THE LASTING EFFECTS OF DEBT RELIEF IN THE GREAT LAKES REGION

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Résumé

Au cours des dernières décennies, l'Ouganda (2000, 2006), le Rwanda (2005, 2006), le Burundi (2009) et la RDC (2010) ont tous obtenu de l'annulation de leur dette massive à travers l'Initiative PPTE renforcée et l'IADM. En utilisant un cadre d'évaluation développé par Dijkstra en 2003, cet article examine les effets de ces opérations d'allègement de la dette au niveau (1) des outputs : une réduction du service et du stock de la dette, une augmentation de l'espace fiscal et une amélioration de la gouvernance ; (2) des résultats : retrouver la viabilité de la dette, l'amélioration de la solvabilité et une hausse des investissements; et finalement (3) de l'impact : une croissance économique plus élevée et une réduction durable de la pauvreté.

Cet article vise à examiner dans quelle mesure ces effets ont duré, en regardant l'évolution des différentes variables mentionnées ci-dessus, du moment que l'allègement a été reçu jusqu'à aujourd'hui. Comme les quatre pays ont bénéficié de l'allègement à différents moments, cet article n'étudie pas seulement les effets individuels dans les pays, mais adapte aussi les échelles de temps afin d'augmenter la comparabilité des résultats entre les pays.

En général, au niveau des outputs, notre analyse montre des effets substantiels et durables sur les stocks et les services de la dette, mais beaucoup moins au niveau de la gouvernance et des services publics. Au niveau des résultats, les effets sur la solvabilité et la viabilité de la dette sont plus visibles au Rwanda et en Ouganda qu'en RDC et au Burundi. Finalement, en tenant compte des difficultés d'attribution, notre analyse montre également un effet positif sur la performance macro-économique et la réduction de la pauvreté.

1. INTRODUCTION

At different moments throughout the last 15 years, in the course of the HIPC and MDRI Initiatives, four Great Lakes region countries, i.e. Burundi, DRC, Rwanda and Uganda, all received substantial amounts of debt relief, that aimed at restoring debt sustainability and increase poverty-reducing spending, while at the same time, especially through the implied conditionality, searching for lasting effects on the functioning of recipient country policies and institutions. In this contribution, we make an ex post assessment of the degree to which these goals have been achieved, not only immediately following these debt relief interventions, but also checking the extent to which these achievements, if any, can be considered lasting. Comparing the results for the four countries enables us to draw conclusions that exceed individual country case observations.

The contribution is structured as follows. In section 2, we briefly highlight the salient features of the HIPC and MDRI debt relief processes, and apply these to the four individual country cases. In section 3, we present the logical assessment framework that is used to evaluate the effects of debt relief on the individual countries, distinguishing between input, output, outcome, and impact indicators. The framework is then applied in the following sections:

section 4 focuses on the output level, while section 5 zooms in on outcomes, and section 6 briefly assesses impact indicators. Section 7 concludes.

2. HIPC AND MDRI

2.1. The HIPC and MDRI framework

Following the unsurmountable buildup of public debt throughout the 1980s and 1990s, many developing countries faced an unsustainable debt burden. As the traditional debt relief practices, initiated by bilateral and commercial creditors, did not provide a lasting solution, international consensus was reached on the need for a more comprehensive debt relief mechanism to finally "clean the external debt slate", i.e., to cut all debts to sustainable levels and allow debtor countries a fresh starting point. In 1996, following a G7 proposal, the Heavily Indebted Poor Countries (HIPC) Initiative was launched. For the first time in history, this debt relief initiative went beyond bilateral and commercial debt titles and also provided cancellation of multilateral debt. To divide the relief equally between all of them (multilateral, bilateral and commercial), the initiative called upon all creditors to reduce their claims in an equiproportional way. In 1999, following a comprehensive review of the Initiative and a strong demand from public opinion, HIPC was enhanced. Debt-burden thresholds were adjusted downward[1], which enabled a broader group of countries to qualify for larger volumes of debt relief. Furthermore, a number of creditors, including the main multilaterals, started to provide debt relief earlier in the form of interim debt service relief to countries that reached HIPC Decision Point (DP). Moreover, the stepwise process of the HIPC Initiative was made more flexible, providing incentives to speed up the process and increase country ownership[2]. Finally, the poverty-reducing focus of the resources freed by debt relief was strengthened by formally introducing the PRSP requirement.

Currently, the group of HIPC countries consists of 39 countries, 35[3] of which have reached the so-called 'completion point', receiving irrevocable debt stock relief down to the threshold levels. One country, Chad, is halfway,

[1] While initially the threshold ratio of present value of debt-to-exports ratio was 200-250%, this was lowered to 150%. The present value of debt-to-government revenues ratio was lowered from 280% to 250%.

[2] GUEYE, C. F., VAUGEOIS, M., MARTIN, M., JOHNSON, A., "Negotiating debt reduction in the HIPC Initiative and Beyond", Publication No. 11, London, UK, Debt Relief International, 2007.

[3] Afghanistan, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Republic of Congo, Democratic Republic of the Congo, Comoros, Côte d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda and Zambia.

having reached decision point at which the amount of HIPC debt stock relief is determined, temporary debt service relief is granted and additional conditionalities, which should be fulfilled by the recipient country in order to reach completion point, are negotiated. The remaining three[4] countries still have to fulfill the entry conditions or express their willingness to join the Initiative before reaching decision point[5].

In spite of its achievements, the HIPC Initiative has been considered insufficient to ensure long-term debt sustainability and the attainment of the MDGs. As a result, both bilateral and multilateral creditors have taken steps to provide debt relief additional to HIPC. Within the group of bilateral creditors, most members of the Paris Club provide 100% debt relief once a country reaches completion point. Among the multilateral creditors, the European Commission decided in 2001 to provide full relief on special loans of the eligible LDC HIPCs, through its LDC Initiative. In July 2005, following a G8 proposal, three more multilateral creditors (IMF, World Bank and the African Development Fund) decided to further alleviate outstanding debt under the Multilateral Debt Relief Initiative (MDRI). Under this initiative the three multilateral institutions cancel the remainder of their debt claims to countries that have reached completion point under the HIPC Initiative. The Inter-American Development Bank joined MDRI in 2007.

Currently, the total cost of the HIPC debt relief to creditors is estimated at US$ 74.3 billion in end-2012 present value (PV) terms. Relief from multilateral creditors accounts for 44.4% of the total, while the remaining debt relief should be granted by bilateral and commercial creditors[6]. For MDRI, the total cost for the four participating multilateral creditors is estimated at US$ 39.7 billion in end-2012 PV terms.

2.2. The countries being studied

Burundi, the DRC, Rwanda and Uganda all reached their completion point at different points in time. Uganda, which has been a frontrunner within the HIPC Initiative, already reached decision and completion point under the original HIPC Initiative in April 1997 and April 1998, respectively. This resulted in a first tranche of debt relief. Following the launch of the enhanced HIPC Initiative, Uganda reached decision point again in February 2000 and completion point three months later in May 2000. The other three countries only reached decision and completion point under the enhanced Initiative. Following the approval of Multilateral Debt Relief Initiative in July 2005, the

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[4] Eritrea, Somalia and Sudan.

[5] International Monetary Fund, “Heavily Indebted Poor Contries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Statistical Update”, December 19, 2013.

[6] *Ibid*.

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countries which had already finished the HIPC process by then were granted MDRI debt relief in December 2005, after a rapid assessment of their debt and macroeconomic health. Countries which still had to reach completion point were granted MDRI relief at the moment they completed the HIPC process.

