

Debt for Education Swaps

Working Group for Debt for Education Swaps

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Introduction

- More than a decade of international declarations.
- Three years ago a global movement began to emerge:
 - 32nd and 33rd sessions of the General Conference of UNESCO: proposal and establishment of the Working Group.
- Purpose of presentation: provide tools for discussing and promoting debt for education swaps within the context of the international commitment to Education For All.
- What follows is 10 questions and answers.

1. *Why invest in education?*

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Arguments for investing in education

- Ethical perspective
- Economic perspective
- Social perspective
- Political perspective

1. Why invest in education?

International consensus on education as a priority investment

Danger of not meeting the Millennium Development Goals

- Education for All World Conference (Jomtien, Thailand, 1990)
- World Education Forum (Dakar, Senegal, 2000)
- UN Millennium Development Goals (New York, USA, 2000)

2. What is the state of education in developing countries?

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- **Education For All Monitoring Report:** steady progress made, especially towards universal primary education (UPE) and gender parity, but pace is insufficient
- **Encouraging trends:**
 - Globally, 47 countries have achieved UPE.
 - 20 additional countries are on track to achieve UPE by 2015
- **Challenges which remain:**
 - 44 countries are making progress but unlikely to achieve UPE
 - 23 countries at risk of not achieving UPE by 2015
 - ~100 million children are not enrolled in primary school

2. What is the state of education?

Financial situation of the education sector

■ Encouraging Trends:

- Public spending increased in ~70 countries
- Aid for basic education more than doubled between 1999-2003 and could rise to US\$3.3 billion per year by 2010

■ Remaining Challenges:

- Public spending on education represents higher proportion of GDP in rich countries that have already achieved EFA goals
- At US\$4.7 bn in 2003, bilateral aid to education increased since 1998 but remains well below 1990 high of US\$5.7 bn.
- Total aid to basic education accounts for only 2.6% of ODA.

3. What is the nature of the debt problem?

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■ Size of debt:

- Total developing world debt: US\$2,800.4 bn
- This figure should be contrasted with:
- Official Development Assistance (ODA) to developing countries was US\$106.5 bn (2005), its highest level ever.
- Global military spending and the arms trade: over US\$975 bn in 2004

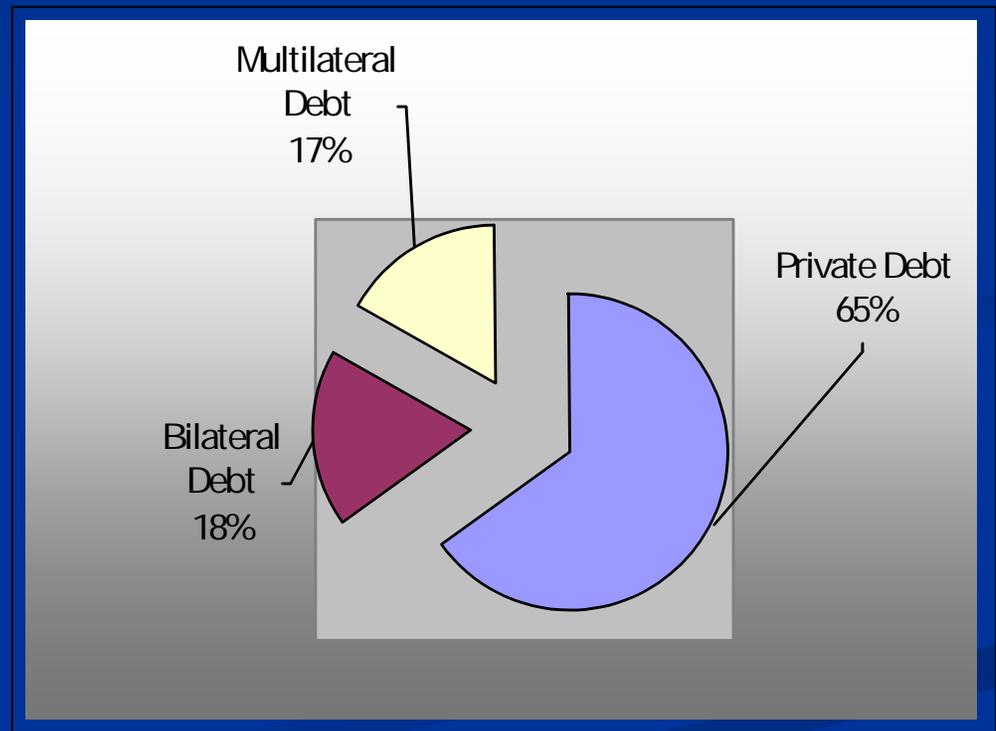
■ Impact of the debt on education spending:

