DIALOGUE

La lettre d'information de DIAL

Number 37 October 2013

IRD
Institut de recherche pour le développement

DAUPHINE
UNIVERSITÉ PARIS

DIALOGUE
est une publication
semestrielle de DIAL
éditée à 1.500 exemplaires
en français et en anglais.

Formule d'abonnement
gratuit disponible sur notre site
www.dial.prd.fr

Publisher:
Michel Laurent
Editors in Chief:
Flore Gubert
Philippe De Vreyer
Layout:
Coryne Ajavon
Danielle Delmas
Graphic design:
www.iAntal.com

ISSN No.: 3451-7761

UMR DIAL 225
Institut de Recherche pour le Développement
Université Paris-Dauphine

Editorial

Sixteen trillion seven hundred billion. That's the debt ceiling the United States will reach in mid-October. If Congress does not raise it by then, the country could be forced to default on its payments. Back in Europe, although debt is much lower than in the United States, including as a percentage of gross domestic product, talk is now of writing off part of the continent's debts. Just a few years ago, this sort of problem would have been unthinkable outside of the developing countries. Yet the Bretton Woods organisations and the structural adjustment programmes have stepped in as European countries have found themselves incapable of paying back debt generated in the 1970s, which had become a crushing burden following the dollar's appreciation in the early 1980s. Although the poor countries were diagnosed as debt distressed back in the late 1970s, it took ten years for the first debt relief to be granted in a process that culminated in the HIPC initiative in the mid-2000s. What are the outcomes of this initiative? Has it done any good to the people in the countries concerned? What reforms have been introduced to prevent the problem from raising its head again in the near future? Aside from the prospective benefits of debt relief, have the countries in question regained their borrowing capacity? Marin Ferry and Marc Raffinot address these issues and others in the article following this editorial. They consider the conditions that can make a debt relief agreement beneficial for all. At a time when debt write-offs, in a twist of fate, are starting to look to be a possibility for the developed countries, the experience of the developing countries could prove invaluable.

This issue of DIALOGUE also reports on the joint research unit's work. The French Evaluation Agency for Research and Higher Education (AERES) evaluated the unit in November 2012. The marks were presented in spring 2013, so we can now take stock of what this evaluation means for the unit. And it is a very bright picture indeed. The evaluators point up the quality of DIAL's scientific research. They appreciate the involvement of our members in research training and our work to communicate our researchers' studies to a broader audience than the academic world. Recognition of the quality of DIAL's work encourages us to take forward our efforts to raise the unit's profile in the economic development research landscape while continuing to work closely with the countries that represent the terrain for this research. We do this mainly by holding scientific events and actively participating in researcher networks. For example, we held two major conferences in Paris in June this year: the 11th international workshop on pensions and the second international DIAL conference on development. This spring also saw the first workshop held in Rio de Janeiro on the European NOPOOR programme headed by DIAL.

Flore Gubert & Philippe De Vreyer

D I A L
Développement Institutions & Mondialisation

4, rue d'Enghien • 75010 Paris • Téléphone (33) 01 53 24 14 50 • Fax (33) 01 53 24 14 51 • www.dial.prd.fr

The impacts of the debt relief initiatives

As the multilateral debt relief initiatives draw to a close, studies abound on their economic and social impacts. Although the basic target of debt sustainability for the heavily indebted poor countries appears to have been met, at least for now, the growth and development outcomes of these initiatives are mixed and inconclusive.

1. Introduction

UNCTAD diagnosed the debt distress of the low-income countries (LICs) back in the late 1970s. Yet it took ten years for debt relief to be granted. The first moves were purely bilateral and were disorganised until the Paris Club stepped in to coordinate. Paris Club treatments have become increasingly favourable. In 1988, the Toronto terms provided for a 33% reduction in bilateral debt service. The Naples terms (1994) raised this reduction to 66% and extended it to the entire stock of bilateral debt claims. Relief was eventually raised to 90% by the 1999 Cologne terms, at which point most of the creditors decided to cancel the rest of the bilateral debt.

However, this still left multilateral debt weighing on the LICs (generally sub-Saharan African countries), debt that had been contracted mostly with the International Monetary Fund, the World Bank and the African Development Bank. Despite the bilateral treatments, the multilateral organisations continued to grant concessional loans (Leo, 2009) for sums far greater than the cancelled debts (Easterly, 2002). So in 1996, the G7 decided to break with the principle of untouchable multilateral debts and set up a debt relief programme for countries defined as heavily indebted poor countries (HIPC).[1] This first initiative was based on quite strict eligibility criteria, which were relaxed in 1999 when the new Enhanced HIPC Iniative was brought in operating along the same lines.

However, the 2015 Millennium Development Goals and increasing pressure from NGOs to cancel the "third world debt" led G8 leaders to launch the Multilateral Debt Relief Initiative (MDRI) in 2005. In a total turnaround, this initiative set out not to reduce, but to cancel all outstanding multilateral debt.

To be considered for the HIPC Initiative, countries first have to satisfy the abovementioned eligibility criteria. Once eligible, they undertake to apply, right from the "decision point", a macroeconomic programme drawn up with the IMF and IDA to stabilise their public finances, strengthen their economic fundamentals and reduce poverty. Once a country reaches its decision point, it receives relatively large partial debt relief conditional on the application of this programme. This interim phase generally lasts three to five years. It entails specific goals defined by the IMF. Once the country has met these goals, it can reach the completion point that marks the end of the HIPC process. The HIPC debt relief granted then becomes irrevocable and, since 2005, involves the full cancellation of outstanding multilateral debt under the MDRI.

These HIPC and MDRI debt relief initiatives have written off a total of nearly US $76 billion[2] in debt. These cancellations of the external debt of 39 low-income countries may seem a pittance compared with relief in middle- and high-income countries, but they are huge in relative terms. They represent just over all the subsidies granted to all the HIPCs in constant dollars from 2009 to 2011.

