



*Main report*

# Coming to Terms with Reality

Evaluation of the Belgian Debt  
Relief Policy (2000-2009)

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The Office of the Special Evaluator of the International Cooperation has assured the conformity of this evaluation report with the terms of references.

The final responsibility for the content of the report rests with the authors.

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## List of abbreviations

AfDB	African Development Bank
AfDF	African Development Fund
ALSF	African Legal Support Facility
BEAC	Bank of Central African States
BoP	Balance of Payments
C2D	Contrat de Désendettement et de Développement
CCS	Comité Consultatif et de Suivi
CIRR	Commercial Interest Reference Rate
CoM	Council of Ministers
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DGD	Directorate-General for Development (Cooperation)
DMF	Debt Management Facility
DR	Debt Relief
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECA	Export Credit Agency
EDF	European Development Fund
EV	Economic Value
FDBC	Fonds de Développement Belgo-Camerounais
(G)BS	(General) Budget Support
GDF	Global Development Finance
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDA-DRF	IDA Debt Reduction Facility
IMF	International Monetary Fund
LIC	Low-Income Country
LMIC	Low Middle-Income Country
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MINFIN	Ministry of Finance
MTDS	Medium-Term Debt Management Strategy
NAA	New Aid Approach
NBB-BNB	Nationale Bank van België - Banque Nationale de Belgique
NDS	National Development Strategy
NGO	Non-Governmental Organisation
(N)PV	(Net) Present Value



ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ONDD	Office Nationale du Ducroire - Nationale Delcrederedienst
OOF	Other Official Flows
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SBS	Sector Budget Support
UNCTAD	United Nations Conference on Trade and Development
WADB	West African Development Bank

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## Executive Summary

This report provides an ex-post evaluation of the Belgian Debt Relief Policy for the period 2000-2009, reviewing the debt relief interventions that all Belgian official actors have executed during this period. Within the framework of this evaluation, it also reflects on the Belgian debt relief interventions prior to this period, from the end of the 1980s on, as they influence the interventions during the period under explicit consideration.

While this evaluation subjects the Belgian debt relief policy, the necessity to do the evaluation largely at the international level stems from the basic problem of attribution. As interventions from a debt relief nature are decided and executed at the international donor level, in a strictly coordinated way, potential results cannot be attributed to an individual donor. As such, they have to be assessed at the global (official) creditor community level. In order to judge the Belgian debt relief policy, we have to first assess to what extent the international debt relief policy was efficient, effective and relevant, and then assess the extent to which the Belgian policy has (i) influenced overall international decision-making and practice of this coordinated approach, and (ii) to what extent the Belgian policy has behaved as a ‘good donor pupil’, using the available ‘policy space’ within the international concerted debt relief policy in the most efficient and effective way, taking into consideration the specific Belgian preconditions.

The logical intervention framework used in the evaluation largely builds on a framework that is used in earlier evaluation studies of debt relief, notably in Dijkstra (2003). First, the two main inputs in our framework are the amounts and modalities of debt relief granted by the creditors, as well as the type of policy dialogue and other types of conditionalities attached. These inputs should in principle lead to outputs in the form of a reduction of the amount of debt (stock level) and/or the debt service (flow variable), as well as increased net resources at the level of the balance of payments (‘external space’) and the government budget (‘net fiscal space’), as well as a better quality of country governance. The arguments for the latter effects are well-established in the literature. Most importantly, relieving countries from servicing their debt in theory frees up additional room in the recipient country government’s budget. The extent to which these inputs have led to the envisaged outputs determines the degree of *efficiency* of the debt relief policy. Second, these debt relief operations furthermore explicitly aim to achieve three particular outcomes: regaining durable debt sustainability, eliminating debt overhang, and increasing the amount (and quality) of pro-poor spending. The extent to which inputs via outputs materialise into this set of outcomes, determines the degree of *effectiveness* of the intervention. Third, the aforementioned outcomes should result into a specific impact, defined as a higher economic growth rate, and directly, or indirectly, a reduction of poverty, or more broadly speaking, the achievement of a set of internationally-agreed development targets such as the MDGs. The extent to which this particular impact is reached, determines the degree of *relevance* of the intervention.

This general assessment at the international level establishes the reference framework to assess debt relief policies at the individual donor level, by looking at the Belgian case. After specifying the particular Belgian institutional context, and historical creditor exposure, it reviews the Belgian practice in participating in the construction of the

international concerted debt relief policy, as well as the extent to which it has dealt with available policy space in an efficient as well as effective way. In doing so, it reviews the Belgian inputs, in terms of the amounts of debt relief granted, as well as the modalities attached. Fourth and finally, at the level of coherence, it assesses to what extent Belgium, in executing a debt relief policy, has adhered to the principles of the new aid effectiveness agenda, and, at the domestic level, to what extent the Belgian debt relief policy is coherent with the overall Belgian aid strategy, so that it can genuinely be classified as a relevant development intervention, with development cooperation budget expenditures being devoted to it, as well as this outlays being classified as Official Development Assistance (ODA).

So, in line with this methodological framework, the current report discusses this debt relief policy at three levels, namely the international level, discussing debt relief interventions by the total international donor community (towards all recipient countries), then at the Belgian level, as such zooming in on the interventions of one donor (towards all recipient countries), and finally at the level of one recipient country, discussing the effects of the debt relief efforts of the global donor community, and Belgium in particular, on one recipient country, Cameroon. The remainder of this executive summary will follow the same structure.

Before starting this analysis, it is important to use precise concepts to define debt relief, how best to measure its relative usefulness from a development (assistance) perspective, and to provide a taxonomy of the different types of aid interventions that can be classified as debt relief interventions. First of all, debt relief itself is best measured at its present value (PV), i.e. the discounted, present value (PV) of all the (future) contractual debt service payments due on a given nominal amount of debt outstanding; as a lot of this debt is at concessional terms (low interest rates, long maturities), typically there the PV can be substantially lower than the nominal value. Furthermore, to measure the usefulness of a given debt relief intervention, as measured in PV, as a development intervention, one should try to measure its so-called ‘economic value’, i.e. the present value (PV) of all the debt service payments which the debtor would have done on the debt relieved, in the absence of this debt relief intervention; the difference between PV and economic value is then the degree of default on the debt: conceptually, to the extent that the debtor would not have paid anything, this economic value is zero; also from the recipient country government perspective, the direct cash flow (fiscal space) gains are then absent. However, as the debt relief intervention will likely come with some strings attached (‘conditionalities’), it may well be that there are some indirect gains resulting from the debt relief intervention, through these conditionalities, beyond the direct fiscal cash flow effect.

As such, the efficiency, effectiveness and relevance of a given debt relief intervention will be mainly determined by the combined direct cash flow (economic value) and indirect conditionality effect, very much similar to other types of more traditional aid interventions, such as project aid, aid linked to structural adjustment programme (SAP) interventions by the multilateral financial institutions (such as the World Bank and the IMF), or forms of budget support. In fact, debt relief is a chameleon: it can take on different colours, making it resemble several others of these more traditional aid modalities, basically depending on the type of conditionalities attached.

## A chronology and ‘generational’ overview of debt relief, leading to a taxonomy of donor-financed debt relief interventions

In the study we have distinguished between three ‘generations’ of debt relief: the pre-HIPC initiative period, debt relief under the HIPC Initiative, and then debt relief beyond and additional to this HIPC initiative; the evaluation focuses on the last two generations.

*Pre-HIPC debt relief* was largely confined to debt relief provided by the bilateral official creditors (such as Belgium) gathered in the Paris Club, both on their official bilateral concessional loans (so-called ODA-loans), as well as on non-ODA claims, mainly originating from insured export credits in the hands of official export credit agencies (ECAs, such as ONDD in Belgium). From 1988 on, the Paris Club introduced ‘common terms’ to include an element of debt relief in their debt restructuring agreements with debt-distressed low-income countries. Even if these common terms gradually included a higher degree of debt relief (from 1/3 to 2/3 of the debt rescheduled), these debt rescheduling agreements only affected a limited set of future debt service payments, and so debt relief on it was considered to be marginal, and dealt largely with debt service unlikely to be serviced anyhow, i.e. with a low economic value; in terms of the conditionality attached, it was typically framed within an IMF-monitored SAP package. Apart from this type of debt relief, pre-HIPC debt relief was also included in debt exchange operations, both on debt claims within or outside the Paris Club, i.e. small debt buybacks, or debt swaps, in which debt claims were cancelled in return for the recipient country to deposit counterpart local currency in a separate fund, to be used for earmarked development spending. Again, in these operations, the economic value was typically very low, and conditionality very similar to the traditional project aid logic.

As the economic prospects of a fair number of low-income countries bearing heavy external debt burdens continued to look bleak, the international community in September 1996 launched the *Heavily Indebted Poor Country (HIPC) Initiative*, aimed at committing the international community to bring back to manageable levels the debt burdens of eligible heavily-indebted poor countries with a proven track record of strong policy performance and exhibiting a willingness for macroeconomic adjustment programmes and structural reform. From this point onwards, international debt relief got on two distinct tracks: one for HIPCs, which would be broadened and deepened in the subsequent years; and one for non-HIPCs, which would largely be a continuation of the practices before 1996.

The HIPC Initiative’s objective was to engage in a comprehensive, one-off debt relief effort that would make an end to consecutive rounds of debt rescheduling, make debt levels sustainable again and launch those countries on a path of increased economic growth. Countries were selected on the basis of their ‘unsustainable levels’ of debt. After having successfully implemented reforms through IMF- and IDA-supported programmes for three years, eligible HIPCs would reach their so-called ‘decision point’ at which the IMF and World Bank would decide on the amount of debt relief needed (through a debt

sustainability analysis or DSA). Another three-year period of programmes would then be followed by the HIPC attaining its ‘completion point’, resulting in full and irrevocable debt relief to bring down debt to the sustainable thresholds. This final debt reduction would entail the participation of the Paris Club, other bilateral creditors, commercial creditors and multilateral institutions to come (ideally) to an equitable sharing of the costs involved. In September 1999, after a thorough review and consultation process, the international community reinvigorated an Enhanced HIPC Initiative which was meant to cure some of the remaining flaws of the original initiative, by lowering the threshold indicators in order to bring more countries into the initiative and provide deeper debt relief for those that were already previously eligible, by introducing a ‘floating’ completion point (replacing the fixed three-year interim period), to be reached upon the fulfilment of pre-agreed (at decision point) social sector objectives and structural reforms, by providing (discretionary) interim debt relief between decision and completion point, and perhaps most importantly, by establishing a more explicit link between debt relief and poverty alleviation by means of making debtor countries’ process under the HIPC initiative conditional on the preparation and following up of their Poverty Reduction Strategy Papers (PRSP). Such PRSPs are documents which set out a country’s medium-term macro-economic, structural and social policies and programmes aimed at poverty reduction (as well as the associated financial plans) and are prepared in a supposedly consultative manner by the government, domestic stakeholders and external development partners. The preparation of a PRSP (or at least an interim version thereof) became a condition to reach decision point. Attainment of the HIPC completion point further required countries to adopt a full PRSP and implement its strategies satisfactorily for one year. This PRSP approach was very much in accordance with the increasing international attention towards poverty reduction at the turn of the millennium and the PRSP soon became a centrepiece in the IMF and World Bank’s overall concessional lending framework.

First of all, this new initiative not only resulted in the intensification of the use of the traditional (Paris Club-based) debt relief interventions, as described earlier, but also more debt relief from other types of creditors, such as the multilateral institutions (IMF, World Bank, regional development banks). This not only meant that the amount of debt relief involved increased, but also the economic value of it increased, as part of that debt relief would indeed have been effectively serviced (in the absence of the debt relief). More importantly even, also the type of conditionality attached (PRSP process) changed, and this completely diverted the nature of the debt relief intervention into a donor intervention that looked much more like a budget support-type of aid intervention. Moreover, for (bilateral) donors (such as Belgium), it also allowed for the introduction of new types of debt relief interventions, such as (i) Interventions linked to the clearing of payments arrears by the debtor country vis-à-vis its multilateral creditors, as a necessary condition to be eligible for HIPC Initiative debt relief; (ii) interventions by which the bilateral donor provides a grant into the HIPC Trust Fund, to be used to compensate some multilateral creditors for the cancellation of their claims within the HIPC Initiative<sup>1</sup>.

<sup>1</sup> It also reinvigorated the use of an already existing facility, in which bilateral donors provide a grant to the IDA Debt Reduction Facility in order to allow recipient countries to buy back their remaining commercial debt.

As most bilateral Paris Club creditors decided to go *beyond the HIPC Initiative* and deliver full (100 percent) debt relief to debtor countries, multilateral institutions came under pressure to do the same. Following the 2005 G-8 summit in Gleneagles, the IMF, IDA and African Development Fund decided upon supplementing the HIPC Initiative with the Multilateral Debt Relief Initiative (MDRI) in which all remaining (eligible) debt owed to these three creditors would be forgiven for HIPCs that had reached their completion point (or would do so in the future). In March 2007, the Inter-American Development Bank (IADB) also consented to cancel all outstanding debt owed to them by five post-completion point HIPCs. The MDRI has been depicted as an effort to support the progress of HIPCs towards the Millennium Development Goals by freeing-up additional donor resources, more than as a mechanism to ensure debt sustainability; in fact this was indeed partly the case, as the economic value of this type of debt relief was close to its PV. The MDRI initiative did again introduce a new debt relief intervention to donors, as they were requested, through additional bilateral grant contributions, to compensate IDA, the African Development Fund and the IADB for the cancellation of their debt claims in the MDRI; as such, it is not always clear to what extent this MDRI provided new (‘additional’) funds for development.

Additional debt relief by non-Paris Club and commercial creditors beyond the HIPC initiative remains very much ad hoc. Meanwhile, the Paris Club sought a more tailored and comprehensive response to the debt situation of middle-income countries and other non-HIPCs. This led to the adoption of the ‘Evian approach’ in October 2003. Under the Evian approach Paris Club creditors agreed to take into account issues of debt sustainability of non-HIPCs (based on IMF analyses but with the power of decision resting with bilateral creditors), differentiating between liquidity and unsustainable debt problems. In case of the latter, debt relief would be determined on a case-by-case basis and executed through a multi-year three-stage process. Arguably, the recent Paris Club debt treatments of Iraq (initiated in 2004) and Nigeria (2005) qualify as cases where the Evian approach provided guidance, although political factors certainly played an important role too. Furthermore, the debt of non-HIPCs (and non-eligible debt titles of HIPCs) has been subject to a new wave of bilateral debt swap operations between Paris Club members and their debtors, very similar to the old pre-HIPC practice.

All of these interventions can also, in some form, be accounted for as ODA. In theory, the ODA accountability of debt relief should follow the ‘economic value’ criterion that we defined earlier, but in practice it is not: some types of debt relief can be accounted at nominal value, some at present value. As such, ODA accounting of debt relief (sometimes grossly) overstates its ‘development value’, making the ODA-accountability of it an additional element in the ‘politics’ of debt relief, and the accomplishment of internationally-agreed ODA targets, such as the 0.7% target.

Having briefly described international debt relief initiatives and presented useful frameworks for the classification of debt relief interventions so far, it would now be imperative to have a detailed look at the amounts of debt relief granted so far at the international level. This, however, does not go without problems, as there is no suitable,

comprehensive database available. The well-known Global Development Finance (GDF) statistics compiled by the World Bank provide perhaps the widest coverage in terms of developing countries having received debt relief (from 1989 onwards), but beyond annual aggregates they do not allow for any detail regarding individual creditors or the nature of debt relief operations, nor does it calculate debt relief in present value terms. According to these statistics, over the period 1989-2008, low-income and lower-middle income countries received about 204 billion USD of debt and debt service relief, of which about 123 billion USD for HIPC countries. Also the ODA statistics provided by the OECD-DAC could in principle provide an alternative measure of the amount of debt relieved (through DAC-reporting bilateral donors only, and accounted for as ODA), but for reasons explained in the previous paragraph, this is likely to overestimate the real effort. According to the OECD-DAC database, over the period 1988-2008, DAC reporting bilateral donors have provided about 115 billion USD of debt relief, accounted for as ODA, of which 47.6 billion USD to HIPC countries. More concrete estimates (in PV) are only available for HIPC countries, as assembled by the IMF and World Bank in the course of the HIPC process; these figures indicate that HIPCs have so far received about 114 billion USD of debt relief in (2008) present value terms.

In the remainder, we will apply the evaluation framework, at the three levels of analysis, to assess the efficiency, effectiveness, relevance and coherence of these debt relief inputs.

## The efficiency, effectiveness and relevance of the international debt relief initiatives

There is widespread consensus that international debt relief during the 1990s, i.e. pre-HIPC debt relief, performed rather poorly on the dimensions of efficiency, effectiveness and relevance. All this is not illogical, as pre-HIPC debt relief (through swaps) very much resembles old-style project aid, and piecemeal and even larger scale debt relief in the Paris Club as well as under the original HIPC initiative shares a number of features with aid disbursed during the heydays of the Structural Adjustment Program (SAP) logic. Both project aid and SAPs were heavily criticised, even by donor organisations themselves, for failing to bring about the promised development results. Debt relief that mimics these forms of aid can therefore not be expected to perform a lot better. Moreover, with respect to the impact of debt relief on recipient country (budgetary) cash flows ('fiscal space'), early debt relief efforts typically involved debt titles that were not going to be repaid in the first place (having an economic value close to zero), hence leading to negligible fiscal space effects.

The key question, that presents itself in this evaluation, is whether the efficiency, effectiveness and relevance of international debt relief practices has improved in the period from 2000 onwards, when poverty reduction was explicitly formulated as an additional objective of debt relief in the (enhanced) HIPC Initiative

Our analysis concludes that, overall, the international debt relief efforts during the last decade can be evaluated as broadly efficient as well as effective. The HIPC Initiative

managed to reduce debt levels of the HIPCs to sustainable levels, at least after completion point, with additional bilateral and MDRI relief reducing debt burdens even further. Moreover, the (PRSP) process conditionality attached, focusing on improving institutional governance and an increase of the overall pro-poor commitment of recipient country policies and budgets, did increase pro-poor resources available and improved the governance level. There is less (robust) evidence that recent debt relief was truly relevant, i.e. did cause an increase in economic growth and in poverty reduction. Furthermore, the HIPC Initiative further strengthened global creditor coordination and harmonisation in the debt field from the Paris Club to the complete international (donor) community, with the G-8 and multilateral institutions such as IMF and the World Bank now taking the lead, adding to coherence with other aid interventions internationally. These results are quite similar to results from evaluations of (general) budget support. Again this is hardly surprising: from an aid modality equivalence perspective, most of the debt relief granted in this period indeed looks very much like (general) budget support, both in terms of the conditionality attached, as well as with respect to the cash flow equivalence, especially for additional bilateral Paris Club debt relief (where Paris Club donors decided to go beyond strict HIPC terms and grant HIPCs 100% cancellation of bilateral claims) and MDRI debt relief by four multilaterals, again on top of HIPC debt relief, albeit for HIPCs only. The international community also engaged in a number of (sometimes large scale) debt relief interventions outside the HIPC framework, such as for Iraq and Nigeria. This raises the issue of the considering debt relief for other, so far excluded, countries, for both motives of equity and appropriateness. In the absence of perspectives of new major initiatives in this respect, the debt swaps practice reappeared at the debt relief scene; it was usually promoted by sector multilaterals or global funds, or in the field of climate change. Overall, this approach remains inefficient and ineffective, unless engineered very carefully.

Finally, those debt relief interventions that resemble very much general budget support, also fit very well in the new aid approach (NAA); in fact the NAA was pioneered through the HIPC initiative and mainstreamed later on. As such, they are considered to be coherent (with other aid interventions), deserving to be accounted for as ODA (in the correct way).

One element that may potentially undermine the efficiency, effectiveness and coherence of these (bilateral) donor debt relief interventions and policies is the fact that these donor interventions at the international level are sometimes accompanied by intra-donor transfers, between different agencies within the donor, typically involving transactions to partly compensate debt relief granted by the export credit agencies from the development cooperation or other government agency budgets. A lot of donors engage in such kind of intra-donor, inter-donor agency transfers, but very little is known about this, as the exact system is very much donor country specific. In the course of our evaluation, we performed such an analysis for the Belgian case, and we will illustrate its impact in the next section, where we discuss the Belgian interventions.



## The efficiency, effectiveness and relevance of Belgian debt relief interventions

The Belgian debt relief operations, both pre-HIPC as well as during the period subject of this evolution, mimicked international practice. This is not surprising, as on the debt relief field, the degree of international donor harmonisation has always been high, especially among those bilateral creditors (such as Belgium) joined in the Paris Club: in order to ensure equal treatment, they agreed on ‘common terms’ of debt rescheduling/debt relief and then implemented these agreed-upon common terms in bilateral agreements without a lot of policy space left.

As such, before the HIPC-Initiative, the Belgian debt relief interventions consisted of debt rescheduling/debt relief operations through the Paris Club, both on its concessional (ODA-) claims (bilateral loans, the so-called ‘State-to-State loans’), administered by the Treasury (Ministry of Finance, MINFIN), as well as on its non-concessional (non-ODA) claims, originating from export credits insured by the Belgian semi-public export credit agency ONDD. Belgium acted pro-actively, frontloading some debt relief by cancelling MINFIN-administered concessional bilateral claims on a series of low income countries in 1990 and 1994. Development Cooperation (DGD) was as such not directly involved as a ‘front’ organisation, as it does not administer debt claims, but it became a more involved party from 1991 on, when it was forced to contribute to solving the financial problems of ONDD, as a result of large scale non-payment and rescheduling of ONDD- held claims due to the debt crisis. From then on, DGD engaged in so-called compensation payments to ONDD, amounting to 13.64 million EUR annually, in order to help servicing the so-called ‘financial reorganisation loan’ of 1991, that was contracted by the Belgian State to recapitalise ONDD. These compensations consisted of either partly compensating ONDD for debt relief granted in the Paris Club, or, more actively, buying debt claims from ONDD at a discount, and swapping them with the original debtor country in exchange for local counterpart funds to be used for development purposes (the so-called debt swaps). This swap window to some extent allowed DGD to become a pro-active internationally-recognised player in the debt relief field, generating additional debt relief and also ODA. Overall, during the period 1988-99, Belgium provided about 500 million EUR of debt relief, as measured on the basis of gross ODA accounting rules.

However, similar to the assessment internationally, these Belgian debt relief operations during this pre-HIPC period cannot be assessed in a positive way. Overall, they were not efficient, as they mimicked SAPs (through the Paris Club debt relief) and old style project aid (through the debt swaps). Moreover, despite trying to incorporate elements of ‘economic value’ reasoning when renegotiating the compensation agreements later on, the compensation formula used continued to lead to compensation payments *higher than the one deemed appropriate from a development perspective* (i.e. at its ‘economic value’)<sup>2</sup>.

<sup>2</sup> The subject of this evaluation is not to determine the efficiency and effectiveness of export credit insurance, nor whether/when ONDD is entitled to such a compensation, and if so, for how much. What we do address is the question what (part of the total ONDD) compensation can be justified from a development perspective.

This is because the starting point of the compensation formula was the nominal value of the debt (instead of its lower PV), as well as because the discount applied to take into account default risk, taken from ONDD’s own internal scoring model, was not appropriate in case of such small (‘marginal’) debt relief operations; as such, DGD ‘overpaid’ for the debt claims they acquired through the swaps or compensated. To the extent that these compensations had to be paid out of the regular budget, and did not produce budget additionality, these compensation payments potentially came at the expense of the regular DGD aid interventions. Finally, DGD was not very successful in increasing its leverage on the other Belgian actors involved, the reasons being a.o. political power imbalances between the agencies, information asymmetry, as well as ‘institutional’ problems at DGD level (with respect to sustained expert capacity, cabinet-administration information sharing, constant restructuring of the administration). As a result, Belgium, mainly on the ONDD claims, continued to use its remaining policy space in Paris Club decisions in a conservative way, in the sense that it tried as much as possible to keep the face value of the claims intact. Did the Belgian policy become more efficient and coherent from the HIPC Initiative on? Clearly, as debt relief decisions continued to be determined and governed largely at the international level, and even more so than in the nineties, also Belgian debt relief, as part of the total effort, became more efficient and effective. Although Belgium was not particularly pro-active in designing and implementing the new debt relief approach under the HIPC/MDRI Initiatives, it was very accommodating in executing it. In the Paris Club, the policy space for Belgium to keep choosing more conservative options in debt relief operations on ONDD claims reduced, and together with Belgium joining the EU-consensus to move to full cancellation of Paris Club bilateral claims, this led to a number of substantial debt relief operations for say Cameroon, DRC, and also, on ONDD claims, outside the HIPC Initiative framework, for countries such as Iraq and Nigeria. Furthermore, Belgium, largely on the DGD budget, also engaged in a number of other types of (multilateral) debt relief interventions, some voluntary and some not, in the context of the HIPC/MDRI initiative, such as contributing to the HIPC Trust Fund, or MDRI financing, or financing the clearance of arrears towards the IMF, such as in the case of a Burundi operation. All these multilateral operations are evaluated as efficient and effective operations. Altogether, during the recent decade, Belgium provided about 2.3 billion EUR of debt relief, expressed (largely) in nominal terms; of this total, nearly 2 billion EUR was on ONDD-claims. Nearly all of this debt relief could also be accounted as extra ODA. However, as ODA accounting rules did not change, overvaluation remains an issue here. This is an important element in the Belgian policy, as debt relief is as such very instrumental in helping to increase ODA efforts to the targets promised in the ODA growth path policy of the Belgian government (aiming to reach 0.7% of GNI).

On top of the 1991 compensation agreement, two new compensation agreements were negotiated during this period to (partly) compensate MINFIN and ONDD for their cancellation efforts on HIPC countries (*only*); the 2001 agreement dealt with strict HIPC initiative debt relief, while the 2005 agreement dealt with the additional effort to go beyond HIPC and provide 100% bilateral cancellation. As was the case with the enhanced 1991 agreement, also here, the calculation of the compensation is based on the notion of ‘economic value’, but since the discount is applied to the nominal value of calculation,

instead of the (typically lower) PV, the compensation that was negotiated was still higher than the one deemed appropriate from a development perspective, as proxied by the ‘economic value’ of relief, defined in this evaluation. Partly as a result of this, some of the claims under the new compensation agreements remain disputed and unsettled as of now.

## The Cameroon case study

The field case study performed on Cameroon overall conformed the general results described above. Cameroon is a typical country of repeated rescheduling in the Paris Club, at ever growing degrees of debt relief incorporated, and an exit in 2006 when it received full cancellation of its Paris Club eligible claims. Overall, debt relief, especially in the recent period, was deemed both efficient and effective, but no robust sign of relevance could be detected; moreover, the period of analysis is also characterised by a substantial increase in foreign exchange revenues from exports, making full attribution difficult. Overall, in ODA-accountable terms, Belgium provided about 249 million EUR of debt relief to Cameroon in the period 1988-2009. The Cameroon case also provides a good illustration of the application of the intra-Belgian compensation agreements. In the framework of the 1991 compensation, both through debt swaps and Paris Club debt relief compensations, DGD paid 22.7 million EUR for 49.1 million EUR of nominal debt relief. And, at completion point, in execution of the 2001 and 2005 agreements, a claim of 70.6 million EUR was presented to DGD. Again, although the subject of this evaluation was not to determine whether ONDD is entitled to such a compensation, and for how much, it was highlighted that the compensations charged to DGD were higher than the level justified from a development (economic value) perspective.

## Some policy implications

From the analysis, a few concrete policy consequences are drawn, both at the international as well as at the domestic Belgian level.

At the *international level*, it is observed that a number of HIPC, after having received debt relief that makes their debt sustainable, again experience problems to keep their debt at a sustainable level in recent years. The current monitoring framework to assure this, a combination of monitoring through the Debt Sustainability Framework (DSF), and initiatives to promote responsible future lending and borrowing, although both very useful and valid, can not in itself assure long-term sustainability, as also proven during the current global international financial and economic crisis, because of the remaining vulnerability of those countries to (negative) external shocks. As such, the international community should be more pro-active in designing innovative schemes to increase the contingent nature of debt claims, better matching debt service due with capacity to pay evolutions.

Second, in theory, aid accounting of debt relief should better resemble the economic value of debt relieved. This would reduce the incentives of donors to use debt relief to inflate the

ODA figures, without increasing their real development effort. It would also help in limiting compensation payments on debt relief granted on export credit claims, to the economic value of their intervention.

Finally, regarding the type of debt relief interventions, the recent return to debt swaps, deemed inefficient, is worrisome, unless these operations are engineered in a very careful way and are scaled up in order to become more efficient.

At the *Belgian level*, from the analysis, the following policy consequences can be drawn:

First of all, the quality of debt relief interventions by DGD could be enhanced by curing a number of Belgian ‘institutional’ problems in the field. The lack of sustained long term expert capacity in the administration should be cured; furthermore, existing information asymmetries can be cured by better information sharing. One effective and relatively easy solution could be to include a member of DGD in the delegation to the Paris Club. Regarding alternative types of debt relief operations, so far, Belgium has not engaged in one particular type, i.e. funding the IDA Debt Reduction Fund, in which the funds are used to help recipient countries buyback remaining commercial claims at high discounts. Generally, this type of intervention is evaluated as highly efficient in its kind. As such, Belgium might consider using this option in the future, e.g. in the context of DRC. In case Belgium should consider using debt swaps again (debt-for-nature swaps, etc.), they should be engineered very carefully (as ‘new-style projects’), so as to avoid the typical pitfalls of this type of intervention.

Finally, this evaluation suggests that the development efficiency and coherence of the 2001 and 2005 agreement regarding ONDD claims can be improved when these agreements would match better with the economic value of the debt cancelled. This can be achieved by applying the discount not to the nominal value of the cancelled debt, but to its present value instead.

# Introduction

This report presents the final results of an evaluation project, assigned to the Institute of Development Policy and Management (IOB) of the University of Antwerp (UA) by the Special Evaluation Services of the Belgian Development Cooperation. The report provides an ex-post evaluation of the Belgian Debt Relief Policy for the period 2000-2009, reviewing the debt relief interventions that all Belgian official actors have executed during this period. Within the framework of this evaluation, it also reflects on the Belgian debt relief interventions prior to this period, from the end of the 1980s on, as they heavily influence the interventions during the period under explicit consideration.

In line with the methodological framework of the evaluation used, the current report discusses this debt relief policy at three levels, namely the international level, discussing debt relief interventions by the total international donor community (towards all recipient countries), then at the Belgian level, as such zooming in on the interventions of one donor (towards all recipient countries), and finally at the level of one recipient country, discussing the effects of the debt relief efforts of the global donor community, and Belgium in particular, on one recipient country, Cameroon. The report is structured accordingly.

Chapter 1 briefly presents the methodological approach used in this evaluation, including the logical framework to assess debt relief, linking this to the standard evaluation criteria of efficiency, effectiveness and relevance, and also to the criterion of coherence of the intervention.

Chapter 2 then assesses the international debt relief theory and practice at the international level. It describes the main international debt relief initiatives, characterises them in terms of aid modality equivalence, and provides a typology of the different types of debt relief interventions used. It then tries to quantify the amount of debt relief granted internationally, for these different interventions, and also discusses to what extent these official debt relief interventions have been introduced, and influence the OECD-DAC based ODA statistics. Finally, the chapter provides a brief overall assessment of the international debt relief practice according to our four evaluation criteria.

In chapter 3 we focus on the Belgian debt relief interventions. We present the main agencies involved, and describe the overall institutional structure in which the debt relief interventions are executed. We then proceed to an overview and quantitative analysis of the different types of debt relief interventions carried out by Belgian agencies, using the same typology of interventions used in our analysis at the international level; we also assess the consequences of these interventions for Belgian ODA, and for the development cooperation budget. Finally, we again apply our assessment framework on the Belgian policy, using (some of) the standard evaluation criteria.

A recipient country analysis is added in Chapter 4, where we look at debt relief granted by the international community (including Belgium) to Cameroon. After presenting the facts and figures, again our set of evaluation criteria is applied, focusing more on the extent to which the debt relief has impacted on the country. We also add to this chapter a brief analysis, for the Cameroon case, of the partial compensation claims from ONDD to the Belgian development cooperation budget.

Finally, chapter 5 concludes and provides some policy recommendations, at the three different levels of analysis.



## 1

# Methodological approach of evaluating debt reduction

In this first chapter, we provide an overview of the methodological approach that is used for this evaluation. More specifically, we present an evaluation methodology that determines the logical intervention framework for debt relief and links it to the standard evaluation criteria to judge the intervention, i.e. its efficiency, effectiveness and relevance. This basic set-up was used in earlier evaluations of debt relief interventions (especially in Dijkstra, 2003) and is tailored to the current international context, and the specificity of the Belgian context. Moreover, it also assesses the coherence of the intervention, i.e. to what extent debt relief has been a coherent instrument of aid policy, again both within an international as well as Belgian context.

The particular evaluation matrix is presented in Figure 1.1 (see below). The vertical level describes the different building blocks in the logical framework chain, and links them to the standard evaluation criteria. The horizontal level describes the link between objectives/means and the indicators used to assess each of the vertical elements of the intervention chain. It also indicates that the analysis is done at three different levels: at the international level (combining donors and recipients), at the overall Belgian policy level (one particular donor), as well as at the level of one particular recipient country, Cameroon, as a case study.

While this evaluation subjects the Belgian debt relief policy, the necessity to do the evaluation largely at the international level stems from the basic problem of attribution. As interventions from a debt relief nature are decided and executed at the international donor level, in a strictly coordinated way, potential results cannot be attributed to an individual donor. As such, they have to be assessed at the global (official) creditor community level. In order to judge the Belgian debt relief policy, we have to assess to what extent the Belgian policy has (i) influenced overall international decision-making and practice of this coordinated approach, and (ii) to what extent the Belgian policy has behaved as a ‘good donor pupil’, using the available ‘policy space’ within the international concerted debt relief policy in the most efficient and effective way, taking into consideration the specific Belgian preconditions.

As such, the first vertical column of Figure 1.1 describes the appropriate logical framework for debt relief interventions, by official creditors, focusing mainly on the objectives and means of the concerted debt relief approach starting in the late nineties. The reasoning is the following. First, the two main inputs in our framework are the amounts and modalities of debt relief granted by the creditors, as well as the type of policy dialogue and other types of conditionalities attached (see section 2.2.2.1 on issues of conditionality). These inputs should in principle lead to outputs in the form of a reduction of the amount of debt (stock level) and/or the debt service (flow variable), as well as increased net resources at the level of the balance of payments (‘external space’) and the government budget (‘net fiscal space’), as well as a better quality of country governance. The arguments for the latter effects are well-established in the literature. Most importantly, relieving countries from servicing their debt in theory frees up additional room in the recipient country government’s budget (see Heller, 2005).

**Figure 1.1** Evaluation matrix for debt relief

Objectives –means	Indicators			Evaluation Criteria
	International debt relief initiatives and their effect	The Belgian debt relief policy and practice	Case-study Cameroon	
	Preconditions: <ul style="list-style-type: none"> <li>• Description of the international debt relief initiatives</li> <li>• External debt burden</li> </ul>	Preconditions: <ul style="list-style-type: none"> <li>• Description of the organisational structure and legal framework in Belgium</li> <li>• Overview of the Belgian pre-debt relief official debt related claims</li> </ul>	Preconditions: <ul style="list-style-type: none"> <li>• Description of the debt relief initiatives</li> <li>• External debt burden</li> </ul>	
<b>INPUT</b>				
Debt relief expenditures and modalities; Policy dialogue	<ul style="list-style-type: none"> <li>• Amounts spent, assigned and contributed</li> <li>• Conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Overview of the debt relief operations executed by Belgium</li> </ul>	<ul style="list-style-type: none"> <li>• Amounts spent, assigned and contributed</li> <li>• Conditions</li> </ul>	
Comparison outputs and inputs →				<b>EFFICIENCY</b>
<b>OUTPUT</b>				
Reduction of debt and debt service and more net fiscal space; Improved governance	<ul style="list-style-type: none"> <li>• Total debt</li> <li>• Interest payments and amortisation</li> <li>• Balance of payments</li> <li>• Government accounts</li> <li>• quality of governance scores</li> </ul>	<ul style="list-style-type: none"> <li>• Application of the methodological framework to these operations</li> <li>• Implications on the government budget</li> <li>• Implications on ODA</li> </ul>	<ul style="list-style-type: none"> <li>• Total debt</li> <li>• Interest payments and amortisation</li> <li>• Balance of payments</li> <li>• Government accounts</li> </ul>	
Extent to which inputs via outputs contribute to outcomes →				<b>EFFECTIVENESS</b>
<b>OUTCOME</b>				
Regain debt sustainability; Eliminate debt overhang/ improved creditworthiness; Increase pro-poor spending	<ul style="list-style-type: none"> <li>• DSA/DSF indicators and analysis</li> <li>• International credit ratings</li> <li>• I/GDP; Ip/GDP</li> <li>• Increase in pro-poor spending in budget and as % of GDP</li> </ul>		<ul style="list-style-type: none"> <li>• DSA/DSF indicators and analysis</li> <li>• International credit ratings</li> <li>• I/GDP; Ip/GDP</li> <li>• Increase in pro-poor spending in budget and as % of GDP</li> </ul>	
Extent to which inputs via outputs and outcomes contribute to impact →				<b>RELEVANCE</b>
<b>IMPACT</b>				
Economic growth; Poverty reduction	<ul style="list-style-type: none"> <li>• Change in GDP</li> <li>• Change in poverty indicators</li> </ul>		<ul style="list-style-type: none"> <li>• Change in GDP</li> <li>• Change in poverty indicators</li> </ul>	
Extent to which debt relief policy is in line with broader aid policy →				<b>COHERENCE</b>
	<ul style="list-style-type: none"> <li>• International debt relief within the new aid paradigm (NAA)</li> </ul>	<ul style="list-style-type: none"> <li>• Belgian debt relief policy within the NAA</li> <li>• Belgian debt relief policy within the overall Belgian aid policy</li> </ul>	<ul style="list-style-type: none"> <li>• Debt relief to Cameroon within the NAA</li> <li>• Debt relief to Cameroon within the overall Belgian aid policy</li> </ul>	

Source: Authors' own elaboration based on Dijkstra (2003)

The creation of such ‘fiscal space’ would enable the government to rechannel budgetary resources, otherwise leaving the country as debt service payments, into other public spending (or to use those resources to reduce its fiscal deficits). Of course, fiscal space effects only materialise to the extent that debt would have been repaid in the absence of the relief operation. Also, one has to take into account that the budgetary gains from debt relief only gradually become available, at the pace of the contractual debt service obligations cancelled. This could mean that budgetary gains are spread out over many years or even decades to come, making the nominal value of debt relief a highly imperfect measure of the fiscal benefit to the recipient country (see section 2.2.2.2 on the net present value (NPV) and economic value of debt relief). Another point of caution is that debt relief operations may well crowd out other aid interventions. Debt relief is not necessarily additional to everything else the donor community is doing. As donors typically target a certain level of Official Development Assistance (ODA), they could be expected to compensate the debt relief granted (which can be partly accounted for as ODA) by lowering other aid expenses. Such trade-offs may happen on the level of individual debt relief-receiving countries or between those countries that receive debt relief and those that do not (see section 2.4 on aid, debt relief and the accompanying ODA-accounting rules). Engaging in policy dialogue and making the awarding of debt relief conditional (ex post) on measures of policy quality and institutional reform, is deemed to improve country governance. The extent to which these inputs of debt relief expenditures and policy dialogue materialise into outputs determines the degree of efficiency of the intervention.

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Second, the more recent generation of debt relief interventions furthermore explicitly aims to achieve three particular outcomes: regaining durable debt sustainability, eliminating debt overhang, and increasing the amount (and quality) of pro-poor spending. The extent to which inputs via outputs materialise into this set of outcomes, determines the degree of effectiveness of the intervention.

Third, the aforementioned outcomes should result into a higher economic growth rate, and directly, or indirectly, lead to a reduction of poverty, or more broadly speaking, the achievement of a set of internationally-agreed development targets such as the MDGs.

It is important to note that those parties that are designing and granting the debt relief intervention, i.e. official creditors, or also the ones who provide development aid (‘donors’). In fact, official debt relief is nothing else but an alternative aid modality. This is also explicitly acknowledged as some types of debt relief interventions can be accounted for as official development assistance (ODA)<sup>3</sup>. As such, it is important to assess the (dis) similarities of (different types of) debt relief interventions with other more traditional aid modalities (project aid, budget support), and to assess to what extent debt relief is coherent with the overall aid policy, both at the international as well as the individual donor level. More specifically, at the international level, it is important to assess to what extent debt relief is coherent with the principles of the so-called ‘new aid approach’ (NAA), as e.g. materialised in the 2005 Paris Declaration.

<sup>3</sup> This implies that the specific rules that guide the ODA-accounting of debt relief can enter as an important element in the assessment framework, reason for which we describe this in the preconditions.

This general assessment at the international level establishes the reference framework to assess debt relief policies at the individual donor level, by looking at the Belgian case. As is highlighted in the second vertical logical framework chain, and after specifying the particular Belgian institutional context, and historical creditor exposure, it reviews the Belgian practice in participating in the construction of the international concerted debt relief policy, as well as the extent to which it has dealt with available policy space in an efficient as well as effective way. In doing so, it reviews the Belgian inputs, in terms of the amounts of debt relief granted, as well as the modalities attached.

Fourth and finally, at the level of coherence, it assesses to what extent Belgium, in executing a debt relief policy, has adhered to the principles of the NAA, and, at the domestic level, to what extent the Belgian debt relief policy is coherent with the overall Belgian aid strategy, so that it can be defended to include it as a development intervention, and expenditures can be accounted for as ODA.

As highlighted in the third column, the evaluation applies the same intervention logic to a particular recipient country, namely Cameroon. Although this is not a partner country of the Belgian development cooperation, it fits a number of other criteria: it is a HIPC country, having gone through the full cycle of different ‘generations’ of debt relief interventions, including HIPC/MDRI, which means that an ex-post evaluation can be executed. Moreover, the Belgian exposure to Cameroon was considerable, not so much in terms of bilateral loans, but mainly in terms of export credit claims, held by the Belgian ECA ONDD. The analysis of the Cameroon case can provide some elements to judge to what extent it is defensible, from a development perspective, to use aid to partly compensate ONDD for the debt relief granted.

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Also, it is important to note that country case studies for two countries that match with other criteria, the Democratic Republic of Congo (DRC) and Nigeria, are the subject of two follow-up evaluation jointly commanded by the Belgian and Dutch evaluation services<sup>4</sup>.

Annex 1 provides a brief overview of the different stages of the evaluation and the information collection process, including a list of key informants interviewed during the evaluation.

<sup>4</sup> DRC is the logical suspect being the most important partner country of the Belgian development cooperation, as well as being a HIPC, but without the HIPC-initiative being currently fully completed. Nigeria is a good case of more ad-hoc global debt relief interventions outside the HIPC context.

## 2.1 External debt, debt burden and the issue of debt relief: introductory concepts

This assessment deals with debt relief granted on the external ‘sovereign’ debt of developing countries, i.e. debt claims owed to external creditors by the public sector of the debtor country. This excludes debt claims owed to domestic creditors, and also excludes (external) debt titles where the debtor is a private entity.

One of the essential features of external (public sector) debt is that it is contracted in hard-currency, and not in the recipient country’s local currency<sup>5</sup>. The consequence is that in order to repay the debt, the public sector of the recipient country has to succeed in a ‘dual transfer’; first, it has to mobilise internally the necessary fiscal resources (from taxation etc.), typically in local currency, in order to repay the debt (internal risk) but apart from that, at the level of the country (monetary authorities), foreign exchange must be available to make the external transfer payment (the so-called (external) ‘transfer’ risk).

### 2.1.1 How to value debt, and debt relief

One has to distinguish between stock and flow concepts of debt. The nominal debt stock refers to the amount of debt outstanding at a given moment in time. From a flow perspective, the debt service refers to the payments of both principal and interest that are due on that particular stock during a given period, e.g. annually. As such, debt stock relief refers to the reduction (cancellation) of (a part of) the stock of debt outstanding, while flow relief or debt service relief refers to a (partial) reduction of the debt service due within a particular time period.

The nominal debt stock is not necessarily a good indicator to measure the debt burden, as it does not say anything about the timing of future debt service payments, nor of the level of the interest rate due on the debt. In order to make debt stocks comparable to each other, one uses the concept of the (Net) Present Value (PV) of the debt. This takes into account the time value of money, and discounts payments that are due in future through using a discount rate, usually a market interest rate. The (N)PV of debt is then the sum of all future contractual debt service payments due on the debt, with each of them appropriately discounted using the market interest discount rate (see also 2.2.2.2). Whenever the debt carries a below market interest rate, and/or repayments are only due in a distant future, the PV of the debt will be (sometimes considerably) lower than the nominal value of the debt. The difference between the PV and the nominal value highlights the degree of concessionality (or the so-called ‘grant element’ of the debt).

So far, the concepts of nominal value and PV implicitly assume that all debt due will be paid (according to the contractual schedule). This may be overly optimistic, as debt titles include an element of default risk. As such, it is useful to define the concept of the economic value of the debt (EV), correcting the PV for the degree of non-payment of the

<sup>5</sup> The inability for developing countries to borrow in their domestic currency is typically called the ‘original sin’ problem.

debt, i.e. the present value of all future debt service payments that would effectively have been paid by the debtor (in the absence of debt relief), with present value again measured using the same discount rate. An EV lower than the PV in principle leads to a reduction in book value of the debt in the balances of the creditor, and to the extent that there is an active secondary market for that debt, is reflected in market values below par (and market prices below 100%).

The same goes for valuing and assessing debt (stock) relief. The nominal debt stock relief will in general not be a good indicator of say, the amount of net additional resources that are now available in the recipient country government budget (net fiscal space). First of all, budgetary gains from debt relief only gradually materialise over time, at the pace of the contractual debt service payments cancelled (the exact timing depending on the specific repayment terms and schedule). Again, the PV of all future contractual debt service payments that are forgiven (discounted at some market interest rate, or more appropriately, the interest rate at which the debtor country can raise these funds on its domestic market) is arguably a more correct measure since it takes into account the time value of money. And even a considerable debt relief in PV terms, can only have modest debt service relief consequences in the short term, when all the debt service payments were due in the more distant future.

Secondly, the PV of debt relief, and the short term debt service relief involved, again implicitly assumes that debt would have been fully serviced in the absence of any debt relief operation, which is also overly optimistic, especially for countries experiencing debt service problems. If not all debt would have been serviced, the eventual resource effect of debt reduction is (at least partly) virtual, referring to an ‘accounting clean-up of historical and future arrears accumulation’ (Cassimon and Vaessen 2007, 14). Only the share of debt service that would have been actually paid up to the creditor in the absence of debt relief generates real fiscal space, which is referred to as the economic value of debt (service) relief.

Third, debt relief operations may lead to a crowding out of other, potentially more effective aid interventions. All too often it is assumed that debt swaps take place in addition to all other forms of donor support, especially when swaps concern countries and debt titles falling outside the HIPC framework. However, full donor additionality cannot automatically be taken as the default situation; substitution of donor effort can be at play. As such, one can not automatically assume that debt relief leads to increased net fiscal space.

Finally, from a donor perspective, even increased net fiscal space in the budget does not automatically lead to increased development expenditure by the recipient public sector. One could imagine a situation wherein debt relief savings simply substitute for the recipient country’s own development expenses; this so-called ‘fungibility’ of funds is inherent to most donor support, not only to debt relief. Donors try to manage this by the appropriate use of conditionalities.

### 2.1.2 A taxonomy of sovereign debt claims

Table 2.1 further distinguishes between the main types of (external) sovereign debt, according to the type of creditor. Creditors can be either official or private (commercial). The official creditors are either bilateral creditors (other countries) or multilateral organisations (IMF, World bank, regional development banks, etc.). Multilateral organisations provide both concessional, as well as non-concessional loans. Also for bilateral creditors, two basic types of claims exist. First of all, bilateral creditors typically provide loans at concessional terms. For bilateral donors/creditors that report to the DAC, these loans are considered aid, and can be accounted for as Official Development Assistance (see section 2.4); these are so-called ODA loans. Another major part of the bilateral claims constitutes of non-concessional claims, which are not accounted for as aid (and ODA); they are generally referred to as OOF (Other Official Claims). Almost exclusively, they relate to export credits, insured by (semi-) public Export Credit Agencies, and, because of payments default to the original creditor, now in the hands of the ECA, and being acknowledged by the debt country as a sovereign claim<sup>6</sup>.

This taxonomy will also be used from section 2.2 onwards when we discuss the different debt relief initiatives and interventions.

## 2.2 Description on international debt relief initiatives

### 2.2.1 A brief chronological description of the major debt relief initiatives

The history of debt relief goes back a long way, at least to the 1950s, involving a whole range of bilateral, multilateral and commercial creditors and debt titles of about 85 developing countries. Over time, the nature of these debt relief practices underwent significant changes. Table 2.1, which serves as the starting point for this section, provides a schematic overview of international debt relief initiatives and their specific modalities, organised by type of creditor and identifying three (partly overlapping) phases or ‘generations’: the pre-HIPC era, the HIPC Initiative itself and those initiatives that go beyond HIPC<sup>7</sup>. In the following subsections, each of these debt relief generations will be briefly discussed in turn.

<sup>6</sup> Usually because of the realisation of external transfer risk, in which the original debtor did provide the debt service payments in local currency, but the monetary authorities of the country could not assure him the foreign exchange to make the hard-currency transfer.

<sup>7</sup> The HIPC Initiative was chosen as a point of reference because of its pivotal and still central role in international debt relief practice (see text).

Table 2.1 A 'generational' overview of international debt relief initiatives by type of creditor				
	Bilateral (Paris Club)	Bilateral (non-Paris Club)	Multilateral	Commercial
Before HIPC Initiative (1950s-1996)	<ul style="list-style-type: none"> <li>• common terms for LICs (Toronto, London, Naples), LMICs (Houston) and other countries (classic)</li> <li>• debt swaps</li> <li>• parallel ODA relief</li> </ul>	<ul style="list-style-type: none"> <li>• ad hoc debt relief</li> </ul>	<ul style="list-style-type: none"> <li>• exceptional debt relief</li> </ul>	<ul style="list-style-type: none"> <li>• London Club treatments</li> <li>• debt swaps</li> <li>• Brady deals</li> <li>• IDA-DRF buy-backs</li> </ul>
HIPC Initiative (1996-...)	<ul style="list-style-type: none"> <li>• bringing debt down to debt sustainability thresholds through debt relief under Lyon (80%) and later Cologne (90%) terms</li> </ul>	<ul style="list-style-type: none"> <li>• participation in bringing debt of HIPCs down to debt sustainability thresholds (varies per creditor)</li> </ul>	<ul style="list-style-type: none"> <li>• bringing debt of HIPCs down to debt sustainability thresholds</li> </ul>	<ul style="list-style-type: none"> <li>• participation in bringing debt of HIPCs down to debt sustainability thresholds through London Club treatment, debt swaps, IDA-DRF buy-backs</li> </ul>
Beyond HIPC Initiative (2006-...)	<ul style="list-style-type: none"> <li>• providing 100% debt relief to post-completion point HIPCs</li> </ul>	<ul style="list-style-type: none"> <li>• ad hoc debt relief (including debt swaps)</li> </ul>	<ul style="list-style-type: none"> <li>• MDRI: providing 100% debt relief to post-completion point HIPCs (IDA/IMF/AFDB/laDB)</li> </ul>	<ul style="list-style-type: none"> <li>• London Club treatments</li> <li>• debt swaps</li> <li>• IDA-DRF buy-backs</li> </ul>

Source: Authors' own elaboration

### 2.2.1.1 Debt relief before the HIPC Initiative

In the first 25 years after the end of World War II, a time of relative stability and moderate economic growth, the number of countries requesting relief on their public and private debt titles was minimal. From 1946 till 1972, the year before the first global oil crisis, only nine countries (Argentina, Brazil, Chile, Ghana, India, Indonesia, Pakistan, Peru and Turkey) sought help on fulfilling their external obligations (see Gamarra et al., 2009). Creditors' main motivation in assisting debtor countries with bridging periods of repayment problems was to avoid imminent default and thus to increase chances of recuperating the whole of claims they held. Arguably the most convenient way of meeting this objective (and of guaranteeing equal treatment of creditors with a comparable standing) was for creditors to work out debt restructurings through a coordinated framework. Therefore, in May 1956, an informal group of ten European creditor nations<sup>8</sup> gathered under the auspices of the French Treasury in Paris to discuss a renegotiation on publicly guaranteed supplier and buyer credits provided to Argentina. This group came to be commonly known as the 'Paris Club', a voluntary forum dedicated to find debt restructuring solutions between debtors and their official bilateral creditors (see [www.clubdeparis.org](http://www.clubdeparis.org))<sup>9</sup>. In these early days, the Paris Club was very much characterised by an ad hoc, short-term perspective, rescheduling debt service on a case-by-case basis and at market interest rate (see Cosio-Pascal, 2008). As a result, many of the first debtor countries could not but return several times to the Paris Club<sup>10</sup>.

A commodity price boom and bust, triggered by two major oil shocks (in 1973 and 1979) and a global recession and accompanied by a huge build-up in the external debt of developing countries (because of easily given credit), increased the need for debt relief dramatically. Ever more countries turned to their Paris Club creditors for a solution. In its 1970s and early 1980s agreements, the Club however held on to its non-concessional 'classic terms' approach, with relatively short-term rescheduling and applying market-based interest rates.

Some Paris Club creditors complemented these agreements by forgiving all or part of their concessional Official Development Assistance (ODA) loans to low-income countries (many of them situated in Sub-Saharan Africa). Meanwhile, commercial creditors such as international banks also started to reschedule their claims on (mostly) middle-income countries to which they had lend huge sums of money during the early 1970s but who were by then in the midst of severe debt crises. As with official creditors, a coordinated approach was deemed most suitable. This resulted in 1976 to the emergence of the 'London Club', a special commercial bank advisory committee whose composition would reflect the size of individual banks' exposure to the non-performing loans in question (see Gamarra et al., 2009).

<sup>8</sup> Austria, Belgium, Denmark, France, Italy, Norway, the Netherlands, Sweden, Switzerland and the United Kingdom.

<sup>9</sup> Later also Australia, Canada, Finland, Germany, Ireland, Japan, Russia, Spain and the United States joined the Paris Club as permanent members.

<sup>10</sup> Indonesia, for example, concluded four consecutive agreements with the Paris Club between December 1966 and April 1970.



By the mid-1980s it became increasingly clear that repeated short-term debt service rescheduling would not solve the deeper-rooted problem of unsustainable debt burdens which many of the poorest developing countries continued to accumulate. Consequently, the focus of debt relief efforts shifted from flow considerations to dealing with debt stocks (see Daseking and Powell, 1999). An important breakthrough was reached in 1988 when the Paris Club, in the wake of a G-7 summit in Toronto, agreed to introduce a treatment whereby up to 33.33 percent of the net present value of non-concessional bilateral public or publicly guaranteed debt of low-income countries could be reduced. These ‘Toronto terms’ consisted of a menu of debt stock reduction, debt service reduction and further repayment schedule prolonging options (see the table added as Annex 2.1 to the report). Again, some Paris Club members launched a parallel round of ODA loan forgiveness. 1989 saw moreover the establishment of the Brady Plan which laid out a number of voluntary debt reduction mechanisms designed for commercial creditors to exchange non-performing debt titles of (primarily) middle-income countries for new bonds with more favourable (softer) terms (see e.g. Vásquez, 1996 for more info). The same year, also the IDA Debt Reduction Facility (IDA-DRF) was created. Under this World Bank-sponsored facility, low-income debtor governments were given grants to buy back debts from their commercial creditors at a large discount, thereby effectively eliminating these external obligations.

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Despite some advancement in debt reduction, the international community quickly realised that the concessions given so far were still greatly insufficient to achieve a healthy and sustainable external debt situation in most developing countries and so different menus for further debt reduction succeeded each other rapidly. In 1990, the Paris Club prompted a new ‘Houston terms’ debt treatment, introducing a number of enhancements with respect to the earlier classic terms (but no debt reduction) for lower middle-income countries. A year later, in 1991, the Toronto terms for low-income countries were replaced by the ‘Enhanced Toronto terms’ or ‘London terms’, raising the maximal level of debt reduction from 33.33 to 50 percent of net present value. The London terms made way for the ‘Naples terms’ in 1994, raising the percentage debt reduction to 67 percent.

One particular novelty in the Paris Club menus offered since the inception of Houston and London terms was the possibility of converting, on a voluntary and bilateral basis, ODA debt or part of non-ODA debt into commitments by the debtor country for investments with social, commercial or environmental finality. This ‘debt swap’ provision built further on the debt-for-equity, debt-for-nature, debt-for-health and other debt exchanges that had been earlier conducted with claims obtained on the secondary market for discounted commercial debt (see Buckley, 2009). Following their consideration by the Paris Club, debt swap agreements got a boost through bilateral initiatives such as the United States’ Enterprise for the Americas Initiative (since 1990), the Swiss Debt Reduction Facility (since 1991) and France’s Libreville Debt Initiative (since 1992) and multilateral efforts such as the Polish Eco-Fund (since 1991) (see Moye, 2001; Ruiz, 2007; Gamarra et al., 2009).

### 2.2.1.2 Debt relief under the HIPC Initiative

Whereas by the mid-1990s the existing debt relief mechanisms seemed to have eased the debt problems of most middle-income countries, the economic prospects of a fair number of low-income countries bearing heavy external debt burdens continued to look bleak. One reason was the increasing share of debt owed to multilateral institutions by these latter countries, debt titles which had been kept out of all of the traditional debt relief initiatives up till then. In response to this situation, in September 1996 the World Bank and the IMF jointly launched the Heavily Indebted Poor Country (HIPC) Initiative, aimed at committing the international community to bring back to manageable levels the debt burdens of eligible heavily-indebted poor countries with a proven track record of strong policy performance and exhibiting a willingness for macroeconomic adjustment programmes and structural reform (see Boote and Thugge, 1997). The Paris Club signed in on the new approach and in November 1996 agreed on new ‘Lyon terms’ for eligible HIPCs, increasing net present value relief (either through debt flow restructuring or debt stock reduction) to up to 80 percent. From this point onwards, international debt relief got on two distinct tracks (see Table 2.1): one for HIPCs, which would be broadened and deepened in the subsequent years (see further); and one for non-HIPCs, which would largely be a continuation of the practices before 1996.

The HIPC Initiative’s objective was to engage in a comprehensive, one-off debt relief effort that would launch even the most-indebted poor countries on a path of economic growth and would free them for good from further debt rescheduling and reduction negotiations. Countries (that could only borrow from the World Bank’s IDA) were selected on the basis of their ‘unsustainable levels’ of debt, defined in terms of debt service-to-exports and debt stock-to-exports ratios above 20-25 percent and 200-250 percent in net present value, respectively (i.e. after all other traditional relief mechanisms, such as Naples terms treatment, had been exhausted)<sup>11</sup>. After having successfully implemented reforms through IMF- and IDA-supported programmes for three years, eligible HIPCs would reach their so-called ‘decision point’ at which the IMF and World Bank would decide on the amount of debt relief needed (through a debt sustainability analysis or DSA). Another three-year period of programmes would then be followed by the HIPC attaining its ‘completion point’, resulting in full and irrevocable debt relief to bring down debt to HIPC Initiative thresholds. This final debt reduction would entail the participation of the Paris Club, other bilateral creditors, commercial creditors and multilateral institutions to come (ideally) to an equitable sharing of the costs involved (see Boote and Thugge, 1997)<sup>12</sup>.

In September 1999, after a thorough review and consultation process (and under the growing pressure of civil society organisations such as the Jubilee 2000 movement), the World Bank and the IMF reinvented an Enhanced HIPC Initiative which was meant to

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<sup>11</sup> In April 1997 eligibility for the HIPC Initiative was broadened to countries with particularly severe fiscal burden indicators. The threshold here was set at a net present value debt-to-fiscal revenue ratio of 280 per cent (see Gautam, 2003).

<sup>12</sup> Multilateral institutions are partly reimbursed by member (creditor) countries for forgoing incoming debt service flows. Other financing has primarily come from proceeds of the revaluation of gold (IMF) and profits of lending to middle-income countries (World Bank) (see Cosio-Pascal, 2008).

avoid some of the flaws of the original initiative (See Gautam, 2003). First of all, the threshold indicators were lowered in order to bring more countries into the initiative and provide deeper debt relief for those that were already previously eligible. To assist in this respect, Paris Club creditors again augmented maximal levels of non-ODA debt cancellation in November 1999, with ‘Cologne terms’ of up to 90 percent net present value relief (or more if necessary) substituting the earlier Lyon terms for HIPC. A second modification to the original HIPC Initiative was the introduction of a ‘floating’ completion point (replacing the fixed three-year interim period), to be reached upon the fulfilment of pre-agreed (at decision point) social sector objectives and structural reforms. Third, the enhanced framework opened up the possibility of providing (discretionary) interim debt relief between decision and completion point. Fourth, and perhaps most importantly, was the establishment of a more explicit link between debt relief and poverty alleviation by means of making debtor countries’ process under the HIPC initiative conditional on the preparation and following up of their Poverty Reduction Strategy Papers (PRSP). Such PRSPs are documents which set out a country’s medium-term macro-economic, structural and social policies and programmes aimed at poverty reduction (as well as the associated financial plans) and are prepared in a supposedly consultative manner by the government, domestic stakeholders and external development partners (see IMF, 2010a). The preparation of a PRSP (or at least an interim version thereof) became a condition to reach decision point. Attainment of the HIPC completion point further required countries to adopt a full PRSP and implement its strategies satisfactorily for one year. This PRSP approach was very much in accordance with the increasing international attention towards poverty reduction at the turn of the millennium and the PRSP soon became a centrepiece in the IMF and World Bank’s overall concessional lending framework.

