

---

# Debt Watch - Caribbean

Issue No. 7: October 2008

---

## News

### China is to join the Inter-American Development Bank

China is to join the Inter-American Development Bank (IADB) as a donor member, becoming the 48<sup>th</sup> member country in the regional development institution.

China will contribute US\$350 million to finance development projects in the Caribbean and Latin America. The funds will be divided into four loan schemes as follows:

- US\$125 million to the IADB's Fund for Special Operations which provides soft loans to low-income countries such as Guyana and Haiti;
- US\$75 million to multiple IDB grant funds to strengthen the institutional capacity of the state, including municipal government and private sector institutions;
- US\$75 million is for an equity fund to be administered by the Inter-American Investment Corporation (IIC) which lends to small and mid-sized private business;
- US\$75 million is to be administered by the Multilateral Investment Fund – the fund that focuses on micro-enterprises.

China's entrance was approved by other member countries in a month-long voting process ended October 15.

*Source: Inter-American Development Bank*

### World Bank president asked to clarify remarks about Haiti debt cancellation

Haitian and international civil society groups have written to World Bank President, Robert Zoellick, asking him to clarify 'misleading' remarks about debt cancellation he made on a visit to Haiti in October.

The World Bank president is reported to have told journalists in Port-au-Prince that Haiti's US\$1.7 billion debt was "half-forgiven" and promised "the rest of the debt" would soon be cancelled. He was also reported to have stated that US\$500 million of Haitian debt had already been cancelled.

Reportedly, to date, none of Haiti's debt has yet been cancelled by the World Bank and, in recent weeks, the Bank has delayed debt cancellation for Haiti by six months.

Haiti's total external debt stands at US\$1.7 billion, compared to US\$1.36 billion in 2005 when it became eligible for the World Bank and IMF's

Heavily Indebted Poor Countries Initiative (HIPC). Haiti stands to receive approximately US\$1.2 billion of debt cancellation, but only when it reaches the HIPC 'Completion Point'.

At the World Bank and IMF annual meetings in Washington in early October, Haiti's Completion Point date was moved back from the last quarter of 2008 to the first half of 2009.

Nick Dearden, Director of Jubilee Debt Campaign UK, said that it was a scandal that the World Bank had put back Haiti's debt relief by six months when it is facing its worst humanitarian disaster in a century. He also stated that it was unforgivable that the President should come to the country and apparently mislead the Haitian people that money has been made available to help them.

*Source: Caribbean Net News*

### Caribbean NGOs call for a write-off of Haiti's debts

Leading Caribbean NGOs have called for an unconditional write-off of Haiti's debt, which currently stands at US\$1.7 billion.

The Caribbean Policy Development Centre (CPDC), the umbrella regional NGO, issued an open letter to finance ministers of wealthy nations as well as the directors of the World Bank, the International Monetary Fund and the Inter-American Development Bank, with a plea for the unconditional write-off.

They noted that because of the country's debt repayments, the living conditions of millions of Haitians have progressively deteriorated. Haiti spends between US\$60 million to US\$80 million annually in debt service payments.

*Source: Caribbean Net News*

### CDB provides financial support for poverty reduction in Jamaica

The Caribbean Development Bank (CDB) is to provide the Government of Jamaica with a US\$12.085 million loan to support the government's effort to raise the living standards of the poor and vulnerable in that country.

The CDB funds will be made available to the Jamaica Social Investment Fund (JSIF) to invest in social and economic infrastructure and social services in poor rural communities throughout Jamaica. The main focus of the project will be the provision of basic infrastructure in the education, health and transportation sectors.

*Source: Caribbean Development Bank*

## Haiti receives US\$10.2 mn from IFAD

The International Fund for Agricultural Development (IFAD) - a UN agency that aims to eradicate rural poverty in developing countries - is to provide US\$10.2 million in financing to Haiti to support storm-affected farmers. Over 240,000 small farmers will receive agricultural inputs including vegetable and cereal seeds, and manioc (cassava), sweet potato and banana plants.

The US\$10.2 million grant from IFAD is being implemented through a UN Food and Agricultural Organization (FAO) initiative launched in December 2007. The initiative aims to combat the impact of high food prices by providing assistance to poor smallholder farmers in some 80 countries around the world.

