowing that Mr. Adams is short on time, I think we will ask him a couple of questions, and then we will let him go.

In your reference to the cruel hoax of a lend-and-forgive cycle to which we subject many of the world's poorest countries, I wonder what conclusions you think we should draw from the amount and the speed at which IDB acquired new loans following the last round of debt relief for Haiti? Can you give me some thoughts there? Similar to what I asked the Treasury.

Mr. ADAMS. Yes, Mr. Chairman. Well, it's somewhat troubling, how quickly the lending was done in the aftermath of debt relief.

Now, I understand the structure of these institutions, they're there to lend money. It's a wonderful institution just down a few blocks from here. It's populated with thousands of people who come in every day trying to do the right, noble thing. But the objective is to push money out the door. And having been a former official at Treasury, it's easy to get in the habit of saying, "We need to do something. Let's use the institutions, let's call in the institutions, let's do something."

And because of the limited nature of grant-based funding, it's easy for those institutions to do what they do, which is to lend. And so, it's not just the IDB—although I think that's worth looking into—it is a development structure, a multilateral development structure, that has a bias toward lending, and an incentive toward lending. And I think we ought to think about that in a much more systemic way.

Chairman MEEKS. What I'm going to do now is reserve the balance of my time. But if you—either one—have a question for Mr. Adams, because I know we had promised him to get out of here by 12:15, you can ask him a question and then let him go. Mr. Miller?

Mr. MILLER OF CALIFORNIA. No, I'll hold.

Chairman MEEKS. Mr. Bachus?

Mr. BACHUS. One question. I referred to, in my opening remarks, and you have referred to in your testimony, that some creditors attempt to take advantage of the country if there is any freed-up borrowing capacity in the wake of debt relief, either countries coming in or private companies, in trying to take advantage of asset sales, or their natural resources, or putting more debt on them. How do we prevent this from happening?

Mr. ADAMS. A great question, Congressman. And I share the concern, because I think we are seeing it happen. And it is unfair to the American taxpayer to pay the price of debt relief, only to find

that other countries are coming in and loading poor countries up with debt, and we know they can't afford it.

There are mechanisms in place, in the aftermath of MDRI in 2005. We began something with the IMF and the World Bank that looks at debt sustainability analysis and models, then also work with the OECD and the export credit agencies. And Dr. Lee talked about bilateral assistance, and how it's treated through the Paris Club.

But we need to have a much more broadly encompassing mechanism to pull in those countries that don't participate in these institutions. And I notice that Jubilee talked about an international framework for responsible lending. We need to think about new mechanisms much more broadly encompassing.

And we have a G20 summit that's going to occur in Canada in just a couple of months. I don't know why the G20 couldn't put this on the agenda for the things they are looking at. Because I think if we don't, in 5 years we're going to find a number of countries in Africa and other places that owe a tremendous amount of debt to countries who have been out there lending to get at natural resources. And it's a new form of colonialism, and we need to stop it.

Mr. BACHUS. Let me—if I could, I'm supposed to go to a speech—if I could just take 1 minute to wrap up, and then I appreciate the chairman and the ranking—

Chairman MEEKS. Without objection.

Mr. BACHUS. I want to illustrate, and I want to use Tom's example. What Tom has reminded us all of, and what the Congress needs to realize, and I think the American people, is that debt relief is working in these countries. As you say, it's not the total solution, it's not a cure-all. Their problems were daunting. But there are more children in school. In many cases, either the life expectancy or the infant mortality has either been reduced or slowed. Now, some of them would have a famine or there would be something else, but it has really worked fantastically.

And, as we predicted 8 or 10 years ago, for just pennies, just what an American would really—pocket change, it's meant the ability of people to survive and better themselves.

Two countries—and I will close—Afghanistan was one of the most illiterate countries with the lowest number of children in school. There was no debt relief. It was a highly impoverished country. We saw what happened there. You have groups take over, and they agree to educate the children. And we have a tremendous loss of life there, and with our troops.

We cannot—I had a Marine brigadier general who told me several years ago, "This is a partial solution to our national defense, because we can't be in all these countries." And so I think Afghanistan is a wonderful example of how—I don't know if we could have avoided it, but I wish we had known.

The other is Namibia. About 6 years ago, I visited there—and I don't know if it was the president or the prime minister—thanked me for debt relief. And we had not given debt relief to Namibia. And no one else had. They had the—I don't know if good fortune, of being colonized by the Germans. And their debt was wiped out in World War II, and they apparently never incurred much, unlike

Haiti, their experience, and many other countries, which have just been in a cycle of debt for hundreds of years.

So, I said, "Well, I didn't realize that you received debt relief." He said, "We didn't. Our neighbors did." And he said, "There is instability on our borders, disease, there are rebel groups." And that's one of the most stable countries in Africa. It's a success story. But part of the reason is that—and he said it was the neighbor to the north. It had had some stabilizing influence there. I thought this was a powerful message. And I think, just like Namibia, the United States—there are may benefits that Americans don't realize.

And then, finally, as Mr. Adams said, if other countries do not follow suit, or if we don't pass this bill, we will continue to pay the debt. I am encouraged that the world community is realizing that this is a problem which not only affects these citizens, it affects all of us. Thank you.

Chairman MEEKS. Thank you, Mr. Bachus.

Mr. BACHUS. Every one of your testimonies was excellent. I think everything about it—I thought it was wonderful. I wish every American could have heard it.

Chairman MEEKS. Thank you, Mr. Bachus. And, Mr. Adams, we want to thank you. We know that you have to leave. We held you a little bit longer, but thank you for coming and giving your testimony.

Mr. Hart, let me ask you a question really quick. I think that you have put forward the idea of having like a shock insurance facility for vulnerable, poor countries that would be able to buffer the fiscal and balance of payment shock for natural disasters, for example, among other things.

Such a facility could be mobilized in a coordinated manner, which would happen automatically, I guess, in the event of a shock, something of that nature, giving folks like us—policymakers, etc.—more time to react to them as we are trying to do here today.

Now, a couple of questions on that: One, could such a facility be financed entirely with existing resources from the international institutions; two, in your opinion, would the IMF be the best place to house such a pooled insurance mechanism; and three, has there been any more substantive discussion about this within the institutions?

Mr. HART. Thank you for raising it, Mr. Chairman. Fortunately, there is a modest form of this idea already in existence. The HIPC and MDRI processes actually take a look at what they call "topping up." If countries have gone through the processes, met all the qualifications of HIPC and MDRI, arrive at the debt cancellation that they were expected to get, and have experienced some sort of, as they say, "exogenous shock"—food or fuel price changes, difference in the commodities, exports—they can receive a topping up of assistance, or additional debt relief, in order to get them back to the level that was expected.

So, this idea is certainly not a unique one, not my own. And I merely wanted to make the point in my written testimony that, of course, a 7.0 earthquake would certainly qualify as an exogenous shock. We shouldn't be concerned that now many other countries would expect additional debt cancellation. Clearly, countries experiencing natural disasters such as this one deserve—as I think we

have discussed today, and as so eloquently put by Mr. Bachus a moment ago—to get that additional relief.

Could such a facility be entirely financed by the institutions themselves? I think it certainly is possible. Looking at the IMF's resources, they are going to be able to cover, through their own resources, the cost of the cancellation of Haiti's debt. They—as I think this committee knows well—sit on millions and millions of ounces of gold. And that gold can be sold on open markets, as has been the case in the past, to finance debt cancellation. An amount of that could be sold and the proceeds of that used to cover this exogenous shock facility.

I think the IMF certainly could be the place to house this. It could be housed in a number of places. And so, I think there is discussion around the additional topping up of debt assistance.