As of February 2010, debt cancellation under the HIPC Initiative has been approved for 35 countries, 28 of which have already passed completion point (seven countries have reached decision point but are still completing the HIPC process). Another five countries are considered potentially eligible in the future, bringing the number of HIPCs to a total of 40 (see IMF, 2010b). With respect to burden sharing, the latest reports show that the Paris Club and the four largest multilateral creditors<sup>13</sup> (which together account for about 74 percent of the total calculated cost under the HIPC Initiative) have provided almost their full share of HIPC debt relief. Overall participation by non-Paris Club bilateral creditors (representing an estimated 13 percent of the total cost) remains however low, at around 35-40 percent of their share<sup>14</sup>. The contribution of commercial creditors (and a group of smaller multilateral creditors) to the initiative is rather unclear (see IDA and IMF, 2009).

### 2.2.1.3 Debt relief beyond the HIPC Initiative

As most bilateral Paris Club creditors decided to go beyond the HIPC Initiative and deliver full (100 percent) debt relief to debtor countries, multilateral institutions came under pressure to do the same. Following the 2005 G-8 summit in Gleneagles, Scotland, the IMF,

<sup>13</sup> IDA, IMF, African Development Bank, Inter-American Development Bank

<sup>14</sup> There is moreover wide variety among non-Paris Club bilateral creditors themselves, with some having fulfilled their full share of HIPC debt relief and others having delivered nothing at all (see IDA and IMF, 2009).

IDA and African Development Fund decided upon supplementing the HIPC Initiative with the Multilateral Debt Relief Initiative (MDRI) in which all remaining (eligible) debt owed to these three creditors would be forgiven for HIPCs that had reached their completion point (or would do so in the future). The MDRI has been depicted as an effort to support the progress of HIPCs towards the Millennium Development Goals by freeing-up additional donor resources, more than as a mechanism to ensure debt sustainability (see IMF, 2010c). Importantly, and unlike the HIPC Initiative, the MDRI does not prescribe parallel debt relief by bilateral creditors (Paris Club or not), commercial creditors and multilateral institutions other than the three mentioned. In March 2007, however, the Inter-American Development Bank consented to cancel all outstanding debt owed to them by five post-completion point HIPCs in the Western Hemisphere. Additional debt relief by non-Paris Club and commercial creditors beyond the HIPC initiative remains very much ad hoc (HIPC and non-HIPC treatments being similar)<sup>15</sup>.

Meanwhile, the Paris Club sought a more tailored and comprehensive response to the debt situation of middle-income countries and other non-HIPCs. This led to the adoption of the ‘Evian approach’ in October 2003. Under the Evian approach Paris Club creditors agreed to take into account issues of debt sustainability of non-HIPCs (based on IMF analyses but with the power of decision resting with bilateral creditors), differentiating between liquidity and unsustainable debt (or solvency) problems. In case of the latter, debt relief would be determined on a case-by-case basis and executed through a multi-year three-stage process. Arguably, the recent Paris Club debt treatments of Iraq (initiated in 2004) and Nigeria (2005) qualify as cases where the Evian approach provided guidance, although political factors certainly played an important role too (see Cosio-Pascal, 2008). The initiatives on Iraqi and Nigerian debt were very much driven by the G-8, rather than by international financial institutions.

The debt of non-HIPCs (and non-eligible debt titles of HIPCs) has furthermore been subject to a new wave of bilateral debt swap operations between Paris Club members and their debtors. They include, among other, debt-for-nature exchanges enacted under the US Tropical Forest Conservation Act, debt-for-health swaps under the Debt2Health Scheme of the Global Fund to Fight AIDS, Tuberculosis and Malaria and a number of debt-for-education exchanges (primarily) in Latin American countries<sup>16</sup>. Proposals for more debt swap schemes in the future are emerging in these sectors and elsewhere<sup>17</sup>.

Mentioning should also be made of the efforts undertaken in combating the litigation against indebted countries by commercial creditors. According to IDA and IMF (2009), the problem of so-called ‘vulture funds’, scavenging for millions from debtor countries by buying bad debts at cheap prices and then attempting to recover face value in court, has abated in recent years, although the threat of new litigation cases remains. Allegedly, much has to do with the nowadays early engagement with commercial creditors through DRF

<sup>15</sup> No comprehensive data is available for these creditor groups.

<sup>16</sup> See e.g. Cassimon et al. (2008; 2009a; 2009b) for more information about such swaps.

<sup>17</sup> One particular proposal is that of linking debt relief to combating climate change (see Development Finance International, 2009).



buy-back operations. In the future, additional support is also expected to come from the African Legal Support Facility (ALSF), set up by the African Development Bank mid-2009 to provide technical assistance to and build legal capacity in African HIPCs facing debt recovery lawsuits (see African Development Bank, 2010).

Finally, it is important to note that while providing debt relief is one thing, avoiding a fresh build-up of unsustainable debt in the future is another. In view of its mandate of surveillance (Article IV) the IMF has conducted debt sustainability analyses (DSAs) of countries' public and external debt in a systematic and formal manner since 2002. In April 2005 the Executive Boards of the IMF and the World Bank adopted the joint Debt Sustainability Framework (DSF) for low-income countries, aimed at matching those countries' need for financing with their current and prospective capacity to service debt. Under the DSF, baseline debt ratios as well as alternative scenarios (testing the impact of possible shocks) are calculated (see IMF, 2010d). Another novel initiative has been the provision of special debt management assistance to low-income countries since the establishment of the Debt Management Facility (DMF) by the World Bank in November 2008. This DMF is a multi-donor grant facility which seeks to improve the debt management capacity of IDA-eligible countries by offering tools (in cooperation with the IMF) and training for developing and implementing a medium-term debt management strategy (MTDS) and reform plans (see World Bank and IMF, 2009).

## 2.2.2 Characterising international debt relief initiatives from an aid modality equivalence perspective

### 2.2.2.1 Characterising through conditionality: a chameleon called debt relief

In this section, we look at the different debt relief initiatives briefly described in the previous section from a more analytical perspective. More precisely, we first describe the particular conditionality sets that were attached to the particular debt relief initiatives; in that way, as highlighted in the logframe of this evaluation (of Chapter 1) we describe the policy dialogue/conditionality input of the different debt relief initiatives. Furthermore, we describe to what extent these initiatives were both policy- as well as system-aligned with the recipient country<sup>18</sup>, providing information that will enable us to judge later to what extent debt relief could be labelled as coherent with the prevailing aid paradigms, and, more recently, with the NAA in particular. Together, both issues enable us to compare particular debt relief interventions with other aid modalities. In fact, we will show that debt relief has something of a chameleon, changing colours depending on the type of conditionalities and extent of alignment attached. In characterising the current set of debt relief initiatives, we (again) distinguish between four 'generations', being pre-HIPC (largely Paris Club) relief, HIPC relief, HIPC+ relief (additional bilateral HIPC relief and MDRI), and the targeting of non-HIPC eligible countries/debt titles, mainly through (second generation) debt swaps. Table 2.2 below provides a detailed overview of the issues.

<sup>18</sup> 'Policy alignment' refers to the donors/creditors committing themselves to base their overall support on developing countries' national development strategies, and 'system alignment', refers to them using a recipient country's own institutions and systems for implementation, monitoring and evaluation where such institutions and systems are deemed reliable, effective and accountable (see e.g. OECD-DAC 2005 and 2008).

Conditionality is an essential ingredient of an aid intervention, distinguishing it from other hard-currency recipient country resources such as, say, those coming from oil (or other exports), as it reduces the policy space to use those resources freely; by using conditionality, donors want to influence, in a direct way, the utilisation of funds (so-called earmarking), or, more indirectly, try to change recipient country behaviour in a broad way, both ex ante (incite good behaviour), or ex-post (rewarding good behaviour)<sup>19</sup>. This is not different with aid interventions of a debt relief kind. But conditionalities used have evolved over time.

Pre-HIPC (largely Paris Club) flow as well as debt stock relief essentially only relied on countries having an active IMF programme; no particular development-earmarking was included. As such, in fact, this type of debt relief intervention can essentially be characterised as similar to balance of payments support granted by say the IMF, in the context of a Structural Adjustment Programme (SAP)<sup>20</sup>. With respect to swaps, such IMF program conditionality was no absolute conditionality, but there was very strict micro-earmarking<sup>21</sup> of the funds released through the debt swap, and, as such, in fact, is very similar to (old-style) project aid. What can we conclude: although intuitively, we think that debt relief inherently looks very much like budget support, since it is freeing up (also fiscal) resources, the conditionalities attached make pre-HIPC initiative debt relief look very much like the then-dominant aid modalities, i.e. support for Structural Adjustment, and project aid.

In fact, in the absence of a clear link to a development/poverty reduction agenda, this remains largely the case with the original HIPC Initiative, still looking very much like structural adjustment support. This has changed under the enhanced HIPC-initiative, where standard IMF conditionality is enhanced with the link to a recipient country-owned National Development Strategy in general, and the PRSP in particular. It is policy-aligned, and in principle non-earmarked<sup>22</sup>.

<sup>19</sup> The basic idea to characterise freely usable resources as oil and compare them to types of aid is in Collier (2006).

<sup>20</sup> In fact, the debt relief granted in this way was largely the accounting-wise offsetting entry for the debt service arrears that the recipient country had been accumulating before the debt restructuring operation. Both in the BoP and the budget, arrears are characterised as a source of 'exceptional' finance (registered 'below the line'), similar to IMF financing.

<sup>21</sup> *Micro-earmarking* refers to the desire of the donor to micro-determine and monitor the use of the funds. Typically, funds are placed in jointly-managed counterpart funds, usually outside the government budget, using non-aligned (separate) implementation and monitoring mechanisms, bypassing the government's public system. This practice can be considered part of the 'old' project logic, with its attached inherent strengths, such as high donor commitment, ease of monitoring and effectiveness evaluation (both ex ante as well as ex post), and high degree of donor accountability towards home constituencies, but also with its well-known weaknesses, such as fungibility, high transaction costs, lack of long-term capacity building and strengthening of the public management and monitoring and evaluation system, and weak ownership and sustainability.

<sup>22</sup> *Non-earmarked debt relief* refers to debt relief that is not tied to specific predetermined activities. It is so-to-say 'deliberately fungible', where funds from debt relief are pooled with the budget, to be spent on the government's priorities as put forward in national development plans such as for example the PRSP, a MDG plan, etc. We prefer to label them as non-earmarked use, highlighting the essence of (full) alignment with donor development priorities, and government systems of planning, implementation and M&E.

This in principle also includes that it is system-aligned, but this is not always the case in all HIPC countries in practice<sup>23</sup>. Furthermore, the HIPC process also included a number of country-specific conditionalities, both to attain the decision as well as the completion point, dealing with issues related to governance, such as improvements in public financial management (PFM), public service delivery, of public debt management. If satisfied, evidently, debt relief looks exactly like general budget support (GBS). This remains the case, and more strict so, with (third-generation) HIPC+ interventions (both bilateral and MDRI), that can be truly labelled as GBS, albeit maybe in a disguised way<sup>24</sup>.

Section 2.2.1 also discussed the re-emergence, in recent years, of the debt swaps practice, in order to target countries (or remaining debt titles) that did not qualify for the major international debt relief initiatives. It is important to note here that the nature of the conditionalities attached, and degree of alignment to this practice make it look very much like old-style project aid, and, in that way, this recent practice goes back to the past. Only if they are engineered to be policy- and system-aligned, they are similar to what is called ‘new-style project aid’, a practice that fully fits within the NAA.

Regarding debt relief for debt owed to private creditors, the same reasoning goes: the pre-HIPC operations were mainly swap-based, and as such look very much like project aid. And the debt that was included into the HIPC Initiative shared in principle the same characteristics of that of official debt, as conditionalities and alignment procedures were common. One interesting exception refers to the larger-scale debt restructuring operations that were executed, such as the Brady-swaps. First of all, some of them did not necessarily include an IMF programme, so it that case the debt relief embedded could come close to being similar to ‘oil’ (i.e. fully freely spendable resources). Next, some of these deals did include ‘conditionalities’ of a specific nature, by which future debt payments were made to some extent contingent on future outcomes, and by which debtors and creditors engaged in burden sharing, so-called ‘recap’ clauses.<sup>25</sup> It is striking observe that the inclusion of such recapture features in an explicit way has never occurred in official debt restructuring and debt relief deals.

<sup>23</sup> Note however that even in the HIPC initiative, ‘non-earmarking’ is not the automatic option taken. In some countries, where e.g. public financial management systems were felt to be lacking in performance, even HIPC (usually interim) debt relief relied on micro-earmarking, in principle as a transitory mechanism. This was done using the so-called institutional fund mechanism, having all the characteristics of what we call micro-earmarking. Sometimes, donors rely on intermediate types of earmarking, such as the so-called virtual fund mechanism (VFM) in which HIPC relief and its designated expenditures were integrated into the budget, but accounted for in separate budget lines (IMF and IDA, 2001).

<sup>24</sup> One exception that deserves mentioning here is the French C2D mechanism. France is the only country that decided to put additional conditions to the use of the additional bilateral debt relief provided to HIPCs, by going partly back to the old (project) earmarking logic by limiting (re-earmarking) the use of the funds to a set of jointly determined activities in several sectors (so-called ‘macro-’, or ‘multi-sector earmarking’), in principle linked to the PRSP priorities, but not to all of them. As such, this does no longer look like GBS, but more like (multi-)sector budget support (SBS) at best. The C2D mechanism is explained here in some detail since it figures prominently in the Cameroon case study (see section 4.1 and Annex 4.1).

<sup>25</sup> Under such recapture clauses, creditors are entitled to larger debt service repayments by their debtor in the event of, for example, oil prices or GDP growth exceeding a certain threshold. This recapture clause offers creditors the possibility to indeed ‘recapture’ part of the losses taken now (through the debt relief) somewhere in the future through the extra recapture payment when a key indicator of the debtor’s capacity-to-pay (such as oil prices for a oil exporter) evolves in the advantage of that debtor. Usually, these recapture clauses are valued using option pricing theory.

**Table 2.2 Conditionality and alignment features of different types/generations of debt relief**

Type/generation of debt relief	IMF Program? (Yes/No)	Explicit link to development or poverty reduction?		Other conditions?	Type of earmarking	System-aligned?	So debt relief looks very much like...
		Yes/No	Policy-aligned?				
<b>Official creditors</b>							
(1) Pre-HIPC Paris Club debt relief debt service (flow) relief debt swaps (1st generation) debt stock relief	Yes No Yes	No Yes No	- No -	None None None	Micro-earmarked	No	BoP support/SAP Old-style project aid BoP support/SAP
(2) HIPC initiative original (1996) enhanced (1999)	Yes Yes	No Yes	- Yes, to PRSP (NDS)	Specific triggers (1) None	Non-earmarked	Yes, but...(2)	BoP support/SAP In principle GBS
(3a) Additional bilateral debt relief o/w C2D	Yes Yes	Yes Yes	Yes, to PRSP (NDS) Largely to PRSP	None None	Non-earmarked Macro-earmarked	Yes Yes	GBS (Multi-)sector SBS GBS
(3b) MDRI	Yes	Yes	Yes, to PRSP (NDS)	None	Non-earmarked	Yes	Old-style project aid New-style project aid
(4) Debt swaps (2nd generation)	No	Yes	No/ Yes	None	Micro-earmarking	No/ Yes	Old-style project aid New-style project aid
<b>Private creditors</b>							
(1) Pre-HIPC buybacks/debt swaps	No	No	-	None	Micro-earmarking	No	Old-style project aid
(2a) HIPC IDA Debt Reduction Facility	Yes Yes	Yes No	Yes Not specifically	Triggers(1) None	Non-earmarked	Yes, but...(2)	In principle GBS BoP support/SAP
(2b) Large debt swaps (Brady a.o.)	Yes/ No	No No	-	Recaps(3)	-	-	BoP support/SAP Oil

Source: Authors' own elaboration.

Notes: PRSP= Poverty Reduction Strategy Paper; NDS= National Development Strategy; BoP= balance of payments; SAP= Structural Adjustment Program; GBS= general budget support; SBS= sector budget support

(1) Triggers are country-specific conditionalities that have to be fulfilled in order to receive debt relief.

(2) In practice, in some countries, HIPC debt relief is not system-aligned.

(3) Recaps refer to contingency clauses that are added to the rescheduled debt and that may involve a recapture payment in case the debtor is doing exceptionally well in the future.

### 2.2.2.2 Determining the correct cash flow equivalence between debt relief and aid

Even if we have revealed the true nature of a particular debt relief intervention through its equivalence with a particular traditional aid modality, say GBS, this does not necessarily mean that the debt relief and GBS intervention have the same effect, as debt relief is not necessarily equivalent to other aid inflows from a (net) cash flow perspective.

Indeed, a traditional aid intervention is always to be considered as an increase in international purchasing power to the recipient country, as it involves an inflow of foreign currency, at least in a ‘balance of payments’ sense, and, when it is granted to the public sector, also in a fiscal sense. In principle, debt relief granted provides an equivalent net foreign cash flow effect, as (foreign currency) outflows (debt service payments) do no longer have to be made.

The nominal amount of debt cancelled is however not necessarily a good indicator to measure the net cash flow effect of debt relief, and the equivalence to a new aid inflow, for a number of reasons. In that way, it will in general not be a good indicator of say, the amount of net additional resources that are now available in the recipient country government budget (net fiscal space), that is the result of a new aid inflow in the budget.

First of all, (budgetary) net cash flow gains from debt relief only gradually materialise over time, at the pace of the contractual debt service payments cancelled (the exact timing depending on the specific repayment terms and schedule). In order to make debt relief and aid inflows comparable to each other, one uses the concept of the (Net) Present Value (PV) of the debt relief. This takes into account the time value of money, and discounts payments that are due in future through using a discount rate, usually a market interest rate. The (N) PV of debt relief is then the sum of all future contractual debt service payments cancelled on the debt relieved, with each of them appropriately discounted using the market interest discount rate. Whenever the debt carries a below market interest rate, and/or repayments are only due in a distant future, the PV of the debt relief will be (sometimes considerably) lower than the nominal value of the debt cancelled. And even a considerable debt relief in PV terms, can only have modest debt service relief consequences in the short term, when all the debt service payments were due in the more distant future.

Second, the PV of debt relief, and the short term debt service relief involved, again implicitly assumes that debt would have been fully serviced in the absence of any debt relief operation, which is also overly optimistic, especially for countries experiencing debt service problems. If not all debt would have been serviced, the eventual resource effect of debt reduction is (at least partly) fictitious, referring to a mere ‘accounting clean-up of historical and future arrears accumulation’ (Cassimon and Vaessen 2007, 14). Only the share of debt service that would have been actually paid up to the creditor in the absence of debt relief generates real fiscal space, which is referred to as the economic value of debt (service) relief. In more technical terms, this can be presented as

$$EV = \sum_{t=0}^n \frac{S_t (1-d)}{(1+i)^t} \quad (1)$$

where:

- EV: economic value of debt relief, representing the net direct benefit of debt relief, comparable to a new (foreign currency) aid inflow;
- $S_t$ : contractual debt service in year t (present = year 0, final year of reimbursement = year n) related to the debt relieved in the operation;
- d: percentage of future non-payment in the absence of the debt relief operation, i.e. the percentage of defaulting by the debtor that would have taken place in the absence of the present debt relief;
- i: the appropriate discount rate from the debtor country’s perspective.

The bottom line here is that, in order to equate the cash flow impact of aid with that of say GBS, one has to take the economic value of debt relief.

Take the extreme case that the economic value of debt relief is zero, then even a debt relief intervention that seems to look like say GBS from a conditionality perspective, may be completely fictitious, purely *wind*, from a cash flow perspective<sup>26</sup>, as distinct from oil as you can have.

Third, debt relief operations may lead to a crowding out of other, potentially more effective aid interventions. All too often it is assumed that debt relief takes place in addition to all other forms of donor support. However, full donor additionality cannot automatically be taken as the default situation; substitution of donor effort can be at play. The degree of additionality is indeed one of the crucial elements in assessing debt relief operations. As such, one can also not automatically assume that debt relief leads to increased net aggregate fiscal space.

Besides the three foregoing reservations, there are a number of other, more technical issues that deserve our attention here. One is the observation that parameter ‘d’ in formula (1) differs depending on whether large (comprehensive) or small (‘marginal’) debt relief operations are considered for valuation. The reason is that for large operations, such as HIPC/MDRI debt relief, ‘d’ can indeed be proxied by the average default rate, calculated on the whole debt stock. As such, (1-d) denotes the average value of debt, or the average debt price. This average value or price also appears as the price quotations for that debt on the secondary market, in case such a market exists. However, the average value is not a good indicator of the default rate on the *last* unit of debt service due, or the so-called ‘marginal’ default rate, i.e. the probability that the last unit of debt service due would not have been paid.

<sup>26</sup> Note that this does not automatically mean that the debt relief intervention has no value, as the conditionalities attached may have very useful indirect effects; it only means that, unlike a traditional aid inflow, the real resource transfer does not materialise.

Logically, the average default rate is always smaller than the marginal default rate.<sup>27</sup> The problem then is that the average default rate can be estimated using relatively simple scoring models, while no such straightforward methodology exists for approximating marginal default rates. Using the smaller average default rate in valuing marginal debt relief operations, such as e.g. Paris Club debt flow rescheduling, small buybacks or typical debt swaps (see below), can hence lead to (potentially severe) overestimations of the net cash flow gains of such operations for debtor countries.

To be sure, formula (1) can also be used to value debt relief from the perspective of the creditor, rather than the debtor (as we have done up till now). By the creditor, parameter ‘d’ should be seen as reflecting the expected chances of recovering outstanding debt claims, in other words the expected average payment effectively received. Conceptually, these chances are a function of both the debtor’s *capacity to pay* and its *willingness to pay*. However, since taking into account the latter requires far more insights about the counterfactual and, potentially, causes moral hazard behaviour by the debtor, we think that, for pragmatic reasons, ‘d’ is best proxied by a model on the basis of financial and economic indicators that uphold the former concept, the debtor’s capacity to pay.<sup>28</sup>

From a creditor’s point of view, the discount rate ‘i’ in formula (1) becomes the interest rate at which that specific creditor can bring amounts equal to the expected debt service payments forward in time. The Commercial Interest Reference Rate or CIRRR from the OECD is such a creditor-specific, or better, currency-specific market interest rate that bears international recognition (as it is also used, for example, by the IMF and the World Bank to determine creditors’ assistance needed under the HIPC Initiative). For more on alternative approaches to measuring debt relief (both debtor/recipient and creditor perspectives), see section 2.4.2 and table 2.11.

### 2.2.3 Types of debt relief operations

Before reviewing and assessing the amounts of debt relief granted, from the previous description, we have to define more specifically what we consider to be bilateral donor operations on debt relief. Overall, we can distinguish between seven types of interventions:

1. Debt relief granted by bilateral creditors (within or outside the Paris Club) on non-concessional claims that are originally non-ODA (typically OOF), usually related to export credits<sup>29</sup>;
2. Debt relief granted by bilateral creditors (within or outside the Paris Club) on concessional claims that are originally accounted for as ODA; these loans are typically administe-

<sup>27</sup>This basic distinction between large and smaller debt relief operations, and between average and marginal default rates, has been firmly established in the literature on the debt (relief) Laffer curve (see e.g. Krugman, 1988; Claessens, 1990; Cassimon, 1990). Especially authors such as Bulow and Rogoff (1988, 1991) have translated this distinction between average and marginal debt value into a convincing argument to condemn small debt relief operations such as buybacks and debt swaps because the debtors (or those financing these operations) were ‘overpaying’ for those transactions, as they were getting marginal debt relief (worth the low marginal value per unit) but paid (higher) average prices for it.

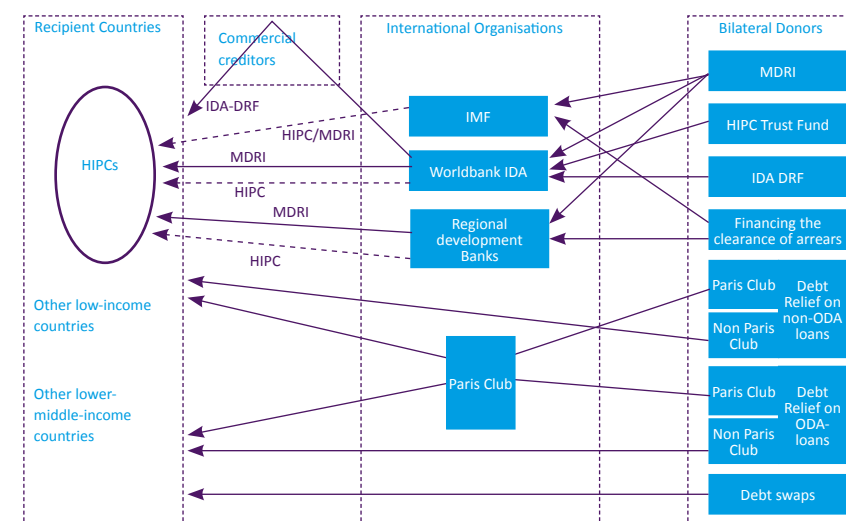
<sup>28</sup>Desirably, one would use an internationally standardised model for calculating this capacity to pay. Unfortunately, no such benchmarks exist today; different creditors use different models.

<sup>29</sup>In the Belgian case, these are operations by ONDD.

3. Interventions by which the bilateral donor provides a grant to the IDA Debt Reduction facility in order to allow for a buyback operation of the remaining commercial debt of the debtor country;
4. Interventions by which the bilateral donor provides a grant into the HIPC Trust Fund, to be used to compensate some multilateral creditors for the cancellation of their claims within the HIPC Initiative;
5. Additional bilateral grant contributions to multilateral organisations such as IDA, AfDF and IaDB to compensate for (‘finance’) the cancellation of their debt claims in the MDRI.
6. Interventions linked to the clearing of payments arrears by the debtor country vis-à-vis its multilateral creditors, as a necessary condition to be eligible for consecutive debt relief (e.g. the HIPC Initiative);
7. Operations in which the bilateral donor buys up debt of other creditors, or its own debt, to swap it, usually at a discount, for development purposes (‘debt-for-development swaps’).

Figure 2.2 provides a graphical representation of these seven distinguishable types of interventions. As will become clear from Chapter 3, also for the specific Belgian case almost all of these operations have taken place. On top of that, particular additional operations occur in an intra-Belgian context, typically giving rise not to additional debt relief, but only to compensatory payments between different Belgian entities.

Figure 2.1 Schematic overview of different types of bilateral debt relief interventions



Source: Authors’ own elaboration

## 2.3 Evolution of international debt relief granted so far

### 2.3.1 Debtor-based statistics: Global Development Finance

Having described international debt relief initiatives at some length and presented useful frameworks for the classification of debt relief interventions in previous sections, it would now be imperative to have a detailed look at the amounts of debt relief granted so far at the international level. This, however, does not go without problems.

First of all, and as is widely acknowledged in the academic literature on debt relief (see e.g. Depetris Chauvin and Kraay, 2005 and more recently Johansson, 2010), there is still no detailed, comprehensive database, covering all forms of international debt relief, (readily) available. The well-known Global Development Finance (GDF) statistics compiled by the World Bank provide perhaps the widest coverage in terms of developing countries having received debt relief (from 1989 onwards), but beyond annual aggregates they do not allow for any detail regarding individual creditors or the nature of debt relief operations. The aggregate figures reported in the GDF are drawn from debtor-reported loan-by-loan data recorded through the Debtor Reporting System (DRS) database (also maintained by the World Bank), which may well be incomplete and ‘noisy’ due to limited debt management capacity in a fair number of debtor countries. More importantly, the GDF only gives nominal amounts of debt

relief, which are, as stated before, typically no reliable indicators of net cash flow effects for the recipient country (see section 2.2.2.2). For sake of completeness, GDF figures on 1989-2008 debt relief<sup>30</sup> received by individual HIPC countries, as well as the groups of low-income and lower-income countries, are provided in Table 2.3. As can be seen, according to the GDF, all HIPC countries together were granted a total nominal amount of 122.8 billion US\$ of debt relief during the period 1989-2008.

Second, no international statistical standards exist on how to measure debt relief in PV terms. Ideally, one would use the loan-by-loan information of the DRS database (or an improved version thereof) to construct PV debt relief statistics (taking into account the concessionality of each individual loan). In practice however, this is a prohibitively complex and labour-intensive task. As an alternative, Depetris Chauvin and Kraay (2005) have multiplied GDF aggregates with the average concessionality rate of the total debt stock outstanding of a country to come to PV estimates of debt relief for that country. These PV estimates are however only available for the years 1989 to 2003 and could not be updated

<sup>30</sup> The amounts in table 2.3 constitute the sum of GDF categories ‘debt forgiveness or reduction’ and ‘interest forgiven’. Published GDF data on debt rescheduling is left out as it is deemed incompatible with our notion of debt relief (see Depetris Chauvin and Kraay, 2005 for more info).

**Table 2.3 GDF (debtor-reported) nominal value of total debt relief received per recipient country (in current mio US\$)**

Country/Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Afghanistan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20.91	51.94	72.86
Benin	39.16	125.45	129.50	3.82	3.95	7.11	139.48	84.09	0.99	0.00	0.00	4.75	10.79	11.77	71.30	13.14	13.61	1,022.70	0.00	5.88	1,687.51
Bolivia	938.43	168.65	428.74	83.08	199.35	16.80	81.59	181.39	94.90	112.64	143.36	54.42	1,164.82	114.40	45.29	49.36	50.11	1,549.17	1,181.89	16.84	6,675.23
Burkina Faso	188.91	5.43	11.55	0.25	3.60	119.27	14.65	18.55	0.78	0.72	0.00	77.70	19.20	67.77	32.13	19.53	31.13	1,199.03	2.80	6.94	1,819.95
Burundi	0.00	105.44	14.71	5.13	0.07	0.00	16.68	0.00	0.00	0.00	0.00	0.00	16.07	0.00	0.00	1.69	11.45	7.56	22.39	48.04	249.23
Cameroon	6.88	9.52	22.35	28.71	0.00	545.68	0.09	0.71	158.85	39.22	34.98	6.22	544.11	274.02	387.36	271.47	164.31	4,037.31	144.42	16.25	6,692.46
Central African Republic	17.34	157.51	4.63	0.00	0.00	53.69	1.27	7.21	0.00	4.08	0.25	0.69	0.34	0.00	0.00	0.00	0.00	0.00	8.18	14.07	269.24
Chad	80.37	12.21	0.00	0.00	0.00	0.00	61.60	11.48	2.51	2.59	0.00	0.00	20.17	15.51	12.57	9.40	16.08	15.06	4.62	4.04	268.20
Comoros	26.16	0.12	4.38	0.00	11.28	5.29	0.36	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.77
Congo, Dem. Rep.	152.93	24.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.62	0.00	0.00	3,553.24	103.02	129.71	93.50	0.00	40.43	160.66	4,259.22
Congo, Rep.	6.37	0.09	11.25	0.22	2.73	134.07	23.59	101.24	40.72	39.00	18.42	0.00	0.00	0.00	0.00	1,349.22	141.71	144.20	1,297.47	365.81	3,676.12
Cote d'Ivoire	28.80	50.12	0.00	0.01	0.00	1,579.50	321.59	10.53	3,890.44	122.69	24.31	28.65	14.16	463.51	263.47	0.00	0.02	0.00	0.00	0.00	6,797.80
Eritrea	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.66	0.00	5.66
Ethiopia	0.00	66.46	6.29	50.84	15.10	17.62	8.05	198.08	21.85	6.52	4,746.81	0.00	36.58	108.96	455.37	1,372.03	446.84	4,191.91	13.14	30.74	11,793.16
Gambia, The	0.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.38	4.33	4.08	2.35	0.72	0.21	0.00	225.55	241.94
Ghana	44.92	102.38	103.93	0.00	0.00	8.30	0.00	6.55	0.00	12.28	0.00	0.00	0.00	123.03	65.66	1,129.36	72.12	4,258.30	0.01	15.30	5,942.14
Guinea	308.28	1.88	10.49	60.54	0.52	1.46	60.77	0.00	9.71	120.19	286.35	0.01	50.65	44.65	42.52	18.75	13.10	0.00	22.81	176.93	1,229.61
Guinea-Bissau	2.14	5.10	0.00	0.00	0.00	10.33	14.73	5.99	0.02	0.00	0.00	0.78	27.62	9.99	8.43	165.97	9.50	0.00	5.79	10.01	276.40



Country/Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Guyana	2.11	32.23	89.61	90.21	12.49	12.79	0.00	492.76	1.66	0.00	210.04	5.56	7.02	9.46	26.80	126.86	165.03	231.81	429.04	12.50	1,957.97
Haiti	0.00	0.00	172.26	0.00	0.00	22.76	11.24	0.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32.30	17.84	257.03
Honduras	63.15	61.44	489.97	30.33	4.64	19.93	10.27	3.56	0.94	40.42	41.81	18.87	74.90	40.89	9.29	74.55	767.17	1,361.23	1,192.64	70.15	4,376.14
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.52	0.00	7.64	0.00	24.40
Liberia	0.21	0.00	0.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	226.02	226.82
Madagascar	351.52	185.49	3.37	10.69	225.25	0.00	0.00	0.00	64.40	6.88	3.18	0.00	150.55	118.07	85.52	1,411.84	97.83	2,272.61	142.56	6.30	5,136.04
Malawi	15.18	50.79	2.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	94.69	46.00	49.37	56.35	49.83	2,456.28	56.11	16.28	2,893.03
Mali	9.16	3.26	1.85	21.53	4.41	421.99	0.12	17.29	0.00	4.46	0.44	33.05	18.58	494.42	28.10	20.56	22.06	1,787.18	6.19	8.87	2,903.52
Mauritania	92.27	71.26	0.04	3.93	31.00	6.51	14.99	2.93	11.46	0.00	0.00	48.12	25.24	179.89	154.21	90.36	20.07	856.26	66.19	37.68	1,712.39
Mozambique	0.00	1,174.11	236.72	23.53	35.81	63.24	322.80	130.85	223.09	27.90	430.20	83.40	2,446.67	62.82	88.41	20.66	12.94	1,734.86	302.95	3.17	7,424.13
Nicaragua	0.00	0.00	430.57	7.56	2.55	15.35	2,272.51	4,010.89	441.99	49.09	86.95	35.28	512.65	460.79	424.12	1,771.51	145.37	1,023.07	1,276.13	56.11	13,022.47
Niger	253.86	0.39	127.04	0.00	15.28	136.92	3.51	41.09	9.73	7.23	12.99	0.00	112.83	26.65	32.86	283.84	18.39	1,205.79	1.41	41.76	2,331.56
Rwanda	65.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.13	0.27	0.27	16.62	18.82	20.12	21.11	97.32	1,137.85	0.01	7.61	1,387.89
Sao Tome and Principe	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.43	2.43	2.87	2.67	2.68	2.87	0.00	194.02	2.66	221.63
Senegal	877.35	18.12	145.89	8.84	0.00	246.55	26.66	67.36	3.94	16.07	5.50	22.10	28.39	27.78	25.34	403.02	36.03	2,294.51	146.20	2.80	4,402.45
Sierra Leone	0.00	0.00	0.00	39.87	11.18	30.21	329.40	5.24	2.79	0.00	0.00	0.00	48.42	16.63	23.84	49.91	28.21	71.20	958.67	6.98	1,622.55
Somalia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sudan	0.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	14.57	0.00	51.74	5.94	72.88	
Tanzania	54.34	112.60	172.28	156.53	231.43	103.64	140.18	29.88	329.46	70.82	25.88	572.45	450.89	107.33	751.87	88.38	284.59	4,857.78	13.19	14.06	8,567.57
Togo	168.72	18.10	3.03	5.80	2.75	0.03	107.37	7.76	81.91	11.50	0.00	0.00	0.81	0.00	0.00	0.00	0.00	0.00	0.00	326.06	733.83
Uganda	0.26	51.21	0.94	14.40	156.43	6.92	40.53	0.00	0.00	626.71	11.02	189.15	33.32	128.28	39.73	91.30	35.93	3,424.59	19.63	6.68	4,877.03
Zambia	188.54	162.49	89.45	232.47	312.34	602.12	3.29	30.09	2.31	1.85	90.17	56.41	86.59	84.80	95.54	75.64	1,469.50	2,999.79	11.61	12.15	6,607.17
<b>Total HIPCs</b>	<b>3,984.05</b>	<b>2,775.96</b>	<b>2,713.56</b>	<b>878.30</b>	<b>1,282.14</b>	<b>4,188.04</b>	<b>4,027.31</b>	<b>5,466.59</b>	<b>5,394.44</b>	<b>1,324.97</b>	<b>6,174.53</b>	<b>1,249.30</b>	<b>6,019.48</b>	<b>6,616.68</b>	<b>3,349.01</b>	<b>9,120.57</b>	<b>4,348.42</b>	<b>44,140.27</b>	<b>7,678.73</b>	<b>2,030.62</b>	<b>122,762.97</b>
Low-income (incl. HIPCs)	3,373.26	2,574.37	1,733.76	681.18	1,112.49	1,864.06	1,428.10	666.71	3,519.67	929.83	5,631.49	11,504.29	3,857.81	5,250.93	3,217.09	5,979.30	3,018.21	36,037.07	2,077.02	2,037.44	96,494.06
Lower middle-income (incl. HIPCs)	4,762.70	15,193.91	5,767.28	4,423.74	1,245.70	2,772.89	4,490.44	11,423.83	5,573.60	548.63	1,006.18	2,913.73	2,512.12	2,091.45	2,047.57	4,514.21	8,939.11	20,443.57	5,918.89	881.38	107,470.91

Source: Authors' own calculation based on GDF statistics

because of their use of unpublished data sources.

Third, with respect to the economic value (EV) or market value of debt relief, there is even less information available. The most recent attempt to construct such EV debt relief measures (allowing for the possibility of default) is that by Johansson (2010), building further on econometric evidence of the relationship between secondary market prices of debt and the debt stocks, arrears and rescheduling commitments of middle-income debtors during the 1980s (a procedure also found in Cohen, 2001). Johansson herself admits that these measures are highly imperfect and should be taken with caution. Again, figures are only for 1989-2004 and therefore not reported here.

### 2.3.2 Creditor-based statistics: OECD-DAC CRS database

In view of the troubled nature of debtor-based debt relief statistics and lack of a comprehensive creditor-based database (one that would encompass all possible creditors), it is essential to look at lower echelons, namely at the level of different groups of creditors if one wants a more detailed (and perhaps more reliable) picture of debt relief. Since this report is primarily concerned with the evaluation of Belgian debt relief, focusing on the amounts of debt relief provided by bilateral creditors seems most appropriate for purposes of comparison. This brings us automatically to the creditor-based Aid Activity database, also known as the *Creditor Reporting System* or CRS database, compiled by the Secretariat of the OECD-DAC, by far the most extensive and systematically updated source of data on bilateral debt relief operations<sup>31</sup>. The main purpose of this database is to measure and monitor the amounts of Official Development Aid (ODA) granted by each DAC donor. As debt relief can to some extent be accounted for as ODA (in accordance with DAC ODA accounting rules, see Annex 2.2), one can indirectly retrieve ‘gross’ debt relief figures from the CRS. More particularly, the CRS database makes it possible to assign debt relief to individual recipient countries per creditor as well as to different types/categories of interventions per creditor (on the latter, see section 2.2.3). Somewhat strangely however, there is no perfect match over these different dimensions<sup>32</sup>. Furthermore, as with the GDF, (most) debt relief is recorded in nominal terms (see Annex 2.2 for more information).

Table 2.4 gives an overview of gross debt relief (being the sum of CRS database entries ‘debt forgiveness’ and ‘other debt grants’<sup>33</sup>, not including ‘rescheduled debt’) per DAC creditor for periods 1988-1995, 1996-1999 and 2000-2009. Table 2.5 presents the same data but now disaggregated per recipient country (or group of recipient countries). For disaggregation of gross debt relief figures into different (detailed) categories of interventions, see section 2.4, table 2.10.

<sup>31</sup>The CRS database in the first place covers actions on debt reorganisation by the 23 bilateral DAC donors: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States (most of which are also permanent Paris Club members). Data from debt reorganisation interventions by non-DAC bilateral donors and a range of multilateral institutions is included in the database but often fragmented.

<sup>32</sup>Apparently, data on debt relief granted to individual recipient countries per creditor exclude some categories of debt relief interventions.

<sup>33</sup>This includes service payments to third parties, debt conversions, debt buybacks and other actions on debt. This data was only available from 2006 onwards.

Donor/ Period	1988-1995		1996-1999		2000-2008		1988-2008	Donor share
	Period total	%	Period total	%	Period total	%	Grand total	%
Australia	9.49	1.02%	38.23	4.12%	880.49	94.86%	928.21	0.80%
Austria	39.23	0.93%	164.13	3.89%	4,019.06	95.18%	4,222.42	3.66%
Belgium	141.77	5.03%	276.41	9.82%	2,398.00	85.15%	2,816.18	2.44%
Canada	888.73	35.35%	304.12	12.10%	1,321.08	52.55%	2,513.93	2.18%
Denmark	326.20	38.16%	55.18	6.46%	473.45	55.39%	854.83	0.74%
Finland	171.65	43.52%	37.98	9.63%	184.82	46.86%	394.45	0.34%
France	1,704.05	7.92%	2,876.48	13.37%	16,932.65	78.71%	21,513.18	18.65%
Germany	2,348.58	11.46%	1,378.06	6.73%	16,758.37	81.81%	20,485.01	17.76%
Greece	0.00	0.00%	0.57	100.00%	0.00	0.00%	0.57	0.00%
Ireland	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Italy	545.05	7.58%	390.83	5.43%	6,257.43	86.99%	7,193.31	6.24%
Japan	0.00	0.00%	924.42	5.23%	16,758.44	94.77%	17,682.86	15.33%
Korea	0.00	0.00%	0.00	0.00%	10.33	100.00%	10.33	0.01%
Luxembourg	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Netherlands	755.49	21.28%	547.91	15.43%	2,247.08	63.29%	3,550.48	3.08%
New Zealand	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Norway	113.00	35.78%	76.34	24.17%	126.51	40.05%	315.85	0.27%
Portugal	198.99	31.64%	222.58	35.39%	207.31	32.96%	628.88	0.55%
Spain	131.19	3.48%	423.66	11.24%	3,213.65	85.28%	3,768.50	3.27%
Sweden	91.73	12.23%	47.63	6.35%	610.64	81.42%	750.00	0.65%
Switzerland	88.16	13.40%	46.81	7.12%	522.92	79.48%	657.89	0.57%
United Kingdom	422.12	3.86%	911.96	8.35%	9,589.03	87.79%	10,923.11	9.47%
United States	6,492.00	40.10%	282.05	1.74%	9,414.63	58.16%	16,188.68	14.04%
<b>DAC Countries, Total</b>	<b>14,412.12</b>	<b>12.49%</b>	<b>9,005.35</b>	<b>7.81%</b>	<b>91,925.89</b>	<b>79.70%</b>	<b>115,343.36</b>	<b>100.00%</b>

Source: Authors' own calculations on basis of CRS database

From Table 2.4 we derive that DAC donors delivered approximately 115.3 billion US\$ of gross debt relief (in nominal terms) to recipient countries between 1988 and 2008. Most of this debt relief was delivered from 2000 onwards, once the Enhanced HIPC Initiative (and later the MDRI) came into force. France and Germany have been the largest providers of debt relief (accounting for about 18.7% and 17.8% of the total, respectively), followed by Japan (15.3%) and the United States (14%). The Belgian share has been 2.4%, nearly on a par with that of Canada (2.2%). Looking at the timing of debt relief on an individual creditor level, one can notice important differences between creditors. Finland, the United States, Denmark, Norway, Canada and Portugal have all been relatively quick in relieving their debtors, while Austria, Australia and Japan participated almost exclusively in the most recent 2000-2008 period. Belgium has also moved comparatively slowly in granting debt relief (5% in 1988-1995, 9.8% in 1996-1999 and 85.2% in 2000-2008).

Recipient country/ Period	1988-1995		1996-1999		2000-2008		1988-2008	Country share
	Period total	%	Period total	%	Period total	%	Grand total	%
Afghanistan	0.47	0.59%	0.24	0.30%	79.27	99.11%	79.98	0.07%
Benin	95.75	26.64%	44.54	12.39%	219.12	60.97%	359.41	0.31%
Bolivia	476.91	24.16%	278.85	14.13%	1,218.36	61.72%	1,974.12	1.71%
Burkina Faso	88.93	24.65%	72.65	20.14%	199.15	55.21%	360.73	0.31%
Burundi	50.05	37.39%	25.70	19.20%	58.11	43.41%	133.86	0.12%
Cameroon	290.49	4.92%	376.89	6.39%	5,234.86	88.69%	5,902.24	5.12%
Central African Rep.	60.24	27.91%	47.99	22.24%	107.57	49.85%	215.80	0.19%
Chad	25.34	18.23%	26.13	18.79%	87.56	62.98%	139.03	0.12%
Comoros	7.91	22.47%	7.08	20.11%	20.22	57.43%	35.21	0.03%
Congo, Dem. Rep.	365.71	5.31%	45.72	0.66%	6,473.67	94.02%	6,885.10	5.97%
Congo, Rep.	111.08	5.11%	263.08	12.10%	1,800.40	82.79%	2,174.56	1.89%
Cote d'Ivoire	374.09	15.23%	792.21	32.25%	1,290.35	52.52%	2,456.65	2.13%
Eritrea	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Ethiopia	125.43	25.12%	50.53	10.12%	323.43	64.77%	499.39	0.43%
Gambia, The	18.22	70.89%	5.60	21.79%	1.88	7.32%	25.70	0.02%
Ghana	539.65	22.27%	38.03	1.57%	1,845.14	76.16%	2,422.82	2.10%
Guinea	131.37	24.96%	99.17	18.84%	295.85	56.20%	526.39	0.46%
Guinea-Bissau	14.89	11.99%	21.47	17.29%	87.83	70.72%	124.19	0.11%
Guyana	163.21	31.08%	268.29	51.10%	93.58	17.82%	525.08	0.46%
Haiti	161.92	67.94%	17.38	7.29%	59.03	24.77%	238.33	0.21%
Honduras	459.15	24.28%	149.61	7.91%	1,282.63	67.81%	1,891.39	1.64%
Kyrgyz Republic	0.00	0.00%	0.00	0.00%	9.00	100.00%	9.00	0.01%
Liberia	5.11	0.59%	1.00	0.12%	859.88	99.29%	865.99	0.75%
Madagascar	367.08	17.42%	445.09	21.12%	1,295.13	61.46%	2,107.30	1.83%
Malawi	37.22	7.81%	50.51	10.59%	389.12	81.60%	476.85	0.41%
Mali	64.92	11.33%	69.63	12.15%	438.53	76.52%	573.08	0.50%
Mauritania	88.65	22.35%	29.18	7.36%	278.86	70.30%	396.69	0.34%
Mozambique	734.93	25.95%	505.73	17.86%	1,591.60	56.20%	2,832.26	2.46%
Nicaragua	535.13	18.42%	624.10	21.48%	1,746.67	60.11%	2,905.90	2.52%
Niger	87.80	14.30%	85.89	13.99%	440.43	71.72%	614.12	0.53%
Rwanda	29.74	16.31%	49.48	27.14%	103.09	56.55%	182.31	0.16%
Sao Tome and Principe	0.98	1.95%	10.89	21.62%	38.49	76.43%	50.36	0.04%
Senegal	459.44	23.92%	355.99	18.54%	1,105.05	57.54%	1,920.48	1.67%
Sierra Leone	122.92	28.04%	7.86	1.79%	307.52	70.16%	438.30	0.38%
Somalia	20.95	48.29%	10.01	23.08%	12.42	28.63%	43.38	0.04%

Recipient country/ Period	1988-1995		1996-1999		2000-2008		1988-2008	Country share
	Period total	%	Period total	%	Period total	%	Grand total	%
Sudan	36.53	50.36%	13.13	18.10%	22.88	31.54%	72.54	0.06%
Tanzania	521.92	19.23%	293.14	10.80%	1,898.53	69.96%	2,713.59	2.35%
Togo	80.66	24.39%	67.54	20.42%	182.55	55.19%	330.75	0.29%
Uganda	61.69	15.14%	104.84	25.74%	240.81	59.12%	407.34	0.35%
Zambia	751.99	20.49%	397.43	10.83%	2,520.92	68.68%	3,670.34	3.18%
<b>Total HIPCs</b>	<b>7,568.47</b>	<b>15.91%</b>	<b>5,752.60</b>	<b>12.09%</b>	<b>34,259.49</b>	<b>72.00%</b>	<b>47,580.56</b>	<b>41.25%</b>
<b>Other LICs</b>	<b>1,612.18</b>	<b>6.72%</b>	<b>928.01</b>	<b>3.87%</b>	<b>21,446.41</b>	<b>89.41%</b>	<b>23,986.60</b>	<b>20.80%</b>
of which: Nigeria	67.31	0.38%	1.42	0.01%	17,496.28	99.61%	17,565.01	15.23%
<b>Other LMICs</b>	<b>4,418.22</b>	<b>11.31%</b>	<b>1,954.16</b>	<b>5.00%</b>	<b>32,704.18</b>	<b>83.69%</b>	<b>39,076.56</b>	<b>33.88%</b>
of which: Egypt	3,282.93	54.64%	1,193.08	19.86%	1,531.84	25.50%	6,007.85	5.21%
Indonesia	25.51	9.14%	69.51	24.90%	184.18	65.97%	279.20	0.24%
Iraq	0.00	0.00%	0.00	0.00%	29,078.54	100.00%	29,078.54	25.21%
<b>Other (non-LICs/ non-LMICs)</b>	<b>813.25</b>	<b>17.30%</b>	<b>370.58</b>	<b>7.89%</b>	<b>3,515.81</b>	<b>74.81%</b>	<b>4,699.64</b>	<b>4.07%</b>
<b>All rec. countries, Total</b>	<b>14,412.12</b>	<b>12.49%</b>	<b>9,005.35</b>	<b>7.81%</b>	<b>91,925.89</b>	<b>79.70%</b>	<b>115,343.36</b>	<b>100.00%</b>

Table 2.5 allows us to look into more detail at the distribution of the 115.3 billion US\$ of gross debt relief given by DAC donors during 1988-2008 over different (groups of) recipient countries. The group of HIPCs has received about 41.3% of all DAC debt relief in this period. Other, non-HIPC low-income countries (LICs) and lower-middle income countries (LMICs) account for 20.8% and 33.9%, respectively. As can be seen, these latter shares are very much determined by relief given to Nigeria (in the case of LICs) and Iraq (in the case of LMICs), which together have enjoyed nearly as much debt relief (namely 40.4% of the total) as the entire group of 40 HIPCs. So while much of the debate in academic and policy circles focuses on the HIPC Initiative and its successor the MDRI, one should not lose sight of the importance of debt relief granted outside these frameworks.

Within the group of HIPCs, the Democratic Republic of Congo (DRC) and Cameroon have been the largest beneficiaries of gross DAC debt relief, with a stake of about 6% and 5.1% of the total, respectively. Also from the perspective of recipients, the timing of debt relief has varied significantly. HIPCs such as Afghanistan, the DRC and Liberia have only recently been given their lion's share of debt relief, while others, most notably the Gambia and Haiti, have come to enjoy the relief of their debts much earlier. A similar contrast can be observed outside the HIPC framework, for example when comparing Egypt with Iraq and Nigeria.



Creditor/ Type of debt	Concessional debt claims		Non-concessional debt claims		Total debt claims	
		Share of total		Share of total		Donor share
Australia	254	26.94%	689	73.06%	943	0.37%
Austria	524	9.25%	5,143	90.75%	5,667	2.24%
Belgium	760	23.43%	2,484	76.57%	3,244	1.28%
Canada	2,244	24.34%	6,976	75.66%	9,220	3.64%
Denmark	1,167	57.40%	866	42.60%	2,033	0.80%
Finland	238	48.87%	249	51.13%	487	0.19%
France	12,404	36.58%	21,509	63.42%	33,913	13.40%
Germany	21,776	48.90%	22,752	51.10%	44,528	17.60%
Ireland	0	0.00%	3	100.00%	3	0.00%
Italy	3,320	31.95%	7,070	68.05%	10,390	4.11%
Japan	50,758	74.01%	17,823	25.99%	68,581	27.10%
Netherlands	3,752	56.74%	2,861	43.26%	6,613	2.61%
Norway	155	18.74%	672	81.26%	827	0.33%
Portugal	74	17.01%	361	82.99%	435	0.17%
Spain	939	16.01%	4,925	83.99%	5,864	2.32%
Sweden	521	27.31%	1,387	72.69%	1,908	0.75%
Switzerland	439	16.05%	2,297	83.95%	2,736	1.08%
United Kingdom	1,291	11.25%	10,183	88.75%	11,474	4.53%
United States	29,112	65.87%	15,086	34.13%	44,198	17.47%
<b>Bilaterals, Total</b>	<b>129,728</b>	<b>32.14%</b>	<b>123,336</b>	<b>67.86%</b>	<b>253,064</b>	<b>100%</b>

Source: Authors' own calculation based on World Credit Tables (Nicolas, 1996)

### 2.3.3 Outstanding debt, debt relief and the generosity of donors

In the previous section we have, among other things, attempted to estimate the total gross debt relief granted by each DAC donor individually. In order to be able to say something about the generosity of these donors, we would also need to consider the amounts of outstanding debt titles per creditor before such debt relief took place. However, data on outstanding claims has generally been a well-kept secret of individual creditors.<sup>34</sup> One rare source of information is the World Credit Tables 1996, a one-time publication by EURODAD, a consortium of European NGOs that are involved in research and advocacy work on debt-related issues (see Nicolas, 1996). From these credit tables we have been able to derive the amounts of outstanding concessional and non-concessional debt claims per

<sup>34</sup> It must be noted that, in recent years, the Paris Club has improved on its data transparency on outstanding creditor claims. Its latest two annual reports (years 2008 and 2009) provide an overview of the amounts due (per debtor country) to Paris Club creditor countries as a whole at that time. These figures however only concern current outstanding claims and give no historical account; neither are statistics disaggregated per individual Paris Club member.

Creditor	Outstanding debt 1990 (1)	1990 PV gross debt relief (2)	Generosity Index (2)/(1)
	in current mio US\$	in mio US\$, discount rate: 10%	
Australia	943	205.48	0.2179
Austria	5,667	1,016.61	0.1794
Belgium	3,244	847.96	0.2614
Canada	9,220	1,280.34	0.1389
Denmark	2,033	323.11	0.1589
Finland	487	147.31	0.3025
France	33,913	6,814.17	0.2009
Germany	44,528	6,560.76	0.1473
Ireland	3	0.00	0.0000
Italy	10,390	2,060.73	0.1983
Japan	68,581	4,316.48	0.0629
Netherlands	6,613	1,418.71	0.2145
Norway	827	151.12	0.1827
Portugal	435	337.62	0.7761
Spain	5,864	1,069.76	0.1824
Sweden	1,908	239.07	0.1253
Switzerland	2,736	198.49	0.0725
United Kingdom	11,474	3,040.56	0.2650
United States	44,198	8,129.91	0.1839
<b>Bilaterals, Total</b>	<b>253,064</b>	<b>38,160.36</b>	<b>0.1508</b>

Source: Authors' own calculation based on CRS database and World Credit Tables (Nicolas, 1996)

DAC creditor (excluding Greece, Korea, Luxembourg and New Zealand) in 1990, just before the Paris club launched its London terms. Table 2.6 indicates that in 1990 concessional debt claims only accounted for one third of the outstanding debt claims of all bilateral creditors considered. For Belgium specifically the share of concessional debt was even smaller (23.4%). With respect to the whole of claims, we can see that Japan was by far the most important creditor (27.10% of all bilateral claims), followed by Germany (17.6%), the United States (17.5%) and France (13.4%). In 1990 Belgium held merely 1.28% of all debt claims outstanding.

Combining the information on total outstanding debt claims of Table 2.6 with the data on gross debt relief we presented in the previous section, enables us to get an impression of how generous bilateral donors have been in providing (albeit largely nominal) debt relief. Table 2.7 presents an indicative (albeit very crude) measure of such generosity which allows for comparison between donors. The *Generosity Index* is calculated as the ratio of the PV of gross debt relief from 1990 onwards (until 2008) and total outstanding debt claims in 1990.

Nominal gross debt relief figures have been discounted back to their 1990 value (using a rather arbitrary 10% discount rate<sup>35</sup>) to reflect that donors who have delivered their debt relief early on can be regarded as more generous than those postponing it. According to our index, Portugal has been the most generous donor. Other relatively benevolent creditors are Finland, the United Kingdom and Belgium. On the other end we find countries such as Switzerland and Sweden, and more importantly Japan, that have provided relatively little debt relief (and predominantly in more recent years). In view of the many imperfections of this Generosity Index, however, the results coming out of this exercise should be treated with the necessary caution.

### 2.3.4 Zooming in on HIPCs

This final subsection on the amounts and distribution of international debt relief zooms in on one particular group of countries for which grand debt relief initiatives were designed in the first place: the 40 Heavily Indebted Poor Countries or HIPCs. As HIPCs have always been central to the debate on relieving developing countries from their debt burden, it is no surprise that efforts have been made, most notably by the World Bank and the IMF, to provide more detailed and regularly updated information on the debt situation of these countries and the costs of relief for different categories of creditors (expressed in PV rather than nominal terms). In what follows we give a quick summary overview of the latest available figures coming from the *2009 HIPC Initiative and MDRI Status of Implementation Report* jointly produced by the World Bank and the IMF (see IDA and IMF, 2009).

Table 2.8 allows us to look at (the distribution of) the costs of debt relief under the HIPC Initiative. At present, total costs are estimated at nearly 74 billion US\$ in end-2008 PV terms, of which more than half (39 billion US\$) is represented by irrevocable debt relief to those HIPCs that have reached completion point. The largest share of total costs is borne by the group of multilateral (45%) (especially IDA) and Paris Club creditors (36%). Other (non-Paris Club) bilateral and commercial creditors account for the rest (not more than 19%) of the projected costs.

With respect to debt relief under the MDRI, which (as the name gives away) only prescribes debt relief interventions by a handful of multilateral creditors (namely the IDA, IMF, AfDF and IaDB), the cost situation looks as provided by Table 2.9.

The estimated total cost of MDRI debt relief in end-2008 PV terms is 28.5 billion US\$ (which is completely additional to the costs of the HIPC Initiative). IDA debt relief explains no less than 18.2 billion US\$ or about 64% of this cost. Table 2.9 clearly shows the potentially large divergence between debt relief in nominal and PV terms.

