Update - Debt Cancellation for Haiti:

No Reason for Further Delays

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Executive Summary

Haiti is the most impoverished country in the Western Hemisphere, with 76 percent of its population below the poverty line and a life expectancy of 58.1 years.[1] Yet it was originally excluded from the International Monetary Fund (IMF) and World Bank's Heavily Indebted Poor Countries (HIPC) initiative for debt cancellation in 1996, because of a technicality relating to its debt service burden.

Although it was subsequently included (in 2006), because of this delay Haiti is currently struggling to meet the requirements for cancellation of most of its total $1.7 billion foreign public debt. Thus, while the other HIPC countries in the Western Hemisphere (Bolivia, Guyana, Honduras, and Nicaragua) have already received debt cancellation under the HIPC and Multilateral Debt Relief Initiative (MDRI) – Haiti still has to reach the "completion point" under the HIPC initiative in order to receive debt cancellation.

Haiti was expected to reach completion point by September 2008. However, this did not happen and now the country has to pay an additional $44.5 million in debt service payments to multilateral institutions (mostly the World Bank and the Inter-American Development Bank). This is equivalent to about 26 percent of Haiti's spending on public health, where there are many vital unmet needs. Furthermore, this total does not include bilateral debt service of $11.4 million, some cancellation of which was also expected. The IDB might cover a portion of Haiti's debt service payments to that institution, at least for the first half of 2009, since Haiti is now expected to reach completion point by this date.

There are other reasons to avoid delay. There is little reason to believe that the conditions set by the IMF and World Bank for further debt cancellation are likely to benefit Haiti. Although the experience of HIPC debt cancellation is positive with regard to the funds freed up from debt cancellation being used for poverty-reducing expenditures,[2] the conditions attached to such debt cancellation do not have a positive track record. For example, in April 2007, the IMF's Independent Evaluation Office released a report that examined the experience of 29 Sub-Saharan African countries that underwent Poverty Reduction and Growth Facility (PRGF) programs, and were therefore subject to IMF conditions, from 1999-2005. The report was highly critical of the IMF's role, and among other findings noted that nearly three-quarters of the aid money reaching these countries was not spent. Rather, at the IMF's urging, this money was used to pay off debt and to add to reserves.[3]

Another reason that these institutions should grant immediate debt cancellation is that they contributed to enormous economic damage in Haiti by cutting off all disbursements from 2001 – 2004. There is considerable evidence that this cutoff of aid was part of a deliberate effort by the U.S. government to destabilize and ultimately topple the elected government of

[1] See IMF (2008a), "Haiti: Poverty Reduction Strategy Paper", IMF Country Report No. 08/115. Available online at: [http://www.imf.org/external/pubs/ft/scr/2008/cr08115.pdf].

[2] See IDA/IMF (2007), "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation" August 28,2007 [http://www.imf.org/external/np/pp/2007/eng/082807.pdf].

[3] See Independent Evaluation Office of the IMF (2007), "The IMF and Aid to Sub-Saharan Africa." Online at: [http://www.imf.org/External/NP/ieo/2007/ssa/eng/pdf/report.pdf].

Haiti.[4] As noted by economist Jeffrey Sachs, a former advisor to the IMF and World Bank, "U.S. officials surely knew that the aid embargo would mean a balance-of-payments crisis, a rise in inflation and a collapse of living standards, all of which fed the rebellion [against President Aristide]."[5]

For a country as poor as Haiti, the aid embargo was enormously destructive to the economy, and the violence during and after the coup inflicted further damage and cost thousands of lives. Because of the multilateral creditors' participation in this destruction, and for the other reasons noted in this paper, Haiti's debt should be canceled without further delay.

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[4] Robert F. Kennedy Memorial Center for Human Rights. "RFK Memorial Takes Treasury Department to Court to Determine US Role in Denying Loans Vital to Haiti's Perilous Public Health." Press Release, August 15, 2006. [http://www.rfkmemorial.org/legacyinaction/2002_TreasCompl/]. See Walt Bogdanich and Jenny Nordberg, "Mixed U.S. Signals Helped Tilt Haiti Toward Chaos." *The New York Times*, January 29, 2006, for background on the U.S. role in the coup.

[5] Jeffrey Sachs, "From His First Day in Office, Bush Was Ousting Aristide," *Los Angeles Times*, March 4, 2004

Introduction

Haiti is currently struggling to meet the conditions set forth by the International Monetary Fund (IMF) and the World Bank in order to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Once the country meets these conditions, it will receive additional debt relief under the latest Multilateral Debt Relief Initiative (MDRI).

In 2007, the Inter-American Development Bank (IDB) also agreed to cancel most of the outstanding loans of the five poorest countries in the Western Hemisphere, including Haiti. Even though the IDB did not take part in the MDRI, it has linked the full delivery of its promised debt relief to Haiti to the same conditions set forth by the IMF and the World Bank under the HIPC Initiative.

