



## **"Rebuilding Haiti's Competitiveness and Private Sector"**

### **Testimony for the House Financial Services Subcommittee on International Monetary Policy and Trade**

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**March 16, 2010**

Thank you Chairman Meeks, Ranking Member Miller and other members of the subcommittee. I appreciate the opportunity to appear before the subcommittee today to discuss how the U.S. and the international institutions can support Haiti's reconstruction and recovery following January's devastating earthquake.

Humanitarian relief efforts remain an urgent concern in post-quake Haiti. At the same time, the disaster has prompted soul-searching and debate in the development community. Why haven't previous efforts to assist Haiti resulted in a more resilient society? How can the United States and the international institutions like the World Bank, International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) support Haiti's reconstruction and recovery, especially when Haiti's government and institutions have been crippled by the earthquake?

In my remarks, I'd like to propose three key principles for the U.S. and international response in Haiti and three policy actions that would have a big impact on the lives of Haitians as they seek to rebuild and replenish their nation.

#### **THREE PRINCIPLES**

##### **1. It's about more than aid.**

Aid is the first response in the aftermath of major natural disasters, and rightly so: helping Haiti pull its citizens from the rubble, and providing emergency medical care, water, and shelter is paramount. But to build a capable state in Haiti and an independent middle class, aid will not be sufficient. What Haiti needs from the United States are other kinds of support: policies to encourage investment and open our consumer market to Haitian exports; special programs to encourage deployment of the considerable talents of members of the Haitian diaspora in rebuilding public services in Haiti; and a new program to allow more Haitians to emigrate to the U.S. I suggest specific actions below.

**2. Ultimately only the Haitian government can “coordinate” the donors; meanwhile the U.S. should encourage lead donor arrangements by sectors and should lead on transparency.**

There are now more than 25 official donors, including at least 10 United Nations agencies plus the U.S., British, French, Canadian, European Commission, Brazilian, Chinese and hundreds of international organizations operating in Haiti. Since the January earthquake, there has been the usual drumbeat among official donors on the need for coordination. But coordination of the international community’s input by the international community itself is a hopeless ideal. Since the earthquake, the Obama administration has made good efforts to avoid adding to the confusion by emphasizing that the government of Haiti must be in charge of the aid-funded programs.

In Haiti, this is tricky because many of Haiti's government and civil society institutions have been destroyed and many officials, police and other leaders have died. What can be done in the short run? The U.S. is likely to be among the largest if not the largest single donor/creditor in Haiti (the U.S. currently accounts for 32 percent of total humanitarian assistance in Haiti). The U.S. should work with the Haitian government to identify who among the official donors is in charge of what. For example, one of the multilaterals (i.e. the Inter-American Development Bank or the World Bank) might take the lead on reconstruction; the U.S. might lead on leveraging private sector investment through USAID and the Overseas Private Investment Corporation; another large donor might lead on social sector investments, etc.—in all cases working with other donors but being the principal counterpart for the government. These are just examples, but clarity about who is in charge of what would go a long way to support the Haitian government’s own efforts and to make sense of the panoply of actors and interests currently operating in the country.

The U.S. should also take the lead on transparency. I urge a special focus by all U.S. agencies involved to make their plans, commitments, deployment of personnel and disbursements fully available to the public on an ongoing basis on a public website for the indefinite future; and for USAID to commission the creation of a platform that would make it easy for private donors to do the same. That or some other initiative should be taken to provide the government of Haiti the information in usable form to increasingly take charge themselves. It would also allow Haitian civil society the information to permit them to hold their own government gradually more accountable. (Similarly, the Congress and U.S. taxpayers would have more timely and useable information about U.S. resource deployment.) This approach would also minimize the risks of waste and corruption that are ever-present when large new inflows of outside aid for reconstruction begin to flow.

**3. Put USAID more clearly in charge of the U.S. effort and call on USAID to focus on innovation and evaluation.**

President Obama designated USAID Administrator Raj Shah "our government’s unified disaster coordinator" immediately following the earthquake. USAID has a long history of disaster response as well as transitioning from humanitarian crises to long-haul development. But amid

the growing and visible roles of the Pentagon, State Department and other federal agency responding to the earthquake, we are running the risk of confusion about who is really in charge of the U.S. strategy and response.