Table 1. HIPC and MDRI Debt Relief

		BURUNDI	DRC	RWANDA	UGANDA[1]	TOTAL
date country reached	Decision Point	Aug 2005	Jul 2003	Dec 2000	Apr 1997-Feb 2000	
	Completion Point	Jan 2009	Jul 2010	Apr 2005	Apr 1998-May 2000	
	MDRI	Jan 2009	Jul 2010	Dec 2005	Dec 2005	
assistance under the HIPC initiative	PV Terms (at DP)	833	7,252	651	1,027	9,763
	Nominal Terms	1,366	15,222	1,316	1,950	19,854
assistance delivered under MDRI	Nominal Terms	105	1,049	516	3,512	
total HIPC and MDRI assistance	Nominal Terms	1,471	16,271	1,831	5,462	

Source: INTERNATIONAL MONETARY FUND, *op. cit.* and MDRI Press releases.

1: As Uganda already reached completion point under the original HIPC Initiative, the assistance includes original debt relief.

3. EVALUATION FRAMEWORK

To evaluate the effects of debt relief, we make use of an evaluation framework developed by Dijkstra. The logical framework presents the different expected effects of debt relief on the vertical axis, while the indicators used to assess each of the vertical elements are listed horizontally:

Table 2. Logical assessment framework

Causality Chain

OBJECTIVES-MEANS	INDICATORS
inputs	
- debt relief expenditures and modalities	- amounts spent, assigned and contributed
- policy dialogue and conditionalities attached	- conditions used
outputs	
- reduction of debt and debt service, increased net fiscal space	- debt stock and debt service evolution, government accounts
- improved governance	- quality of governance scores
outcomes	
- debt sustainability	- DSA/DSF indicators and analysis
- elimination of debt overhang/improved creditworthiness	- international credit ratings, increased investments
- increased pro-poor spending	- increase in pro-poor spending in government budget
impacts	
- economic growth	- change in GDP
- poverty reduction	- change in poverty indicators

Source: DIJKSTRA, *op. cit.*

At the input level the framework identifies the financial resources granted by donors and modalities used, as well as the type of policy dialogue and other conditionalities attached. The direct results of these inputs, the outputs, are a reduced debt stock and debt service, which should subsequently result in an increase in net resources available at the level of the government budget (fiscal space). Another output of the HIPC Initiative is improved governance, as a result of the policy dialogue and conditionalities attached to the Initiative. At outcome level, the HIPC Initiative and its supplementary bi- and multilateral debt relief initiatives, in contrast to previous debt relief initiatives, explicitly aimed to have three effects: first, clean the debt slate of the country and let it regain debt sustainability; second, eliminate debt overhang and improve creditworthiness; and third, increase the amount (and quality) of poverty-reducing spending. Finally, the ultimate impact of this causality chain was to achieve economic growth and reduce poverty[7].

Of course, the further one moves down the causality chain, away from the inputs, the less the effect can be attributed to the inputs provided, as other factors have a confounding effect. For example, while a reduction in debt service can be logically attributed to debt relief, it is much more difficult to attribute the economic growth of a country to the HIPC Initiative. However, the causal linkages in the chain are built on theoretical insights in the way debt relief might contribute to economic growth and poverty reduction. These different chains links and their theoretical background will be briefly discussed at the beginning of each of the following sections. It is generally assumed that when the outcomes occur and a link with the outputs can be made, there could have been a positive effect on the final impact variables too. If the outcomes were not generated in the first place, or if a causal link to the output cannot be credibly made, it is difficult to assume that debt relief contributed to the final impact variable[8]. In the following three sections we will look at the effects of debt relief at the different echelons mentioned. We will start at the output level as this paper discusses the lasting effects of debt relief on the four Great Lake region countries.

4. OUTPUT LEVEL

4.1. Debt Stock Evolution

Under the HIPC Initiative, donors explicitly tried to achieve debt sustainability by reducing the stock of debt to a level which was deemed to be sustainable. This level was determined on the basis of analysis carried out in the 1990s (see e.g. Cohen[9], who estimates that, to be sustainable, Africa's debt-to-export ratio should be no more than 200-210 percent).

Over the 1980s and 1990s, the debt stocks of the four countries considered here rose significantly (see Figure 1). While debt was on average only 30% of GNI in the early 1980s, average levels nearly quadrupled up to the late 1990s. The reasons for these increases are manifold and generally country specific with both sides, creditor and debtor, playing a role. On the side of the creditor, private and bilateral creditors have often been irresponsible in financing overly ambitious and ill-prepared investment projects[10], while multilateral

[7] DIJKSTRA, *op. cit.*

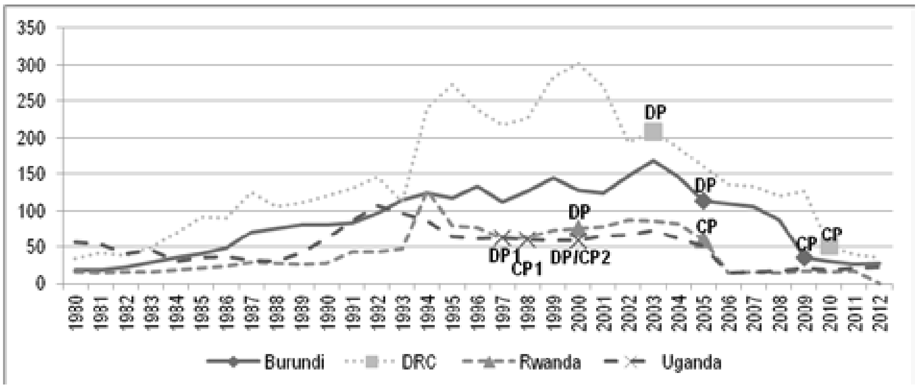
[8] DIJKSTRA, *op. cit*.

[9] COHEN, D., *The Sustainability of African Debt*, Policy Research Working Paper 1621, International Finance Division, International Economics Department, The World Bank, 1996.

[10] For the case of the DRC, see for example: POLICY AND OPERATIONS EVALUATION DEPARTMENT (IOB), (Dutch) MINISTRY OF FOREIGN AFFAIRS, and SPECIAL EVALUATION OFFICE OF INTERNATIONAL COOPERATION (SEO) OF THE FEDERAL PUBLIC SERVICE FOREIGN AFFAIRS, (Belgian) FOREIGN TRADE AND DEVELOPMENT COOPERATION, "A clean slate – what next? Evaluation of debt relief to the

creditors tried to keep countries on track with structural adjustment programs and often inappropriate lending facilities. On the recipient side, irresponsible lending, arrears accumulation, a lack of structural reforms and terms of trade fluctuations played an important role. As a result of the HIPC process, external debt stocks of the four countries have been reduced substantially to less than 30% of GNI on average between 2010 and 2012.

Figure 1. External debt stock
(% of GNI, 1980-2012)



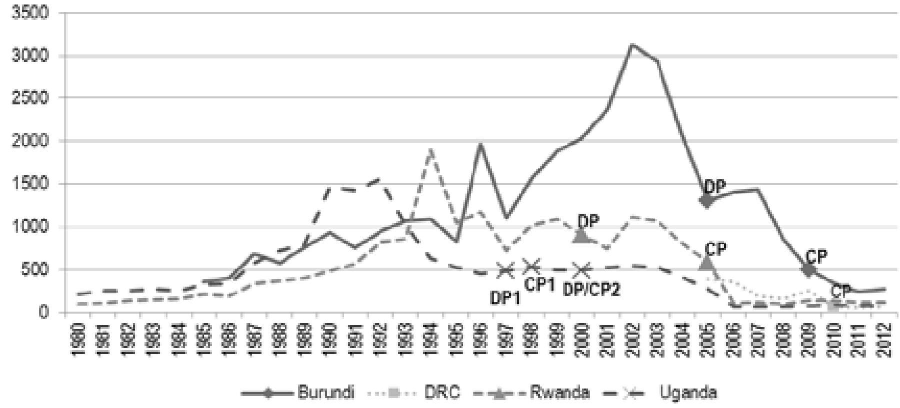
Source: International Debt Statistics, World Bank.