- 5 of the 8 developing countries in UNESCO Working Group: debt servicing surpasses education spending.
- 4 countries: the cost of servicing the debt surpasses the combined cost of education and health spending.

3. What is the nature of the debt problem?

Breakdown of Developing Countries Debt by type of Creditor

- A large proportion of long-term debt (78% of total debt) is in private hands.
- Significant in the context of debt reduction: debt swaps are generally linked to bilateral debt programs.



4. What are the main initiatives aimed at debt relief?

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I. Relief of Debt Owed to Multilateral Creditors

- Traditionally, multilateral debt not subject to cancellation.
- 1996: World Bank and IMF launched the Highly Indebted Poor Countries (HIPC) Initiative
- Debt reduction packages have been approved for 29 countries, 25 of them in Africa, providing ~US\$40 bn in debt service relief.
- Initiative is heavily criticized for:
 - Not canceling large enough amounts of debt,
 - Placing unfair conditions,
 - For being slow in implementation, and
 - For not including highly indebted, middle-income countries that have a large proportion of their populations living in poverty.

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II. Relief of Debt Owed to Bilateral Creditors

- All bilateral debts can be subject to cancellation or conversion (with certain restrictions).
- Paris Club: informal group of 19 creditor governments.
- Paris Club debt swap clause normally permits, on a voluntary basis, the swap of 100% of ODA debt and up to a maximum of 30% or US \$40 mn of non-ODA debt.
- Development assistance nature of most bilateral debts makes them more open to cancellation or swap.

5. What are debt for education swaps?

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- **Definition:** Exchange of external debt cancellation for investment in the education sector of the debtor country.
- **Objective:** Double objective of a debt for education swap:
 1. Mobilize additional resources for an education related project.
 2. Reduce the external debt.
- **Origin:** After debt-for-nature swaps emerged during the 1980s, governments and NGOs began to initiate debt swaps under various names: debt-for-education, debt-for-health, debt-for-child survival, etc.

5. What are debt for education swaps?

After a decade of international calls, a movement emerged 3 years ago:

- **October, 2003:** 32nd session UNESCO's General Conference
- **November, 2003:** XIII Iberoamerican Summit of Heads of States and Governments
- **January, 2005:** Spanish President, Jose Luis Zapatero
- **October, 2005:** 33rd session UNESCO's General Conference
- **April/May 2006:** Euro-Latin American-Caribbean Civil Society Forum and Vienna Summit for Presidents of the European Union, Latin America and the Caribbean
- **November 2006:** XVI Iberoamerican Summit of Heads of States and Governments

6. What are the mechanisms for debt for education swaps?

6. What are the mechanisms?

- Two main models: **bilateral swaps** and **triangular swaps**.
- Difference usually depends on the type of debt being swapped (**private debt** or **public debt**)

1. Bilateral Swaps

Creditor government agrees to reduce the ODA debt of a debtor country in exchange for the debtor government's investment in education.

2. Triangular Swaps

Agreement is made between at least 3 actors: a creditor (usually a foreign bank), a debtor government, and an investor (an international development organization such as an NGO or a UN agency). A 4th actor may be involved: a developed country government or an international organization which provides funds.