The HIPC Initiative began eleven years ago, but at the time, Haiti was excluded from it because it did not meet the technical debt burden indicators, which were later revised in 1999, and in spite of being the most impoverished country in the Western Hemisphere. Today, social indicators in Haiti remain at terribly low levels: some 76 percent of its population living in poverty, a life expectancy of 58.1 years, an illiteracy rate of 58.7 percent and 47 percent of the population without access to safe drinking water.[6]

For these reasons and others described below, it would make sense to grant debt cancellation to Haiti immediately, rather than forcing the government to meet various macroeconomic performance criteria before receiving the promised debt cancellation.

Current debt situation

According to the most recent data from Haiti's Economy and Finance Ministry, the country's total foreign public debt reached $1.7[7] billion in May 2008.[8]

Most of Haiti's foreign public debt is owed to the World Bank (more specifically, the International Development Association, IDA) and the IDB, as shown in Table 1 below. These debts together currently represent around 18 percent of Haiti's GDP and account for 76.3 percent of the country's total foreign public debt.

After reaching decision point status in November 2006, Haiti was supposed to receive interim debt relief under the HIPC Initiative from both multilateral and bilateral creditors for the FY2007-2008 period. It was assumed that Haiti would reach completion point by September 2008, after which it would receive full debt relief. The interim debt relief had been estimated at $19.8 million in debt service reduction ($13.3 million in FY2007 and $6.5 million in FY2008).[9] As a result of this interim debt relief, Haiti's debt service payments

[6] See IMF (2008a), "Haiti: Poverty Reduction Strategy Paper", IMF Country Report No. 08/115.
[7] All dollar amounts used here refer to the US dollar.
[8] *Ministère de l'Economie et des Finances de la Republique d'Haïti* (MEF), "Dette externe du secteur public (Mai 08)": [http://www.mefhaiti.gouv.ht/download.php?dwn=Dettemai%2008.xls].
[9] IDA/IMF 2006, Decision Point Document, p. 22.

would be reduced by 15 percent to $76.3 million in FY2007 and by 11 percent to $54.5 million in FY2008.

TABLE 1
Haiti: Stock of External Public Debt /1 (Fiscal Year ending September 30)

	2002	2003	2004	2005	2006	2007	As of May 2008
				(In millions of US$)			
Total	1,216.1	1,304.4	1,359.2	1,365.2	1,463.2	1,541.3	1,713.7
Medium and long-term debt	1,166.9	1,245.7	1,280.5	1,329.8	1,418.5	1,541.2	1,713.6
Bilateral creditors /2	180.3	202.2	211.5	234.4	244.0	234.6	292.6
United States	9.4	8.7	8.0	15.1	14.4	13.8	13.4
France	43.3	50.9	56.4	64.1	68.1	75.3	85.2
Others	127.6	142.6	147.2	155.2	161.5	145.5	194.0
Multilateral creditors	956.6	1,026.0	1,057.8	1,073.6	1,142.1	1,306.6	1,421.0
IBRD/IDA	495.5	528.4	540.5	504.2	512.2	528.4	538.2
IFAD	25.6	28.8	30.9	31.7	33.2	37.4	40.1
IDB	430.3	462.7	481.4	534.0	593.5	682.1	769.1
OPEC special fund	5.2	6.1	5.0	3.7	3.2	3.1	3.4
IMF and IMF trust fund	30.0	17.5	11.2	21.8	32.4	55.6	70.2
Other debt /3	49.2	58.6	78.7	35.4	44.7	0.1	0.1
Short term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	49.2	58.6	78.7	35.4	44.7	0.1	0.1
Nominal GDP (millions of U.S. dollars) /4	3,472.2	2,960.3	3,537.7	4,310.3	4,836.3	6,618.4	7,259.3
Nominal GDP (millions of *Gourdes*) /4	94,028.0	119,758.0	140,387.0	168,034.0	200,456.0	247,529.0	273,964

Source: IMF (2007b)[10]; *Ministère de l'Economie et des Finances de la Republique d'Haïti* (MEF); *Banque de la République d'Haïti* (BRH).
Notes:
1/ Includes concessional and commercial public debt, officially guaranteed debt, and central bank liabilities, including use of Fund resources.
2/ Includes rescheduled debt with Canada, France, Spain and the United States.
3/ Excludes overdue suppliers' credits in dispute ("dette en litige").
4/ Nominal GDP figures in Gourdes from 2002-2007 are from Haiti's Central Bank (BRH) and converted to US dollars using average reference exchange rates (from BRH). Figures for 2008 are mid-point projections based on average nominal GDP growth rate for 2002-2007 period.

