



Defuse the Debt Crisis

**Political Cafe, Dudok, Den Haag
16th December 2011**

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Programme



- 14.15 Opening
- 14.20 Presentations of
Jürgen Kaiser (erlassjahr.de/Jubilee Germany)
Geske Dijkstra (Erasmus University)
Presentation of research paper (Kristina Rehbein)
- 15.20 Break
- 15.40 Debate with
Sjoera Dijkers (MP PvdA)
René Grotenhuis (Cordaid)
Oygunn Brynildsen (Eurodad)
and the presenters
- 17.00 Closing and drinks



Does debt relief work?

Lessons from low income countries



Erasmus Universiteit Rotterdam

Political Cafe, 16 December
Defuse the Debt Crisis

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Does debt relief work?



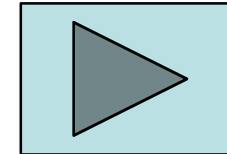
1. Work for whom and for what?
2. Which debt relief?
3. Why should it work for development?
4. Results of evaluations
5. Lessons



1. Work for whom?: Creditor motives for debt relief

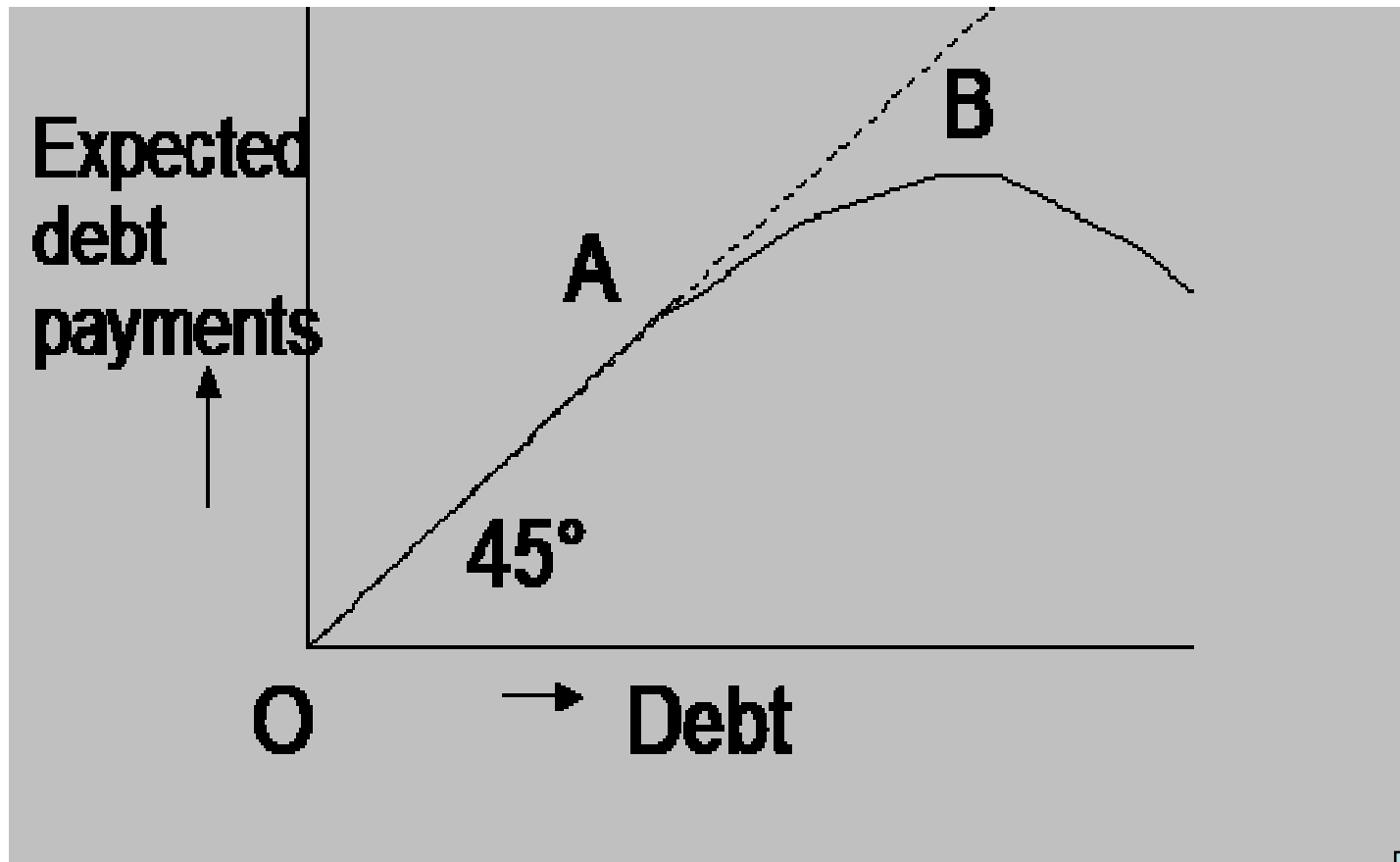
Both official and private creditors: Financial:
more money repaid than without debt relief or
write-offs

Other motives official creditors:



- Strategic
- Economic
- Control via imposing conditions
- Development /poverty reduction

Debt overhang: The “debt Laffer curve”



Benefits for debtor

- Reduce debt overhang \Rightarrow new inflows private capital, more private investment
- Reduction of debt service \Rightarrow resources for public (social) investment
- If good conditions are set: better policies leading to higher growth and more poverty reduction



2. Which debt relief? Modalities of official creditors/donors

- On debt stocks versus on debt service flows
- Rescheduling versus forgiveness
- On types of debt:
 - Private debt
 - Multilateral debt
 - Bilateral debt: aid loans and export credit debts

3. Why should it work for development? Theory-based logframe



	Stock	Flow	Conditionality
Inputs	Modalities of debt relief		Policy conditions
Outputs	Reduction in debt stock	Reduction in debt service	Policy change
Outcomes	Creditworthiness FDI, private investment	Public (social) investment	Investment, MDGs, etc.
Impact	Economic growth and poverty reduction		

4. Results



	Stock	Flow	Conditionality	Overall
8 countries 1990s	1 ½ +	2 +	-	Limited
DRC 2003-10	2010 Yes	No, but aid compensated	+/-	Limited
Nigeria 2005	Yes	No	+	+

5. Lessons

- Moral hazard among creditors \Rightarrow too high debts
- Official debt relief only if strategic or economic reasons; otherwise too little, too late, wrong modalities
 - \Rightarrow harmful effects
- Conditionality:
 - Contents: if about basics OK, otherwise not always
 - Is only implemented if credible threat or if coincidence of interests



What can be done?



1. Moral hazard creditors
 2. Debt relief often too little, too late, if no strategic or economic interests in debtor countries
 3. Contents of conditionality
1. Capital and banking regulations
 2. Sovereign Debt Restructuring Mechanism or Debt Court
 3. Change in governance of IMF

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THANK YOU

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Statement 1:

Debt relief in itself is no structural solution

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Statement 2

**A debt court would lead to responsible
lending and borrowing**

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Statement 3

**Corrupt leaders that left their country
behind with unsustainable debts
should be brought before an
independent court**

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Statement 4

It is unsatisfactory that the mandatory haircut for private creditors of Greek debt, is withdrawn

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Statement 5

Increased involvement of the IMF in
Europe is not necessarily positive

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Statement 6

The 'ODA-bility' of debt cancellation
should be ended.

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