2. Debt relief target outcomes

Debt relief is granted when a lender decides to waive a certain amount of debt (a claim). For the borrower, this means an immediate and future debt service reduction.

Debt relief is provided with respect to the public external debt. Governments are therefore the prime beneficiaries, since relief enables them to free up sums previously spent on debt service. So, in addition to resumed debt sustainability, relief is designed to encourage an increase in public spending on poverty reduction and generate incentives to raise revenue. Debt relief is hence said to create "fiscal space" (Heller, 2005) by freeing up fiscal resources[3] initially earmarked for debt service payments. Resources can then be reallocated to development-driven public spending such as public investment in infrastructure. These initiatives are therefore supposed to have a positive effect on public capital accumulation and also human capital accumulation where

[1] HIPC Initiative eligibility criteria are based on the level of per capita GDP and the levels of the debt sustainability ratios (debt-exports, debt-GDP, etc.)

[2] In present value, end 2011.

[3] The beneficiary country does not gain more cash revenue. It is simply able to reallocate resources freed up by debt relief to its chosen public expenditure category without compromising public debt sustainability.

the public spending resources freed up are put into education and health. These savings could also go towards reducing the government deficit and even lightening the tax burden. However, there is a worrying possibility that poor quality institutions in these countries could actually waste the sums freed up.

The creation of fiscal space relates to the idea that debt relief lifts the real burden of debt service payment. Debt overhang theory (Krugman, 1988, and Sachs, 1989) takes this further by seeking to show that too much government debt over and above a certain threshold will undermine economic growth (shifting the issue from debt to debt distress). It argues that governments in this situation will not invest or reform out of fear that any resulting increase in revenue will be creamed off by creditor fines. Yet the burden of debt overhang also extends to private capital accumulation. A large stock of debt can discourage national and foreign investors since too much debt points to a potential rise in taxation. Economic stakeholders, fearing such a tax adjustment, may well abstain from investing in a debt distressed country and may even, in a worst-case scenario, trigger massive capital flight.

These different approaches posit that the mechanisms set in motion by unsustainable debt generally prompt a reduction in the level of public and private investment in the borrower country, thereby putting a brake on the capital accumulation process and ultimately economic growth. It is argued that debt relief lifts these obstacles to economic development and enables beneficiary countries to embark upon a dynamic, virtuous growth path. An entire body of literature has set out, more or less successfully, to empirically check this negative relationship between debt and growth as it forms the main principle behind these debt relief initiatives (Elbadawi, Ndulu & Ndung'u, 1997; Patillo, Poirson & Ricci, 2002; Cordella, Ricci & Ruiz-Arranz, 2005; Clements, Bhattacharya & Nguyen, 2003, 2005; Chowdhury, 2006; Reinhart & Rogoff, 2010; Presbitero, 2008, 2012).

Yet the literature on debt relief initiatives also points up certain potentially negative effects. Debt relief could generate a moral hazard by reducing the HIPCs' incentives to pay on their debts in the future, which could prompt them to relax their fiscal constraints and hence maintain poor quality institutions.

3. Debt relief evaluation methodologies

Many recent studies seek to find whether these positive and negative effects can be observed empirically following debt relief. This raises the immediate problem: how do you measure debt relief?

The easiest way is to use the cancelled stock of debt on the write-off date. Given that this stock is an aggregate of loans with different "weights", it is often advisable to take the stock recalculated by discounting all the debt service payments (present value) rather than to take the stock at its face value. Unfortunately, the IMF does not supply this value every year and the choice of discount rate is always somewhat arbitrary. In addition, the sums are virtual in that they are not real financial flows. So this approach is best used when seeking to test effects in terms of behavioural changes. Nevertheless, studies in the mid-2000s are largely based on this concept of debt relief in their evaluation of the impacts of HIPC initiatives on economic growth and public investment (Kraay & Chauvin, 2005; Johansson, 2007; Presbitero, 2008).

Some studies simplify the issue by using dummy variables to mark the HIPC decision point or completion point date. Although this approach has turned up substantial impacts in some cases (Tsafack Temah, 2009; Schmid, 2009), it remains risky since the effects found by the theory almost all depend on the amount of relief granted.

So these two approaches are inappropriate when it comes to testing an effect that channels through the creation of fiscal space. In this case, it is actually the annual debt service savings that become relevant as impacts depend on the magnitude of the sums available each year. However, this measurement assumes that the debts would have been paid had the debt relief not been granted. Yet a large part of these debts is generally deemed irrecoverable (Cohen, 1990, 2000; Hernandez & Katada, 1996; O'Connell & Soludo, 2001). This approach is hard to put into practice, since it calls for a calculation of what the country would have paid in the absence of debt relief, which, here again, assumes a certain extent of arbitrariness.

Moreover, debt relief can hardly be analysed on its own. It is part of a sum total of external financial resources. The developing countries insisted on additionality for the relief granted (it cannot come with reductions in other aid flows). Yet even though this request is more or less respected on the whole, the situation differs a great deal from one country to the next. The risk of iniquity this brings has actually prompted IDA[4] to systematically reduce new flows to countries granted debt relief.

The additionality problem combined with the assumption of repayment in the absence of debt relief has significant implications for the "flow-based evaluation" of fiscal space effects specific to the HIPC and MDRI initiatives. If a country pays back all its debt before any debt relief process is put in place and the debt relief is provided without offsetting reductions in other aid flows (making the relief additional), then the country will indeed find itself with fiscal space. However, in the case where a country does not previously repay its debt, the debt relief will do nothing to change the initial situation and the country will gain no fiscal space. Similarly, if a country repays its debt, but the debt relief is not additional and aid flows fall, the fiscal space initially generated by the debt relief will be cancelled out by the subsequent reduction in these aid flows. Lastly, in the scenario where the beneficiary country does not repay its debt and the debt relief is not additional, the country will suffer a net loss since it will have no fiscal space and will even post a downturn in net financial inflows.