In 2007, the Inter-American Development Bank (IDB), which holds the largest share of Haiti's total foreign public debt (44.9 percent), announced that it was also going to deliver $20 million in interim debt relief under the Multilateral Debt Relief Initiative (MDRI) over FY2007 - FY2008.[11]

[10] IMF (2007b), "Haiti: Selected Issues and Statistical Appendix," Country Report No. 07/292, August 2007: [http://www.imf.org/external/pubs/ft/scr/2007/cr07292.pdf].
[11] IDB (2007a), "IDB Governors approve $4.4 billion in debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua," Press Release, March 16, 2007: [http://www.iadb.org/NEWS/articledetail.cfm?artid=3665&language=En].

How much debt relief will Haiti obtain once it reaches completion point?

Once Haiti reaches completion point, the country will receive $212.9 million in debt cancellation over time from both multilateral ($110.9 million) and bilateral ($102.0 million) creditors under the HIPC Initiative.[12]

Furthermore, reaching completion point will trigger additional debt cancellation under the MDRI, which will signify a more important reduction in debt for Haiti. From the World Bank, Haiti could receive $464.4 million in debt cancellation. Also, although the IDB did not participate in the MDRI, it has agreed to further debt cancellation and has linked the delivery of full debt relief of approximately $525 million in both future principal and interest payments (which includes interim debt relief) to Haiti reaching completion point status under the MDRI.[13]

Thus there is just over $1.2 billion of debt cancellation that is dependent on Haiti reaching completion point.

Haiti will not obtain any debt relief from the IMF beyond the HIPC Initiative because it had repaid all its MDRI-eligible debt to the IMF when it reached decision point status. However, Haiti's debt to the Fund after HIPC debt relief and after some recent repurchases will be relatively low.

When can we expect Haiti to reach completion point?

Originally, in the 2006 decision point document, the IMF and IDA expected Haiti to reach completion point by September of 2008. This did not happen. In Fall 2008, Haiti's expected Completion Point date was moved to "first half 2009" by the IMF and the World Bank.[14] The latest IMF document on Haiti also reveals an expected completion point date in the first half of 2009.[15]

Furthermore, a look at other countries that have gone through, or are going through the same process of meeting the conditions for debt relief, paints a bleaker picture for Haiti. Under the Enhanced HIPC Initiative, countries that have reached decision point status take

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12 IDA/IMF (2006), Decision Point Document, p. 22.

13 IDB (2007a), *op. cit.* and IDB (2007b), "Haiti: Strengthening Public Resource Management," Grant Proposal (HA-L1017): [http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1117262].

14 See World Bank and International Monetary Fund (2008). "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation", September 12, 2008, p.57. [http://www.imf.org/external/np/pp/eng/2008/091208.pdf].

15 IMF (2008b), "Haiti: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility," IMF Country Report No. 08/223, p.13: [http://www.imf.org/external/pubs/ft/scr/2008/cr08223.pdf].

three years, on average, to reach completion point.[16] Of the 22 countries that have reached completion point, 18 have taken more than two years and only one has reached completion point in one year or less, after having reached decision point status. Of the nine additional countries (Haiti included) that have reached decision point status and that are now struggling to meet the conditions required for completion point, five started more than four years ago.

The IDA and IMF pointed out in the decision point document that Haiti would forgo an estimated $18.6 million in debt relief in the event of a one-year delay in reaching completion point.[17] This foregone debt relief (i.e. what Haiti would not pay in debt service for FY2009) does not include, however, foregone debt relief from bilateral creditors and from other multilateral creditors, in particular the IDB.

Based on the debt service schedules for the IDB loans that are up for cancellation (i.e., the outstanding loan balance as of December 31, 2004), Haiti will have to pay $25.9 million in debt service for FY2009 (October 2008-September 2009) on those loans, since the completion point was not reached by September 2008. This amount refers *only* to those loans that will be canceled once the country reaches completion point. Therefore, it does not include additional debt service payments for outstanding loan balances after the cutoff date of December 31, 2004. According to the latest IDB debt service projections for Haiti (September 30, 2008), these additional payments would amount to $12.3 million for FY2009.

This brings the total debt service at risk to $44.5 million; and this does not include bilateral debt service of $11.4 million, at least some of which would presumably be canceled along with the rest. This is a considerable amount of money for a country with such limited resources as Haiti. Taking just the $44 million and ignoring the bilateral debt service, that is about 26 percent of the government's spending on public health, in a country with severe public health problems and that is recovering from recent devastating natural disasters.

As noted above, completion point is now expected to be reached at some time during the first half of 2009. This would imply that Haiti would be foregoing an average of $3.7 million in debt relief every month between September 2008 and the date completion point is reached. However, it seems that the IDB plans on covering a significant portion of Haiti's debt service payments to that institution for the first half of 2009. This would certainly reduce the amount of foregone debt relief, but would not eliminate it completely, since the country would still have to make its debt service payments to other multilateral and bilateral debt holders.