	Post-Completion Point HIPCs (26)	Interim HIPCs (9)	Total Post-Decision Point HIPCs (35)	Pre-Decision - Point HIPCs (5)	Total (40)
	(I)	(II)	(III)=(I)+(II)	(IV)	(V)=(III)+(IV)
<b>Multilateral creditors</b>	<b>21.4</b>	<b>6.7</b>	<b>28.1</b>	<b>5.3</b>	<b>33.4</b>
IDA	10.6	2.6	13.2	1.5	14.7
IMF	3.0	1.5	4.6	1.8	6.4
AfDB Group	2.9	1.9	4.8	0.5	5.3
IaDB	1.7	0.0	1.7	0.0	1.7
Other	3.1	0.7	3.8	1.5	5.3
<b>Bilateral and commercial creditors</b>	<b>17.4</b>	<b>11.8</b>	<b>29.2</b>	<b>11.3</b>	<b>40.4</b>
Paris Club	12.24	8.7	20.9	5.6	26.5
Other Official Bilateral	4.2	0.7	4.9	4.7	9.6
Commercial	0.9	2.4	3.4	1.0	4.3
<b>Total Costs</b>	<b>38.8</b>	<b>18.5</b>	<b>57.3</b>	<b>16.6</b>	<b>73.9</b>

Source: IDA and IMF (2009)

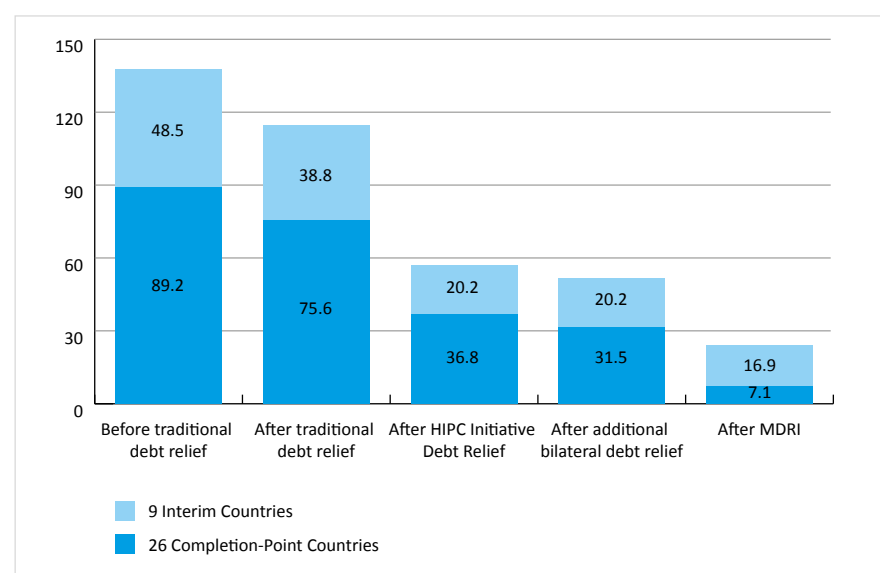
	Assistance in Nominal Terms 2/			Assistance in end-2008 NPV Terms
	Principal	Foregone Interest	Total	Principal and Foregone Interest
<b>Post-Completion-Point HIPCs 1/</b>	<b>40.4</b>	<b>4.6</b>	<b>45.0</b>	<b>24.4</b>
IDA	27.6	2.7	30.3	15.3
IMF 3/ 5/	3.2	...	3.2	3.7
AtDF	6.3	0.8	7.2	3.1
IaDB	3.3	1.0	4.4	2.4
<b>Interim and Pre-Decision-Point HIPCs 2/</b>	<b>7.5</b>	<b>0.7</b>	<b>8.2</b>	<b>4.1</b>
IDA	5.5	0.5	6.0	2.9
IMF 3/	0.6	...	0.6	0.6
AtDF	1.5	0.2	1.6	0.7
IaDB	0.0	0.0	0.0	0.0
<b>All HIPCs</b>	<b>47.9</b>	<b>5.3</b>	<b>53.2</b>	<b>28.5</b>
IDA	33.1	3.2	36.3	18.2
IMF 3/	3.8	...	3.8	18.2
AtDF	7.8	1.0	8.8	3.8
IaDB	3.3	1.0	4.4	2.4
<b>Non-HIPCs 4/</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

Source: IDA and IMF (2009)

<sup>35</sup> This is the rate the DAC uses by convention in most of its statistics.

One important question now remains. How will all the international debt relief initiatives described impact the debt stock of the recipient countries in question? Figure 2.2 presents the latest projections by the World Bank and IMF on the evolution of the debt stock of the current post-decision point HIPCs. As a result of debt relief under traditional (mostly Paris Club) mechanisms, the HIPC Initiative, additional HIPC+ relief by bilateral creditors and the MDRI, the aggregated debt burden of these 35 countries is expected to be reduced by 113.7 billion US\$. This would signify an 82.6 % reduction relative to their pre-decision point level of debt stock.

**Figure 2.2** The debt stock of the 35 post-decision point HIPCs under different debt relief stages (in bn US\$, in end-2008 PV terms)



Source: IDA and IMF (2009)

## 2.4 Aid, debt relief and ODA accounting

Building further on the analysis developed in section 2.3, this section engages with the question to what extent debt relief (and other debt reorganisation) translates into Official Development Aid (ODA), as formulated by OECD-DAC, and how this relates to measures that try to capture the economic value of debt relieved.

### 2.4.1 ODA accounting rules and the resulting debt relief component of ODA

Evidently, there is no perfect equivalence between the amounts of debt relief given by a creditor and the amount of additional ODA this creditor can ‘bring in’ for the relief operation. For example, to avoid double counting, creditors forgiving debt titles that already previously qualified as ODA (at the time they were provided to the recipient) may only register the forgiven interest due and in arrears as new ODA. The amortisation part of

the debt forgiven does enter the net ODA statistics, but in a disguised way, more specifically in future years under the form of repayments (which are normally deducted from gross ODA figures when they occur) that do not longer take place. This disguised effect, of course, only materialises provided that the ODA debt would have been repaid in the absence of the relief operation. The situation changes if debt relief concerns non-ODA debt. For an in-depth description of ODA accounting rules for debt reorganisation we refer to Annex 2.2; we return to these rules in the next section 2.4.2 where we assess to what extent the declared ODA from debt relief matches with an economic value concept. The remainder of this section looks into the actual amounts of ODA generated by debt rescheduling interventions and how this compares to total ODA figures.

Table 2.10 shows the breakdown of bilateral debt reorganisation operations into the different categories applied by the DAC for periods 1988-1995, 1996-1999 and 2000-2008. Clearly, most of the 129.3 billion US\$ gross debt relief reported<sup>36</sup> comes from debt forgiveness grants related to the cancellation of ODA and non-ODA claims and only a very minor part from service payments to third parties, debt conversions, debt buybacks and the like (so-called ‘other actions on debt’). Taking into consideration the offsetting entries for debt forgiveness (that correct for the amortisation part of ODA debt, see Annex 2.2), net bilateral (ODA) debt relief amounts to 111.4 billion US\$ for 1988-2008 (about 14% lower than the gross figure) or 7.03% of total ODA recorded in that period. Another source of ODA is debt reorganisation through concessional rescheduling, which together with gross debt relief constitutes 148.7 billion US\$ worth of gross bilateral (ODA) debt reorganisation. Again, one has to correct for offsetting entries to compute the net concept; net bilateral (ODA) debt reorganisation has been 130.8 billion US\$ or 8.26% of total 1988-2008 ODA statistics.

<sup>36</sup> Note that this amount differs from the earlier-mentioned US\$ 115.3 billion because of small differences in concept and definition between the different tables of the DAC’s CRS database.

Table 2.10 DAC categories of debt reorganisation interventions and ODA accounting (in current mio US\$)													
Category/Year	1988-1995	1996-1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008	Total
<b>Gross Bilateral ODA 'Debt Reorganisation'</b>	<b>35,810.82</b>	<b>13,911.72</b>	<b>2,457.52</b>	<b>2,959.24</b>	<b>6,222.48</b>	<b>10,272.58</b>	<b>8,286.68</b>	<b>26,481.36</b>	<b>20,768.18</b>	<b>10,025.14</b>	<b>11,538.46</b>	<b>99,011.64</b>	<b>148,734.18</b>
Gross Debt Relief	24,161.41	12,531.70	2,223.83	2,602.08	5,374.56	8,533.86	7,265.66	25,164.32	20,195.28	9,884.16	11,411.48	92,655.23	129,348.34
<i>Debt Forgivelessness Grants</i>	24,116.23	11,808.45	2,045.15	2,501.43	4,538.49	8,317.39	7,134.11	24,998.91	18,599.86	9,623.89	11,067.34	88,826.57	124,751.25
of which: ODA Claims	11,272.71	3,196.41	952.29	893.60	1,364.95	1,897.18	3,069.58	2,982.08	1,476.70	960.97	2,849.31	16,446.66	30,915.78
OOF Claims	606.42	1,051.25	554.31	277.88	2,578.14	5,323.57	1,773.34	13,349.16	10,510.27	5,793.91	4,729.55	44,890.13	46,547.80
Private Claims	4.81	1,566.79	68.94	474.61	557.04	1,096.64	2,291.20	8,667.64	6,612.88	2,869.02	3,488.49	26,126.46	27,698.06
Other Action on Debt	45.18	723.25	178.68	100.65	836.07	216.47	131.55	165.41	1,595.42	260.27	344.14	3,828.66	4,597.09
Service Payments to Third Parties	5.61	327.83	102.10	10.12	7.84	7.96	0.53	0.45	33.78	6.93	50.00	219.71	553.15
Debt Conversions (Swaps)	11.05	93.10	12.75	0.00	0.00	27.73	79.07	139.53	35.13	111.99	197.24	603.44	707.59
Debt Buybacks	0.00	14.35	0.77	0.00	0.00	0.00	0.00	0.00	1,435.72	3.01	0.00	1,439.50	1,453.85
Other	28.53	287.96	63.06	90.52	828.21	180.78	51.95	25.43	90.79	138.34	96.90	1,565.98	1,882.47
<i>New ODA from Concessional Rescheduling</i>	11,649.41	1,380.02	233.69	357.16	847.92	1,738.72	1,021.02	1,317.04	572.90	140.98	126.98	6,356.41	19,385.84
of which: ODA Claims (Capitalised interest)	171.60	187.32	227.57	337.45	799.17	1,735.15	303.22	1,317.04	572.90	140.98	126.98	5,560.46	5,919.38
OOF Claims	125.89	229.01	6.12	19.71	48.75	3.57	717.80	0.00	0.00	0.00	0.00	795.95	1,150.85
<b>Offsetting Entries for Debt Forgivelessness</b>	<b>-1,017.71</b>	<b>-3,340.94</b>	<b>-468.76</b>	<b>-539.94</b>	<b>-809.59</b>	<b>-1,583.08</b>	<b>-2,923.68</b>	<b>-2,431.09</b>	<b>-1,321.22</b>	<b>-901.57</b>	<b>-2,577.48</b>	<b>-13,556.41</b>	<b>-17,915.06</b>
<b>Net Bilateral ODA Debt Reorganisation</b>	<b>34,793.11</b>	<b>10,570.78</b>	<b>1,988.76</b>	<b>2,419.30</b>	<b>5,412.89</b>	<b>8,689.50</b>	<b>5,363.00</b>	<b>24,050.27</b>	<b>19,446.96</b>	<b>9,123.57</b>	<b>8,960.98</b>	<b>85,455.23</b>	<b>130,819.12</b>
as % of total (net) ODA	6.98%	4.43%	3.31%	4.11%	8.22%	10.84%	5.79%	20.29%	16.54%	7.79%	6.56%	10.08%	8.26%
<i>Net Bilateral ODA Debt relief</i>	23,143.70	9,190.76	1,755.07	2,062.14	4,564.97	6,950.78	4,341.98	22,733.23	18,874.06	8,982.59	8,834.00	79,098.82	111,433.28
as % of total (net) ODA	4.64%	3.85%	2.92%	3.50%	6.93%	8.67%	4.69%	19.18%	16.05%	7.67%	6.46%	9.33%	7.03%
<i>*Memo: Total ODA</i>	498,444.64	238,605.54	60,133.46	58,890.84	65,864.14	80,157.85	92,583.58	118,506.34	117,572.25	117,080.07	136,695.50	847,484.03	1,584,534.21

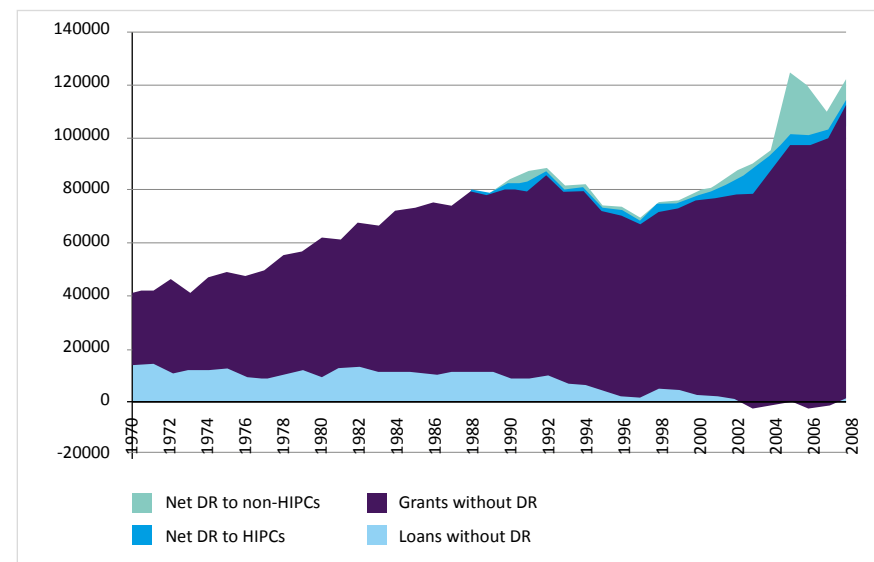
Source: Author's calculations based on DAC CRS on line data and DAC debt reorganisation guidelines (DCD/DAC(2000)16).

Note: Figures exclude bilateral HIPC Trust Fund and unearmarked IDA-DRF Trust Fund contributions (see Annex 2.2, table 1 for more information).

We now present a comparative analysis over time of net bilateral debt relief and other ODA components. To allow for a distinction between net debt relief granted to HIPCs and to non-HIPCs we make use of the memo item 'net debt relief' found in the CRS database instead of the net bilateral debt relief figures we calculated ourselves (see above), as the latter could not be disaggregated over different (groups of) recipient countries.

Figure 2.3 shows the evolution of total net ODA disbursements over the period 1970-2008 (measured in constant 2008 US\$ millions to correct for exchange rate movements) from DAC members to all developing country recipients. It illustrates the evolution of total ODA over time as well as its disaggregation over four components: net debt relief to HIPCs, net debt relief to non-HIPCs, grants and loans. In general, the data show an increase in net ODA until the beginning of the 1990s, followed by a period of aid fatigue until the second half of the 1990s. From 1998 on, a recovery has set in and volumes have increase again, up to an all-time high of 124.9 billion US\$ in 2005. After a couple of years of decline, ODA again rose above 120 billion US\$ in 2008. For 2009 the DAC projects the 2005 record level to be missed by a small margin. The estimated 2009 ODA level is 123.1 billion US\$.

Figure 2.3 Evolution of ODA and its components (in constant 2008 mio US\$)

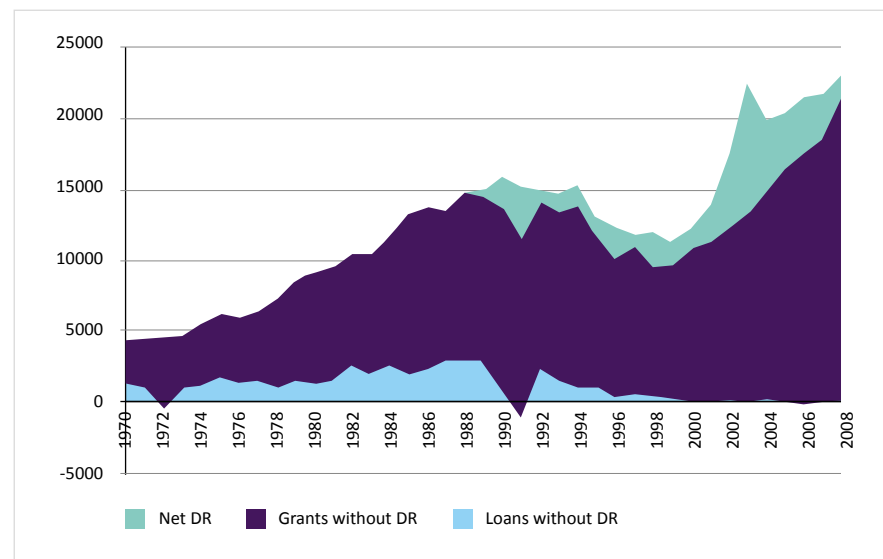


Source: Authors' own elaboration on basis of CRS database

The disaggregated information provides us with a clearer picture of the importance of the different sub-components of ODA in the evolutions outlined above. The increase of ODA between 1970 and the early 1990s is mainly the result of an increase in grants, complemented with debt relief operations in 1990 and 1991. We see that, over time, grants have replaced loans, with net loans (loans minus repayments) even becoming negative in some of the more recent years. Although loans might have specific beneficial effects compared to grants, they have an inherent risk of building up an unsustainable debt burden in the future. The replacement of debt by grants can therefore be seen as a positive trend. The ODA recovery after 1998 can be partly attributed to debt relief, although an increase of the grant-component has also been important, certainly between 2003 and 2006. Finally the graph indicates that the 2005 peak can be largely attributed to debt relief, mainly to two non-HIPCs, Iraq (15.8 billion US\$) and Nigeria (6.6 billion US\$). This has shown not to be sustainable over the consecutive years. As the most recent peak of 2008 has been largely achieved by an increase of the grant component, high ODA levels are more likely to persist in the following years, under the condition of course that the recent financial and economic crisis does not cut too hard in donors' aid expenditures.

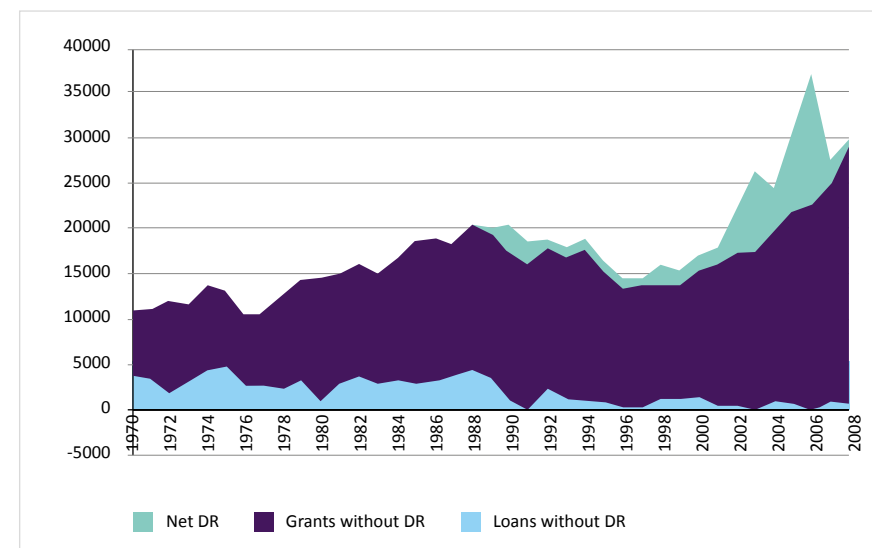
Figure 2.4 and Figure 2.5 show us the importance of the different sub-components for the subset of HIPCs and low-income countries (LICs), respectively. It immediately becomes clear that for these two sub-groups net debt relief constitutes a more important part of total net ODA. While for all recipients together net debt relief accounted for about 7% of ODA (between 1988 and 2008), this was about 16% for HIPCs and 15% for LICs.

**Figure 2.4** Evolution of ODA and its components for HIPCs (in constant 2008 mio US\$)



Source: Authors' own elaboration on basis of CRS database

**Figure 2.5** Evolution of ODA and its components for LICs (in constant 2008 mio US\$)



Source: Authors' own elaboration on basis of CRS database

**2.4.2 Looking at ODA debt relief from an economic value of debt perspective**

In this section we use a framework of alternative approaches to measuring aid to assess the current ODA rules and the debt relief component of realised ODA. The framework is presented as table 2.11. It presents five different approaches to measuring aid, from left to right, in increasing order of sophistication. From a conceptual point of view, the more we move to the right in the table, the better the measures become. Unfortunately, the more we move to the right, the more difficult calculations also become. A brief overview of the measures is presented in what follows, starting from the left of the table. For the donor, development aid obviously involves some costs. We distinguish three ways of expressing these costs to the donor. First and most simply, one may look at gross budgetary outlays, presented in column 1. A more complete picture is presented in column 2, according to which aid is calculated as the net budgetary cost. The justification is that aid gives rise to reverse financial flows, in particular debt service paid by beneficiaries on previous concessional loans, which constitutes budgetary income to the public sector of the donor economy. As these return flows are triggered off by previous loans, it seems logical to subtract them. Nevertheless there is something to be said for also looking at gross budgetary spending. Debt service receipts can be expected to flow to the Treasury and not to be transferred to the budget of the Aid Ministry as a matter of course. For this reason the reverse financial resources that flow back to the donor economy do not augment the budgetary means available for development aid, and therefore do not alleviate the aid efforts by the aid department. Although this perspective is not without relevance, it narrows down the view to a single ministerial department and its Minister. All in all, the net budgetary cost approach is preferable over a gross budgetary cost approach.



The third approach is the most comprehensive from a donor perspective, and in this sense the most desirable. It focuses on the economic cost to the donor economy of the resources devoted to development aid. The same resources cannot be put to another use by the donor economy and this carries an opportunity cost. This notion is broader than the previous two because the economy-wide effects of aid may not be expressed correctly by government spending<sup>37</sup>.

The last columns presented in table 2.11 take an aid recipient perspective. The fourth approach takes as its object of calculation the acquisition value of aid. More specifically: what is the cost of acquiring on the world market similar goods and services as those obtained through free or subsidised aid. That will depend on the nature of the goods and services concerned, the situation on the world market, and the risks associated with doing business with the recipient country in question. The fifth and in many ways most sophisticated approach is to assess the final use value of development aid, very much in line with the evaluation framework used here. Of course, it would be an almost impossible task to do so systematically, especially if the intention is to provide timely and comprehensive data that will serve the same purpose as the present DAC publications. In the debate on aid measurement, the difficulty of measuring value at destination has been invoked to concentrate on the more realistic efforts of measuring cost at origin. This argument carries less weight when applied to the intermediary approach presented in column 4, which is far less ambitious and daunting than an assessment of final value, yet distinct from a donor perspective.

The table also presents the consequences of each of the approaches for debt relief accounting, both for ODA and non-ODA loans. More particularly, the most preferable approach (from a donor’s perspective) and the most feasible one from a debtor perspective both suggest to value debt relief as we defined earlier, i.e. at its economic value, i.e. the PV of debt transfers that would have been serviced; differences refer to the discount rates used in calculating the PV only.

<sup>37</sup> There must also be some economic, political or other perceived benefits to the donor, otherwise it is difficult to explain that development aid takes place at all. Apart from the satisfaction which generosity bestows on a donor, such benefits may relate to world political stability, expansion of trade opportunities, diminished military threats by “rogue states”, containment of undesirable phenomena as illegal migration, drug trafficking, or the spread of tropical contagious diseases. We do not even try to list the principle of measurement of such benefits in the table, as they can not be quantified in any convincing way. But the rational donor will somehow weigh the costs and benefits and proceed to the level of aid where marginal cost equals marginal revenue.

<i>Perspective</i>	Donor perspective			recipient perspective	
<i>Locus of calculation</i>	cost at origin			value at destination	
	1	2	3	4	5
<i>Object of calculation</i>	Gross budgetary cost	net budgetary cost	economic cost	acquisition value	final value
<i>Description</i>	Repercussion on public sector spending	repercussion on public sector spending and receipts	opportunity cost of not being able to use the same resources in the donor economy	cost of acquiring equivalent goods and services on the world market	repercussion on the recipient country’s development
<i>Original input: ODA (concessional) loan</i>	face value of the loan	yearly net transfer on loan	discounted net transfer on loan (discounted at interest on long term government bills)	discounted net transfer on loan (discounted at borrower-specific world market interest rate)	economic net present value of project funded with the loan
<i>Application : debt relief</i> <b>1. Concessional ODA-loan</b>	<b>ODA loans:</b> no recording	<b>ODA loans:</b> yearly net transfers forgiven on ODA loans that would have been serviced	<b>Donor-country loans:</b> discounted value of forgiven loan obligation that would have been serviced (discounted at interest on long term government bills)	discounted value of forgiven loan obligation that would have been serviced (discounted at borrower-specific world market interest rate)	economic value of public spending made possible by debt relief
<b>2. non-ODA loan</b>	<b>non-ODA loans:</b> yearly budgetary cost of redemption	<b>non-ODA loans:</b> yearly budgetary cost of redemption	<b>Other loans:</b> Yearly budgetary cost of redemption		

Source: Renard and Cassimon (2001)

Note that the approach used by DAC does not fit nicely in a donor category. In fact, it consists of a strange mix of elements of all approaches. First of all, it uses a net flow concept instead of a net transfer concept. This means that interest payments made on the original ODA loan are not subtracted from ODA in the year they are made, but, equivalently, that they can be added as ODA when they are cancelled.

Second, it applies a mix of ODA accountability at nominal terms and at PV terms. As can be seen from table 1 in Annex 2.2, debt cancellation (debt stock relief) can be accounted for in nominal terms; for debt service relief, it is the PV of debt relief that is counted as ODA. As such, in the case of a cancellation, one does not take into account the original debt service schedule of the underlying debt claims that are cancelled. In the case where the original claims only had to be serviced in the distant future<sup>38</sup>, the real cost forgone to the creditor, and the real value of it to the debtor, to be measured in PV terms, is much lower. In case of debt service relief, the PV calculation is done using a donor-based market interest rate.

Finally, the implicit assumption here is that these loans would have been fully serviced in the absence of the debt relief, implying no correction for default risk whatsoever.

From comparing this approach with our preferred ‘economic value’ (economic cost/acquisition value) approach, we can state that the debt relief component of ODA, grossly overestimates the ‘real value’ of debt relief both from a donor as well as from a creditor perspective. However, this does not mean that this is completely worthless, and should be completely eliminated from ODA statistics, as some critics advocate for. Theoretically speaking, the correct measure is to include them at their economic cost to the creditor, taking into account some element of default risk. Of course this is easier said than done, and difficult to implement in a decision forum such as the DAC, as DAC rules are clearly a political compromise solution acceptable to all donors involved<sup>39</sup>.

Of course this only focuses on two types of interventions, i.e. the rescheduling/cancellation of ODA and non-ODA loans. How can we judge the other components of our taxonomy? Basically, most of them are new grant-type of transfers, for which it is straightforward to add them as ODA at the full value, when they are granted.

<sup>38</sup> As is the case e.g. in the exit HIPC cancellation for Cameroon in 2006, discussed in section 4.2 of the report.

<sup>39</sup> It is interesting to note that this economic value concept, more specifically the recipient side acquisition value concept, is applied in practice in the context of the HIPC Initiative, where IMF and World Bank require HIPC countries to in some way ‘budgetise’ the *real* cash flow savings of debt relief (only), i.e. the annual cash flow savings of the part of debt relief that would have been serviced in the absence of debt relief. See also the discussion in the Cameroon case in Annex 4.1 on the HIPC account.

## 2.5 Assessing the international debt relief practice

International debt relief has been the subject of numerous theoretical analyses, many of them with their own distinctive view on what really matters. Evaluating debt relief practice remains however ultimately an empirical question. This section therefore attempts to summarise the key findings of existing empirical work according to the criteria efficiency, effectiveness and relevance (as developed in the framework of Chapter 1). Since the focus of this report is on the years 2000 to 2009, most attention will go out to assessing international debt relief as it has been practised within this time span. By means of introduction, a first (shorter) sub-section looks at debt relief before this period.

### 2.5.1 International debt relief until 1999

Comprehensive studies evaluating international debt relief before the initiation of the HIPC Initiative are scarce, in part because debt relief did not feature as an important point on the international agenda at that time. Also in the first years of the (original) HIPC Initiative rigorous and independent analyses are certainly not prolific. One noteworthy contribution is a study performed by the Policy and Operations Evaluation Department (IOB) of the Dutch Ministry of Foreign Affairs which uses a theoretical framework for evaluation that is similar to that applied in this report. The study, authored and supervised by Geske Dijkstra, appraises the results of a decade of international debt relief (from 1990 to 1999) on the basis of eight debtor country case studies<sup>40</sup>, an extensive review of the literature and original econometrical evidence (see Dijkstra, 2003).

First, on the subject of international debt relief efficiency, Dijkstra (2003:37-66) finds that the extent to which the inputs of donors’ debt relief expenditures and policy dialogue translated into outputs such as a reduction of debt stocks, diminished debt servicing and consequent increase in net fiscal space of debtor countries, as well as improved governance, was overall limited during the 1990s. Important factors here were, among other, the fact that debt relief was often carried out by debt rescheduling rather than outright cancellation, the fact that debt service forgiveness concerned obligations which would not have been fulfilled in the first place, and also the fact that countries were put under pressure to fulfil their obligations that were left outside debt relief arrangements. Conditions on good (or better) governance were also seldom implemented.

Second, the effectiveness of debt relief, being the degree to which donor inputs via outputs contribute to outcomes on the level of improved debt sustainability, the elimination of debt overhang and augmented pro-poor spending, was also low, according to Dijkstra (2003:67-96). Debt burdens were found to have become only marginally less unsustainable in the countries studied (and only in the short run), partly due to a new surge in multilateral and bilateral lending, often aimed at repaying earlier multilateral (IMF and IBRD) credits. Only in one case (Peru) private investment seemed to have benefited from a lower debt overhang. The combination of project aid provision (which cannot be used for debt repayment) with limited debt service relief moreover led to a decrease, rather than an increase, in pro-poor (social sector) spending in five out of the six HIPCs considered.

<sup>40</sup> Bolivia, Jamaica (non-HIPC), Mozambique, Nicaragua, Peru (non-HIPC), Tanzania, Uganda and Zambia.

Third, debt relief during the 1990s has been said to have had little relevance, seeing that donor inputs, through already unsatisfactory outputs and outcomes, did not bring about meaningful impacts in the area of economic growth (Dijkstra, 2003:97-120)<sup>41</sup>. The aforementioned limited fiscal space and debt overhang effects of debt relief, together with inappropriate selectivity and lax policy enforcement from the part of multilateral institutions, created a situation where no economic growth impacts could be reasonably expected. Even those (few) policy conditions that were honoured by debtor countries were not unambiguously helpful and often misinformed.

Judging by Dijkstra's (2003) analysis, international debt relief during the 1990s performed rather poorly on the dimensions of efficiency, effectiveness and relevance. These findings largely concur with those of Depetris Chauvin and Kraay (2005) and others that have studied this period. All this is not illogical, regarding the fact that pre-HIPC debt relief very much resembles old-style project aid and debt relief under the original HIPC initiative shares a number of features with aid disbursed during the heydays of Structural Adjustment Programs (SAPs) (see section 2.2.2.1). Both project aid and SAP support were heavily criticised, even by donor organisations themselves, for failing to bring about the promised development results (see *Assessing aid*, a flagship report by the World Bank (1998) that captures well the ongoing debates at that time). Debt relief that mimics these forms of aid can therefore not be expected to perform much better. Moreover, with respect to cash flow effects, early debt relief efforts typically involved debt titles that were not going to be repaid in the first place (hence having an economic value (EV) close to zero); these were smaller, 'marginal' operations for which default rates are considered to be close to 100 percent (see the discussion in section 2.2.2.2).

The key question that presents itself now is whether the efficiency, effectiveness and relevance of international debt relief practice have dramatically changed ever since. The remainder of this section will therefore zoom in on the period from 2000 onwards, when poverty reduction was explicitly formulated as an additional objective of debt relief under the (Enhanced) HIPC Initiative.

### 2.5.2 Debt relief from 2000 onwards

Empirical analyses of international debt relief practice into the new millennium, while definitely more common than those studies covering the period before 2000, are not many and focus primarily on HIPCs. The latter has to do with the paucity and fragmented nature of data on the amounts of debt relief granted outside the HIPC framework. Analysis of second generation debt swaps, for example, has been very much limited to single case studies<sup>42</sup>. Moreover, reviews of the latest wave of MDRI debt cancellation are only now emerging, because relief figures typically become available with a time lag. Most of the evaluative studies mentioned below will therefore deal with the better-documented HIPC initiative.

<sup>41</sup> Unlike this report, Dijkstra (2003) does not consider poverty reduction in her evaluation.

<sup>42</sup> Above all, these case studies hint at very limited debt relief efficiency, effectiveness and relevance due to two main reasons. First, second generation debt swaps share a lot of pitfalls with pre-HIPC debt relief mechanisms. Second, these individual, bilateral swaps are just too small to resort any noticeable (more indirect) effects (see e.g. Cassimon et al., 2008; 2009a; 2009b for more information).

#### 2.5.2.1 Efficiency

##### Debt and debt service reduction

Total debt stocks are expected to be reduced by more than 80 percent in end-2008 NPV terms, compared to pre-decision point levels, due to traditional debt relief mechanisms, the HIPC Initiative, the MDRI and additional Paris Club creditor relief (IDA and IMF, 2009). This assumes full participation of all creditor parties involved. A quick glimpse at the latest Global Development Finance statistics compiled by the World Bank (2010) indicates that debt stock ratios have also come down for other, non-HIPC developing countries between 2000 and 2008, albeit to a much lesser extent than for HIPCs. The 2009 IMF-World Bank HIPC Initiative update furthermore claims that for the current 35 post-decision point HIPCs debt service obligations between 2001 and 2008 declined by no less than two percentage points of GDP on average (IDA and IMF, 2009).

##### Fiscal space and additionality

Simple descriptive statistics on total debt stock and debt service reduction do not say much about whether debt relief results in genuinely more fiscal space for the receiving countries (see section 2.1). In modelling the fiscal response to debt relief using a vector autoregression (VAR) approach (over the period 1991-2004 and for a panel of 28 HIPCs), Cassimon and Van Campenhout (2007) find that HIPC debt relief on average increases government current primary spending and reduces domestic borrowing. Cassimon and Van Campenhout (2008) redo the analysis, this time looking at a sample of 24 African HIPCs and expanding the dataset to 2006 (thereby including the first year of MDRI debt relief). Again they must conclude that fiscal space effects are relatively promising, indicating that the public finance response to HIPC debt relief is quite similar to that to programme grants, such as sector and general budget support (in some aspects even outperforming them). What the fiscal responses to further MDRI debt cancellation are remains to be formally tested. One could argue, however, that MDRI relief will resort even greater fiscal space effects (in relative terms) than the HIPC Initiative, close to a one-for-one basis, since it can be assumed that the debt forgiven under the MDRI would have been fully serviced otherwise (Cassimon and Van Campenhout, 2008:432). This is not an unreasonable assertion, especially keeping in mind the preferential creditor status of the multilateral financial institutions participating in the initiative. In other words, debt relief under the MDRI (as well as additional bilateral debt relief efforts that go beyond the HIPC Initiative) can be expected to show even greater cash flow equivalence with GBS than standard HIPC debt relief (see section 2.2.2.2). Future studies will hopefully provide more robust conclusions on this issue.

On the crucial question whether debt relief crowds out other forms of aid, Powell and Bird (2010) (covering the period 1988-2006) show that, whereas before 2000 additionality to Sub-Saharan African countries receiving debt relief was at the expense of those not receiving it, the donor community now seems to use debt relief as a complement to rather than as a substitute of other aid interventions directed to Sub-Saharan Africa. Cassimon and Van Campenhout (2007, 2008) also present tentative evidence of HIPC debt relief being additional to both project and programme grants (overcompensating substitution effects in the first year(s)



following debt relief). Conversely, Dömeland and Kharas (2009) argue that the HIPC Initiative has neither resulted in a greater net transfer of resources to participating countries, nor caused a major shift from donor resources toward HIPCs away from non-HIPCs. They maintain that the initiative may have simply prevented a decline in resource flows to HIPCs that were facing high debt service obligations before. The validity of this counterfactual is however difficult to assess.

### Governance

Also regarding the use of debt relief as an instrument for rewarding ex post institution building of countries, it looks like there have been some improvements over the years. Dömeland and Kharas (2009) graphically show that, on average, gains in HIPCs' policy and institutional quality become apparent three years before the reaching of completion point and continue for some years thereafter. Depetris Chauvin and Kraay (2007), which examine the factors underlying debt relief allocation to 62 low-income countries, discover that 1999-2003 debt relief, in particular that by multilateral creditors, responded positively to higher debtor country policy and institutional ratings (more than aid did), although there appeared to be some 'path dependency'<sup>43</sup> in debt relief incidence among countries. Similarly, Freytag and Pehnelt (2009) report for a sample of 123 developing countries that, while changes in governance ratings seemed uncorrelated with HIPC debt relief eligibility, the amounts of debt relief granted in 2000-2004 were positively associated with improvements in countries' governance quality. In addition, HIPCs which improve on the rule of law, government effectiveness and control of corruption (all dimensions of the quality of country governance) are found to reach completion point earlier than those that perform worse in these domains. Presbitero (2009) largely corroborates these findings using 1988-2007 debt relief figures, but denounces the hypothesis that causality also runs in the other direction, from debt relief in one period to improved governance in the next.

#### 2.5.2.2 Effectiveness

##### Debt sustainability

As indicated before, debt relief provision is futile if the whole process of countries amassing unsustainable levels of debt starts all over again thereafter. To avoid renewed unsustainable debt accumulation, the IMF, which carries out debt sustainability analyses (DSAs) of countries' external and public debt on a regular basis, together with the World Bank launched the joint Debt Sustainability Framework (DSF) for low-income countries in 2005 (see section 2.2.1). The overall objective of this framework has been to govern prospective lending decisions (to finance the MDGs) while preventing the need for another future round of systemic debt relief. The DSF compares debt burden indicators, such as e.g. NPV debt-to-export ratios, with indicative thresholds over a 20-year projection period to assess the debt sustainability of individual countries. On the basis of such comparisons, additional stress tests and taking into account differences in policy performance, countries are then rated and categorised as bearing low risk, moderate risk, high risk or as being in debt distress (when debt repayment difficulties are already present) (see IMF, 2010d).

<sup>43</sup> Path dependency means here that debt relief patterns were driven by fairly persistent country characteristics, with countries receiving debt relief in a certain time period more likely to also receive it in the next period.

Beddies et al. (2009) suggest that HIPC and MDRI debt relief has significantly improved debt sustainability when they indicate that, at end-2007, post-completion HIPCs on average had a rosier debt outlook and lower risk of debt distress than other HIPCs and low-income non-HIPCs. In a recent report the IMF and the World Bank furthermore note that the 2007-2009 global financial and economic crisis, although certainly having a significant impact on low-income countries' debt vulnerabilities, is not expected to translate in new systemic debt difficulties (see IMF and World Bank, 2010). These contentions however assume a non-permanent impact of the crisis on long-term growth and substantial country efforts to speed up policy and institutional enhancement. This may well turn out to be overly optimistic<sup>44</sup>. Leo (2009) points out that IMF and World Bank projections for GDP and export growth in HIPCs, which serve as inputs into the DSF, have proven to be structurally higher than actual and historical economic performance<sup>45</sup>. He further urges caution when using country policy performance measures, as they continue to be volatile for a number of HIPCs.

Another point of importance is that, despite a relative shift to more grant funding, new lending volumes disbursed to HIPCs remain large in absolute terms, approximating pre-MDRI levels (Leo, 2009). Indeed, there seems to be some sort of tension between the MDG-PRSP logic, i.e. financing national development strategies of low-income countries to support their progress towards the MDGs, and guaranteeing debt sustainability in those countries (thus avoiding new debt relief). Solving this tension starts with adhering to a framework for responsible borrowing and lending, as advocated by, among others, UNCTAD and the OECD<sup>46</sup> (see e.g. Buchheit and Gulati, 2009 and OECD, 2008). It is argued that, on the one hand, lenders to sovereign borrowers should show due diligence in investigating the (intended) use of the financing they make available prior to (as well as after) disbursement of funds. In the past, all too often governments have been held to honour the debts contracted by their irresponsible predecessors or (military) dictators<sup>47</sup>. On the other hand, borrowing countries should proceed with restraint and prudence, and disclose all information necessary for lenders to make informed credit decisions (Buchheit and Gulati, 2009).

##### Debt overhang elimination and creditworthiness

In accordance with debt overhang theory, Cassimon and Van Campenhout (2007) provide evidence of a positive trend in HIPC government investment (i.e. capital expenditure) in the years following debt forgiveness (with a certain time lag or j-curve effect). Cassimon and Van Campenhout (2008) largely confirm this result for a sample of African HIPCs and a longer time interval. Both studies remain however vigilant in acknowledging that this is only an average trend which cannot be generalised to hold for all HIPCs. One exceptional

<sup>44</sup> UNCTAD (2009), for example, presents a grimmer picture of the impact of the crisis on debt sustainability in developing countries.

<sup>45</sup> This compares to an underestimation of growth figures for low-income non-HIPCs (Leo, 2009).

<sup>46</sup> The OECD primarily focuses on sustainable lending practices in the provision of (commercial) export credits to low-income countries, whereas UNCTAD considers the broader responsibilities of sovereign borrowers and lenders. In Belgium, the official export credit agency ONDD adheres to the international (OECD) standards on sustainable lending.

<sup>47</sup> See e.g. World Bank (2007) for more information about such 'regime debts' or other instances of 'odious debt'.

study on the impact of (multilateral) debt relief on the private sector is that by Raddatz (2009). Using an event study methodology rather than standard econometric regressions, he shows that market values of South African multinational firms with subsidiaries operating in (African) HIPCs responded positively and significantly to formal announcements of the Enhanced HIPC Initiative and the MDRI, supporting (albeit indirectly) the debt overhang argument for providing debt relief.

One sign of the improved creditworthiness that some HIPCs seem to enjoy nowadays is the fact that a number of these countries have started to explore new, commercial forms of borrowing. Ghana, for instance, which graduated from the HIPC Initiative in July 2004 issued a 750 million US\$ bond in September 2007. Another example is the Republic of Congo (see Dömeland and Kharas, 2009). Of course, it would be wrong to ascribe these countries' participation in international capital markets solely to debt relief. Favourable commodity price trends, among other factors, have also played their part in making these countries more attractive to investors.

#### Pro-poor spending

Has debt relief increased pro-poor spending into the new millennium? According to IDA and IMF (2009) it has. Poverty-reducing expenditures of the 35 post-decision point HIPCs, as defined in their respective PRSPs<sup>48</sup>, are claimed to have risen by approximately 2 percent of GDP on average between 2001 and 2008, or practically by as much as the estimated decline in debt service over that period. Presbitero (2009) however rightly points at the underlying heterogeneity of pro-poor spending at country level, with some interim- (and even post-completion point) HIPCs seriously lagging behind. Econometric analysis by Depetris Chauvin and Kraay (2005) moreover fails to detect upward trends in health and education spending as a share of total government expenditure within the five-year period 1999-2003 of debt relief. Crespo Cuaresma and Vincelette (2008) suggest that, although post-completion HIPCs spend on average almost 1 percentage point of GDP more than interim- and pre-decision point HIPCs, the effect of debt relief on education expenditures is not statistically significant (for 1998-2005). In a similar fashion, Schmid (2009) concludes that the HIPC initiative has not affected health expenditures (neither in per capita terms, nor as a percentage of GDP). So even if pro-poor spending as a percentage of GDP has increased over the past ten years, debt relief may not necessarily have played a major role.

#### 2.5.2.3 Relevance

Notwithstanding the (largely) positive results studies find on debt relief efficiency and effectiveness from 2000 onwards (in sharp contrast with Dijkstra's (2003) findings for the 1990s), the evidence on debt relief relevance, or its potential to generate economic growth and reduce poverty, is still inconclusive.

<sup>48</sup> These IMF-World Bank estimates are inevitably very crude since countries may have quite dissimilar views on what qualifies as 'poverty-reducing expenditures' and in some countries its definition has changed over time to include more sectors (see IDA and IMF, 2009).

#### Economic growth

Covering debt relief to 62 low- and lower middle-income developing countries from 1989 to up to 2003, Presbitero (2009) shows that, especially for HIPCs, the correlation between the amount of debt stock forgiven (in NPV) and changes in GDP growth in the subsequent 4-year period are positive and generally significant. More rigorous analysis applying difference-in-difference methods, however, invalidates these findings, concluding that from 2000 onwards there is no evidence of debt relief triggering economic growth. These results are in line with those earlier obtained by Depetris Chauvin and Kraay (2005) for the sub-period 1999-2003. The latest study by Johansson (2010) considers besides the improved incentive channel (linked to the theory of debt overhang) also the fiscal space mechanism through which debt relief could possibly enhance economic growth. Using a sample of 118 low- and middle-income countries (with observations from 1989 to 2004) and GMM estimation techniques, it finds no general proof for the hypothesis that debt relief boosts growth directly through either of the two channels. With respect to non-HIPCs however, debt relief appears to facilitate growth through increased volumes of investment. Johansson (2010:9) argues that this implies that, '[i]ronically, debt relief thus seems to work best where it is needed the least'.

#### Poverty reduction

Probably even more difficult to demonstrate than the causal link between debt relief and growth is that between debt relief and poverty reduction. Looking at the progress of post-completion point HIPCs towards achieving the MDGs, it appears that many of them will likely miss their goals. African HIPCs lag behind, most importantly in bringing down child mortality and ensuring gender equality, when compared to the five Latin American that completed the HIPC process (see IDA and IMF, 2009). However, Crespo Cuaresma and Vincelette (2008) and Schmid (2009), in spite of the insignificant effects on education and health expenditures they present, do find robust proof of HIPC debt relief reducing primary schooling drop-outs and infant mortality rates, respectively. Economic and political reforms (included in HIPC Initiative conditionality) that improve social service delivery are deemed to be important explanatory factors.

#### 2.5.3 Second generation debt swaps

As highlighted before, in recent years we can witness the return of debt swaps, mainly considering countries or debt claims that were not eligible in the HIPC/MDRI initiatives. Analysis of this debt swap practice has been very much limited to single case studies (see e.g. Cassimon et al., 2008; 2009a; 2009b). Above all, these case studies hint at very low debt relief efficiency, effectiveness and relevance due to two main reasons.

First, second generation debt swaps typically share a great number of pitfalls with pre-HIPC debt relief mechanisms. In fact, they can often be characterised as similar to old-style project aid. Of course, in theory, there is no problem to better 'engineer' these transactions. Swaps could be made to adhere to basic principles of providing additional resources to the debtor country and increasing the latter's net fiscal space (e.g. by targeting debt that would have been likely to be serviced in the absence of the swap). Also, more attention could be given to make such operations more policy- as well as system-aligned

(i.e. supporting debtor countries' national development strategies and using existing debtor (government) systems for implementation), in which case they would fit better into the NAA and look like new-style project aid (see section 2.2.2.1).

Second, these individual, bilateral swaps are just too small to resort any noticeable (more indirect) effects on the debtor country, such as debt overhang elimination or improved creditworthiness. Even if properly engineered, the problem of scaling up swaps remains.<sup>49</sup> Again, this leads to the conclusion that, also for currently non-HIPC/MDRI eligible countries, more comprehensive operations with a setup similar to HIPC/MDRI have to be initiated if donors want to use debt relief as an intervention tool beneficial to these countries.

<sup>49</sup> One promising (and seemingly realistic) avenue, for a limited selection of non-HIPC countries, may be to convince creditors that are favourable towards debt swaps to pool the resources generated by the relief given on their claims into one single fund, managed by (or at least in cooperation with) the debtor country itself.

## 3.1 Description of the institutional and legal framework in Belgium

The debt of developing countries to Belgian public creditors consists of debt to the Belgian State and to the Office National du Ducroire - Nationale Delcrederedienst (ONDD).<sup>50</sup> The debt which is due to the Belgian State has its origin in bilateral loans (so-called loans from State to State) for developing countries. They were provided at very soft ('concessional') conditions. The debt to the ONDD originates in credit insurance contracts linked to the exports of goods and services. If the debtor of insured export credits fails to service his debt, the ONDD compensates the creditor (except for a franchise of maximum 10%) and enters into his claims towards the debtor.

In this section we first briefly introduce the main Belgian institutions involved in arrangements for the solution of the debt problems of developing countries. Subsequently, we discuss the institutional and legal arrangements put in place to decide and execute a range of concrete debt relief interventions in the Belgian context. Finally, we briefly discuss the political decisions taken to frame some intra-Belgian transfers, linked to compensation payments by the (now) Directorate General for Development (DGD) to the Ministry of Finance (MINFIN) and ONDD.

### 3.1.1 The main Belgian official agencies involved

In Belgium three institutions play a key role in debt relief arrangements: the Ministry of Finance, MINFIN (presently called the Federal Public Service Finance), the ONDD, and the DGD<sup>51</sup>.

In Belgium decisions on bilateral loans ('State to State Loans') to developing countries are taken by the Council of Ministers (CoM), upon advice by the Ministers of Finance, Foreign trade and Development Cooperation. The Administration of the Treasury (known as the Treasury) of the Ministry of Finance (MINFIN) administers these loans. The terms of these loans (interest rate, grace and repayment periods) are far softer than what the market offers, i.e. they are (highly) concessional; they therefore qualify as official development assistance (ODA) under DAC terms. Until 2003, these loans were put on the budget of MINFIN, but following a decision to put all ODA-generating budget items on the DGD budget from 2004 on these were transferred to the DGD budget.

The Office National du Ducroire - Nationale Delcrederedienst (ONDD) is an autonomous public institution, created in 1921, which ensures firms and banks against political, commercial and exchange rate risks connected with international trade transactions. The

<sup>50</sup> Also the 'Directorate-General' for Development (DGD) in its earlier set-up (General Administration for Development Cooperation, General Directorate for International Cooperation) still holds a few claims originating from loans it had provided, such as on DRC and Indonesia. In the past, they were not always included in Paris Club rescheduling operations, but this situation is being rectified now, such as in the case of DRC.

<sup>51</sup> We use this term to include both the Minister or Secretary of State for Development Cooperation and the DGD as such.

ONDD also ensures political risks linked to foreign direct investment. It concentrates its activities on non-OECD countries. The ONDD itself does not give loans to states or public institutions. But as stated in the introduction it becomes a creditor if the debtor fails to service his debt and the ONDD has to compensate the original creditor. The original creditor keeps a claim on the debtor equal to the franchise, i.e. the non-compensated fraction of his claim. It should also be mentioned that in principle the ONDD implements transactions for its own account. As such, here, it acts purely from the perspective of a private commercial insurer. However if the risks of a transaction are deemed too big, the ONDD can provide a credit insurance on account of the Belgian State. Thus the ONDD has two systems of accounts, one for its own operations and one for the operations on account of the State. These loans are at non-concessional terms, and do not constitute ODA; in DAC terms, they are so-called ‘other official flows’ (OOF).

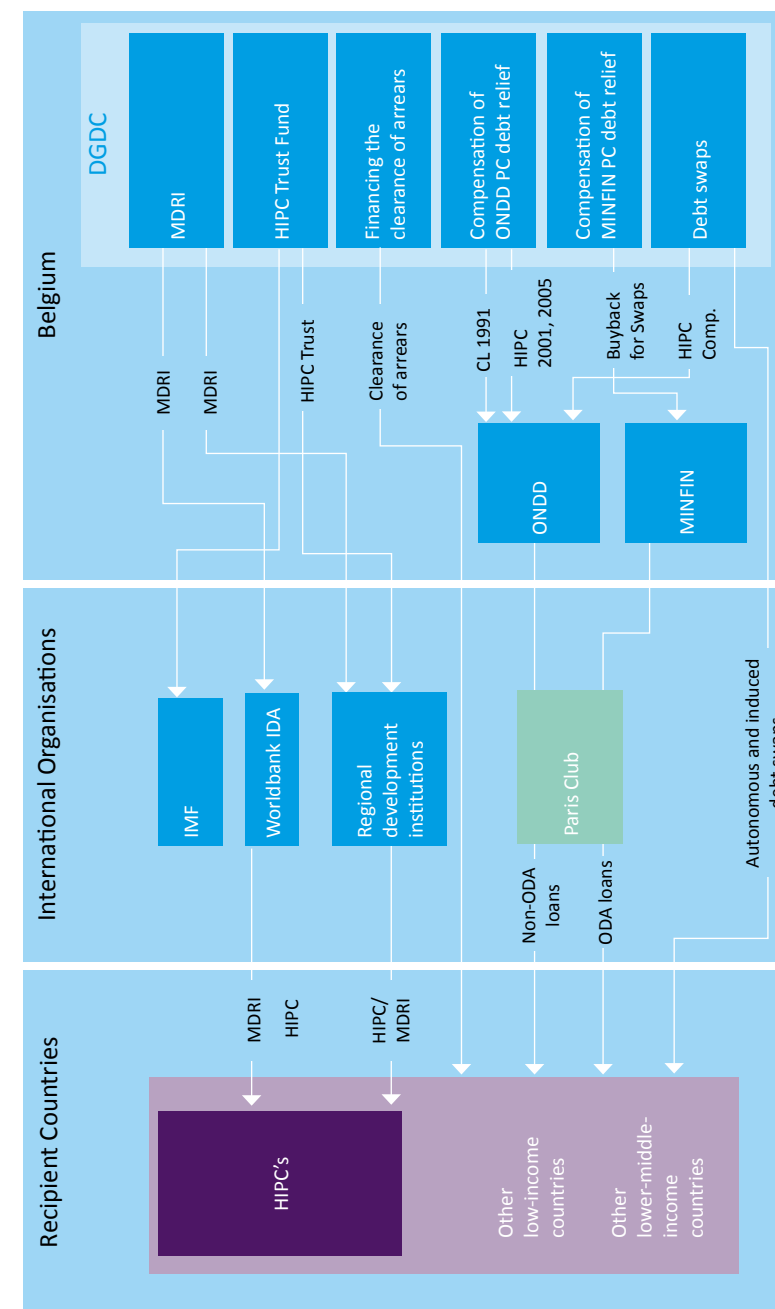
The DGD is, in principle, not involved in arrangements for solving sovereign debt problems. But DGD can decide to engage itself in interventions related to debt relief in an autonomous way, using its resources e.g. to buy up debt from a third party and engage in debt swaps, or decide to support international debt relief initiatives in another way; in fact, as we will see later, (most) contributions to international financial institutions in the framework of debt relief initiatives are charged to the development cooperation budget. Furthermore, the Belgian State has decided that creditors of sovereign debt, i.e. the Ministry of Finance and the ONDD, be (partly) compensated for the debt relief they provide, from DGD’s budget. We discuss this in some detail in subsection 3.1.3.

Apart from those three major players, also the Ministry (presently Federal Public Service) for Foreign Affairs, Foreign Trade and Development Cooperation, as well as the Belgian Central Bank (NBB-BNB) are marginally involved in debt relief issues.<sup>52</sup> The first compensation arrangement, to be discussed in the following subsection, also involved the then-Ministry of Foreign Trade; for a discussion of its (limited) role we refer to the following subsection. Finally, the Belgian central bank enters as a marginal creditor, as it operates a small credit line window, on which it also provided some debt relief; furthermore, it is involved in issues related to the role of the IMF in international debt relief initiatives.

We will discuss the Belgian institutional set up in more detail in the following section. We will structure this discussion using a taxonomy of debt relief interventions done by Belgium; as already indicated in chapter 1, this taxonomy clearly mirrors the list of international debt relief interventions. A graphical overview of these different types of debt relief interventions is also presented as figure 3.1.

<sup>52</sup> Also FINEXPO (Committee) is to some extent involved. FINEXPO aims at providing advice and financial assistance to Belgian companies to export capital goods and services. The provision of bilateral state-to-state loans is one of their instruments. See SEE (2010) for a recently concluded evaluation of FINEXPO for the Special Evaluation Office.

Figure 3.1 The Belgian institutional debt relief structure and types of interventions



Source: Authors’ own elaboration

### 3.1.2 Institutional and legal framework governing Belgian debt relief interventions

As already highlighted in chapter 2 of this report, dealing with official debt (relief) issues is mainly governed at the international level. First of all, bilateral claims of sovereign creditors with debt problems are discussed and decided upon in the Paris Club, which agrees on common terms of debt rescheduling, including debt relief. The decisions reached in the Paris Club consist of a specification of the terms on which a specific set of debt claims of an individual country should be rescheduled or relieved, both for ODA debt as well as for non-ODA debt claims (see chapter 1). Member countries that are creditors of the debtor country agree to apply these terms in individual agreement with the debtor countries; as seen again in chapter 1, usually, they have a range of different options at their disposal to tailor the individual agreement. These individual agreements specify the claims to which the agreement applies and the concrete terms for their rescheduling and relief, both in application of the general agreement reached in the Paris Club.

As a member of the Paris Club Belgium participates in its deliberations and in the decision-taking process, regarding its sovereign debt claims due to the Belgian State (bilateral loans) and to the ONDD. A representative of the Administration of the Treasury (MINFIN) heads the Belgian delegation which attends the Paris Club meetings. An ONDD representative is also a member of the Belgian delegation to the Paris Club meetings. As DGD is, in principle, not involved in debt problems as a creditor, no representative of DGD is attending these meetings. Subsequently, for their individual exposures, MINFIN and/or ONDD apply the general guidelines of the Paris Club agreement in bilateral negotiations with the recipient debtor country leading in principle to a bilateral agreement, which is the binding agreement for Belgium. Regarding the bilateral loans, it is MINFIN who signs the agreement; for ONDD loans, (only) ONDD signs the bilateral agreement.

As such, it is the Paris Club, as an international coordination mechanism, that drives the two first types of Belgian debt relief interventions, namely:

1. Debt relief granted on (non-concessional) ONDD claims that are originally non-ODA; in principle, this debt relief can be accounted for as additional ODA;
2. Debt relief granted on bilateral loans, administered by MINFIN, originally accounted for as ODA; as such, it does not constitute new ODA, except for its interest payments component.

The concrete Belgian debt relief interventions, and its recipient country distribution, were of course determined by the historical decisions taken to grant these loans, both by MINFIN and ONDD. Chapter 1 already provided some overview of the Belgian historical exposure, relative to other bilateral creditors, using GDF data<sup>53</sup>.

From 1996 on, the Paris Club co-ordination mechanism, and the concrete Belgian debt relief interventions that emanated from it, was fitted in the framework of more general

international debt relief initiatives, starting with the HIPC initiative, suggested at the G7/G8 summits, and then concretised in international fora such as the IMF and the World Bank. First of all, it set overall guidelines to determine the amount of debt relief to be granted to HIPCs by Paris club members, among which Belgium, and gave rise to the so-called Cologne terms in the Paris Club, involving higher degrees of debt relief on its MINFIN and ONDD claims. Moreover, due to a decision taken within an EU context, the EU members of the Paris Club agreed to go beyond Cologne terms and provide full 100% cancellation on all eligible claims for HIPC countries at completion point. Secondly, it enlarged the scope of interventions that could be labelled as debt relief to:

1. Operations by which Belgium contributes to the HIPC Trust Fund, to be used to compensate some multilateral creditors for the cancellation of their claims within the HIPC Initiative. These contributions were first administered by MINFIN; from 2004 on, they are put on the DGD budget. This transfer from the MINFIN to the DGD budget was the result of a broader decision of the Council of Ministers as from 2004 on to impute all federal government expenditures that are accounted for as ODA, scattered over different federal Ministry budgets, on the DGD budget.
2. From 2005 on, the MDRI added a fourth type of globally-decided debt relief intervention, when the implementation of MDRI required member countries of IDA and AfDF to 'top up' their regular contributions to those organisations to compensate for ('finance') the cancellation of debt claims by IDA and AfDF in the MDRI. Although, again MINFIN traditionally administers the relations with these multilateral organisations, this was put on the DGD budget, following the principle to put all operations that are ODA-accountable on the DGD budget. So, again this intervention is ODA-accountable.

Apart from these four types of largely internationally-induced debt relief interventions, three other types of debt relief operations were at the disposal of Belgium, largely at the discretion of DGD (autonomous operations). It involves:

5. Interventions in which Belgium, through funds from DGD, clears payment arrears by a debtor country vis-à-vis its multilateral creditors, as a necessary condition to be eligible for consecutive debt relief (e.g. in the HIPC Initiative);
6. Interventions by which Belgium, through DGD funds, provides a grant to the IDA Debt Reduction Facility that allows debtor countries to buy back their outstanding claims to private creditors;
7. Operations in which Belgium, with funds from DGD, buys up debt of other creditors, or its own debt (say from ONDD), usually at a discount, and then proposes to the debtor to cancel it, provided that the debtor country creates local counterpart funds for earmarked development spending ('debt swaps').

All these interventions can in principle be counted as ODA.

Together, these 7 types of interventions largely determine the debt relief effort of Belgium, vis-à-vis the international organisations, and debtor countries. However, on top of these

<sup>53</sup> A detailed and comprehensive overview of the historical Belgian exposure based on Belgian data sources was not available.



interventions, a series of intra-Belgian political agreements, involving the three main agencies, determine a series of additional transfers, most of them being intra-Belgian transfers, between the three main agencies. Basically, they refer to agreements by which DGD (partly) compensates MINFIN and/or ONDD for debt relief granted at the international front. Although most of them do not change the volume of debt relief in a direct way, they will do so more indirectly. These intra-Belgian compensation agreements are discussed in the next section.

### 3.1.3 Intra-Belgian agreements on debt relief

In Belgium, these compensation payments are based on three decisions, one by the Ministerial Committee for Foreign Relations and the other by the Council of Ministers. These decisions aimed at the partial compensation of creditors for the loss of revenue due to debt relief in application of agreement in the framework of the Paris Club and, for the third decision, in the framework of the European Union. Each decision charged a substantial fraction of the cost to the Development Cooperation budget. The first decision, by the Ministerial Committee for Foreign Relations, was taken at the beginning of 1991. The other two decisions, taken by the Council of Ministers, related to debt relief in the HIPC framework and were taken in 2001 and 2005.

#### 3.1.3.1 *The decision of the Ministerial Committee of Foreign Relations of January 18, 1991*

From 1982 onward a number of developing countries started to default on their debt obligations. As a result the ONDD had to compensate the creditors who were holding a credit insurance contract and at the end of the 1980s it had started experiencing liquidity problems. To provide the ONDD again with a sound financial basis the Belgian State would acquire the agency's claims on 14 countries qualifying for debt relief under the Toronto conditions, agreed upon at the G7 summit at Toronto in 1988<sup>54</sup>. The total amount of these claims was 24.17 billion BEF (599.16 million EUR). The State paid the ONDD 50% of the nominal value of the claims. The claims were transferred from the ONDD's own account to the State's account administered by the ONDD.

The operation was financed by a 30 years loan, contracted by the State but with the debt service administered by the ONDD. The annual debt service payments were estimated at BEF 1,229 million (EUR 30.47 million). A major part of the debt service would be imputed on the Development Cooperation budget<sup>55</sup>. This annual contribution was fixed at 550 million BEF (EUR 13.64 million).