4. *Debt relief and fiscal impact*

A series of studies seeks to evaluate the impact of debt relief on public spending in general and certain sector expenditure in particular.

The few studies conducted in the mid-2000s (Kraay & Chauvin, 2005; Arslanalp & Henry, 2005; Johansson, 2007; Presbitero, 2008) to evaluate the impact of the debt relief initiatives on public investment and growth are inconclusive. This is most probably due to relatively short observation periods. Most of these studies cover periods generally ending in 2003, which makes it hard to correctly evaluate the impact of debt relief granted mainly in the early 2000s (especially under the Enhanced HIPC Initiative).

Consequently, starting in 2008, new analyses were conducted using more recent data to again seek to identify the effects of debt relief initiatives on different fiscal variables. These studies find a certain amount of fiscal space created by the debt relief programmes in the HIPC countries. This fiscal space is conducive to public development spending, but is also financially sustainable given the positive impacts observed on tax revenues. Consequently, these findings suggest that debt relief procedures redefine fiscal policy and change the beneficiary government's accounts balance, contrary to previous findings by certain theoretical analyses (Bird & Milne, 2003; Burnside & Fanizza, 2007).

From this point of view, it is put that the multilateral debt relief initiatives have created new opportunities for development through the public sector, but also through the private sector in view of the complementarity of these two sectors in the HIPC countries (Sachs, 2002).

In keeping with the abovementioned theoretical predictions, these studies empirically prove that the HIPC and MDRI programmes are conducive to an increase in domestic revenue, public investment (Cassimon & Van Campenhout, 2008; Cassimon *et al.*, 2013) and public development spending, especially healthcare expenditure (Tsafack Temah, 2009).

The increase in revenue induced by this debt relief ties in with the idea of debt overhang whereby a country with less debt is more inclined to apply a more efficient fiscal policy. Unlike a debt distressed country, a government with a "reasonable" amount of debt could perfectly honour its commitments, which would prevent it from having to endure a non-repayment fine imposed by the international lenders. This country would then secure the full benefits of its fiscal effort (the marginal revenue collected). However, a debt distressed country would find a more efficient fiscal policy less worthwhile since it would not have full use of the proceeds of its efforts, as these earnings would accrue to creditors.

Lastly, a study by Cassimon *et al.* (2013) identifies the importance of each multilateral debt relief procedure in generating these impacts. The study posits that the positive effects on public investment and fiscal response are relatively long term and are driven mainly by the fiscal resources freed up by the Enhanced HIPC Initiative debt relief and the conditional implementation of the IMF programmes attached to it.

5. *Debt relief and the Millennium Development Goals (MDGs)*

Some studies have taken the research further, looking into whether these fiscal "resources"

[4] International Development Association, World Bank fund for low-income countries.

freed up by debt relief have actually helped improve human development outcomes.

Impact on public education and healthcare expenditure

Public monies freed up by debt relief initiatives are found to be reallocated to public investment (as detailed above), but could also be allocated to more specific social expenditure such as education and healthcare. Thomas (2006) shows that an increase in debt service (to exports) in the LICs reduces the level of social spending on average. Lora & Olivera (2006), however, find that a large stock of public debt tends to reduce social expenditure. Consequently, in view of these findings and the findings presented above, it is tempting to believe that putting in place the HIPC and MDRI initiatives with the main aim of reducing debt actually increases social expenditure, which is key to the achievement of the MDGs (Gupta *et al.*, 2002).

Yet studies by Thomas (2006), Lora & Olivera (2006) and Martin (2002) point out that debt relief does not free up enough additional social expenditure to make the necessary adjustment to meet the MDGs by 2015.

Despite the arguably minor contribution of these programmes to social spending, Cuaresma & Vincelette (2008) focus on the impact of the HIPC initiative on education expenditure and on a range of indicators representative of the efficiency of the education system. Their study's findings do not bear out the assumption that debt service savings increase public spending on education. However, the authors do show that primary education drop-out rates decrease significantly after the HIPC initiative completion point. The HIPC initiative and especially the conditionality attached to the interim period would therefore appear to have a positive impact on the education system and to encourage pupils to complete their schooling, at least at primary school level. Their analysis shows therefore that the HIPC initiative does not raise primary school enrolment rates, but does significantly reduce drop-out rates and so in some way helps steer countries towards the target enrolment rate (for primary education) recommended by the MDGs for 2015.

In the same vein, Dessy & Vencatachellum (2007) observe that the debt relief granted to sub-Saharan African countries from 1989 to 2003 in effect raised education and healthcare expenditure, essentially in countries that improved the quality of their institutions. In a more recent study, Tsafack Temah (2009) shows that the Enhanced HIPC Initiative has helped raise the level of public healthcare spending in the beneficiary countries, lending here too empirical support to the hypothesis of fiscal space conducive to financing poverty reduction expenditure.

Impact on infant mortality

Again with an eye on the MDGs, Schmid (2009) tests the impact of the Enhanced HIPC Initiative on infant mortality trends. He uses household data to demonstrate that the interim period between the decision point and the completion point is relatively conducive to a reduction in infant mortality rates. Nevertheless, the author points out that this improvement is not entirely due to the debt relief itself. It also owes a great deal to the poverty reduction programme implemented during this transition phase. Schmid moreover explains that this improvement is not necessarily driven by an increase in healthcare spending following the debt write-off and that the rate drop could also be largely due to other factors such as the more traditional aid flows. He therefore feels it important to promote the conditional debt relief initiatives, but in keeping with the principle of additionality firmly defended by the beneficiary countries.