There is not enough discussion of what Mr. Adams relayed, which is how do we avoid getting back in these circumstances? We don't want to have to continually top up countries. We want to avoid getting them in this circumstance in the first place. So we need to, as a global community, pause before we release another "X" billion dollars in new debt, and think, "Can we finance this through grants?"

Chairman MEEKS. Thank you. Ms. St. Louis, let me ask you a question really quick, before I go to Ranking Member Miller, because you talked also about establishing a mechanism for more transparent and accountable debt accrual, and I guess where applicable, debt default for forgiveness.

What agency? Would it be the IMF? Who do you think is best suited to establish and administer such a mechanism?

Ms. ST. LOUIS. The mechanism for responsible lending and borrowing? Well, there is an interesting initiative that has been launched, actually, by the United Nations Conference on Trade and Development, UNCTD, which begins a process of bringing together legal experts and governments and the nonprofit sector, coming together to come up with a set of guidelines for responsible lending and borrowing that could kind of be a code of conduct, initially, and then kind of build toward responsible—toward more soft law, perhaps down the road.

And this is an interesting initiative, particularly because China is at the table, and that has been one of the problems within the Paris Club and within other institutions. It gets a little bit to the question that Ranking Member Bachus talked about earlier.

So, having an initiative through the United Nations, which is a place where some of these other kinds of emerging markets that are engaging in lending—to get them to make sure that they are engaged at the table, I think it is more likely to have success more broadly.

And so, that's one initiative where we are recommending that the U.S. Government play a constructive role. It's really getting off the ground. I think it will take a while. But I think that having those guidelines in place, and trying to ensure that all of the relevant actors who are lending are at the table at the beginning will be really important.

Chairman MEEKS. Thank you. Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. Mr. Hart, in your testimony, you mentioned the importance of country ownership of programs. I believe, more specifically, you said, "country ownership of development initiatives where funding supports country priorities, rather than donor priorities." Then you go on to say, "country-owned poverty reduction plan increase in ownership," and in many cases there has been a lack of poverty reduction efforts on the part of government.

Could you explain that more fully?

Mr. HART. Sure, of course. The HIPC and MDRI initiatives are built upon the foundation that the amount of payments going to old debts that is now freed up, that those proceeds, the windfall from debt relief, would go to poverty reduction.

And so, the World Bank has led a process with these countries called the Poverty Reduction Strategy Process. It's a process by which the countries themselves consult with civil society, begin a national dialogue about what their poverty reduction and development plans are, and they put together these strategies, which debt relief—and other assistance—go to fund. Now—

Mr. MILLER OF CALIFORNIA. How can donor priorities, rather than country priorities, differ that are in conflict with each other?

Mr. HART. Oh, very often donors—

Mr. MILLER OF CALIFORNIA. We have an initiative to get the money to the people.

Mr. HART. Right.

Mr. MILLER OF CALIFORNIA. And to help the people. Perhaps if it went to the government, it might not get to the source we're trying to achieve.

Mr. HART. I think it's not necessarily a case of giving it to the governments of these countries directly, so much as having a country plan that says, "We need this number of schools, we need this number of clinics. It would be great if we had a farm-to-market road system." If the donor community understands what the development priorities of the country are, their donor assistance is going to be that much more effective.

Oftentimes in the past, our assistance has gone into priorities that we think we want to achieve, but don't necessarily resonant with what the countries, themselves, need.

A very innovative example of that new approach is, frankly, the Millennium Challenge account, which was set up during the last Administration. It's a negotiation across the table. It's a, "Hey, we would like to do this. We need this. How can we work together to get it done?" And that's really the process—

Mr. MILLER OF CALIFORNIA. That can be done, though, without necessarily country ownership, can't it? Just do bilateral agreements on issues.

Mr. HART. The best bilateral agreements are obviously going to be where the country and its citizens are fully bought in.

Mr. MILLER OF CALIFORNIA. Okay. Buying in is different than ownership. I see where you're going, then.

Ms. St. Louis, you talked in here about the flaws of a multilateral debt relief process that is voluntary. How would that impact shareholders if it were not voluntary, being this is a contribution?

How would you have shareholders involved, and then have their debt relief be non-voluntary on their part?

Ms. ST. LOUIS. Well, what I was referring to in that was the fact that for sovereign—for countries that are in debt distress, the—there is no international bankruptcy type of mechanism that, you know, an individual or a corporation that's in debt distress has. There is a way for an orderly work-out of the mechanism. And that doesn't exist in the international framework.

And so, that's one of the things we were talking about. It's not so much saying that it's going to be involuntary, but that there is actually a comprehensive mechanism where everybody is at the table together, and—so that there aren't hold-outs, there aren't countries, there aren't corporations that, therefore, hold out of negotiations, and therefore benefit from U.S. taxpayer—or debt relief, and so forth.

Mr. MILLER OF CALIFORNIA. Sure.

Ms. ST. LOUIS. So the need to have something that's comprehensive and that—fair and transparent arbitration for countries that are in debt distress that would benefit both creditors and borrowers, because there would be, again, orderly work-outs.

Mr. MILLER OF CALIFORNIA. How would you do that? Let's look in the future. We have a country that we want shareholders to invest in. And their company is thinking, "We're going to make loans, we're going to invest, and we're probably going to get repayment on our loan, eventually."

How would you structure those prior to that situation occurring to still encourage donors and shareholders to be involved, if it's not a voluntary situation?

Ms. ST. LOUIS. Well, again, I make the analogy to the—

Mr. MILLER OF CALIFORNIA. I'm concerned about even the debate would impact countries in the future from receiving assistance that they might not otherwise receive if shareholders thought they could be wiped out.

Ms. ST. LOUIS. Right. Well, I guess I would continue to make the analogy to the bankruptcy, that knowing there is going to be an orderly debt work-out is actually beneficial to lenders, as opposed to thinking there might be a chaotic series of defaults.

And so, the approach is to say—I mean, every lender knows that there is a risk involved in lending, and that if they could count on an arbitration mechanism that's fair and transparent, that actually is beneficial to lenders. And I think that it would not be—that it wouldn't cause a—

Mr. MILLER OF CALIFORNIA. I would really like to have more information, because my concern—Mr. Chairman, and you can see it—is if a bank lends me money, they know that I might go through bankruptcy or whatever, and it's figured in the rates. But if a state or government sells bonds, the bond holder doesn't assume that they're going to go bankrupt on them. They're going to get their bond repayment back.

So, when we talk about anything that's not done on a voluntary basis, I could see somehow maybe somewhere down the road, that might hurt the very countries we are trying to help, as it puts their shareholders in a situation where they feel like they could be put at risk they didn't otherwise believe they—

Ms. ST. LOUIS. Well, no, I—

Mr. MILLER OF CALIFORNIA. I understand—I know where you're trying to go, but I'm cautious on how we get there.

Ms. ST. LOUIS. No, I think it definitely is an idea that's in development. It does need to be fleshed out.

The UN commission that was headed by Nobel laureate Joseph Stiglitz has a whole section, where they actually look at that issue and address some of them. And they come down pretty strongly that it would be beneficial. But I think you do have to work out the details of how that—

Mr. MILLER OF CALIFORNIA. And on that, I am going to close with, it's very easy for somebody to determine what might be beneficial when it's not their money. When the other group is coming in and putting their money into it, they look at it from a different perspective.

It's always easier to—I'm willing to go out to dinner and spend his money and have a great time. But when I go to dinner, I'm going to check the bill, if I'm paying. There is a difference there. So that's where my cautions arise.