The following figure shows the impact of the HIPC Initiative on the external debt stock to exports ratio. Relative to exports, external debt stocks rose significantly over the 1980s and 1990s. Over the past decade, debt relief and an improved export performance have led to better indicators. Only for Burundi does the ratio remain at a relatively high level, which is in line with the findings from Burundi's latest DSA[11] which found that the debt-to-exports ratios are both breaching their policy thresholds in the medium term, which is attributed to Burundi's narrow export base.

Democratic Republic of Congo 2003-2012, Summary report", Antwerp / Brussels / The Hague, 2012; available at: http://www.iob-evaluatie.nl/ files/A%20Clean%20Slate%20What%20 Next%20-%20Main%20Report.pdf.

[11] INTERNATIONAL MONETARY FUND, "Burundi: Second Review Under the Extended Credit Facility", Country Report No. 13/64, March 2013.

Figure 2. External debt stock
(% of exports of goods, services and primary income, 1980-2012)



Source: International Debt Statistics, World Bank.

4.2. Debt service evolution

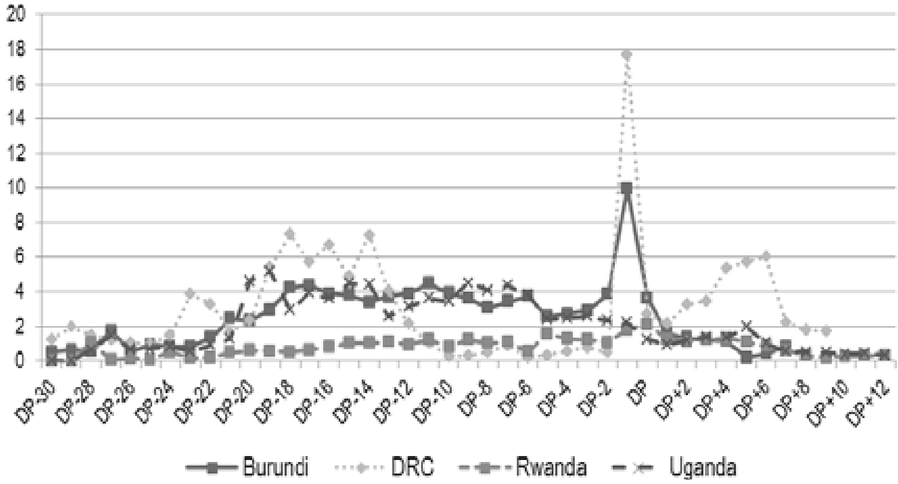
After countries reach decision point, debt service levels are reduced down to the level due taking into account full HIPC debt stock relief.

The evolution of debt service payments of the four countries is less pronounced than the evolution of the debt stock would suggest. Partially due to their non-payment, debt service levels generally remained below 5% of GNI prior to the HIPC Initiative[12]. Most recently, following the full implementation of the HIPC Initiative, debt service has been reduced to less than 2% of GNI for all four countries.

In the interim period (2000-2010) debt service levels were sometimes erratic and higher for the DRC and Burundi. This is due to the setup of the HIPC process, according to which debtor countries have to clear their arrears before reaching decision point, often through bridge loans of donors, which temporarily increases debt service. This is clearly visible in the debt service spikes for the DRC (2002) and Burundi (2004)[13]. Moreover, between decision and completion point, countries are not allowed to build up new arrears, as a result of which debt service during the HIPC process might be higher than before the process when very little was paid. This does not mean, however, that these countries did not benefit from debt relief, therefore the effects of debt relief on all sorts of available resources (e.g. fiscal, investments, etc.) have to be taken into account.

[12] The higher debt service by the DRC are payments made in the early 1980s within the framework of the Structural Adjustment Programmes.
[13] For the case of the DRC, see for example POLICY AND OPERATIONS EVALUATION DEPARTMENT (IOB) *et al.*, *op. cit.*

Figure 3. Total Debt Service (% of GNI, before and after HIPC)



Source: International Debt Statistics, World Bank.

As a proportion of export earnings, debt service payments have decreased more significantly. While debt service averaged more than 20% of export earnings before HIPC decision point, this ratio remained below, or is projected to remain below, 20% following the attainment of the HIPC completion point.

Table 3. Debt service paid/due (in percentage of exports, before and after HIPC

	BEFORE DECISION POINT		FROM DECISION TO COMPLETION POINT	AFTER COMPLETION POINT	
	5-10 years	0-5 years		0-5 years	5-10 years
Burundi	*40.6*	*70.1*	9.4	8.1	15.5[1]
DRCongo	n.a.	2.9[2]	8.4	2.1	2.1[3]
Rwanda	*20.0*	*19.9*	*15.2*	6.7	9.8
Uganda	*69.5*	*34.2*	*17.5*	20.1	4.2

Source: International Monetary Fund, “Heavily Indebted Poor Contries …”, *op. cit.*: 2001-2011: paid, 2012: preliminary data; 2013-2018: projections. In italics: *World Development Indicators*; n.a.: not available; 1: Only 4 years instead of five; 2: Only 1 year instead of five; 3: Only 3 years instead of five.

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4.3. Increased fiscal space

When countries no longer have to repay their debt, financial resources are freed up in the recipient country government's budget[14]. However, this fiscal space is only created to the extent that the debt would have been serviced in the absence of debt relief. As the DRC, for example, nearly stopped all debt service payments in the 1990s (see Figure 3), debt service payments increased following decision point as the country had to pay the share of debt service which was not forgiven during the interim period in order to remain on track with the HIPC Initiative. As a result, the DRC did not make direct savings from the interim debt reduction and fiscal space even decreased.

To calculate the full impact of debt relief on the available fiscal space, one has to take into account the overall effects on the available resources, including additional resources through improved mobilisation of fiscal revenue or additional aid (see section 5.2).

4.4. Better governance and quality of public service delivery

To retain debt sustainability, the HIPC Initiative has not only focused on the financial aspects but also on improved governance. Donors have therefore engaged in a policy dialogue with partner countries and attached a number of conditions related to policy quality and institutional reform to the attainment of the HIPC Completion Point.

The following table gives the performance of the four countries on the World Bank's Country Policy and Institutional Assessment (CPIA)[15], the governance indicator which is used by the World Bank and IMF to determine the threshold levels for the DSAs:

Table 4. CPIA scores

	2005	2006	2007	2008	2009	2010	2011	2012
Burundi	2.97	2.99	3.02	3.00	3.06	3.08	3.11	3.24
DRC	2.84	2.84	2.84	2.70	2.67	2.67	2.67	2.71
Rwanda	3.48	3.63	3.66	3.70	3.77	3.84	3.82	3.84
Uganda	3.88	3.88	3.88	3.90	3.86	3.77	3.77	3.72

[14] HELLER, P., "Back to Basics. Fiscal space: what it is and how to get it", *Finance and Development*, vol. 42, no. 2, 2005 and POLICY AND OPERATIONS EVALUATION DEPARTMENT (IOB), *op. cit.*

[15] The CPIA rates countries against a set of 16 criteria grouped in four clusters: (1) economic management; (2) structural policies; (3) policies for social inclusion and equity; and (4) public sector management and institutions. For each of these criteria, countries are rated on a scale of 1 (low) to 6 (high). To determine a county's overall score, the four clusters are given equal weights.

