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THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.
BEFORE THE HOUSE SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS
ON THE ENTERPRISE FOR THE AMERICAS INITIATIVE
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Mr. Chairman, I would like to submit for the record our concerns regarding the Enterprise for the Americas Initiative (EAI).

The Development GAP works with a large number of non-governmental organizations in this country and in the Third World to ensure that decisions taken here promote, rather than impede meaningful economic development overseas. Last September at a meeting in Washington, environmental and development organizations from Latin America and the Caribbean offered their analysis of the EAI, and we have sought to reflect their views in this testimony.

Furthermore, the Natural Resources Defense Council and we, on behalf of a number of other U.S. organizations, wrote last month to a far larger number of Latin American and Caribbean organizations requesting that they share their views on the EAI with us and with Congress. We hope that this subcommittee will take the time to listen to those perspectives as they are received and develop its own ways to consult with the people to our South who will be affected by this Initiative and whose understanding of their own environment constitutes an indispensible input in the making of informed policy.

Issue Profile

The EAI authorizes the forgiveness of a portion of the official debt owed to the U.S. government by Latin American and Caribbean governments and the establishment of environmental funds in the countries of the region. Together, the PL480, DA and ESF loans outstanding to Latin America and the Caribbean total about $7 billion, which represents 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, through which the first legislative action of the EAI was taken last fall, 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.

Far more needs to be understood about the potential 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 this regard, consultation with Latin American and Caribbean environmental and development organizations about the Initiative's impact at local levels is imperative. We encourage you to take the time to elicit these views 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; this was made very clear to us and U.S. environmental organizations by officials of the U.S. Environmental Protection Agency in a meeting earlier this month. 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.

Thank you for this opportunity to share with the Subcommittee views on the Enterprise for the Americas Initiative that reflect a growing consensus among environmental and development groups in this country and in Latin America and the Caribbean.