And I really appreciate the testimony. I was not impugning anything you said. Please don't take it that way. It's more of a concern—

Ms. ST. LOUIS. Sure.

Mr. MILLER OF CALIFORNIA. —that we might hurt the people we're trying to help in the future by creating a situation that might cause confusion, more than anything else.

I yield back, and I thank you, sir.

Chairman MEEKS. Thank you, Mr. Miller. And I want to thank our witnesses. I think that you have been absolutely excellent. And the line of work that you have chosen is really what I call God's work, in trying to make sure that you are taking care of those who really need a hand up and a change around. It's really humanitarian.

And I think that the unfortunate situation that we're dealing with in Haiti because of the earthquake is just a testament to the great organizations that you belong to, and on the ground and hands on.

And again, I thank the ranking member for your steadfastness and real heartfelt concern on how we really make a difference, we don't continue to stay in this spin of loaning money without it changing the reality on the ground for the people. How do we really get that done? So I really appreciate everybody on this.

The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

This hearing is now adjourned.

[Whereupon, at 12:38 p.m., the hearing was adjourned.]

A P P E N D I X

March 4, 2010

Haiti Debt Relief Hearing

March 4, 2010

Rep. Meeks Prepared Statement

Before I begin, I would like to thank ranking member Miller for his help in organizing this very important hearing on Haiti debt relief. I also want to thank all our witnesses who have taken the time to come share their valued experience on the topic of debt relief for Haiti.

Today, we will consider an issue that is close to all of our hearts. Haiti suffered a devastating earthquake on January 12 of this year. The country, which was finally making strides to more stable economic growth and whose government was finally showing signs of becoming more stable, credible and accountable, was rocked by a natural disaster of historic proportions. The images from the disaster are fresh in our minds. The immediate needs of the people are clear, and the desire of the global community, and of average American citizens to help Haiti recover as fast as possible are clear and give me hope. This is a bipartisan issue because it is

a human issue, at its most basic. This is about America showing its true compassion and capacity to help our neighbors in their time of greatest need. Average American citizens mobilized to help Haiti in a way that gives me great pride in my country. Our government stepped up to the challenge in the immediate aftermath. We are now moving to the second and third phase of the process; namely moving from immediate rescue and survival concerns, though they are still critical, to reconstruction and, ultimately, long-term economic recovery. A critical step to this transition will be providing Haiti with debt relief, and working with the multilateral development banks and the IMF to ensure that Haiti will be provided the resources it needs in the medium and longer term, without adding to the nation's debt burden.

I look forward to hearing the testimony of our witnesses here today, and look forward to working with ranking member Miller on moving a bill to empower the administration to promote Haiti debt relief from the international institutions in which we are major shareholders, as well as pushing for bilateral debt relief from other nations holding Haiti's debts today.

Finally, I did want to inform you that this will be just the first in a series of hearings focused on Haiti. As some of you know, I

chaired a bipartisan, members-only briefing on multilateral aid and financing coordination in February, at which the Treasury Department, the IDB, the World Bank and the IMF provided clarity into how they plan to collaborate to ensure efficiency and to eliminate waste and duplication of efforts in their work in Haiti. The next hearing is scheduled for March 16, and will focus on the longer-term prospects and strategy for Haiti's economic recovery. Long after the news cameras have left, we will continue to monitor progress in Haiti, and to provide assistance to ensure that the nation can get back on its feet, and back on a path to economic growth and political stability.

Testimony by Tim Adams
House Committee on Financial Services
International Monetary Policy and Trade Subcommittee
"Haiti Debt Relief"
Thursday, March 4, 2010

The earthquake that hit Haiti on January 12th is a natural tragedy without scale in modern history, with over 200,000 killed, hundreds of thousands left homeless and the country's infrastructure and economy left in shambles. Even before this devastating event, Haiti was one of the world's poorest and least developed economies, sliding backwards over the past twenty years as other developing countries experienced noticeable gains. Haiti ranks 149th (out of 182) in the United Nations Human Development Report, and 80% of the population is estimated to be living in poverty, with most living on less that $2 a day. The country suffers from high illiteracy, a loss of human capital and abysmal working conditions for those left behind. It is a cruel outcome that such a poor country would suffer such a calamitous event.

Fortuntanely, the global community generally and the U.S. specifically responded with significant humanitarian assistance. I applaud this effort but note that Haiti will need help for years if not decades to come. The issue before the Committee today is debt relief for Haiti. Allow me to make three points.

One, is that I enthusiastically support debt relief for Haiti. It is the right policy. Specifically, Haiti owes approximately $1.1 billion in official bi-lateral and multilaterail debt, with the largest balance owed to the Inter-American Development Bank. Almost all of this debt has been incurred since 2004. The pre-2004 debt, roughly $1.2 billion, was cancelled in 2009 as part of the Heavily Indebted Poor Country Initiative (HIPC). While debt servicing costs for 2010 is minor, and thus debt relief will not have much of an impact this year, it will help over the long-term, and Haiti will need every dollar of support it can get.

Two, debt relief, in and of itself, is just a minor response, and no panacea, to the enormous challenges that exists today and for the foreseeable future in Haiti. It cannot be seen as a substitute for substantial and sustainable assistance. We must ensure that Haiti receives a broad range of support, with long term commitments, so that the Haitian people can rebuild their economy, create jobs, support the private sector and attempt to put their country on a sustainable development trajectory. More specifically, the development strategy for Haiti must be much larger, coordinated and comprehensive with clearly articulated goals and performance milestones. Moreover, future development assistance should be in the form of cash grants, in-kind grants, technical assistance, trade preferences and support for remittance flows, but not in the form of new loans.

Three, we should use this occasion to reaffirm an approach to development assistance that seeks to minimize new lending for the poorest countries, relying instead on more grants-based assistance, support for trade expansion, private sector development, etc. The "lend and forgive" cycle is a cruel hoax for both the creditor and debtor countries. In the past we – the globally donor community – have over lent to countries that did not have the capacity to repay, saddling them often with economically and socially crippling commitments that ultimately had to be forgiven. Such action simply breeds cynicism among donor countries' voters and taxpayers, reinforcing the unfortunate view that

development assistance is ineffective and should be curtailed. We should not set up for failure recipient countries and development efforts and organizations.

In 2005, the Bush Administration, in concert with G-8 partners, initiated the Multilateral Debt Relief Initiative (MDRI), which served as an additional, critical follow on to the Initiative for Heavily Indebted Poor Countries (HIPC) of the mid 1990s. These two efforts have relieved the crushing burden of unsustainable debt for dozens of poverty-stricken countries. We should ensure that the poorest are not again burdened with debt, from either official or private creditors, some of whom are now attempting to take advantage of countries' freed up borrowing capacity in the wake of debt forgiveness.

In closing, I strongly urge this Committee and the U.S. Congress to provide much needed assistance to Haiti. Debt relief is a necessary but far from sufficiently component. The U.S. should do everything in its power, continuing our long tradition of helping those befallen by tragedy, and help our neighbor to the south recover from this horrific, devastating event.

Statement of

Thomas H. Hart
Senior Director of Government Relations
ONE

"Haiti Debt Relief"

Hearing of the

Subcommittee on International Monetary Policy and Trade

of the

Committee on Financial Services
U.S. House of Representatives

March 4, 2010

Mr. Chairman, Members of the subcommittee, thank you for the opportunity to speak to you this morning about debt cancellation for Haiti and the need for new assistance to be in the form of grants.

