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Contact Taylor Griffin at 202-622-2960.

Supporting Economic Development in Haiti

John B. Taylor

Under Secretary of Treasury for International Affairs

Testimony before the Senate Foreign Relations Committee

Chairman Lugar, Ranking Member Biden, and other members of the Committee, thank you for inviting me to discuss the Administration's efforts to promote economic development in Haiti and to help address the most critical humanitarian needs of the Haitian people.

The Economic Situation in Haiti

The people of Haiti are impoverished. Per capita GDP in Haiti is 1/5th the average for the Latin America and Caribbean region as a whole and 40% lower than the second poorest country in the hemisphere, Nicaragua. Haiti has been poor for many years. Real per capita income in Haiti has actually fallen over the past four decades. Other indicators tell a similar story. Infant mortality stands at 79 per 1,000 live births. Illiteracy is near 50 percent. And 54 percent of Haiti's population lacks access to clean water. These facts explain why Haiti was ranked 150th out of 175 countries on the UNDP's Human Development Index in 2002.

Years of economic mismanagement, political instability, and weak rule of law have produced this tragedy. Fiscal and monetary policy mistakes have fed economic uncertainty and produced high inflation. These macroeconomic factors combined with poor infrastructure, irregular supplies of electricity, corruption, and customs delays to create a poor investment climate. The most basic needs of the Haitian people in the areas of education, health, and personal security have not been met. Were it not for the violence and instability that have characterized life in Haiti, the Haitian people would have been able to apply their energies to successfully build a better future for themselves and their children. Indeed, Haitians outside of

Haiti have done just that, sending back remittances to relatives that total as much as 1/4th of Haiti's GDP per year.

As experience all over the world has shown, chronic, unsustainable public deficits, misallocation of public resources, corruption, and instability strangle growth and increase poverty. Aid cannot overcome these obstacles. The Haitian government must be accountable for its performance. In the absence of good policies, development assistance does not improve the lives of the poor.

In fact, a poor policy environment has undermined the effectiveness of World Bank assistance in Haiti. In 2002, the World Bank's Operations Evaluation Department analyzed the World Bank's activities in Haiti in the mid-1990s. It concluded that these projects had a negligible impact on improving the lives of Haitians. To take one example, a \$50 million Road Maintenance and Rehabilitation Project—designed to address the urgent lack of regular road maintenance in Haiti—suffered from waste and diversion of funds to other projects. Even the improvement of roads that did take place under the project was judged unlikely to be sustainable, due to the lack of institutional reform at the public works ministry and failure to establish a fund for regular repairs.

We must commit ourselves to avoiding the mistakes of the past. We need to deliver our humanitarian assistance so that the people of Haiti actually benefit from that assistance. And we need to focus our economic development assistance so that it can help the Haitian people raise their living standards and achieve the benefits of long-term economic growth.

This Administration seeks to help countries pursue policies that create the conditions for increased economic growth, higher living standards, and lower poverty. This is the concept behind President Bush's Millennium Challenge Account (MCA). MCA assistance is designed to reward those countries that are ruling justly, investing in people, and promoting economic freedom.

The Government of Haiti has recently taken strong steps to reign in the fiscal deficit, restrict monetary financing of the government, and eliminate wasteful subsidies. The United States welcomes these important actions. At the same time, Haiti has a long way to go in creating an environment conducive to investment, entrepreneurial activity, and growth of the private sector.

Establishing greater political stability, improving governance and reducing corruption are central to this effort. Improved governance has political, legal, and administrative dimensions, which others have noted today. Rule of law is also critical if people are to put their capital at risk. Haiti needs to take steps to establish the integrity of the police and the judicial system for matters both criminal and civil. On the administrative side, improving governance entails steps to make the government bureaucracy more effective and responsive in meeting the needs of the public, whether in the area of education, health, or other basic services. A key part of this is implementing better and more transparent tracking of government spending, to ensure that public resources are used for their intended purposes.

Outside donors can provide assistance in strengthening governance in Haiti. For example, the international financial institutions are encouraging Haiti to undertake audits of public enterprises so that the managers are accountable for the resources under their control and the resources are used in ways that serve public not personal interests.

Progress on these critical issues will not only create a foundation for the revitalization of economic activity in Haiti, it will also help attract foreign investment. Foreign direct investment fell from \$30 million in 1999 to about \$5 million in 2002. The United States is committed to helping the Haitian government put in place a framework that will allow the country to promote the private investment needed to raise living standards.

Recent Progress

I am pleased to report that progress has been made recently. The Government of Haiti has taken important actions to strengthen public finances and create conditions for greater macroeconomic stability.

The Haitian government amended the draft budget for FY2002/03 to cut the fiscal deficit by half, limiting central bank financing of the government. Broad money growth is targeted to decelerate to 10% during the period April-September 2003, down from 26% from October 2002-March 2003. This helped launch a one-year Staff Monitored Program (SMP) with the IMF that outlines a framework to help stabilize Haiti's economy, increase accountability and improve economic governance.

The Haitian government has also committed to steps to give the finance minister more control over budget execution, so that he can implement the budget as passed by the legislature and reduce corruption. The plan envisages the consolidation of separate ministerial accounts, which have undermined spending control. Furthermore, the Haitian government has agreed to conduct external audits of the five major public enterprises during the next year, to ensure that resources within these public concerns are being used appropriately.

