TWO DECADES OF C2DS

AN ASSESSMENT OF THE DEBT REDUCTION-DEVELOPMENT CONTRACTS, FRANCE'S DEBT-SWAP MECHANISM

Dette & Développement
Plateforme sur la dette des pays du Sud

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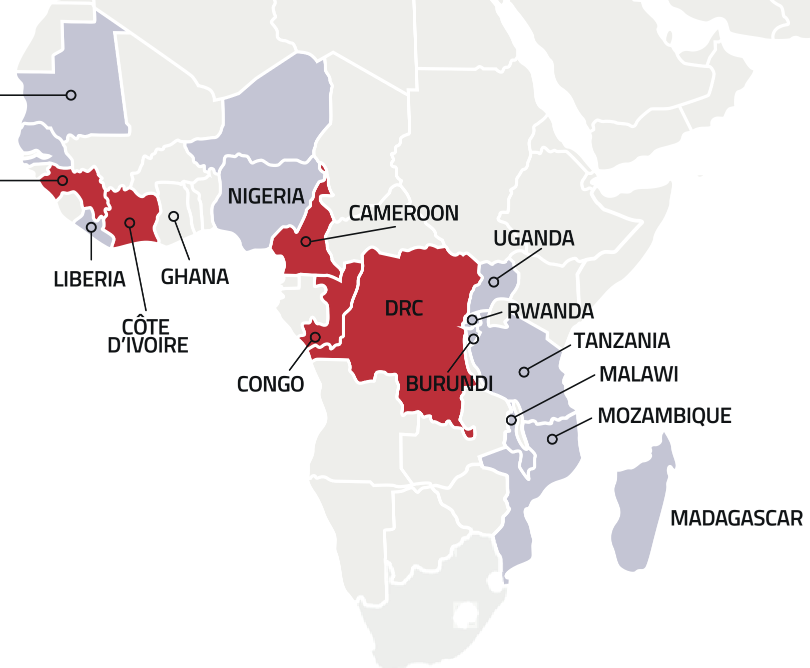
This report has been prepared based on available public sources, in particular on *Revue de la politique du Contrat de désendettement et de développement* (C2D)[1], ('Review of the Debt Reduction-Development Contract', for brevity's sake referred to hereinafter as *Revue de la politique du C2D*), evaluation reports of C2Ds or of programmes financed[2], , budget documents (the so-called blue documents on ODA work as part of finance bills, annual performance reports on discharge bills, and general government accounts), the online databases of the World Bank and the Development Assistance Committee (DAC) of the OECD on debt and international development[3], and AFD's public information notes[4].

It is also based on the independent monitoring reports produced by Cameroonian and Ivorian civil society coalitions and on some fifteen interviews with associations and trade unions involved in monitoring C2Ds. Despite several requests to the French Ministry of Foreign Affairs, **the French Debt and Development Platform has not been provided with updated databases of projects financed with C2D funds.** The information in this report on the pace of disbursements, on sectoral allocations and on the procedures of contract implementation (budget support / project aid) therefore dates from before 2015.



1. Available in French under the title *Ex-Post - Revue de la politique du Contrat de désendettement et de développement (C2D)*, by F. d'Aversa, A. Bordreuil, D. Voizot and the Evaluation and Capitalization Division of AFD's Studies, Research and Knowledge Division, a joint evaluation by the French Ministry of Foreign Affairs and International Development, the French Ministry for the Economy and Finance, and France's development agency (Agence Française de Développement – AFD), 2017 - https://www.afd.fr/sites/afd/files/imported-files/Evaluation__C2D_FR_BAT_3_Internet.pdf.

2. https://www.afd.fr/fr/ressources-accueil?.

3. https://datatopics.worldbank.org/debt/ids/ et https://stats.oecd.org/qwids/.

4. http://dataspace.afd.fr/opendata/.

Glossary

CMSP Concerted multi-stakeholder program

C2D Debt Reduction-Development Contract

CSO Civil society organization

DAC Development assistance committee

DRC Democratic Republic of Congo

DSA Debt sustainability analyse

DSSI Debt service suspension initiative

FDA French development agency

GBS Global budget support

GDP Gross domestic product

HIPC Heavily indebted poor countries

IMF International monetary fund

ODA Official development assistance

OECD Organisation for economic co-operation and development

PFDD Plateforme française Dette et Développement / French Debt and Development Platform

PRSP Poverty reduction strategy paper

SBS Sectoral budget support

SMC Steering and monitoring committee

IN In 1996, the deepening debt crisis led the International Monetary Fund (IMF) and the World Bank to launch the so-called Heavily Indebted Poor Countries (HIPC) initiative. This initiative enabled the cancellation of some of the debt obligations of around 40 of the poorest and most heavily indebted countries, so that they could regain a level of debt deemed 'sustainable'. The disappointing results of the initiative combined with widespread mobilisation of public opinion led, as early as 1999, to a reworking of the system and uptake of less restrictive sustainability criteria.

The bilateral component of this so-called enhanced HIPC initiative involved the cancellation of at least 90% of non-concessional debt obligations, until the 'sustainability' level was reached. The debt obligations contracted as part of official development assistance (ODA) were, in principle, not affected, but most bilateral creditors decided on additional cancellations. Thus, at the G7 Summit in Cologne in June 1999, France announced additional cancellation of all its ODA debt obligations on countries eligible for the HIPC initiative. This concerned some twenty countries, with total debts at the time estimated at €3.7 billion.

But rather than cancelling the corresponding loan agreements outright, **the French government opted for a unique debt-swap mechanism that worked via 'refinancing through grants'**. In practice, **the debtor country continues to repay its debt, and then France pays it an equivalent amount in the form of a grant to finance poverty-reduction programmes determined in advance in a 'Debt Reduction-Development Contract' (C2D)** signed by the two parties.

As soon as the use of refinancing through grants was announced, the organisations of the French Debt and Development Platform (PFDD) indicated their opposition to the mechanism. But, at the same time, they made the strategic choice to become involved in the mechanism and to use it as a lever to work towards greater participation by civil society in determining public cooperation and development policies.

Where do we stand now, two decades after these announcements? What lessons can be drawn from twenty years of implementing Debt Reduction-Development Contracts, to which the public authorities have more or less explicitly assigned a wide variety of objectives (debt reduction, securing the use of funds, the fight against poverty, aid visibility, participation by civil society, etc.)[5]? This report provides an updated assessment of this specifically French debt-swap mechanism – an assessment that is topical not only for discussions on debt-relief policies (e.g., conditionalities, sustainability, additionality, etc.), but also discussions on development cooperation (e.g., ownership and predictability of aid, risks of corruption and misappropriation, untying of financing).

The first part of this report provides a summary of the principles and specific features of Debt Reduction-Development Contracts, in particular in comparison with other debt-swap instruments. It then examines the way in which C2Ds have responded to the scale of the debt crisis, with regard to the urgent need to free up new financial leeway for debtors, the risks of substitution for other ODA instruments and the re-indebtedness of beneficiary countries. A third part uses the example of C2Ds to show the limits of these debt-swap mechanisms in terms of ownership, harmonisation or alignment of aid with national priorities, processes of influence, priorities for allocating financing and involvement by civil society.

Based on the hindsight we have on C2Ds, the report concludes with a series of recommendations of a more general nature, should new debt-swap mechanisms come to be implemented.

5. A.-S. Brouilet, 'Les Contrats de Désendettement et de Développement (C2D) : vers une approche renouvelée de l'aide française en matière d'appui aux politiques publiques de réduction de la pauvreté et des inégalités?', *Techniques Financières et Développement*, No. 94, March 2009, pp. 59-70.

POSITION OF THE FRENCH DEBT AND DEVELOPMENT PLATFORM ON C2DS

June 2021

After 20 years of implementation, the outcomes of the Debt Reduction-Development Contracts back up the PFDD's initial analysis that they were not – and still are not – a satisfactory response to the debt crisis and the financing needs of developing countries. In fact, many beneficiary countries are now more indebted than they were at the beginning of the 2000s, and some are in critical debt distress.

→ The mechanism does not provide for real cancellation, as the legal and financial link between debtor and creditor is not broken and the refinancing by grants can be stopped at any time. This latter feature is of little consequence if the beneficiary country is able to ensure its debt-service payments regularly. But with the new overindebtedness crisis and the Debt Service Suspension Initiative (DSSI), C2Ds have been effectively suspended even though a third of commitments have not been refinanced. These debt obligations are still a burden on the solvency of the countries concerned, and the cessation of debt-service payments now poses problems of continuity and predictability for financing projects and programmes.