Even the perception of poor coordination among U.S. actors can weaken the effectiveness of our response. President Obama, Secretary Clinton, the U.S. Congress and others should continue to make it clear that Dr. Shah is not only the president's designated disaster coordinator but also the head of the primary U.S. agency for development. They should give him the profile and tools and authorities to do the job he has been asked to do. Getting this part right can help Haiti put its country back together again, and might in turn, help strengthen our own development apparatus too.

I urge this committee to in turn urge USAID to take steps to ensure that there is adequate emphasis on defining objectives for all U.S. aid programs in Haiti, in terms--wherever possible--of measurable outcomes on the ground (jobs, gains in school enrollment and learning, reductions in infant and child mortality, etc.); testing new approaches; and investing now in the baseline information for systematic and independent evaluation. This is vital if we are to improve the process, which elsewhere has been plagued by difficulties, of shifting from emergency humanitarian programs to long-term development investment.

### **THREE ACTIONS**

There are a number of things that can be done in the short-term to help Haitians recovery from the earthquake: ensure Haiti's adolescent girls are protected from sexual violence while they are in temporary settlements; consider using cash transfers to get the economy going; create a jobs and emergency works program; and provide, as appropriate, police force resources. But there are three major policy changes very much in the jurisdiction of this committee that would have immediate and lasting impact.

#### **1. Provide duty-free, quota-free access for Haitian exports, including apparel, and make that access permanent.**

Haitian-Americans and Haitians (some of whom came to the U.S. after the earthquake in order to see U.S. Trade Representative Mark Kirk and members of Congress) are asking for one thing: more trade with the United States – which can result from further opening of the U.S. market to Haitian exports.

Haiti already has duty free access for most goods it might export to U.S. markets under current preferences.<sup>1</sup> And exports—especially of job-intensive apparel and textiles—deserve some credit for the small but significant improvement to Haiti's economy before the earthquake (see annex).

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<sup>1</sup> The Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (**HOPE II**) and Caribbean Basin Trade Partnership Act.

But more can be done as my colleague Kim Elliott has argued in a recent blog post on “Haitian Recovery, Sweatshop Jobs and the Role of Trade Preferences.”<sup>2</sup> First, the current quota on Haitian apparel exports should be lifted—the current quotas are likely discouraging potential investors even now. Second, there should be full product coverage. Third, change program rules to allow the broadest possible sourcing of fabric and other inputs rather than restricting key imports from Haiti to those using American inputs. And fourth, make preferences for Haiti permanent (the increase in Hope II to 10 years clearly helped; a permanent program would be even better). While the programs should be permanent, there can be an opt-out for the U.S. in the case of a coup or other significant human rights violation.

These are among the recommendations in a forthcoming CGD Trade Preference Working Group report<sup>3</sup> that Kim Elliott chaired. The report makes clear that better access for all least developed countries—including Haiti—would have a minimal negative effect on U.S. firms and jobs. The report indicates that increased access for all least developed countries might reduce U.S. production of textiles by one half of one percent. Such access for Haiti can contribute to both more and better jobs for Haitians trying to survive in the wake of this terrible tragedy.

Increased trade access to the world's largest consumer market—the U.S.—has the potential to create jobs *quickly* and have a lasting impact on Haiti's economy. Customers, not charity is a critical part of the equation for Haiti's long-term recovery.

## **2. Create a Golden Door Visa for a limited number of Haitians to emigrate to the U.S.**

To help Haiti's earthquake victims, change U.S. immigrations laws. CGD fellow Michael Clemens has called for a new Golden Door Visa for a limited number of Haitians and other people in the world's poorest countries.<sup>4</sup> Haitians will continue getting on boats in large numbers to try to escape Haiti in the weeks to come. But most of them will be forced to do so without permission, because there is no provision in current U.S. immigration policy to reserve even a single visa to the U.S. for people simply because economic opportunity is abysmal where they are. (Refugee visas are only for people threatened by war or persecution, and don't apply to natural or economic disasters; the ‘Diversity Visa’ does not apply to Haiti.)

A Golden Door Visa would change that. It doesn't need to mean more immigrants, though it might; it could be made “numbers-neutral” so that the number of all immigrants stayed the same but became slightly weighted toward places where people need more opportunity. It could be given in more limited numbers when the U.S. economy is weak, greater numbers when it's strong. Even small numbers would be tremendously helpful: 10,000 per year would represent a 50% increase in the number of legal Haitian immigrants, but only 1% of total U.S. immigrants.