In principle, this could have been organised as an annual 'blank check' paid by DGD to ONDD. However, in order to enhance the development relevance for DGD, two mechanisms were introduced to come to the 550 million BEF.

- (1) DGD could purchase claims held by the ONDD on countries with which DGD had a cooperation agreement. For claims on Toronto countries a discount of at least 50% would apply. The claims would be converted in the currency of the debtor country at conditions to be agreed upon with the country in question. The proceeds would be used for local currency expenditure of DGD projects (debt for aid swaps) or for environmental conservation operations (debt for nature swaps).

<sup>54</sup> See again chapter 2 for a discussion of the Paris Club Toronto terms, and their options involved.

<sup>55</sup> In addition the Ministry of Finance, the Ministries of Foreign Affairs and of Foreign Trade would also contribute to the debt service of the loan. Interest and amortisation payments on the acquired claims and a supplement on the export credit insurance premium would also be used to pay the debt service. See Annex 3.1 for details.

- (2) DGD contributes to the cost of debt relief operations of the ONDD in the framework of the Paris Club. These so called Paris Club-compensations would only be given if options A (reduction of the principal by one third and a rescheduling of the remaining debt over 14 years at the market interest rate) or C (a rescheduling over the same period at a concessional interest rate at least 3.5% below the market rate or at an interest rate reduced by one half if the market rate was lower than 7%) of the Toronto menu were selected. If the ONDD opted for a pure rescheduling of the debt over 25 years (option B of the Toronto menu) the second mechanism was not applicable.

The total compensation had to be spread evenly over both options.

The procedure to be followed for the DGD contributions was specified in the agreement between the Ministers of Finance and Development Cooperation of September 10, 1991. This agreement stipulated that a working group consisting of representatives of both ministries and of the ONDD would elaborate the implementation of the debt alleviation operations. The working Group would convene at least once a year, at the start of each year.

Initially the ONDD opted under the Toronto terms for a pure rescheduling (B option). As a result only the first mechanism could be applied to derive DGD's contribution to the debt service of the loan for the ONDD's financial reorganisation. But in December 1991 the Paris Club adopted the so called Trinidad conditions for debt relief, abolishing the option of rescheduling over long periods. Henceforth the two remaining options were a reduction of the principal by 50% combined with a market interest rate on the residual debt, and reduction of the interest rate combined with a rescheduling such that the present value of the debt was reduced by 50%. The ONDD systematically chose the second option. This made it possible to apply the second mechanism for the Development Cooperation's contributions to the debt service of the financial reorganisation loan, i.e. a participation of 50% in the costs of Paris Club debt relief granted by ONDD.

On February 2, 1998 a new Agreement between the Minister of Finance and the Secretary of State for Development Cooperation was reached. This new agreement followed by and large the arrangements of the 1991 agreement. But it contained adjustments to the changed international context, specifically with respect to the HIPC Initiative that had been initiated in 1996. The 1998 agreement also contained a number of new elements. For example it was also agreed that DGD would receive detailed information (specified in appendix 4 to the agreement) on each debt operation to prove its development relevance. Moreover for each operation a special agreement would be signed by DGD and the ONDD.

The price of debt purchases had been agreed upon in successive tripartite agreements between the Minister of Finance, the Minister or Secretary of State for Development Cooperation and the ONDD. In 1998 it was agreed that the price of the debt would be set at its 'economic value' as calculated by using an internal scoring model that ONDD uses to value its claims. For claims on HIPC countries it was agreed that the price would be equal to 25% of the nominal value.

From 2000 on, as the HIPC Initiative was further implemented, it became very difficult to use this swap window of the agreement, as recipient HIPCs were no longer interested in debt swaps, because the HIPC Initiative provided them with 90% to 100% debt relief in NPV terms. As such, compensation payments were restricted to compensating ONDD for Paris Club debt relief granted. In 2004, a tripartite ONDD-MINFIN-DGD agreement fixed the price of these compensations at 25% of the cost of ONDD debt relief. In the same agreement, it was stipulated also that the remaining annual contributions of DGD would be 'earmarked' to DRC, to compensate ONDD for the debt relief granted in the Paris Club, as a result of the DRC reaching its HIPC decision point in 2003. Furthermore, in line with the 2004 decision to impute all government expenditures for development cooperation on the DGD budget, the contributions to the service of the financial reorganisation loan by MINFIN and Foreign Trade were also imputed on the DGD budget. This increased this DGD budget line to 19.59 million EUR per year. In fact, since 2008, DGD simply makes annuity payments on the loan without any connection to a specific debt claim (thus providing ONDD with a 'blank check' as stated in the beginning of this section).

Annex 3.1 provides an overview of the transactions over time regarding the financial reorganisation loan, and the balance between incoming payments and debt service paid on the loan. It also shows that the operation was financed through a combination of a long term loan and short term borrowing, with the evolution of the latter depending on the actual cash flow balances. The long term loan matures in 2013.<sup>56</sup>

In section 3.2.2, we will discuss the amount and composition of the compensation payments made under this agreement so far.

### 3.1.3.2 The decisions of the Council of Ministers of May 11, 2001 and March 25, 2005

These decisions were taken in the context of the Enhanced HIPC Initiative (1999) which eased the rules for debt relief under the original HIPC Initiative (1996). Therefore the decisions of the Council applied exclusively to debtor countries qualifying for the Enhanced HIPC Initiative. The 2001 decision provided for internal Belgian compensations for debt cancellation in the framework of the Enhanced HIPC Initiative as such. The 2005 decision resulted from the agreement between European Union member countries to grant 100% debt cancellation to HIPC-countries upon reaching their Completion Point.

The decision of the Council of Ministers of May 2001 organised the reduction of the debt stock of HIPC countries upon reaching their Completion Point. Debts originating in loans from State to State would be fully cancelled. For debts originating in export credits 90% - and eventually more - of the debt stock would be cancelled. This applied to claims resulting from debt insurance for account of the ONDD as well as for account of the State, and also to the claims of the policyholders, i.e. the non-insured fraction of the export credits. For bilateral MINFIN loans the Council decided that the loss of receipts resulting from debt cancellation would be compensated by charging an equivalent expenditure to the budget of the Ministry of Finance. In line with the 2004 decision to impute all government expenditures for

<sup>56</sup> The outstanding amount on 31/03/2010 equals 117.3 million EUR, of which 50.8 million EUR on the long term loan (with a maturity in 2013) and 66.5 million EUR short term debt (so-called *Crédit Fonds Spécial à Fonds Finances*).

development cooperation on the DGD budget, the compensations for losses resulting from cancellations of bilateral loans, administered by MINFIN, were imputed on the DGD budget<sup>57</sup>.

For the ONDD claims, the Council of Ministers decided that within the budget the costs of debt cancellation should be borne for one third by the budget of MINFIN and for two thirds by the International Cooperation budget<sup>58</sup>. The decision also stipulated how the debt cancellation should be introduced in the government accounts. The compensations to be paid to the ONDD could be spread over a period of ten years. As a result of the governmental decision of 2004 to impute all expenditures related to development cooperation to the DGD budget, starting in that year these compensations were again charged completely to the DGD budget<sup>59</sup>.

A remaining question was the evaluation of the ONDD's losses. A working group consisting of representatives of the Finance Ministry, Development Cooperation and the ONDD decided that the compensation to be paid to the ONDD should be equal to the difference between the "economic value" of the debt and its residual (book) value after debt cancellation. The economic value was to be calculated using the scoring model applied by ONDD as basis of its country policy. The economic value would be calculated on the basis of end of 1999 data, i.e. *in tempore non suspecto*, well ahead of the debtor countries reaching their HIPC Completion Point. The reason to opt for that date was that debt relief has a positive impact on the value of the residual debt. The discount capturing the economic value would then be applied to the nominal debt cancelled.

The decision of the Council of Ministers of March 25, 2005 confirmed the 2001 decision, but raised the reduction of commercial debts for HIPC countries reaching their Completion Point from 90% to 100%. This decision resulted from an agreement between EU members of the Paris Club to grant 100% debt cancellation to HIPC countries reaching their Completion Point. This decision was not retroactive; it applied only to HIPC countries reaching their Completion Point in 2005 or thereafter. The 2005 decision did not change the budgetary arrangements. Because the residual value of a fully cancelled debt is zero the compensation to be paid to the ONDD was henceforth equal to the end of 1999 economic value of the debt. Again, the discount capturing the economic value would then be applied to the nominal debt stock (fully) cancelled<sup>60</sup>.

<sup>57</sup> Somewhat strangely, as these compensations do not generate (extra) ODA (see later).

<sup>58</sup> Whereas the 1991 intervention resulted directly from the need to react to the precarious financial situation of ONDD, this was not the case for the 2001, 2005 agreements. The Working Group of representatives of Ministerial Cabinets which had prepared the decision of the Council of Ministers, had argued that decisions on debt cancellation are taken in the framework of the Belgian State's international relations and as such are cases of 'force majeure' for the ONDD. As a result the export credit insurance agency should be compensated for losses resulting from those decisions.

<sup>59</sup> See again footnote 37.

<sup>60</sup> In the following, and more particularly in section 3.3.3, we will argue that this is not a correct way to capture the economic value of debt relief, as the 'economic value' discount from the ONDD scoring model only includes the default risk probability, not the difference between the nominal and present value of the debt cancelled. In order to capture it correctly, one should first compute the PV of total debt cancelled, and then apply the discount.

### 3.1.3.3 Direct implications of the compensation agreements for Belgian debt relief

What are the direct consequences of these compensation agreements for the volume of Belgian debt relief and the types of debt relief interventions used? (see also Figure 3.1). First, most transfers from these agreements are intra-Belgian transfers, by which DGD partly or fully compensates another federal entity (MINFIN), or ONDD for the debt relief they granted at the international forum. The transfers by which DGD partly compensates ONDD for Paris Club debt relief under the 1991 agreement, do not generate additional debt relief for debtor countries, it merely transfers part of the cost from ONDD to the DGD budget. The same goes for all the compensations paid, both to MINFIN as well as to ONDD in the framework of the 2001, 2005 agreements, i.e. this does not generate additional debt relief to HIPCs. Moreover, all these intra-Belgian transfers do not generate additional ODA, as the ODA is already generated by the intervention by ONDD and MINFIN in the Paris Club (*strictu sensu*, by the bilateral agreements resulting from it).

One potential exception to this is the use by DGD of the swap window under the 1991 agreement, buying debt claims from ONDD to cancel them in exchange for the debtor country to use local counterpart funds for development purposes. This increases the debt relief granted by Belgium at the international level; moreover, it generates extra ODA.<sup>61</sup> As such, next to the 7 types of debt relief interventions already inventoried in section 3.1.2, we have to add a variant of number 7, which we will denote as ‘induced’ debt swaps, i.e. swaps that result from the obligatory 1991 compensation agreement, as to indicate the difference with autonomous debt swaps, executed solely at DGD’s initiative. Note that this window was only active until around 2000, which means that all compensations made by DGD in the last decade do not generate additional debt relief nor do they generate additional ODA. They only share the burden differently between different agencies within Belgium. However, there may be important indirect consequences, which we will discuss later.

## 3.2 An overview of the debt relief operations executed by Belgium

Now that we have sketched the institutional setting in Belgium and the range of possible debt relief interventions, we will provide an overview of the Belgian debt relief practice. First of all, we look at the amount of debt relief provided by Belgium, as well as the distribution over types of interventions, over time, and over recipients. We then provide some information on the consequences of the intra-Belgian transfers on burden-sharing between the three main agencies involved. Third, we provide some information on the ODA-impact of Belgian debt relief. And finally, we discuss the impact of the debt relief practice, including the compensations, on the DGD budget.

### 3.2.1 The amount of debt relief granted

Table 3.1 provides an overview of debt relief granted by Belgium, according to the type of intervention. As shown in the table, overall, over the period 1988-2009, Belgium provided about 2.8 billion EUR of debt relief in nominal terms. Let us briefly discuss realised debt relief by type of intervention. Table 3.2 provides an overview of total debt relief per recipient country.

<sup>61</sup> It can be argued that this debt relief was not necessarily additional but was in fact largely the frontloading of debt relief that would have been granted later on, e.g. through the HIPC Initiative. This is valid, with the exception of countries, such as Vietnam, that were not eligible for the main international debt relief initiatives such as HIPC and MDRI.

	88-95	96-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% of total	% of total	% of total	
1. DR by ONDD in Paris Club	93.84	171.00	3.89	38.84	173.83	678.43	162.49	378.27	284.80	71.31	69.79	74.75	2,201.24	78.39	33.69	73.96	85.59
2. DR by MINFIN in Paris Club	79.96	4.36	16.32	4.84	34.61	1.19	0.67	16.34	53.01	94.04	9.26	0.02	314.63	11.20	28.71	1.88	10.18
HIPC Trust Fund	0.00	0.41	0.09	0.49	32.64	0.17	0.67	16.34	53.01	94.04	0.74	0.02	278.58	9.92	28.71	0.18	8.76
INTERVENTIONS by DGD	104.74	59.80	44.61	5.45	4.46	0.00	11.37	0.00	8.16	12.83	18.67	22.23	292.33	10.41	37.60	25.86	5.65
3.IDA DRF contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4.HIPC Trust Fund contributions	0.00	0.00	2.48	5.45	0.00	0.00	5.40	0.00	7.23	7.23	12.67	14.98	55.43	1.97	0.00	0.00	2.45
IADB	0.00	0.00	0.00	0.00	0.00	0.00	0.90	0.00	0.00	0.00	0.00	0.00	0.90	0.03	0.00	0.00	0.04
EDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.88	3.88	0.14	0.00	0.00	0.17
IMF PRGF	0.00	0.00	0.00	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	4.50	0.16	0.00	0.00	0.20
WADB	0.00	0.00	2.48	5.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.93	0.28	0.00	0.00	0.35
other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.23	7.23	12.67	11.10	38.22	1.36	0.00	0.00	1.69
5.MDRI contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	5.60	6.01	7.25	19.80	0.70	0.00	0.00	0.87
IDA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.33	5.75	5.81	15.89	0.57	0.00	0.00	0.70
AfDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	1.27	0.26	1.44	3.91	0.14	0.00	0.00	0.17
6. Arrears clearance contributions	0.00	0.00	0.00	0.00	0.00	0.00	5.98	0.00	0.00	0.00	0.00	0.00	5.98	0.21	0.00	0.00	0.26
7. Debt swaps by DGD	104.74	59.80	42.13	0.00	4.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	211.13	7.52	37.60	25.86	2.06
Autonomous debt swaps	21.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21.94	0.78	7.88	0.00	0.00
Induced debt swaps (1991 agreement)	82.80	59.80	42.13	0.00	4.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	189.19	6.74	29.73	25.86	2.06
<b>Total DR</b>	<b>278.53</b>	<b>231.22</b>	<b>48.59</b>	<b>44.78</b>	<b>210.93</b>	<b>678.60</b>	<b>174.53</b>	<b>394.61</b>	<b>345.98</b>	<b>178.18</b>	<b>89.20</b>	<b>97.01</b>	<b>2,808.21</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: ONDD (Annex 3.2); MINFIN and DGD ODA database

	88-95	96-99	00-09	Total	% of total	% of 88-95	% of 96-99	% of 00-09
<b>HIPC Countries</b>	<b>219.58</b>	<b>226.71</b>	<b>1,526.49</b>	<b>1,972.78</b>	<b>70.25</b>	<b>78.83</b>	<b>96.41</b>	<b>66.53</b>
Benin	5.77	11.52	0.00	17.29	0.62	2.07	4.90	0.00
Bolivia	57.54	62.27	22.39	142.20	5.06	20.66	26.48	0.98
Burkina Faso	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Burundi	12.39	0.00	5.98	18.37	0.65	4.45	0.00	0.26
Cameroon	0.00	29.61	218.94	248.55	8.85	0.00	12.59	9.54
CAR	0.00	1.88	0.00	1.88	0.07	0.00	0.80	0.00
Comoros	2.27	0.00	0.00	2.27	0.08	0.82	0.00	0.00
Congo Brazzaville	5.49	9.28	25.45	40.22	1.43	1.97	3.95	1.11
Congo DRC	0.00	0.00	1,005.84	1,005.84	35.82	0.00	0.00	43.84
Côte d'Ivoire	30.54	33.17	79.71	143.43	5.11	10.97	14.11	3.47
Ethiopia	6.84	5.16	14.62	26.62	0.95	2.46	2.19	0.64
Ghana	0.00	0.00	3.44	3.44	0.12	0.00	0.00	0.15
Guinée	2.42	2.79	4.46	9.67	0.34	0.87	1.19	0.19
Guinée-Bissau	0.00	2.03	2.11	4.14	0.15	0.00	0.86	0.09
Liberia	0.00	0.00	8.53	8.53	0.30	0.00	0.00	0.37
Madagascar	1.86	22.16	0.22	24.24	0.86	0.67	9.42	0.01
Mozambique	1.77	0.00	0.41	2.18	0.08	0.64	0.00	0.02
Niger	6.20	0.00	0.00	6.20	0.22	2.22	0.00	0.00
Rwanda	2.48	0.00	0.00	2.48	0.09	0.89	0.00	0.00
Sao Tomé	0.00	0.00	0.71	0.71	0.03	0.00	0.00	0.03
Senegal	4.78	3.15	1.64	9.57	0.34	1.72	1.34	0.07
Sierra Leone	8.34	0.63	13.01	21.98	0.78	2.99	0.27	0.57
Tanzania	45.82	43.05	75.47	164.34	5.85	16.45	18.31	3.29
Togo	14.02	0.00	43.59	57.61	2.05	5.03	0.00	1.90
Zambia	11.04	0.00	0.00	11.04	0.39	3.96	0.00	0.00
<b>Non-HIPC LICs</b>	<b>5.52</b>	<b>0.00</b>	<b>0.00</b>	<b>5.52</b>	<b>0.20</b>	<b>1.98</b>	<b>0.00</b>	<b>0.00</b>
Kenya	5.52	0.00	0.00	5.52	0.20	1.98	0.00	0.00
<b>Other</b>	<b>53.44</b>	<b>4.51</b>	<b>669.21</b>	<b>727.16</b>	<b>25.89</b>	<b>19.19</b>	<b>1.92</b>	<b>29.17</b>
Bosnia-Herzegovina	0.00	3.40	0.00	3.40	0.12	0.00	1.45	0.00
Ecuador	5.33	0.00	0.00	5.33	0.19	1.91	0.00	0.00
Gabon	0.00	0.00	0.36	0.36	0.01	0.00	0.00	0.02
Guatemala	1.24	0.00	0.00	1.24	0.04	0.44	0.00	0.00
Indonesia	0.00	0.00	0.10	0.10	0.00	0.00	0.00	0.00
Iraq	0.00	0.00	267.92	267.92	9.54	0.00	0.00	11.68
Nigeria	0.00	0.00	269.29	269.29	9.59	0.00	0.00	11.74
Pakistan	0.00	0.00	30.45	30.45	1.08	0.00	0.00	1.33
Peru	0.57	0.00	0.00	0.57	0.02	0.20	0.00	0.00
Serbia-Montenegro	0.00	0.00	68.20	68.20	2.43	0.00	0.00	2.97

	88-95	96-99	00-09	Total	% of total	% of 88-95	% of 96-99	% of 00-09
Seychelles	0.00	0.00	1.41	1.41	0.05	0.00	0.00	0.06
Suriname	0.00	1.11	0.00	1.11	0.04	0.00	0.47	0.00
Vietnam	46.30	0.00	31.48	77.78	2.77	16.62	0.00	1.37
<b>Multilateral</b>	<b>0.00</b>	<b>3.94</b>	<b>98.81</b>	<b>102.76</b>	<b>3.66</b>	<b>0.00</b>	<b>1.68</b>	<b>4.31</b>
HIPC-MDRI earmarked	0.00	3.94	98.81	102.76	3.66	0.00	1.68	4.31
others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>278.53</b>	<b>235.16</b>	<b>2,294.52</b>	<b>2,808.21</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
of which partner countries	217.72	182.77	1,143.20	1,543.70	54.97	78.17	77.72	49.82
non-partner countries	60.81	48.44	1,052.51	1,161.76	41.37	21.83	20.60	45.87

Source: ONDD (Annex 3.2); MINFIN and DGD ODA database

The first type refers to debt relief granted by ONDD in the Paris Club on its claims. A complete list of all the operations, including the amount of nominal debt relief incorporated, is added as Annex 3.2. Overall, ONDD nominal debt relief amounts to 2.2 billion EUR, equal to 78% of total<sup>62</sup>. As is clear from both tables, the amount of debt relief incorporated in the agreements is growing over time, as Paris Club debt relief terms become more and more generous, leading to 100% relief for exiting HIPCs, and as a result of debt relief agreements for non-HIPCs such as Nigeria and Iraq. Also the impact of debt relief granted to the DRC, mainly in the context of its HIPC decision point, is considerable.

Secondly, debt relief provided on MINFIN bilateral loans amounts to about 278 million EUR, or 10% of the total. A substantial part of total debt relief was frontloaded. In execution of a Law of 13 February 1990, that offered a legal base for debt cancellations on bilateral loans in Belgium, the Council of Ministers (24 December, 1990) decided to cancel debt claims vis-à-vis 10 African 'Toronto terms' countries<sup>63</sup>, for a total of 2.5 billion BEF; the bilateral agreements were signed in 1991 and 1992. On the basis of the same law, Belgium did a second operation in 1994 for 4 countries of the FCFA zone that were struck by the devaluation of their currency (Benin, Comoros, Côte d'Ivoire and Senegal). The total amount cancelled was 665 million BEF. Furthermore, in 2000, Belgium decided to cancel a remaining bilateral loan to Mozambique (16 million BEF, or 0.4 million EUR). Apart from some smaller capitalised interest consolidations in the meantime, most of the larger operations are recent ones, within a HIPC context (Bolivia, Cameroon, Ethiopia, Ghana, Sao Tomé, Tanzania)<sup>64</sup> and an aid swap with Pakistan in 2007. The amounts presented here also include a debt relief provided by the National Bank of Belgium on a credit line to DRC (about 95 million, 2006-07). Apart from Paris Club bilateral loan debt

<sup>62</sup> The difference between the total here and Annex table 3.2 is due to a small swap with Central African Republic (CAR).

<sup>63</sup> Benin, Burundi, Kenya, Madagascar, Mozambique, Niger, Rwanda, Senegal, Tanzania and Zambia.

<sup>64</sup> Apart from these countries, HIPC completion point debt relief operations are in the pipeline for Zambia, Guinée, Liberia, Congo-Brazzaville and DRC, awaiting the bilateral agreement to be signed, amounting to an estimated 132 million EUR of nominal debt relief on bilateral MINFIN loans (excluding further debt relief on the NBB-BNB credit line to DRC).



relief, until 2003, HIPC Trust Fund were also administered by MINFIN and put on its budget; from 2004 on however, they were switched to the DGD budget.

All the remaining debt relief interventions are operations that directly originate from DGD initiatives, and/or are on its budget (except for the induced debt swaps, to which we return later). Overall, as can be seen from table 3.1., DGD accounts for 10% of debt relief (inclusive of the debt relief from the induced swaps, in execution of the 1991 compensation agreement).

As shown in table 3.1, Belgium did not yet engage in financing IDA Debt Reduction Facility operations<sup>65</sup>. Furthermore, Belgium engaged in a series of further earmarked HIPC Trust Fund operations, regarding the IADB, the European Development Fund (EDF), the PRGF window of IMF, the West-African Development Bank, next to unearmarked operations, in total for about 55 million EUR. Topping up contributions to IDA and AfDF in the context of the MDRI has amounted to about 20 million EUR so far. Belgium also engaged in one bridge loan operation for Burundi in 2004 (for about 5.6 million EUR) to help clear arrears towards multilateral creditors. Eventually, DGD pioneered with swaps very early on, doing 4 autonomous swaps operations with 4 countries (Guatemala, Bolivia, Ecuador and Côte d'Ivoire) in the beginning of the period. This last practice led to the inclusion into the 1991 ONDD compensation agreement of the swap window. Although this was a series of 'induced' operations, they did result in additional debt relief to the recipient countries. Annex 3.3 (first column) provides an overview of all the induced swap operations, executed by DGD with ONDD under the 1991 compensation agreement, including also the budgetary cost for DGD<sup>66</sup>. Overall, the induced swaps led to 189 million EUR of nominal debt relief, or about 6.75% of total, at an overall budgetary cost of 60.8 million EUR (see Annex 3.3), which amounts to an average discount of 68%<sup>67</sup>.

Regarding the distribution of total nominal debt relief over recipient countries, table 3.2 shows that about 70% of total debt relief (1.97 billion EUR) targets HIPC countries, of which about 1.8 billion EUR is targeted towards the HIPC/MDRI initiative (when summing debt relief for HIPCs over the 1996-2009 period, including HIPC/MDRI earmarked multilateral interventions); however, of that total, about 1 billion EUR is granted to DRC. Furthermore, about 732 million EUR is for debt relief outside the HIPC framework, mainly for operations with Iraq (268 million EUR) and Nigeria (269 million EUR), for ONDD claims only. Finally, debt relief granted to partner countries amounts to about 55% of the total Belgian nominal debt relief effort.

### 3.2.2 Further implications of the compensations for inter-agency burden sharing

So far, we have only discussed the impact on debt relief of the swap window of the 1991 compensation agreement, as it provided additional debt relief. Table 3.3 provides an overview of the consequences on the distribution of total debt relief over the three agencies (ONDD, MINFIN and DGD), when we account for all the other compensations that DGD has paid over the years. More particularly, this refers to the second window of the 1991 agreement, in which DGD (partly) compensates ONDD for debt relief granted in the Paris

Club, plus the compensation payments of DGD vis-à-vis both MINFIN (on bilateral loans) and ONDD (on its claims) within the context of the 2001 and 2005 agreements, for claims cancelled on HIPCs (only) when they reach completion point.

The table shows that these other compensations amount to about 198 million EUR. About 22 million EUR refers to compensations of cancellation of bilateral loans (MINFIN) already paid<sup>68</sup>. The rest refers to compensations of ONDD, both through the 1991 agreement (about 165 million EUR), as well as through the 2001-2005 HIPC agreement, for which, up to now, DGD paid compensations to ONDD on 4 countries: Bolivia (2002, 6.055 million EUR), Ghana (2006, about 0.87 million EUR), Senegal (2006, about 0.3 million EUR) and Tanzania (2002, 3.043 million EUR)<sup>69</sup>. All in all, these compensations increase the share of DGD in total debt relief from 10.4 to 17.4%, without of course increasing total Belgian debt relief.

### 3.2.3 Implications of debt relief for Belgian ODA

An overview of the consequences of Belgian debt relief on Belgian ODA is presented in table 3.4; the distribution over recipient countries is added in table 3.5. Data come from the ODA database of DGD. Overall, we can state that almost all of Belgian debt relief can be accounted for as ODA, for a total of 2.6 billion EUR. Differences between debt relief and ODA are almost exclusively with respect to the bilateral loans component. This is obvious: as these loans were already accounted for as ODA at the beginning, cancelling them only increases ODA as to the interest component of it. All other interventions can be accounted for as ODA at either nominal or present value debt relief values; with respect to ONDD claims. Small changes exist between the debt relief figures obtained from ONDD (used in tables 3.1-3.3) and the figures imputed into the ODA database.

It is important to note here that the presentation of table 3.4 should be interpreted correctly: as the Paris Club compensation payments of DGD do not generate additional ODA, the compensations are added to the ODA figures of the agency that originally generated the ODA, i.e. either ONDD or MINFIN (the concrete figures are added as a separate item). However, in the DGD database, the ODA that is generated is split up between the two parties when a compensation is paid<sup>70</sup>.

<sup>68</sup> Future compensations on bilateral loans cancellation from HIPCs in the pipeline are currently estimated at about 132 million EUR. Moreover, in principle, compensations on bilateral loan cancellation of HIPCs that already reached completion point (Bolivia, Cameroon, Ethiopia, Ghana and Sao Tomé) could further increase the compensation bill by about 46 million EUR, to be spread between now and up to 2050, according to the original debt service schedule of the loans cancelled.

<sup>69</sup> Compensation claims for other HIPCs currently amount to Cameroon (70.63 million EUR, see section 4.2) and Sierra Leone (0.22 million EUR). Furthermore, future claims from HIPCs currently in the pipeline (Congo-Brazzaville, DRC, Guinée-Bissau, Côte d'Ivoire, and potentially also Sudan and Togo) are estimated at around 225 million EUR.

<sup>70</sup> The standard format used to present the Belgian ODA statistics (ODA per channel) added to the confusion, as the compensations were included in this presentation, as a separate budget line in the DGD part of the ODA presentation, while ONDD debt relief was presented net of compensations. When looking at this table, this reads indeed as if the ODA was generated due to the compensations. The presentation has been changed now, and compensations do no longer appear in the ODA table, while the ONDD debt relief line in the ODA table reflects everything (including the compensations). The compensation payments are only visible from the DGD budget.

<sup>65</sup> Despite its favourable overall evaluation (see chapter 1).

<sup>66</sup> Due to the discounts, the budgetary cost is much lower than the nominal amount of debt relieved.

<sup>67</sup> See also Biron (2001) for a detailed overview of the operations, for the period up to 2000.

Table 3.3 Debt relief per type of intervention (in mio EUR) after compensations

	88-95	96-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% of total	% of total	% of total	
<b>1. DR by ONDD in Paris Club</b>	58.78	127.11	3.89	26.67	158.73	664.79	148.85	364.63	283.63	71.31	56.15	61.11	2,025.65	72.13	21.10	54.98	81.32
<b>2. DR by MINFIN</b>	79.96	4.36	16.32	4.84	13.36	1.19	0.67	16.01	52.49	94.04	9.26	0.02	292.53	10.42	28.71	1.88	9.20
In Club of Paris	79.96	0.41	0.09	0.49	11.39	0.17	0.67	16.01	52.49	94.04	0.74	0.02	256.48	9.13	28.71	0.18	7.78
HIPC Trust Fund	0.00	3.94	16.23	4.35	1.97	1.02	0.00	0.00	0.00	0.00	8.53	0.00	36.05	1.28	0.00	1.70	1.42
<b>INTERVENTIONS by DGD</b>	139.80	103.69	44.61	17.62	40.82	13.64	25.01	13.97	9.86	12.83	32.31	35.87	490.03	17.45	50.19	44.85	10.90
<b>3.IDA DRF contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>4.HIPC Trust Fund contributions</b>	0.00	0.00	2.48	5.45	0.00	0.00	5.40	0.00	7.23	7.23	12.67	14.98	55.43	1.97	0.00	0.00	2.45
IADB	0.00	0.00	0.00	0.00	0.00	0.00	0.90	0.00	0.00	0.00	0.00	0.00	0.90	0.03	0.00	0.00	0.04
EDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.88	3.88	0.14	0.00	0.00	0.17
IMF PRGF	0.00	0.00	0.00	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	4.50	0.16	0.00	0.00	0.20
WADB	0.00	0.00	2.48	5.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.93	0.28	0.00	0.00	0.35
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.23	7.23	12.67	11.10	38.22	1.36	0.00	0.00	1.69
<b>5.MDRI contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	5.60	6.01	7.25	19.80	0.70	0.00	0.00	0.87
IDA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.33	5.75	5.81	15.89	0.57	0.00	0.00	0.70
AfDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	1.27	0.26	1.44	3.91	0.14	0.00	0.00	0.17
<b>6. Arrears clearance contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	5.98	0.00	0.00	0.00	0.00	0.00	5.98	0.21	0.00	0.00	0.26
<b>7. Debt swaps by DGD</b>	104.74	59.80	42.13	0.00	4.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	211.13	7.52	37.60	25.86	2.06
Autonomous debt swaps	21.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21.94	0.78	7.88	0.00	0.00
Induced debt swaps (1991 agreement)	82.80	59.80	42.13	0.00	4.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	189.19	6.74	29.73	25.86	2.06
<b>8. Compensations</b>	35.06	43.89	0.00	12.17	36.36	13.64	13.64	13.97	1.69	0.00	13.64	13.64	197.70	7.04	12.59	18.98	5.25
to ONDD	35.06	43.89	0.00	12.17	15.10	13.64	13.64	13.64	1.17	0.00	13.64	13.64	175.59	6.25	12.59	18.98	4.27
to MINFIN	0.00	0.00	0.00	0.00	21.25	0.00	0.00	0.33	0.52	0.00	0.00	0.00	22.10	0.79	0.00	0.00	0.98
<b>Total DR</b>	<b>278.53</b>	<b>231.22</b>	<b>48.59</b>	<b>44.78</b>	<b>210.93</b>	<b>678.60</b>	<b>174.53</b>	<b>394.61</b>	<b>345.98</b>	<b>178.18</b>	<b>89.20</b>	<b>97.01</b>	<b>2,808.21</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: ONDD (Annex 3.2); MINFIN and DGD ODA database

Table 3.4 ODA per type of intervention (period 1988-2009; in mio EUR)

	88-95	96-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	% of total	% of total	% of total	
<b>1. DR by ONDD in Paris Club</b>	181.29	201.11	45.35	48.68	185.91	664.79	162.48	378.56	284.80	71.31	69.79	74.75	2,368.83	90.20	93.39	92.62	89.86
of which: swaps	54.85	41.09	30.34	0.00	3.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	129.36	4.93	28.25	18.56	1.51
Paris Club compensations	53.17	32.82	11.12	7.49	14.51	0.00	13.63	19.88	0.00	0.00	0.00	0.00	152.62	5.81	27.39	14.83	3.01
<b>2. DR by MINFIN</b>	1.11	4.36	16.32	4.43	2.42	1.19	0.67	0.11	32.45	63.76	8.56	0.02	135.45	5.15	0.57	4.19	4.43
In Paris Club	1.11	0.41	0.09	0.08	-20.80	0.17	0.67	-0.22	32.45	63.76	0.03	0.02	77.78	2.96	0.00	1.78	1.45
of which: compensations	0.00	0.00	0.00	0.00	21.25	0.00	0.00	0.33	0.00	0.00	0.00	0.00	21.58	0.82	0.00	1.00	0.98
HIPC Trust Fund	0.00	3.94	16.23	4.35	1.97	1.02	0.00	0.00	0.00	0.00	8.53	0.00	36.05	1.37	0.57	1.02	2.25
<b>INTERVENTIONS by DGD</b>	11.74	15.92	10.35	12.15	1.38	0.00	8.40	0.00	8.16	12.83	18.67	22.23	121.84	4.65	6.05	4.19	4.27
<b>3.IDA DRF contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>4.HIPC Trust Fund contributions</b>	0.00	0.00	2.48	5.45	0.00	0.00	5.40	0.00	7.23	7.23	12.67	14.98	55.43	2.11	0.00	0.00	2.51
IADB	0.00	0.00	0.00	0.00	0.00	0.00	0.90	0.00	0.00	0.00	0.00	0.00	0.90	0.03	0.00	0.00	0.04
EDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.88	3.88	0.15	0.00	0.00	0.18
IMF PRGF	0.00	0.00	0.00	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	4.50	0.17	0.00	0.00	0.20
WADB	0.00	0.00	2.48	5.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.93	0.30	0.00	0.00	0.36
other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.23	7.23	12.67	11.10	38.22	1.46	0.00	0.00	1.73
<b>5.MDRI contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	5.60	6.01	7.25	19.80	0.75	0.00	0.00	0.90
IDA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.33	5.75	5.81	15.89	0.61	0.00	0.00	0.72
AfDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.93	1.27	0.26	1.44	3.91	0.15	0.00	0.00	0.18
<b>6. Arrears clearance contributions</b>	0.00	0.00	0.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00	0.00	0.00	3.00	0.11	0.00	0.00	0.14
<b>7. Debt swaps by DGD</b>	11.74	15.92	7.87	6.70	1.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43.61	1.66	6.05	4.19	0.72
Autonomous debt swaps	7.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.17	0.27	3.69	0.00	0.00
Induced debt swaps (1991 agreement)	4.57	15.92	7.87	6.70	1.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	36.44	1.39	2.35	4.19	0.72
<b>Total DR</b>	<b>194.14</b>	<b>221.38</b>	<b>72.03</b>	<b>65.26</b>	<b>189.71</b>	<b>665.98</b>	<b>171.55</b>	<b>378.68</b>	<b>325.41</b>	<b>147.90</b>	<b>97.02</b>	<b>97.01</b>	<b>2,626.08</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Authors' calculation from DGD ODA database



	88-95	96-99	00-09	Total	% of 88-95	% of 96-99	% of 00-09
<b>HIPC Countries</b>	<b>143.95</b>	<b>212.94</b>	<b>1,472.79</b>	<b>1,829.68</b>	<b>74.15</b>	<b>96.19</b>	<b>66.63</b>
Benin	1.80	11.51	0.00	13.31	0.93	5.20	0.00
Bolivia	57.37	27.45	11.45	96.28	29.55	12.40	0.52
Burkina Faso	2.48	0.00	0.00	2.48	1.28	0.00	0.00
Burundi	0.00	0.00	3.00	3.00	0.00	0.00	0.14
Cameroon	0.00	29.60	210.49	240.09	0.00	13.37	9.52
CAR	0.00	1.88	0.00	1.88	0.00	0.85	0.00
Comoros	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Congo Brazzaville	5.49	9.27	25.45	40.21	2.83	4.19	1.15
Congo DRC	0.00	0.00	992.19	992.19	0.00	0.00	44.88
Côte d'Ivoire	12.66	33.19	78.45	124.30	6.52	14.99	3.55
Ethiopia	5.48	5.73	12.50	23.71	2.82	2.59	0.57
Ghana	0.00	0.00	1.82	1.82	0.00	0.00	0.08
Guinée	5.13	0.92	4.46	10.51	2.64	0.42	0.20
Guinée-Bissau	0.00	2.03	2.69	4.72	0.00	0.92	0.12
Liberia	0.00	0.00	8.53	8.53	0.00	0.00	0.39
Madagascar	0.00	23.54	2.99	26.54	0.00	10.63	0.14
Mozambique	1.60	0.00	0.00	1.60	0.83	0.00	0.00
Niger	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rwanda	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sao Tomé	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Senegal	0.07	3.15	1.94	5.16	0.04	1.42	0.09
Sierra Leone	8.78	0.62	13.01	22.40	4.52	0.28	0.59
Tanzania	19.38	59.93	59.76	139.07	9.98	27.07	2.70
Togo	13.56	4.10	44.07	61.73	6.98	1.85	1.99
Zambia	10.15	0.00	0.00	10.15	5.23	0.00	0.00
<b>Non-HIPC LICs</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Kenya	0.01	0.00	0.00	0.01	0.00	0.00	0.00
<b>Other</b>	<b>50.18</b>	<b>4.50</b>	<b>638.95</b>	<b>693.63</b>	<b>25.85</b>	<b>2.03</b>	<b>28.90</b>
Bosnia-Herzegovina	0.00	3.40	0.00	3.40	0.00	1.53	0.00
Ecuador	5.34	0.00	0.00	5.34	2.75	0.00	0.00
Gabon	0.00	0.00	0.36	0.36	0.00	0.00	0.02
Guatemala	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Indonesia	0.00	0.00	0.10	0.10	0.00	0.00	0.00
Iraq	0.00	0.00	267.92	267.92	0.00	0.00	12.12
Nigeria	0.00	0.00	269.29	269.29	0.00	0.00	12.18
Pakistan	0.00	0.00	0.17	0.17	0.00	0.00	0.01
Peru	0.57	0.00	0.00	0.57	0.29	0.00	0.00
Serbia-Montenegro	0.00	0.00	68.20	68.20	0.00	0.00	3.09
Seychelles	0.00	0.00	1.41	1.41	0.00	0.00	0.06

	88-95	96-99	00-09	Total	% of 88-95	% of 96-99	% of 00-09
Suriname	0.00	1.11	0.00	1.11	0.00	0.50	0.00
Vietnam	44.27	0.00	31.50	75.76	22.80	0.00	1.42
<b>Multilateral</b>	<b>0.00</b>	<b>3.94</b>	<b>98.81</b>	<b>102.76</b>	<b>0.00</b>	<b>1.78</b>	<b>4.47</b>
HIPC-MDRI earmarked	0.00	3.94	98.81	102.76	0.00	1.78	4.47
others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>194.14</b>	<b>221.38</b>	<b>2,210.56</b>	<b>2,626.08</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
of which partner countries	143.94	164.83	1,096.84	1,405.60	74.14	74.46	49.62
non-partner countries	50.20	52.61	1,014.91	1,117.72	25.86	23.76	45.91

Source: Authors' calculation from DGD ODA database

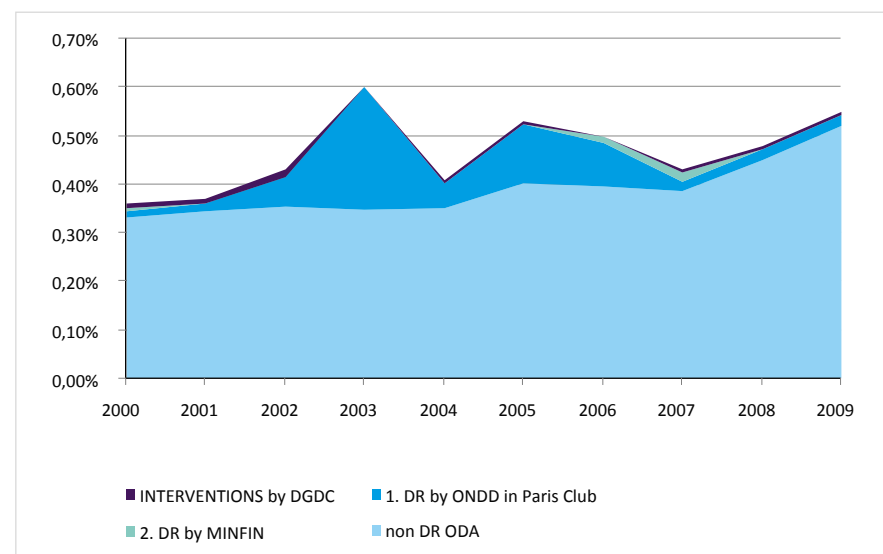
This is purely an internal Belgian matter, which is not taken into account by the DAC<sup>71</sup>.

How important is debt relief in total Belgian ODA? As can be seen in table 3.6., for the 2000-2009 period, the share of debt relief in total ODA ranges from 5.2% to an exceptional peak of 40.6% in 2003 (due to DRC). Also in 2006 and 2007, it is higher than 20%, due to the Iraq and Nigeria Paris Club agreements. A graphical representation of the swings over the years is added as Figure 3.2.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total ODA	889.41	968.45	1,137.06	1,640.44	1,177.82	1,579.72	1,575.03	1,424.00	1,653.96	1,867.63
Total Debt Relief	72.03	65.26	189.71	665.98	171.55	378.68	325.41	147.90	97.02	97.01
<b>Debt relief as share of ODA</b>	<b>8.10%</b>	<b>6.74%</b>	<b>16.68%</b>	<b>40.60%</b>	<b>14.57%</b>	<b>23.97%</b>	<b>20.66%</b>	<b>10.38%</b>	<b>5.87%</b>	<b>5.19%</b>
Debt relief by ONDD in Paris Club	34.23	41.19	171.40	664.79	148.85	358.68	284.80	71.31	69.79	74.75
Debt relief by ONDD as share of ODA	3.85%	4.25%	15.07%	40.52%	12.64%	22.71%	18.08%	5.00%	4.22%	4.00%
Debt relief by MINFIN	16.32	4.43	-18.83	1.19	0.67	-0.22	32.45	63.76	8.56	0.02
Debt relief by MINFIN as share of ODA	1.84%	0.46%	-1.66%	0.07%	0.06%	-0.01%	2.06%	4.47%	0.52%	0.00%
Interventions by DGD	21.47	19.64	37.15	0.00	22.03	20.21	8.16	12.83	18.67	22.23
Debt relief by DGD as share of ODA	2.41%	2.03%	3.27%	0.00%	1.87%	1.28%	0.52%	0.90%	1.13%	1.19%
ODA/GNI	0.36%	0.37%	0.43%	0.60%	0.41%	0.53%	0.50%	0.43%	0.48%	0.55%
DR/GNI	0.03%	0.02%	0.07%	0.24%	0.06%	0.13%	0.10%	0.04%	0.03%	0.03%

Source: Authors' calculation from DGD ODA database

<sup>71</sup> In fact, along the same lines, strictly speaking the ODA of induced swaps is solely created by the swap operation done by DGD with the debtor country, not by the buyback between ONDD and DGD.

**Figure 3.2** The share of debt relief in total Belgian ODA (% of GNI; 2000-09)

Source: Authors' calculation from DGD ODA database

### 3.2.4 Implications for the DGD budget

As already indicated, in order to calculate the total effort of DGD on debt relief, we have to look at the budget of DGD rather than at the ODA figures, as part of the DGD debt relief effort is not ODA. Table 3.7 presents the realised budgetary outlays of DGD, and its distribution over ODA and non-ODA expenditures. Despite the implementation of the principle to concentrate efforts of the federal government development cooperation on the DGD budget, i.e. all contributions that generate ODA, on the DGD budget, part of the DGD budgeted and realised spending is still non-ODA: about 48 million EUR in 2005, going down in 2006-2009, and increasing again in 2009. Part of those non-ODA expenditures are indeed debt relief efforts.

The figure also presents an overview of relevant budget lines with respect to debt relief in the DGD budget. The first part relates to what is called multilateral debt relief; it is part of the multilateral part of the DGD budget and comprises two budget lines, one for HIPC Trust Fund and other multilateral contributions, and the second one for the MDRI contributions. Both are part of ODA. Two other budget lines refer to compensations, one regarding contributions to ONDD, the other one regarding compensations towards MINFIN. These budget lines do not constitute ODA; they only affect the budget.

There are potential implications to this regarding the degree of additionality of the debt relief efforts of DGD, at least with respect to the non-ODA compensations. As the ODA growth path policy followed by the Belgian government is focused on reaching fixed annual ODA targets and the 0.7% of GNI target in 2010, and DGD only gets a budget that is congruent with reaching that target, DGD expenditures that do not add to the target, such

as the compensations, will crowd out other development expenditures; as such, they are not additional. Moreover, to the extent that during budget preparations, projected debt relief realisations by other agencies (ONDD, and to a lesser extent MINFIN) are deducted upfront from the funds needed to realise a particular ODA target, and budgets (including that of DGD) are decided afterwards, debt relief efforts by Belgium are non-additional by nature, as more debt relief means less resources budgeted for non-debt relief aid.

Furthermore, it is understandable that DGD, when confronted with a shortfall in resources (or budget cuts during the year, as in the period of the anchor principle), will first economise on such compensation payments. This partly explains why DGD did not realise these expenditures as budgeted ex ante for a number of years (2006-2008).

	2005	2006	2007	2008	2009
Budget DGD	<b>874.344</b>	<b>854.584</b>	<b>866.334</b>	<b>1,110.281</b>	<b>1,362.281</b>
ODA	826.657	834.628	848.051	1,085.220	1,321.803
Of which debt relief					
HIPC Trust Fund etc,	0.00	7.230	7.230	12.667	14.978
MDRI	0.00	0.932	5.602	6.008	7.253
Non-ODA	<b>47.687</b>	<b>19.956</b>	<b>18.283</b>	<b>25.061</b>	<b>40.478</b>
Of which debt relief					
ONDD	19.88	0.00	0.00	0.00	39.172
MINFIN	0.33	0.00	0.00	0.00	0.00

Source: DGD ODA database and DGD budget documents

## 3.3 Assessing the Belgian debt relief policy and practice

In this section, we assess to what extent the Belgian debt relief practice (during the period 2000-2009) has been efficient, effective, relevant and coherent. When discussing the evaluation framework in chapter 1, we mentioned the problem of attribution: it is not Belgian debt relief that has produced outputs, outcome and relevance, but rather the debt relief efforts of the international community. As such, before we attempt to make an overall evaluation of the Belgian debt relief policy, we first describe to what extent the Belgian policy, both at the international and national level, has been rather reactive, or included distinct elements of pro-activity, influencing policy making at the international level, and/or exploiting the remaining 'policy space' in executing internationally-agreed initiatives in a positive, pro-active way. We then assess to what extent the concrete Belgian debt relief operations have efficiently, effectively and relevantly contributed to these international debt relief practice. Finally, in a separate section, we briefly assess the specific intra-Belgian compensation agreements.

### 3.3.1 The Belgian practice: pro-active versus reactive?

In any case, Belgium as a whole has been supportive from the beginning in joining the international consensus that debt relief and cancellation was a necessary ingredient of solving the problems debt overhang in severely-indebted lower income countries. More particularly, on bilateral state loans, we already highlighted the decision to cancel a range of bilateral loans to Toronto-eligible countries in 1990, early on. As such, for those claims, debt relief was rather frontloaded, avoiding repeated reschedulings, leading, eventually, to high nominal debt relief later on, e.g. in the HIPC Initiative<sup>72</sup>.

This quite pro-active Belgian stance in the Paris Club regarding bilateral loans was not readily shared when considering the ONDD claims. In fact, overall, the behaviour of Belgian regarding ONDD-claims in the Paris Club has been rather conservative, in the sense that, when confronted with the policy space to choose between different options to translate a common terms Paris Club agreement into the bilateral agreement, Belgium, through the ONDD, often chose the option that kept the (nominal) value of claims at par: in the beginning, when one of the three options provided (the so-called B-option) allowed for a mere rescheduling at market terms, involving no element of debt relief in PV terms, on frequent occasions, the bilateral agreement between ONDD and the recipient country opted for this rescheduling option B, rather than for one of the other two options involving an element of debt relief (in present value, PV, terms); this was the case until this option was abolished in December 1991, when the Paris Club adopted the Trinidad terms<sup>73</sup>. From then onward, confronted with the choice between debt service relief (long rescheduling periods and concessional interest rates) and debt stock relief (a reduction of the stock of debt), which do provide an equivalent amount of debt relief in PV terms, Belgium, through the ONDD decision, systematically chose the first option, leaving the nominal debt stock intact. In order to come to the - gradually increasing - required debt relief in PV terms, where possible within the Paris Club framework, the ONDD used a policy of lengthening repayment periods, reduced interest rates further (sometimes at 0%), and/or made repayments of capital progressive over time<sup>74</sup>. On the issue of the particular choice between debt service and debt stock relief, ONDD claims that it opted for the debt service relief option because and when it was not allowed by the Belgian government to opt for the debt stock option<sup>75</sup>.

The compensation agreement of 1991 (assessed in section 3.3.3) did offer DGD an opportunity to become pro-actively involved in the debt relief field, through the swaps window. DGD had shown interest in doing debt swaps before the agreement (by doing

some autonomous swaps, even at full nominal value) and the agreement indirectly provided a good opportunity to design an active debt swaps policy, for which Belgium (together with e.g. Switzerland) was complimented internationally in the early 90s. The swap window might have created additional debt relief for the recipient countries (or, as stated earlier, rather frontloaded debt relief that would have taken place later on in the context of HIPC), and additional ODA for Belgium. In principle this could be targeted towards the priorities and partner countries of the Belgian development cooperation.<sup>76</sup> Furthermore, as debt claims could be acquired at a discount, a leverage effect seemed to be created. Again, in the next section, we will assess this debt swap policy.

Did Belgium become more pro-active in the last decade, from the emergence of the HIPC-initiative on? The Belgian representatives in the Bretton Woods institutions were definitely active participants in the debate on the scheme, but design continued to be dominated by the big international players, at the G7/G8 summits. Once accepted, Belgium was again very supportive in implementing the scheme: it was fully supportive in the implementation of the HIPC approach with respect to the bilateral claims in the Paris Club, and engaged also in other debt relief interventions linked to the HIPC Initiative, such as (voluntary) HIPC Trust Fund contributions, to support the implementation of the HIPC Initiative by regional development banks. Furthermore, for Burundi, it provided a bridge loan to allow the country to clear its arrears to the IMF, helping in fulfilling one of the requirements in order to become eligible for HIPC treatment.

Furthermore, Belgium joined the EU proposal in deciding to go beyond HIPC Cologne terms and move to full cancellation of its remaining eligible claims at HIPC completion point. The same goes for the design and implementation of the MDRI. However, in this case, most particularly, the Belgian Bretton Woods representation (and especially the IMF representation) played a very active role, stressing the necessity for equal treatment for some non-eligible countries, and advocated for a stronger ex-ante check before granting actual completion point countries the extra debt relief<sup>77</sup>.

After 2000, Belgium decided on debt relief beyond the Paris Club agreements for two countries: the Democratic Republic of Congo (DRC) and the Seychelles. The DRC had reached its decision point in the framework of the HIPC Initiative in 2003. In the same year, Belgium cancelled unilaterally more than 50% of the ONDD claims on DRC. This decision was taken jointly by ONDD and DGD and went further than, but was still conform to, the Paris Club agreement. DGD participated in this operation by allowing the

<sup>72</sup> As again highlighted in the next section, although important in nominal terms, however, in economic value terms, this debt relief can be considered quite negligible.

<sup>73</sup> In fact it was maintained as an exception for countries, essentially the United States, who did not want, or legally could not, proceed with debt relief.

<sup>74</sup> An extreme example is the Cameroon VI case, where part of the repayment of principal was stretched out in the distant future as a bullet repayment to be made in 2124; see section 4.2.1.

<sup>75</sup> Although the debt service and debt stock option have indeed to be considered equal in a PV sense, from the perspective of Belgium, and the ONDD, the fact that accounting rules (and the concrete set up of the compensation agreements) focus on nominal debt stock concepts made this option more interesting from the ONDD perspective. See again section 3.3.3.

<sup>76</sup> However, DGD claims that, in practice, it had very little leverage on choosing the countries on which to do swaps. Typically a limited list of potential claims eligible for swaps was presented to DGD by ONDD.

<sup>77</sup> Regarding the design of new initiatives, Belgium took one particular initiative when the then Prime Minister Mr. Verhofstadt presented the PAIR proposal (see Berlage et al 2003) as a Belgian debt relief proposal a.o. at the Monterrey 'Financing for Development' Summit in 2001.

earmarking of its compensation on the 1991 agreement to DRC<sup>78</sup>. Furthermore, in 2007, a creative debt-aid swap construction was used in the case of Pakistan on its bilateral debt in the aftermath of the great earthquake in Azad Kashmir (October 8, 2005)<sup>79</sup>.

### 3.3.2 Assessing Belgian debt relief from the evaluation framework

The observations made in the previous sections of chapter 3 are now used to make an assessment of the overall Belgian debt relief policy to date. As highlighted in the evaluation matrix (figure 1 in chapter 1), we focus on efficiency, i.e. to what extent the inputs (actual debt relief interventions resulting from both implementing international agreements as well as domestic agreements) were an efficient way in reducing debt claims to the recipient countries. Furthermore, it briefly assesses to what extent Belgium performed a supporting role in helping to bring about outcomes and impact, which can not be attributed to Belgium only, but to the international donor community as a whole. Finally, it assesses to what extent the debt relief policy was coherent with the overall Belgian aid policy, where applicable, as well as, internationally, to the principles of the New Aid Approach. As announced earlier, the intra-Belgian (compensation) agreements will be assessed separately in the next section.

#### 3.3.2.1 Efficiency of the Belgian debt relief policy

When assessing *pre-HIPC debt relief*, our analysis in chapter 2 clearly showed that the international debt relief strategy, consisting mainly of piecemeal rescheduling operations with some element of flow debt service relief in the Paris club, combined with small debt swap and buyback operations, did not result in reducing debt stocks, did not significantly reduce debt service paid (as most of the debt relieved would not have been serviced anyhow) and as such, its economic value was deemed very low and it did not create fiscal space in the recipient countries. Consequently, it was characterized as being highly inefficient. Quite logically, also the Belgian debt relief operations in that pre-HIPC period, largely emanating from the international approach, were not efficient. Piecemeal debt relief as granted by Belgium through ONDD, and even the cancellations on bilateral loans through MINFIN, although pro-active, both had a very low economic value, and did not provide extra fiscal space in the recipient countries. Conditionality relied on the overall structural adjustment logic as applied internationally. Through the debt swaps window,

<sup>78</sup> Of less importance is the Seychelles case. The Seychelles had accumulated important arrears on ODA loans received from Belgium, as well as on loans from other creditors. It applied for debt relief from all its creditors. In 2006 Belgium agreed with the Republic of the Seychelles to consolidate the balances on all its ODA loans and to reschedule the debts over a period of 10 years, from end of 2010 to end of 2019. The total nominal value of balances was approximately 8.5 million EUR. This operation was contested by other members of the Paris Club, but the matter was not pursued further.

<sup>79</sup> Pakistan has obtained a rescheduling of a number of its debts, commercial as well as ODA, at the end of the year 2001. After the great earthquake it applied for far going debt relief. As the Paris Club allows ODA debt swaps without limits Belgium decided to proceed to a debt-for-aid swap for its ODA debt claims on Pakistan. The vehicle it used was an Asian Development Bank Trust Fund, the Pakistan Earthquake Fund. Under the agreement signed in January 2007, the balances of all ODA claims of Belgium on Pakistan were to be cancelled. The total nominal value of these claims was 30.3 million EUR. Pakistan would transfer a rupee amount equivalent to the present value of these claims, approximately one third of the nominal value, to an account at the Asian Development Bank. The funds generated by the agreement were to be used for rehabilitation and reconstruction, with a priority for social infrastructure and services in Azad Kashmir.

DGD was able to become an active player; however, assessed in retrospect, also debt swaps proved to be a highly inefficient way of dealing with the problem, not only because the economic value of it was identically low, but also because the micro-earmarking counterpart funds mechanism approach did not work and was highly inefficient in channelling more resources towards development. Furthermore, the compensation mechanism that gave rise to these swaps, did not allow DGD to exert much leverage on influencing the debt relief policy of Belgium in general, and decisions on ONDD claims in particular. On top, resources from the DGD budget used for these operations were non-additional, and as such, potentially crowded out other aid interventions. Existing political power imbalances between agencies involved, information asymmetry between parties, and the lack of sustained expert capacity at the level of DGD to design, implement and monitor an active debt relief policy contributed to this lack of efficiency at the national level.

The use of more efficient and effective types of debt relief at the international level, from the *HIPC initiative* on, also changed the nature of the Belgian interventions likewise, making them indeed also more efficient. However, the lion share of the Belgian debt relief operations dealt with ONDD claims. As discussed before, on these ONDD claims, used the remaining policy space in the largely internationally-driven rules of the game in a rather conservative way, in the sense that it tried to keep the nominal value of claims at par, and as such choosing quite consistently for the debt service relief option. In some cases, such as in the Cameroon case explained later, this has clearly reduced the overall efficiency of the operation. Also during the HIPC era, and the period 2000-2009 under evaluation, DGD did not really succeed in increasing its leverage on debt relief decisions taken by the other agencies. Despite occasional initiatives, and a lot of personal devotion from involved staff, DGD continued to ‘institutionally’ suffer from the same flaws as in the earlier period, such as political power deficits, continued information asymmetry between parties, the lack of sustained expert capacity on the issue, and, at times, lack of internal coordination and information sharing.

What are the consequences on the net overall development effort to recipient countries, in other words is there additionality, again measured in economic value? This depends to some extent on the counterfactual. To the extent that Belgium targets a given and fixed particular ODA level, and part of that is achieved through debt relief, the level of the DGD budget will be somehow dependent on the level of debt relief in ODA: debt relief granted by MINFIN and ONDD in particular, might decrease the amount of budgetary resources given to DGD, for other aid interventions, hence resulting in non-additionality by design. This could mean that recipient countries receive cash flow relief through debt relief, but at the same time receive less new aid through other aid modalities, and, as such, are equally well-off, and debt relief does not provide additional Belgian aid to these countries. Moreover, when DGD then has to compensate ONDD for this development effort, which does not generate ODA, again under fixed ODA, this will come directly at the expense of

other operations, hence resulting in reduced amount of aid available<sup>80</sup>. In that case, there is no incentive whatsoever for DGD to engage in compensations: the development effect (outcome, impact) is generated through the operation by ONDD/MINFIN, and it would be highly irrational for DGD to spend non-additional resources on this. To worsen matters, to the extent that the ODA-accountability part of debt relief is higher than its economic value, again under this fixed ODA target hypothesis, total resources available for development aid, and net cash flows to aid-recipient countries decrease.

The strict hypothesis of fixed budgets used here is no longer valid. From 2008 onwards, DGD's budget is determined as follows: the Council of Ministers decides on the ODA target (0.5-0.6-0.7% of GNI); 60% of that target is allocated to DGD's budget; and, on top of that, DGD receives additional budgetary resources for non-ODA expenses that are put on its budget, including the compensation payments on the 1991 financial reorganisation loan. Disagreement remains, however, about the compensations required within the framework of the 2001-2005 agreements.

This strict hypothesis of fixed budgets is usually not valid for another more indirect reason: debt relief efforts, their generous ODA accountability, as well as an accompanying policy to compensate ECAs such as ONDD, are typically situated in an environment where these compensations are used in a complex political agreement to generate a substantial increase in ODA. To some extent, this is also the case in Belgium, where debt relief will be an essential element of reaching the 0.7% GNI target. Alternatively, the political compromise can be to granting compensations for the aid budget, provided the promise to keep ODA at a given, high level, such as is apparently the case in the Netherlands. We will make a more detailed assessment of the compensation agreements in section 3.3.3.