→ By ruling out outright cancellation of all or part of its ODA debt obligations, France has refused to acknowledge its co-responsibility for the way in which these countries' debt has accumulated. For some of those countries, and especially for the most heavily indebted ones, the history of the lending policy and clientelism of French development cooperation in Africa should lead to questioning the legitimacy of certain debt obligations.

→ The fact that C2Ds are linked to the timetable and conditionalities of the HIPC Initiative has led to numerous postponements in the signing of the first contracts, but France has always refused to distance itself from the macroeconomic conditionalities (structural adjustment programmes) imposed by the international financial institutions. This is why it took 13 years for all the eligible countries to reach their 'completion point' and receive the promised refinancing. Countries whose debts were considered 'unsustainable' therefore continued to repay their debts, including for debt obligations contracted under ODA that the French government had announced would be cancelled. For some debtors, the losses are considerable. Burundi and Rwanda even repaid nearly all their debt obligations before they could sign their first C2D. From this point of view, France has not respected its initial commitment to total cancellation.

→ These delays are accompanied by a great lack of clarity in the nature of the debt-service payments refinanced. At the end of 1999, the government announced that €3.7 billion in debt obligations (in nominal value) were involved. In the end, it is expected that nearly €5.4 billion will be repaid and refinanced. These amounts have thus been artificially inflated by interest payments and by the inclusion of arrears accumulated by some eligible countries pending their completion point.

→ C2Ds provide significant additional resources to beneficiaries, but they have – in part and in varying proportions depending on the country – replaced other flows of French ODA. The initial commitments to full additionality of refinancing through grants have not been fully met.

→ For the largest C2Ds, project aid has been systematically favoured over sectoral budget support, with specific arrangements that run counter to the principles of ownership, alignment and harmonisation of aid. The priority given to securing financing circuits has come at the cost of extremely heavy procedural oversight by Agence Française de Développement (AFD).

→ For the largest C2Ds, the mechanism is a tool of influence accepted as such by the French public authorities and sometimes used to support French economic interests.

→ Officially, C2Ds are aligned with the beneficiary's national priorities. But the contracts were negotiated without discussions, during diplomatic negotiations behind closed doors. The parliaments and civil societies of the countries involved have been excluded from the discussions.

→ C2D financing has been mainly earmarked for poverty-reduction programmes. However, allocation choices are also the result of diplomatic compromises, of priority given to rapid disbursements or of a desire for visibility, with 'proper use' of funds too often being summed up as simply the 'securing' of the spending circuit. The fact that priorities and orientations of the C2Ds have not been discussed has meant that the development models underlying the programmes financed have likewise not been discussed.

→ In Cameroon and Côte d'Ivoire, it was possible for national platforms of civil society organisations to set up independent monitoring projects with C2D funding. These mechanisms are a response to the need for accountability in the use of public funds. They also act as levers for citizen participation and mobilisation in C2Ds and, more broadly, for citizen oversight of public policies. They help strengthen and structure civil society as well as create spaces for dialogue with public authorities. They are essential components for enabling civil society involvement in C2Ds, which was not extended to all the beneficiary countries.

→ The presence of representatives of peer-appointed civil society organisations in the governance bodies of the system is, when accepted, also real progress. However, the commitments to 'fully involve civil society' in implementing C2Ds have not been met. The civil society organisations that have been able to become involved have often been confined to the role of merely guaranteeing how the funds are used. Above all, in the absence of real political will and a strategic vision of the role of civil society common to all C2Ds, the conditions needed for civil society to influence the choices and directions of the programmes financed have never been met.

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Summary

At l'At the G7 Summit in Cologne in June 1999, France made a commitment to debt cancellation that went beyond that provided for in the Heavily Indebted Poor Countries (HIPC) initiative. This extra debt cancellation was to concern its official development assistance (ODA) debt obligations. But rather than simply cancelling the corresponding loan agreements, the French government opted for a unique debt-swap mechanism called the 'debt reduction and development contract', commonly known as 'C2D'. After two decades of implementation, it is now possible to assess this instrument, identify its advantages and limitations, and make a few recommendations in the event that new debt-swap mechanisms are to be implemented.

In practice, the system is based on the principle of 'refinancing through grants': the debtor continues its debt-service payments, and then France pays it an equivalent sum in the form of a grant to finance programmes previously determined in a contract signed by both parties. France's development agency (Agence Française de Développement - AFD) is the key operator for implementation of the mechanism. Of the 18 eligible countries, 13 have now repaid all their ODA debt obligations and closed their C2Ds. But 5 still have contracts underway: Cameroon and Côte d'Ivoire (together accounting for more than 80% of the amounts), as well as Congo, Guinea and the Democratic Republic of the Congo (DRC).

Of the 18 eligible countries to C2Ds

13 countries have now closed their C2Ds, **5 countries** still have contracts underway.

The C2D mechanism is unprecedented in terms of the financing methods that are used; the number of countries involved; and the financing mobilised, which should eventually reach nearly €5.4 billion. It differs from other debt-swap tools in that it maintains a financial flow in currency from the beneficiary to the creditor. Debt servicing thus weighs all the more heavily on the country's balance of payments because the mechanism calls for interest payments. Today, with the consequences of the global economic and health crisis, the five countries that still have outstanding C2Ds are no longer able to ensure their debt-service payments and have asked to benefit from the Debt Service Suspension Initiative (DSSI). These suspensions of debt service lead to a de facto suspension of C2Ds.

The C2Ds are a commitment that comes on top of the HIPC initiative. Their implementation has therefore been closely linked to the timetable and conditionalities associated with it. The public authorities have always refused to eliminate these constraints, which have led to the signing of contracts being postponed multiple times – for more than 10 years for some beneficiaries. In the meantime, even the countries whose debts were considered unsustainable continued to made debt-service payments to France, without any compensation. The overall amount of future C2Ds has been reduced accordingly. For some countries, such as Cameroon, Congo, Guinea and Madagascar, which have made their debt-service payments regularly, the losses are considerable. This is especially the case for Burundi and Rwanda, as their debt-service payments have almost completely 'emptied' their C2Ds. A total of nearly €1.7 billion in 'unsustainable' debt-service payments were made by the 18 countries eligible for ODA loans between the announcement of the additional French measures and the signing of their contract.

While C2Ds do provide new resources, they do not fully meet the initial promise of complete additionality to ODA, and sometimes there are significant substitution effects. And since C2Ds are not backed by a mechanism to prevent re-indebtedness, the debt of the eligible countries has continued to grow to worrying levels in some cases. France cannot, of course, be held solely responsible for this situation. However, its contribution to the re-indebtedness of certain debtors raises questions: since 2012, the amount of new loans granted to eligible countries has exceeded the volume of refinancing through grants each year. Eleven of these countries are now more indebted to France than they were at the beginning of the decade.

The C2Ds were intended to contribute to the modernisation of French development cooperation tools. While some real progress has been made – particularly in terms of traceability, sectoral dialogue and coordination with other donors – this cannot hide the real limitations in terms of ownership, alignment and even predictability. Indeed, whereas traditional ODA instruments generally suffer from uncertainty about the availability of payment credits, C2Ds provide a guarantee of funds over several years and make it possible to implement large-scale projects and programmes. However, the predictability of C2D financing depends on the efforts of the beneficiary country and its ability to meet its debt-service payment deadlines over time. Suspension of debt-service payments under the DSSI – and consequently suspension of financing for C2D projects and programmes – shows that such a debt-swap mechanism cannot be assessed without taking into account the debtor's overall solvency.

The C2Ds were also supposed to focus on sectoral aid or general budget support, in order to align the contracts with national priorities, strengthen ownership by the beneficiary countries and increase absorption capacity. The available data, covering the 2001-2014 period, show that these initial commitments have not been met and that C2Ds have mainly been used for project aid (77%), with very little general (10%) or sectoral (9%) budget support. The objective of traceability of refinancing has been achieved at the cost of a very strong hold by AFD on procedural oversight: AFD more or less has a 'right of veto', which is often resented by national administrations and local partners. For the largest contracts, particularly in Côte d'Ivoire, use of C2Ds almost exclusively for project aid, as well as the procedures imposed by France, have required the setting up of a specific administration section which is theoretically part of the ministries concerned but operates as an autonomous body. This 'externalisation' weakens already fragile national institutions and does little to strengthen administrations as a whole.