In the past there have been more triangular swaps than bilateral swaps, with bilateral swaps tend to result in greater sums of investment.

6. What are the mechanisms?

Majority of swaps result in creation of a
Counterpart fund (CPF):

A fund established with the local currency made available by the swap, which will then be invested in an agreed upon education project.

- Administration of the CPF is of critical importance for credibility, the survival, and the performance of swaps.
- Essential to ensure autonomy, transparency, and accountability.
- CPFs with greatest success are administrated by a committee with shared representation among the debtor government, the creditor government, and civil society.

7. What successful cases are there of debt for education swaps?

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Spain is the leading donor participating in bilateral swaps:

- 2004: Spanish President, José Luis Zapatero announcement
- After initiating talks with Argentina, Spain began negotiating with other regional countries: Ecuador (US\$50 million), Nicaragua (\$38.9 m), Honduras (\$138.3 m) y El Salvador (\$10 m).
- In 2006, Bolivia, Guatemala, Peru and Paraguay added to list of beneficiaries of Spanish debt swaps, estimated to total US\$436m.
- Programs include: construction of education facilities, the opening of new institutes, providing materials, and other investments within the sector.

7. What successful cases are there?

2005

Case Study: Bilateral Swap between Spain and El Salvador

June

El Salvador President Tony Saca proposes swap to Spain President Jose Luis Zapatero

July

El Salvador Ministry of Education begins formulating the project

Aug

El Salvador Ministry of Finance contacts Director of International Finance (Spain) to negotiate the servicing of the debt and the nature of the swap

Sept

Swap is set at US \$10 million (with \$6.3 million paid in advance in 2006) to be deposited in a special account

Nov

Swap agreement is signed in San Salvador. The administration and operational mechanisms are approved. Project profiles and an annual payment plan are presented.

2006

Jan

Law proposal is presented to El Salvador legislature

Feb

Project profiles are presented to the Binational and Technical Committees

Mar

Payment of resources for carrying out Project: construction and renovation of education facilities and educational materials for the most marginalized regions of El Salvador

7. What successful cases are there?

Germany-Indonesia Bilateral Debt Swap:

- First swap conducted, 2002: Germany waived Indonesia's ODA debt of 25.6 million euros on the condition that Indonesia government invest half that amount, i.e., 12.8 million euros, to improve basic education.
- Project chosen: establish 510 training centres for biology teachers, with teaching materials and equipment. More than 30,000 primary schools with over four million pupils benefit from this scheme.
- Two further debt swaps of 25 million euros each are in process.

7. What successful cases are there?

Successful Multilateral Debt Swap Program

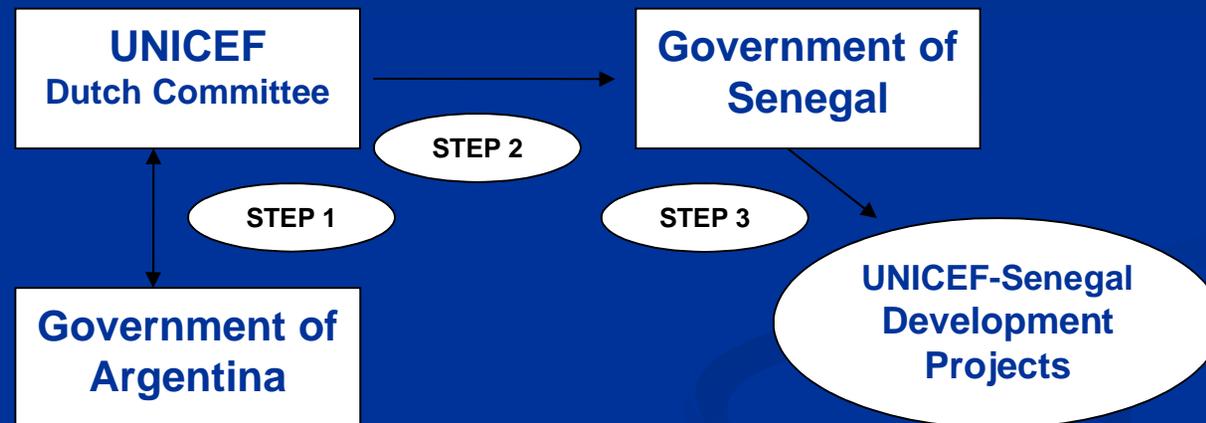
- Poland's EcoFund could serve as model for future debt swaps.
- 1992: Poland developed largest counterpart fund in history, agreeing to 50% reduction of its Paris Club debt, proposing an additional 10% reduction in exchange for a deposit of equivalent funds in the EcoFund.
- With support of 5 creditors (France, Italy, Sweden, Switzerland and the United States), ~ US\$545 million will be invested in environmental projects until 2010