6. Debt relief and impact on financing

Debt relief initiatives have also changed beneficiary countries' situations by facilitating the appearance of new sources of financing for these countries almost entirely excluded from market financing for more than 30 years. The HIPC and MDRI initiatives have paved the way for new financing opportunities such as the development of domestic financial markets by improving the sustainability and hence credibility of the countries that have reached the completion point (Dömeland & Kharas, 2009). A growing number of HIPC countries are managing to finance part of their public debt on their domestic markets and are gradually breaking away from the international financial institutions' concessional loans and their attached conditionality. Other HIPC initiative beneficiary countries such as Ghana, the Republic of the Congo and Rwanda have managed to diversify their sources of financing by issuing treasury bonds on the international financial markets. It is also put that the improvement in the financial health of these countries tends to increase their attractiveness, giving them opportunities to find new capital inflows (in the form of direct and/or portfolio investment).

Nevertheless, some studies warn of the potential negative effects of international financial market access and the development of domestic bond markets in the HIPCs.

Debt relief initiatives change the borrowing terms on the international markets (Raffinot & Venet, 2013), making this type of financing either easier to obtain (the debt write-off restructures the government balance sheet, giving the government fiscal resources to finance new debts) or harder to secure (the debt relief reflects the country's chronic inability to honour its debts and sends a negative signal to international investors). However, even if, as the most recent statistics imply, financing on this type of market is becoming more accessible, contracting new debts would still represent a threat if it were not effectively supervised. The beneficiary countries do not always have the capacities to endogenously and consistently collect the revenue needed to pay off these new debts. In addition, the borrowing terms granted these countries may well be more reasonable, but they remain a huge constraint in terms of maturity and interest rates compared with concessional financing.

Turning to domestic debt, the take-off of still-immature markets also brings new, but generally short-term sources of financing with relatively high interest rates. This leaves the door open for domestic debt servicing, which could again crowd out development spending.

Arnone & Presbitero (2006) look into the impact of debt relief on the development of new sources of financing. The authors show that an HIPC initiative debt write-off is associated with growth in domestic government debt.[5] Similarly, Cabrillac & Rocher (2009) observe a relatively large upturn in sub-Saharan Africa's domestic debt since the mid-1990s, mainly in HIPC initiative countries. However, this increase in domestic debt goes hand in hand with easier borrowing terms, representative of greater confidence in the capacity of these States to honour their commitments. For example, the average maturity associated with HIPC countries' public debt issues more than doubled from 2000 to 2007, the sharpest growth on the continent over this period.[6] The debt relief initiatives would therefore appear to have encouraged the development of these financial structures which, if properly regulated, could prove extremely beneficial to these countries' development.

Yet the MDRI initiative also drives a significant drop in aid flows to countries granted this ultimate debt cancellation procedure. Very few impacts of this compensatory downturn (non-additionality), known as MDRI Netting Out (Cassimon & Van Campenhout, 2008; Cassimon *et al.*, 2013), have as yet been identified but it stands to reason that they will be detrimental to the appearance of any fiscal space conducive to the development of these countries still highly dependent on foreign financing.

7. *Debt relief, governance and lender recall*

As seen from the abovementioned findings, debt write-offs have considerable social and economic effects. However, their impacts could also be of an entirely different, more institutional nature. This point is crucial since, in an argument put forward by Easterly (2002), it could be said that if the bad institutions responsible for the debt distress were to carry on as they were, this "business as usual" approach would produce the same effects after the debt relief.

Debt relief and institutional quality

The conditional implementation of macro-stabilisation and poverty reduction programmes could change how government bodies are run (Dömeland & Kharas, 2009). The debt overhang approach implies that countries granted substantial debt relief are more inclined to apply effective economic policies and seek to improve their institutions. Two areas of research have focused on this issue.

The first area discusses the possible role played by institutional quality in the granting of debt relief programmes. This is an important focus as it could turn up reverse causality between debt relief and institutions. Freytag & Pehnelt (2006), Depetris-Chauvin & Kraay (2006) and Presbitero (2008) draw on the literature on the determinants of development assistance allocation to show that the granting of debt relief initiatives is relatively sensitive to the institutional quality of the beneficiary countries. And the international financial institutions (IFIs) do indeed appear to have factored the quality of beneficiary countries' institutions more into their debt relief decisions over the years. These studies estimate

5 Public debt contracted with residents

6 Sharper than growth on the continent as a whole, in sub-Saharan Africa as a whole and the continent excluding HIPC countries.

the probability of receiving debt relief (and relief amount prospects) based on various factors such as debt level, poverty rate, colonial past, the proportion of development assistance received[7], and institutional quality.[8] They find a higher probability for countries with "good" institutions.

Yet this positive relationship between debt relief and governance did not come into being until the early 2000s, pointing to a certain "learning curve" for the IFIs. The fact that despite debt relief received in the 1980s and 1990s, certain countries failed to attain sustainable levels of debt due mainly to poor programme management (Easterly, 2002; Thomas, 2004) is thought to have made the IFIs more stringent about institutional quality. It is put that compliance with this implicit criterion aims to ensure that the funds received through the debt relief initiatives are used correctly and do not generate new borrowing requirements. Similarly and theoretically, Asiedu (2003) shows that these countries need to achieve a minimum threshold of institutional quality for their debt relief to be effective and set them back on the road to buoyant economic growth.

The second strand of this literature focuses on an "ex-post" analysis of these programmes. It studies the potential impact of these initiatives on institutional quality. The first theoretical studies on debt relief (Krugman, 1988; Sachs, 1989) take the idea that reducing the debt burden can encourage beneficiary governments to engage in more reforms and therefore ultimately improve their institutional quality (especially in terms of taxation). A number of studies (Presbitero, 2008; Dömeland & Kharas, 2009; and Depetris-Chauvin & Kraay, 2005) set out to test this positive relationship between debt relief and institutional quality, but do not identify such a correlation. They find a few positive effects, but they are mostly non-significant and are tainted by debatable empirical specifications, preventing any accurate observation of the relationship between institutional quality and debt write-offs.

