

Development, Education and Finance.

Analysis of debt swaps for social investment as an extra-budgetary education financing instrument.

Diego Filmus - Esteban Serrani



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PRESENTATION

I am pleased to present the report “*Development, Education and Financing: Analysis of debt swaps for social investment as an extra-budgetary education financing instrument*” realized by the Organización de Estados Iberoamericanos and the Fundación SES. The debt for education swap initiative has been proposed in diverse international forums and especially supported by UNESCO, various multilateral organisms, creditor and debtor governments, and civil society organizations.

The need to develop mechanisms like the debt swap is grounded in the context that the expanding external debt of developing countries is a grave obstacle for the education investment required for reaching the Millennium Development Goals. As is highlighted in this document, various countries have begun implementing swaps which have given a serious impetus to educational growth. Nevertheless, the international circumstances demand that new actions be taken in a similar direction.

In acknowledging the current economic crisis, this report reinforces the proposal that UNESCO lead an international movement to prevent the resources dedicated to treat this crisis do not divert from aid, development, and schooling programs for the most poor and marginalized of the world.

Even within the context of financial growth and abundance of the past few years, humanity has been lagging in accomplishing the Millennium Development Goals by 2015. As we all know, some of the goals pertaining to hunger, school enrolment and poverty will not be reached.

Furthermore, the current crisis greatly affects the prices of raw materials, the primary source of funds for many poor countries of the world, as well as limiting the access to development related credit. As such, the risk of not advancing and possibly even backtracking, on the path to the Millennium Development Goals is a certain threat.

The global crisis, and in particular the enormous financial investments made to contain it, demonstrate that the solution to the world’s gravest problems of hunger and education depend more upon political decisions than the availability of material resources. We are certain that if the developed nations make similar investments in order to enrol excluded children, youth, and adults in schools, humanity today would be in much better shape regarding the objectives proposed in the Education For All program.

We are at the crossroads for achieving the promises made among the most developed and the poorest countries. This report highlights the need to redouble the political will behind innovative initiatives which seek to alleviate budgetary obstacles, such as debt for education swaps.

At the same time, this report confirms the need to focus this initiative on the most marginalized sectors, with the clear objective of reaching the Education For All objectives and the Millennium Development Goals. It is also essential to maximize the funds invested and at the same time cancel the largest possible proportions of the debt. This document calls upon UNESCO’s leadership to promote even greater education investments through multilateral agreements, by joining several creditors and when possible, merging the resources into a single fund.

UNESCO has historically represented the voice of those who emphasize humanity’s highest praised moral and ethical values. Today, when facing an unprecedented crisis, it is dramatically crucial that the institution makes heard its claims to prioritize the cultural and educational necessities of our people.

Senator Daniel Filmus

Chairman of the UNESCO Working Group on Debt for Education Swaps

For the Organization of Iberoamerican States for Education, Science, and Culture (OEI) it is a pleasure to present this publication with Fundación SES and UNESCO. These pages reflect various years of work in the promotion of debt for education swaps with the ultimate goal of achieving a quality education for all.

Seven years ago the governments of Iberoamerica initiated a project to create a regional framework for supporting bilateral operations. On repeated occasions, the Iberoamerican summits and conferences have promoted debt swaps as an innovative tool for generating new resources for education.

In order to deepen this multilateral institutionalality, the OEI, along with other international organizations, governments, and civil society networks, have been working towards three processes: 1. Analyzing debt profiles and defining possible negotiation strategies, 2. Creating multilateral mechanisms for coordination, supervision, and strategic control of the operations, 3. Creating evaluation systems and publishing the achieved results, within a multilateral accountability framework.

This report consolidates the research and analysis of the lessons learned from these processes. Continuous regional support and follow up have contributed to the creation of the global Working Group on Debt Swaps for Education, under the UNESCO framework.

Despite the implementation of several debt swap agreements in the region, much is left to accomplish. In the context of the current crisis, two historical and painful realities have been exacerbated: Iberoamerica continues to be the most unequal and most indebted region in the world.

As proposed by this report, it is necessary to take on these obstacles in an integrative manner, by continuing to gather support at all the political and social levels, and by unifying the Iberoamerican experience with that of other regions in the world.

Prof. Dario Pulfer
Executive Director – OEI Regional Office in Buenos Aires

It is with great satisfaction that I present this joint publication between the Organization of Iberoamerican States for Education, Science and Culture and the Fundación SES on a subject which we have been collaborating on with great commitment over the years.

The pages offered to us by Diego Filmus and Esteban Serrani summarize in an excellent manner the knowledge and learning which we have constructed over the course of these years. They have integrated important elements of their own reflection and analysis, which give this publication significant added value.

We are convinced of the importance and urgency of continuing to work in the field of debt reduction, on the one hand, and increasing education budgets, on the other. As with any other instrument, the debt for education investment swap presents potential opportunities, as well as posing limitations. Nevertheless, given the urgency in which we believe we must confront both of these dilemmas, this book offers elements for understanding these themes in the framework of the current international crisis which is deeply affecting every country in the world.

Furthermore, collaborative work has been the norm which has guided us throughout this process. As such, being able to place this publication in your hands gives us a double fulfilment.

I would like to thank the Sasakawa Peace Foundation for their support of Fundación SES in this project of research, reflection, and public action of the past three years. In particular, we thank Takashiro Nanri and Fumiko Okamoto, officers of the project from the Foundation, for their close and professional assistance provided during the months in which this initiative was developed.

We hope that this publication contributes to deepening and improving the quality of future debt for education swap operations in all of the countries in which this mechanism is currently being developed and will take place in the future.

Prof. Alberto César Croce
Executive Director - Fundación SES

EXECUTIVE SUMMARY

Developing countries are trapped in a vicious cycle. The problems of low education investment and over-indebtedness mutually reinforce one another. With the responsibility of meeting their overwhelming debt payments, developing countries are obligated to direct substantial portions of their resources that could otherwise be invested towards achieving the Education For All objectives and the Millennium Development Goals.

The budgetary constraints placed upon the necessities of the education sector require a deepening in the partnership established between developed and developing countries in the Millennium Declaration. This partnership recognizes official development aid and debt relief as two fundamental pillars for achieving the Education For All objectives and the Millennium Development Goals.

A debt for education swap is a proposal to cancel a portion of the external debt of a developing country in exchange for investing the funds in education. Although this initiative does not offer a panacea for education and debt problems, it does provide a vital and innovative source of funding for education, delivers certain debt reduction, and serves as a valuable official development aid instrument. In this sense, the mechanism should not be viewed as a policy for resolving the structural debt problem of highly indebted countries, as it resolves neither the dependency nor the conditionality derived from the systematic and irrational debt processes, both public and private.

During more than 3 years, Fundación SES and the OEI gathered data pertaining to 128 cases of debt for social investment conversions. These cases resulted in a total debt relief of \$ 6,137.4 million dollars, while providing \$3,329.1 million dollars for social programs. The leadership of the Iberoamerican region is highlighted, particularly Spain's participation in 19 debt swap experiences, 7 of which destined over \$206.1 million dollars in education investments.

Given the lessons learned from the cases analysed, multilateral swaps must be given consideration in the future. The possibility of accessing a single fund fuelled by various creditors not only makes social policy implementation more efficient, but also broadens the scale of the intervention, by providing a more coordinated political impact and by increasing the implementation time frames.

At the national level, when Argentina's Ministry of Education budget is analysed, the hypothetical impact of a 60 million Euro debt for education swap with Spain for is revealed. In many cases, these funds would duplicate budgetary items in sensitive areas, such as educational quality and school infrastructure, provided that the projects are implemented without any conditionality linking the funds to interests and companies from the creditor country cancelling the debt.

In order to maximize the potential impact of debt swaps on education budgets, it is essential to advance with the constitution of multilateral funds. The EcoFund experience in Poland and the *Debt2Health* initiative of the Global Fund, demonstrate that it is possible and desirable to coordinate creditor actions when negotiating debt swaps for social investment. In this direction, UNESCO could lead a similar proposal under the guidelines established by the Working Group on Debt for Education Swaps, an initiative which could be denominated **Debt4Education**.

Ultimately, in order to break the vicious cycle of budgetary constraints and economic dependency caused by the debt, it is necessary to advance with integrative audits of the debt.

Not only must the financial impact of the debt be evaluated, but the economic, social, and environmental effects as well. Finally, this audit must determine which branches of the debt are and are not legitimate.

Only upon acquiring the truth about the past, will our societies begin to construct a different future. In the end, the only possible horizon worth working towards is that which improves the quality of life of our people; a path which must disarticulate the policies which produced the scandalous inequalities which we suffer. This document is a reflection in this direction.

INTRODUCTION

The purpose of this report is to analyze debt for education swaps as an extra-budgetary financing mechanism within three contexts: global, regional and national levels.

Firstly, the preparation of this report on debt for education swaps responds to the mandate of the 34th UNESCO General Conference, Resolution 14 which "Requests the Director-General: (a) to continue to convene the above-mentioned open-ended working group so that it may follow up debt swap for education initiatives, setting the criteria for evaluating and monitoring project execution; (b) to lead the debate on debt swap for education initiatives by promoting inter-agency meetings on alternative financing of education, and contributing to debt-swap experiences that are under way; (c) to report on the results to the General Conference at its 35th session".³

Secondly, this report responds to the pronouncements made at the Iberoamerican Summits and Conferences since 2002, which have called upon the Organization of Iberoamerican States (OEI) and the Iberoamerican General Secretariat (SEGIB) to evaluate the viability of debt for education swaps, develop a plan of action, and inform upon advances.

Finally, this report provides governments and civil society organizations with a clear idea of the benefits and limitations of debt for education swaps, as well as outlining guidelines and a normative framework.

This document synthesizes the conclusions extracted from various key reports:

- ⊙ *Draft Report for the Director General of UNESCO*, UNESCO Working Group on Debt Swaps for Education, written after the second meeting of the Group, Buenos Aires, Argentina, August 2007.
- ⊙ *Working Paper: What are debt for education swaps?* UNESCO Working Group on Debt Swaps for Education, presented by the OEI and debated during the first meeting of the Group in Paris, France, November 2006.
- ⊙ *Experiences and Results of Debt for Education Swaps in Iberoamerica*, Iberoamerican General Secretariat (SEGIB), July 2007.
- ⊙ *Debt for Education Swap Mechanisms: Introduction for Social Organizations*, Fundación SES, March 2007.
- ⊙ *Lights and Shadows: An Analysis of Debt for Education Swaps in an Iberoamerican Summit Framework*, Campaña Mundial de Educación en España, Madrid, Spain, 2006.

Moreover, this report presents a global survey conducted on debt for social investment initiatives which are divided into four categories: education, development, infrastructure and nature. This joint effort by Fundación SES and the OEI from 2006-2008 resulted in a survey of 128 experiences.

The information which follows is the product of research and analysis from various secondary sources, such as: government ministry reports; international financial institutions involved in the field; national and local newspapers from countries participating in debt swap experiences; magazines specialized on the subject; and information from diverse civil society organizations. Interviews were also carried out with key actors from different phases of the process: during the implementation of the projects as well as with those who participated in the monitoring and evaluation of several initiatives.

As such, Chapter A "Education and Development" presents the arguments highlighting the benefits of investing in education, followed by the international commitments which recognize the centrality of education to the development of marginalized countries and populations.

3. Resolution 14: *Debt Swap for Education*, the 34th General Conference, UNESCO, Paris, November 2007, <http://unesdoc.unesco.org/images/0015/001560/156046e.pdf>

Next, the importance of reaching the Education for All objectives is highlighted, along with the progress made and what is left to be achieved by 2015. Finally, education finance levels are analysed, as well as the need to substantially increase long-term resource levels and promote the alleviation of budgetary obstacles.

Chapter B *“Development Cooperation and Debt”* presents the international commitments related to Official Development Assistance (ODA), and the advances made towards achieving the 0.7% target of allocating national income as ODA. Thereafter, a brief overview on the causes of the debt crisis is examined and a perspective on how to analyze the question of debt legitimacy is proposed. After contrasting the weight of the debt with education spending, the chapter evaluates the failed attempts by governments to resolve the debt crisis.

Chapter C *“Debt for Education Swaps”* introduces a definition, classification and overview of the mechanism’s origins. The growing support for the initiative, with emphasis on Iberoamerica, is then highlighted. Afterwards, the innovative nature of the mechanism is demonstrated by describing its dynamic and participative models. Lastly, the chapter presents a consensus on principles and guidelines to maximize the benefits of swaps.

Chapter D *“Results of Debt Swap Experiences”* offers a detailed analysis on 128 debt swap cases, demonstrating the main tendencies and specificities of this initiative over the past 20 years (1988-2008), with special emphasis on Iberoamerica. Additionally, a brief summary of other debt reduction programs is presented, such as the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI), the Inter-American Development Bank (IDB) debt cancellation program and unilateral debt cancellation initiatives by the Norwegian government.

Chapter E *“Debt for Education Swaps and Budgetary Structure”* presents an exhaustive analysis of the Argentine national budget and the evolution of the main economic variables of the past 5 years. With this background, an overview of the current budget of the Argentine Ministry of Education is undertaken along with an impact study of a potential debt swap for 60 million euros with the Government of Spain.

Finally, Chapter F, *“Recommendations and Future Perspectives”* discusses the need to advance in the creation of multilateral debt swap funds and proposes that such resources be directed towards education under the denomination **Debt4Education**. At the same time, it is proposed that advances be made with integrative audits of national debts in order to determine their legitimacy. These audits will serve as a means to break the vicious debt cycle and begin to build a new development nucleus which aspires to improve income distribution by confronting the structures which reproduce social inequalities.

A

EDUCATION AND DEVELOPMENT

Developing countries are trapped in a vicious cycle. The problems of low education investment and over-indebtedness mutually reinforce one another. With the responsibility of meeting their overwhelming debt payments, developing countries are obligated to direct substantial portions of their resources that could otherwise be invested towards achieving the Education For All objectives and the Millennium Development Goals.

Education funding is perhaps the most egalitarian and effective investment a government can make. The benefits of investing in education are supported by ethical, economic, social, and political arguments.

i) Arguments for investing in education

From an *ethical perspective*, education is a fundamental human right. According to the Universal Declaration of Human Rights: "Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages... Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms." ⁴

From an *economic perspective*,⁵ investment in education leads to greater employment, higher wages, higher productivity, and greater economic growth for society. The importance of education is evident in both the creation and distribution of wealth. Education provides the conditions in which new forms of income can be developed. The more equal the access to education, the more equal the distribution of income.

From a *social perspective*, education serves a broad range of goals, from improving social indicators to empowering vulnerable populations, such as women, the poor, and indigenous populations. Empirical evidence demonstrates that universal access to education contributes to eliminating social barriers, such as gender, class, race, religion, and cultural discrimination, as well as economic obstacles. Education is also a means for saving lives; it allows for the early detection of symptoms of illnesses and for providing treatment. Education also affects the quality of nutrition, diet variety, as well as fertility and reproductive health. For every year of schooling, a future mother reduces the probability of her child dying prematurely by 8%.⁶

From a *political perspective*, investment in education means establishing a stronger foundation for democracy. An educated population is more capable of deciding its future, its government, and the decisions which are adopted. An educated society is more capable of holding its government accountable and ensuring transparency. History has demonstrated that during dictatorships, the strongest opposition groups are generally formed in the sectors with greatest access to education and culture.

The arguments for prioritizing education investment are unquestionable. As evaluated in the following section, these benefits are increasingly recognized in global and regional forums.

4. *Universal Declaration of Human Rights*, Article 26, <http://www.un.org/Overview/rights.html>

5. The economic, social and political arguments of this section are extracted from: *Deuda Externa por Educación*, OEI/Fundación Economistas Sin Fronteras, 2005, <http://www.oei.org.ar/noticias/Informe.PDF>, p. 8 ,17-19.

6. *Ibid*, p. 17.

The past two decades have witnessed the emergence of a global consensus on the centrality of education in the development of the least favoured countries and peoples. This consensus is reflected in numerous global, regional, and national agreements and commitments.

ii) The international consensus on education

Various United Nations conferences have underlined the centrality of education in development:

*World Conference on Education for All (EFA), Jomtien, Thailand, 1990.*⁷

- Delegates from 155 countries unanimously recognized the role of education as a pillar in the fight against poverty and underdevelopment. The participants committed to universalizing primary education and massively reducing illiteracy before 2000.

*World Summit for Social Development, Copenhagen, Denmark, 1995*⁸

- Heads of State from 117 countries reviewed the goals set in Jomtien and recognized that they were unattainable due to slow progress. The Summit recognized that at least 15 more years were needed to reach the goal of universal primary education.

*World Education Forum, Dakar, Senegal, 2000*⁹

- Some 1,100 participants from 164 countries reviewed the Education for All objectives and cautioned that too much focus on the quantitative gains made in the 1990s ignored the qualitative aspects of education. The Forum committed to achieving quality basic education for all by 2015 and articulated 6 objectives (see box).

*United Nations Millennium Development Goals, New York, USA, 2000*¹⁰

- All 191 UN Member States committed themselves to an expanded vision of development which places education at its core: *Education is development. It creates choices and opportunities for people, reduces the twin burdens of poverty and diseases, and gives a stronger voice in society.*
- The second of eight development goals calls for achieving universal primary education by 2015.

EFA Goals

- Expanding and improving comprehensive early childhood care and education, especially for the most vulnerable and disadvantaged children
- Ensuring that by 2015 all children, particularly girls, children in difficult circumstances and those belonging to ethnic minorities, have access to, and complete, free and compulsory primary education of good quality.
- Ensuring that the learning needs of all young people and adults are met through equitable access to appropriate learning and life-skills programmes
- Achieving a 50 per cent improvement in levels of adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults.
- Eliminating gender disparities in primary and secondary education by 2005, and achieving gender equality in education by 2015, with a focus on ensuring girls' full and equal access to and achievement in basic education of good quality.
- Improving all aspects of the quality of education and ensuring excellence of all so that recognized and measurable learning outcomes are achieved by all, especially in literacy, numeracy and essential life skills.

7. World Conference on Education for All (EFA), Jomtien, Thailand, 1990 www.unesco.org/education/efa/ed_for_all/background/world_conference_jomtien.shtml

8. World Summit for Social Development, Copenhagen, Denmark, 1995 <http://www.un.org/esa/socdev/wssd/index.html>

9. World Education Forum, Dakar, Senegal, 2000 www.unesco.org/education/efa/wef_2000/index.shtml

10. *United Nations Millennium Development Goals*, New York, USA, 2000 www.developmentgoals.org/Education.htm

*World Summit, New York, USA, 2005*¹¹

- ⊙ At the largest gathering of world leaders in history, over 100 heads of state emphasized the critical role of both formal and informal education in the achievement of poverty eradication and other development goals as envisaged in the Millennium Declaration.

The growing international consensus on the importance of education for the development of nations is paralleled in an even more unanimous movement in Iberoamerica:

*V Iberoamerican Summit of Heads of States and Governments, Bariloche, Argentina, 1995*¹²

- ⊙ The leaders adopted conclusions on education, with the conviction that it constitutes a fundamental base for the development of our societies.

*XIII Iberoamerican Summit of Heads of States and Governments, Santa Cruz, Bolivia, 2003*¹³

- ⊙ The leaders confirmed the importance of education as a cause of social inclusion in order to eradicate poverty, achieve sustainable development, and build democratic and prosperous societies. They also reiterated their commitment to reach the educative objectives established in the Bariloche Declaration in 1995, and to initiate a Movement in Favour of Education.

*XIV Iberoamerican Summit of Heads of States and Governments, San José, Costa Rica, 2004*¹⁴

- ⊙ The leaders renovated their commitment to reach the objectives established in the World Declaration on Education For All in Jomtien, the Dakar Framework for Action adopted in 2000, and the Millennium Development Goals.

*XVIII Iberoamerican Summit of Heads of States and Governments, San Salvador, El Salvador, 2008*¹⁵

- ⊙ The leaders committed to considering education as a necessary and fundamental instrument for the region's development. The final declaration joined the mandate of the General Iberoamerican Secretariat (SEGIB) and the Organization of Iberoamerican States (OEI) so they could, together with the Ministries of Education, advance in the identification of the *2021 Educative Goals: The education we want for the bicentennial generation*.¹⁶ These goals include the creation of a "solidarity fund for educative cohesion." This is a key initiative destined to support the efforts of those regions which have been left behind, so they can reach the set goals. The underlying objective is for Iberoamerica to become one of the regions with the highest education levels by the end of the next decade.

The growing global and regional consensus and optimism have established favourable conditions for the development of education policies which today are transforming national educative realities.

In Argentina, a crucial step has been taken towards converting ministerial education policy into permanent State policy. After a broad, plural and participative debate a social consensus was achieved in order to ratify the new National Education Law (No 26.206)¹⁷. This law dictates:

11. World Summit, New York, USA, 2005, <http://www.un.org/spanish/summit2005/>

12. V Iberoamerican Summit of Heads of States and Governments, Bariloche, Argentina, 1995 <http://www.oei.es/vcumbre.htm>

13. XIII Iberoamerican Summit of Heads of States and Governments, Santa Cruz, Bolivia, 2003 <http://www.oei.es/xiiicumbre.htm>

14. XIV Iberoamerican Summit of Heads of States and Governments, San José, Costa Rica, 2004 www.oei.es/xivcumbre.htm

15. XVIII Iberoamerican Summit of Heads of States and Governments, San Salvador, El Salvador, 2008 <http://www.oei.es/xviiiicumbredc.htm>

16. Website: 2021 Educative Goals <http://www.oei.es/metas2021/index.html>

17. National Education Law (No 26.206), Republic of Argentina, http://www.me.gov.ar/doc_pdf/ley_de_educ_nac.pdf

"Education is a national priority and is constituted as a State policy for building a just society, reaffirming sovereignty and national identity, deepening the exercise of democratic citizenry, respecting human rights and fundamental liberties, and strengthening the social-economic development of the Nation." (Article 3).

There is a broad consensus that education should be the focus of national development strategies. Since 1990, there has been a growing international movement, with particularly intensity in Iberoamerica, promoting the prioritization of universal access to quality education as State policy. The following section identifies the remaining obstacles to reaching these goals.

In the year 2000, 164 governments and partner organizations from around the world, made a collective agreement to dramatically expand educational opportunities for children, youth, and adults by 2015. At the half-way point of the deadline for reaching the Education For All (EFA) objectives, steady progress has been made, but the pace is insufficient for the goals to be accomplished by 2015.

iii) State of education: general overview

According to the 2008 EFA midterm report, the following progress has been made towards the six objectives¹⁸:

- ⊙ World: The EFA Development Index shows that out of 129 countries, only 51 have achieved or are close to achieving the four most quantifiable EFA goals: universal primary education, adult literacy, gender equity, and quality education. Another 53 are in an intermediate position and 25 are far from achieving all of the EFA objectives.
 - ⊙ Iberoamerica and the Caribbean: Few countries have achieved or are close to achieving the four most quantifiable EFA goals. Most countries are in an intermediate position.
1. *Early Childhood Care and Education*
- ⊙ World: Although child mortality rates have dropped, a majority of countries are not taking the necessary policy measures to provide care and education to children below the age of 3, especially those who are marginalized and impoverished.
 - ⊙ Iberoamerica and the Caribbean: Between 1999 and 2005 the enrolment in pre-primary education increased from 56% to 62%, an overall rate higher than in other regions of the world.

18. Summary: EFA Global Monitoring Report 2008, <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf>, p. 4-6. and Regional Overview: Latin America and the Caribbean, <http://unesdoc.unesco.org/images/0015/001572/157271E.pdf> p. 4-6

2. Universal Primary Education

- ⊙ World: The global net enrolment rate rose from 83% to 87% between 1999 and 2005, a faster pace than from 1991 to 1999. Despite overall enrolment increases, sub national disparities in school participation persist between regions, provinces or states, and between urban and rural areas. Children from poor, indigenous and disabled populations are also at a systematic disadvantage, as are those living in shantytowns. At the current rate, 58 out of 86 countries that have not yet reached universal primary enrolment will not achieve it by 2015.
- ⊙ Iberoamerica and the Caribbean: The region is close to achieving universal primary education (UPE) with net enrolment ratios (NERs) above 90% in more than 60% of the 36 countries with data for 2005. The average NER increased during the same period from 93% to 95%.

3. Learning Needs of Young People and Adults

- ⊙ World: Non-formal education programmes, which are considered the main path to learning for many disadvantaged youth and adults in the world's poorest countries, remain neglected in terms of public funding, although some governments have recently developed national frameworks for sustained support.
- ⊙ Iberoamerica and the Caribbean: This goal has been particularly neglected, in part because of the difficulty in defining and monitoring it. Data from surveys show limited access of young adults to non-formal education; the main learning method for the most disadvantaged. A recent study based on household surveys and censuses for 17 countries in Iberoamerica shows that less than 10% of young adults (aged 20 to 39) who have not completed upper secondary education attend some kind of educational program.

4. Adult Literacy

- ⊙ World: The adult literacy rate in developing countries increased from 68% to 77% between the periods 1985–1994 and 1995–2004. Of the 101 countries still far from achieving 'universal literacy', 72 will not succeed in halving their adult illiteracy rates by 2015.
- ⊙ Iberoamerica and the Caribbean: Despite a rise of the average adult literacy rate from 88% to 90%, the total number of adults who were not literate in the region increased by 1.6 million between 1985–1994 and 1995–2004.