€5.4 billion will be reached by C2Ds.

€1.7 billion in 'unsustainable' debt-service payments were made by the eligible countries before the signing of their C2Ds

Furthermore, the French authorities have come to view the need for rapid disbursements as a key issue for the C2D's acceptability. Because of this, allocations to sectors are in practice made to sectors whose projects involve significant financial resources, such as infrastructure, which accounts for 30% of total C2D financing. Infrastructure share is more than that of the social sectors of education (17%) and health (8%) combined, as well as of agriculture (13%). There thus exists a sort of 'disbursement tyranny' which raises the question of the relevance of certain sectoral choices and of the development models underlying these projects.

The political and diplomatic dimensions also stand out more prominently in C2Ds than in other French ODA instruments. The signing of contracts in Rwanda, Uganda and the DRC, for example, has been postponed for diplomatic reasons. The 'presumption' that C2Ds are used to serve French interests is also all the stronger when the beneficiary country is part of the traditional French 'private preserve': in such cases the amounts refinanced are very large for the beneficiary, and the implementation methods differ from one contract to another. Many French political actors are perfectly comfortable with this strategy of influence. We can see many indications – in choices of allocation, number of tenders won by French companies or consultancy firms, and conditions in which some contracts are awarded – that this theoretically untied aid may have been very favourable to French economic interests, particularly in Cameroon and Côte d'Ivoire.

The French government had undertaken, from the very first announcements concerning the C2D, to implement this additional relief 'fully involving civil society'. This commitment has regularly been reaffirmed but rarely put into practice. It was not until 2006 that the first notable step forward was taken in the form of official participation by Cameroonian and French organisations in the Steering and Monitoring Committee of the C2D in Cameroon. Six additional years of advocacy were needed before the principle of participation by an independent civil society was extended to the other C2Ds under negotiation (Côte d'Ivoire, Guinea, Congo and DRC). Moreover, civil society has been involved in the process, through its presence in the governance bodies, in only 5 of the 18 countries eligible for the C2D. Yet, when independent monitoring projects were implemented, in Cameroon and Côte d'Ivoire, they really did help strengthen civil society organisations and enabled citizen oversight on public action throughout those two countries.

More generally, civil society in the various beneficiary countries has never been considered by the French public authorities as a source of new ideas or as a counterbalance. For nearly all the stakeholders, civil society has not had any influence on the direction and implementation of C2Ds, let alone on their underlying development policies. Civil society was not involved in any of the negotiations prior to the signing of the C2Ds and was limited to guaranteeing that the funds are used properly. The old reflexes of State-to-State development cooperation quickly took over, and civil society's role in C2Ds seems to be more like that of a cast member that has been imposed than of an actor that is truly sought after.

1 MAKING INVESTMENTS A CONDITION FOR DEBT CANCELLATION: THE PRINCIPLES AND SPECIFICITIES OF C2DS

Debt Reduction-Development Contracts are a debt-swap mechanism that is completely unprecedented in terms of its financing arrangements (the beneficiary country pays its debt-service amount, which is then reimbursed in the form of a grant), the number of beneficiaries (18 countries) and the total amount of debt obligations involved (nearly €5.4 billion).

1.1 PRINCIPLES, DOCTRINES AND IMPLEMENTATION PROCEDURES

The procedures for implementing these C2Ds have been formalised and clarified over time by the French authorities in 'doctrine notes'[6] which explain the principles, approach and implementation schedule in operational terms. In practice, **C2Ds vary greatly** in their amounts involved, their implementation methods (programme aid, budget support, project aid), their priority sectors of intervention and their governance mechanisms.

6. 1) Document from the French Directorate General for International Cooperation and Development (DGCID) and Directorate General of the Treasury (DG Trésor), *Principes, modalités de préparation et de mise en œuvre des C2D*, April 2001; 2) DGCID, DG Trésor, AFD, *Volet bilatéral de l'Initiative PPTE renforcée, modalités de mise en œuvre*, May 2002, AFD, *Operations Division, Volet renforcé de l'initiative PPTE renforcée. Bilan d'un an et demi de mise en œuvre des contrats de désendettement et de développement. Note pour le conseil de surveillance de l'AFD du 26 juin 2003*, May 2003 (https://www.diplomatie.gouv.fr/IMG/pdf/Bilan.pdf); 3) DGCID, DG Trésor, AFD, *Contrats de désendettement et de développement (C2D) : Rénovation des modalités de mise en œuvre. Note pour le conseil de surveillance de l'AFD du 29 juin 2006*, 2006 (https://www.diplomatie.gouv.fr/IMG/pdf/20120726_-_C2D_-_doctrine_d_emploi_revisee_-_version_France_Diplo_cle09fc82.pdf). No changes in doctrine have been formalised in reference documents since these were produced.

THE C2DS, A COMMITMENT THAT COMES ON TOP OF THE HIPC INITIATIVE

The C2Ds are a commitment that comes on top of the HIPC initiative. Their implementation has therefore been closely linked to the timetable and conditionalities associated with the latter. The indebted country must thus prepare a **Poverty Reduction Strategy Paper** (PRSP) and implement **an economic adjustment programme** for a preliminary period of at least three years. If the debtor meets its commitments and its debt level is still considered 'unsustainable' by the international financial institutions, it reaches the 'decision point'. It then benefits from initial reduction in its debt and its debt-service payment flow. The creditors also commit to the level of cancellations that will be granted after a new period of economic adjustment. All debt cancellations and implementation of C2Ds take place only at the 'completion point', which closes the process.

These conditionalities have led to multiple postponements for the beneficiary countries. In 2006, a decade after the launch of the initiative, only 20 of the 42 eligible countries had reached their 'completion point'. That same year, 10 countries had passed only the first 'decision point' stage, and 9 others were still at the starting point. This extremely slow HIPC process naturally had ramifications on the C2Ds, which could be signed only once the countries reached the 'completion point'. The French authorities have always refused to eliminate this constraint. Instead, they have regularly reaffirmed their support for the conditionalities of the HIPC initiative. In the view of the French Minister for Foreign and European Affairs, Bernard Kouchner, '...getting rid of this framework [would have] expose[d] France to a difficult dialogue with countries, whose performance would not [have been] satisfactory'[7].

Of the 40 or so countries eligible for the HIPC initiative in the early 2000s, France held ODA debt obligations on 22 of them. In April 2006, Haiti was added to the list of HIPC countries and thus to the list of countries eligible for a C2D. However, its French ODA debt obligations (€54 million) were cancelled in November 2010, following the devastation from the earthquake in Haiti in January of the same year. The São Tomé and Príncipe ODA debt obligations, which were very small (€0.3 million), were also cancelled in March 2009. Myanmar failed to meet the eligibility criteria for the HIPC initiative, and Somalia did not reach the completion point.

In the end, 18 countries have benefited from one or more C2Ds (Fig. 1) of very different amounts. **Cameroon and Côte d'Ivoire alone account for more than 80% of projected refinancing**. The ten debtors with less than €20 million outstanding benefited from simplified procedures and so-called **light C2Ds**.

Successive contracts can be made for the same country depending on the volume and debt-service payment schedule of the loans taken out. The duration of each contract was initially three years but was extended to four, five or six years in the mid-2000s in order to 'better meet the need for aid predictability'. Their debt-service payment schedules can be adjusted according to the country's debt-service payment and absorption capacities, or to the scale of the projects to be financed. For example, the allocation for the first Congo C2D was increased from €51 million (debt-service payments due for the March 2010 – December 2014 period) to €80 million through early payment of debt-service due after 2014. In Cameroon, ODA debt service for the years 2026 to 2042 has been brought forward and grouped together in the third C2D. It has been partly refinanced in the form of budget support so as not to place too much of a burden on Cameroon's public finances. In contrast, the allocation for the first C2D in Côte d'Ivoire, which was already substantial, was reduced by €715 million through postponements.

7. Letter to the PFDD from Bernard Kouchner, Minister for Foreign and European Affairs, 15 February 2008.

Fig. 1 – LIST OF C2DS AND THEIR AMOUNTS BY COUNTRY, AS OF 31 DECEMBER 2000
In millions of euros, completed C2Ds on a light blue background, provisional amounts in brown.

