

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 than \$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.

Fortunately, 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 multilateral 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 exist 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.