To date, then, the body of literature on the connection between debt relief and institutional quality is relatively small and inconclusive.

Debt relief, new debt and moral hazard

A total of 35 countries have reached the completion point and come to the end of the HIPC process. Yet huge challenges still lie ahead in terms of improving their financial health and the appearance of new financing channels.

The development of new sources of financing in HIPC and MDRI initiative countries and the temptation to enter the international financial system could, as mentioned above, place heavy financial pressure on government budgets, again making their situation unsustainable.

The HIPC countries could moreover easily end up making the same mistakes by ploughing new borrowing into expenditure that does little for growth in the hope that the international community will write off the new debt sooner or later. This would be extremely detrimental considering the financial sums invested and the debt relief initiative efforts made. Yet the risk is contained by the fact that most of the borrowing open to these countries is available from a very small number of public organisations.

8. Methodological problems

Findings on the socioeconomic and institutional impacts of the multilateral debt relief initiatives hence differ from one study to the next. One of the reasons for this heterogeneity is the variety of methodologies used in this literature. The researchers analysing these programmes have rivalled each other in their inventiveness to correctly measure the debt relief and properly evaluate its effects on development.

One of the main characteristics of this literature is, as mentioned above, the plethora of measures designed to quantify the debt relief. The variety of effects induced by these initiatives depends largely on the debt relief measurement chosen in the empirical specification.

Studies on the impacts of the sums written off have found very few effects generated by these initiatives (Kraay & Chauvin, (2005); Johansson, 2007; Presbitero, 2008). Although they concur more with the signal phenomenon and decrease in private investment found in debt overhang theory, they do not manage to identify a relationship. However, the studies measuring debt relief in terms of flows do identify a relatively large fiscal space with fiscal repercussions in terms of both revenue and expenditure (Cassimon & Van Campenhout, 2008; Cassimon *et al.*, 2013). However, this second approach

7 Excluding debt relief.
8 Measured by the World Bank CPIA score and the World Governance Indicators (WGI).

remains subject to the hypotheses of additionality and post-debt-relief repayment.

From an econometric point of view, the majority of the studies seek to evaluate an average effect for the debt relief initiatives with studies on LIC panels. Yet, here too, the nature of the panels and specifications used produce divergent findings. Some studies are based on far too wide a range of countries (low- and medium-income countries), meaning that they scale up the potential effects of self-selection already induced by HIPC initiatives. Some of these studies are based on observation periods that are too short, which also undermines the observation of debt relief effects. The weakest findings are those produced by the panel studies that divide their study period into sub-periods of three to five years. These analyses seek to evaluate the impact of debt relief in T on different economic aggregates in T+1, with the last period generally running from 1999-2001 to 2003-2004. They hence fail to identify the effects generated by the HIPC initiative (and even less so by the MDRI) since the programmes were implemented mainly during this last period (and without specific conditionality in the case of the MDRI).

Other avenues of research are explored. Dijkstra [2008] presents case studies, which bring out the particularities of the beneficiary countries, but make it harder to gain a picture of the whole. Dijstra shows, for example, that debt relief was at odds with the IFIs' continued loan financing. Bigsten *et al.* (2004) set out to analyse the impact of debt relief with computable general equilibrium models, showing that the debt write-off initiatives sustainably step up economic growth in the medium run when the increase in public expenditure induced by the HIPC initiative drives up the level of human capital and puts money into the private sector (given the complementarity between private and public sectors).

Some studies assign dummy variables at the decision and/or completion point (Tsafack Temah, 2009) and even use Diff-in-Diff specifications in their impact evaluation methods (Cuaresma & Vincelette, 2008). Others also use dummy variables with different lags to observe whether the initiatives have impacts around the completion or decision points (Schmid, 2009) rather than at the point itself (one, two or three years after the completion point, for example). Although these methodologies remain debatable and by their very definition do not single out the impacts of these initiatives by debt relief amount, they have furthered the identification of certain effects on variables crucial to the achievement of the Millennium Development Goals (healthcare expenditure, Tsafack Temah, 2009; primary drop-out rates, Cuaresma & Vincelette, 2008; and infant mortality, Schmid, 2009).

Conclusion

Generally speaking, the most recent studies have qualified the relatively weak and negative findings of the analyses of the late 1990s and early 2000s. Longer observation periods and HIPC completion by many countries have given researchers the hindsight they need to identify the benefits of these programmes and the potential future risks that these countries could face.

Four eligible countries have not yet reached the completion point (Chad, Eritrea, Somalia and Sudan) and some linkages between debt relief and economic development have not yet been studied in enough depth. More detailed research is therefore needed in this area if the HIPCs are to maximise the benefits of their debt relief.

Marin Ferry
Marc Raffinot

References

Arnone M., and Presbitero A. F. (2006), "External Debt Sustainability and Domestic Debt in Heavily Indebted Poor Countries", Working Paper 002.MPRA (*Munich Personal RePEc Archive*). Paper No. 1396.

Arnone M., Bandiera L. and Presbitero A. F. (2006), "Debt Sustainability Framework in HIPCs: A critical Assessment and Suggested Improvements", SSRN Working Paper Series.

Arslanalp S. and Henry P. B. (2005), "Is Debt Relief Efficient?" *The Journal of Finance*, Vol. 60(2), April, pp. 1017-1050.

Asiedu E. (2003), "Debt relief and institutional reform: a focus on Heavily Indebted Poor Countries", *The Quarterly Review of Economics and Finance*, Vol. 42, 2000, pp. 614-626.

Bigsten A., Levin J. and Persson H. (2004), "Debt Relief and Growth; A study of Zambia and Tanzania", In Debt Relief for Poor Countries, Part II, pp. 181-205.

Bird G. and Milne A. (2005), "Debt Relief for Low-income countries: Is it Effective and Efficient?", *World Economy*, Vol. 26(1), pp. 43-59.