COUNTRY	COMPLETION POINT DATE	TOTAL REFINANCING		DATE OF SIGNATURE	AMOUNTS
Sao Tomé	Outright cancellation of €0.3 million in ODA debt obligations in March 2009				
Haïti	Outright cancellation of €54 million in ODA debt obligations in Nov. 2010				
'LIGHT' C2DS					
Uganda	May-00	**11,27**	C2D 1	28/03/2002	3,20
			C2D 2	15/12/2006	8,07
Tanzania	Nov-01	**12,63**	C2D 1	10/06/2003	4,25
			C2D 2	30/03/2007	4,25
			C2D3	14/09/2011	4,13
Nicaragua	Jan-04	**2,36**	C2D unique	01/03/2005	2,36
Rwanda	Apr-05	**3,29**	C2D unique	26/03/2010	3,29
Burundi	Jan-09	**2,59**	C2D unique	11/05/2010	2,59
Malawi	Aug-06	**10,81**	C2D unique	11/01/2011	10,81
Honduras	Apr-05	**10,51**	C2D unique	15/02/2012	10,51
Liberia	Jun-10	**3,90**	C2D unique	16/08/2012	3,90
'NORMAL' C2DS					
Mozambique	Sept-01	**96,09**	C2D 1	30/11/2001	29,79
			C2D 2	09/11/2004	30,50
			C2D 3	12/03/2010	18,30
			C2D 4	20/07/2015	17,50
Bolivia	Jun-01	**19,99**	C2D 1	30/05/2003	10,42
			C2D 2	19/05/2008	6,53
			C2D 3	23/12/2014	3,04
Mauritania	Jun-02	**67,74**	C2D 1	17/07/2003	14,74
			C2D 2	28/06/2006	11,85
			C2D 3	03/03/2010	17,40
			C2D4	22/10/2014	23,75
Ghana	Jul-04	**62,98**	C2D 1	11/04	21,00
			C2D 2	18/02/2008	41,98
Madagascar	oct-04	**49,49**	C2D1	25/02/2005	22,84
			C2D2	11/06/2008	26,64
Cameroon	May-06	1 475,05	C2D 1	22/06/2006	537,64
			C2D 2	01/07/2011	326,01
			C2D 3	30/06/2016	611,40
Congo	Jan-10	331,00	C2D 1	29/09/2010	80,13
			C2D 2	10/12/2014	149,41
			C2D 3	Unknown	101,00
Côte d'Ivoire	Jun-12	2 900,00	C2D 1	01/12/2012	630,00
			C2D 2	03/12/2014	1 125,00
			C2D 3	On hold	1 145,00
Guinea	Sept-12	166,00	C2D1	24/06/2013	75,00
			C2D2	11/07/2016	91,00
DRC	Jun-10	171,27	C2D 1	10/07/2013	106,37
			C2D2	12/11/2019	64,90
TOTAL		**5 397,00**			

PRINCIPLES AND ALLOCATION PRIORITIES

According to the doctrine documents, all C2Ds must:

- 'be in line with the priorities of the Poverty Reduction Strategy Papers (PRSPs) and support the programmes that contribute most strongly to national poverty reduction strategies';
- be concentrated on a smaller number of programmes;
- be implemented as a priority 'in the form of sectoral aid or general budget support' with 'use as project aid [as an] exception';
- be a supplement to other channels of ODA;
- be part of existing consultation mechanisms, and be carried out 'in coordination with other donors';
- allow for 'involvement, according to suitable terms, of civil society in the implementation and monitoring of the C2D' (but without clearly defined conditions concerning this 'involvement').

The priority allocation themes for C2Ds are normally, but not exclusively:

- basic education and vocational training;
- primary health care and the fight against major endemic diseases;
- facilities and infrastructure of local administrations;
- local development and natural resource management.

In the early 2010s, the theme of governance by State and local governments was added.

WHAT DEBTS ARE CONCERNED?: LACK OF CLARITY IN WHAT THE REFINANCED 'STOCKS' ARE.

The C2D refinancing through grants deals exclusively with **debt obligations counted as ODA**. Those debt obligations are thus the result of loans with 'the promotion of the economic development and welfare of developing countries as [their] main objective' and were to be at least 25% more 'generous' compared to market conditions (e.g., lower interest rate, duration, grace period)[8]. They may have been contracted before or after the 'cut-off date' for the initial Paris Club examination[9]. They include:

- **debt obligations held by the French government** (Treasury memoranda managed by Natixis and loans managed by Banque de France), including agreements signed under Paris Club restructuring agreements. For these debt obligations, the debtor country repays the debt service due to Banque de France or Natixis, which transfers the funds to AFD;
- **debt obligations held directly by AFD**, which the debtor country repays directly.

8. OECD Development Assistance Committee (DAC) Guidelines for tracking ODA flows - https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/.

9. The cut-off date is set at the time of a country's first request to negotiate with the Paris Club. Credits granted after that date are theoretically not eligible for debt restructuring. The C2D initiative of additional refinancing through grants is an exception to this principle.

After the debtor has repaid its debt, AFD retransfers the funds, generally within two weeks of recovery of the debt obligations, to **an earmarked account opened in the beneficiary's central bank**. Disbursements from this account are made according to the progress made in the programmes and projects. The release forms require either a double signature (by the government and the AFD national director in countries where AFD has an office, or by the government and the French ambassador in other countries) or a document from AFD stating its non-objection.

At the end of 1999, total ODA debt obligations of the 22 countries eligible for C2Ds were estimated at €3.7 billion. It is thought that the C2Ds will ultimately refinance €5.4 billion through grants. To account for the gap between 3.7 and 5.4 billion, one must subtract the debt-service amounts paid by countries waiting for their completion point (see 2.1) and above all, add to this amount, which is the principal, **the accumulated interests due over the refinancing period** and – in proportions that vary depending on the country – **all or part of the arrears (principal and capitalised interest)**, in particular via debt rescheduling granted at the 'decision point'. While a minor detail, the debt-service payment schedules also include debt-service payment of some loans granted by AFD in the early 2000s, after the announcements concerning the additional HIPC efforts and the interest accrued on some debt service (principal and interest) whose debt-service payment was deferred from one C2D to the next.

Generally speaking, the limited information available on French loans and on the Paris Club restructuring agreements makes it difficult to accurately trace the origin of the amounts to be refinanced by the C2Ds. From this point of view, it is unclear whether there has been fair treatment for the eligible countries, in particular between those which have continued to honour their debt-service payment schedules while waiting for the completion point and those which have accumulated arrears. The differences between the amounts announced at the end of the 1990s and the amounts actually refinanced are particularly significant for Côte d'Ivoire, whose French ODA debt obligations have almost doubled in face value in a decade due to the rescheduling of debt obligations and arrears, which have risen from €1.4 billion at the end of 1999 to €2.25 billion.

Moreover, even if ODA loan rates are low, or at least below market conditions, the **share of interest in the total refinancing allocations is far from negligible**, especially when debt-service payments are spread out – and interest is added – over many years. The public authorities do not report on this issue, but the amount of interest can be estimated at about 8.5% of the refinancing-through-grant commitments of DRC contracts and 11% of those of Guinea[10]. The share of interest could reach €650 million for all of Côte d'Ivoire's C2Ds, if the outstanding principal owed by the country just prior to the signing of its first contract is compared to the projected amount of its debt-service payments[11].

10. Difference between the outstanding capital (listed in an annex to the contracts) and the sum of the refinanced debt-service payments on all C2Ds.

11. Debt reduction-development contract between the Government of the French Republic and the Government of the Republic of Côte d'Ivoire, 1 December 2012, p. 4 and Annexes 1 and 1bis.

In concrete terms, the strategic management of the C2D is conducted by the French ambassador in the beneficiary country, who reports to a tripartite committee in France (Ministry of Foreign Affairs – Ministry of the Economy and Finance – AFD) responsible for cross-sectoral monitoring. The refinanced debt obligations schedule, the allocation points selected and the terms of implementation are negotiated with the authorities of the beneficiary country as the 'completion point' approaches (see box) or at each contract renewal. **AFD is the key operator for implementing contracts whose programmes are carried out and evaluated according to AFD procedures**.

1.2 THE SPECIAL FEATURES OF THE FRENCH DEBT-SWAP MECHANISM

France is the only country to have adopted a refinancing-through-grants mechanism as an additional measure to the HIPC initiative. Australia, Belgium, Denmark, the United States, Canada, Spain, Italy, Japan, Norway and the United Kingdom among others have all opted for the principle of outright cancellation, with exceptions for some countries, or with slight differences with regards to the debt stock considered (e.g., taking into account debt obligations after the cut-off date or after HIPC announcements) or to the implementation timetable (with regard to the decision point or completion point). France seems to have taken advantage of its presidency of the European Union in the second half of 2000 to propose to the other member countries that they adopt this specific debt-swap mechanism[12], but without gaining the support of its partners.