5. Gender

- ⊙ World: Of those with available data, only 59 countries achieved gender parity in primary and secondary education by 2005; while 75% of countries are at parity, or close, at the primary level (17 additional countries since 1999), while 47% have achieved or are close to reaching the goal in secondary education (19 additional countries since 1999). Only 18 out of 113 countries that missed the gender parity goal at primary and secondary level in 2005 stand a chance of achieving it by 2015.
- ⊙ Iberoamerica and the Caribbean: The goal of eliminating gender disparity in both primary and secondary education by 2005 was missed in most countries. Only twelve countries, about one-third of the 39 with data, had achieved this goal.

6. Quality Education

- ⊙ World: Relatively low and unequal learning achievements in languages and mathematics characterize many countries worldwide. It will not be possible to achieve any of the EFA objectives without a sufficient quantity of well trained educators. Eighteen

million new primary school teachers are needed worldwide to reach universal primary education by 2015.

- ⊙ Iberoamerica and the Caribbean: The need to improve quality, especially its uneven distribution within countries, remains a region-wide challenge. International and student assessments point to low learning outcomes in most of the region.

At the midway point established to reach the EFA objectives, progress is insufficient. Much is left to accomplish if these goals are to be reached by 2015, particularly in the need to improve unequal access to quality education. The following section analyzes the financial situation of the education sector with regards to these objectives.

In the majority of developing countries, the current education investment levels are insufficient for reaching the EFA objectives. In order to achieve these government commitments, substantial and long-term resources will be required, as well as overcoming budgetary restraints.

iv) Financial situation of the education sector

According to the 2008 EFA midterm report, national education budgets vary significantly among regions and countries.¹⁹

Education expenditure as a share of GNP tends to be highest across countries in North America and Western Europe, followed by Iberoamerica and the Caribbean, and sub-Saharan Africa. (Table 1). However, the variations among countries of the same region are large. In 2005, out of 105 countries outside of North America and Western Europe, twenty-six spent 6% or more of their GNP on education while twenty-four spent 3% or less.

Between 1999 and 2005, overall education expenditure as a percentage of GNP increased in 50 of the 84 countries with available data. Across Iberoamerica and the Caribbean, East Asia and the Pacific, South and West Asia, and the Arab States, the number of countries in which the share increased was almost matched by the number whereby it decreased (the respective totals being 23 and 19).

19. Summary: EFA Global Monitoring Report 2008, <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf>, p. 31

The share of the education sector in total government expenditure is a more direct measure of budget priority²⁰. Data for 2005 is available for 87 countries. Arab States, with data available, tend to devote a significantly higher proportion of total expenditure to education than do governments in other regions. The next highest proportion is for Central Asia, followed by sub-Saharan Africa. East Asia and the Pacific, Iberoamerica and the Caribbean, and South and West Asia have the lowest proportions of education expenditure relative to total government spending.

Table 1
Total public education expenditure as a % of GNP and as a % of total government spending (median), 2005

	North America and Western Europe	Iberoamerica and the Caribbean	Sub-Saharan Africa	Arab States	Central Asia	East Asia and the Pacific	South and West Asia	Central and Eastern Europe
Total public education expenditure as % of GNP	5.7	5.0	5.0	4.5	3.2	4.7	3.6	4.9
Total public education expenditure as % of total government spending	12.7	13.4	17.5	25.7	18.0	15.0	14.6	12.8

Source: Summary: EFA Global Monitoring Report 2008, <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf>, p. 31

According to the 2008 EFA midterm report, greater efforts need to be made to increase official development aid (ODA) targeted at achieving the Objectives.²¹

The Dakar meeting in 2000 was intended to reinvigorate the movement towards achieving universal primary and basic education, and galvanize increased donor support. In the years immediately following the meeting, total ODA commitments for education rapidly increased, reaching US\$10.7 billion in 2004, compared with US\$6.5 billion in 2000, a gain of 65% in real terms. However, in 2005, allocations fell by over US\$2 billion, dropping education commitment almost back to its 2002 level. Thereafter, the share of aid allocated to the education sector remained stable at about 13% for developing countries and 16% for those with low-income.

Aid disbursements measure the actual transfer of financial resources, hence the amount of ODA spent on education systems in recipient countries. Disbursements for education across all developing countries reached US\$6.7 billion in 2005, up from US\$4.4 billion in 2002 (11% per year). Total funds for basic education were US\$2.8 billion in both 2004 and 2005. As commitments in 2005 decreased significantly, disbursements will likely stay at the same level or even decrease in the next few years.

According to a 2004 education financing report by UNESCO and ECLAC, during the 1990s Iberoamerican countries made considerable efforts to achieve objectives and to improve the

20. Even though this statement is accurate, when the budgetary impact of a debt swap is analyzed in Chapter E, only the national budget will be considered, as it is the National Ministry of Education which will be responsible for investing these resources.

21. Summary: EFA Global Monitoring Report 2008 2008, <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf>, p. 40

quality of their education systems. During the decade, countries increased their education spending by 1.1% of total GDP (going from 3.0% in 1990 to 4.1% in 1999).²²

However, the report cautions that this increase is insufficient for two reasons. First, when comparing absolute figures with education investment in developed countries, the region is lagging. Second, Iberoamerica needs to make greater efforts to attain the education levels and achievements needed to energetically move towards greater equality of opportunity, satisfy human capital needs, and achieve greater citizen participation.

According to UNESCO and ECLAC, the region has made various international commitments that can be prioritized into four major goals:

- ⊙ *Universal access to pre-primary education (3-5 yr olds) by 2015*
- ⊙ *Universal completion of primary education (6-12 yr olds) by 2015*
- ⊙ *Increase the coverage of secondary education (13-18 yr olds) to 75% by 2015*
- ⊙ *Eradicate adult illiteracy (15 yrs and older) by 2015*

The additional resources needed to fulfil these goals by 2015 reach, according to estimates, US\$ 149 billion. This figure represents nearly 7.5% of the GDP of the 22 countries of the region examined in 2000. If the countries considered are to accomplish the four goals, they will need to spend nearly US\$ 13.5 billion additional dollars per year until 2015, the equivalent of a 16.6% increase to what was spent in 2000 (US \$81.9 billion).

For most countries in the region, these four goals pose a financial burden that that cannot be surmounted solely with internal resources. For this reason it is necessary to explore mechanisms that make it possible to complement these resources with alternative sources of financing, both foreign and domestic.

The Education for All Declaration signed in Jomtien, Thailand in 1990, preceded ECLAC and UNESCO's findings for the region by underlining the correlation between education investment and the debt burden:

- ⊙ Substantial and long-term increases in resources for basic education will be needed. The global community, including intergovernmental agencies and institutions, has an urgent responsibility to alleviate the constraints that prevent some countries from achieving the goal of education for all. It will mean the adoption of measures that augment the national budgets of the poorest countries or serve to relieve heavy debt burdens. Creditors and debtors must seek innovative and equitable formulae to resolve these burdens, since the capacity of many developing countries to respond effectively to education and other basic needs will be greatly helped by finding solutions to the debt problem.²³

In order for developing countries to deliver on their promises to improve education levels, they will have to increase national and international funding. The possibility of receiving increased ODA, debt relief in particular, is explored in the following section.

22. *Financing and Management of Education in Latin America and the Caribbean*, ECLAC/UNESCO, Thirtieth Session of ECLAC, San Juan, Puerto Rico, June, 2004.
http://www.unesco.cl/medios/biblioteca/documentos/financiamiento_gestion_educacion_lac_sintesis_ingles.pdf?menu=/esp/atematica/financedu/docdig/

23. World Declaration on Education for All:
www.unesco.org/education/efa/ed_for_all/background/jomtien_declaration.shtml

B

DEVELOPMENT COOPERATION AND DEBT

The dilemma presented by the need to achieve education objectives in the face of budgetary restraints requires deepening the partnership initiated by developed and developing countries in the Millennium Declaration. This partnership recognizes official development aid (ODA) and debt relief as two fundamental pillars required for achieving the Millennium Development Goals and the Education For All objectives.

In order to improve current education levels in developing countries it is necessary that developed countries fulfil their international commitments regarding official development aid (ODA).

i) Development cooperation

The growing international consensus on the importance of increasing official development aid (ODA) is reflected in various multilateral commitments and agreements:

International Official Development Aid (ODA) Target, United Nations General Assembly, New York, 1970

- ⊙ 2010 will mark 40 years since the international target of providing 0.7 % of national income as ODA was established by UN member states in a General Assembly Resolution.²⁴

UN Millennium Development Goals (MDG), New York, United States, 2000

- ⊙ In 2000, all 191 member states committed to reaching 8 development-related goals for the least advanced countries by 2015.
- ⊙ Perhaps the most important of the MDGs is the eighth, which calls to *Develop a Global Partnership for Development*. Within this goal, 6 specific targets are articulated, some of which measure levels and the implementation of ODA.²⁵
- ⊙ From 2002 to 2006, the Millennium Project of the United Nations analysed that “ours is the first generation in which the world can halve extreme poverty within the 0.7 envelope. In 1975, when the donor world economy was around half its current size, the Goals would have required much more than 1 percent of GNP from the donors. Today, after two and a half decades of sustained economic growth, the Goals are utterly affordable. No new promises are needed—only following through on commitments already made.”²⁶

Monterrey Consensus, International Conference on Financing for Development, Monterrey, Mexico, 2002

- ⊙ More than 50 Heads of State and Government elaborated the Monterrey Consensus, urging developed countries, which had not done so, to make concrete efforts towards reaching the 0.7% ODA target. They also set the objective of allocating 0.15% to 0.20% of GNP to the least developed countries, as reiterated at the Third United Nations Conference on Least Developed Countries.²⁷

Paris Declaration, Paris High Level Forum on Aid Effectiveness, Paris, France, 2005

- ⊙ More than 120 countries signed the Paris Declaration on aid effectiveness, which identifies 5 goals: identification, harmonization, coordination, results and mutual responsibility, all linked to 12 concrete indicators for 2010.²⁸

According to various reports, much is left to accomplish to reach the 0.7% ODA target:

- ⊙ After having fallen from 0.51 % as a share of donor GNP in 1960 to 0.33 % in 1970, ODA reached 0.35 percent in 1980. By 1990 it was at 0.34 percent and then fell to

24. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, The UN Millennium Project, 2005*, <http://www.unmillenniumproject.org/documents/overviewEngLowRes.pdf>, p. 59.

25. *United Nations Millennium Development Goals, New York, USA, 2000*
<http://www.un.org/millenniumgoals/global.shtml>

26. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, The UN Millennium Project, 2005*, <http://www.unmillenniumproject.org/documents/overviewEngLowRes.pdf>, p. 59.

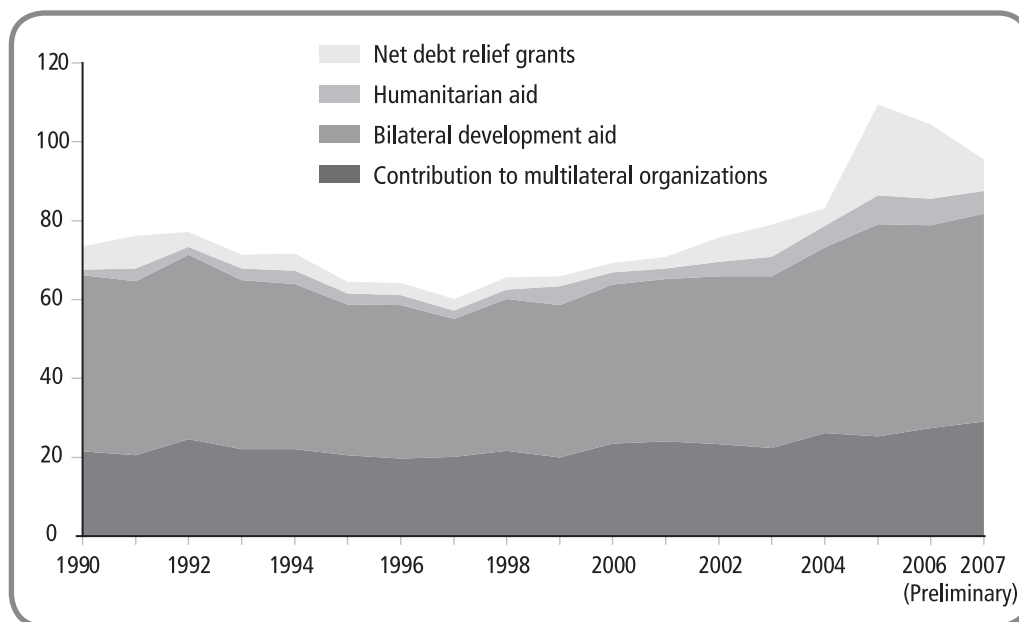
27. *International Conference on Financing for Development, Monterrey, Mexico, 2002*,
<http://daccessdds.org/doc/UNDOC/GEN/N02/267/66/PDF/N0226766.pdf?OpenElement>, p 9-10.

28. *High Level Forum, Paris Declaration on Aid Effectiveness, Paris, France, 2005*
<http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>

0.23 percent by 2002, the same year the 0.7% target was reconfirmed by all countries in the Monterrey Consensus.²⁹

- ⊙ In 2007, total ODA fell by 8% with regards to the previous year to US\$ 103.7 billion. This represents a drop from 0.31% of members' combined GNP in 2006 to 0.28% in 2007. This decline is primarily due to the end of exceptionally high debt relief (see table).³⁰

Graph No 1
Official Development Aid, OECD, 1990-2007 (Billions of 2006 \$US)



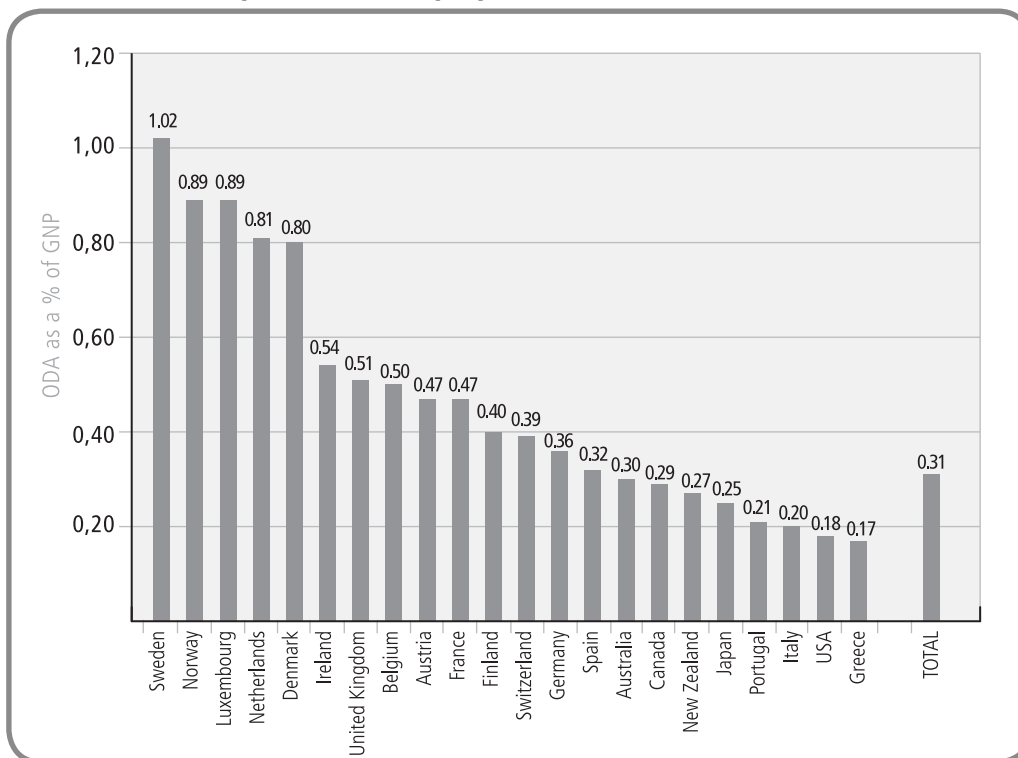
Source: The Millennium Development Goals Report 2008, United Nations, <http://www.un.org/millenniumgoals/pdf/The%20Millennium%20Development%20Goals%20Report%202008.pdf>, p. 44.

- ⊙ Until the now, only five countries have reached or surpassed the 0.7% target: Denmark, Luxembourg, Norway, Netherlands and Sweden.
- ⊙ In general, the majority of donor countries are not on the path to meet their Paris Declaration and Monterrey Consensus commitments, and will have to make an unprecedented effort to achieve the targets set for 2010, especially the goal of investing \$130 billion in ODA.

29. Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, The UN Millennium Project, 2005, <http://www.unmillenniumproject.org/documents/overviewEngLowRes.pdf>, p. 59, p. 71

30. Debt Relief is down: Other ODA rises slightly, OECD, 04/04/2008, http://www.oecd.org/document/8/0,3343,en_2649_34447_40381960_1_1_1_1,00.html

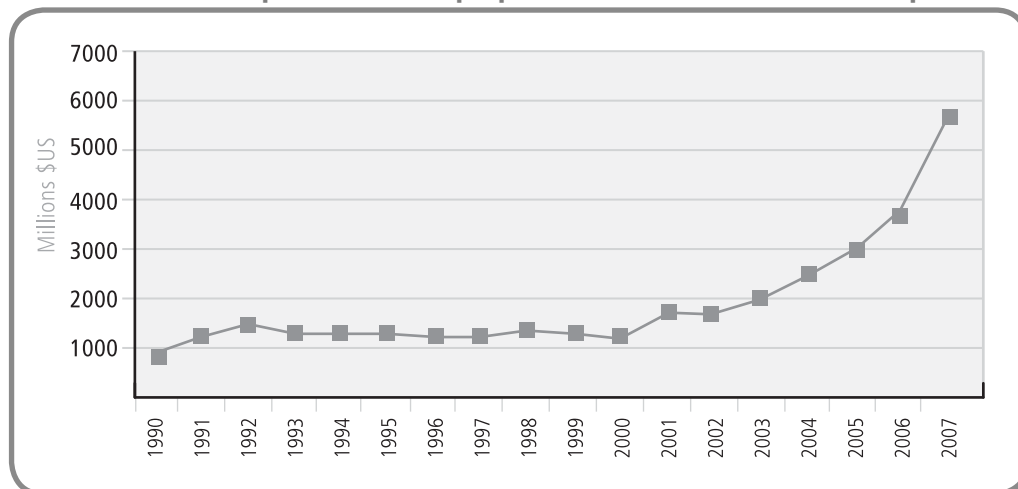
Graph No 2
Official Development Aid as a proportion of GNP, OECD countries, 2006³¹



Source: Statistical Annex of the 2007 Development Co-operation Report, Table 1, OECD, http://www.oecd.org/document/9/0,3343,en_2649_34485_1893129_1_1_1_1,00.html

Despite not having reached the agreed upon target, in the past few years, Spain is one of the countries which has most significantly increased its ODA (see Graph 3):

Graph No 3
Official Development Aid as a proportion of GNP, Government of Spain



Source: Statistical Annex of the 2007 Development Co-operation Report, Table 1, OECD, http://www.oecd.org/document/9/0,3343,en_2649_34485_1893129_1_1_1_1,00.html

31. Statistical Annex of the 2007 Development Co-operation Report, Table 1, OECD, http://www.oecd.org/document/9/0,3343,en_2649_34485_1893129_1_1_1_1,00.html

According to the Spanish Government's 2008 *Annual International Cooperation Plan*, 0.5% of its GNP is destined to ODA, totalling 5.509 billion euros. This implies that 2008 was the year in which the greatest increase in nominal ODA was produced in the history of Spanish cooperation: a jump of 1,219 million euros from 2007. This entails not only an historical leap for Spanish cooperation, but also the affirmation that progress is being made towards the set target of achieving 0.7% by 2012.³²

With a proportion of 39.4% of its ODA destined to Iberoamerica, Spain was the OECD country which gave highest priority to the region. This policy of regional solidarity was reinforced in the *2008 Annual International Cooperation Plan: Iberoamerica* "will continue to be a preferential destiny, receiving at least 40% of the regionally distributable gross bilateral ODA."³³

Finally, the Plan sets a guideline specific to the question of debt management: "Follow through on commitments, much of which are derived from the External Debt Law. Continue applying a proactive debt policy relevant to the situation in each country, and increase the transparency in the management of external debt."

The External Debt Law, approved in the Spanish Congress, opens to the door to the possibility of no longer tabulating debt reduction operations as Official Development Aid, once the 0.7% of GNP target is reached.³⁴

It is imperative that developed countries meet their international commitments, particularly the goal which recognizes development aid and debt relief as two key pillars for improving the situation of developing countries. The subject of debt relief is explored in the following sections.

32. Plan Anual de Cooperación Internacional, Government of Spain, January 2008, <http://www.maec.es/es/MenuPpal/Cooperacion%20Internacional/Publicaciones%20y%20documentacion/Documents/PACI2008.pdf>, p. 6.

33. Plan Anual de Cooperación Internacional, Government of Spain, January 2008, <http://www.maec.es/es/MenuPpal/Cooperacion%20Internacional/Publicaciones%20y%20documentacion/Documents/PACI2008.pdf>, p. 14.

34. Regulatory Law for the management of external debt (38/2006), Government of Spain, 7th of December, 2006 http://www.boe.es/g/es/bases_datos/doc.php?coleccion=iberlex&id=2006/21408

Before presenting the current state of the debt problem and proposing solutions, it is necessary to give a brief overview of the causes of the crisis and formulate a perspective for analyzing the question of debt legitimacy.

ii) External debt process: origins and the legitimacy problem

a. The External Debt Process³⁵

The seventies: origins of external debt

The starting point for the analysis of Iberoamerica's debt process begins with the oil shocks of 1973, when the price of a barrel of crude oil multiplied ten-fold in a few months. This increase resulted from an oil embargo decreed by the Arab nations of OPEC (*Organization of the Petroleum Exporting Countries*),³⁶ in solidarity with the United Arab Republic (Egypt and Syria) which was in a conflict with the state of Israel during the Yom Kippur War.

This price increase brought about a series of consequences, most importantly the accumulation of dollars deposited by the oil exporting countries in the financial centres of the West (London, New York and Zurich). From that point onwards, these funds became globally known as "petrodollars".

These "petrodollars" gave great financial liquidity to the above mentioned banks, which then adopted very flexible, at times irresponsible, credit policies. These excess funds were primarily allocated in countries desperate for liquidity but also demonstrating little ability to generate the wealth to payback these loans. Also, commercial banks took advantage of the lower interest rates being set in the central countries when making their loans.

This combination resulted in the temptation to offer these surpluses to developing countries which were offering higher interest rates. In Iberoamerica, the chosen countries were primarily: Mexico, Brazil and Argentina, as they offered enormous amounts of natural resources for export, such as oil, food, minerals, etc.

As such, in the second half of the 1970s countries from Iberoamerica in particular, and developing World countries in general, received large sums of funds, which in many cases were applied to unjustified projects. Several military dictatorships from South America directed a good part of these loans to military weaponry and some, particularly Argentina, used the funds to finance capital flight.

In many cases, the destiny of the funds did not generate an increase in the productive capacity of the indebted countries. In only several instances did some of the debt translate into industrial and infrastructure development policies, such as in Brazil (during its military dictatorships between 1964 and 1985), although they formed part of a regressive social model.

Only 1981 onwards, did the USA's anti-inflationary policy begin to focus on cooling its economy, allowing a strong rise in the interest rate, which provoked an increase in the value of the debts of Iberoamerica and finally, the withdrawal of financial investments drawn to the higher rates in the USA.

35. "Crisis de la Deuda Externa en los 70: Impacto en la Argentina" the Working Group of the Museum for External Debt, Secretariat of Student Wellbeing, Faculty of Economical Sciences, University of Buenos Aires, Argentina, October 2008.

36. Around 1973, OPEC, which had been founded in Bagdad in 1960, had 11 members, and five founders: Saudi Arabia, Iraq, Kuwait, Venezuela and Iran, who were later joined by Qatar, Libya, United Arab Emirates, Ecuador, Indonesia and Nigeria.

This situation concluded with the cessation of payments by the Mexican government in 1982, followed by Brazil, Argentina and other heavily indebted countries. This was the beginning of the Iberoamerican debt crisis.

Argentina, 1976: change in the model

The Argentine military dictatorship (1976-83) unleashed a repressive regime never before witnessed in the country. State terrorism left 30,000 people disappeared and exiled. In the economic sphere, a neoliberal economic plan inspired in the Chicago School model was applied. The de facto Minister of Economy, José Alfredo Martínez de Hoz, launched the plan April 2, 1976, a few days after the coup d'état which overthrew the government of María Estela Martínez de Perón.

It was during this era that the Ministry of Economy incentivized a speculative-financial system which ended up consolidating a new capital market. The external debt crept up to historical levels, and the opening of the economy severely damaged the national industry and the social fabric built from the mid-century mark through an *Import Substitution Industrialization* model.³⁷

This plan represented the cornerstone of the *Financial Income model*³⁸ installed by the military dictatorship. The Financial Reform Law of 1977 sanctioned by the Legislative Advisory Commission opened the door to the expansion of speculative activities and solidified the economic team and dominant classes which supported the model.