Successful Triangular Debt Swap Program

- 1989 to 1995: UNICEF completed 21 transactions, generating US \$52.9 million for infancy and maternity development programs.
- Developing countries reduced their external debt by US \$199.3 million.

7. What successful cases are there?

Case Study: Triangular debt swap conducted by UNICEF with debt owed by Senegal to Argentina (1993).



Steps:

1. Dutch UNICEF Committee purchased US\$24m face value of debt from the government of Argentina (a creditor of Senegal) for US\$6 million (25% of the purchase price).
2. UNICEF transferred the US\$24 debt to the Government of Senegal for cancellation.
3. The Government of Senegal paid the equivalent of US \$11 million (46% of the redemption price) in francs over three years of support of UNICEF-Senegal projects for women and children.

8. What are the potential benefits of debt for education swaps?

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Potential benefits for the debtor country

1. Increased Funding for Education Programs

- Most clear benefit: resources which generated for the education sector.

2. Debt Reduction

- Positively impact overall debt situation of developing country.

3. Increased civil society participation

- Swaps can also create positive publicity for important education initiatives.

8. What are the potential benefits?

Potential benefits for the creditor

1. Support for development projects

- Swaps can assure that funds made available are used for activities important to the creditor, such as investment in education.

2. Increase in Official Development Assistance (ODA)

- Increase ODA spending without cost to the national budget.
- Developed world is far below their promised ODA objective of 0.7% of GDP.
- Total aid to basic education is only 2.6% of global ODA.

3. Recovery of a portion of debt

- Portion of the debt can be recovered through the sale at a discount of the face value.

9. What is needed to develop an international consensus?

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Actions Recommended at the National Level

- Form part of debtor country's national education strategy, particularly for its most vulnerable population
- Incorporate debt swaps as part of overall debt management strategies.
- Counterpart fund is likely to generate greater benefits and awareness if its activities are focused on a set of critical issues: i.e. Universal Primary Education
- Models in which both governments have representatives on the governing committee, with local NGO presence, have the greatest chances for success.

10. What is the role of the Working Group?

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Proposed Terms of Reference for the Working Group:

1. Gather and reflect on experiences of debt swaps in various fields and different countries, in order to guide the development of recommendations for education;
2. Consult expert opinion;
3. Formulate potential scenarios for debt swaps in the education domain;
4. Consider different modalities for sharing information and experience with countries interested or involved in debt swaps for education, such as the preparation of policy guidance briefs;
5. Submit to the Director-General, in time for him to report to the 34th session of UNESCO's General Conference on the outcomes of the Working Group's deliberations, a report on its work, with recommendations on the value and usefulness of debt swaps for education and on best practices conducive to the successful implementation of debt swaps for education.

10. What is the role of the Working Group?

Further Proposals for the Working Group:

- Lobby creditor and debtor governments
- Collaborate with multilateral organizations
- Promote new mechanisms
- Involve more NGOs to participate
- Monitor and participate on bilateral and multilateral committees to ensure transparency and accountability
- Create a data base and website for sharing experiences
- Next meeting: Buenos Aires, May/June 2007

Thank You