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The Honduran government has announced that the G8, the group of finance ministers of the eight industrialized nations, has approved more than US$3 billion in debt cancellation for the country, but those waiting to spend or receive money for social, infrastructural, and other sorely needed projects will have to wait.

Contrary to what Hondurans have been led by the government to believe, debt relief will come slowly to the country, contingent on meeting a number of conditions imposed by the International Financial Institutions (IFI). This year, Honduras will see only about US$150 million in debt relief, according to Mauricio Diaz Burdeth, coordinator of the Foro Social de la Deuda Externa de Honduras (FOSDEH). Diaz Burdeth has been working on debt relief since 1995, when he, along with Cardinal Oscar Andres Rodriguez, began working on a project for forgiveness of a debt that has now reached US$5.5 billion.

He was at pains to explain that the recent relief does not mean that Honduras now only owes US$2 billion. "In reality, what we are talking about, and this is the key word, is an announcement of debt relief, which is not the same as saying that it has been relieved. What is being said is that there will probably be relief."

Other important aspects of the debt relief for FOSDEH are the period over which the debt-cancellation package will finally be concluded and the question of interest on the principal in the meantime. These questions turn on completion of the terms of the Letter of Intent, signed by the government of former President Carlos Flores (1998-2002) and the IMF in 2000, in which the debtor country commits itself to certain conditions, such as rooting out corruption and implementing neoliberal reforms.

Nor is it the case that government simply stops paying out money in debt service. Rather, "it is to say that the annual payments do not all go out of the country, but a part, and the rest finances the Poverty Reduction Strategy (PRS)," said Diaz Burdeth. The PRS, signed in 2001, has the fundamental objective of reducing the proportion of the population living below the poverty line from 66% in 2000 to 42% in 2015, according to IMF documents.

The IMF says, "This objective can only be achieved through more accelerated and equitable growth. To this end, the macro-economic framework will be strengthened and structural reforms will be implemented to increase competitiveness."

Poverty Reduction Strategy slightly off course

A review of the PRS results that the IMF conducted for 2001-2002 showed that "poverty reduction has not yet accelerated decisively." The review blamed the international recession and Honduras'

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fiscal crisis for "reducing economic growth to much lower than expected levels." The report measured the relative reduction at 1% and noted that a relative reduction of 3% would be necessary to achieve the 2015 objective. FOSDEH has long been critical of debt relief and has been warning Hondurans of the details of the Heavily Indebted Poor Countries (HIPC) Initiative for years.

In 2000, the organization pointed out that, while the Flores government was touting the program as a boon, the Finance Ministry was saying that, "according to the rules of the HIPC Initiative, the debt relief is not delivered to the country in a single operation, it is given progressively as part of the annual debt service throughout a certain period of time that, depending on the creditor, would last from eight to 15 years." "Depending on the creditor," means the agreement will be completed only if Honduras complies with the Letter of Intent. This, in turn, means that Honduras is committed to a program of continued economic sacrifices and privatization of public services for the next 15 years.

In short, for their money, the participating IFIs and bilateral lenders have bought options on public telecommunications, electricity, water, and sanitation operations. They have also bought the right to impose subsidy restrictions on public transportation and other services to improve the investors' competitive positions. Beyond this misperception of debt reduction (See NotiCen, 2002-01-31, 2002-04-18) lies another. The mechanisms by which the debt reductions were achieved could well lead to there being less money available to poor countries in the future.

In a dispute between the US and Britain on how to finance the debt relief, Britain wanted the rich countries to reimburse the World Bank (WB) for forgiven debts and the International Monetary Fund (IMF) to sell gold reserves to reimburse itself. The US wanted the IFIs to pay from their own resources, thereby reducing the amount they could lend in the future. This "would really have the poor pay to forgive their own debts," wrote John Williamson in the Inter-American Dialogue Latin America Advisor. Williamson is a senior fellow at the Institute for International Economics (IIE).

In a compromise, the rich countries would pay the World Bank for the first three years but the IMF would self-finance the expense. "Even for the first three years the US has indicated that it plans to divert money that would otherwise have gone to aid to the World Bank so that there will be no additional resources for the poor. This looks close to game, set, and match for the US. Tough luck on Bolivia, Guyana, Honduras, and Nicaragua," wrote Williamson.

Former IMF chief calls debt relief a farce

Harvard economist and former chief economist of the IMF Kenneth Rogoff extends the critique of debt relief in a different direction, observing that "it is a shame that so few people appreciate what a farce such measures could turn out to be." Discounting the generosity of the G8, he wrote, "But no one really expects the debts to be paid anyway. Indeed, thanks to ongoing grants and future loans from national aid agencies and multilateral lenders like the WB, most of the poor debtor countries look set to receive considerably more money than they pay back, with no end in sight." Rogoff characterizes third-world debt burdens as scorecards for past development failures, reflecting "naive optimism that with a bit of seed money, politically and economically backward countries would generate majestic growth and effortlessly repay their loans."

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A better interpretation of the history would be, he contends, that the rich countries were too cheap to give outright grants to the poorest countries and would only help if they were told the money would be paid back. Rogoff commends the Bush administration for moving toward outright grants in foreign aid and for conditioning that aid on countries "that are reasonably well-governed." The former IMF official urges restructuring agencies like the World Bank and the regional development banks as grants-only agencies.

He said he has done research indicating this could be accomplished by giving the World Bank an endowment of rich-country bonds and letting it spend the interest. "For example, Jeremy Bulow of Stanford University and I have shown that by endowing the WB with US$100 billion, it could carry out the tasks that it performs best more effectively and with greater transparency than it does today through borrowing and lending. Given today's exceptionally low long-term interest rates, the annual cost would be, well, peanuts." Until that happens, there is growing opinion in Europe that debt relief must be matched by huge increases in aid and an end to European and US agricultural subsidies if there is to be genuine poverty reduction.

The London Observer called the debt cancellation a "milestone," but emphasized, "The impact of unfair agricultural subsidies has received too little political attention." Honduran agriculturalists are only too aware of this impact and of the little attention paid it. Producers throughout the region have attempted to raise awareness of the peril to the sector as enactment of the Central America Free Trade Agreement (CAFTA) looms. There are indications the US is also aware of it.

The US sweetened the debt-relief package with a US$215 million payout from the Millennium Challenge Account (MCA), rewarding and providing incentive to the government for improvements in governance and for behaving in accordance with US economic policies. The money was announced within days of the debt-relief announcement. But, like the debt relief, it does not come all at once, and it is tied to conditions. The full amount is to be paid out over a five-year period. The first payout, US$72.2 million, is earmarked for a project to increase productivity and business skills for campesinos who own or operate small and medium farms and their workers.

The second, at US$125.7 million, is to be used "to reduce transport costs between production centers and markets." About US$17 million will be used in monitoring and evaluating the two projects. Secretary of State Condoleezza Rice announced the grant, with US Trade Representative (USTR) Robert Portman and Millennium Challenge Corporation (MCC) director Paul Applegarth in tow. A grateful Honduran President Ricardo Madero said, "This contract comes at a good moment for Honduras. It recognizes the reforms for which we fought and which we achieved. It rewards the sacrifices of a population that accepted belt-tightening in the short term to obtain stability and growth in the long term." He said the money would pay for projects that "will help the rural producers get all the advantage of US market access, making their efforts more productive and, when necessary, helping them to diversify their production."

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