The Staff Monitored Program gives Haiti an opportunity to demonstrate its ability to implement economic policies designed to promote macroeconomic stability. Finance Minister Faubert Gustave has stressed the importance of the program for improving economic policy and budgetary control in Haiti. We very much want the IMF and multilateral development banks to support those in Haiti who are working to strengthen its institutions.

To this end, we are pleased that Haiti took a crucial step forward last week when it cleared arrears of \$32 million to the IDB. With arrears to the IDB cleared, the IDB can now move forward with a number of projects already in train, and can reengage with Haiti to discuss future lending. The IDB is strongly committed to working with Haiti and in late July will send a staff team to remain in Haiti as long as needed to outline a transitional lending program.

Next week we expect that the IDB will approve a \$50 million Investment Sector Loan and disburse the first portion of that loan in the amount of \$35 million, which the Haitian

government will use to repay the loan provided by the central bank to clear IDB arrears. We also expect the IDB to begin disbursing in subsequent weeks on \$146 million in previously approved project loans for basic education, reform of the national health system, rehabilitation and maintenance of roads, and investments in water and sanitation systems. These funds would go directly to suppliers and would disburse over time as progress is made under each project.

With substantially better policy performance and financial accountability, Haiti could tap into other development assistance as well. Policy performance and governance are rightly key determinants of the allocation of World Bank IDA resources, the World Bank's window for the poorest countries. The World Bank role in Haiti has been sharply constrained by persistent expenditure monitoring and control problems. The World Bank has not been able to ensure that project assistance and budget assistance will be used for their intended purposes. Haiti's three-year IDA allocation is only \$6 million. With major improvements in Haiti's policy performance, Haiti's IDA allocation could expand considerably and enable Haiti to more easily clear its arrears to the World Bank.

Haiti is not now eligible for the President's grants initiative in IDA-13, except possibly for HIV/AIDS-related projects. We will work with the international community for a substantial portion of Haiti's assistance from the World Bank and IDB to be provided in the form of grants in the future.

One final point must be made in connection with assistance to Haiti from the IMF and multilateral development banks. It stems from legislation passed in 2000 related to trafficking in persons. Haiti's failure to take sufficient action to address trafficking in persons has placed it in the Tier Three category for which sanctions apply. The United States has urged Haiti to make a more concerted effort in this area, but barring progress by Haiti before October 1 or a presidential waiver, the U.S. Executive Directors would be required to vote "no" and use their best efforts to deny lending or other assistance to Haiti by the international financial institutions. In the case of the IDB, a "no" vote from the United States would block assistance to Haiti.

The Haitian government has taken positive first steps in improving its economic policies. Fundamental challenges remain. The Government of Haiti must now take the steps needed to lay the foundations for sustained economic growth and improved living standards for its people. Consistent with OAS Resolution 822, U.S. policy does not link economic and financial support for Haiti from the international financial institutions to resolution of Haiti's political issues. Rather, our objective is to encourage the Haitian government to take the economic policy actions needed to form the basis for effective engagement by the international financial institutions in support of economic development in Haiti. The United States is committed to helping Haiti in this effort.

U.S. Humanitarian Assistance to Haiti

At the same time, the United States has continued to provide substantial humanitarian support to the Haitian people in recent years through periods of political turbulence. Working through non-governmental organizations in order to avoid misuse of funds, the United States has delivered more than \$120 million in humanitarian assistance over the last two years and remains Haiti's largest donor. The United States has provided more than \$900 million in assistance since fiscal year 1995. Between fiscal years 1995 and 2001, the U.S. provided 28 percent of total external assistance to Haiti, more than three times the second-largest bilateral contribution from Canada.

U.S. humanitarian assistance efforts are geared toward alleviating the dire conditions experienced by the Haitian people. In the past year the United States delivered more than \$3 million in emergency assistance to respond to communities affected by droughts and flooding. U.S.-backed health projects provide maternal and child health services, child immunizations, and assistance in the prevention of HIV/AIDS, including expansion of a voluntary counseling and testing network to prevent mother-to-child transmission of HIV. The U.S.-supported network reaches approximately 2.7 million Haitians.

Haiti is one of two Caribbean countries eligible for assistance to fight HIV/AIDS, malaria, and tuberculosis under the President's Emergency Initiative, as embodied in the recently passed HIV/AIDS authorization legislation—this assistance will supplement the funds provided to Haiti from the Global Fund to Fight AIDS, Tuberculosis & Malaria.

Next Steps

The United States will continue to work closely with Haiti and other key players to help the Government of Haiti lay the basis for economic growth and poverty reduction. Agreement on an IMF Staff Monitored Program and the expected resumption of IDB assistance signal progress in breaking the logjam in relations with the international financial institutions created by Haiti's overdue payments. With arrears cleared at the IDB, concrete backing for development efforts can now move forward.

We will work hard with Haiti's government to maintain this positive momentum. The pace of re-engagement with the international financial institutions is largely in the Haitian government's hands. For our part, we will work to ensure that the international community provides maximum incentives for rapid policy progress in Haiti.