Debt swap and counterpart funds: specificities of the French system

C2Ds are not the first restructuring instruments to make debt cancellation conditional on investment in development and poverty-reduction programmes. For example, debt swaps by a non-governmental organisation or a consortium of organisations, usually at a discount, were quite successful in the 1990s. In this case, they are sold back to the debtor country, with or without an additional discount, to finance development projects. Some countries, such as Switzerland, Italy, Belgium and Finland, have also set up **counterpart funds**, similar to the C2Ds, in which the beneficiary country pays, according to a predetermined schedule, amounts that correspond to all or part of the cancelled debt obligations and that are used to finance projects. More recently, France has also experimented with debt swaps with a few non-HIPC countries, notably Gabon for conservation of forest ecosystems[13], Tunisia for health and technological education[14] and Cuba[15], for infrastructure. These can involve significant amounts (€90 million for Tunisia, €212 million for Cuba).

All of these debt-swap mechanisms face the same problems of management costs, ownership by the beneficiary country, identification of allocation priorities, untying of aid, and others. However, the French C2D mechanism differs from them in several aspects:

→ **A real financial flow, in foreign currency, is maintained from beneficiary to creditor**, whereas debt swaps and payments to counterpart funds are usually made in local currency, without international transfers. These latter weigh on the balance of payments16, especially for countries outside the CFA zone in the case of C2Ds. Debt-service payment in foreign currency also prevents the debtor country from printing more of its own currency (and therefore inflation), with the goal of reducing the burden of its commitments.

→ The C2D offers **no discount on debt-service payment of principal** and, on the contrary, requires **payment of interest**. This increases the C2D amount all the more.

→ **A contractual link with the creditor and thus 'a means of pressure on the [debtor] country' are maintained**[17], as acknowledged by the authors of *Revue de la politique du C2D*.

12. P. Brisepierre, *Avis présenté au nom de la commission des Affaires étrangères, de la défense et des forces armées du Sénat sur le projet de loi de finances pour 2001, tome III, Aide au développement,* Annex to French Senate minutes, Nov. 2001, p. 11 - http://www.senat.fr/rap/a00-095-3/a00-095-31.pdf.

13. Gabon's ODA debt swap for 'conservation and sustainable management of forest ecosystems' projects for €60.4 million. AFD is responsible for implementing the swap mechanism.

14. Agreement signed in 2016, for €60 million in debt obligations, increased to €90 million in 2018. Financing of the Gafsa University Hospital project (€80 million) and projects in the field of higher technological education.

15. Following the agreement on the Paris Club's Cuban debt obligations (December 2015), debt swap of half of the remaining obligations into a 'Franco-Cuban countervalue fund' endowed with €212 million, whose projects are examined by AFD. It financed renovation and expansion of the Havana airport for €80 to €100 million, modernisation of railway workshops and rehabilitation of road and sanitation infrastructures.

16. R. Barradas, A. Deshormes, M. Raffinot, *Évaluation du contrat de désendettement et de développement (C2D) Mozambique*, French Ministry of Foreign Affairs, 2006, p. 35 - https://www.iram-fr.org/ouverturepdf.php?file=155.pdf.

17. F. d'Aversa, A. Bordreuil, D. Voizot et al., *Revue de la politique du C2D*, 2017, (op. cit.) p. 105.

→ **The C2D can be suspended** during the contract period if the debtor cannot meet its debt-service payment obligations – and this has been the case since mid-2020 for countries that have made use of the Debt Service Suspension Initiative (DSSI) as discussed below, or between two contracts, for budgetary or diplomatic reasons.

→ **The implementation procedures vary**, from general budget support to project aid, as do the allocation sectors for the same contract, in contrast to debt-swap mechanisms, which usually make use exclusively of project aid for a limited number of sectors.

Spreading the budget cost

As in the case of an outright cancellation, which results in less revenue for the creditor, refinancing through grants contributes to increasing the budget deficit of the French government, this time through additional spending (payment of the grant). The main difference lies in the spreading of the budget cost, which occurs at each payment, as the grants run throughout the implementation of the contracts. In contrast, debt cancellations negotiated in the Paris Club are fully accounted for at the time of the decision (as a one-shot effort)[18]. **This spreading of the budget cost over some twenty years was a strong argument in the decision to make use of refinancing through grants**[19]. For the creditor, it also has the advantage of long-term 'visibility': public communication about the French commitment can be repeated at each contract signature, each programme launch or each inauguration. In contrast, in the case of outright cancellation, the creditor's effort can be made public at the time of the announcement but may be quickly forgotten afterwards.

A mechanism that continues to weigh on the debtor's solvency

The debtor country's financial leeway created by refinancing with grants occurs at the same pace as for an outright cancellation: over the course of the debt service, by debt-service payments (principal + interest) that the beneficiary no longer needs to make in the case of a cancellation, or by 'grants' equivalent to the debt-service payment of the principal and interest for C2Ds. Under the French mechanism, however, these debts remain on the debtor country's balance sheet and are reduced only as the C2D debt-service payments are made. **The debt service associated with the contract weighs on the balance of payments** and may, for the largest C2Ds, pose sustainability problems. As long as resources must be allocated to debt servicing according to a specific schedule, budgetary constraint remains. In reality, IMF staff generally include the stock of C2D debt in the debt sustainability analyses (DSAs) that they regularly conduct in various countries. **A large stock of public external debt linked to C2D debt obligations therefore continues to negatively influence DSA results**, whereas an outright cancellation of public external debt would have contributed to an immediate improvement in the country's DSA[20].

For most of the countries concerned by the C2Ds, there is little impact on their solvency, both because outstanding ODA debt to France is low and because the amount becomes smaller rapidly. However, the ratio of outstanding 'C2D debt' to GDP is much higher for Cameroon (8.8% in 2005, just prior to the signing of its first C2D, representing 22.5% of its total public external debt) and especially for Côte d'Ivoire (15.3% in 2011, representing 43% of its total external debt). This naturally has an impact on the solvency of these two countries and on their ability to raise resources on the financial markets. Such is the impact that IMF services decided to exclude outstanding debt service owed to France by Côte d'Ivoire from their calculations since the DSA conducted in late 2014.

18. The mechanisms for charging debt cancellations to the budget are particularly complex and depend on the type of debt obligation. The following French Senate report (in French) provides more detail: M. Charasse, 'L'impact financier des annulations et consolidations de dette', in P. Marini, *Rapport général fait au nom de la commission des Finances, du contrôle budgétaire et des comptes économiques de la Nation sur le PLF 2007*, 2006, pp. 116-123 - http://www.senat.fr/rap/l06-078-34/l06-078-341.pdf.

19. French Ministry for the Economy and Finance, *Rapport présenté au Parlement sur les activités du FMI et de la Banque Mondiale*, August 2000, pp. 104-105.

20. F. d'Aversa, A. Bordreuil, D. Voizot et al., 2017 (op. cit.), p. 31, quoting an internal AFD memo of May 2000.

Finally, there is a paradox in the choice of refinancing through grants for a country that chairs the Paris Club and is a strong advocate of donor coordination. Indeed, the C2D mechanism requires that the beneficiary country be able to service its external debt regularly and therefore, in many cases, that other bilateral or multilateral lenders have waived their debt obligations beforehand so that the debtor's debt-service payment capacity can be restored. From this angle, refinancing through grants could probably not have been extended to all the debt obligations concerned by the HIPC initiative, or even to all French debt obligations on eligible countries. Indeed, for some countries, the level of debt-service payments would have remained unsustainable. By choosing this mechanism, France acts as a 'free rider' – according to the accepted term in academic literature – by 'benefiting' from the cancellations granted by other creditors.

1.3 STATUS OF THE C2DS AND SUSPENSION OF THE MECHANISM

In the end, it is estimated that C2D implementation will spread over more than 25 years, as opposed to the 10 to 15 years initially planned. Total payments remained very low (less than €35 million per year) until 2006, when the first Cameroonian C2D was signed (**see Fig. 2**). Annual refinancing at that time was approximately €135 million, three quarters of which was debt-service payments of Cameroonian debt obligations. From 2013 onwards, following the signing of the Ivorian, Congolese and Guinean C2Ds, payments reached an average of €330 million per year, two thirds of which went to Côte d'Ivoire.