ONE is a global advocacy and campaigning organization backed by more than 2 million people from around the world dedicated to fighting extreme poverty and preventable disease, particularly in Africa. Here in the U.S., we work to support bipartisan policy solutions to these tough problems, including more and better development assistance, trade policies and debt cancellation, as well as efforts to promote democracy, transparency and accountability from those countries receiving U.S. assistance. We are probably best known for our co-founder, Bono, the lead singer of the rock band U2. As many of you know, he began his advocacy in the U.S. focused on debt relief, during the Jubilee 2000 campaign a decade ago.

Congress and the current and past Administrations should be proud of their commitment to debt relief for the poorest countries. Members of this committee – Chairman Frank, Mrs. Waters, Mr. Bachus, and Chairman Meeks – have a long active history of supporting legislation and pushing the international community to cancel unpayable debts.

Prior Debt Cancellation

As this committee knows well, we have had several rounds of debt cancellation for poor countries. Ten years ago, the United States and many other large countries cancelled their debts to the poorest and most heavily-indebted countries, most of which were in Africa. This was called the Enhanced Heavily Indebted Poor Country (HIPC) Initiative. Five years later, the U.S. and the U.K. successfully pushed a plan to cancel the multilateral debts still held by these poor countries, known as the Multilateral Debt Relief Initiative (MDRI).

As of September 2009, 35 poor countries have qualified for some form of debt service relief under these initiatives and 26 have completed the process and received both bilateral and multilateral debt stock cancellation. Together, these initiatives have provided over $117 billion in debt relief,[1] resulting in approximately $2 billion in debt service saved annually.

With these debt service savings, we have seen increases in social sector spending:

- HIPC countries on average have increased their spending on social services like health and education from $6 billion in 1999 to $27 billion in 2009 – a nearly 5-fold increase.
- Burundi is using HIPC support to continue to provide free primary education, as well as free health services for children under 5 and women in childbirth.
- Mozambique put its debts service savings to work by vaccinating 1 million children against tetanus, whooping cough and diphtheria.

[1] $72 billion under HIPC, $45 billion under MDRI (nominal terms, current as of fall 2009).

Background on Haiti's Debt

Last summer, Haiti qualified for $1.2 billion in debt cancellation from both bilateral and multilateral creditors under HIPC and MDRI. In doing so, Haiti met all the requirements for the program, such as maintaining macroeconomic stability, carrying out structural and social reforms, and successfully implementing for at least one year a Poverty Reduction Strategy. This $1.2 billion is made up of debt incurred through the end of 2004.

At the time of the earthquake, Haiti still had roughly $1 billion of loans outstanding.

IMF	*$165m*
World Bank IDA program	*$39m*
Inter-American Dev Bank	*$447m*
Int'l Fund for Agriculture Dev	*$58m*
Taiwan	*$92m (these loans were not cancelled under HIPC)*
Venezuela	*$295m (these loans were not cancelled under HIPC)*
Total	*$1.1 billion*

Haiti's multilateral debt was incurred between 2005 and the earthquake. I note with some concern the large volume of debt from the Inter-American Development Bank in such a short time. According to the IDB, $180 million was lent in 2005 and 2006. The remaining $267 million (for a total of $447 million) was approved prior to 2005, but disbursed after the HIPC/MDRI cut-off date and therefore not eligible for cancellation last summer. The bulk of this assistance was for roads, electricity, schools, hospitals, agriculture and other key development sectors. Since 2007, the IDB has only extended Haiti grant assistance. As the dominant single shareholder at the IDB, the United States should seek ways to avoid such a rapid re-accumulation of debt for Haiti, and other poor countries, in the future.

We are heartened that most major bilateral donors, including the United States, have cancelled Haiti's old bilateral debts and now extend to Haiti only grants. The exceptions are Taiwan and Venezuela, as noted.

The Case for Cancellation

Prior to the earthquake, things were looking up for Haiti. The IMF projected 4.5% annual growth rates, and for exports to grow consistently. Over 6 years, HIV prevalence dropped from 6% to 2%. Aid to education more than doubled from an average of $35 million in years 1999 and 2000 to $81 million in 2007. Democracy, political rights and governance indicators were trending upward according to Freedom House. With the help of outside donors, the country treated 2.8 million people for neglected tropical diseases. Under certain economic assumptions, it was not unreasonable to think Haiti could service a limited amount of debt over time.

And then of course, these assumptions about growth, exports and ability to repay were shattered as a result of the earthquake. At this point, it is very difficult to tell when Haiti would *be able* economically to repay these old loans. But I do not believe it is difficult to tell whether Haiti

should pay them back. Haiti plainly needs a fresh start, a chance to rebuild, and will need every dollar over many years to develop. Its current loans were made based on assumptions no longer relevant and intended for projects that are no longer viable. For example, a loan for a road that is now destroyed cannot generate the economic returns to pay the loan back.

Holding Haiti to its international debts not only ignores the change in its economic ability to repay, it would diminish the impact of outside assistance for reconstruction. Donor assistance will hopefully continue to pour in and, if Haiti is still burdened with old debts, some of that assistance would be turned around to make loan payments. This "revolving door" of assistance – donor assistance turned into debt payments to donor-led multilaterals – defies common sense.

That is not to say all debt held by every poor country is bad. Lending should be highly concessional and should have a reasonable chance of being repaid. Unfortunately, these standards are often too loosely applied and poor countries find themselves unable to pay debts back. As preferred creditors, multilateral banks must always be paid back, so new loans are given to cover payments on old loans. A vicious cycle begins. HIPC and MDRI were born out of the need to break the cycle of indebtedness for many poor countries. Loans can make sense for activities that directly produce an economic return, such as some infrastructure, telecommunications and agriculture projects. But this should be the exception. Assistance for health, education, water and sanitation should always be grants. And in nearly all circumstances, we believe grants are the most appropriate form of assistance for the poorest nations.

How to Get a Deal Done

Like any bankruptcy procedure, all creditors have to be at the table for it to work. Otherwise, debt relief from one creditor simply makes it easier to pay back another creditor.

The multilateral institutions are made up of shareholders, such as the United States, Japan, and others. These nation-state Boards must approve any debt cancellation and often contribute to a pool of funding to make up for the lost reflows to the institutions. The chart below shows the major stakeholder countries in the institutions holding Haiti's debt. In other words, these are the major countries that must approve any relief.

US	World Bank (11.3%), IDB (30%), IMF (16.8%), IFAD (15.7%)
Japan	World Bank (8.9%), IDB (5%), IMF (6%), IFAD (7.4%)
Germany	World Bank (5.9%), IMF (5.9%), IFAD (7.8%)
UK	World Bank (5%), IMF (4.9%), IFAD (6%)
France	World Bank (3.8%), IMF (4.9%)
Canada	IDB (4%)
Italy	IFAD (6.7%)
Netherlands	IFAD (6.4%)
Argentina	IDB (10.8%)
Brazil	IDB (10.8%)
Mexico	IDB (7%)

Support for Debt Cancellation

Momentum in favor of cancellation has built quickly. We were delighted to see quick action from champions in Congress, such as the Waters bill you will consider today and the Dodd-Lugar bill in the Senate.

We were pleased to see a strong public reaction as well. Over the course of a couple weeks, we were in touch with our two million-strong membership to respond to the tragedy. At first, we urged people to contribute to the many relief organizations in the immediate aftermath. Then, we launched a petition encouraging Secretary Geithner to use his influence to cancel Haiti's outstanding debt and ensure all new assistance comes in the form of grants. The response was overwhelming. During the G7 Finance Ministers' meeting in Canada, we delivered the names of 200,000 ONE members, and another 200,000 names from partner organizations, like Jubilee and Avaaz, to the Canadian Finance Ministry. The culmination of this effort occurred with the delivery of these 400,000 names by Michèle Bertol – a ONE member and a resident of the 6,000-person arctic town of Iqaluit, who was born in Haiti.

