



Haiti's debt burden- the real story

A EURODAD analysis

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Haiti is currently facing increased levels of debt as creditors offer new loans to help the country tackle its dramatic social and economic problems. At the same time Civil Society Organisations (CSOs) worldwide are calling for full cancellation of all of Haiti's debt.

This short analysis seeks to clarify what debt relief Haiti's creditors have committed to, how large Haiti's debt will be after full delivery of this debt relief (debt stock) and what this means in terms of how much it will pay creditors in the future (debt service).¹ The conclusion is that debt relief is necessary and urgent, but cancelling only existing debt will do limited good since new debts are on the horizon. Haiti faces, like many low and middle income countries, a deadlock situation of debt dependency combined with debt intolerance², a problem to which the current international system has no clear solution.

Debt relief: old news, new debt

When addressing current problems in Haiti, some of Haiti's creditors and the media have referred to the cancellation of Haiti's debt last year when Haiti's creditors granted \$1.2 billion of debt relief to Haiti as the country reached completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI) approved by the World Bank and the IMF.

However, these debt cancellations do not apply to any debt that Haiti has accrued

since 2006. They apply only to the debt stock before Haiti reached decision point under the HIPC program in 2006. When Haiti finally reached HIPC completion point at the end of June 2009³, creditors who committed to this debt relief were obliged to deliver on their commitments⁴. So the \$1.2 billion debt relief mentioned by Haiti's creditors and the media concerns no new commitments. Furthermore, it has had a limited impact on Haiti's debt stock because this debt relief had already been partially delivered before completion point in 2009.

Debt relief \$1.2 billion?

A second point of note regarding the debt relief figures mentioned in press releases is that they refer to the amount of nominal debt service forgone (including the interest that creditors would have received from Haiti if debt had not been cancelled).⁵ The amount of debt cancelled in Net Present Value terms (NPV), which gives here a better picture of the real cost of debt relief to creditors, is in Haiti's case much lower.⁶

To give a sense of the difference in numbers: the Haitian debt reduction under the HIPC initiative is \$265million in nominal terms, while it is \$140 million in NPV.⁷ And another example- the Paris Club's total debt cancellation to Haiti is \$214 million in terms of nominal dollars forgone in payments of principal and interest.⁸ However the amount of money forgone is \$84.9 million in end 2008 NPV terms.⁹

Debt stock at the end of 2009

Haiti's current public debt to IFIs is \$1,247 million (as of end of 2009). Note that this is Haiti's debt *after* taking into account all committed debt relief under the HIPC and MDRI initiatives.¹⁰ See Table 1.

Table 1. Haïti's External Debt Debt stock in nominal dollar values		
	2009	
External debt (US\$ mn)	1,247	100%
<i>of which</i>		
Multilateral debt (US\$ mn)	677	54.3%
IMF	165.6	13.3%
IADB	417.5	33.5%
World Bank	38.8	1.9%
Others	54.9	4.4%
Bilateral debt (US\$ mn)	507	40.7%
Venezuela	295.2	23.7%
China, Taiwan	89.7	7.2%
Others	122.1	9.8%

Source: Haïtian authorities. (IMF 2010, Jan 27)

Debt service: How much and to whom must Haiti pay?

Thus after the debt relief under the HIPC & MDRI program, Haiti's external debt is still more than \$1.2 billion.¹¹ How does this translate into debt service? That is, how much and to whom must Haiti pay in the coming years?

In an IMF study, assuming that all committed debt relief is delivered *and* assuming that Haiti accrues no new debt, the total amount of debt that Haiti has to service on its current outstanding debt is \$34.4 million for 2009, \$16.3 million for

this year, \$130.4 million in the coming 4 years until 2013, and \$661.5 million in the coming 19 years.¹² (See Table 2 below)

Of this \$349.6 million of total debt service in the coming 9 years:

- \$4.1 million (1.2%) is owed to the World Bank
- \$104.7 million (29.9%) to the IMF
- \$112.8 million (32.3%) to the Inter-American Development Bank
- and \$114.1 million (32.6%) is owed to official bilateral creditors.

Thus although the IMF may downplay its role in Haiti's debt servicing in the near future, it nonetheless expects Haiti to pay \$105 million between 2010 and 2018.¹³

Venezuela, setting an example

Out of Haiti's creditors, the IMF's director of external relations singled out Venezuela during an IMF press meeting.¹⁴ Venezuela didn't participate in the HIPC debt relief program for the simple reason that as when Haiti entered the 'decision point' phase of the HIPC program in 2006, it owed virtually nothing to Venezuela. At the time, Haiti's debt outstanding to all of its non-Paris Club creditors was only 3% of its total stock of external debt, as opposed to the shares in Haiti's external debt stock of Paris Club creditors (14%), that of the World Bank (38%), and the IADB (41%).

