



FOSDEH

Changing the rules for external debt

The *Foro Social de Deuda Externa y Desarrollo de Honduras* (FOSDEH) played a key role in the country's debt relief process following Hurricane Mitch.

SETTING THE SCENE —In the latter half of the twentieth century, Honduras began accumulating a sizable foreign debt that eventually became crippling. However, there was little transparency and debate surrounding the issue of the country's indebtedness and whether additional foreign debt should be incurred. The Honduran government was keen to enter into a process of negotiating debt relief, due to the burden of repayments on capital and interest on the foreign debt.

In the wake of Hurricane Mitch, which devastated Honduras in October 1998, the country became eligible for debt relief and restructuring processes. The recently-formed *Foro Social de Deuda Externa y Desarrollo de Honduras* (FOSDEH) was instrumental in making the foreign debt problem a national priority.

WHAT FOSDEH DID —FOSDEH was established in 1995 as a civil society effort to address the issue of external debt and its impact on Honduras. Between 1996 and 2006, FOSDEH studied extensively the country's foreign debt problem, and

the obstacles to development that it presented. Due to its knowledge of the international process for debt relief and the related economics, the think tank was called upon to advise the government in the process of negotiating the debt relief between 1998-2001 and 2002-2006. FOSDEH played a role in promoting the adoption of a comprehensive poverty reduction strategy as well as a moratorium on the repayment of external debt.

FOSDEH assisted the government in successfully negotiating debt relief for the country's international financial institutions; the government, in turn, agreed to implement development and poverty-reduction programs. During this process, FOSDEH questioned the way foreign debt had been managed historically in Honduras. Aware of how the burden of debt affects all Honduran citizens, FOSDEH represented the widely held view that its management ought not be the sole responsibility and mandate of the State.

In effect, FOSDEH became a direct technical actor in the Honduran debt relief process, making



submissions before the government, as well as to various international financial institutions such as the World Bank and the International Monetary Fund, whilst also ensuring dialogue and a bridge with national social organizations. Throughout its research, FOSDEH consulted diverse social stakeholders, including leaders of community-based organizations and non-governmental organizations.

THE OUTCOME —Unfortunately, despite these efforts, in the last seven years the Honduran government has failed to implement these programs. Instead it has used the freed financial resources to finance its current expenditures. In 2013, Honduras has higher debt levels than those recorded before the debt relief process, greatly due to

domestic borrowing - to the extent that the payment of interest and debt capital represents the second largest national budget item. Poverty in the country has also increased. This story therefore provides evidence of how solid research can lead to effective policy dialogue, but not necessarily the desired outcomes.

In this framework, FOSDEH continues to provide the government and the citizenry with socio-economic analysis and proposals, focusing both on macroeconomic arguments on debt management and on improving transparency in the allocation of public resources. The think tank continues to work in partnership with civil society, while calling for the government to devote its resources to the country's fight against poverty.

For more information on FOSDEH, go to www.fosdeh.net

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