The Haitian *Curse*

It may be slowly lifting.

BY GARY N. KLEIMAN

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888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com

The past decade of unrelenting political standoff in the hemisphere's poorest country sparked a crime and murder rampage at home and an exodus of boat people seeking better lives in neighboring islands and the United States. But a May commercial and diplomatic mission to Washington by a high-level Haitian delegation inspired praise of tentative economic and security shifts that Caribbean basin investors have begun to notice. A United Nations mission to assess the peacekeeping effort there just before the visit cited "encouraging factors" following successful presidential and provincial elections in 2006, including the group's ability to circulate freely through the capital Port-au-Prince's worst and most violent slum, Cité-Soleil. It suggested the overriding challenge was "finding employment and economic growth" to reinforce the positive direction.

At a White House meeting with Haiti's President René Préval, President Bush noted the changes. He said, "Inflation is down and exports are up" after passage of legislation extending duty-free status to Haitian garment assembly operations, and pledged continued assistance with anti-corruption and drug efforts, fighting natural disasters, and normalizing immigration rules. Commerce Department statistics show the United States is the desti-

Gary N. Kleiman is Senior Partner, Kleiman International Consultants, Inc.

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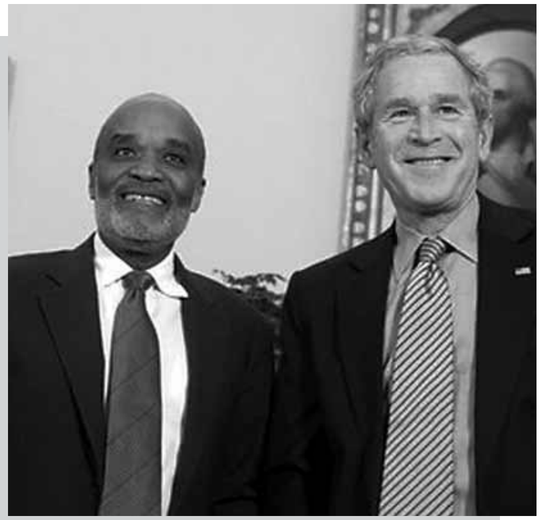

President **René Préval** *of Haiti and President* **George W. Bush** *in the Oval Office, May 2007.*

WHITE HOUSE PHOTO BY JOYCE BOGHOSIAN

nation for 75 percent of exports, and accounted for US$125 million in foreign direct investment last year and the bulk of US$1.6 billion in remittance money, equivalent almost to 40 percent of gross domestic product. Aid to rebuild infrastructure and provide income and health support to the 85 percent of the population earning under two dollars daily was US$150 million for the period.

Western donors overall committed US$750 million through the end of 2007 at a conference coordinated by the Inter-American Development Bank and World Bank, and agreed to debt relief as the country reached the initial decision point phase of the Heavily Indebted Poor Country (HIPC) program. A three-year US$100 million loan facility was signed with the International Monetary Fund last November, which commented that "macroeconomic stability was restored through fiscal discipline and improved governance," with progress in growth, inflation, currency, and foreign exchange reserve levels. The central bank's refusal to underwrite budget deficits while maintaining positive interest rates was a key pillar of recovery, it added.

This year the economy is on track with agricultural, textile, and tourism performance to hit 4 percent expansion and single-digit inflation, with real yields on central bank bonds, considered the safest financial instruments, now at 5 percent. The gourde continues to appreciate against the dollar, and along with aid and remittance inflows, telecoms sector infusions—such as from mobile provider Comcel—have boosted the balance of payments pool to cover two months of imports. In contrast, problems at two banks holding a tenth of system assets have forced rescues, and the state-run electricity company is a heavy budget drain. To counter steep oil costs, the government has turned to concessional supplies under Venezuela's PetroCaribe regime, although unlike Bolivia, which ranks just below in abject poverty for the region, it has not endorsed the populist Chávez Bolivarian Alternative Alliance.

Widespread tax evasion and revenue leakage have been curbed with new measures which have sent collection above 10 percent of GDP. Automation and border inspection steps have helped enforce business and customs levies, and mobilize funds for civil service wage arrears, police protection and sanitation, and port and road modernization. Electricity subsidies are subject to quarterly audits in preparation for possible partial or majority sale of the state monopoly, with results posted on the Economy Ministry's website. Officials must also comply with evolving personal asset disclosure norms which will signal potential conflicts of interest and misappropriations which were rife in the past.

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Banking system weakness remains a core concern, despite the longstanding presence of established global players like Citigroup moving to diversify activities.

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Recently supervisors promoted the takeover of a troubled institution by a larger counterpart, and had to assume control of another. The balance sheet of the central bank itself is imperiled by unpaid Treasury claims, which force it to keep reserve requirements high pending a major recapitalization. Haiti's financial sector reform strategy calls for divestiture of commercial bank and other public enterprise ownership such as in the fixed-line phone company, and securitizing the outstanding sums due in a dual approach to deepen the government bond market and the desired local and overseas buyer base. In the meantime, non-banks will be allowed to purchase and trade benchmark 90-day Bank of the Republic of Haiti paper, and other moves to strengthen oversight and practice are scheduled such as introduction of a main credit bureau and a detailed charter on monetary policy independence which would constitute watershed initiatives.

With its HIPC qualification, the country has also managed a breakthrough in achieving promise of total cancellation from the Inter-American Development Bank, its largest creditor. Previously the 100 percent write-off had been applied only to sub-Sahara African debtors by the World Bank and African Development Bank under the terms of the 2005 Gleneagles agreement. The IADB offer followed maximum Paris Club rescheduling assurances, and the Haitian administration has embarked on nationwide consultation to finalize its formal Poverty Reduction Plan required for eligibility and future bilateral and multilateral assistance orientation.

These advances fittingly coincide with the climax of a two-decade attempt to access millions of dollars frozen in Swiss bank accounts allegedly plundered by the exiled dictator Jean-Claude "Baby Doc" Duvalier, who reportedly lives in the south of France. Some US$6 million has been blocked for five years awaiting definitive determination the money was obtained illegally to trigger its release. According to Swiss officials, legal avenues have been essentially exhausted without proof and Haiti may be seeking more time and a rulings review.

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Notwithstanding this episode and its subsequent sad historical legacy, the country may finally be beyond a delicate transition phase and normalizing both economically and politically in the broader sub-regional context. Many bankers and business executives, as witnessed by an enthusiastic reception for President Préval and his team at a U.S. Chamber of Commerce forum during his spring trip, express nascent optimism that they can engineer for their more dire circumstances the type of turnaround achieved in the adjacent Dominican Republic following a banking collapse, official and private debt restructuring, and an emergency IMF program there that was accompanied by chronic civil unrest and power shortages. Now the Hispaniola island neighbor is growing near double digits on buoyant bank profits and inward direct and portfolio investment as President Leonel Fernández appears popular entering another election cycle.

Such a transformation may also be possible for Préval whose previous term in office between Aristide tenures was undistinguished and alienated private sector groups in particular who did not relate to his background as an academic agronomist. Over the near term, progress will be measured by further consolidation of economic and financial trends which can not only raise meager domestic living standards, but lay the foundation for lasting inroads into the broader CARICOM, DR-CAFTA, and European and North American general and diaspora Haitian trade and investment blocs. ◆