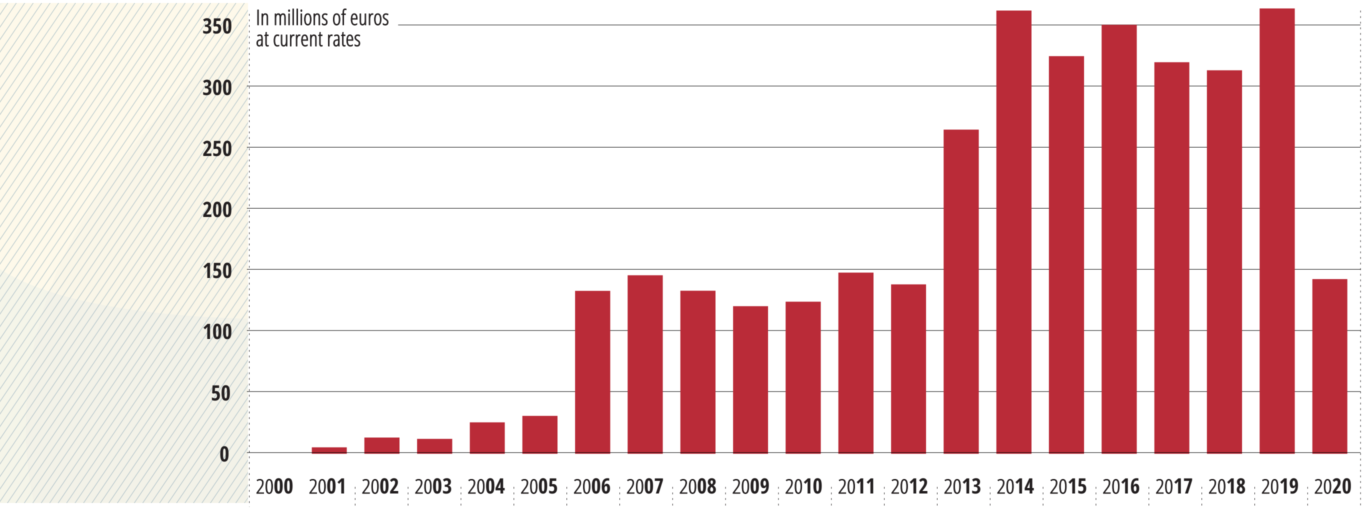
According to the most recent data available, **the C2D mechanism will ultimately reach €5.4 billion in refinancing through grants**. Since 2001 and the first Mozambican C2D, 37 C2Ds have been signed with 18 countries. Their amounts have varied widely, from €2.3 million for Nicaragua's sole C2D to €1.125 billion for Côte d'Ivoire's second C2D. The entire process should come to a close when the expected third Ivorian C2D (which could amount to more than €1 billion) is signed and, to a lesser extent, if the more uncertain third Congolese C2D is signed.

Of the 18 eligible countries, 13 have repaid all their ODA debt obligations and closed their C2Ds: Bolivia, Burundi, Ghana, Honduras, Liberia, Madagascar, Malawi, Mauritania, Mozambique, Nicaragua, Rwanda, Tanzania and Uganda. The remaining five, however, still have ongoing C2Ds: Cameroon, Côte d'Ivoire, Congo, the DRC and Guinea, which are also the countries with the largest debt obligations. **As of 31 December 2020, approximately €3.5 billion had been refinanced through C2Ds** (**Fig. 3**) – but not necessarily disbursed (see below); this represents approximately 65% of the total provisional amount if the C2Ds run their course for all the eligible countries. But this is not a given. Due to the global economic and health crisis, the five countries which still have outstanding C2Ds are simply no longer able to make their debt-service payments and have asked to benefit from the Debt Service Suspension Initiative (DSSI). **These debt-service payment suspensions lead to de facto suspension of C2Ds** and to postponement of debt servicing that in 2020 reached €112.5 million for Côte d'Ivoire, €110.9 million for Cameroon, €20.9 million for Guinea and €10.5 million for the DRC. These amounts are theoretically rescheduled to between June 2022 and December 2024[21]. The initiative was extended a first time to June 2021 and could be extended again until the end of 2021.

21. M. Le Fur, *Annexe n°6 au Rapport de la commission des Finances, de l'Économie générale et du contrôle budgétaire sur le PLF pour 2021, APD, prêts à des états étrangers,* 2020, p. 49 - https://www.assemblee-nationale.fr/dyn/15/rapports/cion_fin/l15b3399-tiii-a6_rapport-fond.pdf.

The cash accumulated in the allocation accounts has allowed the funding of committed projects and programmes to continue uninterrupted for several months. But it is unclear whether these amounts are sufficient in all countries to ensure continuity of operations. There is also considerable uncertainty as to how the contracts will be continued in the event that the DSSI is extended once again, particularly with regards to the sustainability of the debt obligations and the conditions for their possible rescheduling.

Fig. 2 – TOTAL ANNUAL AMOUNTS OF REFINANCING VIA GRANTS (TOP)[22].



C2D SCHEDULE (BOTTOM) FROM 2000 TO 2020.

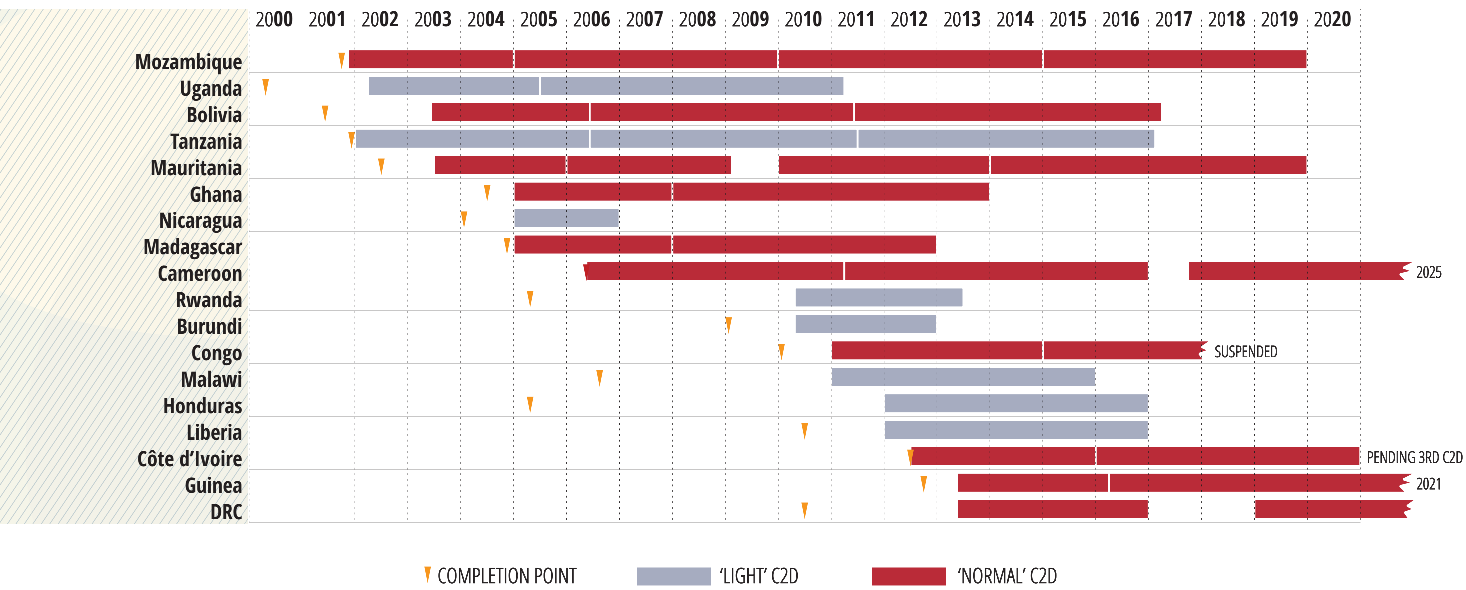
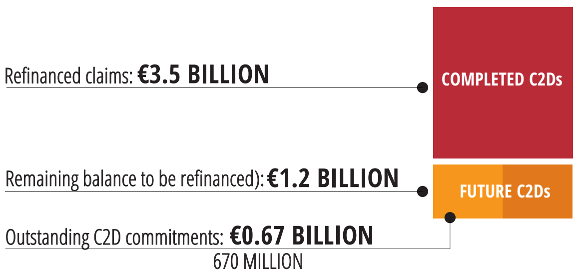


Fig. 3 – STATUS OF C2DS AS OF 31 DECEMBER 2020.



