NATIONAL CATHOLIC REPORTER
Published on *National Catholic Reporter* (http://ncronline.org)

Forgiving Haiti's debt called key to recovery

Dennis Coday | Feb. 15, 2010

A man clears debris from a building in Port-au-Prince, Haiti, Feb. 6.

Obstacles on Haiti?s road to recovery were removed in early February as major players in the international financial system took up the cause of canceling Haiti?s $890 million international debt.

The most significant breakthrough came Feb. 5 when the U.S. Treasury Department announced that the United States would work with its partners around the world to relieve all debts owed by Haiti to international institutions.

The Treasury also said that it would work to ensure Haiti?s reconstruction and recovery would be financed with grants and not loans.

A Jan. 12 earthquake and aftershocks destroyed large parts of Haiti?s capital, Port-au-Prince, and killed some 230,000 people. The United Nations estimated that 1.1 million people were homeless at the beginning of February, and at least 2 million were in need of food assistance.

?The earthquake in Haiti was a catastrophic setback to the Haitian people who are now facing tremendous emergency humanitarian and reconstruction needs, and meeting Haiti?s financing needs will require a massive multilateral effort,? Treasury Secretary Timothy Geithner said in a statement.

?Today, we are voicing our support for what Haiti needs and deserves -- comprehensive multilateral debt relief,? he said.

Following Geithner?s announcement by a couple of days was a statement from the Group of 7, or the G-7, which comprises the finance ministers of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. The G-7 pledged to write off the debts that Haiti owes them and encouraged international lenders to do the same.

About 30 percent of Haiti?s $890 million debt is from these bilateral agreements. The remainder is owed to the International Monetary Fund, Inter-American Development Bank and other multilateral creditors.

Shortly after the earthquake, these international finance organizations suspended Haiti?s debt service obligations for two years, but they did not forgive the debt. In fact, days after the quake, the International Monetary Fund approved a new, emergency loan of $100 million for Haiti.

The fund received much criticism for this action and later it clarified that the loan had ?highly concessional terms? -- interest-free until 2012 and with repayment due after a five-and-a-half-year grace period.

Haiti?s reconstruction will cost between $5 billion and $10 billion over the next five years, Roberto Vellutini, a vice president at the Washington-based Inter-American Development Bank, told a group of donor countries meeting in Montreal in January to discuss Haiti?s recovery.

This does not include the $550 million that the United Nations said Haiti needs for emergency relief over the next six months.

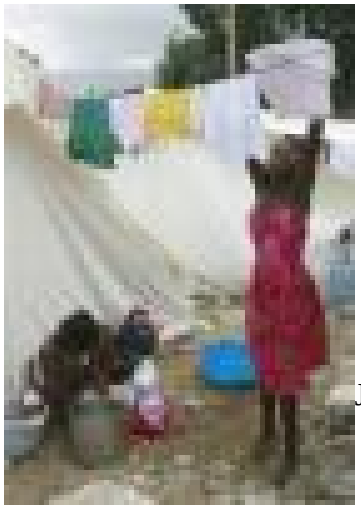
Haiti was already one the world?s poorest nations. Three-quarters of Haiti?s 9 million people lived on less than $2 a day, according to U.N. figures. After the earthquake, its economy is expected to shrink by 15 percent.

Through 2009, Haiti was spending $50 million a year to service its international debt, which meant it was paying interest but not principal on its loans. Under a deal worked out with lenders last June, the debt service payments were to have been reduced to $20 million in 2010, though no one in the international community believes Haiti can meet this obligation now or in the near future.

Faith-based organizations have been leading advocates of forgiving Haiti?s debt.

The U.S. bishops sent a letter to Geithner and Secretary of State Hillary Clinton to ?affirm the decision of the administration to provide full debt relief and offer grants instead of loans for Haiti?s recovery,? adding that ?U.S. leadership will be needed to encourage other governments as well as multilateral institutions to do the same.?

The letter from Bishop Howard J. Hubbard of Albany, N.Y., who is chairman of the bishops? Committee on International Justice and Peace, said, ?The cancellation of Haiti?s outstanding multilateral and bilateral debt ? would give Haiti financial relief and enable it to redirect its limited resources to reconstruction and investments in development.?



Jubilee USA Network, an alliance of more than 75 religious denominations, human rights groups and development agencies working for the cancellation of debt owed by developing nations, was instrumental in brokering the June deal that cut Haiti?s debt obligations nearly in half. It has been a strong voice since the earthquake.

Neil Watkins, executive director of Jubilee USA, said, ?Eventually Haiti will have to borrow again, but at least in the short term they really need grants. Loans are good when you have a chance at making a return. But what Haiti needs right now is water, schools, basic infrastructure, health care. Those sorts of services are best provided by donors to get started. Then as [Haiti is] able to begin recovering [it] can begin to take on debt in a responsible way.?

An independent United Nations human rights expert has said that to recover Haiti needs unconditional grants, ?not new loans, whatever the degree of concessionality.?

Cephas Lumina, an expert on foreign debt who reports to the U.N. Human Rights Council, warned that the International Monetary Fund was ignoring its own advice by the recent approval of an emergency loan to Haiti.

?A new buildup of unsustainable debt must be avoided,? he said, noting that independent assessments indicate that it will take at least 10 years for the country to recover from the quake.

[Dennis Coday is an *NCR* staff writer. His e-mail address is dcoday@ncronline.org.]

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