Finally, and similar to the analysis made at the international level, from an efficiency perspective, the decision to grant bilateral *debt relief beyond the HIPC requirements*, going to 100% cancellation of eligible claims, and the multilateral debt relief interventions, especially with MDRI, are the most efficient ones, as the economic value of it is close to the nominal amount granted/cancelled.

### 3.3.2.2 Contribution to overall international effectiveness and relevance

Regarding the degree to which Belgium distinctively helped in delivering outcomes and impact, we conclude that Belgium has been a supportive, but, overall, largely 'reactive' member of the international donor community in this field.

### 3.3.2.3 Coherence

At the international level, we concluded that recent debt relief interventions, most notably the additional HIPC/MDRI debt relief, very much fits into the NAA, as it closely looks like general budget support (GBS). This consequently also goes for the Belgian debt relief interventions that are focused largely on HIPC countries and contributions to the

<sup>80</sup>This constitutes, from a development perspective, an argument to remove these non-ODA compensations from the DGD budget, in a further effort to make the DGD budget comprehensive and exclusive in showing the development effort of the federal Belgian government, as expressed in ODA-accountability terms.

multilateral component of HIPC and MDRI. This factual observation is particularly relevant as the Belgian development cooperation is very reluctant with GBS, being still in an experimental phase on budget support, preferring sector budget support. In fact, what Belgium is doing through debt relief is granting a substantial volume of GBS, through "delegated cooperation", delegating the execution and monitoring to the IMF and the World Bank.

At the Belgian level, there is no such thing as a Belgian debt relief policy, especially not from a development perspective. This should not come as a real surprise as the major parties involved, i.e. ONDD and to a lesser extent MINFIN, have, by design, no development focus. Also, by nature again, it is difficult to design and execute a pro-active debt relief policy, especially on debt relief granted by ONDD and MINFIN, when the policy is designed and implemented largely at the global level, and, to the extent that the historical Belgian claims exposure does not, or does no longer, match the current priorities, with respect to recipient countries. In this respect, it is more by accident, than due to a deliberate policy, that the overall debt relief effort can to a large extent be considered as coherent. As discussed in section 3.1, this is largely due to the high level of activity on DRC.

### 3.3.3 An assessment of the intra-Belgian compensation agreements

Apart from the 7 types of debt relief interventions, DGD is also requested to participate in compensating ONDD (and MINFIN) through the 1991, 2001 and 2005 agreements, as sketched out in section 3.1.3. How can we assess these operations from the perspective of our evaluation framework?

Before doing so, it is important to state that the subject of our evaluation is not to determine whether ONDD is entitled to a compensation, and for how much; our evaluation deals with determining how and when debt relief is and/or can be turned into an efficient and effective instrument of Belgian development cooperation, justifying that DGD budgetary resources are devoted to it. Each player has to be able to fulfil its own specific task – interventions financed by the budget of development aid should be judged from a development perspective, those of export insurance more from a foreign trade perspective.

In deciding how to allocate a particular development aid budget, development aid officials have a series of aid instruments at their disposal, including a range of debt relief interventions. From a development perspective, spending part of the budget to compensate ONDD is justified insofar as the development return to that spending is as high as with other lines of activity. Compensations that are calculated on the basis of the needs of a public organisation that also serves non-developmental policy objectives are by definition second-best. Hence, the question we address here is a pragmatic one: when, as is indeed the case here, a development aid administration (DGD) is invited to contribute to the total government cost of curing what is a combined foreign trade and development aid problem, what is the level of intervention (compensation paid from the DGD budget) that can be defended from a development perspective? We will try to answer only that question. Again, it is important not to confuse the determination of this appropriate level of



contribution by DGD with the level of the total compensation required for ONDD.<sup>81</sup>

Inspired by the relevant scientific literature, in section 2.2.2.2 we have proposed that debt relief should be assessed from an ‘economic value’ perspective, i.e. the concept that refers to the debt (service) payments that would have been made by the debtor, in this case to ONDD, in the absence of debt relief (formula 1 on p.21). We believe that this starting point is uncontroversial and unassailable. In fact, what ONDD is requesting as total compensation, and what determines the terms of the compensation agreements of 1991, 2001 and 2005, is based on the same underlying principles. The real question is how exactly to apply this concept in practice. As we have already outlined in section 2.2.2.2, in our understanding, four elements are crucial here: (1) whether we use nominal versus NPV of debt, (2) the determination of ‘i’ (the discount rate in formula 1) when using NPV, (3) the determination of ‘d’ (the default rate), and (4) the use of the default rate ‘d’ in marginal versus comprehensive debt relief operations. We will turn to each of these elements in more detail below, from the perspective of the concrete compensation agreements.

(1) *Nominal versus NPV of debt.* It is widely accepted in the literature, and put in practice in international debt rescheduling and relief initiatives (Paris Club, IMF/World Bank HIPC), that the (N)PV is the correct approach to calculate the economic value of debt relief, and to determine fair burden sharing. However, the debt base that is underlying both the 1991 and 2001, 2005 agreements is the nominal stock of debt (relieved). Clearly, this is also because current accounting standards at ONDD are based on nominal value. However, the fact that they are, and that accounting losses of ONDD are based on nominal value, and so required compensation by ONDD takes that same base, does not mean that the validity of the NPV approach would collapse. If anything, the reverse is the case. In fact, the accounting value of a financial asset should reflect its economic value, i.e. the present value of its future income streams. This is indeed the case when assets earn a market return, because then their nominal value is a good approximation of the present value. However, for concessional claims this does not hold, suggesting that nominal (accounting) values are not appropriate. Moreover, it is not only that nominal values fail to express present values in this case, it is also that their use in compensation formulas can easily lead to moral hazard. Take the case where nominal value exceeds NPV. A creditor would then be tempted to keep the nominal value of its claims intact as long as possible, e.g. by granting a required discount, expressed in NPV terms, by stretching out principal repayments to the very distant future, even if this option is damaging to the recipient. In NPV terms, the value’s claim would be reduced by the agreed upon discount, but at the same time it would remain valued at 100% in nominal value. In other words, a credit agency has an incentive to select an option that it knows is less favourable to the recipient, but that maximises the compensation the agency hopes to receive. This is exactly what Belgium (ONDD) did in the Cameroon case. A good valuation system and compensation

formula should be constructed so as to avoid such moral hazard behaviour up-front; this can be done by explicitly using the NPV logic in the approach, similar to what is common practice in debt relief burden sharing calculations in the IMF, World Bank and Paris Club. To conclude, as such, to determine a fair compensation *from a development perspective*, the value of debt relieved should be calculated at its PV.

(2) *The determination of ‘i’ (the discount rate) when using NPV.* Since we are using a PV concept, we have to derive the appropriate discount rate. In section 2.2.2.2 we discussed this in more detail, stating our preference-in-principle for a debtor-based recipient country-specific discount rate, but accepting, in line with the concepts of measuring aid efficiency (developed in table 2.11), and more specifically the ‘economic cost’ perspective that we suggest here, the use of a creditor-specific discount rate. As such, in calculating the economic value of debt relief from a development perspective, we could settle for the CIRRR being a relatively good proxy of a creditor-specific interest rate that is internationally-agreed upon, to be used in the calculations, instead of a debtor-specific domestic interest rate, which is most likely higher than the CIRRR.

(3) *The determination of ‘d’ (the default rate).* Thirdly, as again stressed in section 2.2.2.2, the PV of debt relief should be corrected to account for default risk, leading to the notion of economic value as we have defined it. We also discussed that, in the absence of an international benchmark scoring model to derive the default risk, an accepted creditor-specific scoring model, such as the one used by ONDD, despite its lack of transparency, could be a satisfactory proxy. It is important to stress here that both the agreements of 1991, and those of 2001 and 2005 do explicitly account for default risk, on the basis of scoring model of ONDD exactly. This means that to derive an appropriate economic value of debt relief from a development perspective, for debt relief granted through *large scale, comprehensive* debt relief operations (only), default risk is appropriately proxied by the default risk scores from ONDD’s internal scoring model. Consequently, the default risk measure that is suggested in the 2001 and 2005 compensation agreements is identical to the one appropriate from a development perspective.

(4) *The use of ‘d’ in marginal versus comprehensive debt relief operations.* Finally, the discussion from section 2.2.2.2 also highlighted the inappropriateness of using the ‘d’ as derived from scoring models such as the one used by ONDD, in the case of valuing debt relief operations where the debt relief treats an amount of debt that is very small (‘marginal’) compared to the total debt stock. The reason is that the ‘d’ derived in scoring models denotes the ‘on average’ default rate, of the whole debt stock. For debt-ridden countries, the average value is not a good indicator of the default rate on the *last* unit of debt service that would have been paid (the marginal value). As the marginal value of debt is always higher than the average value of debt, or in other words the average ‘d’ always smaller than the marginal ‘d’, basing a valuation or compensation formula for small (‘marginal’) debt relief operations, say small buybacks, debt swaps, or debt flow rescheduling as in the Paris Club, on this average ‘d’ as derived from such scoring models (reflected in secondary market prices for debt) would overstate the value of the debt relief and result in a requested compensation that is higher than what would be the value of debt

<sup>81</sup> To the extent that full compensation is deemed legitimate, after compensation from DGD on the basis of the principles that we have set out, the remaining financing gap should be filled by another government budget; as export credits are typically a foreign trade policy instrument, the foreign trade budget is likely to be the most natural candidate.

relief from a development perspective. It is important to note here that this reasoning applies exactly to the compensations in the 1991 agreement. Of course, this means that for the correct determination of this marginal 'd', no simple 'objective' valuation methodology is available, unlike the case with the scoring models to derive average 'd'. The only thing that should be clear is that it is higher than this average 'd', and arguably close to 100% (the value of debt relief being close to zero).

The bottom line of our reasoning developed above is that both for the 1991 and 2001-2005 agreements, there is a difference between the compensation scheme outlined in the actual agreements, and the compensation as determined from a development perspective. Although both agreements do take into account the issue of default risk, for the 1991 agreement the difference lies in the fact that the compensation formula in the agreement starts from the nominal value instead of the PV, and that the default measure used (taken from the ONDD scoring model) is not a good proxy of the *marginal* default rate, appropriate when valuing marginal debt relief operations. To the extent that the PV of debt relief is lower than its nominal value, and the marginal default risk is higher than the average one from the ONDD scoring model, the compensation formula decided in the agreement is higher than the one appropriate from a development perspective. As such, this leads to the statement that DGD has been 'overpaying' on these 1991 compensations, again from a pure development perspective. The compensation agreements of 2001 and 2005, designed to compensate ONDD and MINFIN for HIPC debt relief, do score better because here the default risk measure used (the 'd' resulting from the ONDD scoring model) is a correct proxy, since HIPC debt relief is genuinely to be considered as comprehensive debt relief (for which use of the average 'd' is valid). However, since the compensation formula is still based on the nominal value of debt relieved, there is still a difference between the specific formula used and the one appropriate from a development perspective, in the case where there is a difference between nominal and present value of the debt relieved. In this case again, DGD is still 'overpaying' (relatively to what would be appropriate from a development perspective).

### 3.3.4 Situating the Belgian approach internationally

The assessment so far is rather negative, with respect to the compensation policies applied in Belgium. To what extent is this different in other countries? A detailed analysis is beyond the scope of this study, but it is clear from preliminary analysis that similar schemes are used in many other countries. To the extent that these compensation mechanisms exist in a particular country, most are even more generous than the Belgian scheme, where DGD only compensates part of the relief, aiming also to take into account elements of economic value. In some countries, such as in the Netherlands, as already explained, compensation mechanisms are elements in a broader policy to increase development effort (ODA), or at least keep it at a particular target level.

## 4.1 Analysis of the effects of HIPC debt alleviation in Cameroon

### 4.1.1 Background

Cameroon is an oil exporter. At the world level the country does not play a prominent role in the oil sector. But its oil exports are a major source of foreign exchange receipts and of public revenue. Because Cameroon's oil output tends to slightly decrease over time, the receipts and revenue from oil depend foremost on the evolution of the international oil price.

Because of the high oil price prevailing on international markets during the first half of the 1980s Cameroon continued to serve its debt obligations even when other developing countries had started defaulting. But when in 1986 the oil price collapsed and the prices of Cameroon's main other exports, including cocoa and coffee, continued to fall, the country entered a period of deep crisis. Between 1986 and 1994 per capita GDP in real terms fell by more than 40 percent and the percentage of the population below the poverty line increased. Cameroon started experiencing debt service problems. In 1989 it requested for the first time a debt rescheduling in the framework of the Paris Club. After the devaluation of the CFA franc at the beginning of 1994 Cameroon's economic situation improved. But fulfilling its international debt obligations remained problematic. In the course of the 1990s Cameroon had to apply four times for Paris Club debt rescheduling.

Cameroon was not eligible for debt relief under the original HIPC Initiative (1996) because the ratio of the Net Present Value (NPV) of its foreign debt to the value of its exports was below the threshold of 250%. But when in 1999 under the Enhanced HIPC Initiative this threshold was lowered the country could apply for HIPC debt alleviation. Cameroon obtained Decision Point status in October 2000 and was expected to reach its Completion Point in 2004. But due to a slippage in its economic policy in that year the country failed to obtain Completion Point status. Supported by a new increase in petroleum prices the country continued to honour strictly its debt obligations and was given Completion Point status in April 2006. This resulted in a steep decline in its foreign debt stock due to bilateral as well as multilateral creditors. Starting in 2006 Cameroon's interest payment on its foreign debt also started to decrease.

### 4.1.2 Management of the HIPC-funds

Before analysing the effects of the debt relief it is important to consider briefly the structure set up in Cameroon to manage the additional funds resulting from the decrease in the debt service due to HIPC debt alleviation.

One of the conditions to attain Completion Point status under the HIPC Initiative was to put in place a transparent system to enable good management, control and follow-up of the HIPC funds. To do so, the government agreed (i) to open an account at the Bank of Central African States (BEAC) and to transfer to this account the equivalent in CFA francs of the debt service saved under the HIPC Initiative, (ii) to create a consultative and follow-up committee to manage these funds ('Comité Consultatif et de Suivi', CCS), and (iii) to organise annual audits of the projects financed through the HIPC initiative.

The special account at the BEAC was opened in October 2000, and was credited each year by the Government of Cameroon with the savings of debt service resulting from debt alleviations under the HIPC Initiative. The account made it possible to separate the expenditures financed by debt service savings from the other budgetary operations, and facilitated their monitoring and audits.

The CCS was created by decree on December 1, 2000. Its role was to make sure that the HIPC resources were used efficiently and equitably, and were invested in projects aimed at reducing poverty and improving governance, as specified in Cameroon's PRSP. The president of the CCS is the Minister of Finance; the Vice-President is a representative of the civil society. The committee has 18 members, including six ministers, five representatives of bilateral and multilateral creditors, as well as representatives of the private sector, of religious groups and of the civil society.

Public institutions as well as institutions of the civil society were eligible to submit projects for financing by HIPC funds. A technical monitoring committee ('Comité Technique de Suivi') composed of six experts and a Permanent Secretary, was responsible for submitting the projects for approval by the CCS and was also responsible for the audits and for statistics concerning the resources used under the initiative. After projects had been accepted by the CCS they had to be submitted to parliament for the final decision. The implementation of the projects was managed by the Ministries (especially health, education and infrastructure) or by the NGOs who had submitted them.

This organisational set-up turned out to be cumbersome. The general opinion at the time at the end of 2008, when we visited Cameroon, was that the system was ineffective and lacked focus. The rate of disbursements of the funds was rather low. At the end of 2006 the cumulated expenses represented only about 40% of the amount committed. At the end of 2008 the account at the BEAC had a considerable positive balance. The CCS was supposed to meet at least once every three months. But when the country reached the Completion Point, it reduced the frequency of its meetings. Some of its members lost interest in the committee, as the Completion Point was seen as the end of the HIPC Initiative. Moreover the last audit was done in 2005. Most of our contact persons were in favour of a constructive exit plan for the special structure set up for the HIPC funds. But a number of them also favoured the existing practice of identifying in the budget the expenditures financed with resource set free under the HIPC Initiative<sup>82</sup>.

#### 4.1.3 Debt relief under the HIPC Initiative

In June 1999 the net present value (NPV) of Cameroon's foreign debt was equal to 205% of the value of its exports. The purpose of the HIPC debt relief was to reduce this

<sup>82</sup> A similar project was set up by the French Development Cooperation, funded by the equivalent of the cancelled debt service obligations on loans provided by France and not covered by the HIPC Initiative (Contrat de Désendettement en de Développement, C2D). This program has a firm decision structure and a focus on specific sectors including education and road infrastructure. At the end of 2008 it seemed to be on its way to a better performance than the management and decision structure for the HIPC funds discussed in the text.

percentage to 150%. At the time of the Decision Point it was estimated that to reach that goal, a reduction of the NPV of the foreign debt with 1.23 billion US\$ (2 billion US\$ in nominal value) was necessary. The nominal value of the debt involved in Paris Club debt relief at the Decision and the Completion Points (as well as the amounts involved in and the terms of earlier Paris Club debt treatments) are shown in table 4.1.

	Date	Terms of treatment	Consolidated amount (in mio US\$)	Cancellation rate
1	24/05/1989	Classical	535	Rescheduling only
2	23/01/1992	Houston	960	Rescheduling only
3	25/03/1994	London	1,258	50%
4	16/11/1995	Naples	1,348	50%
5	24/10/1997	Naples	1,270	50% to 67%
6	24/01/2001	Cologne	1,300	90%
7	17/06/2006	HIPC Initiative exit	1,829	90-100%

Source: Paris Club data

To obtain Completion Point status, Cameroon had to satisfy a number of conditions in the fields of macroeconomic policy, structural reforms and governance (including laws on the 'Chambre des Comptes', the public procurement system, the implementation of the budget and public service delivery and regulatory agencies for key sectors) and in the education and health sectors. As stated in subsection 4.1.1 in 2004 the evaluation was that the country had not fulfilled these conditions. But from then on the government tried to improve the management of public expenditures and to raise the expenditures in the social sectors. In April 2006 the IMF and the International Development Association agreed that Cameroon had met the conditions for reaching the Completion Point.

#### 4.1.4 Efficiency of debt relief

To analyse the efficiency of the debt relief we consider the evolution of the foreign debt and of the debt service, as well as the balance of payments and the government accounts. Cameroon's foreign debt decreased slightly in 2001, the year when it was given Decision Point status. In the two following years the stock of foreign debt increased again. But from 2004 it started decreasing, with a strong fall in 2006 when the country reached its HIPC Completion Point. The decrease preceding 2006 was probably due to the fact that Cameroon, supported by the increasing oil price, rigorously honoured its repayment obligations. The 2006 decrease was no doubt also due the debt relief upon reaching the Completion Point.

Cameroon's debt service decreased strongly in 2001, the Decision Point year. But in the following years it started rising again, with a peak in the debt service in 2005. In that year a large fraction of the debt service was for debt amortisation. In 2006 there was a strong decrease of the debt service, both of amortisation and of interest payments.

The third area of enquiry is the evolution of the balance of payments. In 1996 debt service payments were equal to 20% of exports. In subsequent years the figure decreased to reach one percent by 2007. This fall was partly the result of the increase in value of Cameroon's exports, especially those of oil. Nevertheless the current account balance remained negative until the year 2005. This was mainly due to the country's increasing imports. After 2005 the effect of the rising imports was more than counterbalanced by the decrease of interest payment and by the rising value of exports, the latter linked to the increasing oil price.

Finally we consider the evolution of the country's fiscal situation. With the exception of the year 2004, in each of the years from 2001 to 2008 Cameroon's government accounts were characterised by a positive balance. The size of this balance increased strongly in 2005 and in 2006. To some extent this positive balance was the result of the fall in interest payments (on internal and external debt) and of the rising government revenue from oil. After 2004 the second factor was dominating. In 2000 the oil revenues of the government were equivalent to 22% of public expenditure; in 2007 the figure had increased to 35%.

We conclude that the HIPC debt relief did contribute to a decrease of Cameroon's foreign debt and of its foreign debt service. The country's current account and fiscal balance also improved, especially after 2004. But these improvements were due more to the increased income from oil than to the decreasing debt service.

#### 4.1.5 Effectiveness of debt relief

To analyse the effectiveness of the HIPC debt relief for Cameroon we use four indicators: sustainability of the residual debt after the relief, credit ratings of Cameroon's foreign debt, the volume of total and private foreign investment and the evolution of poverty oriented public expenditure.

Debt sustainability can be measured by relating debt to GDP, to exports and to government revenue. In 2008 Cameroon's foreign debt was equal to 9.5% of its GDP, 45% of its exports and 52% of its government revenue. These figures are far below the maximal values formulated in the framework of the HIPC Initiative (respectively 40%, 150% and 250%). The "debt sustainability analysis" published by the IMF in 2008 characterises the risk of debt distress for Cameroon as "low". This conclusion remains valid under the hypothesis of a number of potential negative shocks.

The credit ratings of Cameroon's foreign debt have hardly changed since they were first published in 2003. Standard & Poor's presently rates Cameroon's short as well as long term foreign debt as B, the same rating as in 2003. The rating by Fitch is also B, again for the short term as well as for the long term debt. Again this is the same as Fitch's initial rating in 2003. At the end of 2004 – start of 2005 both rating agencies had lowered their ratings of Cameroon's foreign debt, but afterwards they restored the rating to the previous level. Remark also that based on its corruption perception index Transparency International puts Cameroon in 2009 at place 146 (the first ranked country is perceived as least corrupt) together with countries like Ecuador, Russia and Zimbabwe, out of a total of 180 countries.

In 1998 and 1999 Cameroon had been classified as the most corrupt country. But the total number of countries listed at the time had been only 85, respectively 99. Apparently the process of debt alleviation has not contributed to an improvement of Cameroon's international creditworthiness, nor to the quality of its governance, at least in as far as the latter can be measured by Transparency International's corruption perception index.

Thirdly we observe that between 2000 and 2007 total investment in Cameroon has increased. But the increase was concentrated in two years, 2001 and 2004. After the Completion Point was reached, total investment hardly changed. As between 2000 and 2007 GDP was rising, the ratio of investment to GDP did not show any trend. By far the most important component of investment is private investment. It dominates the evolution of total investment. Since the year 2000 private investment fluctuates around 10% of GDP. The absence of institutional improvements, electricity shortages and poor domestic market integration are mentioned as explanations for the relative stagnation of private investment. Public investment had strongly increased in 2001. Afterwards it fluctuated around the level reached in that year.

Finally we consider the evolution of pro-poor public expenditure. There is only a limited set of data on this topic. The International Development Association and the IMF estimate that public pro-poor expenditures have increased from 17% of total public expenditure in 2000 to 33% in 2006, and from 3.1% of GDP in the first to 6.3% in the second year. Other partial data also suggest an increase of the relative size of pro-poor public expenditure.

We conclude that HIPC debt alleviation has strongly contributed to the sustainability of Cameroon's foreign debt. But this is not reflected in an improvement of the country's foreign debt ratings since 2003. The perception of corruption as measured by Transparency International has also hardly changed in recent years. Total and private investment in Cameroon has increased, but the rise was discontinuous and limited to two years only. Debt alleviation has not resulted in rising private investment relative to GDP. The evolution of investment did not support an acceleration of economic growth. Finally after the year 2000 the share of pro-poor expenditures in total public expenditure did increase. This may be a result of the conditions for debt relief under the HIPC Initiative.

#### 4.1.6 Relevance of debt relief

To analyse the relevance of the HIPC debt relief we consider the growth of GDP and the evolution of poverty. But before starting the discussion we emphasise two points. First the evolution of GDP and poverty is the result of many factors; debt alleviation may be one of them. Second the impact of debt alleviation on economic growth and on poverty may happen with a time lag. At the end of 2008, when our research for the Cameroon case study was undertaken, most data were available only up to 2006 or 2007. The available data should show some of the impact of reaching the Decision Point and of the expectation of deeper debt alleviation, but not that of actually obtaining deep debt relief after reaching the Completion Point in April 2006.



	1994-2000	2000-2006
Global	4.5%	3.7%
Agriculture	7.0%	3.8%
Industry	4.7%	2.9%
Services	0.7%	6.9%

Source: *World Development Indicators (2008)*

As to economic growth, there was no growth acceleration between the six years up to the year 2000 and the six subsequent years. Between 1994 and 2000 GDP increased with an annual average of 4.5%. Between 2000 and 2006 the annual average growth rate was 3.7%. The growth acceleration is observed in agriculture. But in relative terms it was strongest in industry (including extractive industry). Only value added by services increased faster in the second than in the first period. It is not evident what explains the growth deceleration in a period of debt relief and increasing oil export revenue. If the debt relief and the prospect of even deeper cancellation had a positive impact on growth, this impact must have been limited and swamped by the negative impact of other determinants of growth.

Secondly we discuss the evolution of poverty. In Cameroon, as in most countries, direct data on poverty are available only for a few years. For Cameroon we have data on income poverty for the years 1996, 2001 and 2007. Between 2001 and 2007 the percentage of households with an average income below the poverty line was almost stable, at a level of approximately 40% of the population. In urban areas the percentage of poor people in the population decreased, but in rural areas it increased. We can compare this evolution with that between 1996 and 2001. The statistics show a strong decrease in the percentage of households below the poverty line between those two years. Analogous to our statement on the impact of the HIPC debt alleviation on economic growth, we conclude that, if debt alleviation had a positive impact on poverty reduction, this impact must have been weak and swamped by that of other determinants of poverty.

In addition to direct data on income poverty, we can consider also indirect indicators. In recent years we observe a slight decrease of infant and child mortality and a stabilisation of life expectancy. Infant and child mortality had been on the increase in the 1990s and life expectancy had been falling. The favourable evolution after the year 2000 was possibly affected by the conditions on the allocation of public expenditures for health which were part of the list of conditions to reach the Completion Point under the HIPC Initiative. Furthermore after the year 2000 the rate of participation in education and adult literacy kept increasing. This was the continuation of an existing trend. It is not clear to what extent the process of debt relief contributed to the observed increases.

Summarising we can state that the data available at the end of 2008, when the research for the case study of Cameroon was undertaken, do not allow us to state that HIPC debt relief has had a positive impact on economic growth or on the income poverty rate. It may have contributed to a positive evolution in the health sector. As stated at the beginning of this

subsection, it is possible that the impact of debt alleviation becomes active with a time lag and that data for subsequent years will show a positive impact on economic welfare.

#### 4.1.7 Coherence

We only consider the coherence of the policies on debt relief and on development assistance. All data we use are in US\$ at constant 2008 prices. We compare data on ODA for the years 1993-2000, when debt alleviation for Cameroon remained limited (annual average of less than 100 million US\$) with data for the years 2001-2008, the period of massive debt alleviation (annual average of almost 700 million US\$, with considerably higher figures for the years 2006-2007). Annual average ODA, excluding debt alleviation, decreased from 410 million US\$ in 1993-2000 to 234 million US\$ in 2001-2008. The averages suggest that debt alleviation was associated with a decrease of official development assistance. But this statement should be qualified. First the yearly data on ODA, excluding debt alleviation, suggest a decreasing trend between 1993 and 2000. In the second period, after 2002, we observe a decrease of ODA, but in 2006-2008 it rose to a higher level. Secondly the decrease of ODA, excluding debt alleviation, is only observed for ODA loans and not for grants. Net ODA loans were negative in all years after 2001. This means that repayments exceeded new ODA loans. Grants, excluding debt relief, increased from an annual average of 281 million US\$ over the years 1993-2000 to 310 million US\$ over the period 2001-2008. That ODA loans decreased in a period of debt alleviation is not unexpected. Indeed it would not be consistent to give debt relief with one hand, while creating new debt with the other. The increase of grants to Cameroon over the years 2001-2008 is remarkable because the second half of this period was characterised by increasing foreign exchange receipts and public revenue from oil exports.

We conclude that, contrary to the first impression, the data suggest that the development assistance policy of the donors-creditors was not incoherent with HIPC debt relief.

## 4.2 Analysis of the concrete compensation case on Cameroon

As already briefly mentioned, as part of the 2001-2005 HIPC compensation agreements, ONDD introduced a compensation claim to DGD in 2006, as a consequence of the country reaching completion point status, and signing an exit agreement (Cameroon 7), both in the Paris club and bilaterally with Belgium. In follow up to decisions taken at EU level, the country was granted not only HIPC but also additional bilateral debt relief, resulting in a 100% cancellation on its remaining eligible claims<sup>83</sup>. The claim amounts to 70.6 million EUR, and is left unpaid since. In this section we describe how ONDD applied six consecutive Paris Club agreements, during the 1989-2001 period, to its claims on Cameroon. Subsequently we present the amount and composition of the debt cancellation by the ONDD at exit, and the calculation of the final claim to DGD. In doing so, we also

<sup>83</sup> Also MINFIN cancelled its remaining claims, for a total amount of 20.56 million EUR. We do not consider this further here.

take into account compensations that were already made by DGD in the meantime, in execution of the 1991 compensation agreement. Finally, in section 4.2.2, we briefly introduce the Belgian-Cameroon Development Fund.

#### 4.2.1 The ONDD behaviour in Paris Club consolidations for Cameroon

Between 1989 and 2001, Cameroon and its external creditors agreed on six debt consolidations in the framework of the Paris Club. The first two agreements provided a rescheduling of the country's debt service. But from the third agreement (March 1994) onwards, creditors could opt for debt relief in the form of reduction of the principal or the interest rate. The sixth agreement was consecutive upon the country reaching its HIPC Decision Point. Table 4.4 provides a brief account of how ONDD applied the six debt rescheduling/ debt relief Paris Club agreements on Cameroon's external debt up to and including the agreement after the country was given Decision Point status. The cut-off date for all agreements was December 1988. Debts contracted afterwards were not included in the successive debt rescheduling agreements. The table shows two prominent features of the ONDD stance on debt rescheduling/relief. First the ONDD opted as long as possible for simple rescheduling, rather than for debt relief<sup>84</sup>. Only when the fifth Paris Club agreement (October 1997) made mandatory a debt reduction of 50% in present value terms did the ONDD change its stance and start opting for interest rate reductions. But Belgium was not the only Paris Club member postponing debt relief as long as possible. Other countries, e.g. Germany, the Netherlands, the United Kingdom and the United States delayed the granting of debt alleviation until it became mandatory in the fifth Paris Club agreement. Other countries opted for debt relief when it was included as an option in the third agreement. Canada and France e.g. opted for a cancellation of the principle by 50%, whereas Austria, Denmark, Spain, Italy and Switzerland started reducing the interest rates on rescheduled debt.

<sup>84</sup> As noted earlier, the ONDD claims that the choice for the rescheduling option, and for the debt service relief option (instead of the debt stock relief option later) was due to the fact that it did not get approval from the Belgian government to go for another option.

Table 4.3 Belgian participation in debt consolidations in the framework of the Paris Club					
	Date of decision Paris Club b) Date of agreement Belgium-Cameroon	Total amount treated in Paris Club (in mio US\$)	Paris Club terms for (non-ODA) claims on Cameroon	Amount treated by ONDD (in mio EUR)	ONDD terms
I	a) May 24, 1989 b) Nov 22, 1991	535	<b>Classic terms</b> Rescheduling at market rate over 10 years including 5 year grace	18.4	Rescheduling (at market rate) of future debt service payments due on original claims over 1996-1999; and of arrears over 1994-1997
II	a) Jan 23, 1992 b) Sept 17, 1992	960	<b>Houston terms</b> Rescheduling at market rate over 15 years including 8 year grace	42.0	Rescheduling (at market rate) of future debt service payments due on original claims and debt service payments due on consolidation I over 2000-2007; and of arrears and penalty interests over 1998-2006
III	Mar 25, 1994 Jan 27, 1995	1,258	<b>London terms</b> Menu of options: • "debt stock reduction option": cancellation of 50% of the claims treated, the outstanding part being rescheduled at market rate • "debt service reduction option": rescheduling at reduced interest rate • "debt rescheduling (or commercial) option": rescheduling at market rate over a longer period	57.4	Rescheduling (at market rate) of future debt service payments due on original claims and interest payments due on consolidations I and II over 2009-2019; and of arrears and penalty interests over 2002-2009
IV	Nov 16, 1995 Apr 23, 1997	1,348	<b>Naples 50% terms</b> Menu of options: • "debt stock reduction option": cancellation of 50% of the claims treated, the outstanding part being rescheduled at market rate • "debt service reduction option": rescheduling at reduced interest rate • "debt rescheduling (or commercial) option": rescheduling at market rate over a longer period	38.0	Rescheduling (at market rate) of future debt service payments due on original claims and debt service payments due on consolidation I and II over 2012-2021; and of interest payments due on consolidation III, arrears and penalty interests over 1999-2011 (in progressive installments)
V	October 24, 1997 Jun 17, 1998	1,270	<b>Naples 50% terms</b> Menu of options to achieve a 50% reduction of NPV: • "debt stock reduction option": cancellation of 50% of the claims treated, the outstanding part being rescheduled at market rate • "debt service reduction option": rescheduling at reduced interest rate	45.0	50% reduction of NPV (on most of the debts involved) by interest rate reduction combined with rescheduling of repayments over 1999-2022 (in progressive installments); and by rescheduling of repayments over 2000-2004
VI	Jan 24, 2001 Sept 17, 2002 Amendments Nov 19, 2004 Feb 16, 2006	1,300	<b>Cologne terms</b> Menu of options to achieve up to 90% reduction of NPV: • "debt stock reduction option": cancellation of up to 90% of the claims treated, the outstanding part being rescheduled at market rate • "debt service reduction option": rescheduling at reduced interest rate	77.0 17.1 23.2	34%-90% reduction of NPV by interest rate reduction combined with rescheduling of repayments over the period 2002-2035 (in progressive installments); by rescheduling of repayments over the period 2008-2025 (in progressive installments); and by interest rate cancellation combined with rescheduling of repayments to 2124 (single bullet repayment)

Source: ONDD, Paris Club

The second feature of the ONDD stance is a progressive lengthening of the repayment period. This went from a five year grace period combined with a four years repayment period in the first agreement (1989) to a grace period of ten years combined with a ten years repayment period for certain debts under the fifth agreement. Moreover in order to reach the agreed debt reduction in (N)PV terms, repayments were made progressive over time.

Table 4.4 also shows that in order to reach a debt reduction of 67% in net present value terms in the sixth agreement (2001) the repayment periods became even longer and for some of the debts 90% of the principle was to be repaid in one bullet payment in the year 2124.

After Cameroon was given Completion Point status in April 2006, the Paris Club decided on complete cancellation of debt resulting from the second and third rescheduling and on substantial reduction of the other debt resulting from loans originally contracted before the cut-off date. In application of the Paris Club agreement, the ONDD agreed to cancel the outstanding debt resulting from rescheduling agreement two to six (the debt claims resulting from the first agreement had been paid or rescheduled). Article three of the bilateral agreement states explicitly:

« L'ONDD confirme que la République [du Cameroun] n'a plus aucune obligation de paiement à son égard en vertu des conventions bilatérales [deux à six] »

As can be seen in table 4.5, the total amount of debt involved was 216.9 million EUR, including interim interest from the date of the bilateral agreement. If we exclude the latter, the total amount of debt and interest cancellation was 215.9 million EUR. Out of this 67.6 million EUR were claims originating on ONDD's own account and 124.1 million EUR were claims on the State account. The remainder consisted of remaining claims of the original insurance takers or of reinsurers.

	Principal	Capitalised interest	Interim interest	Total
Total	92.3	123.7	1.0	216.9
o/w for account of ONDD	26.9	40.5	0.3	67.6
o/w for the State account	59.5	64.0	0.6	124.1

Source: ONDD

Table 4.5 also shows that more than half of the debts cancelled consisted of accumulated interest. The difference between accumulated interests and principal was especially high for the claims on the ONDD's own account.

In order to calculate the compensation claim, two adjustments have to be made. First, in the discussions preceding the decisions of the Council of Ministers it had been agreed that the compensation to be paid to the ONDD would be on the basis of the 'economic value' of the debts, calculated on the basis of an ONDD model applied to the situation 'in

tempore non suspecto' (i.e. at the end of 1999). For Cameroon the application of the formula resulted in an economic value of 46% of the nominal value. Second, rescheduled debts for which Development Cooperation had already paid compensation would not be eligible for a new compensation. Table 4.6 shows the list of previous operations, in execution of the 1991 agreement. As shown, six operations have been realised in this context. The first operation (March 1996) was the purchase of a claim, under the swap window, of approximately 439.4 million BEF (10.9 million EUR) at 33% of its nominal value. As such, DGD paid around 145 million BEF or 3.6 million EUR. The remaining five operations were (partial) compensations of Paris Club debt relief by the ONDD.

Date	Nature of operation	Amount of claim/debt cancellation	Purchase price
Mar 6, 1996	Purchase of claim on government account (swap)	10.9	3.6
Dec 13, 2000	Participation in Paris Club debt relief	8.1	4.1
Aug 2, 2001	Participation in Paris Club debt relief	6.1	3.1
Jan 24, 2001	Participation in Paris Club debt relief	5.5	2.7
Nov 14, 2002	Participation in Paris Club debt relief	9.9	5.0
Nov 14, 2002	Participation in Paris Club debt relief	8.5	4.2
<b>Total</b>		<b>49.1</b>	<b>22.7</b>
<b>of which: Participation in Paris Club debt relief</b>		<b>38.2</b>	<b>19.1</b>

Source: ONDD

Taking into account these operations, table 4.7 presents the final claim. It takes into account previous compensations by subtracting it from the nominal value of the claim; finally the remaining amount is multiplied by the so-called economic value of the claim, which comes from the internal scoring model of ONDD, to arrive at the combined claim of 70.6 million EUR.<sup>85</sup>

	Nominal value	Debt compensated in previous operations	Basis for calculation of claim	Claim (46% of previous column)
Own account	67.6	-	67.6	31.1
State Account	124.1	38.2	85.9	39.5

Source: ONDD

It was also attempted to calculate the effect of separating the two (2001 and 2005) agreements, into the debt relief which would result from a strict application of the HIPC Cologne terms of debt relief (i.e. a 90% cancellation in NPV), as agreed upon in the 2001 agreement, and the remaining debt relief resulting from the decision to move instead to

<sup>85</sup> This claim remains unsettled as of today.

100% cancellation, subject of the 2005 agreement. In NPV terms the extra 10% of debt relief looks like a small effort. However, in nominal terms, the difference can be substantial. In the case of Cameroon, strict application of the Cologne terms on the same 216 million would lead to a cancellation of about 73 million, still leaving intact a claim of about 43 million EUR, together with bullet principal repayment in the year 2124 of 100.4 million EUR, summing to 143.7 million EUR of remaining claims.

As already explained earlier in our general assessment of the compensation agreements (section 3.3.3), the subject of our evaluation is not to determine whether ONDD is entitled to a compensation, and for how much; the aim is limited to highlighting the level of intervention (compensation paid from the DGD budget) that can be defended from a development perspective. This also goes for the evaluation of the Cameroon compensation claim. As again highlighted in the general assessment, the only remaining difference between the compensation formula (used in the 2001 and 2005 agreements) and the value of debt relief from our preferred 'economic value' perspective, is the fact that in the compensation agreement the basis for calculation is the nominal value of the debt cancelled, while in our framework it is the present value. Applied to the concrete Cameroon case, this would mean that the basis for calculation of the claim, as in the before last column of table 4.7, namely 153.5 million EUR, being the sum of 67.6 million and 85.9 million EUR of claims for account of the ONDD and the State respectively), which is in nominal terms, should first be calculated in present value, at the appropriate discount rate<sup>86</sup>. The claim would then be calculated as 46% of that PV.

#### 4.2.2 A counterpart fund in the framework of debt relief: the *Fonds de Développement Belgo-Camerounais*

In the framework of the contribution of the Belgian Development Cooperation to the financial reorganisation of the ONDD, in 1995 Belgium and Cameroon agreed to set up a counterpart fund to administer funds made available by the government of Cameroon as counterpart for a debt swap operation. The *Fonds de Développement Belgo-Camerounais* (Belgian-Cameroon Development Fund, here abbreviated as FDBC) was set up by a special agreement dated December 28, 1995. It resulted from the purchase by the DGD of claims of the ONDD on Cameroon of a total value of 10,892,146 EUR (439.4 million BEF). The DGD paid 3,594,408 EUR for these claims, 33% of their nominal value. Cameroon contributed the equivalent of this amount in FCFA to the FDBC. Cameroon also transferred to the Fund its contribution to some other projects, including the first phase of the rural telecommunications project, so that the total amount available to the FDBC was approximately 5.6 million EUR. Belgium did not make additional contributions to the Fund. The Fund's resources were to be used for projects in the social and production sectors. On April 18, 2001 the Belgian Technical Cooperation took over the role of the DGD in the Fund.

The FDBC was governed by a *Comité Paritaire*. The members of this committee were a representative of the *Caisse Autonome d'Amortissement* and of the Ministry of Finance of

Cameroon, the resident representative of BTC and the Belgian *attaché* for Development Cooperation. A *Comité de Suivi*, composed of the members of the *Comité Paritaire* and of representatives of the beneficiary technical ministries, was in charge of monitoring the projects financed by the Fund. The daily administration and financial management of the fund were in the hands of a coordinator paid by the FDBC.

In the course of its operation three projects were submitted to and financed by the FDBC

- (1) a drinking water supply project in the university town Soa started up in 2004;
- (2) the rehabilitation of drinking water fountains in Sanaga Maritime, started up in 2006;
- (3) a rural water project in the Batcham district, started up in 2005.

The project formulations suggest that all three these projects met real local needs. But there seem to be no systematic reports on the projects' implementation and operation. We therefore cannot evaluate in how far the projects a posteriori were effective in meeting those needs.

In addition to those projects the FDBC allocated 251,000 EUR to the BTC for the latter's contribution to the implementation of a European project of tropical forest management.

The question rises whether the FDBC did contribute to the development of Cameroon, over and above what straightforward debt forgiveness would have contributed. In the latter case the equivalent of Cameroon's contribution to the Fund would have been available for the general budget of the country and could have been used for general government expenditures, current as well as investment expenditures. There are at least four reasons why setting up a counterpart fund mechanism did probably not make an additional contribution to the development of the country.

First, it is not clear whether in the absence of the FDBC the projects under consideration would not have been financed by the government. If not this could be interpreted as an indication that they had no high priority. Second, from a procedural standpoint the process of analysing and sanctioning these projects experienced problems similar to the problems that probably would have arisen if the projects had been financed by the national budget: bureaucracy, dependence on the ministry in charge of water and energy and rivalry with other administrative bodies. Third, it is not clear whether the Belgian representatives in the governing bodies of the FDBC made specific contributions to the quality of the decision making and to the follow-up of the decisions. The role of the Belgian representatives was made especially difficult because Belgium was downsizing and winding up its cooperation with Cameroon. Finally there were no procedures for monitoring and evaluating the execution of the projects and their operation.

In 2008 it was decided to stop the operation of the FDBC and to transfer the balance of approximately 72,000 EUR to the Cameroon's government, specifically the *Ministère de l'Economie, de la Planification et de l'Aménagement du Territoire* and the *Caisse Autonome d'Amortissement*. The *Caisse Autonome d'Amortissement* would report on the use of the FDBC's balance to the to the Belgian *Attaché* for Development Cooperation residing in Cotonou. This report has not been received.

<sup>86</sup> As highlighted again in the general assessment, by using as an appropriate discount rate the Commercial Interest Reference Rate (CIRR), as of April 1, 2006 (equal to 4.36%).

Debt relief is a chameleon. It can take on different colours, making it resemble several other aid modalities, basically depending on the type of conditionalities attached. In order to allow for a correct comparison with these other aid modalities (in cash flow terms), and to judge its relative usefulness from a development intervention perspective, debt relief is measured best at its economic value, i.e. the present value (PV) of all the debt service payments which the debtor would have done on the debt relieved, in the absence of this debt relief intervention. In theory, the ODA accountability of debt relief should follow this same economic value criterion, but in practice it is not, grossly overstating it, and making the ODA-accountability an additional element in the ‘politics’ of debt relief.

There is widespread consensus that international debt relief during the 1990s, i.e. pre-HIPC debt relief, performed rather poorly on the dimensions of efficiency, effectiveness and relevance. All this is not illogical, as pre-HIPC debt relief very much resembles old-style project aid, and piecemeal and even larger scale debt relief in the Paris Club as well as under the original HIPC initiative shares a number of features with aid disbursed during the heydays of the Structural Adjustment Program (SAP) logic. Both project aid and SAPs were heavily criticised, even by donor organisations themselves, for failing to bring about the promised development results. Debt relief that mimics these forms of aid can therefore not be expected to perform a lot better. Moreover, with respect to the impact of debt relief on recipient country (budgetary) cash flows (‘fiscal space’), early debt relief efforts typically involved debt titles that were not going to be repaid in the first place (hence having an economic value close to zero), hence leading to negligible fiscal space effects .

In fact, the Belgian debt relief operations during that period mimicked international practice. This is not surprising, as on the debt relief field, the degree of international donor harmonisation has always been high, especially among those bilateral creditors (such as Belgium) joined in the Paris Club: in order to ensure equal treatment, they agreed on ‘common terms’ of debt rescheduling/debt relief and then implemented these agreed-upon common terms in bilateral agreements without a lot of policy space left. As such, before the HIPC-Initiative, the Belgian debt relief interventions consisted of debt rescheduling/debt relief operations through the Paris Club, both on its concessional (ODA-)claims (bilateral loans, the so-called ‘State-to-State loans’), administered by the Treasury (Ministry of Finance, MINFIN), as well as on its non-concessional (non-ODA)claims, originating from export credits insured by the Belgian semi-public export credit agency ONDD (Office National du Dueroire - Nationale Delcrededienst). Belgium acted pro-actively, frontloading some debt relief by cancelling MINFIN-administered concessional bilateral claims on a series of low income countries in 1990 and 1994. Development Cooperation (DGD) was as such not involved, as it does not administer debt claims, but became a direct party from 1991 on, when it was forced to contribute to solving the financial problems of ONDD, as a result of large scale non-payment and rescheduling of ONDD- held claims due to the debt crisis. From then on, DGD engaged in so-called compensation payments to ONDD, amounting to 13.64 million EUR annually, in order to help servicing the so-called ‘financial reorganisation loan’ of 1991, that was contracted by the Belgian State to recapitalise ONDD. These compensations consisted of either partly compensating ONDD for debt relief granted in the Paris Club, or, more actively, buying



debt claims from ONDD at a discount, and swapping them with the original debtor country in exchange for local counterpart funds to be used for development purposes (the so-called debt swaps). Although this swap window to some extent allowed DGD to become a pro-active internationally-recognised player in the debt relief field, generating additional debt relief and also ODA, ex post assessment of these swaps is fairly negative, as already indicated above. During the period 1988-99, Belgium provided about 500 million EUR of debt relief, as measured on the basis of gross ODA accounting rules. In short, Belgian debt relief operations during the period before 2000 were not efficient overall, as they mimicked SAPs (through the Paris Club debt relief) and old style project aid (through the debt swaps). Moreover, despite trying to incorporate elements of ‘economic value’ reasoning when renegotiating the compensation agreements later on, the compensation formula used continued to lead to compensation payments higher than the one deemed appropriate from a development perspective. This is because the starting point of the compensation formula was the nominal value of the debt (instead of its lower PV), as well as because the discount applied to take into account default risk, taken from ONDD’s own internal scoring model, was not appropriate in case of such small (‘marginal’) debt relief operations; as such, DGD kept ‘overpaying’ for the debt claims they acquired for swaps or compensated. To the extent that these compensations had to be paid out of the regular budget, and did not produce budget additionality, this came at the expense of the regular DGD aid interventions. Finally, DGD was not very successful in increasing its leverage on the other Belgian actors involved, the reasons being a.o. political power imbalances between the agencies, information asymmetry, as well as ‘institutional’ problems at DGD level (with respect to sustained expert capacity, cabinet-administration information sharing, constant restructuring of the administration). As a result, Belgium, mainly on the ONDD claims, continued to use its remaining policy space in Paris Club decisions in a conservative way, in the sense that it tried as much as possible to keep the face value of the claims intact.

The key question, that presents itself in this evaluation, is whether the efficiency, effectiveness and relevance of international debt relief practices, and Belgian interventions, has improved in the period from 2000 onwards, when poverty reduction was explicitly formulated as an additional objective of debt relief in the (enhanced) HIPC Initiative?

Our analysis concludes that, overall, the international debt relief efforts during the last decade can be evaluated as broadly efficient as well as effective. The HIPC Initiative managed to reduce debt levels of the HIPCs to sustainable levels, at least after completion point, with additional bilateral and MDRI relief reducing debt burdens even further. Moreover, the (PRSP) process conditionality attached, focusing on improving institutional governance and an increase of the overall pro-poor commitment of recipient country policies and budgets, did increase pro-poor resources available and improved the governance level. There is less (robust) evidence that recent debt relief was truly relevant, i.e. did cause an increase in economic growth and in poverty reduction. Furthermore, the HIPC Initiative further strengthened global creditor coordination and harmonisation in the debt field from the Paris Club to the complete international (donor) community, with the G-8 and multilateral institutions such as IMF and the World Bank now taking the lead, adding to coherence with other aid interventions internationally. These results are quite

similar to results from evaluations of (general) budget support. Again this is hardly surprising: from an aid modality equivalence perspective, most of the debt relief granted in this period indeed looks very much like (general) budget support, both in terms of the conditionality attached, as well as with respect to the cash flow equivalence, especially for additional bilateral Paris Club debt relief (where Paris Club donors decided to go beyond strict HIPC terms and grant HIPCs 100% cancellation of bilateral claims) and MDRI debt relief by four multilaterals, again on top of HIPC debt relief, albeit for HIPCs only. The international community also engaged in a number of (sometimes large scale) debt relief interventions outside the HIPC framework, such as for Iraq and Nigeria. This raises the issue of the considering debt relief for other, so far excluded, countries, for both motives of equity and appropriateness. In the absence of perspectives of new major initiatives in this respect, the debt swaps practice reappeared at the debt relief scene; it was usually promoted by sector multilaterals or global funds, or in the field of climate change. Overall, this approach remains inefficient and ineffective, unless engineered very carefully.

Finally, regarding types of debt relief, the current interventions, resembling very much general budget support also fit very well in the new aid approach (NAA); in fact, the NAA was pioneered through the HIPC initiative and mainstreamed later on.

As debt relief decisions continued to be determined and governed largely at the international level, and even more so than in the nineties, also Belgian debt relief, as part of the total effort, became more efficient and effective. Although Belgium was not particularly pro-active in designing and implementing the new debt relief approach under the HIPC/MDRI Initiatives, it was very accommodating in executing it. In the Paris Club, the policy space for Belgium to keep choosing more conservative options in debt relief operations on ONDD claims reduced, and together with Belgium joining the EU-consensus to move to full cancellation of Paris Club bilateral claims, this led to a number of substantial debt relief operations for say Cameroon, DRC, and also, on ONDD claims, for Iraq and Nigeria. Furthermore, Belgium, largely on the DGD budget, also engaged in a number of other types of (multilateral) debt relief interventions, some voluntary and some not, in the context of the HIPC/MDRI initiative, such as contributing to the HIPC Trust Fund, or MDRI financing, or financing the clearance of arrears towards the IMF, such as in the case of a Burundi operation. All these multilateral operations are evaluated as efficient and effective operations. Altogether, during the recent decade, Belgium provided about 2.3 billion EUR of debt relief, expressed (largely) in nominal terms; of this total, nearly 2 billion EUR was on ONDD-claims. Nearly all of this debt relief could also be accounted as extra ODA. However, as ODA accounting rules did not change, overvaluation remains an issue here. This is an important element in the Belgian policy, as debt relief is as such very instrumental in helping to increase ODA efforts to the targets promised in the growth path policy (aiming for 0.7% of GNI in 2010).

On top of the 1991 compensation agreement, two new compensation agreements were negotiated during this period to (partly) compensate MINFIN and ONDD for their cancellation efforts in HIPC countries (only); the 2001 agreement dealt with strict HIPC initiative debt relief, while the 2005 agreement dealt with the additional effort to go

beyond HIPC and provide 100% bilateral cancellation. As was the case with the enhanced 1991 agreement, also here, the calculation of the compensation is based on the notion of ‘economic value’, but since the discount is applied to the nominal value of calculation, instead of the (typically lower) PV, the compensation that was negotiated was still higher than the one deemed appropriate from a development perspective, as proxied by the ‘economic value’ of the debt claims cancelled defined in this evaluation. Partly as a result of this, some of the claims under the new compensation agreements remain disputed and unsettled as of now.

The field case study performed on Cameroon overall conformed the general results described above. Cameroon is a typical country of repeated rescheduling in the Paris Club, at ever growing degrees of debt relief incorporated, and an exit in 2006 when it received full cancellation of its Paris Club eligible claims. Overall, debt relief, especially in the recent period, was deemed both efficient and effective, but no robust sign of relevance could be detected; moreover, the period of analysis is also characterised by a substantial increase in foreign exchange revenues from exports, making full attribution difficult.

From the analysis, a few concrete policy consequences are drawn, both at the international as well as at domestic level.

At the international level, it is observed that a number of HIPCs, after having received debt relief that makes their debt sustainable, again experience problems to keep their debt at a sustainable level in recent years. The current monitoring framework to assure this, a combination of monitoring through the Debt Sustainability Framework (DSF), and initiatives to promote responsible future lending and borrowing, although both very useful and valid, can not in itself assure long-term sustainability, as also proven during the current global international financial and economic crisis, because of the remaining vulnerability of those countries to (negative) external shocks. As such, the international community should be more pro-active in designing innovative schemes to increase the contingent nature of debt claims, better matching debt service due with capacity to pay evolutions.

Second, in theory, aid accounting of debt relief should better resemble the economic value of debt relieved. This would reduce the incentives of donors to use debt relief to inflate the ODA figures, without increasing their real development effort. It would also help in limiting compensation payments on debt relief granted on export credit claims, to the economic value of their intervention.

Finally, regarding the type of debt relief interventions, the recent return to debt swaps, deemed inefficient, is worrisome, unless these operations are engineered in a very careful way and are scaled up in order to become more efficient.

At the Belgian level, from the analysis, the following policy consequences can be drawn:

First of all, the quality of debt relief interventions by DGD could be enhanced by curing a number of Belgian ‘institutional’ problems in the field. The lack of sustained long term

expert capacity in the administration should be cured; furthermore, existing information asymmetries can be cured by better information sharing. One effective and relatively easy solution could be to include a member of DGD in the delegation to the Paris Club.

Regarding alternative types of debt relief operations, so far, Belgium has not engaged in one particular type, i.e. funding the IDA Debt Reduction Fund, in which the funds are used to help recipient countries buyback remaining commercial claims at high discounts. Generally, this type of intervention is evaluated as highly efficient in its kind. As such, Belgium might consider using this option in the future, e.g. in the context of DRC. In case Belgium should consider using debt swaps again (debt-for-nature swaps, etc.), they should be engineered very carefully (as ‘new-style projects’), so as to avoid the typical pitfalls of this type of intervention.

Finally, this evaluation suggests that the development efficiency and coherence of the 2001 and 2005 agreement regarding ONDD claims can be improved when these agreements would match better with the economic value of the debt cancelled. This can be achieved by applying the discount not to the nominal value of the cancelled debt, but to its present value instead.

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## Annex 1: Stages of the evaluation and list of key informants

Complementary to the methodological chapter 1 of the main report, in which the logical framework of the evaluation is described in detail, this annex provides a brief description of the evaluation process. More particularly, it describes the different stages of the evaluation, and the process of gathering information, including the indication of key informants interviewed.

The evaluation has been conducted in three stages, a desk study, mainly in Belgium, a field mission to Cameroon, and an analysis stage at ONDD in Brussels.

The desk study stage consisted of conducting a literature review on the international literature on debt relief, as well as gathering key documents on the Belgian debt relief practice and conducting a series of interviews with key informants in Belgium.

The literature review on the international debt relief focused on the theory and practice of debt relief, both on the pre-evaluation period (i.e. before the HIPC initiative), as well as during the period of investigation, i.e. on the HIPC/MDRI initiative itself. This literature review was regularly updated during the evaluation, so the evaluation could finally span the full recent decade, from 2000 to the end of 2009. During this period of evaluation, the evaluation also benefitted from a member of the team attending two key international conferences on debt relief, both co-organised by the World Bank (one in Washington DC in October 2008 and one in Tunis at the end of March 2010), which were very instrumental in gathering the most recent information and meeting key international actors and academics in the debt relief field. Also a (written) interview was conducted with Mr. Kiekens on the role of IMF in debt relief issues (as well as on the Belgian position); comparable information on the World Bank position was gathered through Mr. Godts at the Ministry of Finance.

The process of information gathering on the Belgian practice and conducting interviews with key Belgian actors started in the beginning of 2008, by conducting interviews with key actors from the three main agencies involved, i.e. DGDC (Lutgarde De Groof), the Ministry of Finance (Franciscus Godts and Eddy Boelens) and ONDD (Thibaut De Haene and Anton De Doncker). On the one hand, the team could benefit from previous work on this topic for Belgian development cooperation actors (e.g. within the framework of short term and long-term policy-support contracts for DGDC within the V.I.R.-intermediated 'beleidsvoorbereidend onderzoek', BVO, and 'beleidsondersteunend steunpunt', BOS), for which it had already gathered a lot of the internal documents, but, on the other hand, these interviews did not generate the minimally necessary information to conduct the evaluation as planned in the inception, methodological report, mainly with respect to information to be provided by ONDD. Part of this information was provided by ONDD in November 2008.

Partly also on the basis of this additional ONDD information provided end of in 2008, the second stage of the evaluation was a field mission to Cameroon to analyse the effects of

debt relief in a particular recipient country. The field mission was executed by two members of the team (Lode Berlage and François-Xavier de Mevius) in December 2009. The list of contacted people is added in the country mission report (Annex 4.1).

In order to be able to finish the evaluation, a third stage of the evaluation planned for a detailed historical reconstruction, for one particular country, namely Cameroon, of the evolution of the claims of ONDD, from the original exposure through a series of rescheduling agreements, up to the final (exit) debt relief operation for that country, and the elaboration of the compensation claim by ONDD to DGDC. This last stage could start at the end of May 2010, and involved a series of work meetings with ONDD staff in Brussels (mainly with Mr. Anton De Doncker) to jointly reconstruct and analyse the particular case. This stage could be finished at the end of August 2010.

Jointly with the execution of the third stage, the team then conducted a final update on the work done under two other stages, in order to be able to produce a draft final report of the evaluation at the end of August 2010. In order to do this, the team engaged in a series of final update meetings with key Belgian informants, including Lutgarde De Greef (DGDC) and Erwin de Wandel (Policy Cell Minister of DC), Eddy Boelens (Ministry of Finance).

The draft final report was then discussed with the evaluation steering group on September 13, 2010.

## Annex 2.1: Paris Club terms of treatment

Table 1: Paris Club Rescheduling Terms									
	1988	1990	1991	1994	1996	1996	1999	1999	1999
	Toronto Terms	Houston Terms*	London Terms	Naples Terms	Lyons Terms		Cologne Terms**		
	Flow Approach	Flow Approach	Flow Approach	Flow Approach	Stock Approach	Flow Approach	Stock Approach	Flow Approach	Stock Approach
<b>Concessional (ODA) debt</b>									
cancellation %	0%	0%	0%	0%	0%	0%	0%	0%	0%
reschedule %	100%	100%	100%	100%	100%	100%	100%	100%	100%
maturity (years)	25	20	30	40	40	40	40	40	40
grace (years)	14	up to 10	12	16	16	16	16	16	16
interest rates	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate	less than or equal to original rate
<b>Non-concessional (non-ODA) debt</b>									
<b>Debt Reduction (Option A)</b>									
cancellation %	33%	na	50%	67%	67%	80%	80%	90%***	90%***
reschedule %	67%		50%	33%	33%	20%	20%	10%	10%
maturity (years)	14		23	23	23	23	23	23	23
grace (years)	8		6	6	6	6	6	6	6
interest rates	market rate		market rate	market rate	market rate	market rate	market rate	market rate	market rate
<b>Debt Reduction (Option B)</b>									
cancellation %	0%	0%	0%	0%	0%	0%	0%	0%	0%
reschedule %	100%	100%	100%	100%	100%	100%	100%	100%	100%
maturity (years)	14	up to 15	23	33	33	40	40	125	125
grace (years)	8	up to 8	0	0	3	8	8	65	65
interest rates	reduced rate	market rate	reduced rate	reduced rate	reduced rate	reduced rate	reduced rate	reduced rate	reduced rate
<b>Previously refinanced debt</b>									
			Top up to 50% PV relief	Top up to achieve 67% PV relief		Top up to achieve 80% PV relief		Top up to achieve 90% PV relief	
<b>Debt Conversion Option</b>									
ODA debt		no limit	no limit	no limit		no limit		no limit	
non-ODA debt		30% or SDR 40m	10% or US\$ 10m	20% or SDR 30m		30% or SDR 40m		30% or SDR 40m	

na = not applicable

\* Applies to lower middle income countries, with per capital income > \$785 and < \$3,125

\*\* Cologne Terms are the benchmark terms: some countries may receive less and others more depending on the relief needed to reach sustainability.

