__On the Record: Central American Civil Society After Mitch (1999)__

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From the AP Editorial Desk

__**NGOs Stake Out Their Position at Pre-Summit Gathering**__
by Marie Clark

USAID continues to spar with American NGOs over participation

Stockholm, Sweden – Monday, May 24: Delegates and observers from civil society in Central America began a two-day meeting here over the weekend in an effort to press their vision of community-based development in the wake of Hurricane Mitch.

The NGO meeting, which is taking place before the session of the consultative group of donors on Tuesday, has attracted 90 delegates and 30 observers from 19 countries. They include leaders of the main NGO coordinating groups from Honduras and Nicaragua, the two countries worst affected. Twelve European governments, and several European regional groups, are also represented at the NGO meeting.

The NGOs have agreed to establish several working groups to draft platforms on key issues. These were due to be presented to the donors on Monday afternoon and at the press conference on Monday evening. NGO participation at the Monday discussions will be limited to three representatives from the North, and a handful of representatives from each country of Central America.

The NGOs are insisting on the importance of the participation of civil society in reconstruction; the decentralization of decision-making power; the strengthening of local government and groups; the inclusion of women and indigenous people; the protection of the environment; and transparency. The only NGO group to highlight debt has been Honduras. But a special working group has been set up on the issue.

The summaries of the four working groups were due to be presented Monday, when the discussion was expected to move beyond reconstruction and towards the transformation of society and the region.

NGO representatives agreed that, in spite of the sense of excitement and shared goals, there are also doubts whether the donors will produce concrete proposals, and pressure Central American governments to be accountable to civil society.

Meanwhile, American NGOs have continued to press US Agency for International Development (USAID) to encourage the participation of NGOs to participate at the Stockholm meeting (See On the Record, Issue 7).

Sources say that Mark Schneider, USAID Assistant Administrator, has informally promised to provide a daily briefing in Stockholm and also advance copies of USAID papers for thematic seminars. USAID has also agreed to raise issues of concern to the NGOs in the discussions in Stockholm, and provide a briefing in Washington after Stockholm.

But it remains unclear whether any NGOs will actually sit on the American delegation. As a compromise, USAID is said to be trying to secure invitations for the final pledging session. It has promised to provide a written explanation in the event that NGOs are excluded. While this may fall well short of demands for Stockholm, it will strengthen the NGO argument to be fully included in future donors meetings.

Stockholm Profile
Eddy Morales, National Youth Council of Nicaragua
by Marie Clark

Eddy Morales comes from a country where 68 percent of the population is under 25, yet has virtually no representation in their government.

Civil society groups in Nicaragua have welcomed the youth council, but the government has not. To Eddy, this contrasts with Honduran youth, who are well organized and have been effective participants in civil society. (Honduran youth groups are represented in Stockholm by Jose Luis Escalante.)

Likewise in El Salvador, the young people have been recognized as an essential part of the reconstruction effort – as reflected in the plan proposed by the government. Guatemalan youth, on the other hand, seem to be having more difficulty. Eddy is optimistic that the youth in all four countries will be able to use Stockholm to build networks with one another, and also develop a common approach to the media in their respective countries.

- The National Youth Council of Nicaragua does not yet have a connection in the United States. Contact **Eddy Morales** for more information.

<u>Feature of the Day: The Debt Trap – Sapping the Energy Out of Central America</u>
by Soren Ambrose

From the Editorial Desk:

Debt has cast a long shadow over the Stockholm meeting. All of the countries affected by Mitch owe large amounts of money to creditors. Nicaragua and Honduras are both paying out more in debt repayments than they are receiving in new aid. Even before Mitch, critics argued that this made no sense because it forced these countries to gear their economic plans to exports, which are environmentally damaging and make the country more vulnerable to natural disasters.

After Mitch, the chorus became deafening. The government of Honduras joined forces with Honduran NGOs to demand debt cancellation. Jubilee 2000, the international campaign for debt cancellation, used the plight of Mitch-affected countries as a symbol of the injustice of the international system.