22. Update by F. d'Aversa, A. Bordreuil, D. Voizot et al., 2017 and the database of *Revue de la politique du C2D*, with annual budget documents (ODA 'blue documents' of the finance bills, annexes to the discharge bills and general government accounts) for the years 2015 to 2021.

2 ARE C2DS AN APPROPRIATE RESPONSE BY FRANCE TO THE SCALE OF THE CRISIS?

The enhanced HIPC initiative and the additional French measures via the C2Ds were meant to respond to an exceptional debt crisis in the poorest countries which had become totally 'unsustainable'. Was the response up to the task? What have been the consequences of the delays accumulated by the HIPC initiative for the countries eligible for C2Ds? Have they provided debtor countries with new financial leeway, or have they simply replaced other ODA instruments? Have they helped lift these poor countries out of debt in the long term?

2.1 THE CONSIDERABLE COST OF ACCUMULATED DELAYS FOR THE ELIGIBLE COUNTRIES

Forecasts presented in August 2000 by the French government, which were based on IMF and World Bank projections at the time, indicated that the 18 countries eligible for C2Ds were to reach their completion point and sign their first contract by the end of 2003. But this was far from the case: only five of them (Mozambique, Uganda, Bolivia, Tanzania and Mauritania) had signed a contract by the end of 2003, for a cumulative commitment of only €62 million. For the others, postponements came to be commonplace, in particular for the largest C2Ds of Cameroon (signed in 2006), Congo (2010), Côte d'Ivoire (2012), and Guinea and the DRC (2013). While waiting for their 'completion point', **the countries whose debts were considered unsustainable continued to make debt-service payments, without anything in return. The overall amount of future C2Ds has been reduced accordingly**. The result has been a growing gap between the initial announcements and the debt relief actually granted.

In its advocacy document entitled '*C2D: Sanctuariser les remboursements de dette des pays pauvres*' of September 2007, the PFDD called on French authorities to set up '**a mechanism to secure debt-service payments**' so that the debt obligations actually repaid pending the 'completion point' are added to the initial C2Ds. The authorities gave an explicit refusal. The Minister for Foreign and European Affairs, Bernard Kouchner, considered that this request was 'generous in principle' but would be 'very costly for the taxpayer'[23]. He considered that the proposed mechanism would have 'several perverse effects', in particular of creating 'unfairness in how the countries are treated' and of eliminating 'the aspects of the approach that are exemplary and lead to incentive' to reach the 'completion point' as soon as possible. According to Kouchner, '... such a change in our doctrine could be perceived as a bonus for bad management'.

The argument of equity is particularly inappropriate, since we now know that some eligible countries have in fact met their debt-service payment obligations (and seen the amount of their C2D reduced accordingly), while others have accumulated arrears that were eventually rescheduled and incorporated into their C2D. In other words, refusal to deal with this issue of debt-service payments while waiting for the completion point has led to a form of 'securing' deadlines only for the eligible countries that at the time were considered 'not very virtuous' by the public authorities.

Some countries, such as Cameroon, Congo, Guinea and Madagascar, which made their debt-service payments regularly, suffered **considerable losses** with regard to the amount of their C2Ds (**Fig. 4**). This applies even more to the case of debt-service payment by Burundi and Rwanda, which almost completely emptied their C2Ds. In total, **nearly €1.7 billion of 'unsustainable' debts will have been repaid by the 18 countries eligible for ODA loans between the announcement of the additional French measures and the signing of their C2D**.

23. Letter to the PFDD from Bernard Kouchner, Minister for Foreign and European Affairs, 15 February 2008.

Fig. 4 – ODA LOAN DEBT-SERVICE PAYMENTS (PRINCIPAL + INTEREST) OF COUNTRIES ELIGIBLE FOR C2DS BETWEEN 2000 AND, FOR EACH COUNTRY, THE YEAR IN WHICH ITS FIRST C2D WAS SIGNED.

IN MILLIONS OF EUROS AT CURRENT RATES	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL	C2D AMOUNTS
Bolivia	1,2	1,3	2,0											4,5	19.99
Burundi	0,3	0,2	0,2	0,7	40,1	3,0	3,6	0,5	0,9	4,7				54,2	2,59
Cameroon	32,2	29,2	41,0	128,9	97,2	100,9								429,4	1 475,05
Congo	6,7	4,2	0,5	10,6	52,8	69,8	109,4	17,5	28,5	21,7				321,8	331 ,00
Côte d'Ivoire	37,5	1,7	167,0	25,3	1,3	0,6	5,5	4,1	3,0	22,1	13,1	1,0		282,2	2 900,00
DRC	0,0	0,0	8,8	213,6	16,2	18,4	2,5	0,2	0,1	0,1	9,5	22,1	0,5	291,9	171,27
Ghana	4,7	2,9	0,8	2,1										10,5	62,98
Guinea	12,5	9,6	11,9	13,3	1,8	6,0	19,9	1,0	59,4	5,2	8,4	13,3	9,4	171,8	166,00
Honduras	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0		0,1	10,51
Liberia	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	5,7	0,1	0,0	0,2		6,0	3.9
Madagascar	10,2	9,9	8,9	10,6	8,6									48,2	26.64
Malawi	0,5	0,1	0,0	0,2	0,0	3,4	0,1	2,2	0,3	0,1	1,3			8,3	10,81
Mauritania	5,7	2,6	5,3											13,6	67,74
Mozambique	0,2													0,2	96,09
Nicaragua	0,0	0,0	0,0	0,1	0,1									0,1	2,36
Uganda	-0,4	-10,8												-11,2	11,27
Rwanda	2,2	1,9	0,0	0,4	0,0	0,0	38,2	0,1	0,1	0,1				43,0	3,29
Tanzania	0,0	0,1	0,6											0,8	12,63
TOTAL	114	53	247	406	218	202	179	26	98	52	32	36	10	1 675	

Sources: OECD DAC, International Development Statistics (IDS) online databases.
World Bank tables were used for converting to euros.

2.2 A SUBSTITUTION EFFECT FOR OTHER FRENCH ODA INSTRUMENTS WHICH VARIES FROM COUNTRY TO COUNTRY

The purpose of any debt cancellation is to provide the beneficiary country with additional financial leeway to finance its development. Its impact is considerably reduced if the creditor accompanies this cancellation with a reduction in the amounts of aid previously allocated to the debtor. This is why attention is paid to the 'additionality principle' and the commitments made by the international community 'to take steps to ensure that resources provided for debt relief do not detract from ODA'[24]. For its part, **France reaffirmed this principle of additionality** at its Interministerial International Cooperation and Development Committee (CICID) meeting on 14 February 2002.

24. *Monterrey Consensus*, Declaration of the Monterrey Conference on Financing for Development, March 2002, paragraph 51.

The difficult question of additionality

However, verifying the additionality of C2Ds is a difficult exercise, requiring agreement on the nature of the flows that should theoretically be added. For example, should this cancellation be added to grants alone, to total net ODA, or to all gross flows? And, on an analysis scale, should arrangements be made strictly on a country-by-country basis, for a group of countries, or for all ODA beneficiary countries? How can we distinguish the specific effects of C2Ds from more structural trends, such as the downward trend in ODA or the geographical reorientation of flows prompted by diplomatic concerns? And what reference period should be taken into account, given that in the countries where AFD has a high level of activity in sovereign loans (e.g., Cameroon), new loans – and thus the amount of ODA – tend to drop during the interim period of the HIPC initiative, in the years before the 'completion point' is reached and therefore before the first C2D is signed[25]?

Impact of the C2D mechanism on the calculation of French ODA

The way in which grant refinancing is counted in ODA does not simplify matters. Because these loans concern exclusively concessional debt obligations (see above), they have already been counted as ODA at the time of disbursement, for the amount of the principal[26]. Logically, this capital should be gradually deducted from French ODA as it is repaid: it is always calculated in net flows, i.e., payments minus annual debt-service payments. For C2Ds, the debt-service payment therefore implies a 'negative ODA' ledger entry equivalent to the debt-service payment of the principal and a 'positive ODA' entry when the grant is paid out (principal + interest). **The positive balance for calculating French ODA is therefore equivalent to only the amount of interest paid by the debtor country**[27]. On the other hand, **refinancing through grants has an impact on the components of ODA, as it reduces the 'loan' component** ('negative entry' of the amount of principal repaid) **while increasing the 'grant' component** ('positive entry'). Thus, over the 2012-2019 period, C2Ds increased the volume of grants counted as French ODA by an average of 9% for all beneficiaries combined, while reducing the volume of net loans by an average of 10%[28].