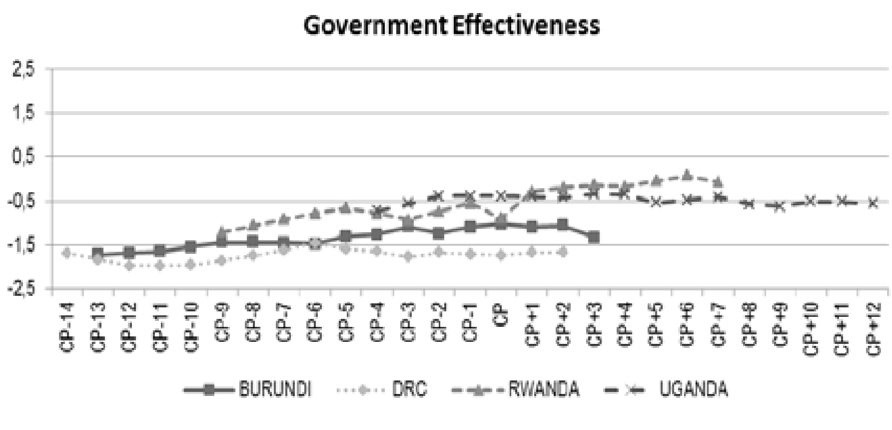
Average LICs	3.16	3.14	3.15	3.14	3.16	3.17	3.19	3.14
Average HIPCs	3.21	3.19	3.20	3.20	3.19	3.19	3.21	3.20
Average SSA	3.16	3.15	3.18	3.16	3.18	3.18	3.20	3.17
Average LDCs	3.19	3.16	3.18	3.18	3.19	3.19	3.20	3.15

Source: World Development Indicators.

The table shows that Rwanda and Uganda have always performed relatively well, outperforming Burundi and the DRC and above LIC, SSA, HIPC and LDC averages. While Uganda was the frontrunner of the four countries until 2009, Rwanda has outperformed Uganda since 2010 due to a decline in Uganda's CPIA. Burundi and the DRC both score below the average of the different country classifications. However, while DRC's performance does not show much improvement, on the contrary even, Burundi has shown a consistent upward trend and is now rated above the averages.

A longer term timeframe can be obtained from the Kaufmann, Kraay and Mastruzzi (KKM) indicators (1996-2012)[16]. As the average KKM governance indicators of about 200 countries are always zero by construction, an increase in governance does not automatically translate into an increase of the indicator as long as the improvement is not better than the average improvement. Nonetheless, we see some important improvements over time for all countries on the indicator measuring government effectiveness:

Figure 4. KKM Indicator on government effectiveness



Source: KAUFMANN, KRAAY, MASTRUZZI, see note 17.

Note: Between 1996 and 2002, the KKM indicators were only calculated bi-annually

[16] KAUFMANN, D., KRAAY, A., MASTRUZZI, M., "The Worldwide Governance Indicators: Methodology and Analytical Issues", 2010. The Worldwide Governance Indicators are available at www.govindicators.org.

(1996, 1998, 2000 and 2002). For the uneven years, the average of the year before and after is taken.

With the exception of the DRC, all countries show a relative improvement compared to the other countries ranked by the index. The DRC shows nearly no improvement in its score, but as noted above, this does not mean that there is no improvement in absolute terms.

5. OUTCOME LEVEL

5.1. Improved creditworthiness and higher investments

By reducing a country's stock of debt (at the output level), the problem of debt overhang can be reduced. According to Krugman[17] a country faces a debt overhang problem "when the expected present value of potential future resource transfers is less than its debt". As a result of this, creditors no longer expect to be fully repaid and will stop lending to the country in question, even in the presence of profitable projects. Similarly, a country will face fewer incentives to invest when profits eventually flow to its creditors[18]. When debt relief successfully removes the debt overhang, the country could be considered more creditworthy (meaning its credit rating would increase), the investment climate could improve and the country could get access to international financial resources.
While most African countries were not rated by the main international rating firms until recently, over the past ten years a growing number of countries have been rated and an increasing number of them are issuing sovereign bonds in international markets. Of the countries under consideration, three have obtained a rating (Uganda, Rwanda and the DRC), one has already issued a sovereign bond (Rwanda), and one is planning to issue a sovereign bond in the near future (Uganda). All ratings were granted after HIPC Completion Point was reached:

[17] KRUGMAN, P., "Financing versus forgiving a debt overhang", *Journal of Development Economics*, vol. 29, 1988, pp. 253-268.
[18] SACHS, J., "The debt overhang of developing countries" (orig. publ. 1989), *in* DIJKSTRA, *op. cit.*

Table 5. Ratings and sovereign bond issuance of countries

	CREDIT RATING AGENCIES[19]	SOVEREIGN BOND ISSUANCE
Burundi	Not rated	
DRC	Moody • B3, stable (since 09/2013) S&P • B-, stable (S&P, since 12/2013)	
Rwanda	S&P • B, positive (12/2011-10/2012) • B, stable (since 10/2012) Fitch: • B-, positive (12/2006-08/2010) • B, stable (08/2010-08/2013) • B, positive (since 08/2013)	US$400m bond, 2013
Uganda	S&P • B+, negative (12/2012-01/2014) • B, stable (since 01/2014) Fitch: • B, stable (03/2005-08/2009) • B, positive (08/2009-10/2011) • B, stable (since 10/2011)	In preparation

Sources: see footnote[20].

[19] Available information obtained from different sources.

[20] FITCH RATINGS, "Fitch-Complete Sovereign Rating History", Fitch Ratings, Last updated: 24 August 2012, available at: http://www.fitchratings.com/web_content/ratings/sovereign_ratings_history.xls [consulted: 24/06/2014]; STANDARD AND POOR'S RATING SERVICE, "Sovereign Ratings List", Available at: http://www.Standardandpoors.com/ratings/ sovereigns/ratings-list/en/us?sectorName=null&subSectorCode=39 [consulted: 24/06/2014]; MOODY'S, "Rating Action: Moody's assigns B3 ratings to the Democratic Republic of the Congo, stable outlook", Global Credit Research, Moody's, 6 September 2013, London, Available at: https://www.moodys.com/research/Moodys-assigns-B3-ratings-to-the-Democratic- Republic-of-the--PR_281558 [consulted: 24/06/2014]; REUTERS, "S&P ASSIGNS 'B-/B' TO DEMOCRATIC REPUBLIC OF CONGO RATINGS", REUTERS, SYDNEY, 13 DECEMBER 2013, AVAILABLE AT: http://www.reuters.com/article/2013/12/13/ratings-democraticrepublicofcongo-sp-idUSEMN25Q3HC20131213 [consulted: 24/06/2014]; REUTERS, "Fitch revises Rwanda's credit outlook to positive from stable", Reuters, New York, 15 August 2013, Available at: http://www.reuters.com/article/2013/08/15/rwanda-fitch-outlook-idUSL2N0GG13120130815 [consulted: 24/06/2014]; REUTERS, "S&P ASSIGNS 'B/B' RATINGS TO RWANDA; OUTLOOK POSITIVE", REUTERS, 29 DECEMBER 2011, AVAILABLE AT: http://www.reuters.com/article/2011/12/29/ idAFWLA083920111229 [consulted: 24/06/ 2014]; KPMG, "Monitoring African Sovereign Risk. Rwandian Snapshot", KPMG East Africa Limited, Available at: http://www.kpmg. com/Africa/en/KPMG-in-Africa/Documents/2013%20Q4%20snapshots/KPMG_Rwanda%20 2013Q4.pdf [consulted: 24/06/2014]; AFMI, "S&P affirms Rwanda at 'B/B', outlook stable", African Financial Market Initiative, 14 March 2014, Available at: http://www.African bondmarkets.org/en/news-events/article/s-p-affirms-rwanda-at-b-b-outlook-stable-46027/ [consulted: 24/06/2014]; REUTERS, "S&P lowers Uganda sovereign credit rating to B from B+", Reuters, Sydney, 17 January 2014, Available at: http://www.reuters.com/ article/2014/01/17/uganda-ratings-idUSEMN2TJJJC20140117 [consulted: 24/06/2014]; REUTERS, "Fitch Affirms Uganda at 'B'; Outlook Positive", Reuters, London, 21 February 2014, available at: http://in.reuters.