In the next section, specific conditions for debt relief are discussed, together with dates when these conditions are expected to be met and factors that could cause potential further delays in meeting them.

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16 Based on the average for 22 HIPC completion point countries as listed on Table 4 (p. 76) of IDA/IMF (2007).

17 IDA/IMF (2006), p. 23.

Conditions for debt relief

A full list of the conditions or 'trigger points' that will enable Haiti to reach completion point status are included in the Appendix and are taken from Box 2 (p. 27) in IMF/IDA (2006). Below, some of the conditions are discussed.

Preparation of a full Poverty Reduction Strategy Paper (PRSP)

The completion of a full PRSP was expected to occur at the end of September 2007 and the Haitian authorities had been eager to finalize this document, since as stated above, they still have to implement the recommended actions for one full year before fulfilling this condition for debt relief.

In its July 2007 report on Haiti, the IMF mentions the Haitian authorities' eagerness to finalize the PRSP as soon as possible, but the Fund warned not to sacrifice "the document's quality and its broad participatory process."[18]

Haiti, however, had already started the PRSP process in 2003. This came to a halt with the overthrow of the elected government in 2004 and was re-started by the transitional government in 2005, finally resulting in an Interim PRSP document, published in September 2006.[19]

The final, full PRSP was submitted to the World Bank and IMF by the Haitian government on November 30, 2007.[20] According to the latest IMF document, the implementation of the document's recommendations is 'underway' and this condition is expected to be met during the first half of 2009.[21]

Macroeconomic Stability: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program.

In November 2006, after reaching decision-point status, Haiti signed a three-year Poverty Reduction and Growth Facility (PRGF) agreement with the IMF. The main objective of the program was for Haiti to achieve sustained economic growth to reduce poverty and improve living standards. An annual growth rate of 4 percent in real GDP was set as a modest target for the three years of the program.

Another important goal was to achieve higher economic growth as mentioned above, but under a stable macroeconomic environment that focused on lower inflation and a higher level of international reserves. The target for consumer price inflation was a decline to an

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18 IMF 2007a, "Haiti: 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility", IMF Country Report No. 07/293, p.17: [http://www.imf.org/external/pubs/ft/scr/2007/cr07293.pdf].
19 The final Interim PRSP can be found on the IMF's website at: [http://www.imf.org/external/pubs/ft/scr/2006/cr06411.pdf].
20 The English translation of the original document is available through the World Bank and IMF websites (e.g. through the IMF's website at: http://www.imf.org/external/pubs/ft/scr/2008/cr08115.pdf) and the original in French through Haiti's Planning and External Cooperation Ministry: http://www.mpce.gouv.ht/dsrp.htm.
21 See IMF (2008b), p. 26, cited above.

annual rate of around 6 percent by 2009. Gross international reserves were set to increase to around $600 million by the end of 2009 for a coverage of 2.5 months of imports. However, for the purposes of monitoring progress in the accumulation of reserves, a definition of net international reserves that excludes commercial banks' foreign currency deposits at Haiti's central bank (BRH) is being used.[22]

In the first year of the PRGF program, inflation declined substantially from 12.4 percent (year-over-year) in September 2006 to 7.9 percent in September 2007, below a target rate of 9 percent for the end of Haiti's 2007 fiscal year.[23] This seems to have been the result of excessively tight fiscal and monetary policy. In fact, in the second review of the PRGF program's performance indicators for September 2007, the IMF recommended the Haitian government to increase public investment and loosen monetary policy:

> "In the short term, the key priority is to step up the slow pace of budget execution, particularly in domestically financed investment, without compromising expenditure quality. In addition, the central bank should fully use the available room for base money growth under the indicative program targets, to avoid an overly tight monetary stance."[24]

International reserves also increased beyond target in the first year of the PRGF program, from around $125.5 million in September 2006 to $259 million in September 2007, $30 million above target.

But the Haitian government may have improved macroeconomic stability at the expense of growth. At the time of the second review, the IMF seems to have recognized this by lowering its GDP growth forecast for 2007 from 4.0 to 3.5 percent. The latest official figures put Haiti's annual real GDP growth rate for 2007 at 3.2 percent, lower than the PRGF's goal of achieving a 4 percent annual growth rate. An overly tight monetary policy may have also caused the *gourde* to appreciate, thus reducing growth and employment by reducing exports and making imports artificially cheap.

It should be kept in mind that growth and employment are the macroeconomic variables that most contribute to poverty reduction; and an overemphasis on reducing inflation and limiting government spending, without regard to economic growth, can reduce growth and employment below their potential. Unfortunately, like in many other poor countries, employment indicators are not readily available to evaluate any progress or deterioration in the labor market since the beginning of the PRGF program.