\*\*\* Countries which cannot cancel debt can reschedule the part of the debt that would be cancelled with low interest rates (0.0001%) and a single bullet maturity of between 6 and 350 years, with maturity depending on the appropriate market interest rates.

Sources: Debt Relief International, World Bank, IMF

## Annex 2.2: A note on the DAC rules on the treatment of donor interventions on debt reorganisation in ODA statistics

This note provides a short overview on the DAC-rules regarding treatment of debt reorganisation and debt relief interventions by (bilateral) donors in the ODA statistics.

Under specific circumstances, debt reorganisation operations, including debt relief, on both ODA as well as non-ODA loans can be accounted for as (additional) ODA. Within the overall framework of rules and guidelines to account for aid transactions, DAC donors have also agreed on a taxonomy of debt reorganisation interventions, and a set of rules and guidelines to account for these operations. The basic reference to the current practice is the 'Handbook for Reporting Debt Reorganisation on the DAC Questionnaire' (DCD/DAC(2000)16). On the basis of these accounting guidelines, and the resulting entries in the DAC reporting system, statistics regarding the use of Debt reorganisation in total aid are compiled by the DAC secretariat, and detailed entries regarding these interventions are available in the on-line CRS system. In this treatment, we will restrict our discussion to the treatment of disbursements.

This reporting in principle entails several entries for each operation, requiring detailed information according to three basic criteria:

- the type of reorganisation (referring to a taxonomy of possible types);
- the nature of the debt prior to reorganisation (in DAC jargon, the 'sector'), indicating whether the old loan was originally accounted for as ODA (because of its concessional nature and its development purpose), or not (non-ODA). More precisely, DAC accounting distinguishes between three sectors: ODA, OOF (other official finance), or Private;
- the breakdown of the amount of debt reorganisation into principal and interest.

Note again that conventional DAC aid accounting relies on the 'net' (flow) principle. For loans that meet the criteria to be included as ODA, loan disbursements are added to ODA, while loan principal repayments are accounted for as negative entries, making a loan entry sum to zero over the entire lifetime of the loan (provided, of course, it is fully repaid).

### 1.A taxonomy of debt reorganisation interventions considered by DAC rules

The DAC Handbook of Debt Reorganisation (DCD/DAC(2000)16) distinguishes between at least six types of interventions:

- *Debt cancellation*. Debt cancellation refers to an agreement between the debtor and the creditor that an outstanding debt no longer needs to be repaid. It can refer to both ODA debt as well as non-ODA debt, with differences in treatment between the two cases.
- *Debt Rescheduling*. In very general terms, it refers to any action which results in a new schedule of maturities of either principal or interest, or both, for outstanding debt. Also interest due and in arrears may be rescheduled in the form of a new loan, with the old

loan to run in parallel. Such a rescheduling may be concessional (i.e. incorporating an element of debt relief), or non-concessional. Most operations refer to a rescheduling within the Paris Club framework, but also operations occurring outside a Paris Club agreement are eligible, albeit according to different rules. It can refer to both ODA debt, as well as non-ODA debt<sup>87</sup>. These different possibilities are treated according to different guidelines, with potentially differential ODA-effects.

- *Debt conversion*. These operations, also labelled *debt swaps*, refer to an exchange of debt for equity, or counterpart domestic currency funds to be used to finance particular projects or policies. Such a conversion may or may not be executed at a (sometimes substantial) discount.
- *Service payments to third parties*. This occurs when a donor pays debt service to a third party creditor, usually a multilateral or private sector body, on behalf of the debtor country.
- *Debt buybacks*. This refers to actions whereby a donor provides a grant to fund the recipient country's repurchase of all or part of its external debt from a third party (or buys back the debt directly on behalf of the recipient), usually at a discount<sup>88</sup>.
- *Contributions to the HIPC Initiative* (Trust Fund). Refers to grants paid by the donor into the IDA-managed Heavily Indebted Poor Countries (HIPC) Initiative Trust Fund, to finance the share in total HIPC debt relief of creditors that are unable to finance this out of their own resources.

Note that most, but not necessarily all, of these donor actions classified under the debt reorganisation heading include an element of debt relief (as measured in NPV) for the recipient country. To give one counterexample, a non-concessional rescheduling, e.g. capitalising interest at market rates, does not entail an element of debt relief.

So far, the DAC rules are fairly comprehensive in treating all possible donor interventions related to debt relief and other debt reorganisations, except for the recently decision to compensate multilaterals such as IDA, or the African Development Fund, for the debt relief which they granted within the framework of the recent Multilateral Debt Relief Initiative (MDRI), through *additional* contributions to these multilaterals (tbc).

### 2.A detailed overview of accounting entries on debt reorganisation covering both gross and net ODA

Table 1 provides an overview of the respective current treatment in DAC-statistics of these different types of interventions, as guided basically by DCD/DAC(2000)16). This overview uses a slightly different structure, taking into account the basic difference between operations on ODA and non-ODA debt. Finally, the overview deals with some additional operations, such as buybacks, or (debt) service payments and other contributions to third parties.

<sup>87</sup> Such as the Paris Club Debt Service Reduction (DSR), Debt Reduction (DR) or Capitalisation of Moratorium Interest (CMI) rescheduling options for non-ODA debt.

<sup>88</sup> Such as in the case of grants paid into the IDA Debt Reduction Facility, to finance the buyback by recipient countries of their private debt.

## 2.1 Cancellation, rescheduling and conversion of ODA debt

First of all, consider debt reorganisations granted on ODA debt. The basic principle here is that, because the original loan was already accounted for as ODA, double-counting has to be avoided, so only interest cancelled, rescheduled or converted is considered as new ODA, not principal. However, actual accounting takes the form of several joint entries, distinguishing between the gross and net nature of it.

First take the example of a cancellation of ODA debt: both principal and interest cancelled are registered as a new ODA grant, entering as a *'debt forgiveness grant'*, but in order to avoid double-counting of the amortization part of the debt relief, and to comply with the 'net' concept of aid accounting, 'offsetting entries' for the amortization part of debt relief, called *'offsetting entries for debt relief'*, are added in negative under the loan part of the aid statistics, to derive the net ODA effect. As a consequence, ODA debt relief related to the amortization part of the debt relief enters the net aid statistics in a disguised way, under the form of the negative entries from the amortization of principal in future years that *do no longer take place* (provided again, of course, that the loan would have been repaid in the absence of the debt reorganisation intervention)<sup>89</sup>.

Analogously, a rescheduling operation of ODA debt do not entail new ODA, and do not give rise to new entries, *unless* it includes the capitalization of interest, which is recorded as a new loan extended, and registered as *'rescheduled debt'* under the loan section of ODA statistics. However, a disguised principal effect over time is again at play. Note also that these operations do not include an element of debt relief, strictly speaking.

Conversion of ODA debt basically follows the same logic. Again, following the net flow logic, only converted interest due and in arrears is recorded. Both the interest and principal part are registered in gross terms, as *'debt conversion'* under the separate entry line *'other debt relief'*. In case the creditor grants the debtor a discount, reporting has two components: the discount part is registered separately as a *'debt forgiveness grant'*, with the remainder being registered as debt conversion. To account for the net aid nature, the principal part is offset under loans as *'offsetting entries for debt relief'*.

## 2.2 Cancellation, rescheduling and conversion of non-ODA debt

The larger part of debt reorganisation and relief figures in ODA relate to non-ODA debt, both OOF and private debt. The basic principle used in the DAC-rules is that such a non-ODA debt reorganisation is treated as new ODA.

Regarding cancellation of debt, the full (outstanding) amount of cancelled principal,

<sup>89</sup> Regarding the treatment of cancellations, accounting rules are even more complex than discussed here, as donors have the choice between two options for reporting the cancellation: one is to report disbursement in a lump sum in the year the cancellation has been agreed; the alternative option is to report the disbursements as ODA on a year-by-year basis, i.e. in the year in which payments would have fallen due. Once a donor has switched to option 1, he can not revert to the annual option. Most donors have opted for lump sum reporting.

Table 1	Current treatment of actions related to debt relief in DAC statistics			DAC table CRS
	Net ODA registration principle	Gross accounting entries in ODA		
<b>1. ODA debt</b>				
a. Cancellation	Only forgiven interest due and in arrears. Disguised effect in future years as principal does not enter as negative.	Interest and principal registered as <i>'debt forgiveness grant'</i> ; principal registered under loans as <i>'offsetting entries for debt relief'</i>		DAC 1,2a
b. Rescheduling (Paris Club or not)	Only capitalized interest, if applicable, as new loan. Also disguised principal effect.	Capitalized interest recorded as new loan extended, under <i>'rescheduled debt'</i> .		DAC 1,2a
c. (Direct) conversions of ODA debt	Only converted interest due and in arrears.	Interest and principal registered, as <i>'debt conversion'</i> under line <i>'other debt relief'</i> . In case creditor grants debtor a discount, reporting has two components: the discount part is registered separately as a <i>'debt forgiveness grant'</i> . Principal registered under loans as <i>'offsetting entries for debt relief'</i>		DAC 1, 2a
<b>2. Non-ODA debt</b>				
a. Cancellation	Forgiven principal and interest.	Interest and principal registered as <i>'debt forgiveness grant'</i>		DAC 1,2a
b. Paris Club rescheduling - Concessional	Only the debt relief part (measured in NPV); the remaining rescheduling part is registered as OOF	Report debt relief part as <i>'debt forgiveness grant'</i>		DAC 1,2a
- Non-concessional	No entries (only in OOF)	No entries (only in OOF)		
c. Rescheduling of OOF as ODA (outside Paris Club)	Rescheduled principal and capitalized interest as new loan	Rescheduled principal and capitalized interest recorded as new loan extended, under <i>'rescheduled debt'</i>		DAC 1,2a
d. conversion of non-ODA debt	Converted principal and interest.	Interest and principal registered, as <i>'debt conversion'</i> under line <i>'other debt relief'</i> . In case creditor grants debtor a discount, reporting has two components: the discount part is registered separately as a <i>'debt forgiveness grant'</i> .		DAC 1
<b>3. Other action on debt</b>				
a. Service payments to third parties	Debt service paid by donor to third party creditor on behalf of the debtor country is accountable as ODA	Recorded as a <i>grant</i> , not added to <i>'debt forgiveness grant'</i> , but recorded separately as <i>'Service payments to third parties'</i> .		DAC 1
b. Debt buybacks	Record donor's outlay (instead of amount bought back).	Recorded as a <i>grant</i> , not added to <i>'debt forgiveness grant'</i> , but recorded separately as <i>'Debt buybacks'</i>		DAC 1
c. IDA DRF contribution	Idem as debt buyback when recipient country is known; if not, added to ODA as contribution to multilaterals (IDA).	Record (as memo item) under <i>'IDA Debt reduction Facility'</i>		DAC 1
<b>4. HIPC Trust Fund contribution</b>	Contribution added as bilateral grant when earmarked for specific recipient country. If not, added as contribution to multilaterals.	If earmarked, recorded on line <i>'Other action on debt: Other'</i> ; if not earmarked, added as <i>contribution to multilaterals</i> . In both cases, also added as (memo item) <i>'HIPC Initiative'</i>		DAC 1
<b>5. MDRI compensation to multilaterals</b>	Comes under contribution to multilaterals, but no identifiable registration.	No identifiable separate registration?		.

including forgiven interest due and into arrears is included as new ODA, more particularly again as a *debt forgiveness grant*<sup>90</sup>. As formerly the loan was not ODA, no offsetting entries are made for the principal part of the cancellation.

Rescheduling of non-ODA debt may take several forms. Such a rescheduling may be concessional (i.e. incorporating an element of debt relief), or non-concessional. Most operations refer to a rescheduling within the Paris Club framework, but also operations occurring outside a Paris Club agreement are eligible<sup>91</sup>.

The most important part refers to Paris Club concessional rescheduling, for which the Paris Club agreed to common terms from 1988 on. Current rescheduling options include either a rescheduling involving cancellation of part of the eligible debt, and rescheduling at market rates of the remainder (the so-called debt reduction option), a rescheduling at concessional interest rates of the totality of eligible debt, leading to a given amount of debt relief in NPV terms (the debt service reduction option), or a combination of the two, referred to as the Capitalisation of Moratorium Interest (CMI) option: here, interest rates are reduced less than under the debt service reduction option, with the remainder of NPV debt relief obtained by means of a very long grace period (hence also maturity), including capitalisation of some moratorium interest. Treatment in DAC guidelines of these concessional rescheduling require a split into the debt relief part (either debt reduction or debt relief in NPV terms) and the remaining part, which is treated as new rescheduled debt at market terms. The debt reduction option is treated completely analogous to debt cancellation: principal reduced is registered as a debt forgiveness grant, the rescheduled debt part is not registered as ODA, but enters as a OOF flow. With respect to the DSR and CMI options, an amount equivalent to the debt relief embedded (in NPV terms) is added as a *'debt forgiveness grant'*; the remaining rescheduling part is registered as OOF.

Two other types of rescheduling are explicitly considered: one is a non-concessional rescheduling, which does not lead to entries in ODA, only in OOF; secondly, reference is also made to the rescheduling of OOF debt as ODA (outside the Paris Club), an alternative seldomly used. Here, rescheduled principal and capitalized interest can be recorded as a new loan extended, under the entry *'rescheduled debt'*.

In the case of the conversion of non-ODA, both interest and principal converted can be registered, as *'debt conversion'* under the line *'other debt relief'*. Again, in case the creditor grants the debtor a discount, reporting has two components: the discount part is registered separately as a *'debt forgiveness grant'*.

### 2.3 Other action on debt

A separate type of donor actions on debt reorganisation refer to the funding of buybacks, debt service payments to third parties or other third party contributions. Typically, DAC rules allow for the registration as additional ODA of the outlay or contribution of the

<sup>90</sup> Again, as for ODA debt cancellation, donors can choose between lump sum or annual reporting in ODA disbursement statistics.

<sup>91</sup> Staged rescheduling agreements (such as in the Paris Club, referring to multi-year agreements) should be reported as each stage comes into force, usually year-by-year.

donor. This is straightforward in the case of debt service payments to third parties, but the same principle also applies to buybacks. Again here, registration is restricted to the amount of the contribution, not the amount of debt bought back. These interventions are recorded as a *grant*, albeit not added to *'debt forgiveness grants'* but recorded separately as either *'Service payments to third parties'* or *'debt buybacks'* respectively, and grouped together under the overall heading *'other action on debt'*.

The DAC Handbook (DCD/DAC(2000)16) does not suggest explicit statistical directives for reporting discounts offered in the context of a debt buyback *by the debtor country* itself in a broader Paris Club debt relief agreement. This case explicitly arose for the first time in 2006 in the framework of the Nigerian Paris Club rescheduling, which included a buyback by Nigeria of the remaining debt (after debt relief) at a market-related discount of 40%. The question of treatment was discussed (see DCD/DAC(2006)41) but so far no consensus was reached among DAC-members on directives. In the meantime, donors could choose whether or not to include it in their reporting, in a transparent matter.

A special case is made for contributions to multilaterals related to specific debt relief initiatives, such as the HIPC Trust Fund, or the IDA Debt Reduction Facility (DRF). IDA DRF contributions are treated as a buyback when the recipient country is known; if not, it is added to ODA as contribution to multilaterals (IDA). In both cases, it is also recorded separately under a memo item entry to make it identifiable. The same goes for HIPC trust Fund contributions: if earmarked for a specific recipient country, it is recorded on line *'Other action on debt: Other'*; if not earmarked, it is added as *'contribution to multilaterals'*. In both cases, a (memo item) *'HIPC Initiative'* registration is added.

Finally, as already highlighted in section 1, so far *additional* contributions to these multilaterals within the framework of compensating multilaterals such as IDA or AfDF on debt cancellation granted within the MDRI are added to the regular contribution to multilaterals entries, without a separate, identifiable registration (tbc), that would account for their *'debt reorganisation'* nature.

### 2.4 The relative magnitude of different types of debt reorganisation in ODA statistics

From the previous overview, it becomes clear that most of the debt reorganisation interventions are summarized under the item *'debt forgiveness grants'*. It includes all debt cancellation interventions, (covering both principal and interest), the NPV debt relief embedded in concessional Paris Club rescheduling operations for non-ODA debt (all three options) as well as discounts embedded in debt conversion operations (*'swaps'*). In order to derive the net ODA impact of these interventions, we have to deduct the principal reduction embedded in operations for ODA debt, registered as negative offsetting entries in the loan section of ODA statistics.

However, total ODA debt relief is not fully covered by this item. The entry *'other action on debt'* summarizes a number of additional debt relief interventions, related to either debt conversions, debt buybacks, debt service payments to third parties or other contributions



related to specific debt relief initiatives. Finally, the bilateral loan section, apart from the offsetting entries part, also includes debt reorganisation interventions related to gross new ODA loans from ‘rescheduled debt’, referring to either the accounting of capitalized interest on ODA debt, or the rescheduling of OOF as ODA (rare). Note however, that this new ODA loans from rescheduling do not include an element of debt relief, strictly speaking.

Table 2 provides an overview of actual ODA-impact of debt reorganisation for the 1988-2008 period, according to the most comprehensive definition of debt reorganisation interventions. It refers to ODA disbursements from bilateral donors to developing countries. The item ‘Gross Debt Reorganisation’ sums debt forgiveness grants and other action on debt. Adding the new ODA loan from rescheduling part (which is not debt relief) summarizes to the item ‘Gross bilateral ODA debt relief’. Taking into account the offsetting items from ODA principal reduction, the ‘net bilateral ODA debt relief’ is derived<sup>92</sup>.

The table also provides an estimate of the share of bilateral debt reorganisation ODA as a share of total (net) ODA, both for the debt relief part in a strict sense, as for the more comprehensive debt reorganisation concept.

### 3. Additional entries when using a net transfer concept of ODA

While conventional ODA accounting uses a net (flow) concept, it may sometimes be more appropriate to use a net transfer concept of aid accounting, deducting from net flows the interest payment on ODA loans. Memo items included in ODA statistics, registered under the item *interest received* allow for this transformation. In this case however, one also has to account for interest forgiven. The DAC debt reorganisation rules also include guidelines on how to account for forgiven interest, using offsetting entries similar to those used for principal reduction embedded in ODA debt cancellation.

More precisely, the rules apply to an intervention related to the interest part of a cancellation of ODA or OOF debt, or a ODA or OOF debt conversion involving conversion of interest. In both cases, two entries equivalent to the lump sum amount of forgiven interest or converted are made: one (referring to table DAC 2a) as interest received (on the relevant country line), and one (as a memo item) made in table DAC 1 under ‘*offsetting entries for forgiven interest*’.

<sup>92</sup> Data for this table are drawn from the DAC CRS on line system. The table is identical to the most comprehensive published statistics on debt reorganisation in ODA compiled by the DAC secretariat, such as DAC (2007, table 34), except for bilateral HIPC trust fund contributions (and in principle also for unearmarked IDA DRF trust fund contributions) which are registered as a memo item jointly with multilateral contributions, and which can not be singled out in the CRS system. Somewhat strangely, the DAC secretariat itself relies on data from the World Bank to add these bilateral HIPC trust fund contributions to derive their published comprehensive debt reorganisation statistics.

## 4. Consequences and limitations for empirical research using ODA debt relief data

As the previous discussion made clear, the most comprehensive (gross) measure of the debt reorganisation part in bilateral ODA refers to the sum of debt forgiveness grants, other action on debt (including, if available, bilateral donor HIPC trust fund and unearmarked IDA DRF trust fund contributions) and the new ODA loans from rescheduled debt. However, if we want to measure ODA related to debt relief in a more strict (NPV) sense, gross ODA debt relief is best proxied by the sum of debt forgiveness grants and other action on debt only<sup>93</sup>. Net ODA debt relief is the former one minus offsetting entries on debt relief.

In principle, cleaning total (bilateral) ODA for these debt relief interventions can then be done accordingly, by subtracting all the items above from total (bilateral) ODA figures. Again, it is preferable not to clean net ODA (new loans from) rescheduled debt part, as it does not entail debt relief in a strict (NPV) sense.

In case one uses the net transfer concept of aid, net ODA has to be reduced by the interest payments received on ODA loans; in this case one has to take into account that these interest payments *include* interest forgiven (as an offsetting item), so when cleaning correctly for the debt relief part in ODA, total interest payments received have to be reduced by this ‘interest forgiven’ part.

Now that we have conceptualized everything, what is the level of disaggregation of data publicly available for empirical analysis here, as in the on-line CRS database. For this, we should make a distinction between data entries registered in table 1 of the DAC system (and CRS), and entries in table 2 of the CRS on-line database (where table 2a refers to ODA). This is relevant since only entries related to table 2a are also available at the disaggregated recipient country level, allowing for analysis using pair-wise individual donor-recipient data (**tbc further**). All data entries in both table 1 and 2a are available for all (bilateral) donors together, and for each donor individually, though.

The last column of table 1 indicates which data entries are available in table 1, and/or table 2a. However, the bottom-line seems to be that some entries related to debt relief or other debt reorganisation interventions are only registered as table 1 entries, and are as such not available for pair-wise empirical analysis. More particularly, this goes for all the entries under the heading of ‘other action on debt’ (conversions, buybacks, third party debt service and other contributions), which are not registered as an *separately identifiable* entry in table 2a. This also goes for (the offsetting entry on) forgiven interest.

As a consequence, when doing such disaggregated pair-wise donor-recipient analysis, it is not possible to single out comprehensive debt relief, according to our definition, lacking grosso modo all interventions related to other action on debt (including HIPC and IDA DRF trust fund, and in future also MDRI-related contributions).

<sup>93</sup> Including again, if available separately, bilateral donor HIPC trust fund and unearmarked IDA DRF trust fund contributions.

## Annex 3.1: Cash balance evolution of the 1991 ONDD financial reorganisation loan

Restructuration Financiere de l'Office																						
(en millions de EUR)	01/04/91 - 31/03/92			01/04/92 - 31/03/93			01/04/93 - 31/03/94			01/04/94 - 31/03/95			01/04/95 - 31/03/96			01/04/96 - 31/03/97			01/04/97 - 31/03/98			
	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	
<b>Contributions</b>																						
• Min. de Coopération au Développement	13,63	8,85	4,78	13,63	14,25	(0,62)	13,63	5,55	8,08	13,63	21,42	(7,78)	13,63	10,71	2,93	13,63	14,70	(1,07)	13,63	12,32	1,31	
• Versements par les pays débiteurs	7,44	4,36	3,07	7,44	1,19	6,25	7,44	6,22	1,21	7,44	7,64	(0,20)	7,44	2,38	5,06	7,44	5,08	2,35	7,44	4,54	2,90	
• Nouveau budget Ministère des Finances	4,96	4,66	0,30	4,96	4,04	0,92	4,96	4,96		4,96	5,58	(0,62)	4,96	4,96		4,96	4,96		4,96	4,96		
• Commission forfaitaire sur les polices	3,35	0,87	2,48	3,35	3,00	0,35	3,35	1,96	1,39	3,35	2,35	0,99	3,35	1,69	1,66	3,35	2,26	1,09	3,35	3,40	(0,05)	
• A répartir entre l'OND et Comm. extér	0,62		0,62	0,62		0,62	0,62		0,62	0,62		0,62	1,24	(0,62)	0,62	0,62		1,24	0,62	0,62		
• Réalisation de certaines creances	0,50	0,82	(0,32)	0,50	2,70	(2,21)	0,50		0,50	0,50	1,59	(1,09)	0,50	0,64	(0,15)	0,50	0,20	0,30	0,50	0,74	(0,25)	
• Intérêts sur placements à terme																						
• Intérêts en faveur du compte assainissement																						
• Contribution except. Min. des Finances					4,34	(4,34)																
• Contribution transitoire OND								0,87	(0,87)		(0,87)	0,87		0,87	(0,87)		(0,87)	0,87				
<b>Total des Contributions</b>	<b>30,49</b>	<b>19,56</b>	<b>10,93</b>	<b>30,49</b>	<b>29,52</b>	<b>0,97</b>	<b>30,49</b>	<b>19,56</b>	<b>10,93</b>	<b>30,49</b>	<b>37,70</b>	<b>(7,21)</b>	<b>30,49</b>	<b>22,48</b>	<b>8,01</b>	<b>30,49</b>	<b>26,95</b>	<b>3,54</b>	<b>31,11</b>	<b>26,57</b>	<b>4,54</b>	
<b>Paiements</b>																						
• Remboursement d'emprunts	2,01		2,01	2,18	1,98	0,20	2,40	6,82	(4,41)	2,63	2,63		2,88	2,8		3,15	3,15		3,45	3,47	(0,02)	
• Intérêts sur Emprunts	28,48	17,92	10,56	28,31	25,43	2,88	28,09	24,64	3,45	27,86	24,22	3,64	27,62	22,43	5,18	27,34	20,92	6,42	27,02	16,51	10,51	
<b>Total des Paiements</b>	<b>30,49</b>	<b>17,92</b>	<b>12,57</b>	<b>30,49</b>	<b>27,42</b>	<b>3,07</b>	<b>30,49</b>	<b>31,46</b>	<b>(0,97)</b>	<b>30,49</b>	<b>26,85</b>	<b>3,64</b>	<b>30,49</b>	<b>25,31</b>	<b>5,18</b>	<b>30,49</b>	<b>24,07</b>	<b>6,42</b>	<b>30,47</b>	<b>19,98</b>	<b>10,49</b>	
<b>Solde de l'année</b>	<b>0,00</b>	<b>1,64</b>	<b>(1,64)</b>	<b>0,00</b>	<b>2,11</b>	<b>(2,11)</b>	<b>0,00</b>	<b>(11,90)</b>	<b>11,90</b>	<b>0,00</b>	<b>10,86</b>	<b>(10,86)</b>	<b>0,00</b>	<b>(2,83)</b>	<b>2,83</b>	<b>0,00</b>	<b>2,88</b>	<b>(2,88)</b>	<b>0,64</b>	<b>6,59</b>	<b>(5,95)</b>	
<b>Solde global</b>		<b>1,64</b>			<b>3,74</b>			<b>(8,16)</b>			<b>2,70</b>			<b>(0,12)</b>			<b>2,75</b>			<b>9,35</b>		

Restructuration Financiere de l'Office																					
Dienstjaren	01/04/98 - 31/03/99			01/04/99 - 31/03/00			01/04/00 - 31/03/01			01/04/01 - 31/03/02			01/04/02 - 31/03/03			01/04/03 - 31/03/04			01/04/91 - 31/03/04 (total)		
(en millions de EUR)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)
<b>Contributions</b>																					
• Min. de Coopération au Développement	13,63	13,56	0,07	13,63	13,63		13,63	18,99	(5,35)	13,63	14,18	(0,55)	13,63	13,63	0,00	13,63	13,63	0,00	177,24	175,44	1,81
• Versements par les pays débiteurs	7,44	2,88	4,56	7,44	1,12	6,32	7,44	0,47	6,97	7,44	0,13	7,30	7,44		7,44	7,44	0,78	6,65	96,68	36,78	59,89
• Nouveau budget Ministère des Finances	4,96	4,96		4,96	4,96		4,96	4,96		4,96	4,96		4,96	6,05	(1,09)	4,96	4,96	(0,00)	64,45	64,95	(0,50)
• Commission forfaitaire sur les polices	3,35	1,64	1,71	3,35	3,64	(0,30)	3,35	4,36	(1,02)	3,35	1,38	1,96	2,11	2,14	(0,04)	2,11	1,49	0,61	41,03	30,18	10,85
• A répartir entre l'OND et Comm. extér	0,62	0,62		0,62	0,62		0,62		0,62	0,62	1,24	(0,62)	0,62	0,87	(0,25)	0,62	0,62	(0,00)	8,68	6,45	2,23
• Réalisation de certaines creances	0,50	4,34	(3,84)	0,50	1,93	(1,44)	0,50	3,63	(3,13)	0,50		0,50	0,50		0,50	0,50		0,50	6,45	16,59	(10,14)
• Intérêts sur placements à terme					0,17	(0,17)													0,00	0,17	(0,17)
• Intérêts en faveur du compte assainissement		0,15	(0,15)		0,02	(0,02)		0,02	(0,02)		0,02	(0,02)		0,00	(0,00)		0,00	(0,00)	0,00	0,22	(0,22)
• Contribution except. Min. des Finances																			0,00	4,34	(4,34)
• Contribution transitoire OND																			0,00	0,00	0,00
<b>Total des Contributions</b>	<b>30,49</b>	<b>28,14</b>	<b>2,35</b>	<b>30,49</b>	<b>26,10</b>	<b>4,39</b>	<b>30,49</b>	<b>32,42</b>	<b>(1,93)</b>	<b>30,49</b>	<b>21,92</b>	<b>8,57</b>	<b>29,25</b>	<b>22,70</b>	<b>6,55</b>	<b>29,25</b>	<b>21,49</b>	<b>7,76</b>	<b>394,52</b>	<b>335,11</b>	<b>59,41</b>
<b>Paiements</b>																					
• Remboursement d'emprunts	3,77	12,39	(8,63)	4,14	23,97	(19,83)	4,54	17,00	(12,46)	4,96	14,00	(9,04)	5,43	16,00	(10,57)	5,95	17,34	(11,39)	47,47	121,63	(74,16)
• Intérêts sur Emprunts	26,70	12,35	14,35	26,33	10,68	15,64	25,93	14,95	10,98	25,51	9,58	15,93	25,01	9,11	15,92	24,52	3,66	20,86	348,74	212,42	136,16
<b>Total des Paiements</b>	<b>30,47</b>	<b>24,74</b>	<b>5,73</b>	<b>30,47</b>	<b>34,66</b>	<b>(4,19)</b>	<b>30,47</b>	<b>31,95</b>	<b>(1,49)</b>	<b>30,47</b>	<b>23,58</b>	<b>6,88</b>	<b>30,47</b>	<b>25,11</b>	<b>5,35</b>	<b>30,47</b>	<b>21,00</b>	<b>9,47</b>	<b>396,21</b>	<b>334,05</b>	<b>62,16</b>
<b>Solde de l'année</b>	<b>0,02</b>	<b>3,40</b>	<b>(3,37)</b>	<b>0,02</b>	<b>(8,55)</b>	<b>8,58</b>	<b>0,03</b>	<b>0,47</b>	<b>(0,44)</b>	<b>0,02</b>	<b>(1,67)</b>	<b>1,69</b>	<b>(1,21)</b>	<b>(2,42)</b>	<b>1,20</b>	<b>(1,21)</b>	<b>0,49</b>	<b>(1,71)</b>	<b>(1,68)</b>	<b>1,07</b>	<b>(2,75)</b>
<b>Solde global</b>		<b>12,74</b>			<b>4,19</b>			<b>4,66</b>			<b>2,99</b>			<b>0,57</b>			<b>1,07</b>			<b>1,07</b>	

Restructuration Financiere de l'Office																						
(en millions de EUR)	01/04/91 - 31/03/04 (total)			01/04/04 - 31/03/05			01/04/05 - 31/03/06			01/04/06 - 31/03/07			01/04/07 - 31/03/08			01/04/08 - 31/03/09			01/04/91 - 31/03/09 (total)			
	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	prévues (plan)(1)	réelles (2)	différ. (1-2)	
<b>Contributions</b>																						
• Min. de Coopération au Développement	177,24	175,44	1,81	13,63	13,63	0,00	13,63	13,63	0,00	13,63		13,63	13,63		13,63	13,63	0,00	13,63	245,41	202,71	42,71	
• Versements par les pays débiteurs	96,68	36,78	59,89	7,44	2,85	4,59	7,44	1,06	6,38	7,44	1,11	6,33	7,44	70,44	7,44	0,00	7,44	133,86	41,79	92,07		
• Nouveau budget Ministère des Finances	64,45	65,95	(0,50)	4,96	4,96	(0,00)	4,96	4,96	(0,00)	4,96		4,96	4,96		4,96	4,96	0,00	4,96	89,24	74,87	14,37	
• Commission forfaitaire sur les polices	41,03	30,18	10,85	2,11	1,05	1,06	2,11	1,01	1,10	2,11	1,97	0,14	2,11	1,59	0,52	2,11	0,69	1,42	51,56	36,49	15,07	
• A répartir entre l'OND et Comm. extér	8,68	6,45	2,23	0,62	0,99	(0,37)	0,62	0,99	(0,37)	0,62		0,62	0,62		0,62	0,62	0,00	0,62	11,77	8,43	3,35	
• Réalisation de certaines creances	6,45	16,59	(10,14)	0,50	0,00	0,50	0,50	0,00	0,50	0,50		0,50	0,50		0,50	0,50	0,00	0,50	8,92	16,59	(7,67)	
• Intérêts sur placements à terme	0,00	0,17	(0,17)	0,00	0,00	0,00	0,00	0,11	(0,11)	0,00		0,00	0,00		0,00	0,00	0,00	0,00	0,00	0,28	(0,28)	
• Intérêts en faveur du compte assainissement	0,00	0,22	(0,22)	0,00	0,00	(0,00)	0,00	0,01	(0,01)	0,00	0,01	(0,01)	0,00	0,00	(0,00)	0,00	0,00	(0,00)	0,00	0,24	(0,24)	
• Contribution except. Min. des Finances	0,00	4,34	(4,34)	0,00	0,00	0,00	0,00	0,00	0,00	0,00		0,00	0,00		0,00	0,00	0,00	0,00	0,00	4,34	(4,34)	
• Contribution transitoire OND	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00		0,00	0,00		0,00	0,00	0,00	0,00	0,00	0,00	0,00	
<b>Total des Contributions</b>	<b>394,52</b>	<b>335,11</b>	<b>59,41</b>	<b>29,25</b>	<b>23,48</b>	<b>5,77</b>	<b>29,25</b>	<b>21,76</b>	<b>7,49</b>	<b>29,25</b>	<b>3,09</b>	<b>26,17</b>	<b>29,25</b>	<b>1,59</b>	<b>27,66</b>	<b>29,25</b>	<b>0,69</b>	<b>28,56</b>	<b>540,78</b>	<b>385,73</b>	<b>155,05</b>	
<b>Paiements</b>																						
- Remboursement d'emprunts - long terme					12,70			12,70			12,70			12,70			12,70					
- Remboursement d'emprunts - court terme					(17,17)			24,50			(13,60)			(18,10)			(17,10)					
• Total remboursement d'emprunts	47,47	121,63	(74,16)	6,52	(4,47)	10,99	7,14	37,20	(30,06)	7,81	(0,90)	8,71	8,55	(5,40)	13,95	9,37	(4,40)	13,77	86,86	143,66	(56,80)	
• Intérêts sur Emprunts	348,74	212,42	136,32	23,95	6,85	17,10	23,33	5,45	17,87	22,66	5,66	17,00	21,91	6,38	15,54	21,10	4,95	16,15	461,68	241,70	219,97	
<b>Total des Paiements</b>	<b>396,21</b>	<b>334,05</b>	<b>62,16</b>	<b>30,47</b>	<b>2,38</b>	<b>28,09</b>	<b>30,47</b>	<b>42,65</b>	<b>(12,19)</b>	<b>30,47</b>	<b>4,76</b>	<b>25,71</b>	<b>30,47</b>	<b>0,98</b>	<b>29,49</b>	<b>30,47</b>	<b>0,55</b>	<b>29,92</b>	<b>548,54</b>	<b>385,36</b>	<b>163,18</b>	
<b>Solde de l'année</b>	<b>(1,68)</b>	<b>1,07</b>	<b>(2,75)</b>	<b>(1,21)</b>	<b>21,10</b>	<b>(22,32)</b>	<b>(1,21)</b>	<b>(20,89)</b>	<b>19,67</b>	<b>(1,21)</b>	<b>(1,76)</b>	<b>0,46</b>	<b>(1,21)</b>	<b>0,61</b>	<b>(1,83)</b>	<b>(1,21)</b>	<b>0,14</b>	<b>(1,36)</b>	<b>(7,76)</b>	<b>0,37</b>	<b>(8,13)</b>	
<b>Solde global</b>					<b>22,17</b>			<b>1,28</b>			<b>(0,39)</b>			<b>0,23</b>			<b>0,37</b>			<b>0,37</b>		

## Annex 3.2: Overview of debt relief granted by ONDD

Year	Country	Amounts in mio EUR		
		Debt relief	Contribution of	
			ONDD	DGDC
1991	Tanzanië 4	4.75	2.97	1.78
1992	Benin 2	1.8	1.01	0.79
1993	Guinee 5	2.42	1.64	0.78
1993	Tanzanië 4	7.42	4.73	2.69
1992	Bolivië 4	6.8	4.45	2.35
1992	Bolivië 4	2.65	1.83	0.82
1992	Zambië 5	0.89	0.65	0.24
1992	Togo 9	2.4	1.46	0.94
1993	Ethiopië 1	3.95	2.57	1.38
1994	Senegal 8	0.07	0.07	
1994	Bolivië 4	2.24	1.5	0.74
1994	Sierra Leone 5	6.8	4.31	2.49
1994	Vietnam 1	22.31	13.09	9.22
1994	Ethiopië 1	1.51	0.91	0.60
1994	Sierra Leone 6	1.54	0.98	0.56
1995	Togo10	11.62	7.04	4.58
1995	Ethiopië 1	1.38	0.81	0.57
1995	Bolivië 5	13.29	8.76	4.53
1996	Guinée-Bissau 3	2.03	1.46	0.57
1996	Sierra Leone 7	0.63	0.40	0.23
1996	Bolivië 6	41.67	34.85	6.82
1997	Madagascar 8 - fase 1	21.49	12.38	9.11
1997	Ethiopië 2	2.75	1.54	1.21
1998	Madagascar 8 - fase 2	0.45	0.45	
1998	Ethiopië 2 - fase 1	1.24	1.24	
1998	Tanzanië 5 - alle fases	43.05	25.31	17.74
1998	Ivoorkust 8 - fase 1	23.57	23.57	
1998	Kameroen 5 - fase 1	10.51	6.45	4.06
1998	Senegal 10	3.15	3.15	
1999	Madagascar 8 - fase 3	0.22	0.22	
1999	Ethiopië 2 - fase 3	1.17	0.10	1.07
1999	Bolivië 7	5.58	5.58	
1999	Kameroen 5 - fase 2	8.21	5.13	3.08
1999	Bosnië-Herzegovina	3.40	3.40	
2000	Madagascar 8 - uitbreiding fase 3	0.22	0.22	
2000	Kameroen 5 - fase 3	3.67	3.67	
2001	Tanzanië 6 - fase 1 + 2	11.01	6.55	4.46

Year	Country	Amounts in mio EUR		
		Debt relief	Contribution of	
			ONDD	DGDC
2001	Kameroen 6 - fase 1	27.83	20.12	7.71
2002	Tanzanië 7	43.21	43.21	
2002	Bolivia 8	11.45	11.45	
2002	Servië-Montenegro 1	51.31	51.31	
2002	Guinée-Bissau 4	2.11	1.52	0.59
2002	Ivoorkust 9	44.33	44.33	
2002	Kameroen 6 - fase 2	19.56	15.32	4.24
2002	Sierra Leone 8	1.86	1.18	0.68
2003	Congo 11	658.03	644.39	13.64
2003	Kameroen 6 - fase 3	20.09	20.09	
2003	Sierra Leone 8	0.31	0.31	
2004	Congo 11	13.59	13.59	
2004	Congo 11 (bijkomende annulatie van 13 %)	130.22	116.58	13.64
2004	Ghana 2	1.13	1.13	
2004	Ghana 3	0.69	0.69	
2004	Kameroen 6 - uitbreiding	15.22	15.22	
2004	Senegal 11	0.41	0.41	
2004	Senegal 12	1.23	1.23	
2005	Congo 11 (bijkomende annulatie van 5 %)	50.08	36.44	13.64
2005	Congo Brazzaville 5	16.95	16.95	
2005	Irak 1	198.13	198.13	
2005	Nigeria 5	113.11	113.11	
2006	Congo 11 (uitbreiding akkoord tot 31/03/2006)	8.47	8.47	
2006	Congo 11 (bijkomende annulatie van 5 %)	50.48	50.48	
2006	Congo Brazzaville 5	1.30	1.30	
2006	Kameroen 6 uitbreiding en 7	50.64	50.64	
2006	Nigeria 5	156.18	156.18	
2006	Servië-Montenegro 1	16.89	16.89	
2006	Sierra Leone 8	0.84	0.84	
2007	Congo Brazzaville 5	0.14	0.14	
2007	Kameroen 7	61.17	61.17	
2007	Sierra Leone 9	10.00	10.00	
2008	Irak 1	69.79	69.79	
2009	Congo-Brazzaville - achterstal + fases 1 en 2	7.00	7.00	
2009	Ivoorkust 10 - achterstal + fase 1	24.16	24.16	
2009	Togo 11 - achterstal + fase 1 en 2	43.59	43.59	
2009				39.17
		<b>2,199.36</b>	<b>2,061.81</b>	<b>176.72</b>

Source: Data provided by ONDD



### Annex 3.3: Contributions of Development Cooperation to the debt service on the ONDD financial reorganisation loan.

Year	Nominal		Purchase of claims		Contributions Paris Club operations		Total
	mio BEF	mio EUR	mio BEF	mio EUR	mio BEF	mio EUR	
<b>Benin</b>							
1992	63.6	1.58			31.8	0.79	
1997	464.9	11.52	153.4	3.80			
<b>Total</b>		<b>13.10</b>		<b>3.80</b>		<b>0.79</b>	<b>4.59</b>
<b>Bolivia</b>							
1992	625	15.49	200	4.96			
	189.4	4.70			94.7	2.35	
1993	66.2	1.64			33.1	0.82	
1994	59.9	1.48			30	0.74	
1995	500	12.39	200	4.96			
	365.7	9.07			182.8	4.53	
1997	550	13.63			275	6.82	
1998	606	15.02	163.6	4.06			
<b>Total</b>		<b>73.43</b>		<b>13.97</b>		<b>15.26</b>	<b>29.23</b>
		42.91					
<b>Congo</b>							
1992	177.5	4.40	177.5	4.40			
1994	44	1.09	44	1.09			
1996	374.5	9.28	112.3	2.78			
<b>Total</b>		<b>14.77</b>		<b>8.27</b>	<b>0.00</b>	<b>0.00</b>	<b>8.27</b>
<b>Côte d'Ivoire</b>							
1994	351.6	8.72	112.5	2.79			
1997	370.8	9.19	122.4	3.03			
2000	429.8	10.65	107.5	2.66			
<b>Total</b>		<b>28.56</b>		<b>8.49</b>		<b>0.00</b>	<b>8.49</b>
<b>DR Congo</b>							
2004		54.52 ???				13.63	
2005		78.36 ???				19.59	
<b>Total</b>		<b>132.88 ???</b>				<b>33.22</b>	<b>33.22</b>

Year	Nominal		Purchase of claims		Contributions Paris Club operations		Total
	mio BEF	mio EUR	mio BEF	mio EUR	mio BEF	mio EUR	
<b>Ethiopia</b>							
1994	160.3	3.97			80.1	1.99	
1996	46.3	1.15			23.5	0.58	
1998	97.4	2.41			48.7	1.21	
1999	86.6	2.15			43.3	1.07	
2001	355.94	8.82			177.97	4.41	
<b>Total</b>		<b>18.51</b>		<b>0.00</b>		<b>9.26</b>	<b>9.26</b>
<b>Guinée</b>							
1993	62.6	1.55			31.3	0.78	
1996	112.6	2.79	37.2	0.92			
2002		4.46		1.38			
<b>Total</b>		<b>8.80</b>		<b>2.30</b>		<b>0.78</b>	<b>3.08</b>
<b>Guinée Bissau</b>							
2000	46.3	1.15			23.2	0.58	
2002		???				0.59	
<b>Total</b>						<b>1.17</b>	<b>1.17</b>
<b>Cameroun</b>							
1996	439.4	10.89	145	3.59			
2000	327	8.11			163.5	4.05	
2001	468.38	11.61			234.19	5.81	
2002		???				9.22	
<b>Total</b>		<b>???</b>		<b>3.59</b>		<b>19.08</b>	<b>22.67</b>
<b>Madagascar</b>							
1997	400	9.92			200	4.96	
1999	111.4	2.76			55.7	1.38	
2000	223.6	5.54			111.8	2.77	
<b>Total</b>		<b>18.22</b>				<b>9.11</b>	<b>9.11</b>
<b>Mozambique</b>							
1994	64.7	1.60	19.4	0.48			
<b>Total</b>		<b>1.60</b>		<b>0.48</b>			<b>0.48</b>
<b>Senegal</b>							
2005						0.30	
<b>Total</b>						<b>0.30</b>	<b>0.30</b>
<b>Sierra Leone</b>							
1994	200.7	4.98			100.4	2.49	
2002						1.47	
<b>Total</b>		<b>4.98</b>				<b>3.96</b>	<b>3.96</b>

Year	Nominal		Purchase of claims		Contributions Paris Club operations		Total
	mio BEF	mio EUR	mio BEF	mio EUR	mio BEF	mio EUR	
<b>Suriname</b>							
1998	44.9	1.11	20.6	0.51			
<b>Total</b>		<b>1.11</b>		<b>0.51</b>			<b>0.51</b>
<b>Tanzania</b>							
1992	290.4	7.20	75.5	1.87			
1992	143.3	3.55			71.7	1.78	
1993	217	5.38			108.5	2.69	
1998	445	11.03			222.5	5.52	
1999	901.6	22.35			450.8	11.18	
2000	85	2.11			42.5	1.05	
2001	320	7.93			160	3.97	
2002		???				0.49	
<b>Total</b>		<b>???</b>		<b>1.87</b>		<b>26.67</b>	<b>28.54</b>
<b>Togo</b>							
1992	76	1.88			38	0.94	
1996	99	2.45			49.5	1.23	
1998	231.8	5.75			115.9	2.87	
2002		0.96				0.48	
<b>Total</b>		<b>11.04</b>				<b>5.52</b>	<b>5.52</b>
<b>Vietnam</b>							
1992	645.2	15.99	200	4.96			
1994	322.6	8.00	100	2.48			
1994	743.5	18.43			371.9	9.22	
2000	1270	31.48	317.5	7.87			
<b>Total</b>		<b>73.90</b>		<b>15.31</b>		<b>9.22</b>	<b>24.53</b>
<b>Zambia</b>							
1992	19.6	0.49			9.8	0.24	
1994	319.6	7.92	89.5	2.22			
<b>Total</b>		<b>8.41</b>		<b>2.22</b>		<b>0.24</b>	<b>2.46</b>
<b>TOTAL</b>				<b>60.82</b>		<b>134.56</b>	<b>195.38</b>

Source: Authors' own calculations

## Annex 4.1: Debt Relief for Cameroon and its Economic Impact

### Authors

Lodewijk Berlage  
François-Xavier de Mevius

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## List of Abbreviations:

ADF	African Development Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
BEAC	Banque des Etats d’Afrique Centrale
CAA	Caisse Autonome d’Amortissement
CCS	Comité Consultatif et de Suivi
CEMAC	Communauté Economique et Monétaire de l’Afrique Centrale
(F) CFA	(Franc de la) Communauté Financière d’Afrique
COS	Comité d’Orientation et de Suivi
CPI	Corruption Perception Index
CPIA	Country Policy and Institutional Policy
CTB	Comité Technique Bilatéral
CTS	Comité Technique de Suivi
C2D	Contrat de Désendettement et de Développement
DAC	Development Assistance Committee
DSA	Debt Sustainability Analysis
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
GDF	Global Development Finance
GFCF	Gross Fixed Capital Formation
HDI	Human Development Index
HIPC (PPTE)	Highly Indebted Poor Countries Initiative
IDA	International Development Association
IMF	International Monetary Fund
INS - NIS	Institut National de Statistique (Yaoundé, Cameroon)
KKM Index	Kaufmann-Kraay-Mastruzzi Index
MDG	Millenium Development Goals
MDRI	Multilateral Debt Relief Initiative
MINFI	Ministère des Finances (Ministry of Finance)
NPV	Net Present Value
ODA	Official Development Assistance
OED	Operations Evaluation Department
PPG	Public and Publicly Guaranteed
PPTE (HIPC)	Initiative Pays Pauvre Très Endettés
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Plan
SAC	Structural Adjustment Credit
SMP	Staff Monitored Programme
STADE	Secrétariat Technique d’Appui Dédié à l’Exécution du C2D
WEO	World Economic Outlook
WDI	World Development Indicators



## Core Data on Cameroon:

Land area	475 000 km <sup>2</sup> <sup>(1)</sup>
Population (2007) =	18.55 mln <sup>(2)</sup>
Annual growth rate population (2000-2007)	2.3% <sup>(3)</sup>
GDP per capita (at PPP)	2,094 US\$ <sup>(4)</sup>
Annual growth rate of GDP (2000-2006)	3.7% <sup>(5)</sup>
Life expectancy (2006)	50.3 years <sup>(6)</sup>
Literacy rate, ages 15 and above (2007)	72% <sup>(7)</sup>
National Poverty Line	738 FCFA (or 1.13 €) <sup>(8)</sup>
Head Count Ratio	39,9 % <sup>(9)</sup>
HDI Ranking (2006)	150 <sup>th</sup> <sup>(10)</sup>

Sources: (1) AfDB; (2) AfDB; (3) WDI and AfDB; (4) IMF, *World Economic Outlook Database, October 2008*; (5) WDI 2008; (6) WDI 2008; (7) ECAM III ; (8) ECAM III; (9) ECAM III; (10) UNDP.

## 1 Introduction:

Until the mid-1980s, Cameroon presented a model of economic growth for the rest of Central Africa. The country is blessed with a wealth of natural resources, including fertile land, lumber and petroleum. Unlike several of its neighbors Cameroon has not been plagued by violent civil conflicts. The country enjoys a favorable geographic position between Nigeria and several central African countries that provide growing markets. Neighboring countries rely on Cameroon's transportation system and on the port city of Douala for links to the outside world.

But Cameroon's economy is heavily dependent on oil revenues and can be deeply affected by falling oil prices. Beginning in 1987 the steep decline of the oil price combined with falling coffee and cocoa prices reduced Cameroon's export income. As a consequence of these developments and of the absence of an adequate policy response, between 1986 and 1994 Cameroon's real per capita GDP fell by more than 40 percent. Current account and fiscal deficits widened<sup>94</sup>, and the percentage of the population living below the national poverty line increased dramatically. Starting in 1993 the government took a number of measures to halt the economic decline. These included among others a reduction of wages in the public sector and the participation in the devaluation of the Franc CFA. The government also tried to revive the economy by undertaking some economic reforms and structural adjustments, such as the strengthening of public finance.

During the second half of the 1980s Cameroon's foreign debt stock increased strongly and the country could no longer fulfill its debt obligations. Starting in 1989 and throughout the 1990s it had to apply repeatedly for debt rescheduling at the Paris Club. Under the Enhanced HIPC Initiative (1999) Cameroon qualified for substantial debt relief. In October 2000 the country was given Decision Point status. The Interim Period under the HIPC Initiative lasted rather long, from 2000 till the beginning of 2006. Only in April 2006 the IMF and IDA decided that the country had satisfied the conditions set forward for the Completion Point. This implied a substantial relief of bilateral and multilateral debt, the latter under the Multilateral Debt Relief Initiative.

The aim of this chapter is to analyze the effects of the debt relief under the HIPC Initiative on Cameroon's economy. More specifically, we concentrate on the efficiency, effectiveness and impact of the debt relief under this Initiative. By efficiency we mean the link between the debt alleviation and the evolution of debt indicators. Our starting point in the analysis of the effectiveness is that the direct objectives of debt alleviation are to make debt sustainable, to make additional resources available to the government, to strengthen the balance of payments, to improve governance and to raise investment. These evolutions in turn should impact on the ultimate objectives of higher economic growth and poverty alleviation.

<sup>94</sup> The country has experienced a continuous fiscal deficit during the 90's, with deficits of over 200 billion CFA francs in 1993 and 1998 (equivalent to approximately 9% of GDP in 1993 and 5% of GDP in 1998).

We started out on this study by collecting generally available data on the economy and the debt situation of Cameroon. Our mission to Yaoundé from November 29 to December 7, 2008 enabled us to gather additional information necessary for the present study. The mission was organized with the collaboration of the Belgian Consul and the European Commission Representation in Yaoundé. In the process of collecting information from the Cameroonian authorities we met with the Minister of Finance and the Minister of Economy and Planning, and with the Director of the Budget. For information on the HIPC Initiative and the debt relief given by the bilateral and multilateral donors, we met with the Permanent Secretary of the CCS/PPTE, the Director of the Debt Operations at the *Caisse Autonome d'Amortissement* (CAA) and the Director of the National Institute of Statistics. To understand the initiatives taken by the multilateral donors we met with representatives of the International Monetary Fund, the World Bank, the African Development Bank and the United Nations Development Program. Finally we met with representatives of France, Germany and Canada, to obtain an understanding of the bilateral their views on and participation in debt relief.

Our findings are presented as follows. Section 2 gives a general picture of Cameroon's economy and external debt during the period 1980-2000. In section 3 we describe the three phases of HIPC Initiative at different points or periods of time (Decision Point, Interim Period and Completion Point). In this section we also discuss the management of savings on debt service made available through the HIPC Initiative as well as Multilateral Debt Relief Initiative, and the French C2D initiative. In section 4 we analyze the efficiency of the HIPC Initiative by considering the evolution of the debt stock and the debt service, the arrears and the implementation of the conditions formulated at the Decision Point. The effectiveness of the debt alleviation is analyzed in section 5. In this section we first consider the evolution of the debt stock and debt service ratios and the question of the additionality of the debt relief.

Subsequently we study the evolution of the balance of payments and of the fiscal situation. We finish the section with an analysis of the governance indicators and of public and private investment. In section 6 we study the impact of the HIPC and debt relief and associated debt relief by bilateral and multilateral creditors on economic growth and on poverty. Section 7 highlights the major challenges and risks for the country. Section 8 concludes.

## 2 Cameroon's economy and debt during the 1980-2000 period:

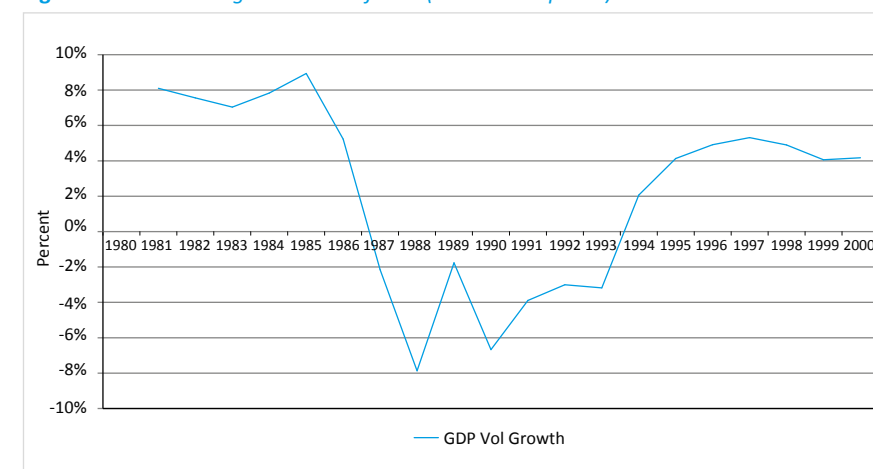
In this section we describe briefly the evolution of Cameroon's economy over the period preceding the year 2000 when Cameroon reached the Decision Point under the Enhanced HIPC Initiative. We concentrate on the years 1980-2000.

### 2.1 From growth to regression and renewed progress.

Since its independence from France in May 1960 Cameroon has had a very stable political regime. The first president, Ahmadou Ahidjo, ruled the country until November 1982 when he resigned and was succeeded by the actual president, Paul Biya. After a multiparty system was introduced in 1991 Paul Biya was elected in 1992 and was re-elected in 1997 and 2004. Between 1970 and 1985 the economy was flourishing. The average annual growth rate over this period was approximately 7.5%. As shown in figure 1 the growth rate exceeded 8% in the early 80s. This performance was associated with sound fiscal and economic policies and rising prices of oil and – at least in the 1970s – of other commodities.

Agriculture as well as industry and services contributed to this growth. Industry (including oil) was the fastest growing sector with an annual average growth rate of 12.2% over the period 1970-85 and more than 15% in the first half of the eighties. The growth rate of agriculture was 4.2% over the years 1970-85, well above the growth of population (2.9%), while that of services was almost 10%. As a result of the differences of sectoral growth rates, the share of industry in GDP almost doubled, rising from 18.6% in 1970 to 36% in 1985, while the shares of agriculture and services declined respectively from 31% to 21.5% in 1985 and from 50% to 42.5%.

Figure 1 Annual growth rate of GDP (at constant prices) between 1980 and 2000:



Source: IFS

But beginning in 1987 the economy shrank dramatically. Low prices for oil, coffee and cocoa reduced Cameroon's income from exports. Between 1985 and 1992 the external terms of trade fell by more than 55 percent. In the 1980s oil output also began a steady decline, falling from 9 million metric tons in 1986 to 5 million metric tons in 1997<sup>95</sup>. As a result of these developments, between 1986 and 1994 Cameroon's real per capita GDP fell by more than 40 percent. Agricultural value added was practically stagnant; industrial value added continued to grow, but at an annual average growth rate of 7%, considerably lower than in the preceding 15 years. Current account and fiscal deficits widened<sup>96</sup>, and the percentage of the population living below the national poverty line increased from 40 per cent in 1984 to 53.3 per cent in 1996. In September 1988 Cameroon had to apply for assistance from the IMF and in May 1989 it obtained a first debt rescheduling from the Paris Club.

In 1993 the government decided to reduce wages in the public sector by up to 70 percent in order to cut its expenditures. But the main policy measure to meet the crisis was the devaluation of the Franc CFA. At the beginning of 1994 the value of the Franc CFA was reduced from 50 to 100 FCFA for one French franc. Starting in 1996 the government also tried to revive the economy by undertaking structural adjustments and economic reforms, such as the strengthening of the government finances (especially by transferring the oil revenues to the budget and by improving the control on expenditures), and the implementation of structural reforms in the public enterprise and financial sectors. These measures were taken in the framework of programs supported by the World Bank and the International Monetary Fund. The country obtained Structural Adjustment Credits from the World Bank in 1989, 1996 and 1998. The first three year arrangement with the IMF, the Enhanced Structural Adjustment Facility (ESAF, later changed into the Poverty Reduction and Growth Facility, PRGF), started in 1997.

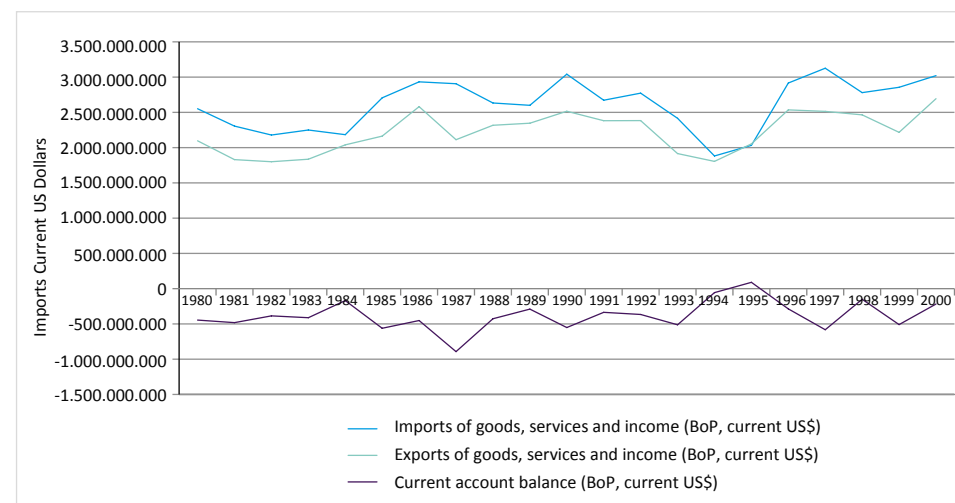
The devaluation and the structural reforms had positive effects on economic activity. As shown in figure 2 after 1994 exports increased drastically. The GDP growth rate became positive again in 1995; over the period 1994-2000 the average annual growth rate of GDP was 4.5% and from 1996 to 1998 it even exceeded 5%. But the devaluation's effect on the current account was very short lived: the current account was positive only in 1995, and thereafter became negative as before<sup>97</sup>.

<sup>95</sup> Before the devaluation of 1994, petroleum and petroleum products represented about 40% of exports, lumber about 14%, coffee about 13% and cocoa about 12%. By 2000 the share of petroleum and petroleum products had risen to 57% of exports, while those of lumber, cocoa and coffee had fallen to respectively 9%, 6% and 4%.

<sup>96</sup> The country has experienced a continuous fiscal deficit during the 90's, with deficits over 200 billion CFA francs in 1993 and 1998 (equivalent to approximately 9% of GDP in 1993 and 5% of GDP in 1998).

<sup>97</sup> One of the reasons why the positive effects of the devaluation didn't fully materialize was that the conventional agricultural export production was not able to respond immediately, because of the effects of the economic crisis of the 1980s on the productivity of the sector.

