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AN ANALYSIS OF THE ENTERPRISE FOR THE AMERICAS INITIATIVE

by
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The Bush Administration recently proposed an Enterprise for the Americas Initiative (EAI) to forgive a portion of the official debt owed to the U.S. government by Latin American and Caribbean governments and to establish environmental funds in the countries of the region. A bill authorizing forgiveness of the repayment of a portion of PL480 loans and the creation of such funds was approved by Congress last month as part of the farm bill. A second bill, which covers concessional Development Assistance (DA) and Economic Support Fund (ESF) loans, cleared the House of Representatives and is expected to be reintroduced in the next Congress.

Issue Profile

The version of the EAI approved in the last Congress authorizes the President to forgive the repayment of a portion (probably 40-to-80 percent) of a country's PL480 concessional loans. There is a total of approximately $1.7 billion of such loans currently outstanding in the region. A second bill, covering DA and ESF loans, would, as currently constituted, establish a program very similar to that created by the farm bill. DA and ESF concessional loans currently total approximately $5.36 billion. Together, the PL480, DA and ESF loans represent only about two percent of the total foreign debt of the countries of Latin American and the Caribbean.

The DA- and ESF-related debt remaining after partial forgiveness--the exact amount of which is to be determined by a country's repayment record and its current ability to pay--would, as in the case of the PL480-related debt, be rescheduled over a longer period, with interest rates reduced to approximately two or three percent. These debt reduction operations would be managed by an Enterprise for the Americas Facility within the U.S. Treasury.

Countries would be eligible for debt reduction if they fulfill three conditions: they must have adopted or be making progress toward adopting an IMF or World Bank structural adjustment program; they must have put in place major investment reforms and be moving towards an open investment regime; and they must have reached agreement with commercial lenders on a satisfactory financing program for their commercial debt. Although the conference report on the farm bill provides for some flexibility for countries making progress toward market-oriented and long-term economic development, especially where structural

adjustment programs have already had negative social and environmental impacts, the farm bill itself does not include this language.

Countries qualifying for debt reduction would also be eligible to enter into Environmental Framework Agreements with the U.S. government. Under these Agreements, local environmental funds would be established with local-currency payments on the interest on the remaining official debt, payments which otherwise would have had to have been repaid to the United States in dollars. This aspect of the program would be managed by an Environment for the Americas Board. The Board would be appointed by the President and would be composed of five public-sector and four non-governmental members. The Board would advise the President on the negotiations on the Environmental Framework Agreements, oversee the use of the funds and ensure that administering bodies are established in each participating country. The administering bodies would consist of one or more persons appointed by the U.S. government, one or more persons appointed by the beneficiary government and a number of people from local non-governmental, community development and academic organizations. It is not clear who would appoint the non-governmental members, but they would constitute the majority of each administering body.

Once the President and the beneficiary government have entered into an Agreement, the local government would establish a fund to receive the local-currency interest payments. This money could be invested until disbursed, but disbursements should be made promptly to the administering body. The administering body would receive proposals from non-governmental organizations, although proposals from local governments could be considered in exceptional circumstances. Grants would be made for projects that link environmental protection with local community development projects.

Critique

While the EAI would generate some funds for sustainable development in Latin America and the Caribbean, participating countries must agree to conditions that may work against sustainable development. New economic policies and financial discipline are needed in many Latin American countries, but the terms set under structural adjustment programs often lead to industrial deregulation and the reduction of environmental standards, increased poverty and increased pressures on the natural resource base resulting from that poverty and from the push to expand exports. This is currently a major area of concern for environmental groups.

Similarly, while the countries of the region may need to selectively attract foreign investment to help revitalize their economies, completely open investment regimes leave them vulnerable to projects such as timber cutting, waste disposal and

intensive agricultural production schemes that can have extremely negative environmental effects. Similar proposals, such as the Trade-Related Investment Measures advanced in the Uruguay Round of the GATT negotiations, would make it much more difficult for Latin American governments to regulate these investments and control the levels of industrial waste and other forms of pollution, the use of dangerous pesticides and other agricultural inputs, and the depletion of their countries' natural resource base.

It is also not clear if the agreements with commercial creditors required of the region's governments before they could participate in the program would on balance reduce the pressure to pay outstanding financial obligations to the private banks through the introduction of an element of debt-relief or increase the pressure through an insistence on a firm repayment schedule. If the latter turns out to be the case, pressures on the environment would also increase. Meanwhile, the funds saved through the reduction of official, or public, debt could, and would, be used to cover debts owed to the commercial banks.

Finally, the structure of the proposed Environmental Framework Agreements appears weak. Participating governments are not obligated to name or have ratified the establishment of the administering body before an Agreement is signed. Since the debt reduction is received once the Agreement is signed, there is no strong incentive for the beneficiary government to name an administering body committed to environmental protection or to spend funds in a manner consistent with sustainable development.

Recommendations

There is widespread agreement on the need for reforms in many countries to balance external accounts and establish sound domestic economic policies. There is less agreement, however, on the efficacy or equity of the structural adjustment measures required by the IMF and World Bank. The current bill does permit some flexibility in order to include as beneficiaries those countries making progress toward structural adjustment as defined by the Administration, the Fund and the Bank. This flexibility should be broadened so that certain objectives or broad targets are set regarding current-account and trade balances, for example, with the participating governments left to design their own programs to achieve those goals. Furthermore, this broadened flexibility should be stated explicitly in the beneficiary criteria section of the legislation itself.

While the EAI establishes a Board to monitor compliance with the Environmental Framework Agreements, there is presently no mechanism envisaged to monitor the impact on the environment and local populations of the structural adjustment policies and new, essentially unregulated foreign investments promoted by this legislation. As such measures and investments have the potential

for much greater environmental impact than do the small, local environmental funds, NGOs from both the North and the South should be involved with Treasury in monitoring these effects and in scrutinizing the agreements reached with the commercial banks.

In the meantime, U.S. NGOs should do their own projections regarding the net impact of the Initiative, given the economic conditionalities attached to participation in the scheme, the relatively small size of the local environmental funds and the relatively small amount of total debt that would be forgiven. In so doing, they should consult with Latin American and Caribbean NGOs, some of which have already expressed serious concerns about the Initiative and its impact at local levels in the region. Congress and Administration officials should be encouraged to do the same in order to gain a more comprehensive and balanced perspective on the issues before further action is taken on the EAI.

Conclusion

While the EAI would generate some funds for environmental projects, it is clearly foremost a debt-relief measure that is designed to leverage changes in, or continued adherence to, programs of macro-economic management. Many Latin American and Caribbean countries are operating under crushing debt burdens that must be lessened if economic growth and development are to resume. This plan, however, like the Brady Plan and other debt-relief schemes, conditions debt relief on adherence to IMF/World Bank structural adjustment programs that have inflicted very high costs on local environments and populations, while further transferring the financial burden of the debt to Northern taxpayers.

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