We applaud Secretary Geithner's announcement in support of cancellation on the eve of the G7 Finance Ministers' meeting in Canada a month ago, and for his leadership in securing the support of the all the G7 countries. G7 endorsement is the essential, and usually decisive, action to spur a final deal.

We welcome the World Bank's immediate offer of $100 million in grants in response to the quake. The situation with the IMF is more complicated. It offered, and later approved, a quick infusion of $100 million in zero-interest loans to Haiti's central bank to increase liquidity. As stated earlier, we recommend all new resources to Haiti be in the form of grants. In this case, we do not fault the leadership of the IMF. Lending is the only tool at its disposal, and zero-interest loans, subsidized in part by the sale of gold which we strongly support, are the cheapest form of assistance it can offer. Also, the IMF staff and U.S. Treasury made a compelling argument that the IMF was the best, perhaps only, facility to get Haiti this cash quickly. In the aftermath of this action, we encourage all parties to act quickly on IMF Managing Director Strauss Kahn's call to arrange cancellation of this new lending as quickly as possible.

As noted, there are two bilateral creditors that have substantial loans to Haiti – Taiwan and Venezuela. Both countries have made positive signals about cancelling these debts, and we hope these intentions are quickly matched by actions. As the agreements for cancellation are hammered out, some provision must be made so benefits of multilateral relief do not simply make it easier to pay back Taiwan or Venezuela.

Next Steps

Next in the process is the meeting of the IDB Board in a few weeks in Mexico. As shown above, support for debt cancellation from Argentina and Brazil is important. Then in April, we hope the spring meetings of the boards of the World Bank and IMF will approve cancellation as well. Taiwan and Venezuela also need to follow through on cancelling their bilateral debt.

An essential component of a final agreement will be for the major donor nations, including the United States, to contribute to a pool of funds to cover the cost of cancellation. We expect the Administration to request appropriations for this purpose as part of the anticipated Haiti reconstruction supplemental request. ONE strongly supports this request.

Key Questions

Despite the broad agreement to cancel Haiti's debt, there are some questions worth addressing.

Moral hazard – As countries go through the sometimes lengthy process of qualifying for debt relief, there is the theoretical possibility they could take on more debt in hopes of getting it cancelled. The HIPC process dealt with this potential problem by cancelling only debt incurred prior to an earlier cutoff date. Haiti, of course, could not anticipate the earthquake and take on more debt in hopes of getting it cancelled. The "moral hazard" question is not applicable.

Precedent to go beyond HIPC – Some have questioned whether cancelling Haiti's remaining debt creates a new precedent to give further debt relief to other HIPCs. The current proposal to go beyond HIPC and MDRI relief is clearly exceptional. Exceptions are made for "exogenous shocks" which make the repayment of debt extremely difficult. A natural disaster of this magnitude is an unanticipated and devastating shock.

Aid vs. Debt Cancellation – Is aid or debt cancellation more important for Haiti? In the immediate aftermath of the quake, direct aid is the most important. Before the earthquake, Haiti was paying very little to service its current debts, with estimates as low as $9 million in 2009. Last year, USAID covered Haiti's debt service to the IDB. Since the quake, all major lenders have suspended any required payments. Therefore, cancelling Haiti's debt frees up very little in the short term for recovery efforts. But over the long term, Haiti would have to pay off its $1.1 billion debt, which is money better spent on new investments, not on old projects that ceased to be relevant after the quake hit. Over the long term, debt cancellation is not a silver bullet. Haiti will need far more long term development assistance and trade income than debt relief. Debt cancellation is a small but important piece of a complex puzzle.

Looking at the big picture, as Congress is considering reforming our aid system, it is interesting to note debt relief under the HIPC program has several features that make it an effective form of assistance:

1. *Donor Coordination* – HIPC debt relief, like any bankruptcy proceeding, requires all creditors to act together in a coordinated fashion. Donor coordination brings efficiency for the recipient country (limiting the transaction costs of dealing with dozens of different donors with different rules and paperwork) as well as clearer goals and accountability.

2. *Country ownership* – Country ownership of development initiatives, where funding supports country priorities rather than donor priorities, is critical to program success. In the HIPC process, the recipient government engages in a participatory process with civil

society to design a country-owned poverty reduction plan, increasing the ownership over that plan.

3. *Untied aid* – Because debt relief through the HIPC program provides support directly to recipient government budgets, the countries themselves make spending decisions, using local contractors or NGOs, which are often less expensive and more attune to country priorities than donor-required contractors.

4. *Leveraging more assistance* – In the HIPC program, every dollar of U.S. taxpayer money was multiplied many times by contributions from other donors. When donors agree to act together in this way, with each contribution dependent on others, contributions are multiplied. A similar example of this is the leveraging impact of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria. Every dollar from the United States to the Fund has been matched by $2 from other donors.

Mr. Chairman and Members of the Subcommittee, on behalf of ONE, I thank you for your leadership in pursuing debt cancellation for Haiti. It is an important and effective part of the U.S. response to this tragedy. Haiti's quick re-accumulation of debt since 2005 is cause for concern and points to the strong need for grant resources for the poorest countries. U.S. leadership in multilateral institutions is critical to preventing future debt crises and providing the poorest countries with the resources they need to develop.

Nancy Lee
Deputy Assistant Secretary for the Western Hemisphere
U.S. Department of Treasury
House Financial Services Subcommittee on International Monetary Policy and Trade
March 4, 2010

Chairman Meeks, Ranking Member Miller, members of the House Financial Services Subcommittee on International Monetary Policy and Trade, thank you for inviting me to testify at this important hearing on the current situation in Haiti. I know the leadership role you and others on this Committee have played on the Haiti issue, and it is a privilege for me to testify before you today.

I returned early this morning from Port-au-Prince, where I had the opportunity to meet with the senior economic team in Haiti, including Finance Minister Baudin, Central Bank Governor Castel, and President Préval's chief economic advisor, Gabriel Verret. I also had the opportunity to meet with the private sector, including heads of several banks and the president of Fonkoze, a remittance provider doing very important work in Haiti. I am pleased to have this opportunity to share my findings with you.

In the immediate aftermath of the January 12 earthquake, efforts were focused on providing urgent lifesaving and life-sustaining relief, as well as restoring essential public services, such as banking and money transfers. We saw an extraordinary level of coordination, both within the United States government and amongst the international community. Now – seven weeks later – we have moved from the emergency phase to the immediate recovery phase, and are about to move into the reconstruction and development phase. Yet the Haitian people will continue to face tremendous humanitarian and recovery needs, and meeting these needs will require a continued massive multilateral effort.

In my testimony, I will provide an overview of the current macroeconomic situation and challenges. I will then discuss Treasury efforts to help Haiti address these challenges through technical and financial assistance, including debt relief.

Current Status and Challenges

Although the earthquake was a catastrophic setback, economic activity is beginning to recover, boosted by extraordinary international assistance and significant financial flows. Pre-earthquake projections pointed to 3.6 percent annual growth in 2010 and annual inflation of 8 percent. Post-earthquake, we can now expect a GDP contraction of at least 10 percent, and a significant increase in inflation, perhaps to 10-20 percent, as a result of severe shortages in particular goods. The economic impact of the earthquake is quite varied by sector and region, and it will take some time to fully understand the nature of these different effects. Today, I will provide you with our best current assessment of the financial sector, public finances, the balance of payments, and the debt burden.