Figure 2 Exports, Imports and Current Account Balance, 1980 - 2000



Source: WDI (2008)

## 2.2 The evolution of the external debt

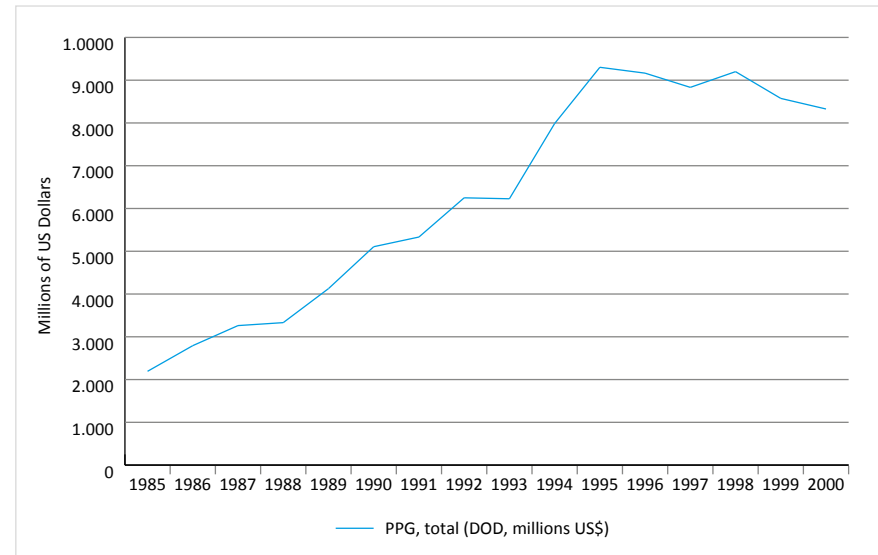
This economic crisis of the late 1980s and early 1990s obliged the state to seek external financing, mainly from official creditors and at conditions close to those of the market. Between 1987 and 1993, the share of concessional in total debt was on average around 30%, compared to the 50% average between 1994 and 2006). During this period, the average annual interest rate paid on debt was around 5.5%, quite high compared to the 1994-2006 average interest rate of approximately 1.5%.

As shown in figure 3 from 1985 till 1995 Cameroon's external debt increased more than threefold, from 2,192 million US\$ in 1985 to 9,300 million US\$ in 1995. Over that period Cameroon took up new loans and accumulated arrears, especially with non-Paris Club countries and private creditors. Between July 1993 and July 1994, the total amount of arrears (principal and interests, in US\$ terms) increased by 57% (which means an increase of around 200% in CFA terms); arrears with banks increased by 139%, representing 45% of total arrears by July 1994.

After the devaluation, the debt service increased about 60% (this represents over 35% of governments revenues), which increased the fiscal deficit. Because of this, and also because of the accompanying macroeconomic and structural reforms set up after the devaluation, new loans were made by Cameroon (especially from the IMF and the World Bank). As we represented in figure 3, this situation led to a big increase in the debt stock. Because the fiscal year went from July to the end of June of the following year the effect of the devaluation of January 1994 already shows up in the figure of 1993. The ratio of public

and publicly guaranteed debt to GDP rose from 25% of GDP in 1985 to more than 50% in 1993 and to over 110% in 1995, before staying around 100% until 2000.

**Figure 3** Public and Publicly Guaranteed Debt (Million US \$, Nominal value), 1985-2000.



Source: GDF 2008

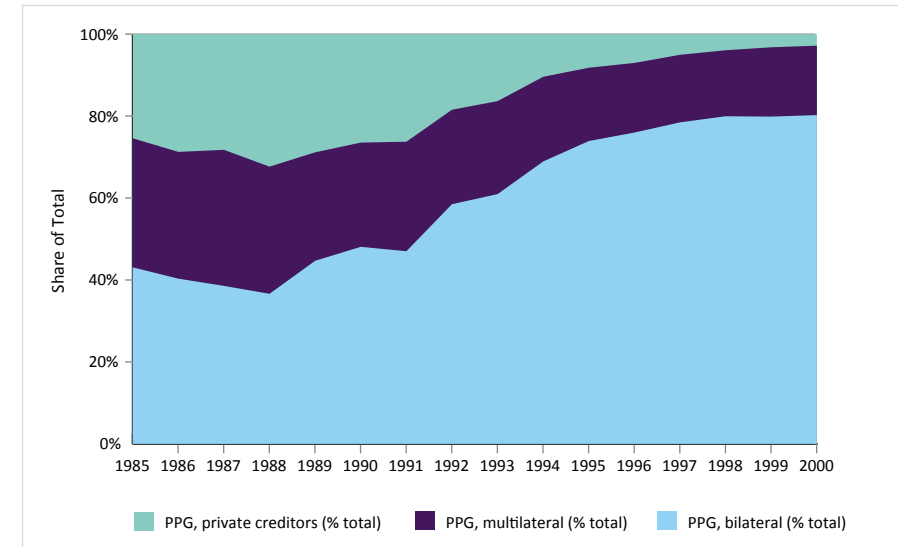
The devaluation of 1994 implied a clear change in the lending policy of creditors, since Cameroon then became eligible for concessional assistance from the International Development Association (IDA) of the World Bank Group. The average grant element of loans increased from around 30% to over 60% and the average interest fell from more than 5% to less than 2% (see GDF 2008).

The composition of Cameroon’s debt contracted between 1986 and 2000 is shown in figure 4. Throughout this period bilateral debt has been preponderant. By the year 2000 its share had risen to approximately 80%. A large fraction of this debt is due to Paris Club creditors. The share of multilateral borrowing has remained more or less stable since the early 1990s at around 20%, the main creditor being the World Bank Group. Private creditors have cut funding since the economic crisis of the late 1980s. By the year 2000 private debt constituted a negligible share of the total<sup>98</sup>.

The composition of the country’s external debt structure at the end of 1999 (the year before the HIPC Decision Point) is represented in figure 5. More than two third of the debt was due to Paris Club members, 25% to multilateral institutions and only 5% to private creditors.

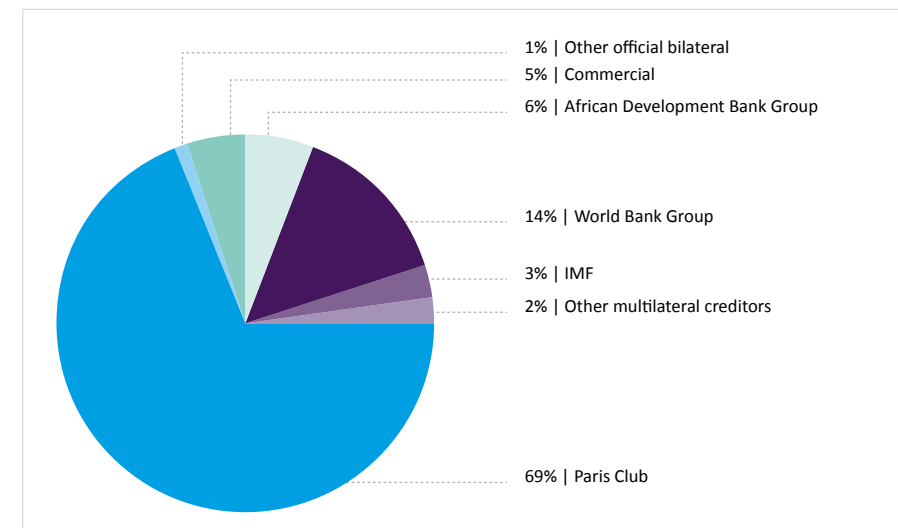
<sup>98</sup> Most of the 1990s debt was denominated in foreign currency, mainly French Franc, Deutsche Mark, US Dollars and Austrian Schillings (in decreasing order of importance). At the eve of the HIPC Decision Point the main bilateral creditors were France and Germany, with respectively 25% and 18% of total debt, followed by Austria (6.6%), Canada (4%), the U.K. (2.7%) and Belgium (2.6%).

**Figure 4** Composition of Public and Publicly Guaranteed (PPG) external debt (cumulative amounts):



Source: GDF 2008 data

**Figure 5** External Debt Structure in Cameroon (end 1999):



Source: Cameroonian authorities; and IDA and IMF staff estimates.

### 2.3 Debt rescheduling and alleviation operations.

Cameroon has benefited from almost all debt relief initiatives. Beginning in 1989 the country conducted six debt rescheduling with its Paris Club creditors. The first two operations were pure rescheduling of debt; starting with the third operation debt rescheduling was combined with alleviation. The cut-off date in all agreements was 31 December 1988. The agreements made it possible to reduce considerably the accumulated arrears.

	Date	Terms of treatment	Consolidated amount (million US\$)	Cancellation rate
1	24/05/1989	Classical	535	Rescheduling only
2	23/01/1992	Houston	960	Rescheduling only
3	25/03/1994	London	1,258	50%
4	16/11/1995	Naples	1,348	50%
5	24/10/1997	Naples	1,270	50% to 67%
6	24/01/2001	Cologne	1,300	90%
7	17/06/2006	HIPC Initiative exit	1,829	90-100%

Source: Paris Club data

By classical terms we mean a rescheduling of debt service due without reducing the principle or the interest rate. A prerequisite was an appropriate programme with the IMF or the World Bank, showing the need for Paris Club debt relief. However, this first program with the IMF was suspended in the course of 1989, because of poor programme execution.

The Houston terms were designed for the treatment of the debt of the lower middle-income countries to which Cameroon was belonging before the devaluation of the franc CFA in 1994. Cameroon obtained a debt rescheduling under these terms in 1992, less than three years after the first Paris Club agreement.

The London terms (later replaced by the Naples terms) were reserved to highly-indebted poor countries. Cameroon could benefit from this initiative because it was reclassified as a low income country following the devaluation of the CFA franc in 1994, which made the country eligible to IDA assistance. This third agreement was also cancelled soon after its initiation because the Cameroonian government failed to honour its obligations. A new agreement with the IMF was signed in 1995 (PRGF – Stand-by Agreement). On the basis of this agreement Cameroon benefited from another Paris Club debt alleviation based on the new Naples terms (i.e. 67 per cent reduction in NPV on non concessional debt before cut-off date).

The fifth agreement with the Paris Club covered debt with maturity between October 1, 1997 and the end of December 2000. It was preceded by an agreement with the IMF under the Enhanced Structural Adjustment Facility (ESAF). Once more, the Naples terms were applied.

In October 2000, Cameroon reached the Decision Point of the Enhanced HIPC Initiative. The Paris Club agreed to provide its share of assistance by rescheduling Cameroon's debt on Cologne terms. Finally, Cameroon reached the Completion Point of the HIPC Initiative in April 2006, which led to a drastic reduction of its pre-cut off point bilateral debt to the Paris Club members.

In addition, at the Completion Point under the enhanced HIPC Initiative, Cameroon qualified for additional debt relief from the IMF, IDA and the African Development Fund (AfDF) under the Multilateral Debt Relief Initiative (MDRI). MDRI relief to Cameroon implies a stock of debt reduction of 1.12 billion US\$ in nominal terms at Completion Point, in addition to the assistance already delivered by these institutions under the HIPC Initiative. The IMF will provide 100% debt relief on all debt incurred to the IMF before January 1<sup>st</sup>, 2005 and that remains outstanding to date. This would result in debt service savings of 38.2 million US\$ on average over the period 2006-25.



### 3 Debt Relief under the HIPC Initiative.

#### 3.1 The Decision Point

In the fall 1996 the creditor community had adopted the Highly Indebted Poor Country (HIPC) Initiative. Cameroun was not eligible under this initiative because the country had a ratio of net present value of debt to exports lower than the 250% threshold. Moreover Cameroun lacked a proper record of successful implementation of IMF-supported programmes, had not used all traditional debt treatments (especially in the framework of the Paris Club). But when in 1999 the NPV of debt/export threshold was lowered to 150%, in the framework of the Enhanced HIPC Initiative, Cameroon satisfied the NPV of debt/export condition. In October 2000 the IMF and the International Development Association decided that Cameroun had satisfied the criteria to reach the Decision Point under the Enhanced HIPC Initiative.

The IMF and IDA stated that Cameroon had made “*substantial progress in implementing an economic reform program*” supported by the Fund under the Poverty Reduction and Growth Facility (PRGF) and IDA’s third Structural Adjustment Credit (SAC III). The two institutions observed that the macroeconomic performance had improved markedly and that important structural reforms had been launched, including privatizations in the public enterprise sector and the liberalization of the energy and transport sectors (see box 3.1). Cameroon was also drawing up sectoral strategies for the health (including AIDS/HIV) and education sectors and had prepared an interim Poverty Reduction Strategy Plan (I-PRSP). Finally a governance and anti-corruption strategy was adopted with an associated action plan.

In June 1999 Cameroon’s ratio of external debt (in NPV terms) to export revenues was 205% (after treatment under Paris Club Naples terms). Extra relief through the HIPC Initiative was to reduce the debt stock (in NPV terms) to 150% of exports. Accordingly the amount of debt reduction to be given in the years after the Decision Point was set at 2,000 million US\$ in nominal value (or 1,267 million US\$ in 1999 NPV terms). The corresponding common reduction factor was approximately 27%. Based on proportional burden-sharing, bilateral creditors, mainly the countries members of the Paris Club, were to provide almost 70% of the total debt reduction (see table 2). The shares of multilateral and of private creditors were respectively 25.5% and 5.1%. These figures for debt reduction covered both operations during the interim period between the Decision and the Completion Point and debt reduction upon attainment of the latter.

**Box 3.1** Key reforms and objectives to be monitored before the Decision Point:

Area	Measures	Status
PRGF program	Completion of current program	Satisfactory.
Structural Adjustment Credit III	Continued satisfactory and timely execution.	Privatization and forestry broadly satisfactory; transport marginally satisfactory; three of six tranches released.
Governance	Adoption of governance and anti-corruption strategy.	National governance program adopted.
	Modification of procurement code.	Done.
Education and health	Adoption of education and health strategies; progress w.r.t. key milestones.	Education: sector strategy judged acceptable; Health: sector strategy judged acceptable.
HIV/AIDS	Satisfactory progress toward implementation of HIV/AIDS actions.	National HIV/AIDS strategy and emergency action plan prepared.
Use of HIPC resources	Establishment of arrangements for the effective use and monitoring of savings under the enhanced HIPC during interim period.	Priority sectors identified. Set of budgetary programs and projects is being prepared. Special Treasury account at the Central Bank. Expenditures to be recorded in the budget with specific code. Monitoring by special committee.

Source: Preliminary HIPC documents (IDA/R2000-96 and IMF/EBS/00/91 and staff assessment).

Creditors	Absolute amount in 1999 NPV terms (million US\$)	Share of total reduction (%)
World Bank Group	176	13.9%
IMF	37	2.9%
African Development Bank Group	79	6.2%
Other multilateral (EU etc.)	31	2.5%
Bilateral (of which: Paris Club)	879 (866)	69.4% (68.4%)
Commercial	65	5.1%
<b>Total</b>	<b>1267</b>	<b>100%</b>

Source: IMF, Decision Point Document

#### 3.2 The Interim Period

During the interim period, Cameroon benefited from debt forgiveness by Paris Club members and by multilateral institutions for a total amount of 201 million US\$ (in present value terms).

Non-Paris Club bilateral creditors (China, Kuwait, Saudi Arabia) were expected to provide a treatment comparable to that of the Paris Club, with their contribution under the enhanced HIPC Initiative amounting to 13.2 million US\$ in NPV terms. Kuwait accepted to contribute to the debt reduction at Completion Point. In 2001 China provided partial debt reduction on 'standard terms' and Saudi Arabia accepted a plan for payment of arrears in 2000.

Commercial creditors were also expected to provide a treatment comparable to that of the Paris Club. In May 2001, the government proposed to the London Club to buy back its commercial debt (which stood at 810 million US\$ on December 31 2000), under the International Development Association rules. After lengthy negotiations, an agreement was reached in May 2002 for the country to buy back its commercial debt at 14.5% of face value, with all the interest arrears being cancelled. The operation, costing a total of 44 million US\$, took place in August 2003 with contributions from France, Norway and the World Bank which coordinated the operation. Cameroon contributed some of its own resources and 54 out of 76 banks involved agreed on the transaction. Participating commercial creditors thereby delivered their share of HIPC assistance. Five non-participating creditors, however, put pressure on Cameroon to settle claims by resorting to litigation in courts or under arbitration. The total amount of claims entered was 340 million US\$. (The value of the original claims was 53 million US\$.) Two creditors obtained a - for them - favourable judgment granting them their claims for a total amount of 51 million US\$ (IDA and IMF, September 2007, table 16).

The Completion Point triggers set out in the Decision Point document included: (i) the preparation of a full PRSP and satisfactory implementation for at least one year; (ii) the maintenance of a stable macroeconomic environment; (iii) the satisfactory use of the budgetary savings from the interim debt service relief; (iv) the conclusion and satisfactory implementation of structural reforms supported by a PRGF loan (2000-2003) and the third Structural Adjustment Credit (SACIII); (v) the satisfactory implementation of governance and anticorruption measures, including in the areas of judicial and procurement reforms, budget execution, and the creation of regulatory agencies; and (vi) the satisfactory implementation of key social reforms, including the fight against HIV/AIDS.

The Completion Point for Cameroon was initially set for May 2003. But in the meanwhile problems arose with the execution of the program under the PRGF (2000-2003). Moreover there were slippages in the area of public finance, especially in 2004, including a considerable decline in non-oil revenues and a rise in certain expenditures, accompanied by an increase in the State's arrears due to domestic public institutions and private suppliers.

### 3.3 The Completion Point

Macroeconomic policy implementation improved substantially in 2005, as evidenced by performance under the IMF Staff-Monitored Program (SMP) during the first half of 2005 and the start of a new PRGF-supported program during the second half of 2005. Efforts made in 2005 to correct fiscal slippages contributed to restoring the conditions for

macroeconomic stability and strengthening the foundations for sustained growth and poverty reduction. As a consequence, the IMF and IDA recognized that the Completion Point was reached in April 2006, three years later than originally planned.

#### Box 3.2 Status of Triggers for Reaching the Completion Point:

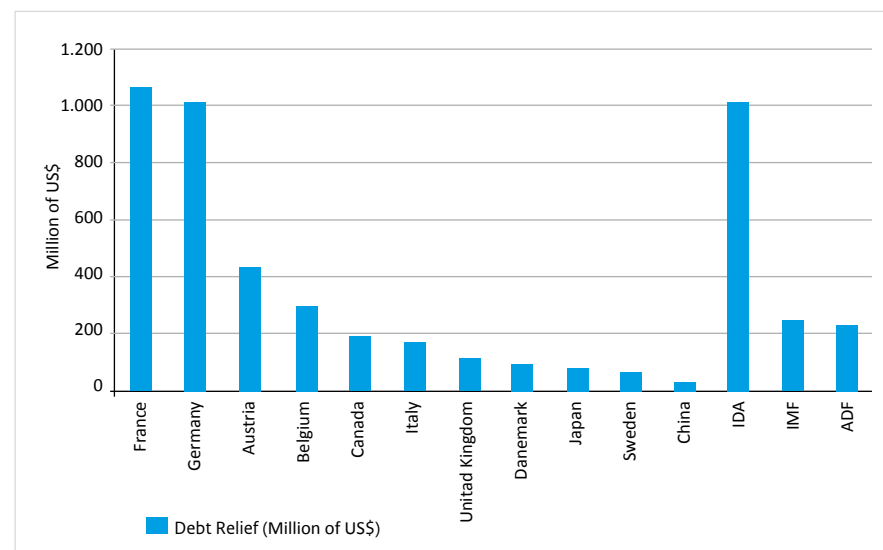
Trigger	Status
Poverty Reduction Strategy Paper	Adopted by the government in April 2003; Annual Progress Reports in 2004, 2005 and February 2006.
Macroeconomic and Structural Reforms <ul style="list-style-type: none"> <li>Maintenance of stable macroeconomic environment;</li> <li>Budgetary savings from debt relief used in accordance with criteria agreed upon;</li> <li>SAC III concluded and reforms implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Macroeconomic stability maintained although implementation at times uneven.</li> <li>Funds deposited in special account at BEAC; HIPC monitoring committee established; annual audits conducted.</li> <li>Implementation of privatization component mixed; overall implementation satisfactory.</li> </ul>
Governance and anti-corruption <ul style="list-style-type: none"> <li>Judicial reform</li> <li>Public procurement system</li> <li>Budgetary execution and service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Laws on <i>Chambre des comptes</i> and on Constitutional Court adopted; operational in 2006/2007.</li> <li>Reformed;</li> <li>Over 2003-05 budget tracking and beneficiary assessment in the health and education sectors.</li> </ul>
Regulatory agencies for key sectors.	Substantially implemented.
Social sectors <ul style="list-style-type: none"> <li>Education</li> <li>Health;</li> <li>HIV/AIDS: progress to prioritize fight against HIV/AIDS.</li> </ul>	<ul style="list-style-type: none"> <li>Construction new classrooms; teacher management decentralized.</li> <li>Progress immunization coverage; national malaria strategic plan prepared and implemented.</li> <li>Fight against HIV/AIDS prioritized in overall development agenda.</li> </ul>

Source: IMF, Completion Point Document

Some of the experts we interviewed felt that Cameroon had only marginally fulfilled the conditions for the Completion Point and that the IMF and IDA had evaluated benevolently the country performance.

We conclude this subsection with quantitative data on the debt forgiveness by bilateral and multilateral donors provided by Cameroon's Caisse Autonome d'Amortissement. The data have been converted from FCFA to US dollars using the exchange rate 1 US\$= 522.8 FCFA and are represented in figure 6.

**Figure 6** *Bilateral debt relief granted at Completion Point (billions of FCFA)\* :*



Source : Caisse Autonome d'Amortissements (C.A.A.) ; \* The abbreviation "ADF" stands for African Development Fund.

Figure 6 shows that at Completion Point, Cameroon's main bilateral creditors in terms of debt cancellation were France and Germany. Belgium came in fourth place, after Austria but before Canada, the United Kingdom and Japan. We also see how the debt relief received by IDA (under the MDRI) also represents a substantial amount. It is important to highlight that for France and for IDA, the debt relief granted at Completion Point will be spread over a certain amounts of years, 5 years and over 40 years respectively.

Debt relief by bilateral creditors covered two measures: debt relief under the HIPC Initiative as agreed at the Decision Point and cancelling of all remaining debt agreed upon by the Paris Club members. The second measure was quantitatively the most important as at the Decision Point the decision had been to cancel 27% of the debt in NPV. At Completion Point, the Paris Club countries decided to cancel much more than what was originally planned, cancelling up to 90% (under Cologne Terms) or even 100% of debt. Those Cancellations stayed in the HIPC framework, but some countries, such as Spain and France, decided to set up parallel programs.

France, for example, decided to cancel 90% of the remaining debt under the HIPC Initiative (using the Cologne Terms), but set up a specific program for the remaining 10%, called the "Contrat de Désendettement et de Développement" (C2D), discussed in subsection 3.5. This program represents about 353 billion FCFA, which will be spent between 2006 and 2011-2012. Next to this Initiative, the debt relief under the HIPC Initiative and bilateral agreements granted by France at Completion Point is about 204 billion FCFA, which is why the total amount represented in figure 6 is about 557 billion FCFA.

The debt relief by IDA, the IMF and the African Development Fund under the HIPC Initiative was topped up by the MDRI. Again, for these three institutions, debt relief under the Multilateral Debt Relief Initiative was far superior to that under the HIPC Initiative.

### 3.4 The Management of HIPC funds:

In principle there are two different ways of managing the savings resulting from reduced debt service. The first one is to introduce those savings directly in the budget, letting the Government decide on their allocation. The second one is to create a separate account, to be credited by debt service savings. This may allow the creditors to participate in the allocation decisions and in the monitoring and allocation of their use. In the case of Cameroon the second mechanism was chosen by the Paris Club members, the multilateral creditors and the country's Government.

One of the conditions to attain the Completion Point of the HIPC Initiative was to put in place a transparent system to enable a good management, control and follow-up of the HIPC resources. To do so, the government agreed (i) to open an account at the BEAC and to transfer to it the amounts of the debt service savings received under the initiative, (ii) to create a consultative and follow-up committee to manage the funds ("Comité Consultatif et de Suivi" (CCS) of the HIPC resources), and (iii) to organise annual audits of the projects financed through the HIPC initiative. In this subsection, we explain the functioning of the CCS and the financing of the projects by the BEAC account, and we discuss the audits made and the weaknesses of the system. Finally we look at the current situation.

The special account at the BEAC was opened in October 2000, and was credited each year by the Government of Cameroon with the savings of debt service resulting from debt alleviations under the HIPC Initiative. As stated the account made it possible to separate the expenditures financed by debt service savings from the other budgetary operations, and facilitated their monitoring and audits.

The CCS was created by decree 2000/960 on December 1, 2000. Its role was to make sure that the HIPC resources were used efficiently and equitably, and were invested in projects aimed at reducing poverty and improving governance, as specified in the PRSP. The president of the CCS is the Minister of Finance, the Vice-President is a representative of the Civil Society, and the committee has 18 members, including six ministers, three bilateral and two multilateral creditors, one representative from the private sector, three religious representatives, one representative from the microfinance sector and two NGO representatives. The decree does neither specify how the representatives are to be designated, nor the time they are supposed to serve

Initially, each project had to be proposed separately to the CCS, which would then check whether the project satisfied the criteria for approval. But because this procedure was slow, the CCS changed the procedure: it would decide on a portfolio of about 100 projects at a time. Once the decision on the portfolio was taken parliament had to ratify the projects.

The implementation of the projects was managed by the Ministries (especially health, education and infrastructure) or by the NGOs who had submitted them. The CCS had to verify that the projects were aimed at reducing poverty and raising the quality of governance, but it also had to check that the resources were used efficiently by requesting annual audits on the projects that had been approved and by analysing and publishing these audits. The technical monitoring committee (“Comité Technique de Suivi”, CTS), composed of six experts and a Permanent Secretary, was responsible for submitting the projects to the CCS for their approval, and also responsible for the audits and statistics concerning the resources used under the initiative.

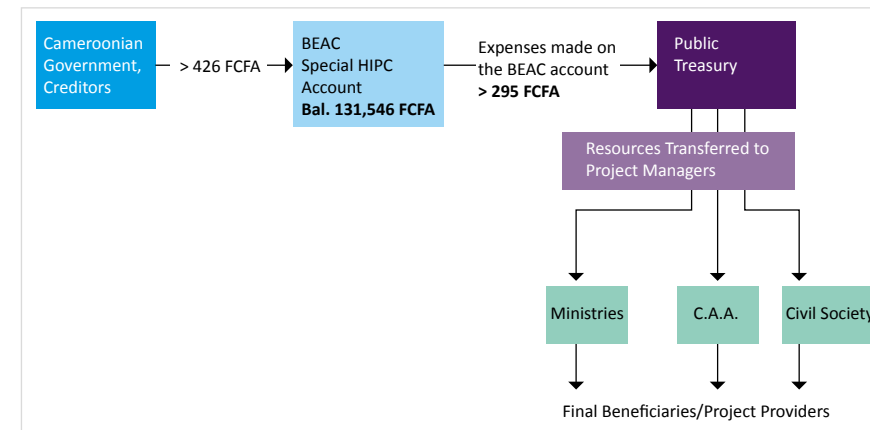
Once the projects were approved by the CCS, they were entirely financed with the resources of the special HIPC account at the BEAC. Between October 2000 and October 2006 the government transferred about 300 billion FCFA (whereas the expected amount was only 213 billion CFA francs), and the cumulated expenditures represented about 75% of this amount. Table 3 shows the movements of the account in 2007 and 2008. In October 2008 there was a positive balance of 131 billion FCFA. No expenses had been made since January 2008.

2007 (billion CFA francs)	Balance on 31/12/2006	Amounts Received	Amounts Used	Balance on 31/12/2007	Share of Government Revenues (%)
Special HIPC Account at the BEAC	77.03	78.93	70	85.96	4.6%
31/10/2008 (billion CFA francs)	Balance on 31/12/2007	Amounts Received	Amounts Used	Balance on 31/10/2008	
Special HIPC Account at the BEAC	85.96	45.59	0	131.55	5.8%

Source: BEAC, MINFI

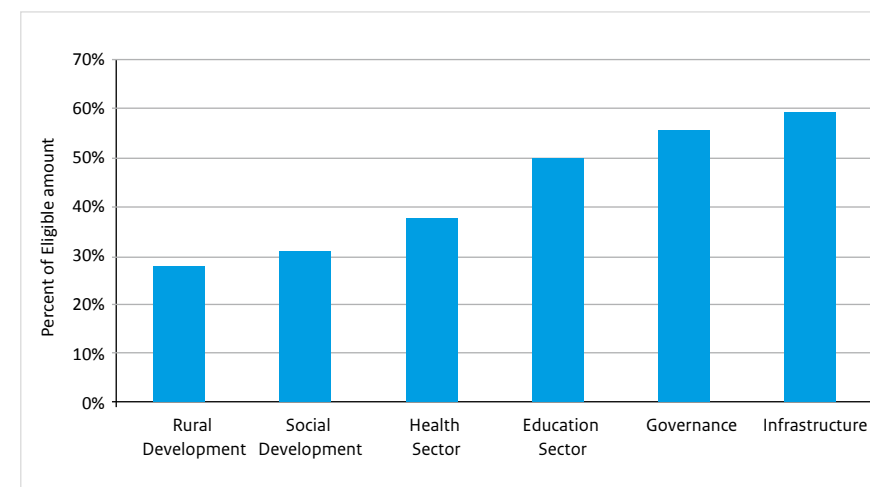
We summarize the transfers of the HIPC resources between the different institutions in figure 7. The amounts are the cumulated amounts received and paid on the HIPC resources between 2000 and October 2008. They are represented in billions of CFA francs.

**Figure 7 Fund transfers under the HIPC initiative, between the national institutions (period 2000-October 2008):**



Source: MINFI, BEAC, the « Caisse Autonome d'Amortissement » (C.A.A.)<sup>99</sup>, FURRER, E. and KADDER M. (2007)

The CCS agreed to finance the projects managed by the ministries for an amount close to 414 billion FCFA (which means nearly twice as much as what was expected for the entire HIPC Initiative), but as shown in figure 8, at the end of 2006 the cumulated expenses on average represented only about 40% of the committed amount (on average):



**Figure 8 Expenditure rates on HIPC resources, 2000 - October 2006, by sector**

<sup>99</sup> The CAA is the « Caisse Autonome d'Amortissement », which is in charge of the internal and external debt management in Cameroon. They also receive a number of transfers with the HIPC Initiative, for projects they manage.

Source: BEAC

This low rate of expenditure can be explained by the very slow administrative process needed to accept the projects and to enable the disbursements. First of all, analyzing the proposed projects with a group of 18 people (the CCS) made the procedure complicated and time absorbing. Second, after the projects were accepted, it took months for the parliament to agree on the financing, which meant spending on the projects could start only in the middle of the following year. This affected the confidence of the suppliers in HIPC financed programs, which translated into higher costs. Third, from the start the traceability of the expenditures was complicated. Much more time than planned was needed for the auditing. Finally, in the first years, the government did not credit the account at the announced dates, which slowed down the whole process.

The audits were not made every year, as was required by the decree. The only audits available (for the period 2001-2003, and for the years 2004 and 2005) mention the same problems. The execution rate of the projects was very low (40% on average). Because of administrative problems and misappropriation of funds: resources were allocated to projects that had not yet been accepted by parliament. Some of the projects had to be stopped because of lack of funds. Very often the local population and the principal beneficiaries were not involved in the projects, which made their implementation and their maintenance more complicated. The quality of some of the completed projects was far below the expected level.

The CCS was supposed to meet at least once every three months. But when the country reached the Completion Point, it reduced the frequency of its meetings. Some of the members lost interest in the committee, as the Completion Point was seen as the “end” of the HIPC Initiative. The last reported meeting of the CCS was in the Spring of 2007. But the special account at the BEAC continues to exist and to be credited by the government.

Among government officials and bilateral and multilateral creditors we met we found two opinions on the procedure to manage the savings from debt relief after the Completion Point. Some persons we interviewed stated that the government should continue with the existing procedure to keep the monitoring of the use of resources as transparent as possible. Others thought that the government should integrate those funds into the general budget and make the budget and its implementation as transparent as possible. They argued that continuing with a very transparent BEAC account and a less transparent budget would not contribute to improved governance.

It is clear that a general audit on the projects put in place during the 2000-2006 period is needed to evaluate the impact of the HIPC initiative and the decision making process. This could contribute to improved selection and implementation of future public projects. In this perspective the CCS could start with the elaboration of a constructive exit plan for the CCS-HIPC set-up.

## 3.5 Other debt relief Initiatives

### 3.5.1 Additional debt cancellation by Paris Club members

In 2005 Paris Club members decided to proceed to 100% cancellation of pre-cut off point debts of HIPC countries that would henceforth reach the Completion Point. This decision was applied when Cameroon reached its Completion Point in April 2006. As stated in subsection 3.3, for Cameroon the quantitative impact of the debt cancellation under this decision was superior to that under the HIPC Initiative.

### 3.5.2 The Multilateral Debt Relief Initiative (MDRI)

As we explained in section 2, after reaching the HIPC Completion Point in 2006 Cameroon also received debt relief under the MDRI. The management of those funds is much less regulated and no special committee has been set-up to approve the projects to be financed with those resources. Of course the projects should be linked to objectives set out in the PRSP. Just as for the HIPC Initiative, the savings on debt service are transferred in a special account at the BEAC. At the end 2007 there was a balance of around 49 billion FCFA on this account. At the end of October 2008 the balance was and approximately 75 billion FCFA.

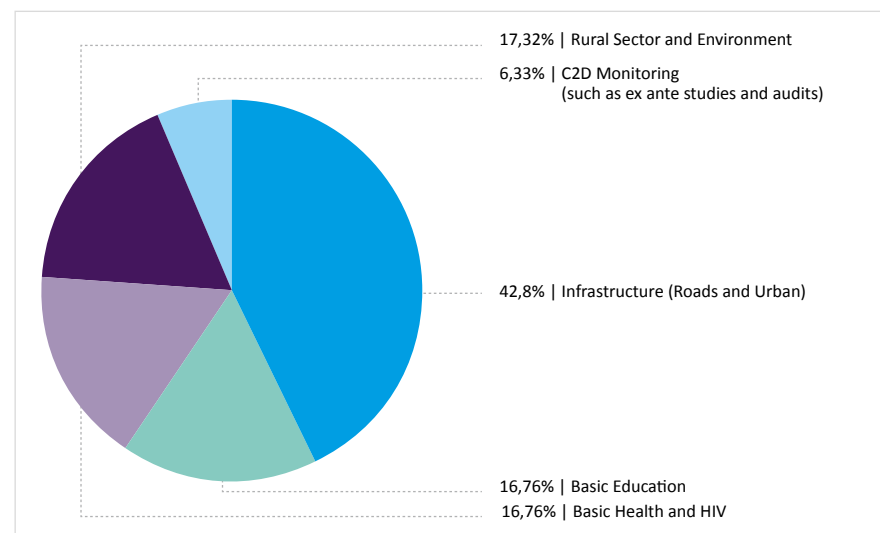
### 3.5.3 Contrat de Désendettement et de Développement (C2D)

In June 2006 the Government of Cameroon signed an agreement with the French Government to start a specific program, the first C2D program, to be financed by the remaining ODA debt after the HIPC Initiative (essentially post cut-off date ODA debt). To set up this program the French Development Agency (or “Agence Française de Développement”, AFD), which is responsible for the Initiative, created (i) an Orientation and Follow-Up Committee (or “Comité d’Orientation et de Suivi”, COS), (ii) a Bilateral Technical Committee (or “Comité Technique Bilatéral”, CTB), (iii) a Technical Support Secretariat for the Execution of the C2D (or “Secrétariat Technique d’Appui Dédié à l’Exécution du C2D”, STADE), and (iv) a special C2D account at the BEAC.

As we mentioned in subsection 3.3, the C2D program is financed by the cancellation of the post cut-off date ODA loans remaining after debt cancellation under the HIPC Initiative. The Government of Cameroon transfers in CFA Francs the debt service that was due on those debts to the French Treasury, which then retransfers those amounts to a special BEAC account. The funds are then used to finance the projects that were chosen and ratified by the COS and CTB, and the STADE makes sure the projects are financed properly. The total expected amount of debt relief to be transferred between 2006 and 2011 to the BEAC account under C2D is about 352 billion FCFA. Figure 9 shows the division of those resources by sector.



**Figure 9** Distribution of the C2D funds between the different sectors:



Source: C2D

It is important to emphasize that even though the structure created for the implementation of the C2D is similar to the one set up for the HIPC Initiative, the two programs are quite different. The main differences are that (i) C2D concentrates on specific areas (basic education, health, agriculture and food security, environment and biodiversity, roads and urban development) and a limited amount of projects, whereas CCS-HIPC missed a focus and (ii) the monitoring of the funds under C2D is more transparent, because the cooperation is between two parties only, the Cameroonian and the French Governments.

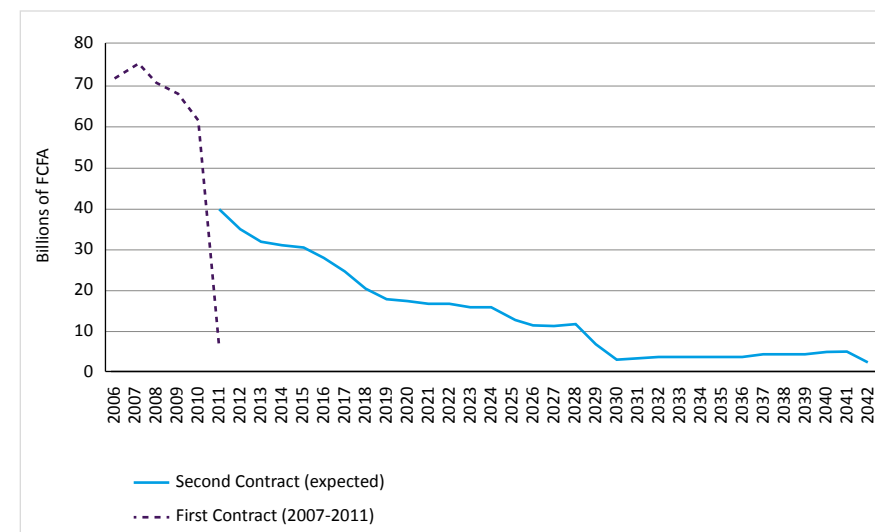
Approximately 290 billion FCFA out of the 352 billion FCFA expected to be transferred on the BEAC account during phase one have been allocated to the above mentioned sectors through fixed contracts, and 106 billion FCFA have already been spent (data for September 2008). Table 4 presents the amounts received and spent on the BEAC account between January 2007 and October 2008.

Table 4 Movements in the Special C2D account at the BEAC, billions of FCFA:					
2007 billion FCFA	Balance on 31/12/2006	Amounts Received	Amounts Used	Balance on 31/12/2007	Share of Government Revenues (%)
Special C2D Account at the BEAC	64,73	78,88	53,33	90,29	4.8%
31/10/2008 billion FCFA	Balance on 31/12/2007	Amounts Received	Amounts Used	Balance on 31/10/2008	
Special C2D Account at the BEAC	90,29	44,68	20,8	114,17	5.1%

Source: BEAC, MINFI

In 2009 the AFD will organize an audit to evaluate the effects of C2D, to analyse its functioning, to assess the speed of the expenditures, the choice of the projects and their impact. C2D will continue after 2011 (presumably until 2042) with expected transfers of about 450 billion FCFA.

**Figure 10** The amounts received under the two C2D contracts:



Source: Caisse Autonome d'Amortissement (C.A.A.)

## 4 Efficiency of the Debt Alleviation

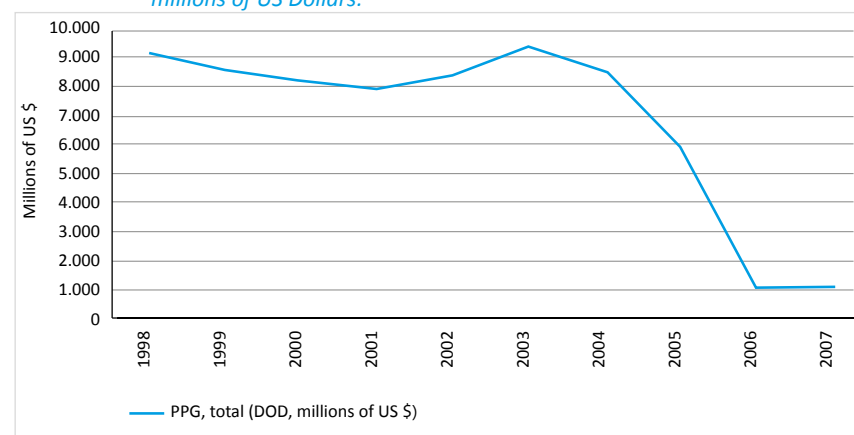
In this section, we analyze the efficiency of debt alleviation operations. By efficiency we mean the link between debt alleviation and the evolution of debt indicators. More specifically we analyze the effects of the application of the HIPC Initiative on the debt stock (in nominal and in NPV terms), on the debt service and on the arrears. Finally we discuss briefly whether the conditions in the framework of the HIPC Initiative have contributed to an improvement of policies and governance.

### 4.1 The Evolution of the Debt Stock

Cameroon's nominal debt stock decreased slightly after the Decision Point, but it increased again in 2002 and 2003. Both bilateral and multilateral debt contributed to this increase, which was only partly offset by the decrease in the private external debt resulting from the buy-back in 2003 discussed in subsection 3.2.

As shown by figure 11 the nominal debt stock decreased strongly in 2005 and 2006. In 2005, the debt relief represented about 2,680 billion US\$, of which 94% was granted by the bilateral creditors<sup>100</sup>. The decrease in debt represented in this figure is also due to a series of debt repayments made by Cameroon between 2003 and 2005. In 2006, the year in which Cameroon reached its HIPC Completion Point and benefited from substantial debt cancellation, external debt declined by approximately 5 billion US\$. For the year 2006, the debt relief represented 3,846 billion US\$, of which 71% were granted by the bilateral creditors. The debt relief coming from the multilateral creditors represented approximately 6% and 28% of total relief in 2005 and 2006 respectively.

**Figure 11** Public and Publicly Guaranteed debt (PPG), between 1998 and 2007, in millions of US Dollars:



Source: GDF 2008

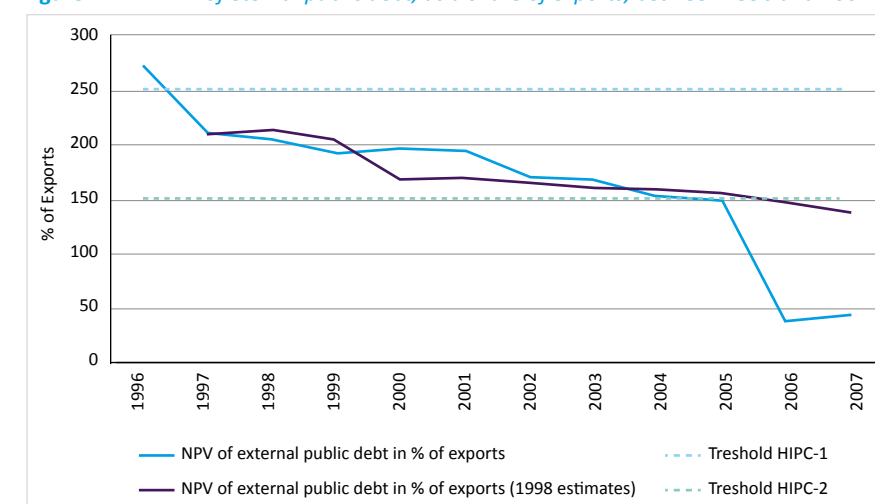
<sup>100</sup> This information is to be taken with some caution, as the decrease in debt in 2005 in the data we were given in Cameroon was smaller than presented here.

The net present value of external debt also decreased substantially following the debt relief under the HIPC and MDRI Initiatives and the additional debt cancellation by Paris Club countries. Figure 12 shows the NPV of external debt as a percentage of exports. For the sake of comparison we also show the NPV of external debt as projected in the Debt Sustainability Analysis (DSA) made by the IMF in 1998. This projection was made without integrating the debt relief under the HIPC Initiative, but incorporating the results of debt relief operations granted to Cameroon before 1998.

At the time of the Decision Point, the NPV of external debt represented 198% of exports. The figure fell to 40% in 2006, at Completion Point, and stayed below 45% the following year. Figure 12 also suggests that in 2006 the country would have had a NPV of external debt below the 150% of exports threshold, even in the absence of HIPC debt relief. During the Interim Period oil revenues (and exports in general) have risen much more than projected in 1998. As a result the denominator of the NPV of debt –export ratio increased. Thus *ex post* it turns out that the country could have achieved a “sustainable” debt level even in the absence of the HIPC Initiative.

We conclude that during the HIPC interim period the effects of the debt relief on total debt in nominal terms were not quite clear. The nominal amount of debt increased in 2002 and 2003 when debt relief was granted, but decreased in 2004 and 2005, after Cameroon had failed to fulfil the conditions for the Completion Point. But the data show very clearly the impact of debt cancellation on the nominal value of debt upon reaching the Completion Point. But we do observe a steady decline of the NPV of external debt as a percentage of exports after 2000 and 2005. This resulted from a slight decrease in the numerator and a stronger increase in the denominator of the ratio. Finally the effect of debt cancellation upon reaching the Completion Point in 2006 is again clear from the data.

**Figure 12** NPV of external public debt, as a share of exports, between 1996 and 2007:



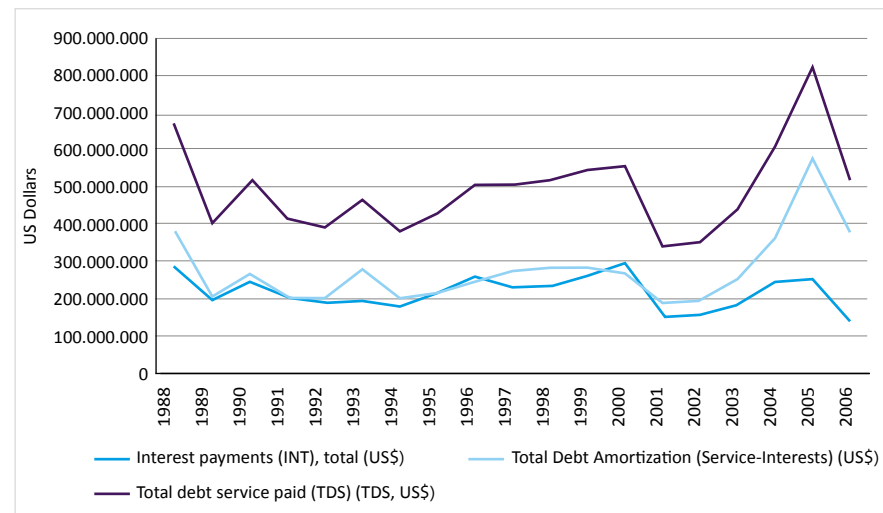
Source: GDF 2008, Caisse Autonome d'Amortissements (C.A.A)

We conclude that during the HIPC interim period the effects of debt relief on total debt in nominal terms were not quite clear. Nominal debt increased in 2002 and 2003 when debt relief was granted, but decreased in 2004 and 2005, after Cameroon had failed to fulfil the conditions for the Completion Point. But the data show very clearly the impact of debt cancellation upon reaching the Completion Point on the nominal value as well as on the NPV of debt.

## 4.2 The Evolution of the Debt Service

Figure 13 shows the evolution of the total debt service and of its components. From 1996 (two years after the devaluation) to 2000, the total debt service paid, expressed in US dollars, increased slightly, from around 500 million US\$ to over 550 million US\$. But because the FCFA weakened compared to the US dollar, the debt service in FCFA increased much more, going from 270 billion FCFA in 1996 to over 400 billion FCFA. The debt service fell steeply in 2001, after the country had reached the Decision Point. But in subsequent years it increased again. We observe the same evolution for interest payments and for amortization.

**Figure 13** Total Debt Service Due (on external debt), between 1988 and 2006, in US Dollars:



Source: GDF 2008

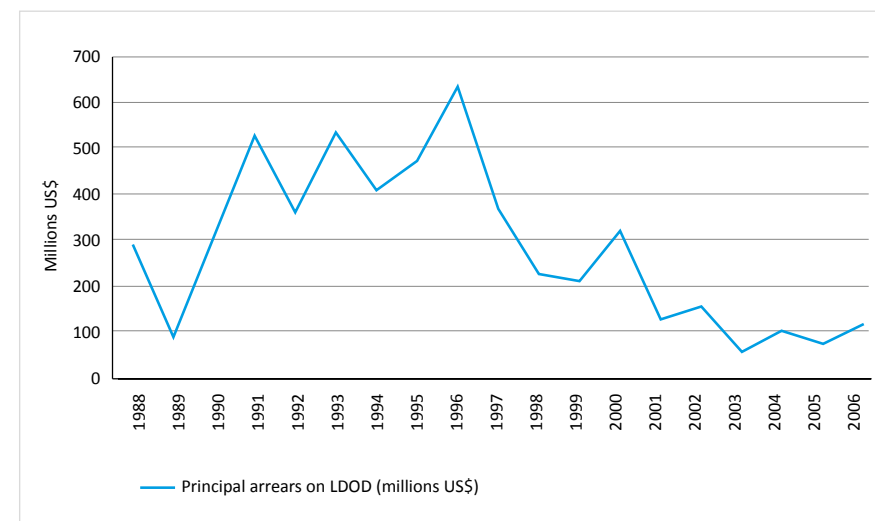
In the years 2004 and 2005 there was a steep increase in debt service, caused mainly by a sharp rise of amortization. This can be explained by the fact that Cameroon was supposed to reach Completion Point in 2004. But because the country failed to fulfil all the conditions it stood on schedule with its debt service, including repayments of existing debts. This was possible because of the increase in oil revenues.

Finally figure 13 shows clearly a decreasing debt service, interest payments as well as amortization, in 2006 when the country reached the Completion Point.

## 4.3 Arrears on external debt

Figure 14 shows the evolution of arrears on external debt. Between 1990 and 1996 arrears amounted to between 400 and 600 million US\$. After 1996 arrears dropped as a result of payments, consolidations and securitization of part of the arrears. Even under the IMF adjustment programme, the arrears increased again between 1998 and 2000. After 2000 new agreements with the London and Paris Clubs enabled the country to reschedule and abolish part of the remaining arrears. From 2003 till 2006 arrears have fluctuated around a level of 100 million US dollars. After 2006, with the Completion Point under the HIPC Initiative, the arrears decreased again. The evolution of arrears between 1988 and 2006 is shown in figure 14.

**Figure 14** Principal Arrears to official and private creditors, 1988-2006, in million US\$:



Source: GDF 2008 data

We conclude that the problem of high arrears was solved first by agreements with creditors before the HIPC Initiative was applied to Cameroon. In the years immediately following the Decision Point the arrears declined substantially, but thereafter they were fairly stable. After the Completion Point the arrears continued on their negative trend.

#### 4.4 Implementation of the conditionalities:

Under the Enhanced HIPC Initiative a country normally needs three years after Decision Point to reach Completion Point. Cameroon was expected to reach the Completion Point in December 2004, but the country failed to fulfil the conditions set forward at the time of the Decision Point. The first reason was that the country had failed to make sufficient efforts to improve governance, and so was unable to fully implement the conditions of the PRGF arrangement that expired in December 2004. Cameroon held presidential elections in October 2004 and this had led to an important increase in Government expenditures. The second reason was that the expenditures from debt service savings under the HIPC Initiative were quite low, with a very low execution rate. The Government did not transfer timely the debt service savings to the BEAC account. Finally, there were some problems with the implementation of various privatisations. Moreover the implementation of the PRSP, after it was completed in April 2003, had been less than comprehensive.

Starting in 2005 the Government then improved its management practices and set attaining the Completion Point as a clear policy goal. The public expenditure management was improved by the establishment of an integrated financial management system, even though there was still work to be done in terms of transparency and traceability. The government also established a number of committees to monitor the implementation of the PRSP and the attainment of the HIPC Completion Point triggers, and increased the expenditures in the social sectors and for the struggle against HIV/AIDS.

We conclude that especially after 2004 Cameroon tried to implement the conditions set formulated at the time of the Decision Point. Implementing these conditions has contributed to improvements in public management. But the improvements were uneven and improving governance remains an ongoing task.

## 5 Effectiveness of the Debt Alleviation

In this section, we discuss the effectiveness of debt alleviation. Our starting point is that the direct objectives of debt alleviation are to make debt sustainable, to make additional resources available to the government, to strengthen the balance of payments, to improve governance and to raise investment. These eventual effects in turn should contribute to the ultimate objectives of higher economic growth and poverty alleviation, both discussed in section 6. In the first and second subsection we analyse the effects of debt relief under the HIPC Initiative on the debt stock and on debt service. In the third subsection we analyze whether debt alleviation was additional to official development assistance (ODA). We then turn to the effect of debt alleviation on the balance of payments and on public finance. Finally we analyse the evolution of governance indicators for Cameroon and of investment.

### 5.1 External Debt Stock

As we have shown in subsection 4.1, Cameroon's debt stock decreased substantially after 2004 and especially in 2006 when the country reached the HIPC Completion Point. In table 5 we present the net present value (NPV) of the external debt stock as percentage of exports of goods and services, of GDP and of Government revenues. The table also shows the nominal total (external plus internal) debt stock as a percentage of GDP. The table shows that the achievement of the Completion Point resulted in an important decrease in all those indicators. The table also gives the sustainability thresholds for the first indicator as defined by the HIPC Initiative (150% for the NPV of debt on exports ratio), for the first three indicators as defined by the Debt Sustainability Framework (DSF) and for the fourth indicator as defined by the CEMAC (or "Communauté Economique et Monétaire de l'Afrique Centrale"). As shown in table 5, from 2006 onwards those ratios stay well below the sustainability levels. The most important decreases are observed for the ratios involving the NPV of external debt. Between 2005 and 2006 they decrease by two thirds or more. In 2007 and 2008 all four ratios were fairly stable.

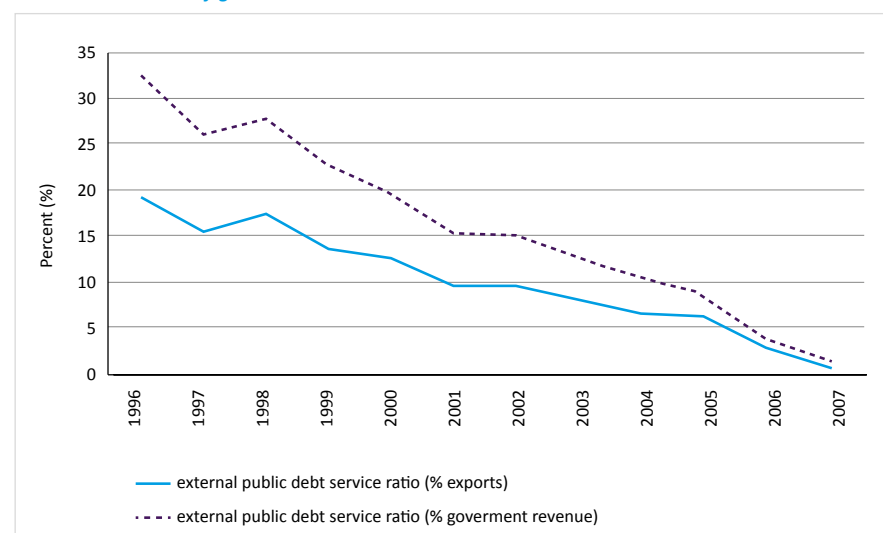
	1999	Thresholds	2005	2006	2007	2008(e)
NPV of External Debt / Export Good and Services	192,00%	150%	149,60%	40,20%	44,43%	45,10%
NPV External Debt / GDP	53,80%	40%	34,00%	10,20%	9,70%	9,50%
NPV External Debt / Government Revenues	280,60%	250%	192,10%	57,10%	50,30%	52,00%
Public Debt Stock / GDP	N.A.	70%	55,70%	20,80%	17,20%	12,20%

Source: C.A.A. and IMF

## 5.2 External Debt Service

The debt relief under the HIPC Initiative has had a substantial effect on the debt service payments. Figure 15 shows the evolution of the external public debt service in terms of exports of goods and services, and in terms of Government revenues.

**Figure 15** External public debt service as percentage of exports of goods and services and of government revenues



Source: IMF data, various country reports

The table suggests that debt alleviation had direct effects on debt service. Between 2000 and 2005 the decline was gradual. After 2005 we observe a sharp decline.

## 5.3 ODA, Debt Relief, and Additionality

One issue linked to debt alleviation is the problem of additionality. In this section we use the main definition used in the literature, which considers debt relief as additional if “it does not lead to lower levels of other non-debt relief aid flows (that is crowding out) for the debtor concerned” (POWELL, R. (2003)). Some authors and institutions (World Bank, OED (2003); DIJKSTRA, G. (2004); COHEN et al. (2004)) have highlighted the problem of additionality under the HIPC Initiative at the end of the 1990’s and the early years 2000. They concluded that a number of countries which had reached the HIPC Decision Point before year 2000 were experiencing declines in the ODA inflows as debt relief was granted.

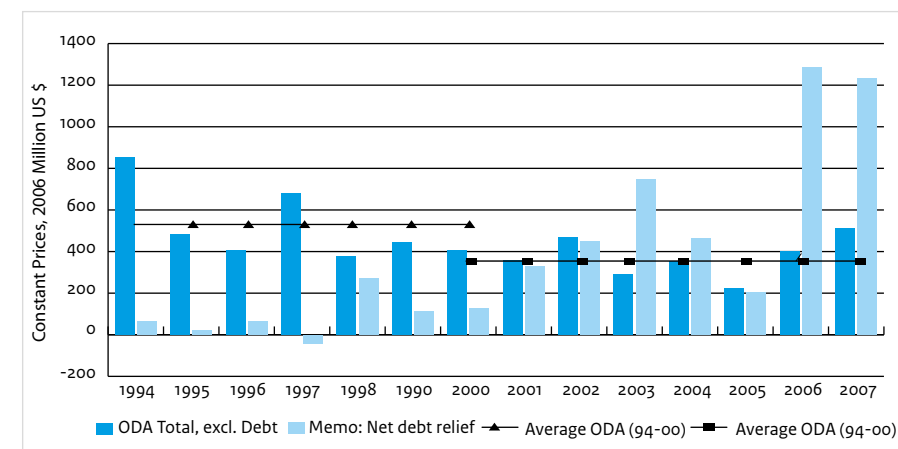
We analyze the evolution of ODA received by Cameroon before and during the HIPC Initiative with the purpose of assessing whether there has been a negative relation between debt relief and traditional ODA. A negative relation would suggest a lack of additionality

of debt relief. Figure 16 shows the evolution of total net debt relief and total net ODA disbursements, excluding net debt relief, between 1994 and 2007. The figure also shows the average annual ODA received by Cameroon between 1994 and 2000, and between 2000 and 2006 (the HIPC interim period)<sup>101</sup>.

The data we use are at constant 2006 prices. They cover ODA and debt relief received by from all donors (bilateral as well as multilateral). Because the number of observations is limited it is not possible to obtain any statistically significant correlation between net ODA (exclusive of debt relief) and net debt relief<sup>102</sup>. The following discussion, therefore, needs to be taken with some precaution. Looking carefully at the years 1995 – 2005 in figure 16, we observe that an increase (a decrease) in debt relief is often accompanied by a decrease (an increase) in net ODA.

A comparison of average annual ODA received during the HIPC interim period with the average figure for the preceding years shows that the ODA receipts have decreased after Cameroon had reached the Decision Point in 2000. Between 1994 and 2000 average ODA was approximately 520 million US\$. Over the years 2000-2006 it fell to less than 360 million US\$, i.e. by 30%. For the sake of comparison, we checked the ODA received by Cameroon since 1970. During the 1970s Cameroon received on average annually approximately 400 million US\$ of ODA. Subsequently annual ODA receipts increased to 450 million US\$ in the 1980’s and 570 million US\$ in the 1990’s. Between 2000 and 2007 the figure decreased to approximately 370 million US\$<sup>103</sup>.

**Figure 16** Net ODA (excluding net debt relief) and Net Debt Relief, at constant 2006 prices, 1994-2007:



Source: Development Assistance Committee (DAC)

<sup>101</sup> The year 2000 is used for the calculation of the two averages, to make the averages overlap.

<sup>102</sup> The data on debt relief for Cameroon becomes annually continuous only in 1994 (we have one data in 1990 and 1991, but no data before), so we do not have enough information to compute any robust and statistically significant correlation. When we regress ODA (excluding debt relief) on debt relief, we know that there are a lot of possible problems (i.e. endogeneity, causality, lack of control variables, too few data...), but the sign of the coefficient is negative.

<sup>103</sup> We used a t-test to see if the mean of ODA between 1990 and 1999 and between 2000 and 2007 received by Cameroon was statistically different, and the test showed us it is effectively the case.