Between 1973 and 1982, Argentina's external debt grew 800%, having quintupled during the seven years of the de facto government.³⁹ At the end of the dictatorship, Argentina's external debt reached U\$S 46,000 million, representing close to 60% of the GNP of that time period.

Nationalization of Argentina's external debt: the last dictatorial legacy

In 1982, towards the end of the dictatorship, Argentina witnessed an episode in the framework of the neoliberal economic policies endorsed by multilateral credit organisms, which came to be known as the nationalization of private external debt.⁴⁰ Through this process, debts accumulated by large corporations, in most cases, fraudulently and illegitimately (and even in some instances, internal loans between head offices and subsidiaries based in Argentina), became part of the State's debt.

It is calculated that this measure transferred U\$S 14,500 million of private sector debt to the State from the some of the following large business groups: Autopistas Urbanas, Pérez Companc, Acindar, Alpargatas, Banco de Galicia, Techint, FATE, Astra, Citibank, Swift Armour, SOCOMA (Grupo Macri), Bunge y Born, among others.

37. Rapoport, Mario, *Historia política, económica y social de la Argentina (1880-2000)*; Ed. Macchi; Buenos Aires, 2002.

38. Rapoport, Mario, *Historia política, económica y social de la Argentina (1880-2000)*; Ed. Macchi; Buenos Aires, 2002.

39. During this same period, Mexico's debt grew 850%, Brazil's 600%, Chile's 450%, and Colombia's 350%.

40. Multilateral credit organisms are institutions which were designed during the Second World War (Breton Woods Treaty, July of 1944), with the objective of regulating world finances in a framework of progress and development of states. The main two organisms are the International Monetary Fund and the World Bank. During the last quarter of the 20th century, the paper of said organizations has been severely questioned given that the policies which they recommended have been counterproductive with regards to the original goals. .

The debt trap

In Argentina's case, as that of many others, negative balances accumulated over the years to the point in which the country found itself in a debt trap; a situation in which new loans were needed to meet urgent debt obligations. With the passing of time, more and more resources were needed to service the debt, funds which could otherwise have been used for social investments, such as education.

b. Legitimacy of the external debt⁴¹

The debate surrounding the question of debt legitimacy is divided into three main camps:

1. *Repudiation of the debt*: the debt is declared illegitimate; it should not be paid.
2. *Annulment of the debt*: the debt is recognized but is declared unpayable; it should be annulled.
3. *Conversion of the debt for development*: the debtor and the creditor negotiate the debt in an integral manner, recognizing the co-responsibility of the debt and consensually search to escape from over-indebtedness through swaps or other mechanisms.

The first two positions consider the problem from a unilateral perspective. The last field, promoted by the Jubilee 2000 debt campaign, is based upon the co-responsibility of debtor and creditor countries in reaching middle ground between repudiating the debt and paying it in its entirety. This posture recognizes debt swaps for development investment not only as a legitimate transaction, but as a solidarity pact for the development of marginalized countries.

The history of the external debt demonstrates that a combination of external factors, irresponsible loaning, and illegitimate/corrupt debtors took the developing world to a debt crisis without precedent. Although both debtors and creditors are responsible for causing the crisis, it will be shown that its effects have been asymmetrical.

In the majority of developing countries the weight of the external debt is overwhelming. Iberoamerica, the most unequal region in the world, is also the most indebted. The burden is so great that in some countries debt service exceeds the level of education or health investment, and in some cases, both combined.

iii) Impact of the debt and the creditors

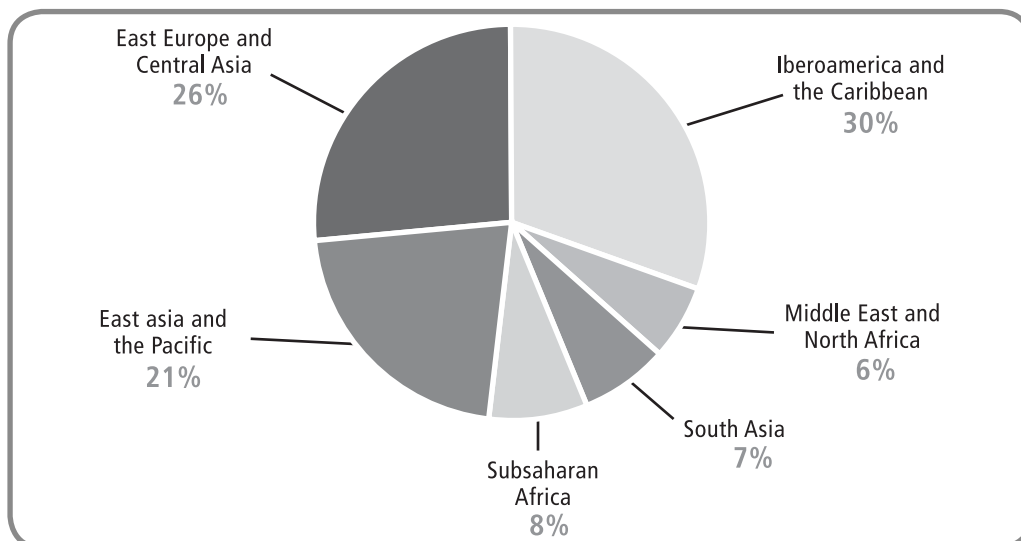
With a proportion of 30% (U\$S 773.5 billion) of the total developing world debt (U\$S 2,597.1 billion), Iberoamerica and the Caribbean is the most indebted region in the world (2005).⁴²

Graph No 4
Total Developing World Debt. Percentage by region.

41. The three camps of debt legitimacy debt are found in the following presentation:

Canje de deuda por educación, Estado de Situación, Fundación SES, presentado por Alberto Croce en el Seminario sobre canje de deuda por educación, Buenos Aires, Argentina, June 1, 2006.

42. *Global Development Finance 2005*, The World Bank Group, http://siteresources.worldbank.org/INTGDF2005/Resources/stati_appendix.pdf, p. 158.



Source: *Global Development Finance 2005*, The World Bank Group, http://siteresources.worldbank.org/INTGDF2005/Resources/stati_appendix.pdf, p. 158.

This figure should be contrasted with the following:

- ⊙ Global ODA reached U\$S 103.7 billion in 2007.⁴³
- ⊙ World military spending surpassed U\$S 1,339 billion in 2007, an increase of 6% from the previous year, and a 45% rise since 1998. This total corresponds to 2.5% of global GNP and U\$S 202.0 per capita.⁴⁴

Table No 2
Spending in Education, Health and Debt Service. Iberoamerica.

Country	Education Spending (% of GNP)	Health Spending (% of GNP)	Total Debt Service (% of GNP)
Argentina	3.8	4.3	5.8
Bolivia	6.4	2.1	5.7
Brazil	4.4	4.8	7.9
Colombia	4.8	6.7	8.3
Costa Rica	4.9	5.1	3.0
Cuba	9.8	5.5	--
Chile	3.5	2.9	6.7
Dominican Republic	1.8	1.9	3.0
Ecuador	1.0	2.2	11.4
El Salvador	2.8	3.5	3.8
Equatorial Guinea	0.6	1.2	0.1
Guatemala	--	2.3	1.5
Honduras	--	4.0	4.6
Mexico	5.4	3.0	5.7
Nicaragua	3.1	3.9	3.5
Panama	3.8	5.2	13.5
Paraguay	4.3	2.6	6.7
Peru	2.4	1.9	7.0
Portugal	5.7	7.0	--
Spain	4.3	5.7	--
Uruguay	2.6	3.6	13.3
Venezuela	--	2.0	4.0

Source: *2007/8 Human Development Report*, United Nations Development Program (UNDP) http://hdr.undp.org/en/media/HDR_20072008_EN_Indicator_tables.pdf, p. 294-297.

43. Debt Relief is down: Other ODA rises slightly, Organisation for Economic Co-operation and Development, 04/04/2008 http://www.oecd.org/document/8/0,3343,en_2649_34447_40381960_1_1_1_1,00.html

44. Recent trends in military expenditure, 'Military expenditure', SIPRI Yearbook 2008 Stockholm International Peace Research Institute, http://www.sipri.org/contents/milap/milex/mex_trends.html

Impact of the debt on education spending:

- ⊙ Debt servicing exceeds education spending in 13 of 23 countries belonging to the Organization of Iberoamerican States (OEI), which includes Puerto Rico, Spain and Portugal, and 15 countries in health spending.⁴⁵
- ⊙ **In 7 countries debt servicing is higher than both education and health spending combined.**
- ⊙ To give an idea of how heavy the debt burden is, the region has committed to reaching four education objectives for 2015 which require an investment increase of about U\$S 149 billion, a rise which cannot be met with current regional resources. This sum is the equivalent of 20% of the region's total debt in 2005.

Nature of the creditors:

In order to tackle the debt problem it is essential to understand the nature of the creditors. This entails recognizing to whom the developing world debt is owed and the political nature of these debts:

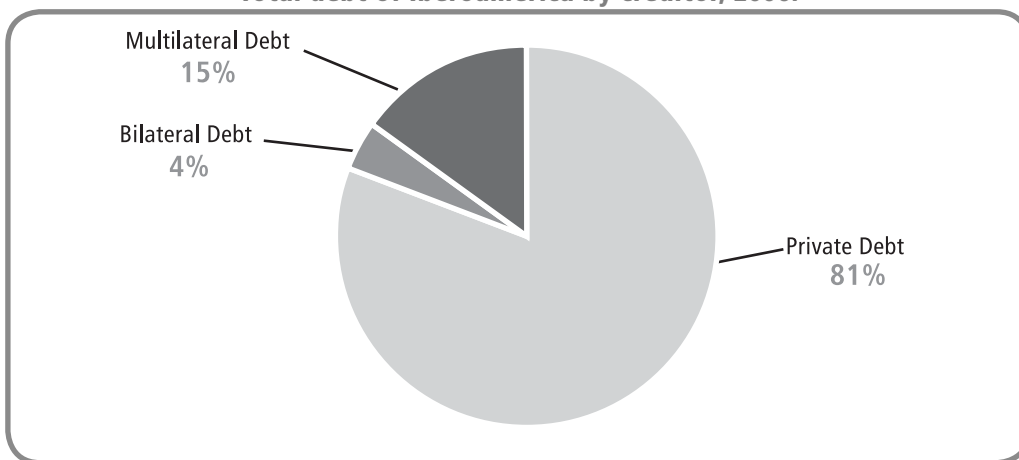
There are three major categories of creditors:⁴⁶

1. *Private/Commercial debt*: owed to private sector creditors, including commercial banks, bond holders, and export and trading companies. Includes bonds, loans and promissory notes.
2. *Multilateral debt*: owed to international financial institutions, such as the World Bank, International Monetary Fund, and regional development banks, such as the Inter-American Development Bank.
3. *Bilateral debt*: owed to governments. Official Development Assistance (ODA) loans are typically owed to government aid agencies. Publicly guaranteed loans (mostly export credits) are owed to export credit agencies.

These categories are important to take into account because developing countries are most likely to receive debt relief and debt swaps from bilateral creditors than from other types of creditors.

Breakdown of Developing Countries Debt by type of Creditor

Graph No 5
Total debt of Iberoamerica by creditor, 2006.



Source: Global Development Finance 2007, Regional and income group aggregate tables, World Bank.

45. 2007/8 Human Development Report, United Nations Development Program (UNDP) http://hdr.undp.org/en/media/HDR_20072008_EN_Indicator_tables.pdf, p. 294-297.

46. Definitions of the concepts are found in: *Panorama del canje de deuda*, Melissa Moye, Debt Relief International, 2001, www.dri.org.uk/spanish/pdfs/SpanPub4_Canje_Deuda.pdf.

A major proportion of Iberoamerica's the long term debt (representing 87% of the total debt) is in private hands.⁴⁷ This is important to note in the context of debt relief, because debt for development swaps are generally carried out in bilateral debt programs. The implication of this reality is that even if the region did hypothetically manage to cancel, or swap, the debt owed to bilateral creditors, it would have a minor impact on the overall debt problem.

Developing countries frequently face the difficult decision of choosing between debt obligations and social spending. In order to escape this trap, creative solutions, with support from both debtors and creditors, must be developed.

To date, bilateral efforts by governments over the past two decades aimed at resolving the debt crisis have had a minimal effect. Similarly, multilateral attempts to resolve the problem have been marginally successful.

iv) Solutions for alleviating the debt problem

a. Relief of debt owed to private creditors⁴⁸

Reduction Process:

In theory, all private debts can be reduced or restructured if the creditor and debtor agree. As soon as the private creditor realizes that it cannot expect to recover a debt, it may be willing to sell it below face value, restructure the terms, or exchange it for another debt instrument. There is a secondary market for private debts, which functions more or less to market principles, in which discounted debts are traded.

Under the London Club, procedures for restructuring commercial bank debt are established. A Bank Advisory Committee representing the major creditors is set up, usually chaired by the largest creditor. The committee reaches an agreement in principle with the debtor country, which then must be approved and subsequently signed by the participating creditors.

The Brady Plan, introduced in 1989, stimulated growth in the secondary market as less liquid bank loans were exchanged for marketable securities called Brady Bonds. Trading in debt increased substantially in 1986-87 after several Iberoamerican countries introduced debt-equity swap programs (discussed in the next section) as part of their London Club debt restructuring packages.

47. Global Development Finance 2007, Regional and income group aggregate tables, World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/EXTGLODEVFINVOL2/0,,contentMDK:20915314~menuPK:2459328~pagePK:64168445~piPK:64168309~theSitePK:2459286,00.html>

48. Datos de la canje de deuda privada se encuentran en: *Panorama del canje de deuda*, Melissa Moye, Debt Relief International, 2001, www.dri.org.uk/spanish/pdfs/SpanPub4_Canje_Deuda.pdf, p. 3.

Reduction Impact:

At their peak, debt conversion transactions involving commercial debt reached US\$28 billion in 1990. By 1996, the last year for which complete statistics on debt conversion are available, only US\$900 million in commercial debt was converted. Despite these attempts, the private debt in developing countries, well over 80% of the total debt, remains overwhelming.

b. Relief of debt owed to public creditors

i) Multilateral debt

Reduction Process:

Traditionally, multilateral debt has not been available for debt relief. The status of 'preferred creditors' enjoyed by the World Bank, the International Monetary Fund and by regional development banks used to preclude the possibility of writing off such a debt.

However in 1996, the World Bank and IMF launched the Heavily Indebted Poor Countries Initiative (HIPC) to help poor countries to escape from unsustainable debt burdens by providing comprehensive debt relief once they meet certain criteria. The enhanced HIPC initiative, created in 1999, lowered the qualifying criteria, sped up the delivery process and created an explicit link to poverty reduction.

In July 2005 at the G8 summit, developed countries committed to cancelling the debt of 18 countries belonging to the HIPC initiative.

Reduction Impact:

To date, debt reduction packages have been approved for 33 countries, 27 of them in Africa, providing around \$51 billion in debt service relief.⁴⁹

Despite these advances, the initiative has been heavily criticized for not cancelling large enough amounts of debt, placing unfair conditionality, for being slow in their implementation, and for not including highly indebted, middle income countries that have a large proportion of their populations living in poverty.⁵⁰

To date, only three Iberoamerican have been considered eligible for the initiative: Nicaragua, Honduras and Bolivia. The majority of the region's countries have GNP levels which are above the established limits, excluding them from the initiative. The criteria established for the HIPC program do not consider the high inequality levels of the region; large proportions of the population live under the poverty line. Parts of these arguments are explored in greater detail in Chapter D.

ii) Bilateral debt

Reduction Method:

All bilateral debts can be subject to relief or conversion, with certain restrictions. Bilateral debt reduction is generally conducted through the Paris Club, an informal group of 19 government creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations.

Of particular importance to this document is the Paris Club debt swap clause; a clause which has been included in most Paris Club framework agreements since 1991. *The clause currently*

49. *Fact Sheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative*, October 2008. <http://www.imf.org/external/np/exr/facts/hipc.htm>

50. *Highly Indebted Poor Countries Initiative*. Jubilee Debt Campaign, <http://www.jubileedebtcampaign.org.uk/?lid=97>

allows for conversion on a voluntary basis of 100% of ODA loans and up to the highest of 30% or 40 million for non-concessional loans (on an exceptional basis).

Reduction Impact:

Despite the creation of the Paris Club debt swap clause, few creditors have reached the established limits. Since 1983, the total amount of debt treated worldwide in Paris Club agreements has been \$505 billion.⁵¹ It is the official development assistance nature of most bilateral loans that makes them most likely to cancelled, restructured, and swapped.

Spain: the External Debt Law

Towards the end of 2006, the Spanish Congress approved a regulatory law on the management of external debt.⁵² Spain's first legal framework which links debt alleviation to development policy, also became Europe's second such legislation after Italy's.

Beyond merging external debt management with development cooperation policy, the new law promotes transparency, as it contemplates civil society participation, and delinks official aid from the purchase of Spanish goods and services. These efforts will target lower income developing countries with the highest debt levels, particularly those prioritized by the Spanish development cooperation program.

The legal text calls upon the Spanish Government to cancel HIPC debt acquired before December 31 2003, within the Paris Club framework. And as is analyzed later on in this document, the law promotes "the efficient implementation of the Spanish debt swap policy, coherent with the other development cooperation policies and the framework of the international financial system."

Given bilateral debt is more relevant to the discussion of debt conversion and reduction, greater emphasis will be placed on the nature and effect of bilateral loans from this point onward.

51. *Key Figures*, Paris Club, <http://www.clubdeparis.org/sections/services/chiffres-cles>

52. Ley reguladora de la gestión de la deuda externa (38/2006), de 7 de diciembre, 2006 http://www.boe.es/g/es/bases_datos/doc.php?coleccion=iberlex&id=2006/21408

C

DEBT FOR EDUCATION SWAPS

A debt for education swap is the cancellation of a portion of external debt of a developing country in exchange for the commitment to put these funds towards education investment. Although this initiative does not offer the panacea for education and debt problems, it does provide a vital and innovative source of resources for education, some debt relief, and also serves as a valuable official development aid tool. In this sense, the initiative should not be seen as the answer for the structural debt policy of highly indebted countries, as it neither resolves the dependency nor the conditionality derived by the systematic and irrational debt process, both public and private.

A debt swap is the cancellation of external debt in exchange for the debtor government's commitment to mobilize domestic resources for an agreed purpose. The terms 'conversion', 'exchange', and 'swap' are often used interchangeably.

i) Definitions and types of swaps

As well as there existing various types of debts, there are also various types of debt swaps which can be placed into two main categories: 1) *Commercial Swaps* and 2) *Social Investment Swaps*, the latter being the main focus of this document.

I. Commercial Swaps

- ⊙ *Definition:* The cancellation of external debt in exchange for equity investment in a domestic company or privatized public enterprise in the debtor country. The dual purpose of a debt-for-equity swap is: 1) reduce the external debt 2) promote investment, generally through privatization programs.
- ⊙ *History:* During their peak period, from 1985 to 1996, debt-for-equity swaps totaled US\$38 billion. During this period much of the secondary market was dominated by trading in debt owed by Iberoamerican countries until privatizations programs lost popularity.
- ⊙ *Evaluation:* Debt-for-equity swaps have been heavily criticized for promoting a loss of sovereignty in the developing world as key industries that were once under public control ended up in the hands of foreign investors.

2. Social Investment Swaps

- ⊙ *Definition:* The cancellation of external debt in exchange for investment in a debtor country's social development sector (e.g. education or health). The dual purpose of debt for development swaps is: 1) mobilize additional resources for a development related sector and 2) reduce the external debt.
- ⊙ *History:* The first debt for development swaps were debt for nature swaps which gained popularity in the late 1980s, and are still carried out in a number of countries. Stimulated by the apparent success of environmental organizations in mobilizing additional resources, a large number of governments and NGOs became actively involved in debt for development swaps under different names: debt for education, debt for health, debt for child survival etc.
- ⊙ *Evaluation:* Debt for social investment swaps should be considered a method to inject resources into sensitive social sector budgets in the most marginalized regions of the world. However, they should not be considered as a valid structural debt policy for highly indebted countries. Debt conversions neither resolve the dependency nor the conditionality derived by the systematic and irrational debt processes, both public and private. Nevertheless, resources generated by debt swaps have had a highly positive impact when responsibly applied as social resources for under funded sectors.
- ⊙

While there are several types of debt swaps, each with their own characteristics, this report will focus on those initiatives which prioritize social investment, with particular emphasis on education investment.

value and utility of debt swaps for education, and best practices conducive to the successful implementation of debt swaps for education,” and named the then Minister of Education of Argentina, Daniel Filmus, as the Chairman.⁶⁰

- ⊙ April/May 2006: the *Euro-Latin American-Caribbean Civil Society Forum and the Vienna Summit for Presidents of the European Union, Latin America and the Caribbean*, expressed support for debt for education swaps.
- ⊙ July 2006: at the *XVI Iberoamerican Conference on Education*, the Ministers of Education agreed to actively promote the participation of Education Ministries in debt for education swap programs.⁶¹
- ⊙ November 2006: at the *XVI Iberoamerican Summit of Heads of States and Governments*, leaders called upon the Iberoamerican General Secretariat to report on the advances of the initiative and in December 2007, the document *Experiences and Results of the Debt for Education Swaps in Iberoamérica* was published.⁶²
- ⊙ November 2006: at the UNESCO Paris office, the first meeting of the *UNESCO Working Group on Debt Swaps for Education* was held with representatives from Spain, Germany, France, the United Kingdom, Philippines, Indonesia, Senegal, Morocco, Egypt, Brazil, Argentina and Costa Rica. There were also participants from various international organizations: UNESCO, UNICEF, OECD, OEI, African Development Bank (ADB), Inter-American Development Bank (IBD), Islamic Development Bank, and civil society networks from three continents: AFRODAD (Africa), LATINDADD (Latina America), and EURODAD (Europe). Observers from several governments also assisted: Japan, Norway, Ecuador, El Salvador, Peru, and Guatemala. Prior to the meeting a working paper, “*What are debt for education swaps?*” was circulated, and afterwards, a follow up report was published for the second meeting.⁶³
- ⊙ July 2007: the second meeting of the *UNESCO Working Group on Debt Swaps for Education* was held at the Argentine Ministry of Education and a final report with a list of recommendations was handed into the Director-General of UNESCO.⁶⁴
- ⊙ October 2007: during the 34th UNESCO General Conference, resolution 14 was established, requesting the Director-General to: “(a)...continue to convene the above-mentioned open-ended working group so that it may follow up debt swap for education initiatives, setting the criteria for evaluating and monitoring project execution; (b) to lead the debate on debt swap for education initiatives by promoting inter-agency meetings on alternative financing of education, and contributing to debt-swap experiences that are under way; (c) to report on the results to the General Conference at its 35th session.”⁶⁵

A decade ago, the idea of swapping debt for education was no more than a couple of statements made in international forums. Since then, the idea has attained official support from various international organizations, creditor and debtor governments, and from multiple civil society organizations, and most importantly, numerous important swaps have already been negotiated.

60. Debt Swaps for Education: Follow-up to 33 C/Resolution 16, UNESCO, Paris, November 2006, http://www.unesco.org/education/EFAWGSDE/EFAWGDSE_TOR.pdf

61. XVI Iberoamerican Conference on Education, Montevideo, Uruguay, 2006 <http://www.oei.es/xviciemontevideo.htm>

62. XVI Iberoamerican Summit of Heads of States and Governments, Montevideo, Uruguay, 2006 <http://www.oei.es/xvicumbre.htm>.
To see the report visit: <http://www.oei.es/noticias/spip.php?article1463>

63. *Working Paper: What are debt for education swaps?* UNESCO, November 2006, http://www.unesco.org/education/EFAWGSDE/EFAWGDSE_1st_workingpaper.pdf
Follow up report: <http://unesdoc.unesco.org/images/0015/001537/153714e.pdf>

64. Informe para el Director General de la UNESCO, agosto 2007, http://www.unesco.org/education/EFAWGSDE/WGDSE_2nd_draftreportforDG_EN.pdf

65. Resolution 14, Debt Swap for Education, the 34th General Conference, UNESCO, Paris, November 2007, <http://unesdoc.unesco.org/images/0015/001560/156046e.pdf>

Reflecting the innovative and progressive nature of the initiative, debt swap models are generally dynamic, ad hoc, and participatory. They ensure more transparency and accountability than most institutional structures which already exist in developing world governments.

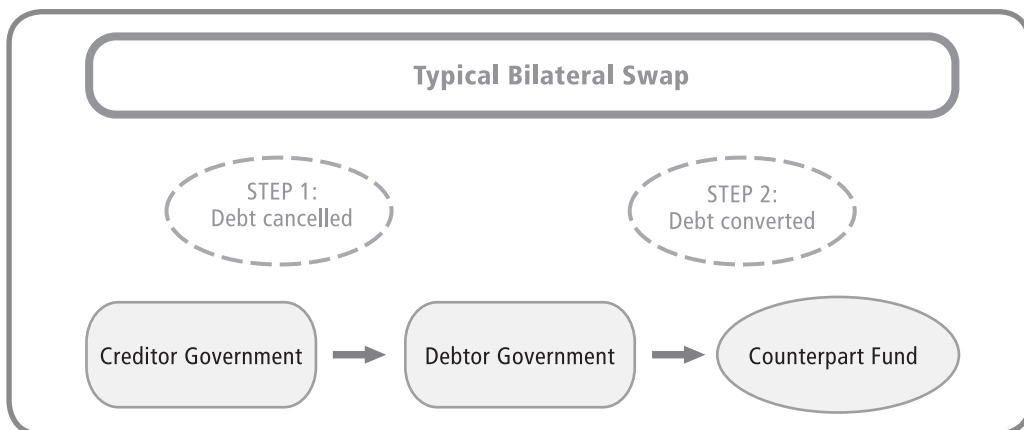
iii) Procedures and mechanisms

Debt for education swaps can be broken down into two main types of models: *bilateral swaps and triangular swaps*. The major difference between these two models usually, although not always, depends upon the type of debt being swapped (private or public):

Bilateral Debt Swap Mechanisms ⁶⁶

In a typical bilateral debt swap the creditor government agrees to reduce a developing country's ODA debt (step 1) in exchange for debtor government investment in education (step 2).