Since August 2007, inflation started to reverse its declining trend, led by increases in food prices which account for 50 percent of Haiti's consumer price index basket.[25] Hurricane Dean and tropical storm Noel hit Haiti in August and October and were responsible, in part, for increasing inflation in food prices in late 2007, due to the significant loss of agricultural

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[22] For a summary of the main targets for the program, see table on p.7 of IMF (2006), "Haiti: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report," IMF Country Report No. 06/441: [http://www.imf.org/external/pubs/ft/scr/2006/cr06441.pdf].

[23] Recall that the fiscal year in Haiti runs from October to September.

[24] IMF (2007a, p. 4).

[25] The food component's share of Haiti's CPI basket is the second highest in the Western Hemisphere, after St. Vincent and the Grenadines (See Box 1, p. 5 in IMF (2008b), cited above).

output. Sharp increases in international oil and food prices have also had a great impact on inflation in Haiti and on the country's trade deficit since Haiti is a significant net importer of these products.

Since August 2007, when the monthly (year-over-year) inflation rate reached its lowest point in 8 years (7.6 percent), consumer price inflation had increased to 18.8 percent by August 2008. Food price inflation in that same month, however, was increasing at a 25.5 percent rate (18.2 percent for domestic food products and 33.7 percent for imported food products). The housing, energy and water component of the price index was increasing at a 13.1 percent rate in August 2008, but the imported component of this subcategory (which largely reflects the costs of imported oil) was increasing at a 33.4 percent rate. Core inflation, which excludes food, fuel and public transportation, has been stable at around 10-11 percent since September 2007.[26]

These sharp increases in food and energy prices have created a major humanitarian crisis in Haiti, with massive starvation among the poorest sectors that has even led some Haitians to eat mud cakes in order to survive.[27] Riots erupted in response to sharp increases in the cost of living and resulted in the dismissal of Haitian Prime Minister Jacques-Édouard Alexis on April 12, 2008. After the rejection by Haitian legislators of two of President Préval's nominees to replace the post, Michèle Pierre-Louis was ratified as the country's new Prime Minister on July 31, 2008.[28]

Haiti can also expect to be severely and negatively affected by the recent downtown in the U.S. economy. Haiti's exports to the U.S. are an important part of its economy, equivalent to 8.6 percent of its GDP in 2007. The recent downturn in the U.S. economy, led by the collapse of a massive housing bubble, has led to a decline in consumer spending, and a shrinking of the U.S. import market as U.S. goods and services become more competitive with overseas imports. While the length and depth of the recession are difficult to forecast, it is clearly just beginning, as only about sixty percent of U.S. housing bubble wealth has deflated, and U.S. imports are likely to decline further. Unless counteracted by policy changes, these changes will likely have a negative impact on Haiti's economic growth.[29] Haiti is also heavily dependent on remittances from abroad, especially from the United States, with some estimates of Haiti's remittances as high as 28 percent of GDP.[30] These remittances will decline and can also have a significant negative impact.

In light of these events, it seems that the macroeconomic stability envisioned in the PRGF program might not be attained if the Haitian government is to have enough policy space and

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[26] Prix à la consommation, Aout 2008: [http://www.ihsi.ht/produit_economie_ind_con_ipc_quid.htm].

[27] See, for example, Rory Carroll, "Haiti: Mud cakes become staple diet as cost of food soars beyond a family's reach", *The Guardian*, July 29, 2008: [http://www.guardian.co.uk/world/2008/jul/29/food.internationalaidanddevelopment].

[28] See, for example, "Haiti Approves New Premier After Standoff", *The Associated Press*, August 1, 2008. Available online through the *New York Times* website: [http://www.nytimes.com/2008/08/01/world/americas/01haiti.html?ref=Americas].

[29] See Mark Weisbrot, John Schmitt, and Luis Sandoval, "The Economic Impact of a U.S. Slowdown on the Americas." Center for Economic and Policy Research, March 2008. [http://www.cepr.net/documents/publications/recession_americas_2008_02.pdf]

[30] The Multilateral Investment Fund (2007). "Remittances to Latin America and the Caribbean 2007 (US$ millions)". [http://www.iadb.org/mif/remesas_map.cfm?language=English&parid=5&item1d=2].

resources to respond to the crisis and mitigate its effects. The recent spike in inflation is due to exogenous supply-side factors and therefore, should not be addressed through an over-tightening of fiscal and monetary policy. The Haitian government should perhaps concentrate instead, as it has started to do, on using its domestic resources and the promised emergency aid by the international community to ensure a stable supply of food to the most vulnerable sectors of Haitian society (e.g. through imports and subsidies) and to continue focusing on labor-intensive public investment projects in order to sustain employment.[31]

The IMF has recognized the difficulties in meeting macroeconomic targets set for September 2008, ahead of the fourth review of the PRGF program, and has therefore modified them. With these modifications, there is more room for increases in the money supply, especially given the inflow of aid money that would have to be sterilized by the central bank in order to meet tighter base money growth targets, and a lower pace of international reserves accumulation. In fact, the modified target for net international reserves for September 2008 is $14 million lower than the actual level of reserves in September 2007 (i.e. the target is now a level of $245 million, while the actual level as of July 3, 2008, according to the BRH, is $264 million).