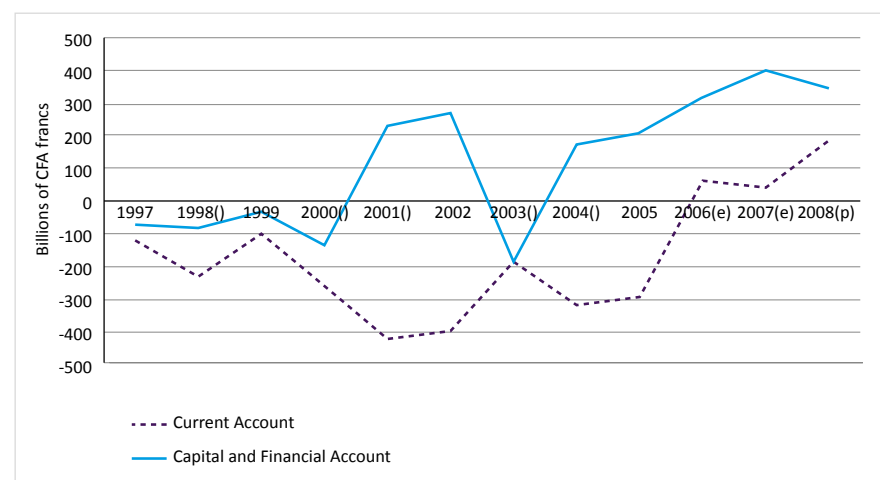


Our analysis suggests that Cameroon has experienced a negative relationship between ODA and debt relief. Apparently donors have reduced their development assistance once they provided substantial debt relief.

## 5.4 Balance of Payments

In 1996 the debt service represented nearly 20% of exports. In subsequent years the figure has declined steadily, until reaching approximately 1% in 2007. This decline can be explained by the steep decrease in the interest burden on external debt, but also by the steady increase of exports. The latter can be explained first by the effects of the 1994 devaluation and later on by the increasing value of oil exports which doubled between 1997 and 2007.

Figure 17 Current and Capital Account:



Source: IMF Statistical Appendixes

Cameroon's current account had been negative during the 1980's and the 1990's (except in 1995, the year after the devaluation). Notwithstanding the declining interest payments on external debt and the rising value of oil exports Cameroon's balance on current account remained negative up to the year 2005. As shown by table 6 this was due to a substantial rise of imports. After 2005 the effect of falling interest payments and increasing oil revenues outweighed the rise of imports<sup>104</sup>.

<sup>104</sup> The information concerning the Balance of Payments differs markedly according to the sources, and even inside each source for different yearbooks. Those figures and tables can thus be criticized, but we took what seemed to be the most plausible information.

	1997	1998(I)	1999	2000(I)	2001(I)	2002	2003(I)	2004(I)	2005	2006(e)	2007(e)	2008(p)
Current Account	-130,8	-231,8	-100,4	-259,8	-422,6	-388,2	-176	-318,9	-294	62	41	187
Trade Balance	216,5	117,1	386,7	380,6	-8,8	57,4	137	-29,8	23	284	157	411
Exports	1083,9	989,7	1399	1582,7	1399,3	1380,3	1370	1362,5	1547	1932	1941	2338
Oil	356,3	311,1	651,8	779	595,3	604,2	551	573,6	763	983	984	1360
Others	727,7	676,6	747,2	803,7	804	776,1	819	788,9	784	949	957	978
Imports	-867,5	-872,7	-1012,3	-1202,1	-1408,1	-1322,9	-1233	-1392,3	-1524	-1648	-1784	-1927
Services (net)	-410,5	-407,8	-550,7	-728,8	-505,6	-614,2	-428	-368,5	-188	-222	-265	-275
Interest Due on public debt	-269,9	-254,2	-231,4	-220,6	-183,6	-178	-155	-139,1				
Others	-140,6	-153,6	-319,3	-508,2	-322	-436,2	-273	-229,4				
Income (net)									-243	-131	-38	-148
of wich: Interest Due on public debt									-122	-73	-37	-30
Transfers	63,2	59	63,5	88,4	91,8	168,6	115	79,4	114	132	187	199
Capital and Financial Account	-72,5	-82,7	-32,9	-135,5	230	269,3	-188	173	208	318	400	345
Overall Balance	-202,9	-314,5	-133,5	-204,4	-191,8	-121,5	-363	-244,1	-86	380	441	532

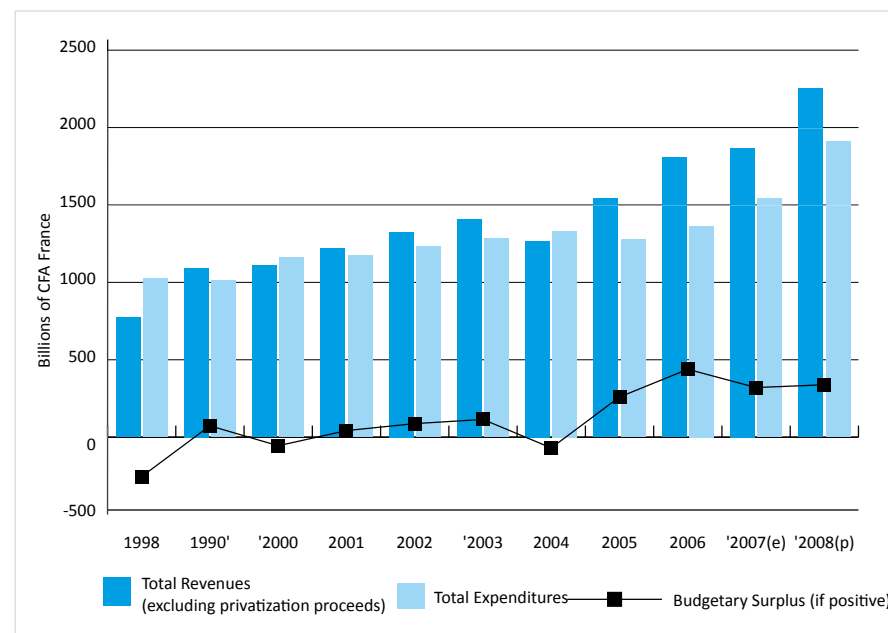
Source: IMF Statistical Appendixes (between 1997 and 2006)

Table 6 highlights the improvement in the current account balance, from a deficit of over 300 billion FCFA in 2004, to a surplus of 62 billion FCFA in 2006. The capital account remained positive after 2004, especially because of a decrease in the public debt transfers, and a slight increase in the private sector net inflows. Net foreign assets have been rising steadily since 1999. Starting from 1992 cumulated changes of net foreign assets amounted to nearly 500 billion FCFA by 2002 and to nearly 2,000 billion FCFA by 2008. The role of debt alleviation in this process, however, has been quite limited.

### 5.5 Public Finance

We now turn to the effect of debt alleviation on public finance. Between 1996 and 2007 the share of interest payments in Government revenues has declined substantially. This can be explained first by the diminishing debt burden, and second by the increase in government revenues:

**Figure 18** Government Revenues, Expenditures and Fiscal Surplus, 1998-2008



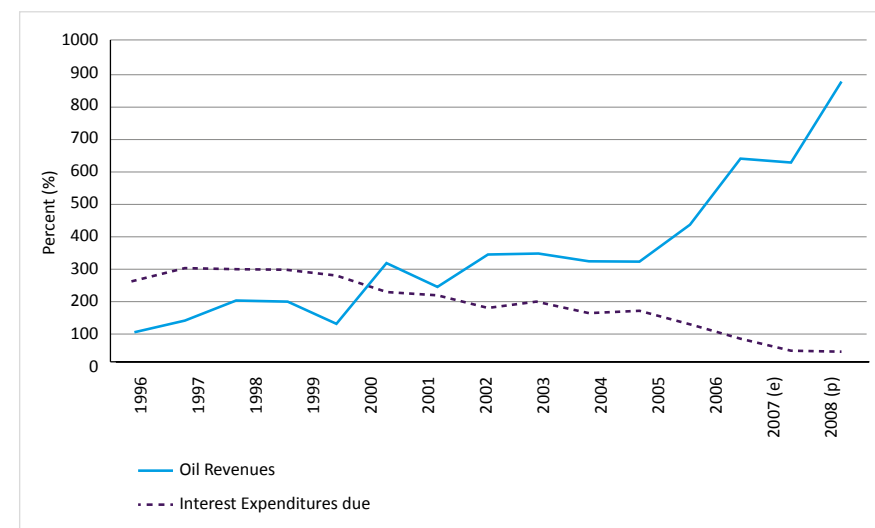
Source: IMF

In figure 18 we present the evolution of Government revenues and expenditures between 1998 and 2008, and the fiscal surplus. The country has had a budgetary surplus from the year 2000 onward (with the exception of the year 2005). This is mainly explained by the

increasing oil revenues<sup>105</sup>. These revenues represented about 22% of total Government revenues in 2000 and went up to over 35% in 2007.

For the sake of comparison, and to put the Government's interest burden in perspective, we present in figure 19 the interest due on total public debt and the Government oil revenues between 1996 and 2008:

**Figure 19** Interest due on External Public Debt and Government Oil Revenues, 1996-2008:

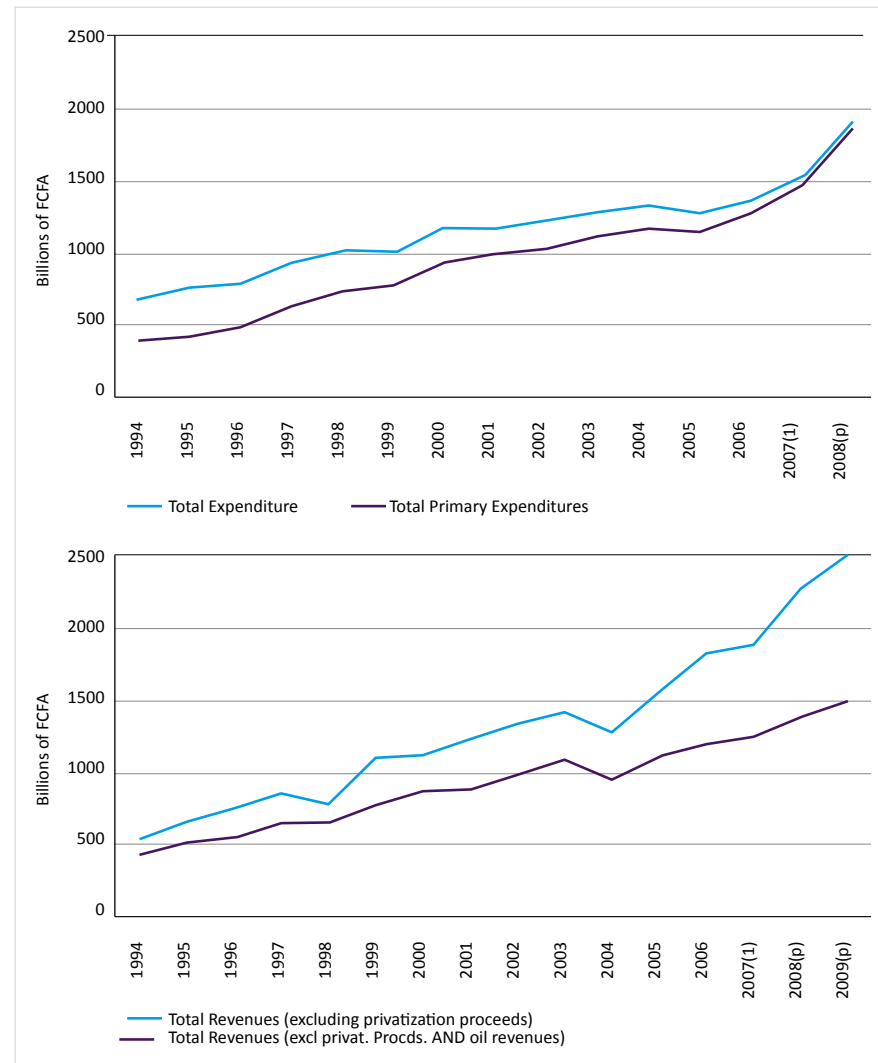


Source: IMF

The oil revenues received by the Government doubled between 2004 and 2007, due to the increasing oil price combined with a slightly declining output. In the year 2007 these revenues represented about 630 billion FCFA, nearly twice as much as what the country received in interim debt relief under the HIPC Initiative between October 2000 and October 2006. Another way to put the oil revenues and interest payments in perspective is to analyze the difference between total and primary government expenditures and the difference between total government revenues with and without oil revenues. These variables are represented in figure 20.

<sup>105</sup> For the year 2004, the fiscal deficit can be explained by a decrease in total grants and in the non-oil tax revenues. The oil revenues stayed nearly at their 2003 level.

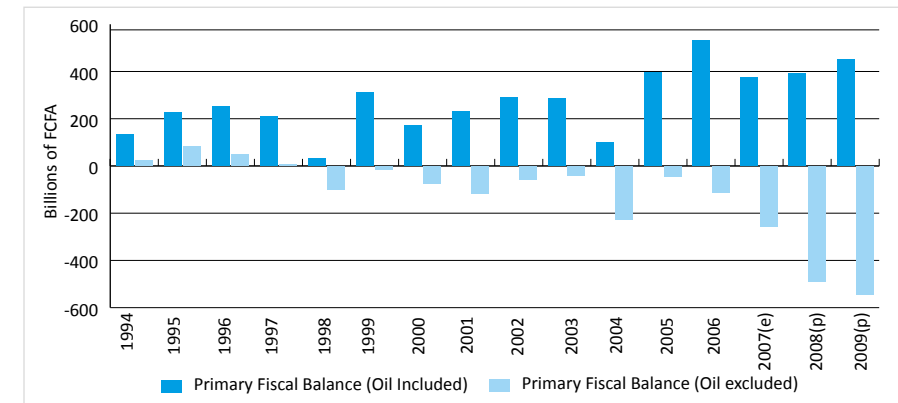
**Figure 20** Total and Primary Government Expenditures (left) and Total Government Revenues with and without Oil (right), 1994-2008, billions of FCFA



Source: IMF, Statistical Annexes

As figure 20 shows the HIPC Initiative, by decreasing the interest payments due by the Cameroonian Government, has translated into a decreasing difference between total and primary Government expenditure. The right hand side of the figure shows that in recent years the gap between Government revenues with and without oil has widened. Figure 21 represents the primary surplus (deficit) with and without oil revenues, and it shows us the importance of those revenues for the state:

**Figure 21** Primary Fiscal Deficit (+ = Surplus) with and without oil revenues, 1994-2008, billions of FCFA:

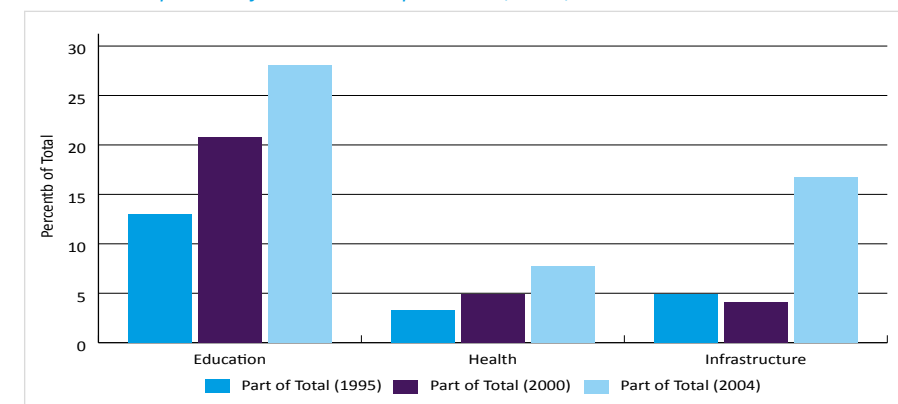


Source: IMF, Statistical Annexes

We conclude that the debt relief has contributed to a positive fiscal outcome. But as with the current account, the effect of the increasing oil price was by far more important than the HIPC debt relief.

We now consider more specifically the government expenditure in the three main sectors highlighted by the PRSP, which are education, health and infrastructure. We present three pieces of evidence. First figure 22a shows public expenditures on education, health and infrastructure, as a percentage of total expenditures, for the years 1995, 2000 and 2004. We observe a steady growth in the share of health and education over the years and an increase of the share of infrastructure in the year 2004. We also notice the importance of the expenditures on education which represented more than 25% of total expenditures in 2004.

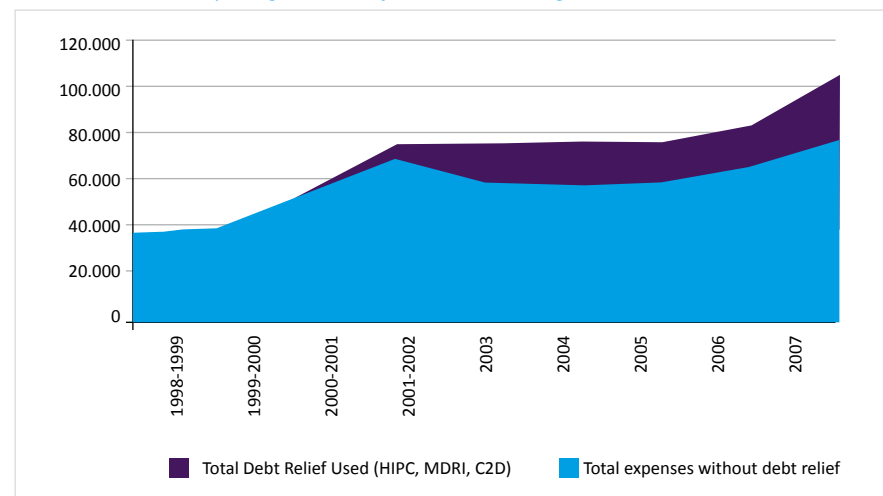
**Figure 22a** Government Expenditures on Education, Health and Infrastructure, in percent of Total Public Expenditures, 1995, 2000 and 2004:



Source: IMF, Country Reports

Secondly FURRER and KADDER (2007) show a stabilizing effect of debt relief on public expenditures on health between 2000 and 2005 and a contribution to the rise of public health expenditures in 2006 and 2007.

**Figure 22b** Evolution of the Budget of the Ministry of Public Health (Millions of FCFA), decomposing Debt Relief and Normal Budget:



Source: FURRER and KADDER (2007)

Thirdly IDA and the IMF (2007, table 3) have estimated that poverty-reducing expenditures have increased from 17% of government expenditures in 2000 to 33% in 2006 and from 3.1% of GDP in the former year to 6.3% in the latter.

We conclude that debt relief has contributed to a fiscal surplus. But its effect is overshadowed by that of the increasing oil price. On the other hand the share of expenditures on education, health and infrastructure in total public expenditures has risen substantially.

## 5.6 Governance Indicators:

In this subsection we analyse whether governance has improved between Decision and Completion. To do this we use a number of indicators. We start by analysing the sovereign ratings of Cameroon by rating agencies, before focusing on the Country Policy and Institutional Assessment (CPIA) Rating and the Kaufmann-Kraay-Mastruzzi (KKM) index. Finally we mention the Corruption Perception Index (CPI).

The ratings by Standard & Poor's and Fitch did not change much after Cameroon reached the Decision Point. Standard & Poor's gave both long and short term debt a B grade in 2003, and downgraded it in December 2004 to respectively CCC and C, because of public finance slippages. It then upgraded those ratings twice (in May 2006 and February 2007), so that they

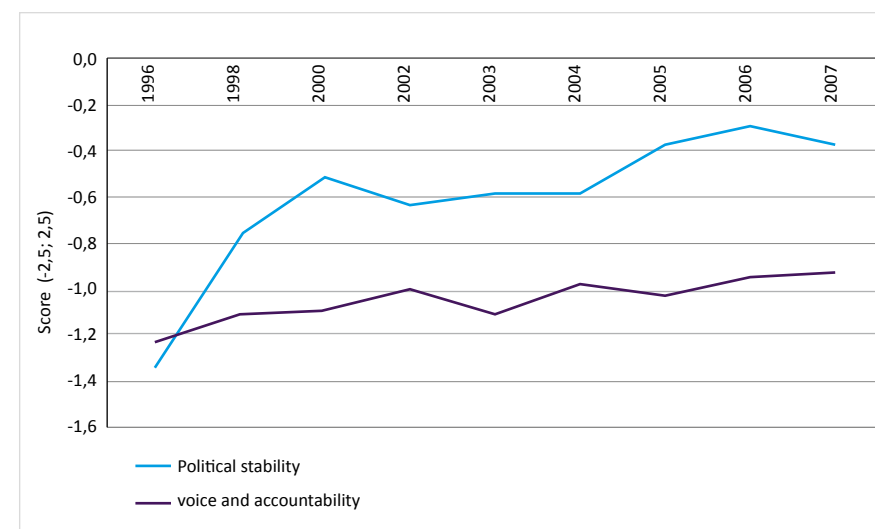
reached their 2003 levels. Fitch started with a B rating for both long and short term debt. In February 2005 it downgraded long term debt to B-, because of poor budgetary management. In June 2006 it upgraded it again to B.

The Country Policy and Institutional Assessment (CPIA) Index is published every year by the World Bank, and "rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions" (World Bank). The final mark for the country lies between 1, which means the rating is highly unsatisfactory for two years or more, and 6, which means it is good for two years or more. Cameroon's score decreased from 3.3 in 2005 to 3.2 in 2006, which puts the country in the group of "weak performers". This is mainly due to the weak business regulatory environment, the policies and institutions aimed at environmental sustainability and the inefficiency of revenue mobilisation. The country kept the same rating IN 2007.

D. Kaufmann, A. Kraay, and M. Mastruzzi (2008) constructed an indicator of the quality of governance in a country, the so-called KKM Index. This index is based on six governance indicators (on a scale from -2,5 to 2,5), divided into three groups. This is one of the few governance index that covers a period of more than ten years (1996-2007).

The first group covers "the process by which governments are selected, monitored and replaced", and is composed of two indicators: "voice and accountability" and "political stability and absence of violence". The former includes measures of the political process, the respect of civil liberties and the political rights. The latter integrates the perception or likelihood that the government will be overthrown, and the perception of internal violence. We represent both in figure 23. We observe that there is no particular improvement in the "voice and accountability", but the political stability indicator has increased between 1996 and 2000 and between 2004 and 2006.

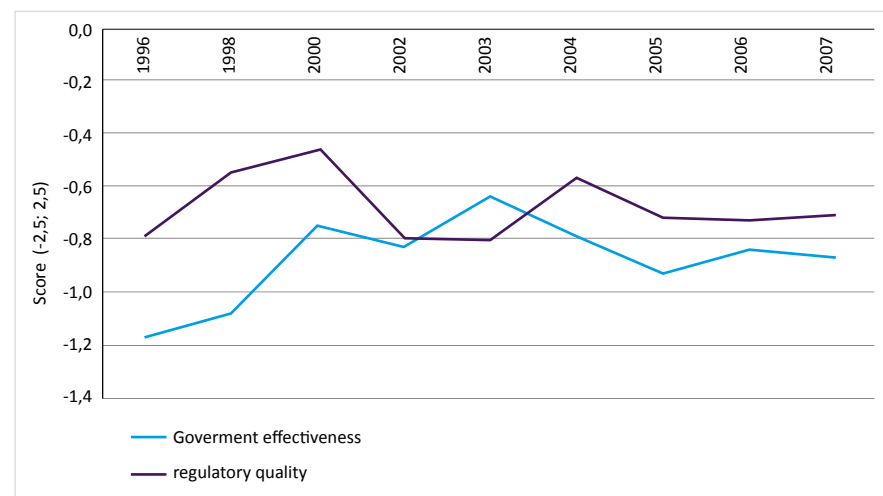
**Figure 23** "Voice and Accountability" and "Political Stability and Absence of Violence" Indicators, 1996 - 2007



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2008)

The second group of indicators covers two indicators of the “*capacity of the government to effectively formulate and implement sound policies*”, “Government effectiveness” and “regulatory quality”. The first one reflects mainly the quality and the independence of the institutions, of the bureaucracy, and the credibility of the government to commit to its policies. The second one concentrates on the formulation of the policies, and on their adequacy. Figure 24 shows that there has been no substantial improvement in either of these indicators.

**Figure 24** “Government Effectiveness” and “Regulatory Quality” Indicators, 1996 - 2007



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2008)

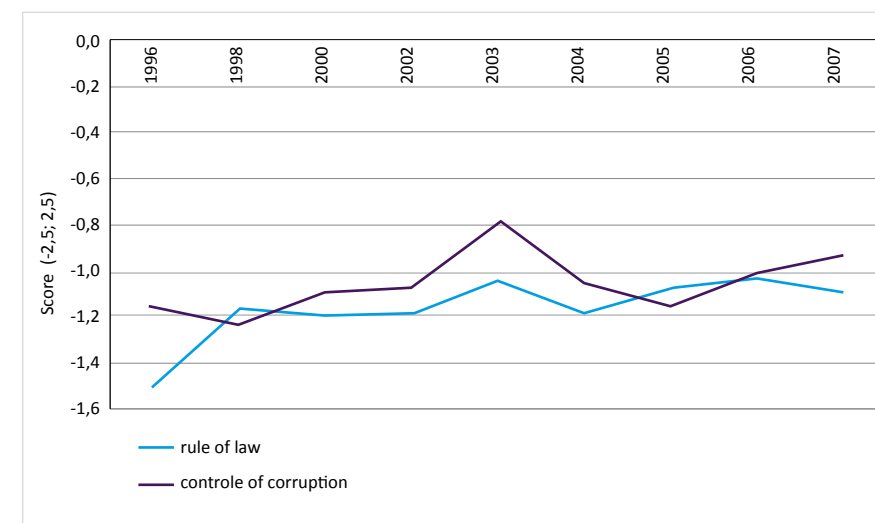
The last group relates to the “*respect of citizens and the state for the institutions that govern economic and social interactions among them*” and contains indicators of the “rule of law” and “control of corruption”. The first reflects mainly the perception of justice and the enforceability of contracts. The second measures the perception of corruption, defined as “*the exercise of public power for private gain*”. Figure 25 shows that those two indicators also did not change significantly over the period 1996-2007.

Finally we mention Cameroon’s score in the rating by Transparency International. This NGO publishes every year a Corruption Perception Index (CPI). In 1998 and 1999 it rated Cameroon the “*most corrupt country in the world*”. The country has made some effort to fight corruption. Presently Cameroon ranks 141<sup>st</sup> out of 180 countries.

We conclude that there are hardly any indications of an improvement of governance during the Interim Period between the Decision and the Completion Point. The only exceptions are the KKM indicators of political stability and of absence of violence. Apparently the HIPC Initiative has not contributed to substantial progress in the field of governance. However the most important anticorruption campaigns and budgetary reforms took place after 2006. Their effects may not be visible in the data used in this subsection. The

apparent stagnation of governance during the Interim period is relevant for the investment environment. We discuss investment in the following subsection.

**Figure 25** “Rule of Law” and “Control of Corruption” Indicators, 1996 - 2007

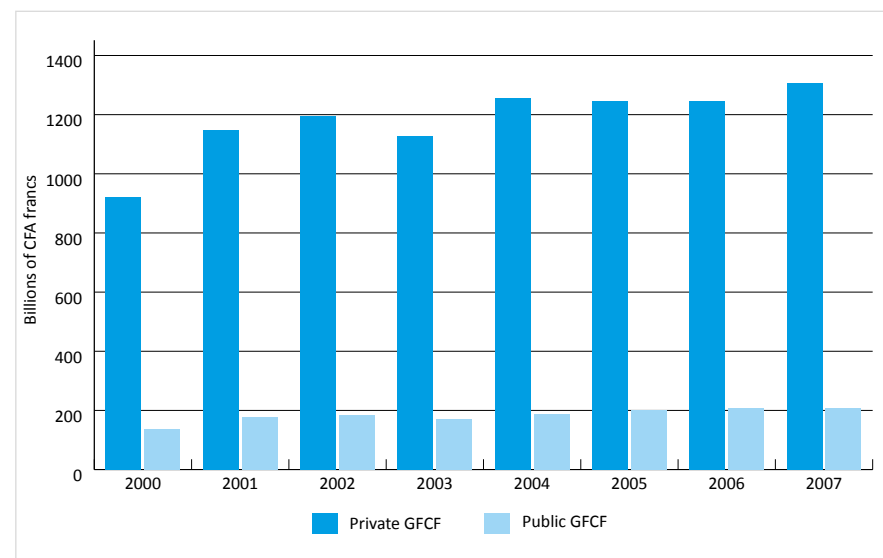


Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2008)

## 5.7 Investment

Figure 26 represents the gross fixed capital formation (GFCF) in the public and the private sector between 2000 and 2007. The figure shows how private GFCF represents about six times public GFCF. Between 2000 and 2005, average GFCF for Cameroon represented about 2.4% of GDP. At the same time, between 2000 and 2007, public GFCF increased by 51%, while private GFCF rose by 40%. It has to be noted that public investment remained quite low compared to other African countries, where figures are on average approximately twice as big (Africa Development Indicators). In principle an increase in public investments could stimulate private investment in the country and could have an important impact on the economy’s growth rate<sup>106</sup>.

<sup>106</sup> The figures about investment differ importantly according to the sources. In a discussion with the Principal Economist at the World Bank in Yaoundé, we were told that before Decision Point, total public investment represented between 1% and 2% of GDP, and that after Completion Point it increased to around 5% of GDP.

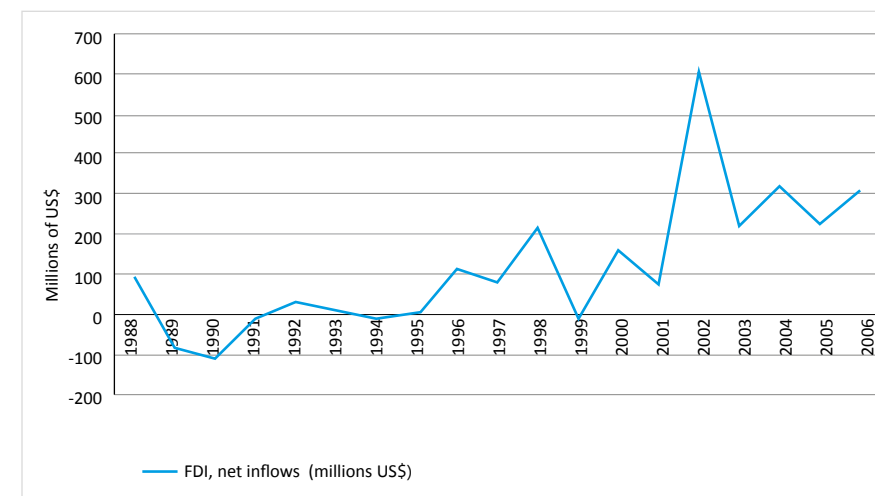
**Figure 26** Gross Fixed Capital Formation (or GFCF), 2000-2007, billions of FCFA

Source: INS

Between Decision and Completion Point, private investment fluctuated around 10% of GDP. It did not seem to benefit directly from the HIPC initiative. Among the explanations of the stagnation of private investment are (i) a lack of improvement of the quality of institutions discussed in the previous subsection, (ii) frequent electricity shortages, and (iii) a deficient integration of the internal markets and lack of link of the hinterland with the harbours because of a lack of infrastructure.

The distribution of GFCF over different sectors of the economy remained more or less the same between 2000 and 2007. About 90% of GFCF is concentrated in three sectors: building and public work (around 50%), machines and electric apparels (around 25%) and transportation material (around 15%).

We now turn to foreign direct investment (FDI). Figure 27 shows that before 1998 net FDI was lower than 100 million US\$. In 1999 it was even negative. After 2001 FDI increased to over 300 million US\$ in 2008, with a peak of 600 million US\$ in 2002. This peak was due to investments coming from the United States, directed especially to the manufacturing, electric and banking sector, and by the finalisation of the investments for the Chad-Cameroon pipeline.

**Figure 27** Net FDI flows, in millions of US\$, 1988 - 2008

Source: GDF 2008

This short survey of investment suggests that the HIPC may have contributed to an increase of public and possibly of foreign direct investment. But due to several factors, one of them probably being the lack of improvement in governance, private investment as percentage of GDP has failed to increase.

## 5.8 Conclusion

The HIPC Initiative has had an evident effect on the external debt stock and as a result on the flow of interest payments on this debt. The effects on the current account and on public finance have been positive, but overshadowed by the impact of the rising oil price. The HIPC Initiative enabled the government to decrease its interest burden, but we underlined the fact that the increase in oil revenues was much more important. The same can be said of the current account, whose balance has started a positive trend since 2004. The effects of the HIPC Initiative on investment are more difficult to identify. Private investment in terms of GDP stayed flat, probably due to a lack of confidence of potential investors. Public investment increased, but by much less than the increase in government revenues.

For a series of reasons a high amount of external debt is unhealthy for a country. But the question that one could ask is whether it is “the” problem? If reducing external debt does not change the economic environment, it is likely to have a limited impact on private investment and more generally on the economy. In the following section we discuss Cameroon’s growth and poverty experience since 2000.



## 6 Impact on Economic Growth and Poverty

In this section we analyze the effects of debt relief obtained by Cameroon on two basic measures of wellbeing, i.e. economic growth and the evolution of poverty. From the outset we should emphasize that it is not evident to make definitive statements on the issue. First it is too early to observe the impact of debt forgiveness: the bulk of the debt cancellation was realized when Cameroon reached its Completion Point in 2006, and its effects may be spread over several years. Our most recent data are for 2007. Second the data on growth and poverty we observe are the result of a number of variables, debt forgiveness being one of them. So it is difficult, if not impossible, to single out the effect of one individual variable. Therefore we analyze whether the data on growth and poverty we observe between 2000 and 2006 or 2007 are compatible with a positive impact of the debt forgiveness that occurred over this period and of the expectation in the years prior to 2006 of a wider debt relief when the country would reach its Completion Point.

Before starting our analysis, it is worthwhile to mention that the Interim PRSP, published in August 2000 and whose final version was accepted by the IMF in 2003, defined the major challenges for the country as the need to “*diversify its economy, consolidate growth, and improve the standard of living of its population*”. The document did specify the weaknesses of the educational system (a relatively low access and completion rate for the primary education, coupled with a low transition rate between primary and secondary education) and the deterioration of health conditions (increasing child mortality, the persistence of malaria, meningitis and viral hepatitis, and the alarming climb in the rate of HIV/AIDS infection). But apart from mentioning the Millennium Development Goals, the Interim PRSP did not set any specific short term objectives.

### 6.1 Impact on economic growth

We first compare data on economic growth over the period 2000-2006 with those of the preceding six years. The former period covers more or less the Interim Period between Cameroon’s Decision and Completion Point, and the latter starts after the devaluation of the CFA franc in January 1994. The first row of table 7 shows quite clearly that over the period 2000-2006 the growth performance of Cameroon has deteriorated compared to the previous six years. In each of the years 2001-2003 Cameroon’s growth rate of GDP was 4% or higher, in line with the previous six years. But from 2004 onwards the GDP growth rate was lower than 4% with a particularly poor performance in 2005 (2.3%). In 2007, in line with the previous three years, the growth rate was 3.4%. Remark that the international economic climate over the period under consideration, especially in the years after 2003, was quite favorable for Cameroon, with the increase of the oil price and favorable prices of primary commodities.

Table 7 also shows that Cameroon’s growth performance was weak relative to that of comparable groups of countries, such as Sub Saharan Africa and the low and lower middle income countries. Over the years 1994-2000 Cameroon outperformed these three groups of

countries (if we exclude fast growing India and China from respectively the low and the lower middle income groups), but between 2000 and 2006 Cameroon’s growth rate was a full 1% lower than the average of Sub Saharan Africa and of the lower middle income countries (excluding China) and more than 1.5% below that of the low income countries (excluding India).

	1994-2000	2000-2006
Cameroon	4.5	3.7
Sub Saharan Africa	3.5	4.7
Low income countries	5.2	6.5
Low income countries excluding India	4.2	5.4
Lower middle income countries	5.9	7.5
Lower middle income countries excl. China	3.1	4.8

Source: *World Development Indicators (2008)*

Table 8 shows that agriculture did perform strongly over the period 1994-2000. Thereafter its growth rate remained a full percentage point in excess of population growth. The problem sector after 2000 has been industry with a growth rate hardly exceeding that of population. Remark that in a developing economy the growth rate of industry is expected to exceed that of agriculture. The best performer after 2000 was the service sector.

	1994-2000	2000-06
Agriculture	7.0	3.8
Industry	4.7	2.9
Services	0.7	6.9

Source: *World Development Indicators (2008)*

It is not easy to identify the causes of Cameroon’s poor growth performance after the country reached its HIPC Decision Point in 2000. It is possible that debt alleviation during the Interim period and the expectation of more substantial debt relief at the Completion Point had a positive, but weak effect on economic growth. But if there was such an effect, it was swamped by other negatively impacting variables. In this context we should repeat that the amount of debt relief during the Interim Period was rather limited and that a strong effect could only have resulted from the expectation of more debt relief to come.

We may get an idea of the other variables that may have impacted on growth when we reconsider investment, which we discussed in the previous section. Between 2000 and 2004, public investment as a fraction of GDP increased from 2.1% to 2.6%, but over the three following years it fell back to 2.3%. In other words there are no indications of a drastic and sustained increase in public investment. The problem was not so much a lack of funds, but difficulties of executing the public investment budget. This was true not only for

the funds generated by HIPC debt forgiveness and set apart for projects administered by the Comité Consultatif et de Suivi, but also for the general investment budget. Only the C2D program, set up with the French Development Cooperation, seems on its way to perform better. On the other hand private investment as a percentage of GDP had strongly increased between 2000 and 2001, but thereafter it gradually decreased, from 18.1% in 2001 to 14.5% in 2007. So if reaching the Decision Point had initially favorably affected the expectations of investors, either because they expected a positive effect on public finance or because they hoped for policy improvements, that effect was not sustained. As mentioned in subsection 5.7 there are a number of explanations for the rather weak private investments, including deficient transport infrastructure, problems with electricity supply, and weak governance.

Summarizing, the available data do not allow us to pinpoint what exactly were the main causes of Cameroon's weak growth performance after the country reached the HIPC Decision Point. We cannot exclude that the debt forgives starting in the year 2000 and the expectation of more substantial debt forgiveness after reaching the Completion Point have had a positive effect on economic growth, since we are not sure what would have happened if the debt forgiveness under the HIPC Initiative had not taken place. But if there was an effect, it has been swamped by other, negatively impacting decisions and events.

We cannot be exclude that new data will show that the debt cancellation upon reaching the Completion Point has had a positive impact on growth performance. The effects of the debt cancellation may take time to realize. We can only observe that the growth rate of GDP in 2007 was in line with the relatively low figures of the immediately preceding years.

## 6.2 Impact on poverty

We first discuss the possible impact of debt forgiveness on poverty by considering the headcount ratio. We then analyze changes in a four social indicators linked to poverty; these indicators belong to the fields of health and education.

### 6.2.1 Poverty headcount

The sources of information on poverty are the household surveys of 1996, 2001 and 2007, implemented by the National Institute of Statistics (NIS). The survey of 1996 covered 1700 households, whereas those of 2001 and 2007 covered more than 10,000 households. The first survey is therefore likely to imply larger margins of error than the later ones. A national poverty line was computed by the NIS by considering food and non-food expenditure; it was updated for inflation. In 2007 the poverty line was 738 FCFA (1.13 €) per person per day.

The data in table 9 suggest that between 2001 and 2007 the percentage of people below the poverty line has not substantially changed. This is in sharp contrast to the period 1996-2001, when the overall poverty rate strongly decreased. This must have been the case even if we take into account the larger margin of error in the 1996 survey. The decline of poverty between 1996 and 2001 was observed both in urban and in rural areas, but it was

strongest in urban areas where the percentage of poor people in the population decreased by more than half. After 2001 poverty continued to decline in urban areas, with a strong decline in the two main cities, Douala and Yaoundé. But in rural areas the percentage of poor people living in poor households did increase.

	1996	2001	2007
Global	53.3	40.2	39.9
Rural	59.6	52.1	55.0
Urban	41.4	17.9	12.2

Source: NIS (2008)

These observations are in line with our remarks on economic growth in the previous subsection. Whereas over the period 1994-2000 the growth of value added in agriculture was rather high, it was much lower after 2000. On the other hand after 2001 we observe a strong growth of the service sector. Agricultural growth is of course linked to the evolution of income in rural areas, whereas the service sector can be expected to have a stronger impact on urban areas. More detailed figures suggest that especially households in the two main cities, Douala and Yaoundé, did profit from the growth of the service sector.

Summarizing, the data do not provide indications that the debt alleviation resulting from the HIPC and MDRI has reduced poverty. Apart from a lower overall growth rate, the nature of economic growth after 2001 seems to have caused an increase in poverty incidence in rural areas. We should again remark that we cannot exclude that in the absence of debt alleviation poverty may have remained even more widespread than we observe in the data.

### 6.2.2 Social indicators

To study the evolution of welfare and of poverty, it is also interesting to consider the changes in a number of social indicators. There is a long list of such indicators. In this subsection we limit our analysis to four indicators, two in the field of health and two in the education sector.

We start with infant and child mortality. Data on this indicator are provided by the Demographic and Health Surveys implemented by the National Institute of Statistics in the years 1991, 1998 and 2004. The last survey may have been too early to register fully possible improvements linked to HIPC debt alleviation.

	1990-1994	1995-1999	2000-2004
Infant mortality (birth to age one)	80	89	74
Child mortality (birth to age five)	133	152	144

Source : NIS (2004), table 11.1

The 2004 survey report (p. 214) mentions that after declining from 1978 till 1992, infant mortality did show a rising trend in later years. Child mortality was characterized by the same evolution, but at slower rates. However the most recent figures show a decline of both indicators. The 2004 report (p. 216) remarks that apart from progress in vaccinations, most indicators concerning child health have remained stable or have declined. The improvement in the data after 1998 may be symptoms of a change in the preceding trend; debt alleviation may have contributed to this change, e.g. by stimulating vaccination programs.

Data on life expectancy at birth are taken from the World Development Indicators and presented in table 11. The data show a steady decline of life expectancy at birth from 1990 till 2000. The decline was stronger for women than for men. After 2000 life expectancy for men remained more or less stable, whereas that for women continued to decline, but at a decreasing rate. The WDI data suggest a weak improvement of female life expectancy after 2002.

	1990	1995	2000	2006
Female	56.3	54.5	51.6	50.7
Male	53.1	51.7	50.0	49.9
Total	54.6	53.0	50.8	50.3

Source: World Bank, *World Development Indicators*, 2008.

It is not clear whether there is a link between debt alleviation and the small improvement of life expectancy after 2000. Probably the recent figures were the result of developments in the health sector. Some of these may have been linked to the conditions for reaching the Completion Point under the HIPC Initiative, more specifically the conditions related to the fight against AIDS/HIV (see subsections 3.1 and 3.2).

The evolution of education in a country can be measured by different indicators, measuring inputs or outputs. As we are interested in indicators linked to poverty, we consider two indicators: school participation of youngsters from age six to age fourteen, and the literacy rate of the adult population (15 years and above). The data sources are again the household surveys of 1996, 2001, 2007, implemented by the National Institute of Statistics.

	1996	2001	2007
School participation, (ages 6-14 years)	76	79	83
Literacy rate of population of 15 years and above	61	68	72

Source: NIS (2008)

Table 12 shows that school participation of the population between ages six and fourteen has progressed steadily, from 76% in 1996 to 79% in 2001 and 83% in 2007. Over the period 2001-2007 the increase of school participation was slightly stronger than over the years 1996-2001, but the latter period was one year shorter. The school participation rate is

of course only one indicator of improvements in schooling. We should also consider graduation rates and changes in quality. Although we have no figures for these two variables, informed sources stated that drop-outs from primary schooling are a problem.

The data in table 12 also suggest a steady progress of the adult literacy rate. However literacy seems to have increased faster over the period 1996-2001 than over the years 2001-2007. But we should keep in mind that the 1996 survey was smaller than the two later surveys and this may have resulted in larger measurement errors. Moreover it can be expected that the effects of improvements in schooling on adult literacy take time to realize.

It is safe to conclude that in the years after 2001 both participation in schooling of age classes 6-15 and adult literacy have improved, but that there has been no acceleration of the rate of improvement. Thus there is no strong evidence that debt alleviation has had a positive impact on already existing trends. It is of course possible that additional spending, resulting from debt relief, will have long term effects on education.

## 6.3 Conclusions

We briefly summarize the findings of our analysis of possible effects of debt alleviation in the framework of the HIPC Initiative and the MDRI on economic growth and on poverty in Cameroon.

The available data do not show an acceleration of economic growth after 2001, rather the opposite. If the debt alleviation and the expectation of substantial debt cancellation on reaching the Completion Point had a positive effect on economic growth, it was probably weak and it was swamped by other developments negatively impacting on growth.

A similar observation applies to the evolution of poverty as measured by the percentage of people living in households with an average income below the poverty line. Between 2001 and 2007 this percentage remained more or less stable, whereas it had fallen between 1996 and 2001. The effect of debt alleviation and the expectation of debt cancellation on poverty, if it was present, must have been weak and dominated by other developments.

In the sector of health, we observe in recent years a slight decrease of infant and child mortality and a stabilization of life expectancy after a fall in previous years. These favorable evolutions were possibly linked to policies promoted by the conditions set for reaching the HIPC Completion Point.

In the field of education school attendance of youngsters and literacy of adults continue to rise. The recent evolution is in line with earlier trends. The role of debt alleviation in this evolution is not clear.

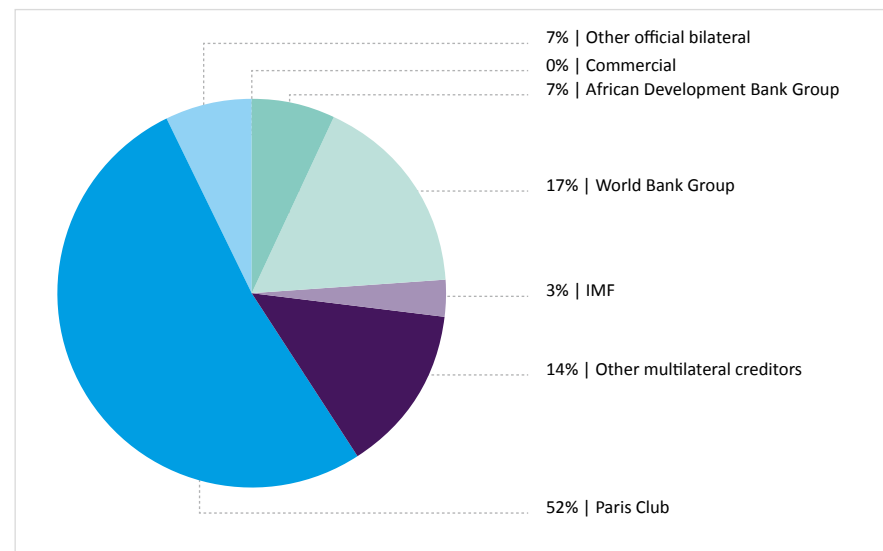
## 7 Challenges and Risks

In this section, we analyse the projected evolution of the debt stock and debt service from 2008 onwards. We use the projections made by the Caisse Autonome d'Amortissement (CAA) and the IMF. We will then analyse the major risks related to the debt sustainability. Finally we discuss the challenges the country faces for debt management.

### 7.1 The Debt Stock

As analysed in subsection 4.1, the NPV of external debt in 2008 was about 9.5% of GDP, 45% of exports and 52% of government revenues. As the sustainability thresholds set under the HIPC Initiative are 40%, 150% and 250%, respectively, it is clear that the debt stock at that point of time was sustainable, being well below the thresholds. The Debt Sustainability Analysis (or DSA) published by the IMF in June 2008 also underlines the sustainability of Cameroon's external debt. It qualified the risk of debt distress as "low". This conclusion remains valid even under a certain number of projected shocks, such as a weaker GDP growth. In figure 28 we represent the external debt by creditors at the end of 2007. This debt was contracted mainly in Euros (70%) and US dollars (17%).

Figure 28 Cameroonian External Debt Structure, end 2007

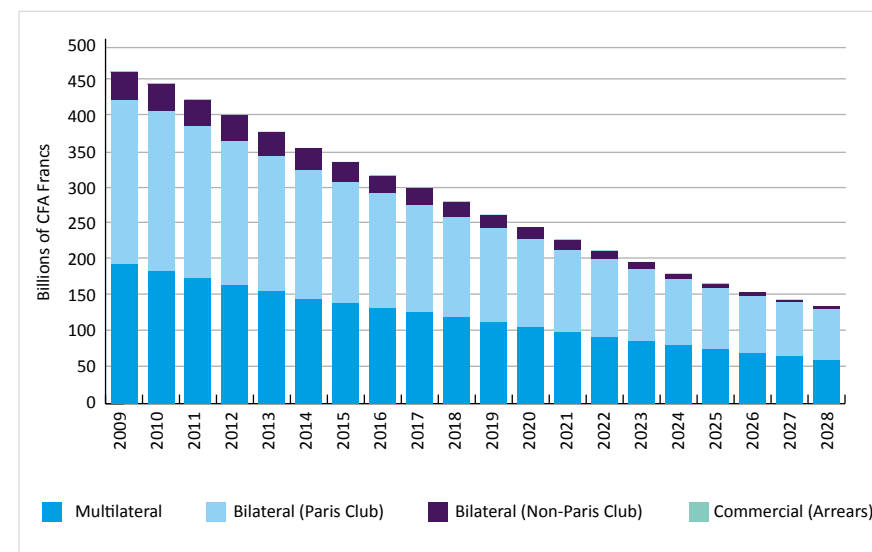


Sources: Cameroonian authorities; and IDA and IMF staff estimates and projections.

After the implementation of the HIPC Initiative for Cameroon and the accompanying additional bilateral and multilateral debt relief has been implemented, the Paris Club countries remain the most important creditors, even though their relative share has declined from 69% in 1999 to 52% at the end of 2007. Commercial debt has almost been

eliminated. The government is trying to obtain debt alleviation comparable to the HIPC term from some private creditors, who keep insisting on full repayment of the principal. With 17% of total external debt the World Bank Group remains an important creditor.

Figure 29 CAA Projections of total external debt, 2009-2027:

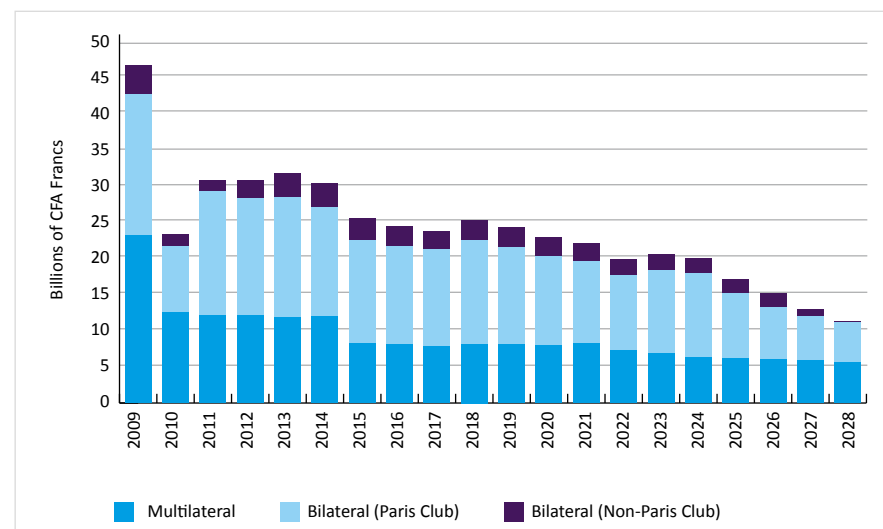


Source: CAA 2008

Figure 29 shows the projections of external debt made by the CAA for the years 2009-2027. The total external debt projected for 2009 is 450 billion FCFA, less than one tenth of the external debt at the end of 2004, two years before Completion Point (5,000 billion FCFA). Figure 29 shows a continuous negative trend of projected external debt between 2009 and 2028. According to the CAA projections, the non-Paris Club debt would decrease even faster.

### 7.2 The Debt Service

Because of the decreasing debt stock the debt service between 2009 and 2028 is also projected to follow a negative trend, although with some fluctuations linked to the time structure of debt. This is shown by figure 30. In 2006 the interest paid by the Government on external debt was approximately 87 billion FCFA. By 2029 the interest due is projected to fall to 47 billion FCFA.

**Figure 30** Debt service on external debt, 2009-2028:

Source: CAA

### 7.3 Major Risks:

The Debt Sustainability Analysis published by the IMF in 2008 concludes that the risk of debt distress in Cameroon during the coming years is low. Nevertheless it mentions some risks. We discuss three of them.

The main risk is that of imprudent debt management. The country now has a very low level of debt, and could be tempted to contract excessive new loans, even at non-concessional terms. In order to avoid excessive debt accumulation in the future it is essential to stick to sound debt management. The IMF stresses the importance of obtaining new loans at concessional terms.

The second major risk concerns the internal debt. It is apparently difficult to obtain clear-cut figures on this debt, and there are risks that the internal debt will increase. One of them is the subprime crisis: some subsidiaries of international financial groups have invested in risky assets that could endanger the financial system and force the Government to intervene if the international situation would worsen.

The last major risk is related to oil revenues which, as stated in section 5, are an important source of Government revenue. In recent years high oil and commodity prices have had a positive impact on the Government revenues and on the balance of trade, even though at the beginning of 2008 price increases led to riots in different parts of the country. The Government decided to draw up the 2009 budget on the basis of an oil price of 68 US\$ a barrel. If the barrel would stay at its January price level of around 35 US\$, the Government could face an important deficit. To cover an eventual deficit it resort to foreign borrowing.

### 7.4 Main Challenges

To ensure the sustainability of its debt, the Government should continue its sound debt management and clarify the risks concerning the potential increases of internal and external debt. It should also continue its efforts started under the fiscal reform set up in 2008 to increase transparency of public expenditures and to avoid future budgetary slippage. Concerning public revenues, it should increase its efforts aimed at the diversification and enlargement of the tax base in order to reduce its dependency on fluctuating oil revenues.

Sustainability of the debt also depends on economic growth. Increasing public investment could have a positive impact on private investment including FDI on and in this way on economic growth. A well informed source mentioned that, according to estimates of the Ministry of Finance, an increase of public investments amounting by 100 billion FCFA (152 million EUR) could create an extra 1% annual growth for the country. Other actions to increase growth would be to improve the general business environment by setting up structures that reduce the time and expenses needed to create an enterprise, by finalizing efficiently the privatisations, by actively fighting corruption and by strengthening financial intermediation.



## 8 Conclusions

Cameroon is a potentially rich country. It is endowed with a wealth of natural resources and it has a favorable location within Central Africa. But natural resource wealth can also have negative effects. When international commodity prices are rising, increasing public revenues and foreign exchange receipts allow the government to postpone structural reforms, including the strengthening of institutions. When commodity prices fall the government is faced with falling export and public revenue; at such times structural weaknesses show up.

The latter occurred in Cameroon in the second half of the 1980s. The falling oil price combined with declining coffee and cocoa prices caused a deep economic downfall. Between 1986 and 1994 Cameroon's real per capita GDP fell by more than 40 percent and the percentage of people living below the poverty line increased. Another result of the falling export prices was that Cameroon's external debt became unsustainable. In 1989 the country applied for the first time to the Paris Club for a rescheduling of its debt obligations.

After the devaluation of the CFA franc Cameroon's economic conditions improved. But serving its external debt continued to be a problem. In the course of 1990s four more Paris Club debt rescheduling agreements were to follow. In 1999 the country became eligible for debt reduction under the Enhanced HIPC Initiative. (Cameroon did not qualify for debt relief under the original HIPC Initiative because its NPV of debt – export ratio was lower than 250%.) Cameroon was given Decision Point status in October 2000. Subsequently due to a slippage of policies it “missed” its Completion Point expected for 2004. But the country continued to serve its external debt and reached its HIPC Completion Point in April 2006. This entailed a steep decrease of its external debt stock, due to a substantial cancellation of bilateral as well as multilateral debts, the latter under the Multilateral Debt Relief Initiative. Also in 2006 interest payments on external debt started falling.

From the Decision Point onwards the CFA francs equivalent of savings on external debt service under HIPC debt relief was transferred by the government on a special account at the Bank of Central African States (BEAC). The balance on this account could be used for a diversity of projects under a special decision structure in which Government and civil society as well as foreign creditors intervened. This is called the CCS – HIPC system. It is quite generally agreed that the program missed focus and that its decision structure was cumbersome. As a result the rate of disbursement was rather low and there were a number of operational shortcomings. At the time of our visit (first week of December 2008) there remained a substantial balance on the account. In addition no recent audits of the expenditures had been made, the last audit being for the year 2005. A similar program called C2D, set up by France when, like other Paris Club members, it cancelled all debts remaining after HIPC debt relief, is more focused and on its way to a better performance.

Most of the persons we contacted were in favor of elaborating a constructive exit plan for the CCS – HIPC system. This does not mean that the current practice of identifying in the budget the funds set free as a result of the HIPC Initiative should be discontinued.

In the first years after the HIPC Decision Point, Cameroon's external debt did not decrease. But after the policy slippage in 2004 external debt decreased substantially, initially probably because the country repaid punctually its debts on schedule and after Completion Point as a result of massive cancellation of bilateral and foreign debt. After 2005 debt service also started falling. Furthermore in 1997 and 1998 arrears on debt service were consolidated, so that the statistics show a substantial decrease. A further fall of arrears occurred between 2000 and 2003, probably linked to the HIPC Initiative. Finally, as discussed above, the HIPC arrangement for Cameroon did not induce a continuous improvement of policies and governance. But after the policy slippage in 2004, the Government started improving the management of public expenditures and raising expenditures in social sectors.

The effectiveness of the debt relief obtained by Cameroon can be analyzed in terms of the sustainability of the remaining debt, the effects on public finance and on the balance of payments and the changes in governance and in investment. The HIPC debt relief, especially after the Completion Point was reached, and the accompanying cancellation of bilateral debts by Paris Club member and of multilateral debts under the MDRI have resulted in improvements in the ratio of the stock of external debt to GDP and to exports and on the ratio of debt service to exports. In this sense the external debt has become sustainable. The effects on public finance and on the current account have also been positive. But both for public finance and for the balance of payments the effects of debt relief have been overshadowed by the increased revenue from oil resulting from the rising oil price.

It is doubtful whether debt relief has had an effect on investment. Public investment has increased less than government revenues. The ratio of private investment to GDP has remained more or less stable. The apparent absence of an effect of debt relief on private investment can be linked to fact that we fail to find an improvement of governance. Indeed over the period 2000-2006 most indicators of governance have remained more or less stable.

As improvements in external debt sustainability, public finance and the current account were not linked to increasing private investment, there is no strong a priori regarding the impact of debt relief on welfare in terms of economic growth and poverty alleviation. The available data do not show an acceleration of economic growth after 2001, rather the opposite. If debt alleviation had a positive effect on economic growth, it must have been weak and swamped by other developments negatively impacting on growth. A similar observation applies to the evolution of the poverty head count ratio. Between 2001 and 2007 the percentage of people living in households with an average income below the poverty line was more or less stable, whereas it had decreased between 1996 and 2001. Considering other indicators of poverty we observe in recent years a slight decrease of infant and child mortality and a stabilization of life expectancy after the latter has substantially decreased in previous years. These favorable evolutions were possibly linked to policies promoted by the conditions set for reaching the HIPC Completion Point. In the field of education school attendance of youngsters and adult literacy continue to rise. This



evolution is in line with earlier trends. The contribution of debt alleviation to this evolution is not clear. Overall it seems fair to state that the data available at the time of our study, hardly suggest any impact of debt relief on economic growth or on poverty.

In order to raise the effects of the improved debt sustainability, the Government should continue its efforts to increase the transparency of its expenditures under the fiscal reform it has set up. The Government should also increase its efforts aimed at the diversification and the enlargement of the tax base. This should reduce its dependency on oil revenues.

The ultimate success of the debt relief on economic growth and poverty will depend on raising investment. Increasing public investment could positively impact on private investment including FDI. Moreover the Government should take measures to improve the general business environment.

## Persons Contacted:

- Mr. Emile JEANNEE: Chef des Opérations de Coopération à la Délégation de la Commission Européenne à Yaoundé
- Mme. Caroline MOUCHART : Consule Belge à Yaoundé
- Mr. J-P BARRIER : European Commission, Working at the Ministry of Finance (MINFI)
- S.E. Mr. Essimi MENYE : Ministre des Finances
- S.E. Mr. Louis Paul MOTAZE : Ministre de l'Economie, de la Planification et de l'Aménagement du Territoire
- Mr. Gilbert Didier EDOA : Directeur Général du Budget
- Mr. Laurent KOUO NGANGUE : Secrétaire Permanent du Comité Consultatif de Suivi et de Gestion des Ressources PPTTE (CCS/PPTE)
- Mme Malangu KABEDI-MBUYI Resident Representative du Fond Monétaire International (FMI) à Yaoundé
- Mr. Abdoulaye SECK : Economiste Principal à la Banque Mondiale (BM)
- Mr. Racine KANE : Banque Africaine de Développement (AfDB)
- Mr. Samuel Serge ZANGA : Chargé de Programme, Unité Pauvreté (PNUD : Programme des Nations Unies pour le Développement)
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- Mr. Joël NGUETTI : Analyste Economique et Financier, Secteur Publique (Société Civile)
- Mr. Yvon ALAIN : Directeur de la Coopération Française à Yaoundé
- Mr. Jacky AMPROU : Chargé de Mission à l'Agence Française de Développement (AFD)
- Mme Justine DONGMO : Coordinatrice du Secrétariat Technique d'Appui et d'Exécution du programme C2D
- Mr. Geerd WURTHMANN : Conseiller et Chef de la Coopération Allemande à l'Ambassade de la République Fédérale d'Allemagne
- Mr. Guy MERCIER : Conseiller et Chef de la Coopération Canadienne

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