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While the ratings at hand (B-, B or B3) are considered speculative-grade, it is an important break with the past that the countries are being rated at all. Underpinning the increased creditworthiness of these countries in the eyes of international investors is the issuance by Rwanda of a Eurobond in April 2013. The country collected US$ 400 million through a bond with a fixed coupon of 6.625%. The yield at issue was slightly above the interest rates paid by other sub-Saharan African countries at the time, such as Zambia or Senegal, but well below the interest rates historically paid by these countries, illustrating the high demand from investors searching for yields as developed countries interest rates are being kept at historical lows. The investor appetite for the African sovereign debt market is further illustrated by the fact that the order book for Rwanda's Eurobond was more than 8.5 times oversubscribed. With the money collected, the country planned to construct a hydropower plant, a hotel and pay off more expensive outstanding loans[21]. Within the next few years, Uganda is expected to issue a similar Eurobond[22].

The country risk classification of the Participants in the OECD Arrangement on Officially Supported Export Creditors is another classification illustrating the perceived debt repayment capacity of borrowing countries, in the perception of export credit agencies. With the arrangement, export credit agencies aim to harmonize premium rates across export credit agencies of different countries. The classification divides countries into eight categories (0-7), with 0 being the best rating and 7 being the highest risk category[23].

Table 6. Country Risk Classification of the Participants to the Arrangement on Officially Supported Export Credits

	Country risk rating (0-7)
Burundi	7 (since June 2007)
DRC	7 (since January 1999)
Rwanda	7 (since January 1999)

com/article/2014/02/21/fitch-affirms-uganda-at-b-outlook-positi-idINFit69117120140221 [consulted: 24/06/2014]; HOU, Z., KEANE, J., KENNAN, J., MASSA, I., TE VELDE, D. W., "Shockwatch Bulletin. Global Monetary Shocks: Impact and Policy Responses in Sub-Saharan Africa", *ODI Working Paper*, January 2014; SULAIMAN, T., "Rwanda Eurobond priced to perfection – lead managers", Reuters, April 26 2013, Johannesburg, Available at: http://www.reuters.com/article/2013/04/26/rwanda-eurobond-idUSL6N0DD3S920130426.

[21] HOU *et al.*, *op. cit.*

[22] BLAS, J., "African countries race to issue bonds", *The Financial Times*, London, 15 December 2013.

[23] Trade and Agriculture Directorate, Participants to the arrangement on officially supported export credits, "Arrangement on Officially Supported Export Credits", Paris, OECD, 15 January 2014.

Uganda	6 (Jan 99-March 99) 7 (March 99-June 2007) 6 (Since June 2007)

Source: Country Risk Classification of the Participants to the Arrangement on Officially Supported Export Credits, 1999-2013. Available at: http://www.oecd.org/tad/xcred/ 2014-01-31-cre-crc-historical-internet-english.pdf. Note: classification started in January 2009.

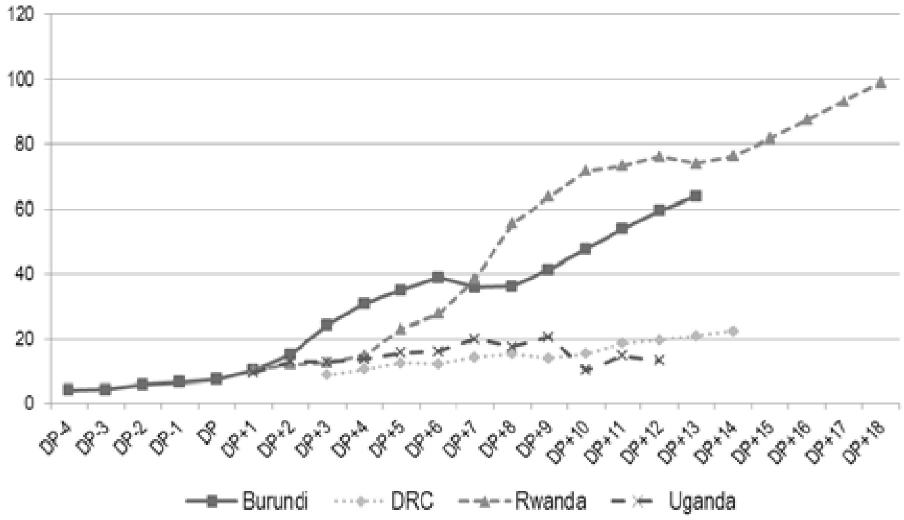
The country risk ratings show that Burundi, DRC and Rwanda are all classified in the highest category of risk. Only Uganda is considered less risky by the export credit agencies.

5.2. Increase in pro-poor spending

To the extent that debt relief results in increased fiscal space, additional financial resources become available which could be used to increase pro-poor spending. To optimally use this increased fiscal space, the Enhanced HIPC Initiative required recipient countries to formulate a Poverty Reduction Strategy, in consultation with the diverse stakeholders within the country, in which the government should explain how the freed-up resources would be used to reduce poverty within the country.

Although a reduction in contractual debt service does not necessarily translate into increased fiscal space, as discussed before, debt relief through the HIPC and MDRI Initiatives might still have another indirect impact on pro-poor spending through two other channels. First, to the extent that the HIPC Initiative succeeds to improve a country's revenue collection capacity, pro-poor spending could increase. Second, debt relief might also have an impact on the amount of aid the country receives through other aid channels. On the one hand, as donors often focus on a certain level of ODA (as % of GNI generally, e.g. 0.7%), debt relief operations, of which the cash flow equivalent is generally below the ODA value, might be subtracted from the overall ODA target level, lowering the available resources attributed to other aid interventions. On the other hand, as a government's policies improve, donors might be more likely to provide aid to the country. As a result, the overall effect of debt relief on pro-poor spending could be positive or negative. The table below shows the trend in poverty reducing expenditures for the four countries:

Figure 5. Poverty-reducing expenditure
(US dollars per capita, before and after HIPC DP)



Source: poverty-reducing expenditures: International Monetary Fund, "Heavily Indebted Poor Contries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Statistical Update", *op. cit.*; population data: UN-DESA[24] (2001-2010: estimates; 2011-2018: projections).

Note: The coverage of poverty-reducing expenditures varies across countries, but is generally consistent with the definition in the PRSP and the budget of each HIPC.

Following decision point, Burundi, Congo and Rwanda have seen a consistent increase in per capita poverty-reducing expenditure, a trend which is expected to continue. Only Uganda has experienced a reduction of per capita expenditure, from which it is still recovering. Overall, the country spends less per capita than the other three countries.

5.3. Debt Sustainability

5.3.1. Does HIPC lead to sustainable debt?

While the HIPC Initiative reduced external debt stocks and debt service substantially, graduating from the HIPC Initiative does not by itself ensure long-term debt sustainability. HIPC conditionalities are designed to tackle the structural weaknesses in the recipient country's economy, but remaining weaknesses or irresponsive policies might still put the country at risk of slipping back into the debt trap. Indeed, of the 35 countries that have reached

[24] UN-DESA, "World Population Prospects: The 2012 Revision", UN-DESA, 2012, available at: http://esa.un.org/wpp/.

completion point, only 13 are actually classified as having a low risk of debt distress, according to their latest Debt Sustainability Analysis; 16 are considered as having a moderate risk and 6 are, even after HIPC, still considered at high risk[25]. While this is better than the performance of these countries before reaching completion point, this suggests that some structural weakness remain and have to be addressed in order to avoid a return to debt distress.