The creditor and debtor governments directly negotiate the terms of the debt reduction, and the debtor government commits to redirecting funds for education.



Specifically, the phases of a typical bilateral debt swap are:

- I. Set the swap amount
 - ⊙ Both parties agree upon the amount of debt which will be converted; Paris Club establishes a limit of 100% for concessional debt (ODA) and up to 30% of non-concessional (commercial) debt.
- II. Set the discount rate and the value of the counterpart fund
 - ⊙ Define what percentage of the cancelled debt is to be deposited in the counterpart fund by the debtor country (only in the case that a discount is negotiated)
- III. Paris Club Authorization
 - ⊙ To receive approval from the Paris Club the debtor must be up to date on payments to the Club's members
- IV. Sign the Debt Swap Agreement
 - ⊙ Establish the basic framework of the operation
- V. Sign the Binational Committee regulations
 - ⊙ Constitute the decision making organ with representatives from both governments
- VI. Create the Technical Committee

66. The phases of a typical bilateral debt swap are found in: *Luces y sombras: Un análisis de los canjes de deuda por educación en el marco de las Cumbres Iberoamericanas*, Octubre 2006, , www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf, p. 12

- ⊙ Create a technical organism which offers support and consultation, with representatives from both governments and civil society
- VII. Presentation, approval, follow up and evaluation of the projects**
 - ⊙ Generally, an International Financial Institution (IFI) is designated to administer the funds in conjunction with the Technical Committee
 - ⊙ Presentation of the projects to the Binational and Technical Committees
 - ⊙ Approval of the projects by the Binational Committee
 - ⊙ Selection of the implementer(s) via public acquisition procedures
 - ⊙ Annual Binational Committee meetings, according to what is established in the functioning and implementation regulations

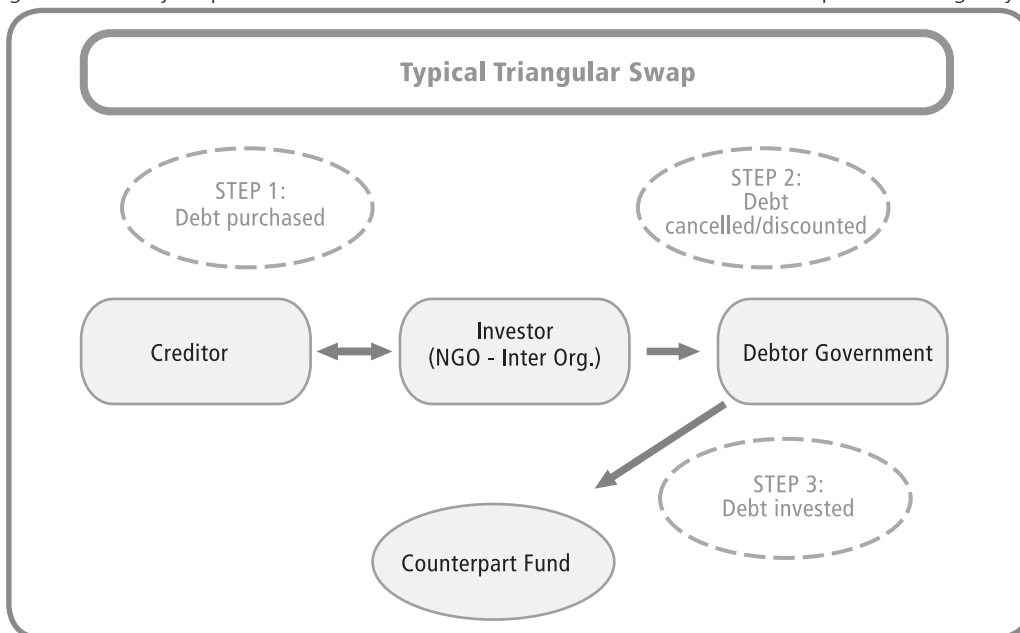
Triangular Debt Swap Mechanisms⁶⁷

A typical triangular swap is an agreement made between at least three parties: 1. A creditor (usually a foreign bank), 2. A debtor country government and 3. A not-for-profit investor (an international development organization, which can be an NGO or a UN agency). A fourth party that may be involved is a developed country government or an international organization providing funds.

Normally, two levels of negotiations take place simultaneously before the investment takes place:

- ⊙ Step 1: The not-for-profit investor and the creditor negotiate a debt purchase agreement in which the not-for-profit purchases the debt from the creditor at a discount from face value.
- ⊙ Step 2: The not-for-profit investor and the debtor government negotiate a debt swap agreement.
- ⊙ Step 3: The debt is cancelled at a redemption price paid by the debtor government to the not-for-profit, the proceeds of which are used by the not-for-profit for an agreed upon purpose.

In contrast to the bilateral model, the non-governmental organization or an international organization may acquire commercial debt or official bilateral debt from an export credit agency.



Over the years there have been more triangular swaps than bilateral swaps, while bilateral swaps have usually involved much greater development investments.

67. The classification of the types of debt swaps models is found in: *Panorama del canje de deuda*, Melissa Moye, Debt Relief International, 2001, www.dri.org.uk/spanish/pdfs/SpanPub4_Canje_Deuda.pdf, p. 6. y *Exchanging Debt for Health in Africa: Lessons from Ten Years of Debt-for-Development Swaps*, Sydney Rosen et al., Harvard Institute for International Development, november, 1999, <http://ideas.repec.org/p/fth/harvid/732.html>, p. 4

The following table summarizes the two main models of debt for development swaps:

Type of Swap	Parties to Transaction	Eligible Debt	Source of Funds	Amount of Debt Converted	Recipient of Funds
Bilateral	1. Debtor Government 2. Creditor Government	1. Official Development Assistance (ODA) 2. Publicly guaranteed debt	Budget of creditor country	Generally much larger	Counterpart fund or public institution (e.g. Ministry of Education)
Triangular	1. Debtor Government 2. Not-for-profit investor 3. Creditor	1. Commercial debt 2. Bilateral publicly guaranteed debt (small amounts)	Funds raised either by creditor country NGO or donation by commercial creditor	Generally small	NGO or counterpart fund

While there is no single model for debt swaps, mechanisms are being developed which can be emulated, and improved upon with guidelines which will be explored in the following section.

It is important to emphasize that debt for education swaps are much more than investments in education: they are a step towards greater participation, transparency, and efficiency. Various principles and guidelines have been consensually developed to fully maximize the benefits of this innovative mechanism.

iv) Guidelines for swaps

As mentioned, towards the end of 2006, the Spanish Congress approved a law for regulating external debt policy,⁶⁸ converting Spain into the second European country to have a legal framework which links the external debt to development.

As well as connecting external debt policy to development cooperation, the new law includes an article specific to debt for social investment initiatives with various principles which serve to guide future debt swaps.

68. Ley reguladora de la gestión de la deuda externa (38/2006), de 7 de diciembre, 2006 http://www.boe.es/g/es/bases_datos/doc.php?coleccion=iberlex&id=2006/21408

- Article Five: Debt conversion**
- Spain will promote the efficient use of the Spanish conversion policy, coherent with other development cooperation policy activities, and with the international financial system.
 - Spanish debt conversion policy will be guided by the general principles of external debt policy as well as the following criteria:
 - 1. Debt conversion will be consistent with the action oriented framework agreed upon in the multilateral sphere.
 - 2. Debt conversion programs will be directed towards the promotion of investments and projects which benefit the development of debtor countries in those sectors considered a priority, in accordance with the principle of local sovereignty in the development process. To achieve this, priority must be given to the participation of local actors, local production and association, with the objective of maximizing the development impact of the conversion operation for the beneficiary country.
 - 3. Those that benefit from debt conversions will be countries with financial over-indebtedness problems according to the indications of the Director Plan for cooperation and its annual plans.
 - 4. Beneficiary countries must maintain regular financial relations with Spain and the international community.
 - 5. The signing of a debt conversion program must be linked to the cooperation policy maintained by Spain with the beneficiary country.
 - 6. Conversion programs must be consistent with the Spanish budgetary framework.
 - 7. In the different decision and management structures of the debt conversion resources, Spanish civil society participation will be favoured, selected according to their experience in the country, transparency, and representativeness.

While there is no single model for debt swaps, a guideline on best practices for future debt swaps has been developed. These principles are organized into a structure borrowed from a systematized study on Spain's debt swap for education program,⁶⁹ and later consolidated by the UNESCO Working Group on Debt for Education Swaps:

1. Poverty reduction

To maximize the impact of debt swaps, they should be focused on the disadvantage sectors of the population, with the intention of achieving the EFA objectives and the MDGs.

2. Substantive agreement

To maximize both the amount of funds to be invested in education and the amount of debt reduced, it is recommended that the maximum limit allowed by the Paris Club is reached: 100% of the bilateral concessional debt and 30% bilateral commercial debt. Even greater sums can be achieved if a multilateral agreement is signed with various creditors, pooling the resources into a single fund.

69. *Luces y sombras: Un análisis de los canjes de deuda por educación en el marco de las Cumbres Iberoamericanas*, Octubre 2006, www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf

3. Fiscal flexibility

To ease the fiscal and liquidity burden on the beneficiary it is recommended that the donor grant a discount rate on the converted sum (a partial debt cancellation), as well as allow the fund to be carried out in local currency according to the original terms of payment.

4. Sovereignty and equality

To ensure debt swaps benefit all parties involved it is essential that the negotiation and implementation be carried out on terms of equality and that the sovereignty of the beneficiary be respected by not imposing conditions which solely favour the donor.

5. Additionality

To reach the objectives desired it is necessary to guarantee additionality in a dual sense: the funds are additional to the ODA funds already destined by the donor and additional to the funds earmarked by the beneficiary to be invested in its education system.

6. Coherence and sustainability

It is essential that the resources are integrated into the beneficiary's national education strategy, its overall debt management strategy, as well as other initiatives in which synergies can be created in a sustainable manner. Similarly, swaps should form part of the donor's ODA strategy in a manner in which they do not serve as instruments of political selectivity.

7. Participation

To convert debt swaps into tools which promote participation it is necessary that at all levels of the negotiation and implementation all key actors actively participate: Ministries of Education/Economy/Cooperation, international organizations and civil society.

8. Transparency

To promote the legitimacy of these transactions, transparency should be assured at all feasible levels: regarding the origin and legitimacy of the debt, during the swap negotiation process, when the agreement is signed, during the implementation and the follow-up.

9. Accountability

To ensure the success of the initiative and encourage new participants, monitoring bodies, evaluation, and impact studies should be conducted according to the above principles and publicized. Indicators to monitor debt swaps should be developed. Systematic analysis of these evaluations through a database would also strengthen the initiative and persuade others to join.

10. National Leadership

To ensure that national ownership of education policy guides meaningful decisions for the activities funded by the debt swap, it is necessary to build government capacity to work in a transparent and effective manner.

There is a consensus that debt for education swaps should follow several principles and guidelines in order to maximize the benefits of the mechanism. In the following chapter, a survey on all of the experiences of this initiative in the world is presented, followed by a budgetary analysis of the impact of a hypothetical debt for education swap in Argentina.

D

RESULTS OF DEBT SWAP EXPERIENCES

During more than 3 years, Fundación SES and the OEI gathered data pertaining to 128 cases of debt for social investment conversions. These cases resulted in a total debt relief of \$6,137.4 million dollars, while providing \$3,329.1 million dollars for social programs. The leadership of the Iberoamerican region is highlighted, particularly Spain's participation in 19 debt swap experiences, 7 of which destined over \$206.1 million dollars in education investments.

Given the lessons learned from the cases analysed, multilateral swaps must be given consideration in the future. The possibility of accessing a single fund fuelled by various creditors not only makes social policy implementation more efficient, but also broadens the scale of the intervention, by providing a more coordinated political impact and by increasing the implementation time frames

In this section, we will present the most important results obtained over the last three years of data collection, carried out by the Fundación SES and the OEI, paying particular attention to cases involving the swapping of public debt for social investment.

Our intention is to describe and analyse this process holistically, from its beginning until March 2008, the final date for the collection of data. The adoption of a “global” framework allows one to consider a wider range of responses: the possibility of either continuing with the same strategy, an alternate strategy within the same model, or a wholesale modification of this strategy. Taking into account past experiences, which suggest that during an economic downturn lending countries tighten their budgets and refrain from investing in critical, social areas, such as health, infrastructure, education, etc., a radical shift in strategy becomes increasingly likely, particularly in light of the current financial crisis.

Lastly, this chapter will offer an update of other initiatives, undertaken by certain International Financial Institutions in conjunction with different heavily indebted countries. Also, it will show the primary results, and evaluate the future potential of such initiatives.

Up to the moment, the Fundación SES and the OEI have studied 128 debt swap for social investment cases. A total of \$6,137,400 dollars have been relieved and \$3,329,100 dollars have been converted into funds to finance social programs. Of these experiences, 18 cases were allocated to education in 14 different countries, while relieving \$608.8 million dollars.

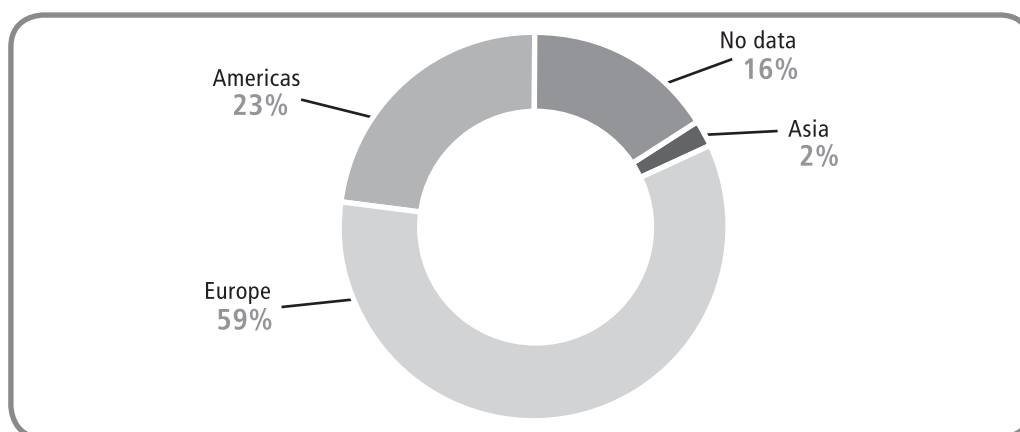
I) Public debt swap for social investment

From information gathered between 1998 and the beginning of 2008, we have been able to identify 128 cases of public debt swaps for social investment. Our results are derived from diverse secondary sources, both in print and on the internet:

- ⊙ Reports from different public organisms: Ministries of Education, foreign relations, infrastructure, health and social development, central banks, as well as public investment banks.
- ⊙ Financial Institutions (IMF, WB, IDB, ADB)
- ⊙ Local and national newspapers
- ⊙ Magazines which specialize in economics
- ⊙ Civil society organizations
- ⊙ Interviews with experienced entities

In order to begin to understand the regional behaviour of the debt swap experiences herein analyzed, it may be helpful to take a look at Graph 6, located below. In brief, of the countries that have provided debt relief programs as a means to generate funds for social investment, 59% have been European (76 cases), 23% North and South American (29 cases) and 2% Asian. Information regarding the origin of the remaining creditor countries, which account for 16% (21 cases), is left unaccounted for, according to a study carried out by Moye (2001). The author points to 21 debt swap for development operations undertaken by UNICEF between 1989 and 1995. All told, they converted \$199 million of debt in nominal value, into \$52 million of financing for counterpart funds intended to finance various social programs, such as infant development, maternity, and other projects aimed a strengthening infrastructure. Once again, information regarding all of the countries which financed the 21 aforementioned cases of debt swaps has not been provided.

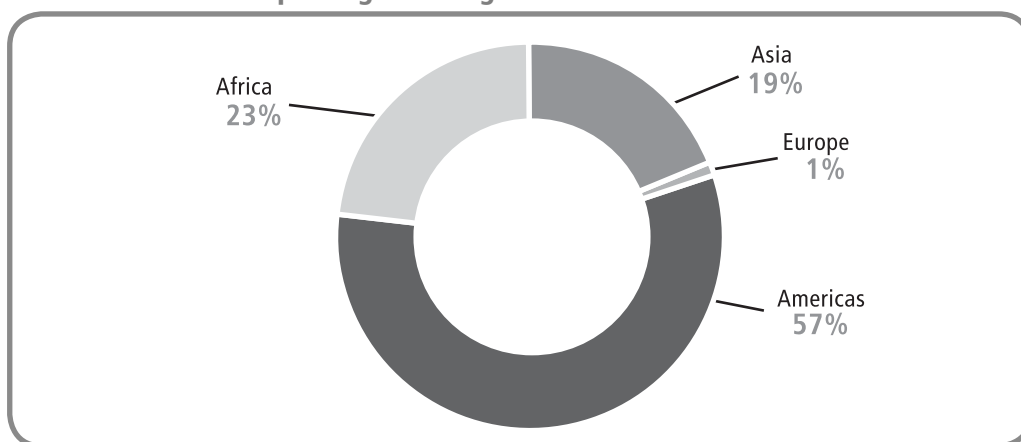
Graph No 6
Continents of those countries which have cancelled debt to generate social investment funds.



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

On the other hand, when considering countries whose public debt has been relieved to generate funds for social investment, a somewhat inverted relationship can be observed. That is to say, whereas 59% of debt relief projects were sponsored by European countries, 58% of the countries that benefited from debt swap experiences are located in the Americas (74 cases). Another 23% are African (29 cases), followed by Asian countries, which represent 19%. Lastly, one debt swap experience was registered in Europe; various countries belonging to the Paris Club (France, Italy, Sweden, Switzerland and the United States, among others) worked together to relieve a percentage of Poland's public debt, setting up a \$545 million dollar fund, designed to finance environmental conservation projects. (see Graph No. 7)

Graph No. 7
Continents of those countries which have received debt swaps for generating social investment funds.



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

When we disaggregate the information, seen above in terms of continents, on a case by case basis it is revealed that Germany, Spain, the United States and Switzerland have taken the lead in organizing debt swap programs. Canada trails close behind, and a number of countries have participated in either one or two experiences. Table No. 3, below, provides a list of countries, their corresponding number of cases, and percentage of involvement.

Table No.3

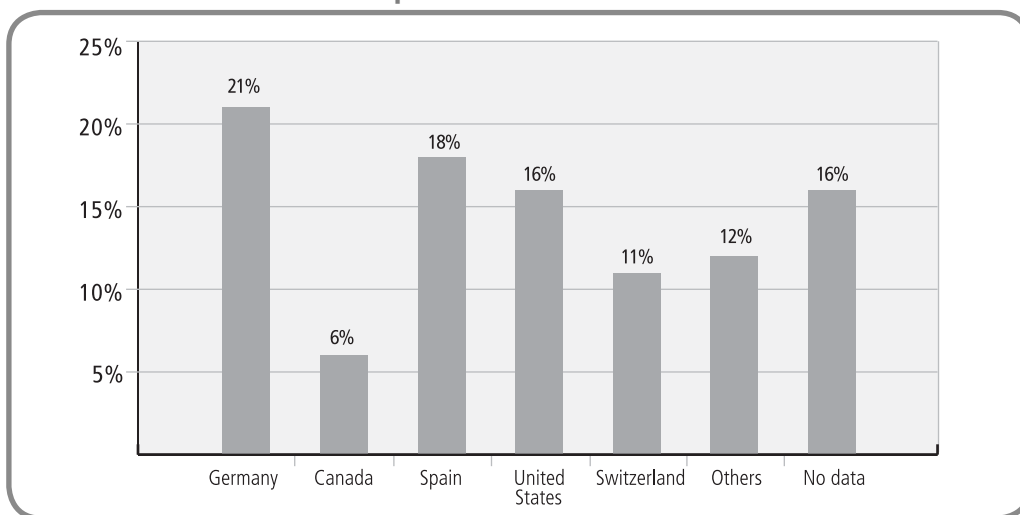
Countries which have cancelled debt to generate debt swap funds for social investment		
	Quantity	Percentage
Argentina	1	1%
Canada	8	6%
Finland	1	1%
France	2	2%
Germany	27	21%
Holland	2	2%
Italy	2	2%
Japan	2	2%
Norway	2	2%
Paris Club	1	1%
Spain	23	18%
Sweden	2	2%
Switzerland	14	11%
United States	20	16%
No data	21	16%
TOTAL	128	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

As we mentioned before, and can be observed in table 3, in 21 of the cases surveyed, or 16% of the total, the origin of the debt relief has not been identified. These are the cases which pertain to a program carried out by UNICEF between 1989 and 1995.

The remaining 84% is divided up quite unevenly, with five creditor countries accounting for 72%, and eight countries, 12%. The table also indicates that the Paris Club collectively participated in only one experience. Five of the 19 members of this creditor organism, however, have been pioneers in the use of debt swap mechanisms and, through time, have continued financing social policies with this mechanism. That participation in debt relief programs has been largely limited to the five richest countries in the Paris Club is something that should be evaluated in the future.

Graph No. 8
Countries which have cancelled debt to generate debt swap funds for social investment



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Moye (2001) has gathered information regarding an instance of South-South cooperation, a swap between Argentina and Senegal, administrated by UNICEF. In December of 1993, the latter concluded negotiations that would allow Senegal to swap debt for development, by providing funding for a number of projects, including education, health, sanitation and water. With financial assistance from the ING Bank, UNICEF bought \$24 million dollars of debt (nominal value) that Senegal had contracted with Argentina, for \$6 million dollars (25% of the nominal value). The Senegalese government agreed to pay \$11 million dollars to UNICEF over the course of three years, with a view towards expanding the scope of developmental projects already under way.

To help finance this operation, the Senegalese government received a discount rate of 54% of its total debt with Argentina, having to invest the remaining 46% to completely cancel the balance. In other words, Senegal owed a total of \$24 million dollars to Argentina, but only paid \$11 million dollars which was deposited in an account, set up by UNICEF, to finance development projects. This triangular swap, Argentina-UNICEF-Senegal, clearly demonstrates that there are alternatives to development financing outside of the realm of the Paris Club, in particular with South-South Cooperation

When evaluating other experiences, Peru presents itself as the country which registers the highest number of cases of debt swaps for social investment, at 22, having swapped with Germany five times, with Spain and Canada three times each, and with both the United States and Switzerland twice. Bolivia comes in second with ten swap experiences, four times with Spain, two times with Germany, and the United States, Switzerland, Japan and UNICEF have all been involved one time each. In third place, with seven swap experiences each, we have Sudan, Jordan

and El Salvador. The Philippines register six cases, while Ecuador, Indonesia and Madagascar have all participated in five. The remaining 54 experiences belong to a total of 30 different countries.

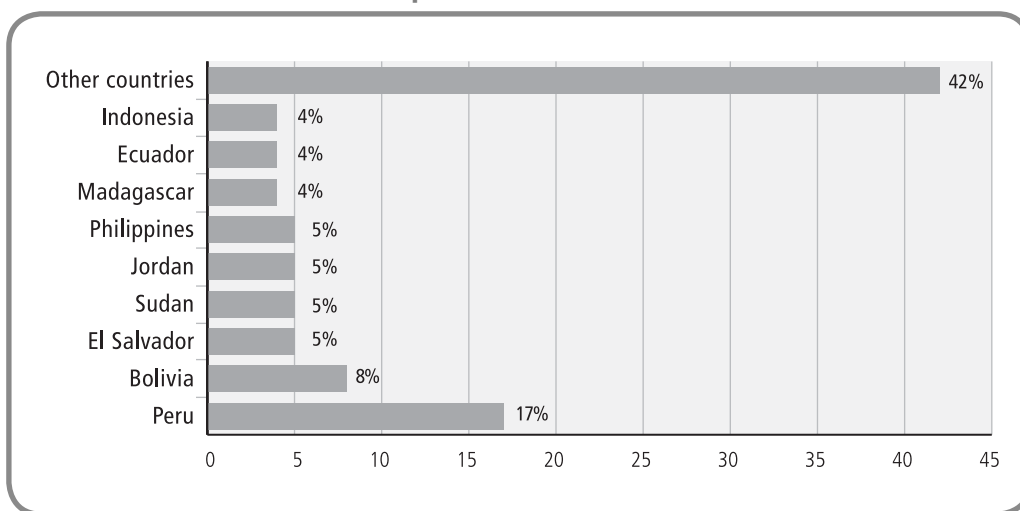
Table No 4

Countries which have received debt cancellation generating a debt swap fund for social investment		
	Quantity	Percentage
Algeria	1	1%
Argentina	1	1%
Bangladesh	1	1%
Belize	1	1%
Bolivia	10	8%
Botswana	1	1%
Chile	1	1%
Colombia	3	2%
Costa Rica	3	2%
Dominican Republic	2	2%
Ecuador	5	4%
Egypt	3	2%
El Salvador	7	5%
Philippines	6	5%
Guatemala	1	1%
Equatorial Guinea	2	2%
Honduras	4	3%
Indonesia	5	4%
Ivory Coast	1	1%
Jamaica	3	2%
Jordan	7	5%
Madagascar	5	4%
Morocco	1	1%
Mexico	2	2%
Nicaragua	3	2%
Pakistan	1	1%
Panama	1	1%
Paraguay	2	2%
Peru	22	17%
Poland	1	1%
Senegal	3	2%
Syria	1	1%
Sudan	7	5%
Tanzania	1	1%
Tunisia	2	2%
Uruguay	3	2%
Vietnam	3	2%
Zambia	2	2%
TOTAL	128	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

It can be observed in the table that 58% of all debt swap experiences have taken place in only seven countries, the highest percentage in Peru (17%). Although seven countries account for over half of all debt swap experiences, 37 countries, in all, have been able to take advantage of debt swap opportunities. These figures demonstrate a marked concentration of countries that have benefited from debt relief as a means to promote social investment.