As the Stockholm meeting approached, however, the call grew more muted. It has now sunk to a whimper as it becomes clear that neither the multilateral banks nor major donors are prepared to consider anything other than piece-meal offers. They reject any across-the-board relief on the grounds that it would penalize those governments that have dutifully repaid their debts, threaten the notion of "international creditworthiness," and set a precedent for whole-scale debt relief in any future natural disaster.

In the following article on the controversy, SOREN AMBROSE argues the case for debt relief.

In the days following Hurricane Mitch, the cry for debt cancellation went up – from NGOs in all the affected countries, from foreign NGOs and solidarity groups, and even from the occasional government official.

It seemed a colorless demand at a time when newspapers and television screens were conveying images of horrific mudslides and floods. Why – in the face of the tremendous tragedies visited by Mitch and the obvious need for emergency assistance – would attention be focused so quickly on details of financial policy?

The answer is that the economies of the region – and particularly of the two worst hit countries, Honduras and Nicaragua – were in tatters before Mitch hit. They had been devastated by years of structural adjustment programs (SAPs) imposed by the World Bank, and the International Monetary Fund (IMF) in exchange for loans that no one else would provide.

SAPs are austerity plans ostensibly designed to reform failing economies. Typically, they insist on currency devaluations, cuts in social spending, job layoffs, restrictions on credit, withdrawal of subsidies, hikes in tax and interest rates, and the opening up of economies to foreign corporations.

In Nicaragua, structural adjustment has forced the government to reduce spending on health care from $58 per person in 1988 to $14 in 1997. This has resulted in decrepit infrastructure, a lack of social services, and environmental damage caused by farming and squatting on fragile lands. All of this makes the country prime prey for a natural disaster like a hurricane.

About 80 countries around the world are under IMF/World Bank tutelage. They have to accept SAPs because of debt. Most started to accumulate their insurmountable burdens with ill-advised infrastructure projects, the misallocation of loans through corruption, and hikes in interest rates on private loans taken out in the 1970s.

Twenty years of SAPs have served only to institutionalize a treadmill of new loans, increasing debts, and more SAPs. Several studies, including at least one by the IMF, have shown a direct correlation between structural adjustment policies and rising levels of debt.

Bilateral Moves Towards Debt Relief

The early attention to debt after Mitch, then, was not so surprising. In fact, the connection between debt and economic conditions was well understood. Both Nicaragua and Honduras already had active chapters of Jubilee 2000, the international movement that calls for the cancellation of the debts of the world's poorest countries by the millennium. In both countries, several Jubilee 2000 activists were also heavily involved in framing civil society's response to the disaster.

Jubilee 2000/USA points out that Honduras's foreign debt has tripled since 1980, to reach approximately $4.5 billion, with $147.7 million owed directly to the US government. In 1997 Honduras paid $539 million in debt payments, more than $1 million a day.

Nicaragua still vies for the title of the most indebted country in the world on a per capita basis. It has a foreign debt of $5.929 billion, much of which was incurred during the US-sponsored Contra war. In 1997 it made payments of $349 million, nearly $1 million a day. Nicaragua owes the US government $106 million.

If the impact of the debt was devastating before Mitch, the argument for debt cancellation would seem hard to deny in the aftermath.

The illogic, some would say immorality, of wealthy countries making donations to emergency relief and at the same time demanding debt payments from the stricken countries inspired some early moves toward debt relief. Cuba, hardly a rich country itself, canceled unconditionally the $50 million debt owed it by Nicaragua (Honduras has no debt to Cuba). France announced cancellation of the two countries' concessional debts (resulting from loans given at below-market interest rates as part of aid packages). Denmark forgave $23 million owed it by Nicaragua, and several other countries, most of them European, granted partial debt relief.

Activists in the US mounted pressure on the Clinton Administration to cancel the debts of Honduras and Nicaragua. But the only pledge extracted from the US was for a moratorium on debt payments. That decision was made in early December, at two special meetings in the same week. One involved the Paris Club (the cartel of official creditors that makes decisions on bilateral debt relief). The other, in Washington, brought together the Special Donors Consultative

Group and included representatives of official aid agencies, the World Bank, IMF, and InterAmerican Development Bank (IDB). It is this latter group that is reconvening in Stockholm later this month.