Underdeveloped Financial Sector

In the financial sector, the initial concern following the earthquake was re-establishing the payments systems and ensuring that there was enough physical cash in the system for banks and remittances providers to open. These cash needs were met through the joint effort of the Haitian government, the Haitian financial sector, multilateral institutions such as the IDB, and the U.S. government. The Haitian government was able to pay its employees for January through the hard work of the Ministry of Finance, the Central Bank, and local banks.

Going forward, a key challenge for the Haitian economy will be to create conditions that enable the financial sector to meet more effectively the needs of the economy. Credit growth has lagged for many years due to a combination of risk aversion, periodic shocks, and bouts of economic and political instability. Post-earthquake, this historical risk aversion has only intensified. At the same time, we know that Haitian companies are struggling. Their business activities and revenue streams have been interrupted at a time when they need more resources than ever to rebuild facilities and restore their productive capacity.

Fiscal Gaps

On the fiscal side, the government faces a severe financing gap. The International Monetary Fund (IMF) estimates that domestic revenues may decline by as much as 40 percent due to the shock to economic activity and international trade. This is compounded by the devastating human and capital losses suffered by the revenue collection agency. Meanwhile, government expenditures are likely to increase to fund basic needs and reconstruction. The Haitian authorities have already taken significant steps to restore public financial management systems and procedures, with the support of technical assistance partners. Priority areas have included: basic treasury functions, basic audit service and expenditure monitoring, procurement functions for major purchases, IT services, and taxpayer records, and revenue administration.

Balance of Payments Pressures

With regard to the balance of payments, the IMF has preliminarily identified a potential balance-of-payments gap of $300 million for 2010, at least $100 million of which is unfinanced. At the moment, the situation is stable with imports sharply down and remittances up. Haiti is heavily dependent on imports, but with the Port-au-Prince seaport and airport closed, until recently, to most commercial traffic, the volume of imports has declined. Moreover, remittances – which represent some 20 percent of GDP – have increased significantly. Given their economic importance, a smoothly functioning, competitive money transfer system is essential. Evidence of a short-term balance-of-payments improvement is seen in increased dollar deposits in the banks and recent purchases of dollars from the Central Bank to reduce the volatility of local currency movements.

Significant Debt Burden

As you know, these looming fiscal and balance-of-payments pressures come on top of a still-significant Haitian debt burden. A considerable portion of Haiti's external debt was relieved

when the country reached the Heavily Indebted Poor Country (HIPC) Initiative completion point in June 2009; the United States forgave 100 percent of Haiti's bilateral debt at that time. Despite these significant strides, $1.1 billion in external debt remains. Of this, the multilateral debt stock represents $825 million, with $447 million to the Inter-American Development Bank (IDB) alone.

Addressing These Challenges

These challenges are vast and tackling them will require significant resources. Immediately following the earthquake in Haiti, Treasury began working closely with our government colleagues and international partners to support assistance efforts. We have seen an extraordinary level of coordination, both within the U.S. government and vis-à-vis the international community, and both in Washington and on the ground. The United States has demonstrated clear leadership in this endeavor. Treasury has played an important role in the inter-agency and international processes, and will play a role in reconstruction efforts.

Let me briefly describe some of our efforts to address the challenges I discussed and the measures we have taken to help the Haitian people.

Financial Sector Development

Development of the financial sector is vital for the economy. Treasury is focusing on helping Haiti not just re-start lending, but expanding access to finance to a broader range of households and businesses, especially microfinance enterprises. The rate of credit growth will be a principal factor determining the rate of private sector recovery, as well as job creation. To address these problems during this period of considerable uncertainty about Haiti's economic future, we are working with the multilateral development banks (MDBs) and IMF to develop tools for sharing risk with Haitian financial institutions. Further, many Haitian companies will be viable in the long term if they can weather the immediate drop in sales and surge in reconstruction costs. Accordingly, we are working through MDB private-sector windows to develop solutions to supply much-needed working capital.

To build confidence and reduce risk aversion, extending a sound regulatory framework to a broader range of financial services and institutions is key. We can help Haiti establish supervisory and regulatory frameworks for microfinance, insurance, and pension funds, as well as develop a deposit-insurance scheme.

These kinds of efforts yield disproportionate benefits for job creation. Relatively small investments of donor resources leverage much greater amounts of private finance.

Balance of Payments

With regard to balance of payments pressures, we strongly supported the January 27 augmentation of Haiti's IMF program by $100 million, which will help close the projected gap. We commend the IMF for its rapid response. We also strongly support Managing Director

Strauss-Kahn's intention to develop a means of internally financing Haiti's remaining obligations to the IMF, including the $100 million just approved.

Budget Finance

The combined blow to the fiscal balance of the collapse in revenues and sharp increase in spending will generate substantial budget support needs. Here the MDBs have a central role to play. And we are working in close cooperation with them to provide technical assistance in rebuilding Haiti's revenue system.

Debt

Although most of Haiti's bilateral debt – including debt to the United States – was cancelled in June 2009, Haiti still confronts large debts to multilateral institutions. It is imperative that we cancel this additional debt so that Haiti can proceed on a sustainable path to recovery. To this end, ahead of the G-7 ministerial in Canada earlier this month, Secretary Geithner announced that the United States is seeking commitments by donors to relieve Haiti's debt to the IDB, the International Fund for Agricultural Development (IFAD) and the International Development Association (IDA) in a manner that provides direct and immediate grant support to Haiti. In making this announcement, Secretary Geithner recognized the leadership in Congress, including among the members of this committee, in calling for debt relief for Haiti. At the G-7 meetings, the Secretary was able to work with his colleagues and secure agreement that Haiti's recovery should not be burdened by debt to multilateral institutions.

We must not only cancel Haiti's debt, we must do so in the right way. We believe it is crucial that support for Haiti debt relief not subtract other donor resources that otherwise could have been made available for urgent reconstruction and recovery priorities. In addition, the benefits of debt relief must be available to Haiti now, not slowly materialize over a long time horizon.

With these considerations in mind, Treasury has developed an innovative proposal for achieving the full cancellation of Haiti's multilateral debts that augments resources available for Haiti's recovery. First, we propose transforming the funds provided for debt relief into grant resources for Haiti. Second, we propose converting existing undisbursed loans into grants to guard against adding to debt. Separately, we are also pressing, in the context of on-going negotiations related to the IDB's general capital increase (GCI), for a commitment by the IDB to transfer a portion of its annual net income to finance projects in Haiti. The Treasury proposal is designed to generate resources in both the short and longer term. The proposal therefore attempts to accomplish three critical objectives:

- It creates a substantial pool of upfront grant resources;
- It mobilizes a long-term, continuous stream of grant resources; and
- It, through continued negotiations, works to ensure that the U.S. contribution leverages the maximum amount of multilateral resources.

To be sure, there will be a U.S. component to addressing the cost of providing debt relief for Haiti. And our hope is that we can build on strong, bi-partisan support for Haiti to translate debt

relief operations into new resources that the government of Haiti can apply towards the country's urgent reconstruction and development priorities. We look forward to working with you and your staff on this proposed approach in the days ahead.

Treasury Presence on the Ground

In addition to debt relief efforts, Treasury promptly redirected significant human resources to give high priority to Haiti. We were able to respond rapidly to the tragedy with the deployment of on-the-ground support focused on enhancing human capital – that is, working with the government of Haiti to strengthen budgetary, tax, and financial management. We now have a temporary senior Treasury representative in Port au Prince. And we sent two seasoned technical assistance advisors to help the Central Bank and the Finance Ministry. Our ability to provide resident and intermittent technical advisors quickly is one of Treasury's specific strengths. We leverage skilled and timely assistance from a small resource base.