Graph No 9
Countries which have received debt cancellation generating a debt swap fund for social investment



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Additional information regarding the nature of swaps has been provided in Table No. 5. The overwhelming majority of experiences, 76% of them, have been bilateral and total 97 cases.⁷⁰ In this transaction, the creditor and the debtor country limit themselves to setting up the counterpart fund without external funding from a third party. In contrast, 18% of all swaps have relied on financial contributions from various civil society organizations or international organizations. Of the corresponding 23 operations, 16 have been development oriented, two have been environmental, and five have resulted in educational projects. The remaining 6%, or eight cases, belong to instances of either non-AOD debt, or the monetarization of donations.

Table No. 5

Origin of converted funds		
	Quantity	Percentage
Bilateral Debt	97	76%
Bilateral Debt with funding from Civil Society Orgs/International Orgs	23	18%
Other	8	6%
TOTAL	128	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

70. We have left out commercial debt swaps (debts swapped with banks or private organizations) from this analysis, as well as private debts (debt owed by companies to banks or private organizations), given that these initiatives do not reflect the nature of international cooperation between countries as defined in this document. Nevertheless, there exist several studies analysing these cases. According to Pettifor (2005), 50 commercial debt swaps were conducted in 15 countries between 1987 and 2000, cancelling a total of \$167.7 million dollars of debt and investing \$112.6 million dollars in projects. As for private debt swaps, this study identified 63 experiences between 1990 and 2004 which cancelled a total of \$5.6 billion and led to project investments of \$1.1 billion.

For more information consult: www.theglobalfund.org/en/files/GFDC_REPORT.pdf

To deepen our analysis of the debt swap experiences described up to this point, we have provided Table 6 below. The first dimension, which has already been considered to some extent, is the destination of the funds derived from debt relief initiatives and converted into resources for social investment. Due to the complex nature of this type of financial operation, we have opted to create five categories, four which encompass 127 cases, and one ad hoc category, which includes one case. It is our hope that this strategy will provide further clarity.

The first category, "Debt for Development Swaps", covers a wide range of projects, from increasing the availability of drinking water, immunization campaigns, health and sanitation, the construction of sewage systems, providing special medication for serious illnesses, establishing support networks following natural disasters, and policies for dealing with children who have grown up in war zones.

The second category, "Debt for Education Swaps", consists of teaching or learning processes, from primary school on through to higher education. More specifically, the focus here is on the financing of running costs, such as salaries or scholarships, and not on the development of school infrastructure, which fits within the purview of the third category. In addition to the purchasing of school materials, this latter category also includes a broad variety of construction projects and, in general terms, could be aptly termed, "Debt for Infrastructure Swaps".

The fourth category refers to "Debt for Nature Swaps". A wide array of projects make up this category, the goal of all of them being linked environmental conservation. This category also takes into consideration the treatment of natural resources by countries who have participated in swaps.

As we mentioned before, the categorization of debt swap experiences was intended to clarify the nature of this complex financial operation. Each of the four above-described categories corresponds to one type of swap, for example, a debt-for-nature swap. All told, 127 cases fit into this schema. There is one case however, that defies this paradigm. In brief, in 2005, by virtue of a swap with the Spanish government, Ecuador carried both educational and infrastructural programs. As such, we have created an ad hoc category, entitled "Debt for Education and Infrastructure Swaps", in order to accommodate this particular experience.

Table No. 6

Destination of funds and Size of the operations (in millions of US \$)						
Debt Swap Categories	Total Funds deposited in Counterpart Funds	% of Total Counterpart Fund	Total Debt Cancelled	% of Total Debt Cancelled	Number of Cases	% of Total Number of Cases
Debt for Development	1080.2	32%	1969.7	32%	44	34%
Debt for Education	283.2	9%	608.8	10%	18	14%
Debt for Education and Infrastructure	50	2%	50	1%	1	1%
Debt for Infrastructure	640	19%	918.9	15%	14	11%
Debt for Nature	1275.7	38%	2590	42%	51	40%
TOTAL	3329.1	100%	6137.4	100%	128	100%

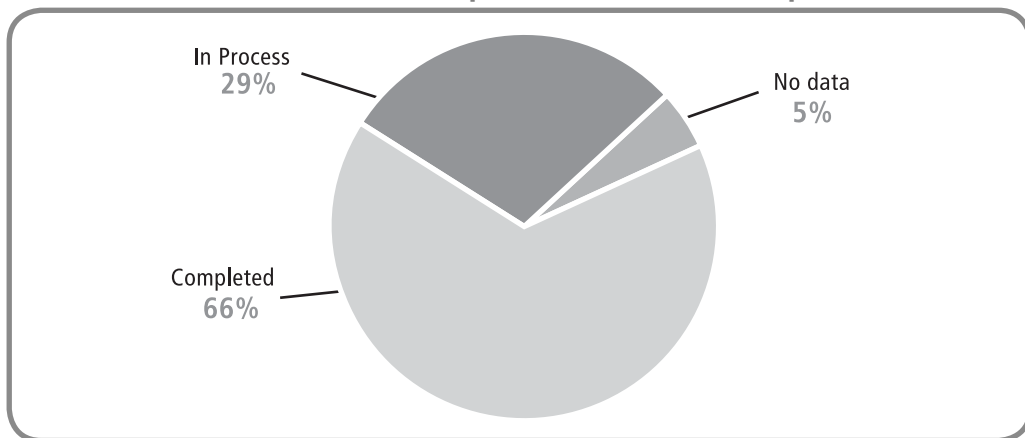
Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Moving away from mere description and towards the realm of figures, the table indicates that the 128 cases of debt swaps have amounted to \$6,137.4 million dollars in relief, which in turn, has been converted into counterpart funds worth \$3,329.1 million dollars. These funds have financed a variety of social programs, justifying the nomenclature “debt for social investment swaps”.

A more detailed breakdown of the figures reveals that 40% of swaps have been debt-for-nature swaps (51 cases), representing 42% of the total debt condoned, or \$2,590 millions of dollars; \$1,275 millions of which were converted into counterpart funds used to finance environmental initiatives. With regards to debt-for-development, relief has totalled \$1,969 millions of dollars, or 32% of the total. We have recorded 44 cases (34%), amounting to \$1,080 millions of dollars in investment in development projects, 32% of the sum of all counterpart funds. Finally, of the \$6,008,800 dollars condoned, \$2,830,200 dollars have been invested in education, 9% of the total. 18 cases have been accounted for, 14% of the total number of cases studied.

The following Graph, No. 10, reflects the current state of debt swap for social investment operations. The majority, 66% of the cases, have been completed and 29% are still in development. For the remaining 5%, no data has been provided, leaving no way of determining if the project is in progress, or has been finished. Thus, a priori, there seems to be a decline in the number of cases in development at the moment. This observation, however, is misleading as will be shown later, when we begin to analyze the type of projects, or swaps, that are currently underway.

Graph No. 10
Current State of Debt Swap for Social Investment Operations



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Below, Table No 7 provides information regarding the number of cases that were initiated in four distinct time periods. Each period is defined by date on which the agreement was signed. During first four year period, from 1988 to 1992, 19 cases were initiated, 15% of all cases. The following four year period, from 1993 to 1997, saw an increase in activity; 47 cases were initiated, 37% of the total, representing the largest percentage of cases initiated during this study. In the remaining two time periods (from 1998 to 2008), 56 cases were begun, amounting to 46% of the total. Upon comparing this time frame to the second four year period, only 9 more cases were begun in a total of nine years. After a period of relative boom, this apparent decline in both the third and fourth periods must be considered with a view towards the first time period, during which 19 were registered. More cases were undertaken in both periods, lending credence to the notion that debt swap projects have grown in popularity.

Table No. 7

Year of the Debt Swap Agreement Signing		
	Quantity	Percentage
1988-1992	19	15%
1993-1997	47	37%
1998-2002	26	20%
2003-2008	30	23%
No data	6	5%
TOTAL	128	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Table No. 8 offers a look at the opposite end of the spectrum, the termination date of debt swap operations. As is shown, 10% of swaps finished between 1993 and 1997, 29% during the period dated 1998-2002 and 14% from 2003 and 2007. We have been able to identify 37 swaps that are still in progress, 20 which are slated to finish before 2012, and three between 2013 and 2021. For the remaining 14 cases, we have not been able to determine a finalization date, but the evidence suggests that they are still underway.

Table No. 8

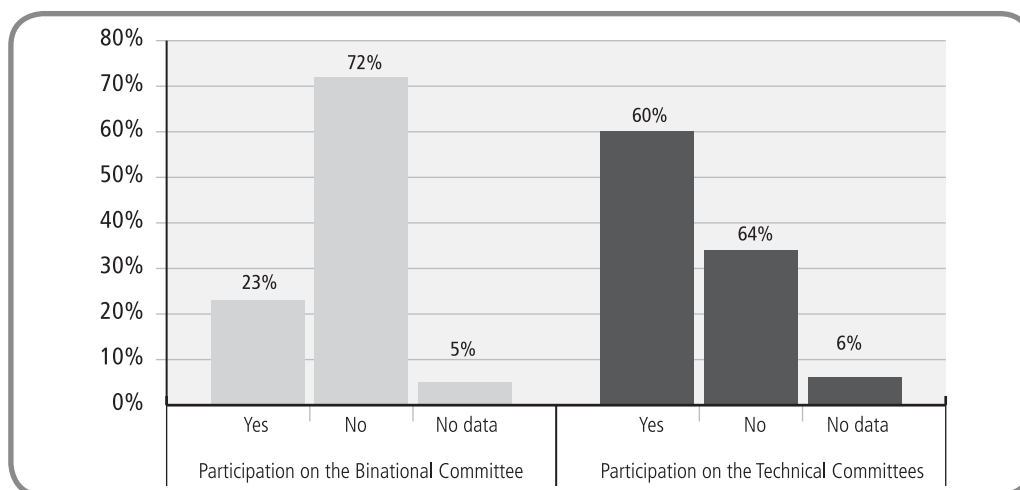
Year of the Finalization Date of the Debt Swap		
	Quantity	Percentage
1988-1992	0	0%
1993-1997	13	10%
1998-2002	37	29%
2003-2007	18	14%
2008-2012	20	16%
2013-2021	3	2%
No date	1	1%
No data	36	28%
TOTAL	128	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

We now turn our attention to another important dimension, swaps involving the participation of civil society organizations, in particular vis-à-vis the Binational and Technical Committees. The former refers to an organization that takes part in the institutional processes, the strategic decision-making that determines how to implement the funds. The latter makes technical recommendations regarding the funds, either from a distance, determining the best way to develop policy, or directly on the ground, actually participating in the policy's development.

Throughout the entire process, we have been able to maintain contact with several of the participants who have been involved in developing these swap experiences. They have provided us with valuable qualitative information, which has enabled us to assess the importance of the involvement of a wide array of civil society and social organizations. We have found that the participation of unions, social movements, and international and grass-roots organizations increases the probability that a given project will have a greater impact over time. Graph No. 11, located below, indicates the degree to which said organizations have been involved with Binational and Technical committees in carrying out social projects.

Graph No. 11
Participation of Civil Society Organizations



Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

As the chart clearly illustrates, civil society organizations are much more actively involved with Technical Committees than with Binational Committees. Of the 128 cases, some type of social organization participated in only 29 Binational Committees, merely 23%. There was no participation in 92 cases and, in 7 it could not be determined whether or not there was participation. The equation is substantially different where a Technical Committee is concerned. Of the 128 experiences, 77 involved the participation of some type of civil society organization, a total of 60%, leaving 43 cases with no participation, and 8 cases where participation could not be determined. In other words, these figures suggest that civil society organizations have been limited to making recommendations regarding how to implement funds, only after a Binational Committee has decided which projects to finance.

Nevertheless, the importance of civil society organizations cannot be understated. They play an important role in the development of project recommendations as well as in the actual implementation of a portion of the projects. This is particularly the case in swaps for development and nature. However, we have not been able to draw a conclusion on the role of civil society organizations within other types of swaps.

For a more global perspective with respect to the level of participation of civil society organizations, we have provided Table No. 9. As is shown, despite their relatively high degree of participation within Technical Committees, the overall involvement of social organizations in debt swaps operations has been quite low, only 41%. Thus, in over half (53%) there has been no participation, neither through institutional channels nor on the ground in the arena of project development. No data has been provided for the remaining 6% of the cases. In order to reverse this trend, to increase the potential impact of swap operations, civil society groups have to become more involved.

Table No. 9

Participation of Civil Society Organizations		
	Quantity	Percentage
Yes	106	41%
No	135	53%
No data	15	6%
TOTAL	256	100%

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Before concluding our statistical analysis of the debt swap data collected, we would like to call your attention to two more Tables, 10 and 11. The former takes a look data pertaining to the allocation of project funds and the state of progress; in progress or finished. The latter, while encompassing fund allocation, also considers the level of participation of civil society organizations in Binational and Technical Committees. Both tables span a total of 20 years and are divided up into four, five year periods, during which a varying number of debt swap projects were either underway or finished, and may, or may not have, involved unions, grass-roots groups or any other civil society organization.

Table No. 10

		Allocation of the Funds					TOTAL
		Debt for Development	Debt for Education	Debt for Education and Infrastructure	Debt for Infrastructure	Debt for Nature	
1988-1992	In progress	0	0	0	0	1	1
	Completed	0	0	0	0	0	0
1993-1997	In progress	0	0	0	0	0	0
	Completed	10	0	0	1	2	13
1998-2002	In progress	2	0	0	1	9	12
	Completed	19	5	0	2	11	37
2003-2008	In progress	5	9	1	4	5	24
	Completed	2	3	0	4	6	15
No data		6	1	0	2	17	26
TOTAL		44	18	1	14	51	128

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

To begin with, perhaps what is most striking is the high number of debt for development and debt for nature cases. That said, in the first five year period, we see only one debt swap experience, a debt-for-nature swap which was still in progress. In the second period, ten development swaps come to an end, as well as one infrastructure swap and one nature swap. In the third period, we see the largest amount of development, 19, and nature, 11, swaps conclude, as is the case with five education and two infrastructure swaps. At the same time the data indicates that nine nature, one infrastructure and two development swaps are still in progress. The final period is marked by an increase in education swaps vis-à-vis other types of swaps, with nine cases. There was also a slight rise in infrastructure swaps, up to four cases from one registered in the previous period. For both development and nature swaps, we recorded five cases. During the same period, in each category, numerous cases came to completion.

Indeed, there was a dip in the overall number of ongoing swap experiences in the last ten years, a departure from the more promising scenario of mid 1990s and the beginning of the new millennium. As we pointed out earlier, this apparent decline was particularly accentuated with regards to development and nature swaps. Concurrently, there was an increase in the number of debt-for-education and debt-for-infrastructure swaps. Given the evidence at hand, we hypothesize that this shift in focus responds to a change in the public's agenda. Whereas funding in the past was allocated towards development and nature, projects geared towards education and infrastructure have been the primary beneficiaries in recent years.

We would now like to turn your attention to Table No. 11, which shows the degree to which civil society organizations have participated with Binational and Technical Committees.

Table No. 11

Participation of Civil Society Organizations		Allocation of the Funds					TOTAL
		Debt for Development	Debt for Education	Debt for Education and Infrastructure	Debt for Infrastructure	Debt for Nature	
Binational Committee	Yes	17	5	0	0	7	29
	No	25	11	1	14	41	92
	No data	2	2	0	0	3	7
	<i>Subtotal</i>	44	18	1	14	51	128
Technical Committee	Yes	22	11	1	5	38	77
	No	20	5	0	9	9	43
	No data	2	2	0	0	4	8
	<i>Subtotal</i>	44	18	1	14	51	128
TOTAL		88	36	2	28	102	256

Source: Elaboration based upon a survey conducted by Fundación SES and the OEI from 2006-2008.

Our previous observation that civil society organizations have been involved in varying, or more aptly unequal, degrees with Binational and Technical Committees is reinforced by the data provided in the above table. Of 128 potential opportunities, said organizations only participated in 29 cases with Binational Committees, leaving 92 cases where there was no participation and seven where their participation could not be confirmed. Albeit scarce, when there was participation, the degree was highest with development swaps, followed by nature swaps, and finally by education swaps. Infrastructure swaps registered no participation. Technical Committees, in contrast to the former, allowed for more involvement by civil society organizations. Of the same 128 cases, 77 saw some form of participation, while only 43 did not. The remaining four cases offer no data. As the table indicates, civil society organizations were most active with debt-for-nature swaps, followed by development, infrastructure and then education.

This section concludes by highlighting one crucial, and perhaps understated aspect of debt swaps: rather than serving as a means of debt relief, they should be viewed as a means to finance social investment. It is important to continue the analysis, shifting the focus to geographic tendencies, particularly the Iberoamerican leadership in carrying out education swaps. As such, in the next section, we will consider experiences initiated in Iberoamerica, paying special attention to education swaps of the last 10 years.

Iberoamerica has placed itself at the vanguard of the growing campaign to implement debt swaps for social investment. Throughout the region, in 18 different countries, 74 experiences have been carried out, resulting in a total of \$3,608,500 dollars in debt relief. More importantly, 54%, or \$1,945,700 dollars, have been converted into funds destined to finance social programs.

II) Description of public debt swaps in Iberoamerica

Iberoamerica is the most active region in the implementation of the debt swap for social investment initiative, particularly with its most recent experiences in the education sector. This paternalism is echoed by public declarations and dialogues in international forums which have emphasized the urgent need to increase the quality of life for marginalized populations in the region, and around the world, by targeting, as a minimum, the Millennium Development Goals.

As we saw earlier, a myriad of programs have been implemented, ranging from development and nature swaps in the early years to education and infrastructure in the latter years. This section, intended to serve as a complement to our statistical analysis, sets out to briefly describe the 74 debt swap cases that have been undertaken in the region.

Swap carried out in Argentina (1)

Within the framework of the Americas Fund, in 1993 Argentina signed a bilateral debt reduction agreement with the United States. \$3.1 million dollars was allocated to finance projects geared towards environmental conservation. In addition, the interest on other debts contracted by Argentina from the United States would be reinvested in the country through non-refundable credits granted to certain civil society organizations. The Enterprise for the Americas Initiative (EAI), also created as part of the agreement, would prove to be instrumental in ensuring these objectives were met. They have defined their mission in the following way: To promote activities designed to preserve, protect, or manage the natural and biological resources of Argentina in an environmentally sound and sustainable manner, while encouraging the improvement of child survival and development in Argentina⁷¹. In other words, the EAI vowed not only impulse social and developmental projects, but also to administer the resources.

A sinking fund was set up, and operations began in 1995. Given that the original disbursement was projected to last over a period of time, and cover operational costs as well as finance projects, the EAI had to plan strategically. It was essential to efficiently funnel the resources, carefully selecting those projects that could be replicated in various communities and have a positive impact socially, environmentally and economically, at the national, the regional and the local level. The following is a list of the areas of interest.

- ⊙ The land and its agricultural potential
- ⊙ Energy resources and the development of alternative sources of energy
- ⊙ Air pollution
- ⊙ Biological diversity
- ⊙ Hydric resources

Belize (1)

Belize signed a debt-for-nature swap agreement with the United States in 2001 for \$9.2 million dollars. This agreement was also signed within the framework of the Americas Fund.

Bolivia (10)

In 2004, responding to the Highly Indebted Countries Initiative, Japan cancelled Bolivia's debt, totalling \$504 million dollars. Prior to this experience though, Bolivia had participated in several swap operations with European countries.

71. Secretariat for the Environment and Sustainable Development, Chief of Ministerial Cabinet, Government of Argentina. www.ambiente.gov.ar

Spain:

- ⊙ In 2000, Bolivia carried out a \$7.5 million dollar debt-for-infrastructure swap, the objective of which was to contribute to development by investing in the public sector.
- ⊙ In 2003, a \$76 million dollar agreement was signed, allocating funds for development, particularly to stimulate economic growth and social development. However, the specific areas targeted by the swap agreement are not known.
- ⊙ Also in 2003, Bolivia signed debt-for-education swap worth \$24.5 million dollars. Although it did not go into effect until 2007, when it did, it also encompassed economic growth and social development. In addition, from 2007 to 2009, projects will be financed that rely on the participation of Spanish NGOs or businesses.
- ⊙ In 2007, the Spanish Council of Ministers signed a relief package worth \$24 million dollars, investing \$9.6 million dollars, or 40% of the total, in local development projects.

Bolivia has also signed two swap agreements with Germany.

- ⊙ The first was signed in 1997, and was a debt-for-education swap. It relieved \$3.7 million dollars in debt, and called for investment in social programs worth \$1.7 million dollars.
- ⊙ The second was initiated in 2000, a debt-for-nature swap which relieved \$15.8 million dollars, and set up a fund worth \$3.2 million dollars.

Lastly, according to our research, Bolivia has been involved in three more swap experiences. Within the framework of the Americas Fund, Bolivia signed a debt-for-nature swap with the United States. \$31 million dollars were relieved, while \$21.8 million were invested. In 1993, Sweden forgave \$35 million dollars in debt, investing \$3.9 of it in the environment. Also in 1993, Bolivia participated in one triangular swap under the auspice of UNICEF. The latter sponsored a swap, where \$15 million dollars was forgiven, \$3.6 million of which was invested in education.

Chile (1)

- ⊙ With the help of USAID, between 1995 and 2005, the Americas Fund implemented a debt-for-nature swap of considerable proportions. A total of \$181 million dollars was invested in the environment, financing 122 projects.
- ⊙ The Americas Fund was directed an administrative council, composed of by a representative of the United States government, four representatives from the Chilean government and six representatives from different NGOs. A technical Secretariat was also established, composed of 19 people.

Colombia (3)

- ⊙ •Colombia has signed three debt-for-nature swaps, two with the United States and one with Canada. The first, in 1992, was carried out under the auspice of the Americas Fund, totalling \$41.6 million dollars. The second, with Canada, amounted to \$12.8 million dollars. Finally, under the Tropical Conservation Act, \$10 million dollars were earmarked for forest conservation projects. In addition, civil society organizations would be strengthened and become more participative (e.g. The Word Wildlife Fund, The International Conservation Society and The Nature Conservancy).

Costa Rica (3)

- ⊙ Costa Rica has also signed three debt-for-nature swaps. The first was with Holland and totalled \$14 million dollars. The second was with Canada for \$8.3 million dollars, and lastly with Spain, a swap that would allocate \$4.6 million between 1995 and 2015.

Ecuador (5)

- ⊙ Ecuador signed a debt swap agreement with Spain for \$50 million dollars, to be administered between 2006 and 2009. Of the total amount, 40% would fund educational projects, while the remaining 60% would be invested in the public sector, specifically in infrastructure. In 2002, two debt-for-nature swaps were signed with Germany, totalling \$6.3 million dollars. Lastly, we have also identified a debt-for-infrastructure

re swap that was signed between Ecuador and Switzerland for \$10.1 million dollars and began in 1994.

El Salvador (7)

- ⊙ El Salvador has signed seven swap agreements in all, three with Spain, three with the United States and one with Canada. The first two were signed in 1992 with the United States, and stipulated that \$41.2 millions dollars would be invested in the environment. The third, also a debt-for-nature swap, was signed in 2001 and totalled \$14 million dollars. All told, these three operations relieved \$652.4 million dollars. Around the same time that the first two agreements were signed with the USA, El Salvador signed another debt-for-nature swap with Canada. To be precise, it was signed in 1993, and allocated \$7.1 millions dollars towards the environment. El Salvador has also signed three swap agreements with Spain. The first was for development, and granted \$250,000 dollars in aid to the victims of a hurricane that struck in 1999. The second provided \$10 millions dollars for education, intended to finance projects over a 4 year period, from 2005 to 2009. Lastly, a debt-for-infrastructure agreement was signed for \$74 million dollars. It was scheduled to begin in 2006, and run until 2010.

Guatemala (1)

- ⊙ Within the context of the Americas Fund, Guatemala signed a debt-for-nature swap with the United States. \$24 millions dollars was the sum, to be projected over a 15 year period, from 2006 to 2021.