Adoption and satisfactory implementation of a new public procurement law, in line with international best practice. Compliance by all Government purchasing agencies evidenced by independent audit of contracts above $1m equivalent and also of a representative random sample of all other Government contracts, awarded during the 6 months preceding the audit

The adoption and implementation of a new public procurement law is another requirement for Haiti to attain completion point status and hence, debt relief. It also represents another factor that caused delays in attaining such status beyond the original September 2008 deadline and could possibly cause further delays beyond the new deadline of 'sometime' in the first half of 2009.

There is a draft of the proposed law ready to be submitted to the Haitian parliament, but approval of the law was delayed due to the dismissal of Prime Minister Alexis. The process of appointing a new prime minister then delayed elections for a third of the Senate.[32] With the final approval of Michèle Pierre-Louis as the new prime minister, the process of electing senators and of passing the procurement law can now be resumed. However, according to the IMF, after the draft of the law is submitted to both chambers of Parliament, it will take around 3 months for the law to be approved and another 8 months to carry out the audits that would satisfy this trigger point for attaining completion point status.[33]

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[31] For an early estimate of the pledged aid by various donors, see Annex 1, p. 14 in World Bank (2008), "Food Price Crisis Response Trust Fund. Supplemental Financing Document for a Proposed Supplemental Financing in the Amount of US$10 million to the Republic of Haiti", World Bank Report No. 43731-HT: [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/05/26/000333038_20080526014454/Rendered/PDF/437310PJPR0P1117379B01OFF0USE0ONLY1.pdf].

[32] See, for example, "Haiti PM faces task of building new govt.", *The Associated Press*, August 5, 2008. Available online through *USA Today*: [http://www.usatoday.com/news/world/2008-08-05-Haiti_N.htm].

[33] See IMF (2008b), cited above, Table 10, p. 26.

It seems that the draft law has not yet been submitted to or discussed by Parliament, but the required audits might already be underway in anticipation of the law's approval. This means that Haiti could potentially fulfill this condition by June 2009.

Things to watch for in the coming months

The fourth review of the PRGF program will evaluate whether the targets set for September 2008 where met or not and will probably be finalized and released by the IMF in January 2009. In that document, we can expect new information to assess Haiti's progress in fulfilling the HIPC Completion Point Triggers, particularly regarding the IMF's evaluation of the country's performance under the PRGF program, the adoption and implementation of the new government procurement law, progress in attaining the primary school enrollment objectives and the status of the PRSP implementation process.

Conclusion

It is thus clear that immediate cancellation of Haiti's debt would provide desperately needed resources to the most impoverished country in the hemisphere. Advocacy groups have also argued that it is unfair that Haiti should have to wait and fulfill other conditions while the other Latin American HIPC countries have already received their debt cancellation from the multi-lateral lenders. This is the result of a technicality that Haiti was not included among the original HIPC countries. The fact that this was a mistake was implicitly acknowledged by the addition of Haiti to the HIPC Initiative in the year 2006.

There is also little reason to believe that the conditions set by the IMF and World Bank for further debt cancellation are likely to benefit Haiti. Although the experience of HIPC debt cancellation is positive with regard to the funds freed up from debt cancellation being used for poverty-reducing expenditures,[34] the conditions attached to this debt cancellation do not have a positive track record. For example, in April 2007 the IMF's Independent Evaluation Office released a report that examined the experience of 29 Sub-Saharan African countries that underwent PRGF programs, and were therefore subject to IMF conditions, from 1999-2005. The report was highly critical of the IMF's role, and among other findings noted that nearly three-quarters of the aid money reaching these countries was not spent. Rather, at the IMF's urging, this money was used to pay off debt and to add to reserves. [35]

Another reason that these institutions should grant immediate debt cancellation is that they contributed to enormous economic damage in Haiti by cutting off all disbursements from 2001– 2004. There is considerable evidence that this cut off of aid was part of a deliberate effort by the U.S. government to destabilize and ultimately topple the elected government of Haiti.[36] As noted by economist Jeffrey Sachs, a former advisor to the IMF and World Bank,

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[34] See IDA/IMF (2007), "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation" August 28,2007 [http://www.imf.org/external/np/pp/2007/eng/082807.pdf].

[35] See Independent Evaluation Office of the IMF (2007), "The IMF and Aid to Sub-Saharan Africa." Online at: [http://www.imf.org/External/NP/ieo/2007/ssa/eng/pdf/report.pdf].