The first goal of our technical assistance advisors upon arriving in Haiti was to assess the impact of the earthquake on the government's ability to carry out its normal economic functions, including payment of government salaries, implementation of the budget, and ensuring financial system stability. Their next step was to discuss with Central Bank and Finance Ministry officials the assistance that they could provide in the medium term. Based on these discussions, our team has identified several priority areas, the most critical of which are improving the taxation structure, enhancing debt management and issuance capabilities, and enhancing the stability of the insurance and microfinance sectors. Work is already underway, for example, to support the recovery of data and systems housed at the government of Haiti's Directorate General of Taxation (DGI), the equivalent of our IRS. We hope to augment our technical assistance footprint to focus on these areas going forward in order to be able to sustain the effort to help Haiti build capacity to address these challenges.

Since his arrival, our senior Treasury representative has worked on a broad array of financial and fiscal challenges: facilitating the flow of remittances, restarting the payments system, helping to recover the government revenue system, and providing support in crafting Treasury's debt relief proposal. He is also supporting the U.S. Ambassador and advising the Haitian authorities in formulating their reconstruction and development strategy. He will continue to provide assistance in areas where Treasury has a core competency and assist in the deployment of future technical assistance.

Reconstruction Architecture

Another principal duty of our senior representative is to represent the United States, with others, in the post-disaster needs assessment (PDNA), led by the World Bank, Inter-American Development Bank, United Nations, and European Commission. This need assessment, to be competed in mid-March will be fundamental to ensuring that we understand the economic needs for reconstruction and transition. It will provide the cost figures that will underpin donor burden sharing and pledging.

We must ensure that the needs assessment envisions a post-earthquake Haiti stronger, more resilient, and more prosperous than pre-earthquake Haiti and focuses on job creation and recovery of the productive sector to foster economic growth. Following the completion of the needs assessment, a high-level donor conference will be held in New York in late March. Treasury is working closely with our State colleagues on the contours of the needs assessment to ensure it is an effective instrument for defining the use of donor assistance for the most effective purposes.

Regarding the financing of reconstruction activities, Treasury anticipates that a multi-donor trust fund (MDTF) may be able to play a critical role in this effort and in filling the balance-of-payments and fiscal gaps I mentioned earlier. Together with our colleagues at the international financial institutions, we are contemplating a model that builds on the lessons learned from the 2004 tsunami in Aceh: a single facility with a steering committee of donors guided by a government-led national development authority that sets priorities and provides coordination. We are working with the international financial institutions to establish such a fund, which most likely would be administered by the World Bank with a strong project implementation role for the IDB.

Conclusion

In summary, under the strong leadership of the President, the U.S. government has mobilized to help Haiti weather the immediate aftermath of the devastating earthquake. We must now effectively manage the transition from the emergency and immediate recovery phases to the reconstruction and development phase. In close collaboration and coordination with the Haitian government, its people, our international partners, and the rest of our government, Treasury is resolved to play an active role in helping Haiti build an economy and financial system that meets the needs and aspirations of the Haitian people.

Haiti Debt Relief

Testimony of Melinda St. Louis
Deputy Director, Jubilee USA Network

Before the Subcommittee on International Monetary Policy and Trade
of the Committee on Financial Services
U.S. House of Representatives

March 4, 2010

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

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[1] Eduardo Cavallo, Andrew Powell, and Oscar Becerra. Estimating the Direct Economic Damage of the Earthquake in Haiti, Inter-American Development Bank Working Paper, February 2010.

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 reinvade 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

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[2] "Clinton positive on forgiving Haiti debt", AFP, Washington, January 26, 2010.
[3] Gaillard, G-K *L'Expérience haïtienne de la dette extérieure.* Port-au-Prince: Maison Henri Deschamps, 1990.
[4] Bellegarde-Smith, Patrick. *Race, Class and Ideology: Haitian Ideologies for Underdevelopment, 1806- 1934.* New York, N.Y.: American Institute for Marxist Studies, 1982, p. 15.

squads like the *Tontons Macoutes*.[5] 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.[6] 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.[7]

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.[8] Life expectancy remains low at 61 years[9] and HIV/AIDS rates are the highest in the hemisphere.[10] There are only 3 doctors per 10,000 people in Haiti.[11] One in 12 children die before reaching her fifth birthday.[12] The maternal mortality rate is the highest in the hemisphere at 670 per 100,000 births.[13] Only 35 percent of Haitian children are able to finish elementary school.[14]

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.[15] 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

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[5] James Ferguson. *Papa Doc, Baby Doc: Haiti and the Duvaliers*. Oxford: Basil Blackwell, 1987.
[6] Ibid.
[7] Eurodad. "Haiti gets $1.2 billion debt cancellation after long wait," July 2, 2009.
[8] UNDP Human Development Report 2009, Haiti Country Page.
[9] World Bank Data and Statistics, Haiti Country Page, 2008.
[10] AIDS Epidemic Update 2009, "Caribbean Fact Sheet." UNAIDS, 2009.
[11] World Health Organization, "Health Workforce, infrastructure, essential medicines" World Health Statistics 2009.
[12] World Health Organization, "Mortality and Burden of Disease," World Health Statistics 2009.
[13] UNFPA Dispatch, "Earthquake in Haiti: UNFPA Concerned Over Critical Situation for Women." January 13, 2010.
[14] Mark Schuller, "Haiti's CCI: The Tail Wagging the Dog?," Haiti Analysis.com. 2007.
[15] Joseph Guyler Delva. "Haiti storm damage estimated at $1 billion," Reuters, October 28, 2008.

mud pies.[16] 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,[17] 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.[18] Prescriptions to drastically reduce tariffs on rice devastated Haiti's domestic rice farmers, who had been previously self-sufficient.[19]

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,[20] totaling more than $100 billion. 28 nations have received 100 percent cancellation of eligible debt stock.[21] 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.[22] For every dollar received in debt relief, African governments have increased social spending by two dollars.[23]

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

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[16] Jonathan Katz. "Poor Haitians Resort to Eating Dirt," Associated Press, January 30, 2008.
[17] Joseph Guyler Delva. "At least 12 killed as ferry capsizes off Haiti," Reuters, May 12, 2008.
[18] Mark Schuller, "Haiti's CCI: The Tail Wagging the Dog?," Haiti Analysis.com. 2007.
[19] Oxfam International. "Two-pronged trade attack will destroy poor farmers, warns Oxfam," April 11, 2005.
[20] IDA and IMF, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation," September 15, 2009.
[21] List of HIPC Countries on World Bank website.
[22] IDA and IMF, September 15, 2009.
[23] DATA Report 2007, citing IDA and IMF, "Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty Reduction Public Spending," April 12, 2005.

debt to export ratio.[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. [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.[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.[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

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[24] Mark Weisbrot and Luis Sandoval, "Debt Cancellation for Haiti: No Reason for Further Delays." CEPR, December, 2007.
[25] International Monetary Fund. "Haiti: Selected Issues," 2002.
[26] Analysis of IMF loan documents by ActionAid staff, January 2010.
[27] Mark Weisbrot and Luis Sandoval. Debt Cancellation for Haiti: No Reason for Further Delays, Center for Economic and Policy Research, December 2007.

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 Venezuela[30] 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.

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[28] International Monetary Fund and World Bank, "Haiti: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document." September, 2009.
[29] Information on Haiti's multlilateral debt provided by U.S. Treasury officials in January 2010.
[30] Reported in the press on January 26, 2010.
[31] International Monetary Fund and World Bank, "Haiti: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document." September, 2009.