Honduras (4)

- ⊙ Honduras signed a swap agreement with Switzerland in 1993. \$8.4 million dollars was to be invested in the development. Subsequently, Honduras signed two debt-for-nature swaps, the first with Canada for \$12.4 million dollars, and the second with Germany for \$543 million dollars. Lastly, a swap agreement was signed with Spain, set to begin in 2006. Of the \$176 million dollars that was relieved, \$76.4, or 40%, would be invested in education.

Jamaica (3)

- ⊙ Jamaica has signed two debt-for-nature swaps with the United States, both within the framework of the Americas Fund, one in 1993 and one in 1995. A total of \$37.5 million dollars was invested in the environment. Jamaica also carried out a triangular swap, using UNICEF as the intermediary.

Mexico (2)

- ⊙ Mexico participated in two triangular swaps, both organized by UNICEF. The first, in 1994, invested \$1.6 million dollars in education, while the second invested \$4.9 millions dollars in development.

Nicaragua (3)

- ⊙ Nicaragua signed a debt-for-nature swap with Canada for \$2.7 million dollars. In 2005, Nicaragua signed its first debt-for-education swap with Spain for \$15.6 million dollars. Two years later, another agreement was signed, which included a debt relief package worth \$53 million dollars, and 40% of that total, \$12.2 million dollars, was to be put into a counterpart fund.

Panama (1)

- ⊙ Within the framework of the Americas Fund, Panama signed a debt-for-nature swap with the United States. Over a period of 5 years, beginning in 2004, \$11 million dollars would be invested in the environment.

Paraguay (2)

- ⊙ Paraguay has signed two debt swap agreements, one with the United States in 1995 and one with Spain in 2007. The first was carried out under the Americas Fund and invested \$7.4 million dollars in the environment. The second was for education and amounted to \$10 million dollars.

Peru (22)

- ⊙ Peru has signed 22 debt swap for social investment agreements:
- ⊙ Five for development, amounting to \$13.5 million dollars (Spain, Germany, Norway, France, and a triangular swap with UNICEF)
- ⊙ One for education, worth \$20 million dollars (Spain).
- ⊙ Five for infrastructure worth \$344.3 million dollars (Italy, Canada, Japan, Switzerland and Spain).
- ⊙ 11 for nature totalling \$99.6 million dollars (United States x2, Canada x2, Germany x4, Holland, Finland and Switzerland).

Uruguay (3)

- ⊙ In 1995, as part of a continental initiative sponsored by the Americas Fund, Uruguay signed a debt-for-nature swap with the United States, totalling \$6.2 million dollars.
- ⊙ A swap agreement between Uruguay and France in 2004 for €5 million euros resulted in the foundation of the Pasteur Institute, a centre for scientific investigation and education, which opened in 2006.
- ⊙ In 2005, Uruguay signed a swap agreement with Spain. It waived the debt service until 2007, up to a maximum of \$10.8 million dollars. The funds were then utilized to build the first wind energy generator facility in Uruguay, having acquired 16 Dutch technology windmills.

Iberoamerica has clearly taken the lead in implementing debt swap operations. Many of the region's governments have eagerly promoted the use of this valuable social tool to improve the overall standard of living in their respective countries. Nevertheless, participation in these projects has been uneven, and creditor countries have failed to coordinate their efforts. The funds that are created must be more coherent, the projects more efficiently executed, and there must be more civil society participation.

Iberoamerica is the region that has most actively employed debt swaps as a means to increase social investment. This protagonism must largely be attributed to Spain's leadership, as it has been the most participative creditor when it comes to promoting, negotiating and implementing swaps. All told, Spain has taken part in 19 experiences in the region, seven of which have been debt-for-education swaps, totalling \$206.1 million dollars in investment.

iii) Spain and its involvement in Iberoamerica

In 2004, the President of Spain, José Luís Rodríguez Zapatero expressed the new position of his government "I would like to announce that Spain, in addition to our commitment to the debt relief initiative for Highly Indebted Poor Countries, also plans to be actively involved in debt-for-social development operations, especially with regards to primary school education."⁷²

After entering swap negotiations with Argentina, which promises to channel €60 million euros⁷³ to education projects, Spain began to put in motion a number of swap initiatives with various Iberoamerican countries, that both relieved and converted debt into education funds: Ecuador (\$50 million dollars in relief, \$20 million dollars converted), Dominican Republic (\$138.9 million dollars in relief, \$55.6 million dollars converted), Nicaragua (\$38.9 million dollars cancelled, \$15.6 million dollars invested), El Salvador (\$10 million dollars cancelled, \$10 million dollars invested) Peru (\$20 million dollars cancelled, \$20 million dollars invested), Bolivia (\$70 million dollars cancelled, \$24.5 million dollars invested), Honduras (\$176 million dollars cancelled, \$74.4 million dollars invested) and Paraguay (\$10 million dollars cancelled, \$10 million dollars invested). The sum of these experiences reflects Spain's commitment to this mechanism: \$463.8 millions dollars in relief and a total of \$206.1 million invested in education projects.

Towards the latter part of 2006, the World Educational Campaign (WEC), which in Spain is represented by Action Aid, Between Cultures and Intermon Oxfam, released a preliminary evaluation of the initiatives undertaken in Iberoamerica⁷⁴. The analysis concludes that, despite the advantages that this instrument offers with regards to development, there are also important drawbacks.

With respect to the positive aspects, the report first highlights *the budgetary relief that is granted to those beneficiary countries to whom a discount rate is offered. In addition, when the principle of additionality is respected by the debtor country, the initiative implies an increase in investment for basic education. The result of this increase could be particularly significant in those cases, like El Salvador, where the operation becomes integrated within the educative policy of said country and within the framework of Spanish Cooperation. Other positive aspects include the promotion of participation of Spanish civil society in the management of such operations, the establishment of transparent mechanisms and of accountability through the use of audits.*

The report, however, also emphasizes *that several aspects of these operations remain in the shadows. The swapped amounts are scarce and the budgetary advantages for countries that are not part of the HIPC program are not sufficient, given that they are not privy to a discount rate. Aid continues to be linked to Spanish NGOs and businesses, which tends to make this instrument less efficient. Furthermore, coordination between creditor countries is limited; an obstacle*

72. "Discurso del Presidente del Gobierno, Don José Luís Rodríguez Zapatero, en la Cumbre contra el Hambre y la Pobreza", 20/09/2004. <http://www.oei.es/zapatero.htm>

73. According to various official sources consulted during this period, the Argentine Government has not been able to proceed with this debt swap because it has not yet come out of default with the Paris Club. In order to enable this swap agreement, Argentina must first come to a new agreement with the Club, and later negotiate with the Spanish government.

74. A systematic evaluation of the Spanish Government debt swap program is found in: *Luces y sombras: Un análisis de los canjes de deuda por educación en el marco de las Cumbres Iberoamericanas*, Campaña Mundial de Educación en España, Octubre 2006, www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf.

to the possibility of generating positive synergies between the independent swap operations. The participation of competent organs, such as the ministry of education and civil society, both in the North and the South, is also limited and, when it occurs, remains circumscribed to the management of funds, without including such questions, as the negotiation of swaps and the decision making process. Lastly, the principle of transparency should be called into question with regards to issues such as the origin of the debt and the design of operations.

It is important to point out that, following the publication of the WEC's evaluation, efforts to strengthen the swap program have been undertaken in Spain within both a political and legal framework. In the first place, the Annual International Cooperation Plan 2008 labelled Iberoamerica as a preferential region, allocating 40% of the total bilateral official development aid.⁷⁵ Secondly, the Plan fixes a specific guideline for debt management, which reinforces those financial commitments already assumed, many of them stemming from the External Debt Law. Thirdly, said law establishes certain criteria to promote the efficient use of swap policy, coherent with other political activities of debt co-operation and consistent with the multilateral framework and the international financial system.

In brief, the Spanish Government's protagonism in the field of debt-for-education swaps, supported by a political and legal framework, could offer a viable model to follow for future operations. In particular, it could serve to provide some perspective on how to develop multilateral funds, whose implementation should be carried out without conditionality or aid selectivity on behalf of the creditors.

Given the cases analyzed thus far, multilateral funds deserve future consideration. Experience shows that the possibility of accessing only one fund, into which various creditors have converted debt, serves not only to streamline the implementation of social policies, specifically by reducing costs, but also by augmenting the scope of intervention. It allows for a more coordinated political effort, an increase in funding, and the regularization of the timelines for implementation.

iv) Multilateral swaps

Debt for social investment swaps represent an alternative to extra-budgetary financing needed for developing broader redistributive social justice policies. As well as promoting bilateral swaps, creditors should join to coordinate multilateral mechanisms that could lead to larger investments and a more lasting social impact.

a. Poland's EcoFund

The setting-up of the *EcoFund* in Poland represents a case that could serve as a model for future debt-for-education swaps. In 1992, Poland received one of the most important counterpart funds in the history of debt swaps. The Paris Club agreed to reduce its debt by 50%. At the same time, member nations urged their various creditors to agree to a further reduction of 10%, which would be deposited in the EcoFund. France, Sweden, Italy, the United States and Switzerland all responded, and a total of \$571 million dollars was estimated to have been allocated for the development of environmental projects until the year 2010.⁷⁶ Said fund is administered by an independent foundation and

75. Plan Anual de Cooperación Internacional, Government of Spain, January 2008, <http://www.maec.es/es/MenuPpal/Cooperacion%20Internacional/Publicaciones%20y%20documentacion/Documents/PACI2008.pdf>, p. 14.

76. "The Beginning", The Polish Debt for Environment Swap, The EcoFund Foundation 2008, <http://www.ekofundusz.org.pl/us/begin.htm> and

Experiencias de Canje de Deuda: Lecciones para el ámbito de la educación. Oscar Ugarteche, Fundación Carolina, 2006, p. 54.

consists of five areas: Atmospheric Protection, Aquatic Protection, Climate Protection, Wildlife Protection, and Waste Management. Although the *EcoFund* is the only multilateral debt swap case to date, it shows that it is a viable and desirable alternative by facilitating coordination between creditors, allowing for a more profound and lasting impact.

b. Global Fund: Debt2Health

In 2002, at the Monterrey Conference for Financing for Development, governments, civil society leaders, members of the private sector, interested parties and other affected groups created the Global Fund. Utilizing the Millennium Development Goals as a guideline, these diverse groups agreed to join efforts to fight AIDS, tuberculosis and malaria. At that moment, the Fund entered in an Administrative Services Agreement with the World Health Organization (WHO), which would provide for a range of administrative and financial services. In 2009, the agreement came to an end. No longer working in conjunction with the WHO, the Fund began to administer itself autonomously.

A series of basic principles⁷⁷ guide the Global Fund in all of its operations, from management to the granting of subsidies:

- ⊙ The Fund will act as an instrument of financing, not an executing organism.
- ⊙ It receives additional financial resources and multiplies them.
- ⊙ It supports programs whose plans and priorities are national in scope.
- ⊙ It acts in an egalitarian manner with respect to different regions, diseases and intervention.
- ⊙ It adopts an integrative and balanced approach when dealing with prevention and treatment.
- ⊙ It evaluates all proposals through independent selection processes.
- ⊙ It acts with transparency and responsibility.

As of December 1, 2008, the Global Fund had signed agreements worth \$10.2 billion dollars, granting 579 subsidies in 137 countries. Of these agreements, the Fund has already paid out \$6.8 billion dollars to the recipients.⁷⁸ The results conclusively prove that the Global Fund has greatly expanded the supply of services in the following way:

- ⊙ 2 million people have received antiretroviral treatment (ARV) for HIV
- ⊙ 4.6 million people are in treatment for Tuberculosis (TB), as a result of DOTS
- ⊙ 70 million insecticide-treated mosquito nets (ITNs) have been distributed to protect families against malaria
- ⊙ Given the success of these initiatives, it is estimated that 2.5 million lives have been saved

Within the framework of the Global Fund, the Debt2Health initiative was launched. According to its provisions, creditor countries forgive a portion of the debt owed to them by sovereign debtors, on the condition that the beneficiary countries invest an equal, previously agreed upon amount, into health. This innovative trilateral swap (between the Global Fund, debtor, and creditor) would take place under the auspice of the Global Fund, implying multilateral organization and a greater degree of harmony with respect to development aid.

When the Global Fund approved the pilot phase of this initiative (2007-2009), participant nations agreed to negotiate the cancellation of debts totalling \$500 million dollars, converting \$250 million dollars into funds to be invested in health projects in Indonesia, Peru, Pakistan and Kenya.⁷⁹ In September 2007, Germany made the first offer to write off the payment of \$50 million dollars on the condition that Indonesia would invest a quantity equal to €25 million dollars in the health sector.⁸⁰ All programs would have to be approved by the Global Fund. Although the Debt2Health initiative is still in its pilot phase, it serves as another model for the promotion of multilateral debt-for-education swaps.

77. Details of the Basic principles are outlined in the Framework document of the Global Fund: http://www.theglobalfund.org/documents/TGF_Framework.pdf

78. "Our Results", The Global Fund, 1/12/2008 <http://www.theglobalfund.org/en/results/?lang=es>

79. Debt2Health Pilot Phase, The Global Fund, <http://www.theglobalfund.org/en/files/publications/debt2health/D2HPilotPhase.pdf>

80. First Debt2Health Agreement Signed Converts: €50 Million for Indonesia, http://www.theglobalfund.org/en/media_center/press/pr_070926.asp

In recent years, other debt reduction initiatives have been attempted. Member nations of the Paris Club and diverse International Financial Institutions (IFIs) have undertaken various debt reduction strategies which provide lessons for achieving greater multilateral reach for education swaps. Although they have not been able to resolve the problem of over-indebtedness, the HIPC Initiative, the Multilateral Debt Relief Initiative (MDRI) and the debt relief projects sponsored by the Inter-American Development Bank, demonstrate that political will is necessary to coordinate action at the multilateral level. At the same time, other movements and social organizations have focused their energies on denouncing the illegitimate nature of some external debts in the south. The case of Norway, announcing a unilateral annulment of debt owed by five different developing countries, opens the discussion to reconsider the origins of the debt, as well as placing the concept of co-responsibility as a central theme.

v) Other initiatives aimed at reducing public debt

a. The Highly Indebted Poor Countries Initiative

In recent years there has been a debate surrounding the responsibility which the International Financial Institutions (IFIs) should assume in developing policies aimed at reducing poverty throughout the world. The context of the Washington Consensus crisis in the South, with growing levels of poverty, indigence and a complete disarticulation of the labour market, led to a response of the IFIs in the form of the Highly Indebted Poor Countries Initiative (HIPC).

The roots of the HIPC go back to the latter part of the 1980s, when several IFIs realized that the debt reductions offered by the Paris Club were not achieving their desired results. Thus, creditor nations began to include more relief packages in their negotiations with debtor nations. In the beginning, a program by the name of the Toronto Terms (1988) was designed. Its focus was the most highly indebted poor countries in the world, to which they directed a 33% reduction of debt. Then in 1990, another initiative to relieve poverty was designed. This time, within the framework of the Houston Terms, the Paris Club creditors agreed to turn their attention to lower middle income countries, and provided for a new treatment of the debt.

For the first time, a clause authorizing the use of debt swap operations was drafted and targeted countries whose debt had been contracted from official creditors. Other agreements followed, like the London Terms, which offered up to 50% debt reduction. In 1994, the Naples Terms was signed, offering cancellation up to 67%. The limit was further extended in 1996 with the signing of the first HIPC initiative, which called for an 80% reduction. Three years later, in 1999, the Enhanced HIPC Initiative elevated this percentage to 90%.

An initiative of such sweeping proportions is intended to be used as an additional mechanism of debt relief for HIPC countries. Its design takes into consideration the need to foment sustainability, to allow for the development of macroeconomic stability and implementation of structural reforms. In September of 1996, the Board of Governors of both the WB and the IMF approved this initiative on the condition that assistance would be provided to countries that adopt neoliberal economic policies. The overarching goal of this measure was to reduce the burden of their foreign debt to sustainable levels, a strategy that would allow them to continue paying their debt service.

The adoption of the Enhanced HIPC Initiative in 1999 sought to increase the amount of debt relief available, while also increasing its scope and quickening the process by which a country could receive aid. Poor countries were eligible if they could demonstrate real commitment to stability, reform, and poverty reduction. The latter was inextricably linked to debt relief within this context, and all countries, prior to applying for this initiative, must have embraced the tenets of the Poverty Reduction Strategy Papers (PRSP) before reaching the decision point, and made progress with their implementation at least for one year before reaching the culmination point. In short, the HIPC Initiative aimed to direct "beneficiary" countries towards a situation of long-term, debt sustainability by means of reducing the debt burden and enforcing the adoption of adjustment programs and the implementation of structural reform.

With the addition of Afghanistan in April of 2007, the number of HIPC countries reached 41. Below, table 12 provides a list of the countries.

Table 12
Status of HIPC experiences, September of 2008

23 – Post-Completion Point Countries (a)		
Benin	Madagascar	Sao tome and Príncipe
Bolivia	Malawi	Senegal
Burkina Faso	Mali	Sierra Leona
Cameroon	Mauritania	Tanzania
Ethiopia	Mozambique	Uganda
Ghana	Nicaragua	Zambia
Guyana	Nigeria	Gambia
Honduras	Ruanda	
10– Interim Countries (b)		
Afghanistan	Republic of Congo	Guinea
Burundi	Democratic Republic of Congo	Guinea-Bissau
Chad	Gambia	Haiti
Central African Republic		
8 – Pre-Decision Point Countries (c)		
Comoros	Kyrgyz Republic	Sudan
Eritrea	Nepal	Togo
Ivory Coast	Somalia	

a) Countries that have qualified for irrevocable debt relief under the HIPC Initiative and have received MDRI relief.

B) Countries that have qualified for assistance under the HIPC Initiative (i.e., reached decision point), but have not yet reached completion point.

C) Countries that are potentially eligible and may wish to avail themselves of the HIPC Initiative. 4/

Source: International Monetary Fund, www.imf.org

Debt relief packages have been approved for 33 countries, 27 of which are African, amounting to \$51 billion dollars in debt service reduction.⁸¹ At the same time, eight additional countries are being considered to receive aid within the framework of the HIPC initiative.

While it is stated that \$51 billion dollars in debt has been forgiven, does it mean that all 41 countries have moved towards sustainable indebtedness? It largely depends on each case. The debt flow discounts are long-term, between 25 and 40 years, and the funds are not relieved at once, rather gradually over time. Nevertheless, relief is largely contingent upon whether the respective country complies with the requisite structural reforms, determined by different IFIs and countries of the North. An initiative of this nature lacks effectiveness, given that debtor countries are unable to rid themselves of debt in one, fell swoop. The process drags out over time; the legacy of debt begins to weigh and debt services become quite burdensome, continuously posing as an obstacle to the sovereign development of highly indebted countries.

According to reports by the IMF and the WB, debt service payments as a percentage of GDP levels have decreased as a product of the adoption of the HIPC Initiative. While this statement could be true, other economic and social indicators reveal the situation is more complex. In recent years, the GDP of several Iberoamerican countries actually increased as a result of a rise in tradable raw materials, commodities linked to the agro industrial sector and oil prices. As such, one must question whether funding for programs to benefit the poor have actually increased, and more importantly, whether they have had an impact on the reduction in poverty throughout the continent.

81. International Monetary Fund, www.imf.org

Although the HIPC Initiative could, indeed, be a valuable tool for helping heavily indebted countries, it certainly cannot ensure the financial viability of their economies. In fact, if the entire foreign debt of these countries were to be forgiven, many of them would still depend on significant levels of foreign aid granted under concessionary conditions. For years, many countries have relied on aid packages, the value of which far exceed the payments made on debt services.

Moreover, an improvement in macroeconomic indicators does not always translate into an improvement in quality of life of a given population. Hence, if these “positive” indicators are taken at face value, access to concessionary credits on the international market becomes difficult. Once again, a country is made to seek out exorbitantly priced loans, plunging it back into the vicious cycle of debt. To truly be able to overcome the plight of poverty, one must look beyond the cancellation of the foreign debt, and concentrate on the necessary redistribution of wealth socially produced within a country.

b. The Multilateral Debt Relief Initiative (MDRI) and the Inter-American Development Bank (IDB) Debt Relief Package

Coordinated political efforts to reduce indebtedness have prompted the creation of two more multilateral initiatives, the MDRI and the IDB’s debt relief package. The roots of the former can be found at the G8 Summit held in Gleneagles, Scotland, in 2005. There, participating countries agreed to write off the entire multilateral debt of 18 HIPC countries, so long as they had complied with the original HIPC Initiative. The Iberoamerican and Caribbean countries that benefited from this resolution are Bolivia, Guyana, Honduras, Nicaragua and Haiti, albeit with several conditions attached. Although both the IMF and the WB agreed to back this initiative, they imposed cut-off dates, December of 2004 and December 2003, respectively. Therefore, if we pause to consider the Bolivian case, whose aid package went into effect in 2006, it is revealed that some credits were excluded from the relief. Instead of receiving a write-off of 100%, as was initially promised, Bolivia received 74% relief from the WB and 92% from the IMF.

The MDRI initiative was followed by a similar regional program in 2007, when the Governing Assembly of the Inter-American Development Bank approved debt relief for Bolivia, Guyana, Honduras and Nicaragua. This measure called for the cancellation of loan payments, pertaining to Funds for Special Operations, due by December 31, 2004. It was ratified by all 47 members of the Board of Governors, and granted a total of \$3,370 million dollars in relief in capital payments, and another \$1,017 million dollars in future interest payments. According to the IDB, this initiative’s objective was to help those HIPC countries achieve the Millennium Development Goals of the United Nations, which seek to reduce to poverty by half by the year 2015.

The IDB’s debt cancellation program significantly aided Honduras, providing relief of up to \$1,367 million dollars. Bolivia received \$1,044 million dollars of relief, Nicaragua \$984 million dollars and Guyana \$467 million dollars.⁸² Given that these countries had already reached the culmination point of the HIPC Initiative, the benefits of the initiative were retroactive, dating back to January 1, 2007.

Haiti, a country that has progressed with respect to the HIPC Initiative, received an interim debt relief package of \$20 million dollars during 2007 and 2008. In 2009, it is being considered for complete relief which, according to the IDB, totals \$525 million dollars. In addition, the Governing Assembly of the IDB agreed to grant Haiti an additional \$50 million dollars in donations per year until 2010. In subsequent years, Haiti would receive a combination of aid in the form of concessionary loans and donations.

82. “IDB Governors approve \$4.4 billion in debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua”, <http://www.iadb.org/news/detail.cfm?language=English&id=3665>

According to a study conducted by the Jubilee Foundation (2008), the IDB complemented the IMF's and the WB's original debt relief package for Bolivia, which had a cut-off date of December 2004. However, this effort only relieved 46% of the debt owed by Bolivia to this organism.

Table No. 13
Bolivian Case: MDRI relief and percentage of remaining debt, in millions of dollars

IFI	Cut-off Date	Start of relief	Debt Relief	Balance before MDRI	
				Dollars	Percentage
World Bank	31/12/2003	28/06/2006	1,295.50	1,747.1	74
IMF	31/12/2004	06/01/2006	224.7	243.8	95
IBD	31/12/2004	15/06/2007	741	1,609.1	46

Source: Jubilee Foundation (2008)

As such, the IDB remains one of Bolivia's most important creditors, as well as the Andean Development Corporation (CAF), a regional multilateral creditor that did not take part in this initiative.

c. Unilateral cancellation of debt: The case of Norway

The question of debt legitimacy is a topic that merits serious attention. For years, NGOs have exposed usurious interest rates and the suspicious origins of certain debts. In response to these criticisms, Norway conducted a unilateral debt cancellation with five countries, opening the way for future consideration of the notion of co-responsibility and a precedent for proceeding with future swaps.

The case in question has its origin in Norway's Ship Export Campaign. Between 1979 and 1981, the corporation, Flota Bananera Ecuatoriana (FBE), bought four boats from a shipyard in Norway for a total of \$56.9 million dollars. With the permission of the Ecuadorian Government, Norway funded the purchase with development aid totalling \$52 million dollars. In 1987, the FBE went bankrupt, and the \$31 million dollars that were left unpaid became the responsibility of the Ecuadorian Government. After having paid approximately half, \$13.6 million dollars of debt remained.

In the words of the Ecuadorian Minister of Economy, the funds seemed to *"increase considerably over the course of seven agreements with the Paris Club, due to late payments, conditions placed on interest payments and various penalties that were included in the agreements, until the amount reached \$49.6 million dollars by March of 2002"*⁸³, after having already paid in this time lapse \$14 million dollars in capital and interests, whose tax rate averaged 14%. From 2002 to July, 2006, Ecuador paid \$19 million dollars in debt service payments (\$14.25 million dollars in amortization and \$5.37 million dollars in interest), and to that date there was still a sum of \$40.8 million dollars left to pay.⁸⁴ On top of having to pay this exorbitant debt, the whereabouts of the ships is unknown.

83. Research report by the Commission for Civic Control on Corruption (CCCC) on the Ecuadorian debt with the Government of Norway, pg 12.