Perfidy in Paris

The Paris Club put out a communique after its closed meeting promising a three-year moratorium on the debt repayments of Nicaragua and Honduras, and claiming that the countries would save $100 million. The implication was that interest would not be charged on the debts during the moratorium. This turned out not to be the case. Indeed, it was only through intensive questioning by some of our European colleagues that it became clear that the "savings" referred to were no savings at all.

The two countries will not have to repay $100 million over the next two years, but the money will still be owed after February 2001. In the meantime, the debt burdens will grow as the interest due on those payments is capitalized and added to the tally. The end-date of the moratorium also reveals that, despite the communique's wording, it was to last only a little over two years from the time of the meeting.

Some news reports indicated that the government representatives gathered in Paris had agreed to grant Nicaragua cancellation of 80 percent of its debts and Honduras a 67 percent cancellation. This was also inaccurate. What the Paris Club said was that they would consider such cancellations at the end of the moratorium.

It should also be kept in mind that when the Paris Club grants relief, it only applies to debt contracted before a "cut-off" date, determined by the first time it granted re-scheduling to a given country. For Nicaragua, that date is November 1988. For Honduras it is June 1990. This means that debt payments on any loans obtained after those dates would not be subject to relief.

The Paris Club communique also used the occasion to emphasize the need for the indebted countries to maintain their adherence to the structural adjustment programs of the International Monetary Fund (IMF) in order to qualify for any debt relief.

This requirement of the Paris Club is well known, and while no one would expect such a communique to suggest any other approach, it is alarming that it was thought so important as to merit this emphasis. No doubt the governments in the Paris Club – mainly the rich countries like the US, Japan, and those of Western Europe – wanted to signal that they would not accept any relaxation of the structural adjustment programs in any other forum where such a proposal might be discussed. Nor would they be lenient when considering relief when the moratorium ends.

The only thing yielded by the Washington meeting in the way of debt relief was the creation of the "Central America Emergency Trust Fund," which will hold funds to pay off the multilateral debts – debt owed to international financial institutions like the World Bank, IMF, and IDB – of Nicaragua and Honduras over the period of the moratorium. This mechanism is deemed necessary because the international financial institutions maintain that they are not permitted to write off or declare moratoria on any debts owed to them.

American Inaction

Since the Donors Consultative Group meeting, the U.S. government has done nothing significant about Central American debt, and precious little in the way of economic assistance.

Some members of Congress have been made aware of the region's needs, but their efforts have had little impact on the Administration. In January, a group of 54 members of Congress sent a letter to President Clinton saying that Honduras's and Nicaragua's "debts not only deter new foreign investment, but also yield most economic decision-making to the hands of international creditors, undermining fragile democratic processes.

"While a payment moratorium may provide temporary relief, these countries still will be unable to service their debts after three years, especially if they expect to make needed investments in emergency preparedness and sustainable development.

"We therefore urge you to act to cancel the current United States bilateral debt of the countries most affected by Hurricane Mitch. In addition, we urge you to work with other G-7 nations to agree on bilateral and multilateral debt cancellation. This debt cancellation must not be conditioned on the implementation of economic policies that increase poverty or environmental damage."

The emergency relief package, assembled by the Administration, for Honduras and Nicaragua was advertised to include: $41 million for debt relief, which represented $16 million to cover the anticipated costs of future Paris Club relief for Honduras (the Nicaraguan portion had already been accounted for); and $25 million for the fund to pay off multilateral debt.

About $600 million in the President's emergency bill, ($956 million) was intended to be fresh relief for Central America. As a result, US NGOs decided to push for increased debt cancellation. Their efforts persuaded a group of concerned members of Congress to propose an amendment adding $25.5 million to the bill.

That relatively small amount is all it would take for the US government to write off all bilateral debt owed by the two countries, since the market value of the debt is only about 10% of the face value. (This was an indication that the much vaunted "market system" has determined that the debt is unlikely to ever be paid.)

The amendment, proposed by Rep. Nancy Pelosi of California, was not accepted. As reported in On the Record, the Administration's relief package was held up by Republicans in Congress, until it was finally accepted last week as part of an emergency spending bill which helps to pay for the war in Kosovo.