Cabrillac B. and Rocher E. (2009), “Les marchés de titres de la dette publique dans les pays africains en développement : évolution récente et principaux défis”, *Bulletin de la Banque de France*, No. 176, 2nd quarter.

Cassimon D., Ferry M., Raffinot M. and Van Campenhout B. (2013), “Dynamic Fiscal Impacts of the Debt Relief Initiatives on African Heavily Indebted Poor Countries (HIPCs)”, DIAL Working Paper, DT 2013-01.

Cassimon D. and Van Campenhout B. (2008), Comparative Fiscal Response Effects of Debt Relief: an Application to African HIPCs”, *South African Journal of Economics*, Vol. 76(3), pp. 427-442.

Cassimon D. and Van Campenhout B. (2007), “Aid Effectiveness, Debt Relief and Public Finance Response: Evidence from a Panel of HIPC Countries”, *Review of World Economics*, Vol. 143(4), pp. 742-763.

Cassimon D. and Van Campenhout B. (2006), “Aid Effectiveness, Debt Relief and Public Finance Response: Evidence from a Panel of HIPC Countries”, Working Paper, University of Antwerp. *Institute of Development Policy and Management (IOB).*

Chowdhury Abdur R. (2001), External Debt and Growth in Developing Countries: A Sensitivity and Causal Analysis. Discussion Paper No. 2001/95.*United Nations University, WIDE.*

Clements B., Bhattacharya R. and Nguyen T-Q. (2005), “Can Debt Relief Boost Growth in Poor Countries?” *Economic Issues,* No. 34, International Monetary Fund.

Clements B., Bhattacharya R. and Nguyen T-Q. (2003), “External Debt, Public Investment, and Growth in Low-Income Countries”, IMF Working Paper, WP/03/249, International Monetary Fund.

Cohen D. (2000), “The HIPC Initiative: True and False Promises”, Working Paper No. 166, *OECD Development Center.*

Cohen D. (1990), “Debt Relief: Implications of Secondary Market Discounts and Debt Overhangs”, *The World Bank Economic Review*, Vol. 4(1) pp.43-53.

Cuaresma C. and Vincelette G. A. (2008), “Debt Relief and Education in HIPCs”, University of Innsbruck, Department of Economics, and World Bank, Economic Policy and Debt Department.

Cordella T., Ricci Antonio R. and Ruiz-Arranz M. (2005), “Debt Overhang or Debt Irrelevance ? Revisiting the Debt Growth Link”, IMF Working Paper No. 223, International Monetary Fund.

Dalgaard C-J., Hansen H. and Tarp F. (2004), “On the Empirics of Foreign Aid and Growth”, *The Economic Journal,* Vol. 114(496), pp. 191-216.

Dessy S. E. and Vencatachellum D. (2007), “Debt Relief and Social Services Expenditures: The African Experience 1989-2003”, *African Development Review,* 19(1), 200-16.

Devarajan S., Easterly W. and H. Pack (2001), “Is Investment in Africa Too High or Too Low? Macro and Micro Evidence”*, Journal of African Economies*, Vol. 10(2), pp. 81-108.

Dijkstra G. (2008), *The impact of international debt relief*, London & New York, Routledge.

Dömeland D. and Kharas H. (2009), Debt Relief and Sustainable Financing to Meet the MDGs. In *Debt Relief and Beyond: Lessons Learned and Challenges Ahead.* Chapter 6, pp. 117-140.

Easterly W. (2002), “How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief”, *World Development* Vol. 30(10), pp. 1677-1696.

Easterly W. and Dollar D. (1999), “The Search for the Key: Aid, Investment, and Policies in Africa”, *Journal of African Economies.*

Edwards S. (2002), “Debt Relief and Fiscal Sustainability”, NBER Working Paper 8939, May.

Elbadawi I. A., Ndulu B. J. and Ndung’u N. (1997), “External Finance for Low-income countries” in Debt Overhang and Economic Growth in Sub-Saharan Africa (1997), Chapter 5, pp. 49-76, *International Monetary Fund.*

Fedelino A. and Kudina A. (2003), "Fiscal Sustainability in African HIPC Countries: A Policy Dilemma?", IMF Working Paper, No. 03/187.

Franco-Rodriguez S. (2000), "Recent developments in fiscal response with an application to Costa Rica", *Journal of International Development* 12(3), pp. 429-441.

Franco-Rodriguez S., Morrissey O. and McGillivray M. (1998), "Aid and the Public Sector in Pakistan: Evidence with Endogenous Aid", *World Development,* 26 (7), pp. 1241-1250.

Freytag A. and Pehnelt G. (2006), "Debt Relief and Changing Governance Structures in Developing Countries", Working Paper, Friedrich-Schiller Universität Jena, ISSN 1611-1311 (Preliminary Version).

Gupta S., Clements B., Guin-Siu M.T., and Leruth L. (2002), "Debt relief and public health spending in Heavily Indebted Poor Countries", *Bulletin of the World Health Organization*, Vol. 80(2), January.

Heller P S. (2005), "Understanding Fiscal Space", IMF Policy Discussion Paper, PDP/05/4, International Monetary Fund.

Hernandez L. and Katada S. N. (1996), "Grants and Debt Forgiveness in Africa", Policy Research Working Paper 1653, World Bank.

Johansson P. (2007), "Debt Relief, Investment and Growth", *World Development* 2010, pp. 1204-1216.

Kraay A. and Depetris-Chauvin N. (2005), "What Has 100 Billion Dollars Worth of Debt Relief Done for Low-Income Countries?", *International Finance* 0510001, Econ WPA.

Kraay A. and Depetris-Chauvin N. (2006), "Who Gets Debt Relief?", World Bank Policy Research Paper, Working Paper 4000, August.

Krugman P. (1988), "Financing VS Forgiving a Debt Overhang", Working Paper No. 2486, *NBER Working Paper Series*.