84. Data from the Ministry of Economy and Development, Ecuador.

Faced with a difficult and compromising situation, in October of 2006, Norway decided to cancel this debt and others, worth "500 million Kroner."⁸⁵ Egypt, Peru, Jamaica and Sierra Leone were also included, all having participated in Norway's Ship Export Campaign (from 1976 to 1980). The cancellation of this debt marked a milestone in lending operations. In carrying out this initiative, Norway established an important precedent in the fight against illegitimate debt. They provided an example that other creditor nations and multilateral lending organisms should follow. Should they not, debtor countries are well within their rights to condemn suspicious lending practices, that lead to increased dependency and stalled development, and to demand that justice be served.

Numerous cases of debtswaps for social investment and the distinct strategies which have sought to alleviate over-indebtedness have been presented. The lack of public information obscures the true nature of the negotiations and the resulting financial mechanisms. Comprehensive evaluations and exhaustive studies should be undertaken in order to reveal the inner workings of these procedures. There is a definite need for transparency, not only at a procedural level, but also with respect to the results and in assessing the concrete impact of these initiatives.

To some extent, progress has been made with regards to the implementation of development orientated initiatives. The evidence on the whole, however, does not demonstrate that debt swaps serve to reduce the public debt burden, a nagging problem that has plagued Iberoamerican economies, as those of other developing countries in the world. The following section will attempt shed light on some of these concerns, by taking into consideration the case of Argentina. It will analyze the national budget and show the potential budgetary impact of a debt-for-education swap.

85. Approximately \$80 million dollars.

E

DEBT FOR EDUCATION SWAPS AND BUDGETARY STRUCTURE

At the national level, when Argentina's national education budget is analysed, the hypothetical impact of a 60 million Euro debt for education swap with Spain for is revealed. In many cases, these funds would duplicate budgetary items in sensitive areas, such as educational quality and school infrastructure, provided that the projects are implemented without any conditionality linking the funds to interests and companies from the creditor country cancelling the debt.

Throughout this paper, three extremely important issues have come to light; they are inextricably linked. Before proceeding, it would be helpful to review them now, as a group:

1. The substantial burden that the public debt places on national states has impeded and continues to impede the development of national and popular strategies that could facilitate the redistribution of wealth, alleviate impoverished populations and breakdown social exclusion, all within a framework of sustainable economic growth.
2. The social imperative to redirect and invest additional funds in education and attempt to achieve, in the best case scenario, the goals set by UNESCO as part of the Education For All initiative or, at the very least, the United Nation's Millennium Development Goals.
3. The scarce empirical evidence that supports the idea that debt swap programs can resolve structural debt problems or the under financing of public education.

Given these constraints, it becomes essential to take into consideration the content of national budgets in order to understand the real dimension of what a debt swap experience may entail. If, for example, the design of the Argentine national budget is analyzed, we will be able to paint a more complete picture, identifying its inelastic sectors and potential financial bottlenecks. This process will also allow us to estimate the real impact of the swap mechanism with regards to funding additional programs to those items already earmarked for implementation.

In the upcoming section, we will analyze the evolution of Argentine economic policy from the devaluation in 2002 to present day. We will focus on public financing strategies and their relation to the treatment of the national debt. After laying the groundwork, our focus will turn to a detailed analysis of the general structure of the national budget for 2008 with a view towards the budgetary implications of a €60 million Euro debt-for-education swap.

In recent years, Argentina's gross domestic product has exhibited steady growth. Concurrently, there has been a nominal increase in most items of the national budget. It is disconcerting, however, that despite an overall increase in spending, social spending seems to have lagged behind. Nevertheless, progress has been made in reducing unemployment, poverty and indigence; yet stark social inequality continues to afflict the society. There is a lot of work left to be done, but with a carefully planned and coordinated effort, sustainable development for all becomes as feasible, as it is imperative.

i) A budgetary analysis of economic policy

a. Economic policy

When analyzing the economic policy that has prevailed over the last six years of democratic governance, under Dr. Néstor Kirchner⁸⁶ and currently Dr. Christina Fernández de Kirchner⁸⁷, it could be said, albeit simplistically and not necessarily without dissent, that there have been three primary economic foci: The maintenance of a competitive exchange rate, prudent fiscal administration, and a series of income policies that have been more or less consistent over the course of six years.

The establishment of a competitive exchange rate has figured prominently in the agenda of both administrations. Dr. Néstor Kirchner and Dr. Cristina Fernández de Kirchner have invoked this strategy in order to build up a trade surplus which, in turn, has led to greater margin for decision-making, allowing for the design and implementation of certain economic policies. The competitive exchange rate has also stimulated the growth of certain trade sectors that have directly and indirectly fomented employment opportunities. Notwithstanding this progress, levels of informal and illegal employment are still very high (roughly 45% of the economically active population).

Prudent fiscal administration has been reflected by the consolidation of a budgetary surplus, obtained by the combination of greater income and a balanced growth in public spending. From the government's vantage point, the national budget is the centrepiece of the economic strategy.

In this sense, income policy has followed two primary objectives. Firstly, in light of the economic expansion, it has sought to direct the benefits towards reconciling the gap between the rich and the poor, while promoting the social integration of marginalized sectors. Secondly, the government has played an active role in mediating the distributive conflict, as a means to control local inflationary expectations, an essential step in preventing runaway inflation.

Although the government's income policy has been successful in benefiting historically disenfranchised sectors, for example, retirees, who saw the minimum pension benefits increased, and also managed to lower the unemployment rate, economic inequality remains a serious problem. With regards to the second objective, while the minimum wage has been raised, inflationary pressures have counteracted important gains by labour, thus reproducing the persistent basic structure of inequality.

b. Economic evolution during the contemporary period

Since emerging from the crisis, the Argentine economy has exhibited elevated levels of growth. Towards the end of 2006 there was a peak and although there was a slight deceleration during the first months of 2007, at least compared to the previous two periods, the economy continued to grow at significant rates through to the beginning of 2008.

86. 2003-2007

87. 2007 until the date of publication

In large measure, the aggregate demand generated by state intervention, was sustained and pushed in 2006 and 2007 by the internal absorption of the workforce. With data provided by the Ministry of Economy and the INDEC, we have been able to confirm that, due to a raise in wages of salaried workers, there has been a corresponding growth in private consumption, of 7.8% in 2006 and of 8.2% during the first quarter of 2007.

In this same direction, investment has been positively affected by the economic model. In 2006, the rate of investment rose to 18.2%, while in the first trimester of 2007 it reached 13.1%. Despite this decline, if we include the last four trimesters of 2007 up until March, the rate of investment registers in at 21.8% of the GDP. During the 1990s, the maximum rate of investment was 21.2% (during the 2nd and 3rd trimesters of 1998).

The strong improvement in macroeconomic indicators is reflected by sensible progress in social conditions. A more vibrant economy has stimulated the creation of jobs. In 2006, 523,000 jobs were created in urban areas, a 3.8% increase from the previous period. This tendency continued throughout the first trimester of 2007, which saw the creation of 568,000 jobs, an increase of 4.1%⁸⁸ It is worth noting that while there was an improvement in the quality of employment, a large segment of the population still remains informally employed; a structural problem which remains one of the central problems facing the current administration. Its resolution demands long-term planning, and must form part of the government's policy if it wishes to improve social indicators.

Despite the constant growth in the labour supply, reaching 45.4% of the total population in the 28 urban conglomerates (2006), even faster growing job demand led to a drastic dip in the unemployment rate, registering in at 8.7% in the fourth trimester of 2006 (1.4 percentage points less than the same period in the previous year). In 2007, there was a slight rise in unemployment in the first trimester, up to 9.8%. However, upon comparing this period to the same period in 2003, there was an appreciable 8.8 percentage point decrease in unemployment in 2007. This growth in employment is paralleled by a corresponding rate of income recovery. In both the public and private sectors, reported and unreported salaries have improved steadily in real terms. On the other hand, job insecurity and poor contractual terms are still quite high.

The above pillars of the Argentine government's fiscal policy, job creation, wage increases and income distribution, especially with regards to improved salaries, retirement and pension plans, provoked a moderate reduction in indigence and poverty. In the first semester of 2006, 1.62 million people rose above the poverty line, while 690,000 emerged out of indigence. In the second semester, in all urban centres, poverty decreased by 26.9%, 10 points below the 2005 average. In the same period, indigence fell from 13%, levelling off at 8.7%.⁸⁹ These figures look good on paper, but due to a generalized lack of faith in the public system for measuring the consumer price index, they have been seriously questioned by a wide variety of sectors, both public and private, as well as by the opposition party.

Lastly, the implementation of the current economic model has consolidated a current account surplus in the balance of payments. In 2006, it registered a 43% growth in absolute terms, reaching \$8,053 million dollars. With respect to the GDP, it rose from 3.07% in 2005 to 3.75% in 2006. In 2007, the percentage remained above three points in the first trimester.

Likewise, the nation's public finances also benefited from the economic growth. Over a four year time period, a primary surplus had been maintained. In 2006, it reached its highest mark, recording a cash surplus of 3.54% of the GDP for the public sector, surpassing the 3.26% predicted by the Budgetary Law. After making its first interest payments on bonds linked to the GDP, the financial surplus was sustained at 1.8%. This situation continued throughout the beginning of 2007. The primary surplus reached nearly 3% of the GDP and the financial surplus remained at 1.8%.

88. This data is retrieved from diverse periodical publications from the INDEC (the National Institute for Statistics and Census) www.indec.gov.ar

89. www.indec.gov.ar

The improved fiscal conditions were also reflected in the favourable evolution of the public debt. As of 2007, upon concluding the first trimester, the public debt represented 62% of the GDP. That percentage, although it may seem large, was down considerably from 2003, when it represented 167% of the GDP. Given Argentina's improved standing vis-à-vis its lenders, a restructuring of the debt was undertaken in 2005. By 2006, Argentina, once again, was able to apply for credits on the market and, by 2007, began to emit debt payments on a voluntary basis. In light of this whirlwind of events, which saw Argentina climb out of the economic depression, everything seemed to indicate that the state would receive an extension of debt payment periods, as well as a reduction in financing costs. Unfortunately, the current economic crisis has precluded the consummation of said terms, and it remains to be seen if they can be agreed upon.

In this same direction, the weight of the public debt, while still a tremendous burden, has been reduced drastically. For example, by the end of 2007 the public debt amounted to two and a half times the foreign reserves, while in 2001 it was ten times greater than the amount held in the foreign reserves. Furthermore, from 2002 to 2007, a notable reduction in interest payments, which totalled 8.6% of tax and social security payments as opposed to 20% from 2000 to 2001, contributed to lessening the incidence of public debt. Nevertheless, the next few years are of critical importance. Between 2009 and 2012, foreign credits will begin to expire, doubling the previous period's average payments, jeopardizing state financing of projects and one of the main pillars of the government's economic model, the robust primary surplus.

The current monetary and financial situation compels the government to maintain a competitive exchange rate. In order to carry out his policy, the Central Bank of the Republic of Argentina (BCRA) plans to continue using a floating exchange rate. At the same time, the BCRA deems the accumulation of foreign reserves a necessary policy. By mid 2007, foreign reserves totalled \$44 billion dollars, greatly surpassing the amount held prior to the cancellation of Argentina's debt with the IMF.

At the beginning of the current financial crisis, Argentina's prudent financial strategy seemed capable of weathering the storm. However, the crisis has deepened, affecting not only the US financial economy but stock markets all over the world. Given the nature of this context, it is not prudent to make predictions regarding the potential impact of the crisis on Argentina's public financing 2009 onwards.

Between 2004 and 2007, the government's economic policy achieved a reduction in the public debt in both nominal terms and as a percentage of the GDP. This is no small feat, considering that two years prior Argentina was immersed in an economic crisis of grave proportions. Nonetheless, public investment still relies heavily on foreign investment. Beginning in 2008, the government will be faced with increasingly burdensome debt service payments over the next two years. It remains to be seen whether the state will be able to make these payments, while continuing to intervene on behalf of social obligations.

ii) Financing and public debt service

In 2006, the combination of the public sector's financial surplus and economic growth reduced the debt stock in the national public sector by nearly 10%, to \$136.725 million dollars, or 64% of the GDP. A year earlier, in December of 2005, the debt stock represented 73.5% of the GDP. Thus, throughout 2007 and 2008 the government's policy of debt financing continued. Periodic bidding allowed for bond placement on the local market. At the same time, within the framework of an agreement with Venezuela, direct bond placement also took place.

The Argentine government has also made it a point to regularize debt payments stemming from the restructuring. To fulfil this objective, on January 31, 2007, Argentina signed a new agreement with Spain, which sought to restructure the debt from a loan in 2001, totalling \$982.5 million dollars.⁹⁰ In addition, as part of this agreement, Argentina attempted to complete a debt swap worth €60 million euros. Spain, however, recognizing that such operation was not sanctioned by the Paris Club, suspended it until Argentina could reverse its default status with the Paris Club, amounting to the total of its bilateral debt.

In 2008, the Argentine Government planned to continue carrying out its central objectives in accordance with its policy of public financing:

- ⊙ The normalization of public debt service payments by reaching a balance between their costs and the real possibility of payment.
- ⊙ The reduction of the public debt in terms of the GDP.

The accomplishment of said objectives would be entirely possible within a context of economic growth and fiscal prudence. Yet, in light of conflicts the which occurred at the beginning of the year between the government and the local agro-industrial sector and the international financial crisis, whose effects were felt in the second part of the year, the future of the government's carefully planned execution of its public policy is now uncertain. For the next couple of years, there is no rigid timetable for the financing of the public debt.

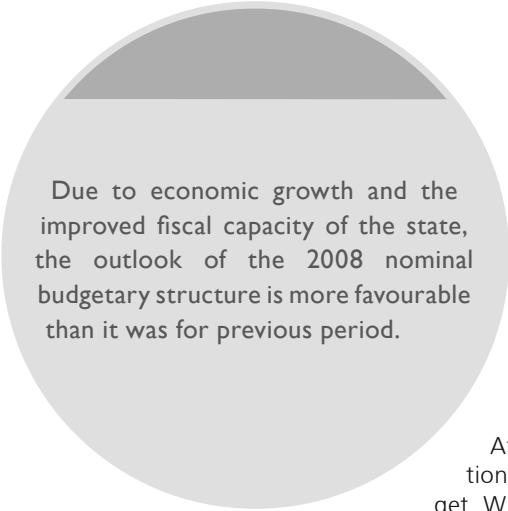
Meanwhile, the government endeavours to maintain its commitment to the payment of debt service, particularly that which was acquired following the agreement of December 31, 2001. The government will also attempt to honour payments to international organisms and the restructured debt service obligations. But in recognizing the difficulty of complying with payment deadlines, at the beginning of 2008, members of the executive branch publicly tried to renegotiate the terms of the defaulted debt which was bilaterally contracted with the Paris Club, as well as titles of the public debt, which are in the hands of the private sector that abstained from participating in the debt swap organized in 2005.

Given the current economic crisis, and the local and international financial restrictions, the government is seeking a way to meet the necessities of the public sector at the lowest cost and the most flexible terms possible. As a result, after analyzing the general structure of the national

90. Ratified by the decree No 268/07, \$982.5 million dollars of debt was subject to agreement, and restructured to a 6 year term, at a Libor rate plus 140 basic points, with staggered payment dates.

budget with a view toward the financial policy drawn up for 2008, the government forecasted a further reduction in the percentage of the debt belonging to the national public sector. However, by the end of 2008 this did not seem like a feasible objective.

Despite the difficult panorama, international credit organisms and other entities that participate in bilateral credit operations⁹¹ have ostensibly left open the channels of communication, facilitating further dialogue regarding the financing of social programs and projects.



Due to economic growth and the improved fiscal capacity of the state, the outlook of the 2008 nominal budgetary structure is more favourable than it was for previous period.

iii) General budgetary structure

Since mid 2002, with the adoption of a series of successful economic policies, the Argentina government has been able to stimulate public income, particularly through tax collection. Within this context, the State has also begun to tackle tough issues that have plagued the economy, like, financial policy, indebtedness and financial services. After having addressed these questions in previous sections, we can now analyze the composition of the budget. What follows is a list of data that will give us an idea of the general budgetary structure for 2008.

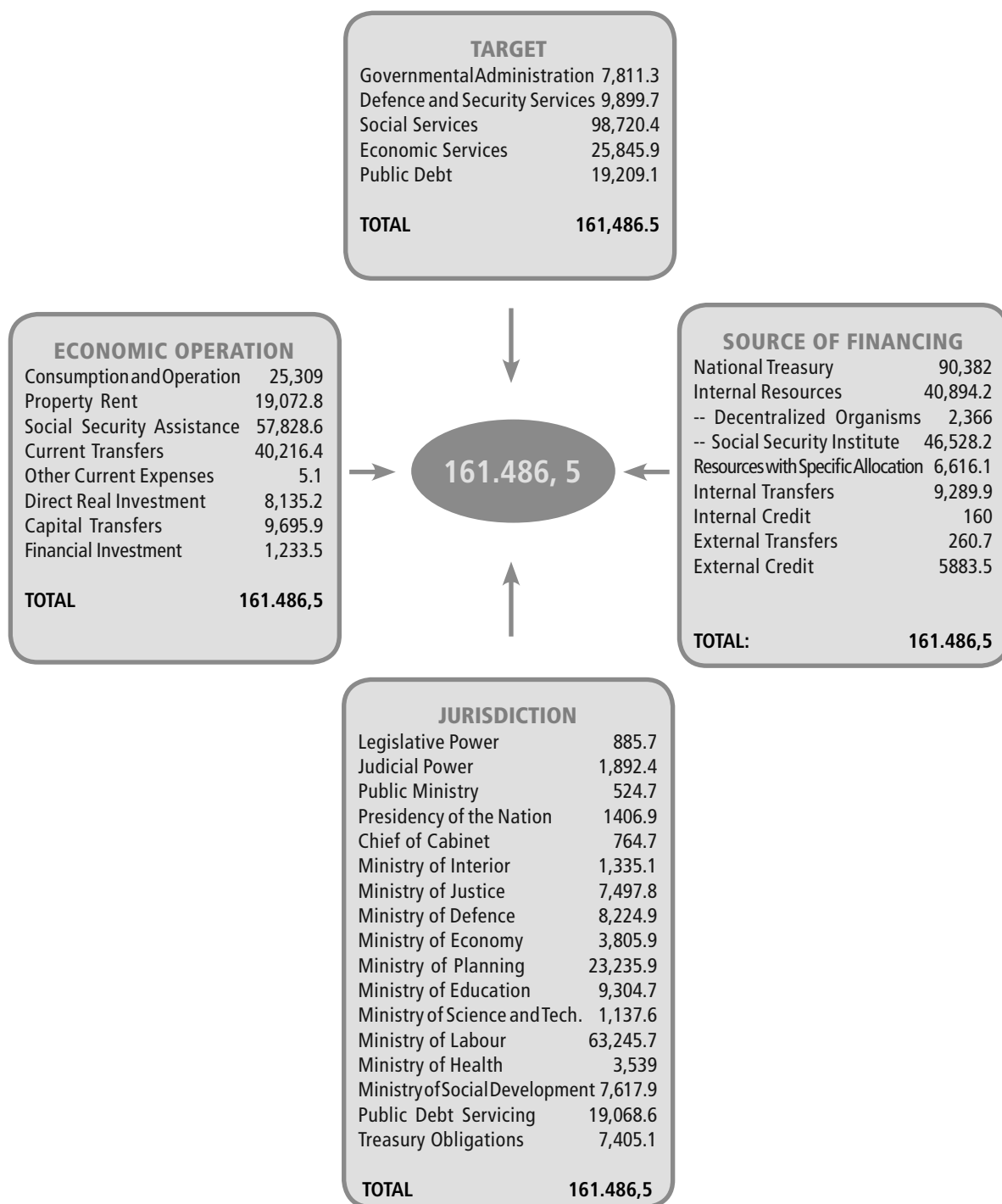
- ⊙ *Primary results for the public sector:* For 2008, the national budget estimated that Argentina would reach a surplus equivalent to 3.15% of the GDP (0.19 points more than in 2007). Towards the end of 2008, however, these predictions seemed like they would not be fulfilled, and are even less likely to be met in 2009.
- ⊙ *Government Spending:* The amount earmarked for 2008 was \$161,486 million pesos, about 18.1% of the GDP. It is forecasted that the primary expense will reach \$142,417 million pesos, 15.88% of the GDP. Social spending will reach 61.1% of all expenses totalled. In every sense, this situation is more promising than in previous years. Due to economic policies that have led to a sustained growth of the GDP, the government has generated more capacity to implement social policies and also a greater labour demand.

Lastly, below we have provided Graph No. 12, which details the general consolidation of the budget, analyzed according to different types of expenses:

- ⊙ Target
- ⊙ Economic Operation
- ⊙ Jurisdiction
- ⊙ Sources of Financing

91. International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the International Fund for Agricultural Development (IFAD), the Financial Fund for the Development of the River Plate Basin (FONPLATA), the Andean Development Corporation (CAF) and bilateral financial entities.

Graph No. 12
National Administration
Total Expenses 2008
According to Budgetary Classifications
(Millions of Pesos)



Source: National Budget Office. Finance Secretariat. Ministry of Economy.

From this point onwards, the analysis will take into consideration expenses per financing jurisdiction. In doing so, we will attempt to identify the capacity of each national ministry to generate public policy according to their respective budgetary allocations. The following section will analyze the national budget, as a means to determine the Ministry of Education's budget at the beginning of 2008. This will allow us to better gauge the potential impact of a debt-for-education swap on the national budget.

Upon analyzing the budget of the Ministry of Education, a glimpse of the potential impact of a debt-for-education swap is offered. In many cases, directing the funds towards sensitive areas, such as education quality and infrastructure, may duplicate their budgetary allocations. This impact is due to the reality that 82% of the 2008 budget is earmarked for higher education and for the National Fund for the Promotion of Teaching (Fondo Nacional de Incentivo Docente).

iv) National education budget and the Impact of a possible debt-for-education swap

There are many different ways of analyzing budgetary data. Invariably, the way in which the information is presented reflects one's intention, that is, what one wants to show. With regards to the above graph, the information intends to reveal the system of expense classification for the national budget. The target is essentially the purpose; the end result of the spending. The jurisdiction refers to those who execute the spending. The source refers to the origin of the funds, and the economic operation indicates the particular item that benefits from the spending. What follows is a description of this classification system.

a. The budget and the target of the spending

As the title indicates, this section analyzes the target of budgetary spending and the functions of this expense. After becoming familiarized with this particular orientation of governmental spending, we will be able to relate it to the government policy.

The first significant piece of information that should be taken into consideration is the evolution of the budget. A year-to-year comparison, from 2007 to 2008, reveals that the budget grew 15.9%. This is a reflection of the increased revenue collection capacity of the State.

Secondly, there has been a good degree of proportionality from one year to the next. In each of the different areas, the percentages varied minimally from year to year, by and large staying the same or, in the case of social services, fluctuating 0.6%.

This fluctuation points to another important aspect of the budget, the increase in social service spending. As far as percentages are concerned, 0.6% is not significant. In nominal terms, however, the growth of the social services budget, from 60.5% in 2007 to 61.1%, represents an influx of \$14.44 million pesos, which is equivalent to 81.5% of the combined spending on defence, security and governmental administration.

Lastly, once again, we see that percentages can be misleading. Although spending on financial services related to the public debt decreased 0.2%, in light of the expansion of the budget, in 2008, \$2,416,800 more pesos were slated to be invested in debt interest payments than in 2007.

Table No. 14
National Administration, Spending Targets, 2008 Budget.

Concept	2007		2008	
	Millions of pesos	%	Millions of pesos	%
Governmental Administration	6702.8	4.8	7811.3	4.8
Defence and Security Services	8625.2	6.2	9899.7	6.1
Social Services	84280.2	60.5	98720.4	61.1
Economic Services	22918	16.5	25845.9	16
Public Debt	16792.3	12.1	19209.1	11.9
TOTAL	139318.5	100	161486.5	100

Source: National Budget Office. Finance Secretariat, Ministry of Economy.

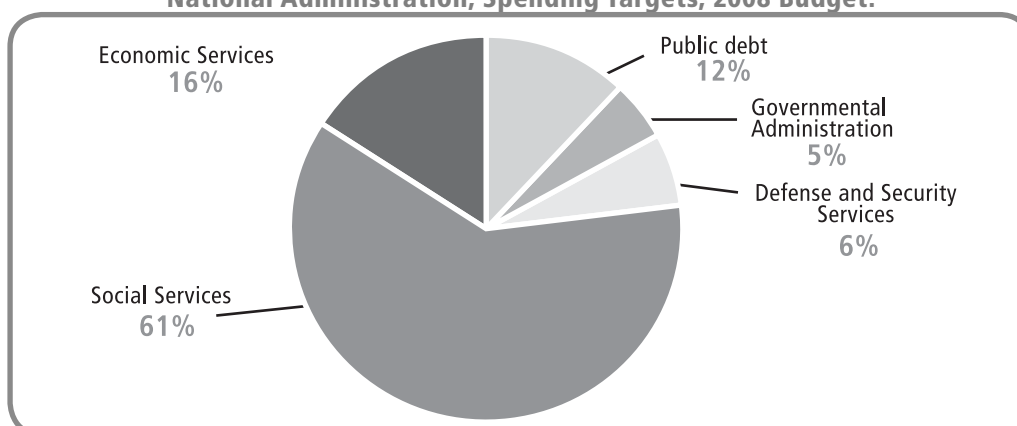
What exactly does the distribution of spending according to function mean? Governmental Administration encompasses all of those actions carried out by the State that affect and facilitate the running of such. It refers to the separation of powers: the judicial, legislative and executive branches, both domestic and foreign relations, fiscal administration, the control of public funds and access to basic statistics and information.