It was a shameful process. While all sorts of programs that neither the Administration or the military deemed necessary were inserted by the Republicans on an "emergency" basis, the funds for hurricane relief, already held up for so long, were treated as a non-emergency. This meant that they required "offsets," (cuts in other government spending). The Republicans were ready to cut funding for low-income housing and food stamps in order to pay for hurricane relief!

HIPC Hiccup

Unable and unwilling to allow debt cancellation, the World Bank and IMF have nonetheless promoted an initiative under which a "heavily-indebted poor country" (HIPC), is eligible for some reduction of multilateral debt after adhering to structural adjustment for six years. Nicaragua is classified by the World Bank and IMF as eligible for HIPC. Honduras is not, despite strong lobbying that an exception be made because of the impact of the hurricane.

In late January, activists and academics from throughout Latin America gathered in Tegucigalpa, the capital of Honduras, to launch the regional Jubilee 2000 Latin America campaign. They also came out strongly for full debt cancellation for the hurricane-torn nations, and against half-measures such as the World Bank/IMF HIPC Initiative.

HIPC, which was launched in 1996, has proven to be a failure. Its first graduate, Uganda, received benefits in 1998 after the six-year timetable was speeded up in light of its long record of SAPs. But just one year after receiving debt relief, a fall in coffee prices has reduced Uganda's foreign exchange earnings and rendered its debt once again officially "unsustainable" by HIPC standards!

Mozambique is the world's poorest country and is due to benefit from HIPC this year. At best, it will see debt repayments reduced from $110 million to $100 million. But even to qualify for this, Mozambique must impose a 500% hike in the fees its people pay for services at health clinics. In late April, an internal review at the World Bank revealed that two countries slated to graduate from HIPC soon, Burkina Faso and Mali, will actually see their annual debt payments rise as a result.

Jubilee 2000 – Looking to Cologne

President Aleman of Nicaragua, unfortunately, has been using the promise of relief under HIPC as a cover for imposition of a range of harsh economic policies, even as the hurricane raged and his government failed to deliver any organized relief to its victims. Apparently sold on the idea that the best path to recovery lies in continuing to follow the international financial institutions' disastrous advice, neither the Nicaraguan nor the Honduran government is pressing for substantial debt cancellation at the Stockholm meeting of the Donors Consultative Group.

Even more disappointing is the fact that the coalitions of NGOs in both countries have downplayed their demands for attention to debt relief – demands which were central to their presentations at the time of the Washington meeting in December.

The reason for this change of strategy on the part of civil society in the Central American countries is unclear. It is very unfortunate that what the international Jubilee 2000 movement considered its best case for promoting the cause of debt cancellation seems now to have been abandoned.

But Jubilee 2000 has succeeded in putting debt relief squarely on the agenda of the G-7 Summit, the annual meeting of the leaders of the richest industrial countries (the US, Japan, Germany, the

UK, France, Canada, and Italy). All of these countries, except Italy, have put forward debt relief proposals in advance of the June summit in Cologne, Germany. Most of them rely on expanding the benefits of the HIPC program and potentially reducing the number of years countries would spend under structural adjustment to get those benefits.

The Canadian proposal, which is the most detailed and far-reaching, urges that Honduras be designated a HIPC country. It also breaks ground by saying that the Canadian government will grant full bilateral debt cancellation to HIPC countries regardless of whether its partners in the G-7 or the Paris Club agree.

This is good news for indebted countries like Honduras and Nicaragua, as it may provoke more movement to cancel the debt that continues to block their path to real recovery from Hurricane Mitch. The G-7 finance ministers are to meet on June 12 in Cologne, Germany, and are expected to try to merge their various debt proposals. The result could be positive, at least in terms of bilateral debt cancellation. But the prospects for a reform of the HIPC program is likely to be insignificant. It is a reminder that Cologne must be the first, and not the last, word on debt relief for struggling countries like Honduras and Nicaragua.

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- Global debt relief: **European Network of Debt and Development**: Tel: 32-2-543-9060; Fax: 32-2-544-05-59.
- **ENVIO**, the Monthly magazine of the University of Central America (UCA) contains excellent analysis of the aftermath of Mitch, corruption and other issues of interest.
- The Sustainable Development Network of Tegucigalpa, Honduras, will be issuing daily press releases in Spanish from Stockholm.

In the next issue: Health in Nicaragua