*Source: Caribbean Net News*

## IADB supports youth development in Jamaica with US\$11 mn loan

Jamaica is to obtain support from the Inter-American Development Bank (IADB) for a programme to assist with the development of young people.

Jamaica, under a US\$11 million loan, will use the funds to help finance training, on-the-job experience and labour intermediation services for young Jamaicans.

*Source: Inter-American Development Bank*

## St. Vincent and the Grenadines obtain CDB funding for student loans

The Caribbean Development Bank (CDB) is to provide a loan equivalent to US\$10 million to the Government of St. Vincent and the Grenadines for sub-loans under the CDB's Student Loan Scheme.

The National Commercial Bank of St. Vincent and the Grenadines will be the executing agency for the loan which will be on-lent to eligible persons who wish to upgrade their skills and qualifications at the vocational, technical and professional levels.

A major objective of the project is to assist the Government of St. Vincent and the Grenadines in developing the country's human resources capacity through education and training in order to sustain and accelerate economic development.

*Source: Caribbean Development Bank*

## CDB provides funding for student loans in St. Kitts and Nevis

St. Kitts and Nevis will be able to assist eligible persons who wish to upgrade their skills and qualifications at the vocational, technical and professional levels through a Caribbean Development Bank (CDB) loan.

The loan, equivalent to US\$6.2 million, will be on-lent to students through the St. Kitts-Nevis-Anguilla National Bank.

*Source: Caribbean Development Bank*

## IADB provides US\$50 mn loan to Jamaica for roads

The Inter-American Development Bank (IADB) has approved a US\$50 million loan to the government of Jamaica to help modernise its road transportation system.

*Source: Inter-American Development Bank*

## Feature

### Cancelling Illegitimate Debt – What it means for Haiti and the Caribbean

In October 2006, the Government of Norway announced that it would forgive US\$80 million in debt owed to it by five countries, including the Caribbean country of Jamaica. Under the Norwegian initiative, some US\$3 million owed by Jamaica to Norway became due for cancellation.

Norway's rationale was that the loans to these countries were made in bad faith. They were motivated, Norway said, by a desire to bolster Norway's own economy without due regard to the sustainability of the projects they were funding in the borrowing country. In cancelling the debts, Norway acknowledged that it had a shared responsibility in the debt burden of the recipient country. Norway's decision was internationally ground breaking as it was the first time that a creditor country was recognising the existence of what is now defined as "illegitimate" debt. Jamaica, therefore, was the first Caribbean country to benefit from the cancellation of illegitimate debt.

Illegitimate debt encompasses a broad category of debts – odious, illegal, ecological and illegitimate.

- Illegal debts are those which do not follow the basic legal norms and procedures of the borrowing country. Ensuring that loan agreements follow legal norms is the shared responsibility of creditor and borrower.
- Odious debts are debts which must fulfil three conditions, namely: a) absence of benefit for the population of the borrower nation; b) absence of consent by the citizens of the borrower nation and c) creditor awareness of these facts yet funds disbursed nonetheless. A debt which only satisfies two conditions cannot be declared an odious debt. Typically odious debts are associated with dictatorial regimes.
- Ecological debts are those debts which cause significant environmental damage in the borrower nation with the creditor being aware of the negative environmental impact when providing the loan.
- Illegitimate debt are those debts used to finance ill-conceived development projects in borrowing countries and which, based on objective analysis of development needs, would not have been extended.

These loans, it is argued, whether incurred by dictators, or for failed projects, or for corrupt use are illegitimate and should not be the responsibility of the debtor nation's citizens. Creditors, it is also

argued, bear a significant responsibility in these failed loans.

International debt movements and civil society organisations (CSOs), such as Eurodad and the Jubilee Debt Campaign, have increasingly been calling for the cancellation of odious and illegitimate debts by creditor nations. The call has been particularly strident in the case of Haiti.

Between 1957 and 1986, Haiti was ruled by the Duvalier family, Francois "Papa Doc" Duvalier and subsequently Jean-Claude "Baby Doc" Duvalier. Much has been chronicled and reported about the brutality and corruption of this father/son dictatorship. A reported 50% of Haiti's \$1.6 billion debt was contracted during this period, of which some US\$500 million was diverted into the personal accounts of the Duvalier family. Despite this misappropriation of funds, Haiti continued to enjoy donor funding during this period. It is within this context that a growing number of CSOs both within Europe and the Caribbean have called for the cancellation of Haiti's "onerous and odious" debt.