Table 7. DSA Rating of HIPCs (most recent DSA available)

DSA Rating				
Low risk	Moderate risk	High risk	In debt dist.	No rating
Post-CP HIPCs				
Benin, Bolivia, Cameroon, Republic of Congo, Ethiopia, Honduras, Liberia, Madagascar, **Rwanda**, Senegal, Tanzania, **Uganda**, Zambia	Burkina Faso, Central African Republic, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Sierra Leone, Togo	Afghanistan, **Burundi**, Comoros, **DRC,** Haiti, São Tomé and Principe		
Interim HIPCs				
		Chad		
Pre-DP HIPCs				
			Sudan	Eritrea, Somalia

Source: List of LIC DSAs for PRGT-Eligible Countries.[26]

In the following sections we will discuss the Debt Sustainability Framework developed by the World Bank and the IMF and look how the countries perform.

5.3.2. Debt stock level

The most straightforward way to assess the sustainability of a country's debt is to look at the relative importance of the stock of debt or the debt service

[25] IMF and World Bank define four levels of debt distress. (1) Low risk: all debt indicators are below their relevant thresholds, including under stress tests. (2) Moderate risk: although the baseline scenario does not lead to breaches of thresholds, stress tests result in one or more breaches. (3) High risk: the baseline scenario results in a breach of one or more thresholds, but the country does not currently face any payment difficulties. (4) In debt distress: current debt and debt service ratios are in significant or sustained breach of thresholds. Actual or impending debt restructuring negotiations, or the existence of arrears, would generally suggest that a country is in debt distress. (IMF, "Staff guidance note on the application of the joint bank-fund debt sustainability framework for low-income countries", November 5, 2013).

[26] Available at: http:// www.imf.org/ external/pubs/ft/dsa/dsalist.pdf.

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of a country. This is exactly what is being done by the HIPC Initiative in which a countries' debt stock is reduced to a level which is deemed sustainable. By studying the evolution of the debt burden and debt service ratios in countries which experienced a period of debt distress, IMF and IDA[27] and World Bank and IMF[28] look at these indicators one year prior to the outbreak of debt distress, in order to determine the tipping point leading to debt distress. This approach results in the following median ratios, which could be considered as a first estimate of potential threshold levels for debt distress:

Table 8. Median debt ratios prior to debt distress and current debt sustainability ratios for Great Lakes countries

		Present value of debt in percentage of			Debt service in percentage of	
		GDP	exports	revenue	exports	revenue
Median debt ratios prior to debt distress	IMF (2004)	43%	192%	288%	15%	13%
	WB & IMF (2012)	30%	119%	159%	23.2%	19.8%
HIPC Thresholds	1996		200-250%	280%		
	1999		150%	250%[29]		
Burundi	2012	24.5%	258.5%	154.6%	2.1%	1.3%
DRC	2011	22.3%	32.7%	118.4%	1.5%	5.4%
Rwanda	2012	10.9%	76.7%	72.2%	4.1%	3.8%
Uganda	2013	7.6%	32.1%	58.1%	2.0%	3.6%

Source: IMF and IDA, see note 28; World Bank and IMF, see note 29; latest DSAs.

The table shows that the figures these studies put forward are similar to the HIPC thresholds, which were based on similar studies in the 1990s[30]. On the basis of these indicators, we could conclude that, three years after reaching completion point, Burundi is in breach of one of the indicators.

However, while these threshold levels give some indication of the potential risk for an average country to experience debt distress, they do not differentiate between countries. Specific country characteristics will make

[27] IMF and IDA, "Debt sustainability in Low-Income Countries – Proposal for an Operational Framework and Policy Implications", International Monetary Fund and International Development Association, 2004.
[28] World Bank and IMF, "Revisiting the Debt Sustainability Framework for Low-Income Countries", World Bank and International Monetary Fund, 2012.
[29] The fiscal revenue threshold only applies if the ratios of exports of goods and services to GDP and fiscal revenue to GDP are above 30 percent and 15 percent, respectively.
[30] See e.g. COHEN, *op. cit.*

certain countries more or less resistant to debt distress. In the following section we will look further at the main factors influencing debt sustainability.

5.3.3. The importance of the policy and institutional framework for debt sustainability

Amongst the factors that might influence the amount of debt a country can sustain, its policies and institutions consistently come forward as a determining factor. As countries with a weak policy and institutional environment are generally more prone to misuse of government funds or more likely to use the available funds in a less productive way, they might already be vulnerable to debt distress at much lower levels of debt.

Kraay and Nehru[31] and IMF and IDA[32] show, by using slightly differing models, that the quality of policies and institutions turns out to be an important determinant of the level of debt a country can sustain. Kraay and Nehru, for example, illustrate that the probability of debt distress for a country at the 25th percentile of CPIA is 26 percent, while it is only 9 percent for a country at the 75th percentile. Keeping the probability of debt distress constant, both studies showed that the threshold levels for debt distress vary significantly for countries with a weak (3.25), medium (3.5) or strong (3.75) performance in terms of quality of policies and institutions.

In line with these findings, and in contrast to the uniform HIPC thresholds, the DSAs developed by the World Bank and IMF take into account the CPIA score of the country to determine more country-specific threshold levels:

Table 9. Policy Performance and Debt Sustainability Thresholds

	POLICY PERFORMANCE	DEBT BURDEN THRESHOLDS				
		Present value of debt in percentage of			Debt service in percentage of	
CPIA SCORE		GDP	Exports	Revenue	Exports	Revenue
HIPC			150	250		
CPIA ≤ 3.25	Weak	30	100	200	15	25
3.25<CPIA≤3.75	Medium	40	150	250	20	30
CPIA > 3.75	Strong	50	200	300	25	35

Source: IMF and IDA[33].

[31] KRAAY, A., NEHRU, V., "When is Debt Sustainable?", Research Workshop 'Macroeconomic challenges in low income countries', October 23-24, 2003, *World Bank Economic Review*, Vol. 20, No. 3, 2006, pp. 341-365.
[32] IMF and IDA, *op. cit*.
[33] INTERNATIONAL MONETARY FUND and INTERNATIONAL DEVELOPMENT ASSOCIATION, "Operational Framework for Debt Sustainability Assessments in Low-Income Countries – Further Considerations", 2005.

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Recently, the findings of these studies were updated, using the same methodology but addressing several technical issues and aligning definitions between the original studies. The findings from this new study largely confirmed the original threshold levels, but proposed to lower the threshold levels for the debt service to revenue ratio to 18, 20 and 22 percent[34].

For the countries under consideration, the data are as follows:

Table 10. External Debt Burden Indicators and CPIA-dependent Thresholds

	CPIA score		Debt Burden thresholds					Risk
			Present value of debt in percentage of			Debt service in percentage of		
			GDP	Exports	Revenue	Exports	Revenue	
Burundi (2012)	3.08 Weak	Thresholds	30	100	200	15	18	High
		Indicators	18.6	**186.5**	120.6	6.2	4.2	
Uganda (2013)	3.75 Strong	Thresholds	50	200	300	25	22	Low
		Indicators	7.6	32.1	58.1	2.0	3.6	
DRC (2011)	2.67 Weak	Thresholds	30	100	200	15	18	High
		Indicators	22.3	32.7	118.4	1.5	5.4	
Rwanda (2012)	3.83 Strong	Thresholds	50	200	300	25	22	Low
		Indicators	10.9	76.7	72.2	4.1	3.8	

Source: International Monetary Fund, "Burundi: Second Review …", *op. cit.* and other publications, see note[35].

According to the latest DSAs, Burundi and DRC are considered weak performers in the CPIA rating, while Uganda and Rwanda are strong performers. However, if the latest evolutions in CPIA performance continue over the coming years, we might expect that Burundi could soon be promoted while Uganda risks being downgraded to medium performer. While this will have an impact on the threshold levels used in the DSAs of both countries, it is not expected to change their risk classification.