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

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[32] "IMF Chief Calls for 'Marshall Plan' for Shattered Haiti, " IMF Survey Magazine On-line, January 20, 2010.
[33] "IMF Executive Board Approves US $114 Million in Aid to Haiti," International Monetary Fund Press Release No. 10/17, January 27, 2010.
[34] "IMF Chief Calls for 'Marshall Plan' for Shattered Haiti, " IMF Survey Magazine On-line, January 20, 2010.
[35] "World Bank Statement on Haiti Debt," Press Release No: 2010/236/LAC, January 21, 2010.

relief.[36] 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,"[37] 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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[36] "IDB President visits Haiti, calls for expanded aid," Inter-American Development Bank. January 18, 2010.
[37] "Secretary Geithner, "Voices Support for International Debt Relief for Haiti, Financing of Recovery Through Grants," U.S. Department of the Treasury. February 5, 2010.

allocated to debt stock and debt service relief for Haiti.[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."[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

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[38] IMF, "Questions and Answers: IMF Gold Sales," February 17, 2010.
[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.

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[40] UNCTAD. "Haiti's recovery should start with cancelling its debt," UNCTAD Policy Briefs, No. 11, January 2010.

[41] Nancy Birdsall and Milan Vaishnav "Getting to Home Plate: Why *Smarter* Debt Relief Matters for the Millennium Development Goals", Comments for the Helsinki Process on Globalisation and Democracy, March 26-28, 2004.

[42] Joseph Stigliz (Chair). Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, United Nations, September 21, 2009, p. 123.

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).[43] 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.

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[43] UNCTAD. "UNCTAD to launch project on responsible sovereign lending and borrowing," from UNCTAD website.

Citizens' Petition for Haiti

To be presented to Members of the United States Congress and President Barack Obama

Petition summary and background	A signed petition stating that as Haiti rebuilds from the terrible earthquake, the international community must work to secure the immediate cancellation of Haiti's debt and ensure that any emergency earthquake assistance is provided in the form of grants, not debt-incurring loans.
Action petitioned for	We, the undersigned, are concerned citizens who urge our leaders to act now, demanding the immediate cancellation of the international debt of Haiti and all subsequent aid for Haiti to be presented in the form of grant and not loans.

Printed Name	Signature	City, State, Zip Code	Comment	Date
Cienlious Powells	[illegible]	Houston, Texas 77013	Let Go! and Let God	2-28-10
Kenner Pittman	[illegible]	Houston, TX 77273		2-28-10
DOUG JONES	Doug Jones	HOUSTON, TX. 77021		2-28-10
Phillip A. Cizm	[illegible]	Houston TX 77022		2-28-10
Herra Allen	Aerra Allen	Houston, TX 77054		2/28/10
Tiffany Tarrant	Tiffany Tarrant	Missouri city, 77459		2/28/10
M. Ann Jones	M. Ann Jones	Hou TX 77082		2.28.10
Shirley Pope	Shirley Pope	Houston, TX 77036		28 Feb 10
Noniel Riggins	[illegible]	Richmond TX 77407		2-28-10
T. J Minor	[illegible]	Houston Tx 77042		2/28/10
FREDERICK PRINCE	[illegible]	Galena Park Tx 77547		2 28 10
Zahra Goode	Zahra Goode	Houston TX 77096		2/28/10

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Printed Name	Signature	City, State, Zip Code	Comment	Date
Jimmie L Smith	Jimmie Lee Smith Jr	9936 Hwy 300, Ark 72368 Local farmer St Thomas Ark	Sorry Hope Comes	2-28-2010
Shayne Hall	Shayne Hall	5032 Lamonte Houston TX 77092		2-28-2010
Chris Fowler	Chris Fowler	303 country place dr. #E2		2-28-2010
Neil Harris	Neil Harris	10530 Cheeves St. Houston Tx 77016	Please help God's people	2-28-2010
Camille Cloid	Camille Cloid	3202 Boynton Dr Houston Tx 77045	Please help Haiti by helping Haiti we help us	2-28-2010
DARYL D COTTON	[illegible]	8746 GUINEVERE HOU. TX 77029		2-28-2010
Ardey Boyle	Ardey Boyle	7622 FAWN TERRACE DR. Hou, TX 77071	I thought this was done. Do It!	2-28-2010
Kelvin K Williams				
Kelvin K Williams	Kelvin K Williams	7314 Clifton Hou, TX 77029		2-28-2010
Keldrick Williams	Keldrick Williams	Houston TX 77004	Do what you gotta do	2/28/10
Lucious R Terry Jr	Lucious R Terry Jr	Houston, TX 77077		
Isaac Hall	[illegible]	Texas City, Tx 77590		2/28/10

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Printed Name	Signature	City, State, Zip Code	Comment	Date
Jeannette Bowie	Jeannette Bowie	Pearland, TX 77584	N/A	2/21/10
Katie Kimble	Katie Kimble	Stafford Tx 77477	N/A	2/21/10
FLOYD ATKINS JR	[illegible]	HOUSTON, TX 77059	N/A	02/21/2010
~~Melvin Gray~~				
MELVIN K. GRAY	Melvin K Gray	Houston, TX 77008	N/A	2/21/2010
Bridgette Steele-gulloway	[illegible]	Houston TX 77020	N/A	2/21/2010
Ray Bussard	Ray Bussard	Beaumont, TX 77705	N/A	2/21/2010
NZINGA TCHAMENI	[illegible]	HOUSTON, TX 77087	N/A	2/21/2010
Nzinga Rideaux	Nzinga Rideaux	Houston, TX 77026	N/A	2/21/2010.
Lee Henry Richard	Lee H. Richard	Houston Tx 77048	—	2/21/2010
Takeisha S. Richard	Takeisha S. Richard	Houston Tx 77048	—	2/21/2010
Rosalyn Grimes	Rosalyn Grimes	Houston, Tx 77004	~	2.21.2010

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Printed Name	Signature	City, State, Zip Code	Comment	Date
Toya Terry		2816 Isabella St.		2-20-10
Alvin Sumler		Houston, Tx 77004		2-20-10
Markeith Victoria		637 Rutland #5		2-20-10
STAR BEXIE		9449 BRIAR FOREST #3204		2/21/10
CELIA ROBINSON		5506 GERTIN		2/21/10
Will Lyles		5010 Kelso St 77024		2/21/10
QUINTIN CONGWRIGHT		Houston, TX 77004		2-21-10
CRYSTAL HADNOTT		HOUSTON, TX 77007		2.21.10
Earl Singleton		Houston, Tx 77004		2/21/10
Marshelle Jones		Houston Tx 77004		2/21/10
Natasha Williams		Houston, Tx 7707		2/21/10
Roscoe Mason	Roscoe L Mason	Houston		2/21/10

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Printed Name	Signature	City, State, Zip Code	Comment	Date
KEBRA SHIELDS	Keb Shields	HOUSTON, TX 77051		2/28/10
DANIEL JOHNSON	Daniel L. Johnson	Houston, TX 77073		2/28/2010
TRACY MATTHEWS	[illegible]	HOUSTON, TX 77063		2/28/2010
Bina Miller	[illegible]	Houston, TX		2/28/2010
E Hayes Williams	[illegible]	Houston TX 77028		2-28-10
Geneva Diggins	Geneva Diggins	Houston TX 77011		2/28/10
Aimee M Turney	Aimee Mallory Turney	Houston, TX 77096		2/28/10
MISHA GRANADO	M. Granado	HOUSTON, TX 77070		2/28/10
Wayne Collins	Wayne Collins	Houston TX 77003		2/28/10
Nicholas Brooks	[illegible]	[illegible]		2/28/10
Michael Pointer	Michael Pointer	Houston TX 77055		2/28/10