[36] Robert F. Kennedy Memorial Center for Human Rights. "RFK Memorial Takes Treasury Department to Court to Determine US Role in Denying Loans Vital to Haiti's Perilous Public Health." Press Release, August

"U.S. officials surely knew that the aid embargo would mean a balance-of-payments crisis, a rise in inflation and a collapse of living standards, all of which fed the rebellion [against President Aristide]."[37]

For a country as poor as Haiti, the aid embargo was enormously destructive to the economy, and the violence during and after the coup inflicted further damage and cost thousands of lives. Because of their participation in this effort, the multilateral institutions should at the very least cancel Haiti's debt as rapidly as possible.

Funds made available through debt cancellation would also give Haiti the opportunity to address urgent humanitarian needs in the wake of recent natural disasters. In the summer of 2008, Haiti was hit by a series of successive hurricanes, with disastrous consequences, resulting in an estimated 800 deaths total, according to the UN, and leaving over a million – or one-ninth - of Haiti's population homeless, according to Prime Minister Michèle Pierre-Louis.

Tropical Storm Fay hit first, damaging crops and killing up to ten people. Hurricane Gustav then hit Haiti at the end of August, resulting in 76 deaths, 2,100 houses destroyed and 8,150 more homes damaged, affecting tens of thousands of people, some of whom were forced to live in temporary shelters.[38] Just days later Hurricane Hanna struck, with far more severe consequences. The city of Gonaïves was flooded, forcing people to their rooftops to await rescue that in some cases never arrived. Hundreds were killed, and tens of thousands were forced to go to shelters, with 30,000 still in shelters by the end of October.[39] In Les Cayes, a hospital had to be evacuated after being flooded, and at least 5,000 people were moved to public shelters due to the flooding.[40] Hurricane Ike was last to hit, killing some 74 more,[41] sweeping away the coastal community of Cabaret, and wiping out the last bridge left in Gonaïves, slowing relief efforts in the hardest-hit area and exacerbating the humanitarian crisis already underway.[42]

United Nations Under-Secretary-General for Humanitarian Affairs John Holmes declared the storms to be "worst disaster in the last 100 years" to hit Haiti, saying that only 40 per cent of the $107 million flash appeal aimed at assisting the emergency relief effort had been pledged as of October 27, 2008.[43] World Bank President Robert Zoellick recognized the extent of the destruction left in the wake of the storms when he traveled to Haiti in October

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15, 2006. Found at http://www.rfkmemorial.org/legacyinaction/2002_TreasCompl/. See Walt Bogdanich and Jenny Nordberg, "Mixed U.S. Signals Helped Tilt Haiti Toward Chaos." *The New York Times*, January 29, 2006, for background on the U.S. role in the coup.

[37] Jeffrey Sachs, "From His First Day in Office, Bush Was Ousting Aristide," *Los Angeles Times*, March 4, 2004

[38] International Organization for Migration, "IOM aids hurricane Gustav victims in Haiti". September 2, 2008. [http://www.iom.int/jahia/Jahia/pbnAM/cache/offonce?entryId=18509]

[39] UN News Center, "Appeal for hurricane relief in Haiti badly under-funded, UN aid chief says." October 27, 2008

[40] Jonathan Katz, "Flooding overwhelms hungry Haitians." Associated Press, September 3, 2008. [http://www.msnbc.msn.com/id/26531599/wid/17621070]

[41] Associated Press, "Ike hits old Havana; overall death toll up to 80." September 9, 2008. [http://www.aztvonline.com/global/story.asp?s=8978906&ClientType=Printable]

[42] Associated Press, "Ike's floods kill 48, cut off aid to parts of Haiti." September 8, 2008. [http://www.cnn.com/2008/WORLD/weather/09/07/ike.haiti.ap/index.html]

[43] *UN News Center, "Appeal for hurricane relief in Haiti badly under-funded, UN aid chief says." October 27, 2008. [http://www.un.org/apps/news/story.asp?NewsID=28729&Cr=haiti&Cr1=hurricane]*

2008. Zoellick estimated the damage at nearly $1 billion, and said "That's a lot for a country of 8 million people and there's been a terrible loss of lives."[44] Nevertheless, in answers to reporters' inquiries, Zoellick stated that the World Bank would not expedite Haiti's debt cancellation outside of the HIPC process.[45]

These storms follow a similarly destructive season last year, when over 57 people died, over 700 homes were destroyed -- more than 4,000 seriously damaged -- and "around 4,000 families [were left] in distress and 3,000 persons living in temporary shelters," according to the International Organization for Migration.[46] So poor is infrastructure and capacity for reconstruction in Haiti that the country is still feeling the effects of Hurricane Jeanne in 2004, which resulted in over 3,000 deaths.[47] Haiti's geographic vulnerability to tropical storms, and its poor capacity to cope with their after-effects, underscores the urgent need for debt relief. Debt cancellation would also present the Haitian government with the opportunity to implement disaster preparedness measures that might help mitigate the impact of such storms in the future.