The high risk of debt sustainability in Burundi is mainly attributed to the country's narrow export base and the relatively limited export potential, making the country vulnerable to shocks. Even under the DSA's baseline

[34] World Bank and IMF, *op. cit.* and International Monetary Fund, "Staff guidance note…", *op. cit.*

[35] International Monetary Fund, "Democratic Republic of the Congo: 2012 Article IV Consultation", IMF country Report No. 13/94, April 2013; International Monetary Fund, "Uganda: First Review under the Policy Support Instrument", IMF Country Report No. 13/375, December 2013; International Monetary Fund, "Rwanda: Seventh Review under the Policy Support Instrument", IMF Country Report No. 13/372, December 2013.

scenario, both export indicators breach the threshold in the medium term, although the debt service ratio only temporarily[36]. For the DRC, only the debt-to-GDP indicator breaches its threshold for one year in the baseline scenario. The high risk classification is mainly attributed to the public guarantee the Congolese government has given on the Chinese investment contracts. Although this public guarantee might only be activated from 2034 onwards, and is not expected to be activated under the current conditions, the uncertainty involved in any mining contract keeps this possibility open. Furthermore, shock scenarios show that the country is vulnerable to shocks in commodity prices with all the debt stock indicators breaching their thresholds in the medium term. Finally, the country's weak debt management is a final reason for the country's classification[37]. For both Uganda and Rwanda, all the indicators remain below the threshold levels in all scenarios.

5.3.4. The composition of debt

Besides the size of debt and policy performance, the composition of debt also matters. Kraay and Nehru[38], for example, show that the risk of debt distress lowers, the greater the share of external debt that is public or publicly guaranteed; the greater the share of debt owed to official creditors, consisting of bilateral loans by governments as well as loans from multilateral organizations; or the greater the concessionality of debt. The World Bank and IMF[39] further point to the growing risks posed by domestic debt. While historically external public debt has been the largest component of debt in LICs, the share of domestic debt[40] in total public debt is growing.

Table 11. Domestic (non FC denominated) public debt as % of public sector debt

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rwanda		16.3	41.9	43.9	30.6	37.0	47.3	46.3	33.0	
DRC				0.2	8.6	6.9	17.4	16.0		
Uganda		16.6	17.4	51.7	47.6	37.8	37.8	43.0	46.2	46.7
Burundi	9.6	0.0	0.0	12.8	11.5	15.3	43.5	40.9	41.0	

[36] INTERNATIONAL MONETARY FUND, "Burundi: Second Review…", *op. cit.*
[37] INTERNATIONAL MONETARY FUND, "Democratic Republic of the Congo…", *op. cit.*
[38] KRAAY, A., NEHRU, V., *op. cit.*
[39] WORLD BANK and IMF (2012), *op. cit.*
[40] While the DSF framework defines domestic debt on the basis of the residency of the creditor to whom the debt is owed, this is not always possible in practice. Because of the difficulties in record-keeping, an alternative definition can be based on the place of issuance or the currency of denomination (INTERNATIONAL MONETARY FUND, "Staff guidance note…", *op. cit.*). For comparative purposes, we use the latter definition.

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Source: INTERNATIONAL MONETARY FUND, "Rwanda: Seventh Review…", "Burundi…", "Staff guidance note…", "Democratic Republic of the Congo…", "Uganda…", *op. cit.*

As the table shows, all four countries under consideration have a significant share of their public debt as domestic debt. However, not all this domestic debt is similar and carries the same risks. In Burundi, for example, most public debt is owed to the central bank, resulting from financing of the government's treasury needs. In Congo, domestic debt mainly consists of arrears classified as "social debts", e.g. wages owed to past government employees, arrears to state-owned enterprises, arrears to suppliers, etc., many of which might be, at least partly, offset by liabilities owed to the government. In Uganda and Rwanda, domestic debt consists of debt issued on the domestic debt market. While this domestic debt has advantages compared to external debt, e.g. the development of the local financial market or the absence of exchange rate risks, the costs it involves should not be overlooked, e.g. crowding out of private investment and generally less favorable conditions than external debt, with interest rates 9 times higher than on external debt and maturities being significantly shorter[41] (World Bank and IMF, see note 29). In the case of Uganda, for example, the latest DSA remarked that the country's debt service-to-revenue ratio was high in the short term due to the relative short maturity and higher interest rates of its domestic debt.

5.3.5. Debt management capacity

To monitor debt sustainability, sound debt management is of crucial importance. The following table shows how the different countries perform on debt management, using the CPIA debt policy rating:

Table 12. CPIA Debt Policy rating

	2005	2006	2007	2008	2009	2010	2011	2012
Burundi	3.0	2.5	2.5	3.0	3.0	3.0	2.5	3.0
Congo, Dem. Rep.	2.5	2.5	2.5	2.5	2.5	3.0	2.5	2.5
Rwanda	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Uganda	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Average LICs	3.2	3.1	3.1	3.2	3.2	3.2	3.3	3.2
Average HIPCs	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.3
Average SSA	3.0	3.0	3.1	3.2	3.2	3.2	3.3	3.3
Average LDCs	3.3	3.2	3.3	3.0	3.3	3.3	3.3	3.2

Source: World Development Indicators.

[41] WORLD BANK and IMF, *op. cit.*

The table shows that Burundi and the DRC consistently score below the averages, while Rwanda and Uganda are better performers.

Since 2007 a more elaborate tool to assess a country's debt management is available: the Debt Management Performance Assessment (DeMPA). This tool evaluates in much more detail the strengths and weaknesses in a country's public debt management through a comprehensive set of 15 indicators and 35 sub-indicators[42]. For the moment, only 1 DeMPA for Burundi has been made publicly available[43].

6. IMPACT

As a consequence of achievements at output and outcome level, the logical assessment framework suggests a potential positive effect on macroeconomic performance, economic growth and poverty reduction.

6.1. Macroeconomic performance

Until the late 1980s, economic performance of the four countries was very erratic. As a group, the countries grew little more than 4% per year during the 1980s. In the 1990s, the situation deteriorated with Burundi and the DRC experiencing negative growth rates over the decade and Rwanda facing the genocide and the economic and human consequences of it. Only Uganda showed a significant average growth rate above 6% following economic reforms. Since the early 2000s, economic growth has stabilized at positive levels.

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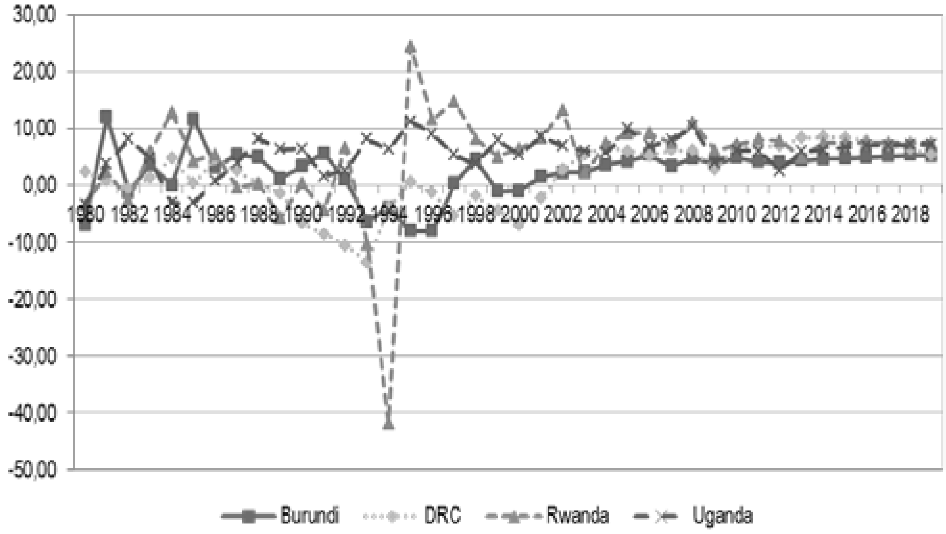
[42] WORLD BANK, "Debt Management Performance Assessment (DeMPA) Tool", Economic Policy and Debt Department and Banking and Debt Management Department, World Bank, Washington, 2009.