Kwasi Fosu A. (1996), "The Impact of External Debt on Economic Growth in Sub-Saharan Africa", *Journal of Economic Development*, Vol. 21(1).

Leo B. (2009), "Will World Bank and IMF Lending Lead To HIPC IV? Debt Déjà-Vu All Over Again", Working Paper 193, Center for Global Development.

Lledo V. and Poplawski-Ribeiro M. (2013), "Fiscal Policy Implementation in Sub-Saharan. Africa", *World Development*, Vol. 46, pp. 79-91.

Lora E. and Olivera M. (2006), "Public Debt and Social Expenditures: Friends or Foes", Research Department Working Paper 563, Inter-American Development Bank, Washington DC.

Marchesi S. and Missale A. (2013), "Did High Debts Distort Loan and Grant Allocation to IDA Countries?", *World Development*, Vol. 44, pp. 44-62.

Martin M. (2002), "Debt Relief and Poverty Reduction: Do We Need a HIPC III?", Paper presented to North-South Institute, (Debt Relief International).

Mavrotas G. (2005), "Aid Heterogeneity: Looking at Aid Effectiveness from a Different Angle", *Journal of International Development,* Vol. 17, pp. 1019-1036.

Mavrotas G. (2002), "Foreign aid and fiscal response: Does aid disaggregation matter?", *Review of World Economics,* Vol. 138(3), pp. 534-559.

McGillivray M. and Ouattara B. (2005), "Aid, Debt Burden and Government Fiscal Behaviour in Côte d'Ivoire", *Journal of African Economies*, 14(2), pp. 247-269.

O'Connell Stephen A. and Soludo C. C. (2001), Aid Intensity in Africa. *World Development*, 29(9), pp. 1527-1552.

Pattilo C., Poirson H. and Ricci L. (2002), "External Debt and Growth", IMF Working Paper 02/69. International Monetary Fund.

Presbitero A. F. (2012), "Total Public Debt and Growth in Developing Countries", *European Journal of Development Research*, 24, pp. 606-626.

Presbitero A. F. (2010), "Total Public Debt and Growth in Developing Countries", Working Papers, No. 300, Centro Studi Luca D'Agliano, Development Studies.

Presbitero A. F. (2008), "Debt Relief Effectiveness and Institution Building", MPRA (*Munich Personal RePEc Archive*) Paper No. 12597.

Presbitero A. F. (2008), "The Debt-Growth Nexus in Poor Countries: A Reassessment", *Economics,* Vol. 2(30).

Raffinot M. and Venet B. (2013), "Low-income countries, Credit Rationing and Debt Relief: Bye-bye international financial market?", DIAL Working Paper, DT 2013-03.

Reinhart C. and Rogoff K. (2010), *This Time Is Different*, Princeton University Press.

Sachs J. D. (1989), "Efficient Debt Reduction", Working Paper 194, International Economics Department, World Bank.

Sachs J. D. (2002), "Resolving the Debt Crisis of Low-Income Countries", *Brooking Papers on Economic Activity*, Vol. 1, pp. 257-286.

Schmid J. P. (2009), "Is Debt Relief Good for the Poor? The Effects of the HIPC Initiative on Infant Mortality", *Debt Relief and Beyond*, Chapter 3, World Bank, Washington, DC.

Thomas A. (2006), "Do Debt-Service Savings and Grants Boost Social Expenditures?", International Monetary Fund, IMF Working Paper, WP/06/180.

Thomas M. A. (2004), Getting Debt Relief Right. Foreign Affairs, Vol. 80(5).

Tsafack Temah C. (2009), "Does Debt Relief Increase Health Expenditures? Evidence from Sub Saharan HIPCs", Research Report – United Nations Economic Commission for Africa. http://www.africametrics.org/documents/conference09/papers/Tsafack%20Temah.pdf (downloaded 12 December 2012)

DIAL Development Conference on Institutions and Development University of Paris-Dauphine, 27-28 June 2013

The second edition of DIAL's international development conference was held this year on the subject of Institutions and Development at the University of Paris-Dauphine on 27 and 28 June 2013.

The conference was organised by the DIAL 225 Joint Research Unit (Dauphine Economics Laboratory – University of Paris-Dauphine and the French Research Institute for Development). It addressed recent contributions by macroeconomic and microeconomic development research and analysed the role of the institutions. Two world-renowned keynote speakers were invited to present their work to the plenary sessions: Jean-Philippe Platteau, Researcher with the Belgian Centre for Research in Economic Development (CRED) and Professor at the University of Namur, and Ragnar Torvik, Professor at the Norwegian University of Science and Technology in Trondheim. Their respective presentations covered the role of economic growth in the emancipation of vulnerable people and the links between institutions and wealth in natural resources.

The conference was a great success and the DIAL Joint Research Unit (UMR) achieved its goal for this international conference to stand as a key meeting on international economics and development. Over 150 participants attended, including a large proportion of foreign scientists especially from Southern countries. Some one hundred papers were presented, selected from around 200 proposals. This second edition of the conference strengthened UMR DIAL's position as a benchmark French development research cluster. Many foreign scientists approached the organising team to discuss the possibilities of working more closely with joint research unit researchers.

A wide range of innovative research was presented covering both theoretical and empirical contributions in international and development economics. These presentations addressed issues regarding migratory flows and return migrants, the impact of institutions on corruption, political behaviour, and the interaction between international aid and institutional quality. Another major focus was traditional or informal institutions and their development with a study of households, gender issues, land tenure and property rights.

Participants also had the benefit of the exceptional presence of Joseph Stiglitz at the conference, there to receive a Doctorate Honoris Causa awarded by the University of Paris-Dauphine. Researchers attending his interview with the BBC discussed his latest book, *The Price of Inequality*, with him and the factors behind the European crisis.