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<sup>2</sup> Kim Elliott, “Haitian Recovery, Sweatshop Jobs, and the Role of Trade Preferences”, Center for Global Development, January 25, 2010, <http://blogs.cgdev.org/globaldevelopment/2010/01/haitian-recovery-sweatshop-jobs-and-the-role-of-trade-preferences.php>.

<sup>3</sup> Kim Elliott leads the Center for Global Development's Trade Preferences Working Group ([http://www.cgdev.org/section/initiatives/active/reformingtradepreferences/global\\_trade\\_preference\\_reform](http://www.cgdev.org/section/initiatives/active/reformingtradepreferences/global_trade_preference_reform)).

<sup>4</sup> Michael Clemens, “Reactions to My Proposal for a New Visa to the United States,” Center for Global Development, January 25, 2010, <http://blogs.cgdev.org/globaldevelopment/2010/01/reactions-to-my-proposal-for-a-new-visa-to-the-united-states.php>.

Creating some degree of flexibility in this way would help reduce the embarrassment of forcing poor people who will be trying to leave Haiti back into the disaster zone. It may also be the most successful way to help Haitians lift themselves out of poverty. According to calculations by Clemens and CGD visiting fellow Lant Pritchett, 82 percent of Haitians who live on more than \$10 per day live in the U.S. Only the top 1.4 percent of people in Haiti had that living standard even before the quake. So for most of the Haitians who left, leaving Haiti was the *cause* of leaving poverty.

In addition to creating a Golden Door Visa, there should be support for Haiti's diaspora members to return to Haiti to shore up public functions, especially at the government ministries. CGD founder Ed Scott helped create the Scott Family Fellows program aimed at recruiting young professionals to support the government of Liberia as it recovers from 14 years of civil war. The fellows fill a huge capacity gap and work in Liberia as special assistants to senior Liberian government officials, primarily cabinet members. Since its inception, the program has attracted both Liberian nationals and U.S. citizens. A similar program could help rebuild and re-staff the Haiti's vital government infrastructure.

### **3. Channel more resources through the multilateral development banks.**

The World Bank and Haitian officials are expected to establish and run a "multi-donor trust fund" similar to the one set up after the 2004 Asian tsunami. The Bank's trust fund is expected to include an "executing agency" led by Haitians, while the United Nations and other international staff will supervise the massive rebuilding projects. A trust fund could also be established at the Inter-American Development Bank, which could help raise resources from Latin American and Caribbean neighbors, and or U.S. resources could supplement the existing Multilateral Investment Fund at the IDB for work in Haiti over the next five years; the MIF was started as a U.S. initiative at the IDB to support private sector investment and public-private partnerships in the Latin America and Caribbean region.

Both the World Bank and the IDB are in the process of seeking capital increases. Among the reforms the United States should urge at those banks is increased attention to risk management instruments, including insurance and guarantee products for low-income countries against natural disasters and other external shocks, as I have recommended in earlier testimony before other committees.<sup>5</sup>

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<sup>5</sup> Nancy Lee, Guillermo Perry, and Nancy Birdsall, "The Age of Turbulence and Poor Countries: The Case for MDB Help with Risk Management", November 17, 2008, <http://www.cgdev.org/content/publications/detail/967322> and Guillermo Perry, "Beyond Lending: How Multilateral Banks Can Help Developing Countries Manage Volatility", Center for Global Development, May 13, 2009, <http://www.cgdev.org/content/publications/detail/1422098>.

**Annex:**

Haitian apparel exports to the United States rose from \$450 million dollars in 2006 to \$512 million dollars in 2009, but make up less than one percent of the share of total U.S. imports, meaning improved trade opportunities could create the jobs that are so desperately needed in Haiti, with minimal negative effect on the U.S. or other exporters.

Haitian Apparel Exports to the United States (million dollars)				
	2006	2007	2008	2009*
Total	450	453	412	512
Share of total U.S. imports	0.6%	0.6%	0.6%	0.8%

\* Extrapolated from January-November data.

Sources: U.S. Department of Commerce, Office of Textiles and Apparel; U.S. International Trade Commission.