[43] WORLD BANK, "Burundi. Outil d'évaluation de la performance en matrière de gestion de la dette (DeMPA)", Economic Policy and Debt Department and Banking and Debt Management Department, World Bank, Washington, 2012.

Figure 6. Economic growth (% of GDP, 1980-2019)



Source: IMF, "World Economic Outlook"[44].

The following table more closely looks at the economic growth before and after the HIPC Initiative. For Burundi and the DRC, the table clearly shows how economic growth accelerated following the entrance of the countries into the HIPC Initiative and after reaching completion point. This evolution cannot, however, be solely attributed to the HIPC Initiative as these time periods also coincide with the stabilization of both countries. For Rwanda, the trend is less pronounced at first glance. However, the period before entering the HIPC Initiative coincided with the genocide and the economic recovery out of it. Finally, Uganda, had already undergone significant policy changes in the early 1990s as a result of which economic growth had already taken off before the HIPC Initiative.

[44] Database available at: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx.

Table 13. Economic growth
(% of GDP, before and after HIPC)

	BEFORE DECISION POINT		FROM DECISION TO COMPLETION POINT	AFTER COMPLETION POINT	
	5-10 years	0-5 years	DP-CP	0-5 years	5-10 years
Burundi	-3.0	2.6	4.4	4.5	5.1
DRC	-6.0	-2.4	5.8	7.9	6.8
Rwanda	-12.5	12.9	7.9	8.3	7.2
Uganda	5.4	7.6	5.7	7.6	7.2

Source: IMF, "World Economic Outlook", *op. cit.* (actual data since 1980, estimates for Burundi since 2010, DRC since 2006, Rwanda since 2012 and Uganda since 2013, estimates until 2019).

Another important macroeconomic indicator which showed significant improvements following completion point is inflation. While inflation reached double and even triple digits in all but one period before the HIPC Initiative, five-year averages of inflation nearly all dropped below 10% after the HIPC Initiative.

Table 14. Inflation
(end of period consumer prices, before and after HIPC)

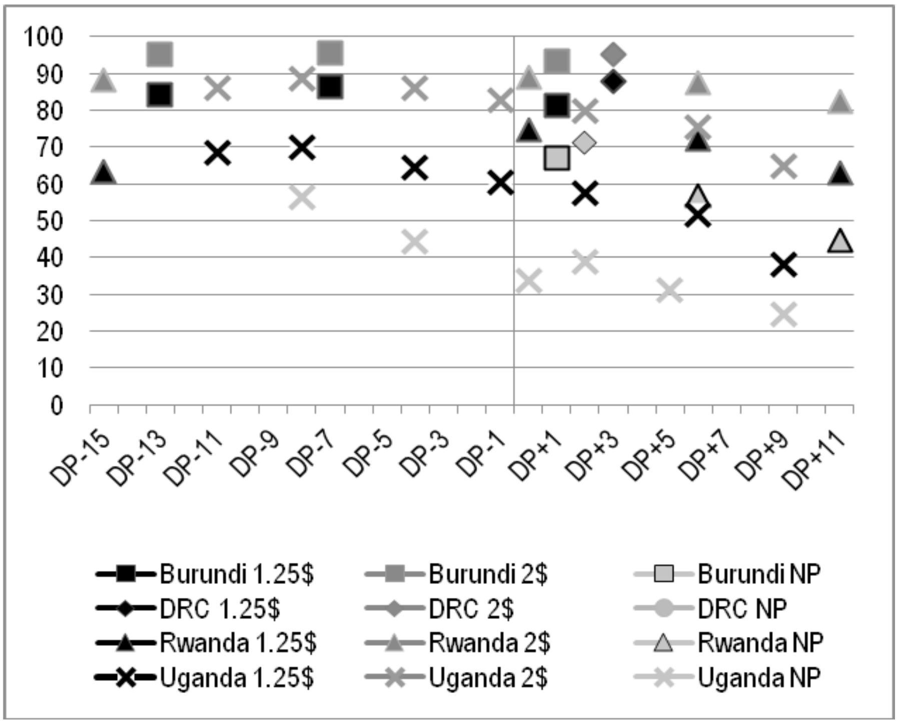
	BEFORE DECISION POINT		FROM DECISION TO COMPLETION POINT	AFTER COMPLETION POINT	
	5-10 years	0-5 years	DP-CP	0-5 years	5-10 years
Burundi	-3.0	2.6	4.4	4.5	5.1
DRC	-6.0	-2.4	5.8	7.9	6.8
Rwanda	-12.5	12.9	7.9	8.3	7.2
Uganda	5.4	7.6	5.7	7.6	7.2

Source: cf. table 13.

6.2. Poverty reduction

To see how poverty evolved over the past few decades, the following graph presents the evolution of different measures of poverty used by the World Bank: $1.25 a day, $2 a day and the national poverty line (NP). We present the available data before and after the countries reached decision point, as at that point, and generally some time earlier, countries started implementing their poverty reduction strategy paper, one of the conditions under the Initiative:

Figure 7. Evolution of poverty measures



Source: PovcalNet, the on-line tool for poverty measurement developed by the Development Research Group of the World Bank. Available at: http://iresearch. worldbank. org/PovcalNet/index.htm?0.

While the data do not allow for much comparison over time for certain countries (for example, there is only one data point for the DRC), the available data shows an improved trend for Rwanda, Burundi and Uganda after they reached their respective decision points.

7. CONCLUSIONS

By applying a case-specific logical assessment framework, we have studied the ex-post effects of debt relief for four recipient Great Lakes region countries: Burundi, DRC, Rwanda and Uganda. Although they received debt relief at different moments in time, rescaling effects on the basis of years prior to, at, and after decision point (DP) or completion point (CP), whatever most relevant, enabled us to increase the degree of comparability of results between countries.

While the methodology used does not fully allow us to establish attribution, especially when going down to the level of outcomes, and especially impacts, the logical framework still allows us to draw some general conclusions for the four cases. At the level of output indicators, it is clear that for the four countries, the debt relief did have substantial and long-lasting lowering effects on debt stocks and debt service, allowing also for some limited but persistent increase in fiscal space. On the other hand, (longer-term) positive effects on governance and public service delivery indicators were hard to establish.

At outcome level, we observe a considerable and lasting positive effect on creditworthiness, more so in Rwanda and Uganda than in Burundi and DRC. In fact, these very same conclusions also apply to increases in pro-poor spending and debt sustainability. In particular, HIPC and MDRI debt relief initiatives do not seem to have achieved lasting debt sustainability in Burundi and DRC as both countries are still considered to have a high risk of debt distress, as highlighted by the DSF framework established by IMF/World Bank (contrary to Rwanda and Uganda, which are classified as low risk of debt distress countries). Differences in measuring debt sustainability in the HIPC framework versus the DSF framework, only the latter of which takes into account the impact of a country's governance level, are at the basis of this lasting discrepancy.

Finally, without assuming attribution, the analysis also showed the evolution of impact-level indicators such as macroeconomic performance, economic growth and poverty reduction. Both between-DP-and-CP period as well as post-CP period inflation rates are considerably and persistently lower for all four countries, and economic growth considerably higher for most, both as compared to the period prior to DP. Over time, poverty trends also show a downward trend in all four countries, albeit starting from different levels.

Antwerp, June 2014