The Defence and Security Services target consists of all those actions whose objective is national defence, the maintenance of public order, the treatment of inmates and all activities related to State intelligence: defence, interior security, the penal system and the functioning of the state intelligence apparatus.

Economic Services entails the formulation and development of policies that stimulate investment and facilitate the production of goods and services, necessary for the development of the economy. As such, it includes the promotion, regulation and supervision of private sector activities, which encompass energy, fuel and mining policies, communication and transportation, ecology and the environment, as well as agriculture, industry, commerce, tourism, and, lastly, insurance and finance policy.

Various financial applications can be grouped under the heading public debt. Generally, they involve loans which are financed by different foreign organizations that provide credits to initiate projects in the provinces. The ultimate destination of these loans depends on the agreement reached between the State and the different provinces.

Graph No. 13
National Administration, Spending Targets, 2008 Budget.



Source: National Budget Office. Finance Secretariat, Ministry of Economy.

Lastly, Social Services deserve special attention. The government ensures the fulfilment of social security laws; it develops policies to create equality, and foments both economic and social solidarity. As we saw above in Table 14, as a budgetary item, Social Services receives 61% of the total spending, and is broken down into three categories: social security, education and health. Of that 61%, 67.4% is allocated towards social security, 14.3% towards education, science and technology and 6.3% is spent on health. With regards to the latter, the amount that was invested between 2007 and 2008 increased by \$1.3 billion pesos, but it still has not reduced that level of inequality that is characteristic of a country with limited access to health services. As a whole, social security, education, and health represent 88% of the total investment in social services earmarked for 2008.

Table No. 15
National Administration, Spending Targets, Social Services, 2008 Budget.

Concept	2007		2008	
	Millions de pesos	%	Millions de pesos	%
Health	4894.8	5.8	6194.9	6.3
Social Assistance and Promotion	3296	3.9	4045	4.1
Social Security	57198.7	67.9	66584.8	67.4
Education and Culture	9612	11.4	11294.7	11.4
Science and Technology	2245.1	2.7	2890.1	2.9
Labour	2984.6	3.5	2745.7	2.8
Urbanism and Housing	3110.5	3.7	3108.7	3.1
Potable water and sewage	938.4	1.1	1856.6	1.9
TOTAL	84280.1	100	98720.5	100

Source: National Budget Office. Finance Secretariat, Ministry of Economy.

b. Jurisdictional distribution of spending and the impact of a debt-for-education swap on the ministry of education's budget⁹²

A cursory analysis of budgetary execution reveals the perversity of the weight of the external debt. Two critical targets, education and health, receive less funding than what is paid out to foreign lenders. This situation needs to be addressed so that significant investment in social services can improve social mobility and further incorporate marginalized sectors into the formal economy. Education is an important tool for the promotion of social change. However, without conviction and funding, its potential will continually be undermined.

To get a better idea of how the budget is spent, we will now consider who makes the important decisions to allocate funds, as opposed to the destination of those funds.

92. During the 1990s, Argentina carried out a process which transferred public education jurisdiction from the national level to inferior levels of government through two major laws: The first, the Transfer of Education Services Law (No. 24.049) of 1991, and the second, the Federal Education Law (No. 24.195) of 1993. These laws resulted in the direct decentralization of national education services to the provinces. It also signified a process of total disintegration, in terms of pedagogy and salaries, as well as financially and in labour-related terms, making impossible an articulation between provinces; and ultimately making unviable the goals regarding national identity the same law intended to uphold. As a result, financing of the education system became largely controlled by the provinces, at 73.1% of the total budget, while leaving the national government with 26.9% (Cippec; 2008: 27) in 2005. In that same year, the Law of Education Financing (N° 26.075) was passed, whose Article 4 defines that for 2010 national education financing must reach 40% of the total education investment in the country. It is within this decentralized context that this document analyzes the potential impact of a debt swap on a weakened national education budget.

Table No. 16
National Administration, Jurisdictional Distribution of Spending, 2008 Budget.

Concept	2007		2008	
	Millions of pesos	%	Millions of pesos	%
National Legislative Power	784.8	0.6	885.7	0.5
National Judicial Power	1723	1.2	1892.4	1.2
Ministry of Public Affairs	410.3	0.3	524.7	0.3
Ministry of the Interior	631.1	0.5	585	0.4
Ministry of Defence	7489.2	5.4	8224.9	5.1
Ministry of Economy	3024.9	2.2	3805.9	2.4
Ministry of Federal Planning	22640.6	16.3	23235.9	14.4
Ministry of National Education	7926.5	5.7	9304.7	5.8
Ministry of Science, Technology and Productive Innovation	887.8	0.6	1137.6	0.7
Ministry of Labour	54960.9	39.4	63254.77	39.2
Presidency of the Nation	1089.3	0.8	1406.9	0.9
Chief of Cabinet of the Ministers	641.8	0.5	764.7	0.5
Ministry of Health	2616.9	1.9	3539	2.2
Ministry of Social Development	6097.4	4.4	7617.9	4.7
Public Debt Service	16638	11.9	19068.6	11.8
Ministry of External Relations	1127.1	0.8	1335.1	0.8
Ministry of Justice, Security and Human Rights	6316.5	4.5	7497.8	4.6
Treasury Obligations	4312.2	3.1	7405.1	4.6
TOTAL	139318.3	100	161486.5	100

Source: National Budget Office. Finance Secretariat, Ministry of Economy.

The Ministry of Labour receives 39.2% of the budget; the largest portion. This is due to the fact that said ministry oversees the allocation of both retirement and pension funds, which accounts for 67.4% of all social service expenses (and 61% of all expenses). The Ministry of Planning receives 14.4% of the budget, followed by the Ministry of Education, which receives 5.8%. Despite being third in line in terms of distribution, the education budget only amounts to half of what the government spends on the debt service payments. This reality, coupled with the needs and stark inequalities of the education sector, sharpens the need to find and raise nonrefundable, alternative sources of financing.

Further analysis of the Ministry of Education's budget, reveals that 92.78% is allocated towards the payment of salaries; of teachers and those of other employees working in the education sector. Of course, this running cost is essential, for it provides the necessary human resources to effectuate day-to-day operations of the education system function (see Table 17). Unfortunately, after paying running costs, the Ministry of Education is only left with 3.83% of the budget, some \$356 million pesos (for 2008), that it can invest in capital projects. In other words, resources are scarce for the restoration of old buildings, the purchase of new spaces to build schools and of didactic materials, as well as the development of school infrastructure.

Table No. 17
National Administration. National Ministry of Education.
Composition of Spending by Jurisdiction and Economic Nature.
Budget 2008.

			Millions of pesos	%
Running Costs	Consumption Costs	Remuneration	116.3	1.25%
		Other consumption costs	199.1	2.14%
	Property Rental		0.004	0.00%
	Direct Taxation		0.09	0.00%
	Running Transfers		8633	92.78%
	<i>Subtotal</i>		<i>8948.5</i>	<i>96.17%</i>
Capital Costs	Real Direct Investment		4.35	0.05%
	Capital Transfers		351.9	3.78%
	<i>Subtotal</i>		<i>356.25</i>	<i>3.83%</i>
General TOTAL			9304.7	100%

Source: National Budget Office. Finance Secretariat, Ministry of Economy.

The next Table No. 18, reveals the source of the funds that compose the budget of the Ministry of Education. The vast majority of funding comes from domestic sources. The Treasury, for example, allocates 93.55% of the budget. The remaining 6.25% is provided by foreign sources, or some \$581 million pesos, an important figure considering it does not depend on the economic performance of the State. Should this external financing fall through, the Ministry of Education would find itself in an extremely vulnerable position.

Table No. 18
National Administration. National Ministry of Education.
Composition of Spending by Jurisdiction and Source of Financing. 2008 Budget.

			Millions of Pesos	%
Internal Sources	National Treasury		8704.3	93.55%
	Own resources		0.04	0.00%
	Resources with a specific affectation		18.1	0.19%
	Internal transfers		1	0.01%
	Credit		0	0.00%
	<i>Subtotal</i>		<i>8723.4</i>	<i>93.75%</i>
External Source	External transfers		22.7	0.24%
	External credit		558.5	6.00%
	<i>Subtotal</i>		<i>581.2</i>	<i>6.25%</i>
TOTAL General			9304.7	100.00%

Source: National Budget Office. Finance Secretariat. Ministry of Economy.

The foreign sources that comprise the Ministry of Education's budget, by and large, consist of multilateral lending organizations. The IDB, the WB and the EU have all participated funding operations. Other sources include countries located in Northern Hemisphere and civil society organizations, all which finance projects, social and educational in nature. As we have seen, due to the paucity of funds allocated towards education by the government, these contribu-

tions are vital. At the same time, they entail an increased degree of financial dependency, the consequences of which are potentially worrisome.

Firstly, foreign creditors usually attach conditionality measures to aid. In other words, before disbursing a determined sum of money, an agreement must be reached which dictates how the aid can be used by, for example, specifying policies to be targeted, projects to be undertaken or products to be purchased. This arrangement may undermine the autonomy of the borrower, exacerbating an already dependent relationship, for it may cede significant control to the international organism in question. Secondly, through concessionary credits, multilateral lenders usually attach special interest rates to the aid packages. Given the below-market interest rate, between 5 and 8% as opposed to 12 to 18% for an average loan, this is an attractive option for developing nations. Nevertheless, over the course of time, these loans tend to generate new debts for borrowers, deepening dependency.

In light of aid being attached to conditions and subject to interest payments, educational policy planning becomes a daunting task. Despite the odds, the Ministry of Education has delineated a process of transformation and committed to improve the quality of and access to the national education system, while at the same time strengthening higher education, both affiliated with and independent of the university system. Within the framework of education policy, law number 26.206 establishes the following objectives to be fulfilled in the upcoming years.

- ⊙ Unify the structure of the educational system
- ⊙ Universalize pre-school for children 4 years of age
- ⊙ Establish an extended or complete day for primary school
- ⊙ Establish a policy of mandatory high school education, or the equivalent of 13 years of schooling
- ⊙ Improve the methodology for teaching fundamental science courses
- ⊙ Establish the periodic, partial or total, renovation of the basic curriculum
- ⊙ Organize and structure the training of teachers and extend the career to four years, including residency
- ⊙ Ensure that all adults have complied with the mandatory education measure
- ⊙ Universalize access to new technologies

In order to achieve the aforementioned objectives, the Ministry of Education, through the use of several subordinate organs, adopted several mid and long-term educational policies. Of particular importance to their potential success was the law of Education Financing 26.075. According to its provisions, the Argentine government will significantly increase its investment in education between 2006 and 2010, eventually investing 6% of the GDP. This additional funding would strengthen the university system, calling for its further democratization, and achieve an improvement in quality, innovation and diffusion.

Nevertheless, when we analyze the different areas of budgetary execution, that is to say the composition of the budget according to jurisdiction, it becomes clear that the Ministry of Education faces an uphill battle in achieving all of its objectives (quality, equality, distributive social justice, etc...). To begin with, 62% of all funds are allocated towards higher education, both affiliated with and not affiliated with the university system. Another 20% of the budget is dedicated to the National Fund for Teacher's Incentive; a fund set up to assist certain provinces, divested of the necessary resources needed to comply with the minimum wage requirements.

Taken together, these two expenditures represent 82% of the total budget of the Ministry of Education. In synthesis, the overwhelming majority of national education resources are either controlled by the universities, which operate autonomously from government policy, and by those provinces which cannot meet minimum wage payments on their own.

The remaining 18% is spent directly by the national ministry on educational policies. That such a small percentage is executed directly by the ministry begs the need to consider a paradigm shift; a shift which is unlikely to be completed at this moment. Nobody would ever suggest that funds should be taken away from either higher education or the National Fund for Teacher's Incentive. On the contrary, more funding should be allocated towards both, but

not even the budgetary increase dictated by the Law of Educational Financing will achieve this. The 6% target in funding for 2010 will likely fall short of relieving the budgetary bottleneck that prevents the Ministry of Education from enacting educational policies that will truly accomplish the desired objectives.

Table No. 19
Budgetary Implementation of the National Ministry of Education. 2008 Budget.

DENOMINATION	BUDGET in millions of pesos	%	Potential impact of a possible investment of the total debt swap amount in each of the budgetary items (%) (It is necessary to clarify that the percentages expressed demonstrate the totality of the funds if they were invested in each of the items.)	
			Case 1: 100% Implementation in one year (60 million Euros)	Case 2: Implementation in 3 years, discounting 5% (13.5m pesos) in administrative costs, investing 256.5m pesos, or 85.5m pesos per year over 3 years
Central Activities and other allocations common to other items	93.8	1.0%	287.9%	91.2%
Higher Education development	5.781.6	62.1%	4.7%	1.5%
Curriculum Management	153.8	1.7%	175.6%	55.6%
International Education Cooperation and Integration	16.1	0.2%	1675.7%	530.6%
Information and Evaluation of Education Quality	25.5	0.3%	1058.4%	335.2%
Educational Compensatory Actions	513.8	5.5%	52.6%	16.6%
Service of the Library for Teachers	4.3	0.0%	6332.6%	2005.3%
Infrastructure and Equipment	142.0	1.5%	190.2%	60.2%
Innovation and Development for Technological Training	380.5	4.1%	71.0%	22.5%
Strengthening of Basic, Middle, and Higher Technical Education	5.5	0.1%	4902.1%	1552.3%
Improvement of Education Quality	192.3	2.1%	140.4%	44.5%
Teacher Training Activities	76.3	0.8%	354.1%	112.1%
National Fund for Teacher's Incentive	1.862.2	20.0%	14.5%	4.6%
Contributions to Decentralized Organisms and Transfers	57.0	0.6%	473.3%	149.9%
TOTAL	9.304.6	100%	2.9%	0.9%

Source: Synthesis of data from the National Budget Office. Finance Secretariat. Ministry of Economy.

A counterpart fund, in addition to the funds already allocated for the Ministry of Education, could represent a significant increase in funding for certain sensitive areas. In order to test this hypothesis, we have prepared a simulation of a debt-for-education swap experience, based upon the one announced with Spain in 2005 for €60 million euros. We have broken this simulation down into two variants: Case 1 and Case 2⁹³.

With regards to the former, utilizing budgetary information from 2008, table 19 illustrates the impact of a nominal increase in funding for each area within one year, and without deducting the administrative costs for each project. As can be observed, these additional funds would represent an increase of 14.5% for the Teacher's Incentive Fund and 4.7% for higher education which, in either case, is not a significant increase, considering that these additional funds are projected to last only one year. On the other hand, the same additional funds would make a much more palpable impact in other areas. For example, funds destined towards Educational Compensatory Actions would be increased by 52% and those destined towards Innovation and Development for Technological Training would be augmented by 71%. At the same time, spending in other sensitive areas would also be given a significant boost; Infrastructure and Equipment would receive 190% more funding, while funding to improve teacher training activities would increase by 354%.

The second variant of our simulation, denominated Case 2, has calculated the impact of a swap experience over a three year period, applying a 5% reduction for administrative costs. By area, the increments are as follows: Educational Compensatory Actions 16.6%, Innovation and Development of Technological Training 22%, Improvement Education Quality 44%, Infrastructure and Equipment 60.2%, Activities for Teacher Training 112%, Information and Evaluation of Education Quality 335%. As opposed to Case 1's increment in funding, the increases here reflect growth over a three year period, which means that additional funding may be allocated to broaden and deepen the potential impact of a debt swap on different programs that may be undertaken.

Finally, in order to assess the real impact of additional funding on the budget, we have prepared a simulation focusing on one particular program, of the many, that the Ministry of Education executes. Given the critical need to address educational inequality, we have opted to use as an example the program intended to improve the quality of education in Argentina. The primary objective of said program is the coordination of efforts to strengthen the different levels in the educational system. With the help of international financing, the following actions were set to be carried out in 2008.

- ⊙ Manage the execution of the Program for the Improvement of the Educational System (Loan Contract IDB 1345/OC-AR)
- ⊙ Coordinate the implementation of the Program for the Improvement of Rural Education (Loan BIRF 7353-AR).
- ⊙ Implement actions to be carried out within the framework of the Pedagogical Strengthening Project, partially financed by the European Commission (Financial Agreement ALA/2005/17541-Agreement MECyT No 793/05).
- ⊙ Collaborate in the formulation and manage the execution of the Program for Middle Education and Work Training for Youth Program (Agreement DCI-ALA/2007/18991).
- ⊙ Collaborate in the formulation and manage the execution of the Support Program for the Policy of Improvement of the Equity and Quality of Education (Loan IDB S/No - ARL 1038).
- ⊙ Manage any issues with remaining foreign credits.

The following Table illustrates the objectives that this program attempts to achieve and their respective budgets.

93. Both in case 1 and case 2, we have converted the funds into pesos by using the exchange rate before the crisis, which placed 4.5 pesos to every 1 Euro.

Table No 20
Objectives and Gross Production – Program for the Improvement of Education Quality. National Ministry of Education. 2008

DENOMINATION	UNIT OF MEASUREMENT	QUANTITY
OBJECTIVES:		
Financial Assistance for Rural Schools	School Assisted	400
Education Training for Youth and Adults	Teacher Trained	3,500
Training in School Management	Person Trained	13,000
Distribution of Computer Equipment to Rural Schools	School Participated	2,000

Source: National Budget Office. Finance Secretariat. Ministry of Economy.

Within this context, if, over the course of a year, 100% of the funds could be allocated to this program in Case 1, the Treasury's contributions would be incremented by six times, which would also double the amount of foreign funding. This would reduce Argentina's dependency of international funding, while underscoring the participation of the State, and ultimately increasing the direct impact of this program. In synthesis, the above-mentioned additional funds would increase by 140% the funds allocated towards programs that aim to improve the quality of education.

Table No 21
Budgetary Implementation of the Program Improvement of Education Quality National Ministry of Education. Budget 2008

Budgetary Allocations	Quantity in millions of pesos	%	Potential impact of a possible investment of the total debt swap amount in each of the budgetary items (%)	
			Case 1: 100% Implementation in one year (60 million Euros)	Case 2: Implementation in 3 years, discounting 5% (13.5m pesos) in administrative costs, investing 256.5m pesos, or 85.5m pesos per year over 3 years
1. National Treasury	41.3	21.5%	654.3%	207.2%
1.1. Staff expenses	1.3	0.7%	20004.8%	6334.9%
1.2. Consumption goods	0.0	0.0%	2250000.0%	712500.0%
1.3. Transfers	36.7	19.1%	735.4%	232.9%
1.4. Non-personal services	3.2	1.7%	8476.6%	2684.3%
2. External Transfers	22.7	11.8%	1188.2%	376.3%
2.1. Consumption goods	0.1	0.1%	249537.9%	79020.3%
2.2. Non-personal services	17.0	8.9%	1585.1%	501.9%
2.3. Transfers	5.6	2.9%	4837.0%	1531.7%
3. External Credit	128.3	66.7%	210.4%	66.6%
3.1. Staff expenses	3.3	1.7%	8123.6%	2572.5%
3.2. Consumption goods	0.1	0.1%	217741.9%	68951.6%
3.3. Non-personal services	33.8	17.6%	797.9%	252.7%
3.4. Transfers	91.0	47.3%	296.6%	93.9%
TOTAL	192.3	100%	140%	44%

Source: Synthesis of data from the National Budget Office. Finance Secretariat. Ministry of Economy.

With regards to Case 2, which calculates the increment in funding over a three year period, we see that the impact of this program would also be significant. The funding derived from the Treasury would almost be doubled. At the same time, the dependency on foreign credits would be cut by half, at least for the three year period that the program lasts. Ultimately, the funds made available by the debt swap would entail a total 44% increase over three years, once administrative costs are deducted.

Thus, a cautious estimate for this scenario would calculate a 22% annual increase on the 2008 budget, over three years. Financial aid would reach 488 to rural schools. Teacher training for youths and adults would reach 4,270. Training in school management would increase to 15,860 establishments and 2,440 rural schools would receive computers.

It has been shown that a debt-for-education swap experience could help free up funds and, in doing so, allow the Argentine government to focus on important social policies that would improve the quality of life for those who really need it. Removing conditionality and special interests that often accompany development aid would help break the vicious cycle of dependency. In addition, the establishment of one fund, consisting of resources from various creditors, would streamline the process, reduce administrative costs, and other expenditures that these experiences incur. The implementation of educational policies would be smoother and intervention broader. The proposal to develop a global fund, Debt4Education, whose objective is to make education accessible for all, requires the proper institutionalization and necessary resources in order to be a true multilateral initiative.

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RECOMMENDATIONS AND FUTURE PERSPECTIVES

In order to maximize the potential impact of debt swaps on education budgets, it is essential to advance with the constitution of multilateral funds. The EcoFund experience in Poland and the Debt2Health initiative of the Global Fund, demonstrate that it is possible and desirable to coordinate creditor actions when negotiating debt swaps for social investment. In this direction, **UNESCO** could lead a similar proposal under the guidelines established by the Working Group on Debt for Education Swaps, an initiative which could be denominated **Debt4Education**.

Ultimately, in order to break the vicious cycle of budgetary constraints and economic dependency caused by the debt, it is necessary to advance with integrative audits of the debt. Not only must the financial impact of the debt be evaluated, but the economic, social, and environmental effects as well. Finally, this audit must determine which branches of the debt are legitimate and which are not.

Debt for education swaps are an innovative mechanism which could substantially increase investment in the education sector. The potential of the initiative depends upon the adoption of a framework of guidelines articulated by the UNESCO Working Group on Debt for Education Swaps.

As has been demonstrated, an effective and efficient use of resources would maximize the impact of education policies in our countries. In order to bridge the gap in learning levels due to socioeconomic divisions, special attention should be paid to those areas related to education quality and inclusion, teacher training, and school infrastructure.

In this sense, it is necessary to advance on two fronts, which on the surface appear disconnected, but in practice are complementary in the struggle to end the development trap the debt places on the budgets of priority social investments, such as potable water, infrastructure, employment, education, health and housing.

Firstly, it is fundamental that progress is made in the constitution of multilateral funds in order to improve and sustain the increase in education investment. The cases of the EcoFund in Poland and the Debt2Health program of the Global Fund, demonstrate that it is possible and desirable to coordinate actions among creditors when negotiating debt swaps for social investment. As such, when the UNESCO Working Group on Debt for Education Swaps articulated various principles for future swaps in its Draft Report for the Director-General, it highlighted that “even greater sums can be achieved if a multilateral agreement is signed with various creditors, pooling the resources into a single fund.”⁹⁴

Similarly, the Working Group recommended that UNESCO establish an “Expert Committee on Debt Swaps for Education to ensure (its) leadership and promote the mentioned guidelines in future initiatives,” and that the “Committee could be invited by the bilateral and multilateral initiatives established to implement debt swaps to monitor and conduct impact assessment, in order to guarantee that the funds generated are utilized ethically and efficiently.”

A Eurodad report from 2007, declares that the process initiated by the UNESCO Working Group, could evolve towards the creation of a fund for financing education paralleling the Global Fund for health. This report also recognizes that contrasting the Global Fund, UNESCO does not yet have the management capacity necessary to administer the resources, and above all, lacks the financing.⁹⁵

Recognizing these limitations, the Working Group proposes two key recommendations:

1. The Working Group considers that UNESCO, in fulfilling its mandate in the field of education and resource mobilization, should actively lead the promotion of debt for education swap initiatives and contribute to ongoing debt swap experiences.
2. The Group recommends that the necessary administrative and technical capacities of UNESCO be strengthened to better consolidate this leadership.

In this direction, this document reinforces the call for UNESCO to create the necessary conditions, particularly in financing and technical capabilities, needed to initiate in the medium term a multilateral mechanism for managing and administering swaps under the proposed name **Debt4Education**.

94. UNESCO – Working Group on Debt Swaps for Education (2007), *Draft Report for Director-General of UNESCO*, Buenos Aires, Argentina.
http://www.unesco.org/education/EFAWGSDE/WGDSE_2nd_draftreportforDG_EN.pdf

95. *Canjes de deuda por desarrollo. Respuesta creativa o cortina de humo? - Informe de Eurodad*, Bruselas, Bélgica. (2007)
http://www.oei.es/deuda/Canjes_de_deuda_por_desarrollo_Eurodad_November2007.pdf

Secondly, in order to optimize the conditions for implementing policies which serve to improve the distribution of income in developing countries, it is critical to confront the larger question of national public finances. Internal and external sources of credit will continue to be important instruments for public policy. Yet history demonstrates that this economic tool has been used irrationally, and at many times against the sovereign interests of developing nations through external pressures and conditionality, as well as non-transparent practices. As such, the year after year weight of debt amortizations, interests and commissions has strangled the social spending of national budgets.

Therefore, in order to break the vicious cycle of the debt, it is essential to advance with integral audits of the debt, evaluating not only its financial impact, but the economic, social and environmental ones as well, and reveal which portions are legitimate and which are not.

Only upon acquiring the truth about the past, will our societies begin to construct a different future. In the end, the only possible horizon worth working towards is that which improves the quality of life of our people; a path which must disarticulate the policies which produced the scandalous inequalities which we suffer. This document is a reflection in this direction.

Buenos Aires, March 2009

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