Whether donors will heed this call, remains to be seen. Recent violent protests against escalating food and fuel prices underscore Haiti's dire circumstances. This has been further exacerbated by the effects of four devastating hurricanes and storms. The scale of the disaster, amidst already extreme levels of poverty, is enormous. Yet, the World Bank/IMF/IDB will not cancel Haiti's debt under the HPIC initiative until early 2009, at the earliest, and only if all conditionalities under the HPIC programme are satisfied. Donors have been less than forthcoming with emergency and humanitarian assistance. The UN Secretary General in a visit to Haiti in September 2008 noted that only 2% of the amount requested by the UN for urgent projects had been contributed.

Is the debt owed by Haiti "odious"? Creditors, on technical grounds, may debate this definition. They may argue that they were unaware of the misappropriation of funds. However, what is not debatable is that Haiti's debt has not benefited its people. What is also beyond debate is that the current economic and social circumstances of Haiti need immediate alleviation. More now than ever, it is time to "drop the debt". *Michele Robinson*

## Debt Statistics

### Regional

Most Caribbean countries are either upper middle income or high income countries. Only two countries – Guyana, a lower middle-income country and Haiti, a low-income country – fall outside this classification.

Because of their income classification, most heavily indebted Caribbean states, except Haiti and Guyana do not qualify for debt relief under recent Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) initiatives.

Despite this, a number of governments have been beneficiaries of debt cancellation in recent years either as part of negotiated debt relief packages

with commercial creditors or as a result of unilateral action by donor governments.

The table below shows those Caribbean countries that have benefited from debt cancellations under various arrangements since 2005.

#### Caribbean Countries benefiting from Debt Cancellations since 2005

- |                      |   |
|----------------------|---|
| 1. Antigua & Barbuda | ▪ 2005: US\$166.5mn from Italy  |
| 2. Dominica          | ▪ 2005: US\$1.5mn from Venezuela  |
| 3. Jamaica           | ▪ 2006: US\$3mn from Norway   |
|                      | ▪ 2006: £5.6mn from the United Kingdom under Commonwealth Debt Initiative |
|                      | ▪ 2007: £5.4mn from the United Kingdom under Commonwealth Debt Initiative |

Source: IMF, DFID, Caribbean Net News

## National



Haiti

The French Caribbean country of Haiti is the poorest country in the Western Hemisphere. With a GNI per capita of US\$560 in 2007, 54 percent of Haitians live on less than US\$1 a day and 78% live on less than US\$2 a day.

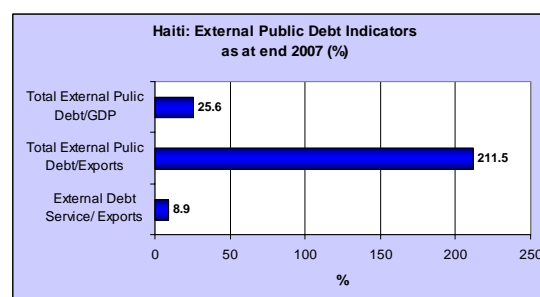
The table below provides data on key indicators in relation to the total public external debt of Haiti.

#### Haiti: External Public Debt Indicators

in percent (%)

	2006	2007
Total External Public Debt / GDP	29.7	25.6
Total External Public Debt / Exports	206.1	211.5
External Debt Service/ Exports	7.5	8.9

Source: IMF



Haiti has a large and unsustainable debt burden relative to its economy. Total public external debt stood at US\$1.6 billion at the end of 2007 amounting to 26 percent of GDP and 211 percent of exports of goods and services.

Much of Haiti's debt is considered "odious debt", debts incurred during the Duvalier dictatorship and from which Haitians benefited little, if at all. US\$1 billion or over 60% of the debt is owed to multilateral creditors, primarily the World Bank, International Monetary Fund (IMF) and the Inter-American Development Bank (IADB).