Table 2. Haiti: External Debt Service

After Full Implementation of Debt-Relief Mechanisms*
(In millions of U.S. Dollars, nominal value)

	Total debt service during:			%
	This year 2010	coming 4 yrs 2010/2013	coming 9 years 2010/2018	
Total debt service on outstanding debt	16.3	96	349.6	100
Multilateral	10.1	57.2	235.5	67.4%
World Bank Group	0.1	0.7	4.1	1.2%
IMF	0.5	17.7	104.7	29.9%
IADB Group	8.8	34.7	112.8	32.3%
IFAD	0.3	3.1	12.6	3.6%
OPEC	0.4	0.9	1.3	0.4%
Official bilateral	6.2	38.6	114.1	32.6%
<i>memorandum item:</i>				
Total debt service including new borrowing**	18	120.1	539	

source: compiled and calculated from World Bank & IMF 2009a: 44. (Table 7. Haiti: External debt service)

* MDRI assistance and bilateral debt relief beyond HIPC assistance (includes Paris Club cancellations).

The announcement of Venezuela's relief of Haitian debt Jan 2010 is not in the numbers.

** Estimated/projected by WB/IMF as part of a debt sustainability analysis for Haiti

15

While Venezuela didn't sign up to the HIPC program, Venezuela's President has, after its country being challenged by the IMF and the Paris Club, announced this week the cancellation of Haiti's outstanding debt of \$295 million, stating that: "Haiti has no debt with Venezuela -on the contrary, it is Venezuela that has a historic debt with Haiti".¹⁶

It is hoped that other creditors will follow suit and cancel all of Haiti's \$667 million debt with multilateral banks (\$380 million in end 2008 NPV¹⁷). However it is important that this does not happen at the expense of other developing countries, as has happened previously with debt cancellations being deducted by individual creditor countries from their national budgets for development aid.

IMF and potential future debt cancellation

The head of the IMF Mr. Strauss-Kahn called last week for an international Marshall Plan for Haiti, and urged donors to grant additional debt relief:

"... the IMF is now working with all donors to try to delete all the Haitian debt, including our new loan. If we succeed—and I'm sure we will succeed—even this loan will turn out to be finally a grant, because all the debt will have been deleted. And that's the very important thing for Haiti now..." (IMF 2010, Jan 20)

However, subsequent statements by the IMF have tempered expectations of debt-relief in the short term. At a press briefing the next day, IMF's director external relations (Ms. Atkinson) referred to debt-relief for Haiti as a 'medium-term issue' being 'further down the road' as far as the IMF is concerned.

Debt deadlock

Without more income Haiti will have to cut immediate social spending and/or get further into debt. The effect of this last option is more debt service in the future.

The last line in Table 2 shows Haiti's debt service obligations including debt service on estimated new borrowings.¹⁸ Taking IMF estimates of new debt into account, Haiti is expected to pay:

- \$120 million in the coming 4 years
- \$539 million in the coming 9 years
- and \$1,776 million between 2010 and 2028 (not shown in Table).¹⁹

Saddling Haiti with more debt is no solution for a country in risk of high debt

distress. However, the alternative-receiving no money within the extreme short term, such as through IMF support-also spells suffering for Haiti. Within the current international context and financial/legal framework there is no clear solution to this problem, which is shared by many middle and low income countries.²⁰ Like them, Haiti faces a dead lock situation of debt dependency combined with debt intolerance, a problem to which the current international system has no solution. It is this international framework that needs to change if a solution to this deadlock is to be found.

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Notes

¹ The main data are from two recent in-depth studies of Haiti's debt position by the World Bank and IMF (See World Bank & IMF 2009a, 2009b) and from the back ground note on Haiti's debt, published this week by the IMF (2010, Jan 27).

² Debt intolerance refers to the extreme troubles many developing countries experience when faced with debt levels that are manageable by developed countries

³ IMF (2009, July 1).

⁴ IMF (2006, Nov 2).

⁵ "Debt service savings result from the HIPC Initiative (US\$265 million) and the Multilateral Debt Relief Initiative (MDRI) (US\$972.7 million)." IMF (2009, July 1.)

⁶ One can view the present value of the external debt as the amount of money that would have to be put aside today against commercial interest reference rates to fully pay Haiti's future debt service.

⁷ World Bank & IMF (2009); IMF (2009, July 1).

⁸ Paris Club (2010, Jan 19).

⁹ World Bank & IMF (2009b): 52; table 12: Debt Relief Committed and Delivered by the Paris Club Official Bilateral Creditors, in millions of U.S. dollars, in end-2008 NPV terms.

¹⁰ See World Bank & IMF (2009a), where a comparison is made between Haiti's debt end of 2008 *with* and *without* debt relief.

¹¹ Or \$565 million in net present value terms as of end 2008. (World Bank & IMF 2009a)

¹² More accurately the time periods are in fiscal years: FY2008/09, FY2009/2010 and FY2009/10 - FY2017/18.

¹³ World Bank & IMF (2009a). Figures do not include the recent \$100 million IMF loan and Venezuela's announced debt relief (see below).

¹⁴ IMF (2010, Jan 21). The Paris Club creditors have also been pressuring. In a press release they called "upon Haiti's other Bilateral Creditors to cancel Haiti's debt". (Paris Club 2010, Jan)

¹⁵ World Bank & IMF 2009b: 35.

¹⁶ Focus News Agency. (2010, Jan 26.)

¹⁷ World Bank & IMF (2009a): 43. Table 6 Haiti: Net present value of external debt.

¹⁸ New borrowings are estimated within IMF's debt sustainability analysis based on the countries expected external financing needs.

¹⁹ World Bank & IMF (2009a).

²⁰ See on this: Kotan (2009).