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[44] Joseph Guyler Delva, "Haiti storm damage estimated at $1 billion." Reuters, October 22, 2008.[http://www.alertnet.org/thenews/newsdesk/N22404091.htm]

[45] Jonathan Katz, "World Bank: Storm-Struck Haiti at 'Tipping Point'." Associated Press, October 23, 2008. [http://www.aol.com.au/news/story/World-Bank-president-in-Haiti-after-killer-storms/1173211/index.html]

[46] International Organization for Migration, "Haiti: Assistance to flood victims." Press release, October 16, 2007. Found at http://www.reliefweb.int/rw/RWB.NSF/db900SID/EVOD-782D7W?OpenDocument

[47] USAID. "Annual Report for Fiscal Year 2004, Office of Foreign Disaster Assistance." Found at [http://www.usaid.gov/our_work/humanitarian_assistance/disaster_assistance/publications/annual_reports/pdf/AR2004.pdf].

Appendix: Conditions for Debt Relief[48]

1. ***PRSP***: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the Government to satisfaction of IDA and the IMF.

2. ***Macroeconomic Stability***: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program.

3. ***Public Finance Management and Governance***: (a) Adoption of an automated mechanism to track public expenditures for poverty reduction on the basis of existing expenditure classification, publication of quarterly reports on these expenditures executed over a period of at least six months preceding completion point; (b) Alignment of public spending priorities with the I-PRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth; (c) Up-to-date preparation of Government accounts by the MEF [*Ministère de l'Economie et des Finances de la Republique d'Haïti*] and their annual audit by the CSCCA [*Cours Superieure des Comptes et du Contentieux Administratifs* – the "Supreme Audit Institution"], submission to Parliament and publication of audited Government accounts following generally accepted audit standards and legally mandated timetable; (d) Adoption and satisfactory implementation of a new public procurement law, in line with international best practice. Compliance by all Government purchasing agencies evidenced by independent audit of contracts above $1m equivalent and also of a representative random sample of all other Government contracts, awarded during the 6 months preceding the audit; (e) Adoption of a law on asset declaration and submission to the CSCCA and to the Parliamentary ethics and anticorruption commissions of at least one annual compliance report on the monitoring of the asset declarations covering the preceding year.

4. ***Structural Reforms***: Strengthen tax administration and policy by: (a) reinforcing and establishing customs control in Cap Haïtien, Gonaives, Saint Marc, Miragoane, Malpasse, Ouanaminthe and Belladere, including by installing ASYCUDA [Automated System for Customs Data]; (b) extending use of the central taxpayer file to all taxpayers in the Port-au-Prince metropolitan zone and registering in it all the taxpayers identified in the tax centers of Cayes, Miragoane, Saint Marc, Port de Paix, Cap Haïtien and Fort Liberté.

5. ***Social sectors: Education*** (a) Adoption and satisfactory implementation of a public financing mechanism to help poor families pay for costs of school fees in non-public schools to allow enrollment of an additional 50,000 out-of-school children in primary school as evidenced by the results of an independent audit of schools receiving public transfers; (b) Actual recurrent expenditures for education reach at least 21 percent of actual total recurrent Government spending, of which at least 50 percent is spent on primary education, over the 12 months preceding completion point, enabling inter alia the training of 2,500 new primary teachers (at least 1 year) and on average two visits per year of all primary schools by MENJS [*Ministère de L'Education Nationale de la. Jeunesse et des Sports*] inspectors.

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[48] IDA/IMF 2006, "Haiti: Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document," IMF Country Report No. 06/440, November 2006: [http://www.imf.org/external/pubs/ft/scr/2006/cr06440.pdf]

On this front, the World Bank has approved a three-phase loan project (with $25 million per phase and each phase lasting for three years) that will aim in the first phase (2007-2010) to "ensure educational access for 100,000 poor children aged 6-12 who are currently out of school (20% of the estimated 500,000 children not in school)" (EFA [Education For All], Project Information Document, Concept Stage). This will be done mainly through subsidies for poor families to send their children to "non-public" schools.

*6. **Health and HIV/AIDS**:* Increase by at least 10 percentage points immunization rates for DPT3, BCG and measles; approval by the Government of National Policy, Strategic Plan and Scale up Operational Plan for HIV/AIDS prevention and treatment.

7. ***Debt management*:** (a) Centralization of all information on public external and domestic foreign currency debt in a single database; (b) publication of two consecutive up-to-date quarterly reports on external debt data with a maximum 3 month lag in the period immediately before the completion point.