The conference was funded by the French Ministry of Foreign Affairs, the Ile-de-France Region and the Paris School of Economics G-MonD Group on Globalisation and Development. The French Research Institute for Development (IRD) and the University of Paris-Dauphine also contributed funds. This institutional support gave the conference the means to register all participants free of charge and even paid travel expenses and accommodation for certain Southern researchers. A gala dinner was held at the Musée d'Orsay on 27 June, where participants discussed their work and the opportunities for closer networking between their research teams.

The DIAL Development Conference is held on a different subject once every two years. Make a date in your diaries now for Paris in June 2015!

The Organisation Committee

11th International Workshop on Pensions, Insurance & Savings University of Paris-Dauphine, 6-7 June 2013

The 11th edition of the International Workshop on Pensions, Insurance and Savings was held at the University of Paris-Dauphine on 6 and 7 June 2013. This workshop was organised jointly by the Dauphine Economics Laboratory (LEDa), UMR DIAL, the Paris School of Economics, the OECD and the Pensions Institute (London). The event was supported by the Groupama Individuals and Risk Research Chair and the French Federation of Insurance Companies (FFSA).

The workshop chose around 40 of the more than 150 proposals it received. A total of 13 sessions presented theoretical and applied papers using innovative methods in new focuses in demographics, welfare coverage, the labour market and insurance.

This workshop is designed to contribute to societal debate on issues surrounding demographic growth, household savings behaviour and retirement, investment decisions in risk situations, and pension fund management. Two guest speakers presented their work to the plenary sessions: Elsa Fornero (Professor at the University of Turin and Minister for Labour and Social Policies in Italy) and David Blake (Professor at the CAS Business School and Director of the Pensions Institute). Their keynote addresses focused respectively on pension system reforms and pension funding decisions.

Two policy sessions were held on *Defined Contribution Investment Strategies and Risk Sharing* and *Demography and Labour Market*. They were attended by colleagues from international institutions and foreign universities.

More than 150 researchers from different countries attended the workshop alongside delegations from the OECD countries.

Contact: Najat El Mekkaoui de Freitas
e-mail: Najat.EL-MEKKAOUI@dauphine.fr

Annual General Assembly for the NOPOOR Project 10-12 June 2013, Rio de Janeiro (Brazil)

Representatives of all the NOPOOR project partner teams met for the project's Annual General Meeting in Rio de Janeiro (Brazil) in June 2013. This event at the Economics Institute of the Federal University of Rio de Janeiro (UFRJ) reviewed the project's progress one year after its launch. Two days of workshops were also held on the sidelines of the AGM.

The opening session for this two-day meeting was chaired by Professor Joao Saboia, Brazilian Team Director and Coordinator of Work Package 5 (*Impact of Globalisation and International Migration on Poverty*). Xavier Oudin, the project's Scientific Coordinator, presented this opening session with a general report on the first year's scientific activities.

A number of parallel workshops then gave each team the opportunity to report on its activity by work package (WP) and task. The workshops also made for closer teamwork between the different partners working on the same WPs.

The NOPOOR project takes an integrated view of poverty to cover all its dimensions, processes and dynamics. The project's purpose is to build a broader understanding of the factors behind poverty in order to give policymakers the keys they need for more effective policies. NOPOOR is therefore developing comparative studies, with a focus on the conditions for successful poverty reduction policies in certain countries. The two days of meetings wound up with a round table of Brazilian policymakers, NGOs, civil society representatives and researchers who discussed the content and target outcomes of a number of poverty reduction programmes implemented in Brazil.

List of 2013 working papers

These papers can be downloaded from the DIAL website
(www.dial.ird.fr)

DT 2013-01	**Dynamic fiscal impact of the debt relief initiatives on African heavily indebted poor countries (HIPCs)** Danny Cassimon, Marin Ferry, Marc Raffinot, Bjorn Van Campenhout
DT 2013-02	**Les sciences sociales au service du débat démocratique au Sud : enjeux, supports, retombées. Résultats d'expériences dans le champ de l'économie et de la statistique** Javier Herrera, Mireille Razafindrakoto, François Roubaud
DT 2013-03	**Low-income countries, Credit Rationing and Debt Relief: Bye-bye international financial market?** Marc Raffinot, Baptiste Venet
DT 2013-04	**Migrant network and immigrants' occupational mismatch** Isabelle Chort
DT 2013-05	**Early Marriage, Women's Empowerment and Child Mortality: Married Too Young To Be a "Good Mother"?** Nathalie Guilbert
DT 2013-06	**Economic growth and balance of payments constraint in Vietnam** Alberto Bagnai, Arsène Rieber, Thi Anh-Dao Tran
DT 2013-07	**Out-of-wedlock births in Senegal: an empirical investigation of their consequences for women and children** Nathalie Guilbert, Karine Marazyan
DT 2013-08	**Consentement à payer pour l'amélioration de l'accès à l'eau potable des ménages Bamakois et Ouagalais** Anne Briand, Amandine Loyal Laré
DT 2013-09	**Learning to walk before you run: Financial behavior and mobile banking in Madagascar** Florence Arestoff, Baptiste Venet
DT 2013-10	**Aspiration failure: a poverty trap for indigenous children in Peru?** Laure Pasquier-Doumer, Fiorella Risso Brandon
DT 2013-11	**Migrants' HTAs and Local Development. Evidence from Mali** Lisa Chauvet, Flore Gubert, Marion Mercier, Sandrine Mesplé-Somps
DT 2013-12	**Transitions in a West African Labour Market: The Role of Social Networks** Christophe J. Nordman, Laure Pasquier-Doumer
DT 2013-13	**Institutions, gouvernance et croissance de long terme à Madagascar : l'énigme et le paradoxe** Mireille Razafindrakoto, François Roubaud, Jean-Michel Wachsberger
DT 2013-14	**Intra-household Selection into Migration: Evidence from a Matched Sample of Migrants and Origin Households in Senegal** Isabelle Chort et Jean-Noël Senne