In April 2006, Haiti was classified by the World Bank as a heavily indebted poor country (HIPC) thereby qualifying it for relief under the IMF/World Bank Enhanced HIPC Initiative. However, while Haiti will benefit from US\$140.3 million in debt relief from its bilateral donors under the terms of the initiative, the actual cancellation will not occur until late 2008/early 2009 at the earliest, provided that Haiti undertakes far-reaching economic reforms and satisfies various conditionalities stipulated under the programme.

In addition to the HPIC initiative, in late 2006 Haiti became eligible for an additional US\$243 million in debt cancellation from the IMF and World Bank under the Multilateral Debt Relief Initiative (MDRI). With the subsequent participation in January 2007 of the Inter-American Development Bank, Haiti's largest creditor, Haiti qualifies for a further US\$333 million in debt cancellation. In total, it is estimated that some US\$741 of Haiti's debt will be cancelled at the completion point of the HIPC/MDRI debt relief initiative.

While debt relief provided under these initiatives will provide a certain degree of breathing space to the Haitian authorities, there is a growing call from the international community for immediate wholesale cancellation of Haiti's debt. Calls have become especially strident in 2008 as Haiti has faced increasing economic and social challenges. Soaring world prices for food and fuel have led to sharp hikes in the cost of living in Haiti, precipitating violent civic unrest early in 2008. Four tropical storms and hurricanes in quick succession since August have caused widespread devastation to farmlands and infrastructure as well as significant loss of life. In the aftermath of the storm, some 850,000 Haitians (10% of the population) require humanitarian assistance.

In July 2008, 39 European civil society organisations wrote to the members of the European Parliament Committee on Development urging them to immediately cancel Haiti's bilateral debt. The letter particularly targeted parliamentarians from France, Spain and Italy as these countries represent Haiti's largest bilateral creditors. The letter also called for the cancellation of Haiti's multilateral debt and a moratorium on debt service payments until the debt was cancelled.

A further call for debt relief came from Caribbean civil society organisations (CSOs) later in the year. In a letter to the G8 finance ministers, the World Bank and the IMF, the Caribbean CSOs called for an immediate and unconditional cancellation of Haiti's external debt. They noted that even if Haiti secures the debt relief available under the HPIC initiative and MDRI, over \$400 million will still be outstanding to external creditors.

Haiti is already considered one of the most disadvantaged countries in the world. Half the

population does not have access to clean drinking water and only 28 percent have access to decent sanitary equipment. Nearly half of the population is illiterate. Haiti ranks 146<sup>th</sup> out of 177 countries on the United Nation's Development Programme Human Development Index. The concern of civil society organisations is that without concerted and comprehensive debt relief Haiti will be unable to have the resources to fight poverty and achieve the Millennium Development Goals.

In completing a review of Haiti's economic performance under the IMF's Poverty Reduction and Growth Facility (PRGF) arrangement, the IMF's Executive Board made the following statement in June 2008:

"Despite numerous external shocks, including rising international commodity prices and inclement weather, as well as political difficulties, Haiti's performance under its PRGF supported programme and progress in structural reform has been commendable. However, sharply rising inflation, largely attributable to increases in international food and fuel prices, has been a challenge and is creating additional hardship for Haiti's large and vulnerable population."

The progress Haiti is making is extremely fragile. Already the World Bank and IMF have revised Haiti's growth estimates for 2009 and beyond downwards. This revision along with weak donor support in the aftermath of the devastating hurricanes does not augur well for Haiti. Significant downside risks exist if the effort to reduce poverty is not sustained, foremost among these the threat to political and social stability.

Currently, Haiti pays US\$1 million per week to its external creditors. This pre-emption of resources could arguable be better spent in alleviating poverty in Haiti. Within the context of a faltering global economy, donors might be at their most reluctant to acquiesce to wholesale debt cancellation. However, now is when Haiti needs debt cancellation most. *MR*

## Upcoming Events/Courses

### January 2009

- January 19 - 23: Crown Agents hosts *Workshop on Debt Management and Public Finance Management Systems* in London, United Kingdom.

---

If you have information about an important event or development related to public debt management in or relevant to the Caribbean, please email Michele Robinson at:

[consult@michelerobinson.net](mailto:consult@michelerobinson.net)