C2Ds are being implemented against a backdrop of strong budget pressure on French bilateral ODA and high volatility of flows, all beneficiaries included. Non-C2D grants, for example, fell sharply at the very beginning of the 2000s, before returning to their previous level in 2005-2007, and they fell again between 2008 and 2017. The first decline cannot, of course, be linked to the C2Ds, but the second corresponds to the time when refinancing through grants was surging. C2Ds thus have the effect of reducing the scale of grants, without totally eliminating them. Finally, the trend over the last 25 years has been for the 'grant' component of French ODA to increase very slightly, while non-C2D grants stagnate – and drop in real terms. All these observations are indicators that come together to suggest that C2Ds do have a substitution effect which, though probably limited, adds to the very strong budget pressures on French ODA.

Significant new resources, but without the promise of full additionality being met

The substitution effect is clearer if we examine the amounts of aid granted to eligible countries only. Figure 5 shows that the annual average of grants to these 18 countries (excluding debt relief and C2Ds) was around €310 million until 2005, the year prior to the signing of the first major C2D (with Cameroon). It then dropped to €250 million over the decade 2008-2018, while C2D refinancing through grants surged, with a slightly greater downturn in the years following the signing of contracts with Côte d'Ivoire, Guinea and the DRC (2014-2017). **Clearly, while C2Ds do provide new resources for this group of countries, they do not fully meet the initial promise of full additionality beyond ODA for the beneficiary countries**.

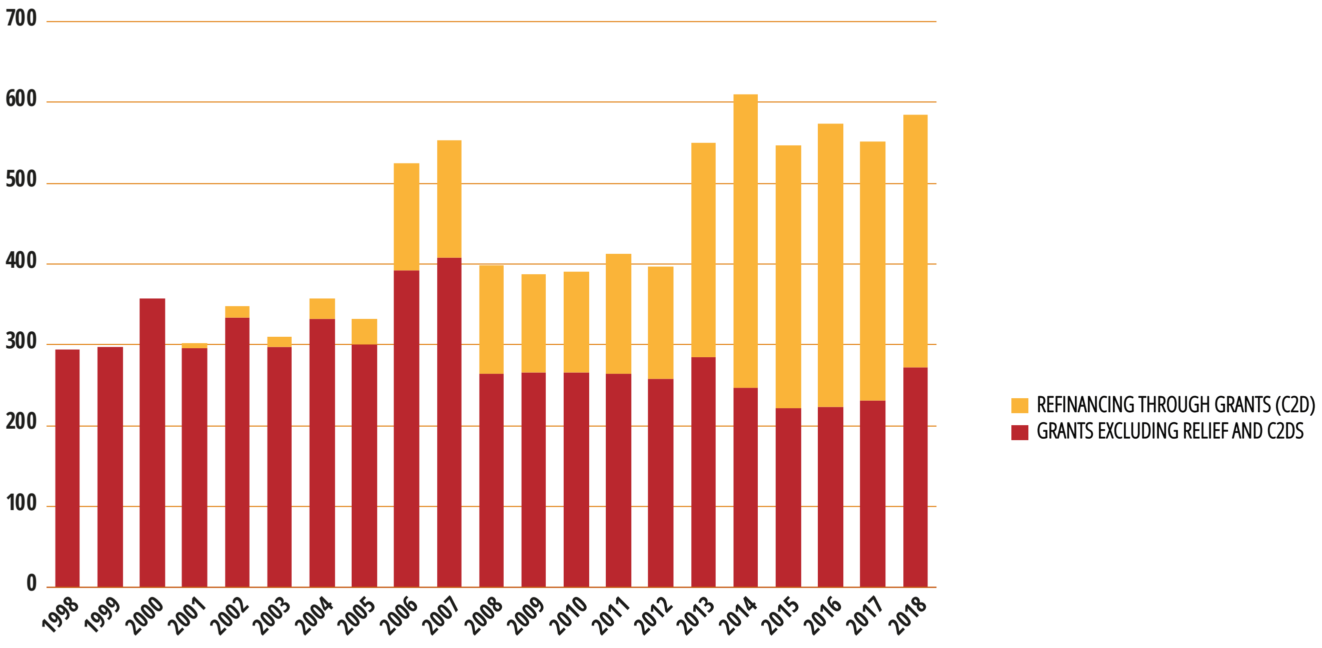
25. AFD, Operations Division, op. cit. May 2003.

26. The OECD DAC rules were changed from 2018. They no longer include loan flows (disbursements/ debt-service payments) but only their 'grant equivalent', i.e., an estimate of the 'value' of the effort granted by the lender relative to market conditions.

27. <?> F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit, 2017, p. 79. Only cancellations of non-concessional debt obligations (loans on market terms, export credits, etc.) have a real impact on the amount of ODA. As these loans were not counted as ODA when they were disbursed, they are, under certain conditions, counted as such at the time of their cancellation, for the amount of the capital still due. In the early 2000s, this non-concessional debt relief represented up to 50% of French bilateral ODA.

28. Calculated from OECD DAC International Development Statistics (IDS) online databases.

Fig. 5 – AMOUNTS OF GRANTS (EXCLUDING DEBT RELIEF) COUNTED AS FRENCH BILATERAL ODA FOR THE 18 COUNTRIES ELIGIBLE FOR C2DS, 1998-2018, IN MILLIONS OF EUROS AT CURRENT RATES.



Looking at each country, the analysis findings are more varied, as each case has specific contextual aspects that also influence ODA trends not related to C2Ds. For example, a look at all aid flows (grants excluding cancellations and new concessional loans) – and not just grants excluding C2Ds – shows that the drop in grants was quite significant in Mozambique in the years following the signing of the first contract (Fig. 6) and that the substitution effect of the C2Ds was all the more pronounced relative to traditional French ODA flows because the new loans were almost completely suspended. Grants to Mozambique never returned to the levels of the 1990s, but the resumption of ODA loans from the early 2010s significantly increased the annual flows of new financing, at average levels higher than prior to the signing of the first C2D. In Mauritania and Guinea, the additionality commitment has generally been respected, with C2Ds that have practically no impact on financing flows other than refinancing through grants. This is also the case for Ghana, where ODA flows other than C2Ds are even undergoing a sharp increase due to the sustained activity of concessional loans that began a few years prior to the signing of the first C2D.

The decline in non-C2D flows is much more noticeable in Cameroon in the years following the signing of the first contract, with the exception of the 2006 and 2007 financial years. There was in fact a significant decrease – average non-C2D aid dropped by half, or €50 million each year – due mainly to the suspension of new concessional loans. The substitution effect continued until 2012. The granting of loans then resumed at a steady pace, while non-C2D grants continued to slowly dry up.

This same pattern of 'suspension' of new concessional loans after the signing of the first C2D can also be found in Côte d'Ivoire. However, the decline in grants to Côte d'Ivoire began earlier (from the time of the crisis there in the early 2000s) and for this reason cannot be linked solely to the C2Ds. But what stands out is that the drop in average non-C2D ODA flows appears to be all the greater for Côte d'Ivoire when we consider that the signing of the first contract was preceded, in 2009, by the granting of an exceptional concessional loan to refinance Ivorian debt at the decision point. In all probability, this loan was included three years later in the refinanced debt obligations, in the C2Ds.

Fig. 6 – TRENDS IN GRANTS, NEW LOANS AND REFINANCING THROUGH GRANTS COUNTED AS FRENCH BILATERAL ODA FOR MOZAMBIQUE, MAURITANIA, GHANA, GUINEA, CAMEROON AND CÔTE D'IVOIRE.
In millions of euros at current rates - Dotted lines show the 5-year moving average of new financing excluding C2Ds.

Source: OECD DAC, International Development Statistics (IDS) online databases. Conversion into euros according to the World Bank tables.

2.3 C2DS AND RE-INDEBTEDNESS OF ELIGIBLE COUNTRIES C2DS AND RE-INDEBTEDNESS OF ELIGIBLE COUNTRIES

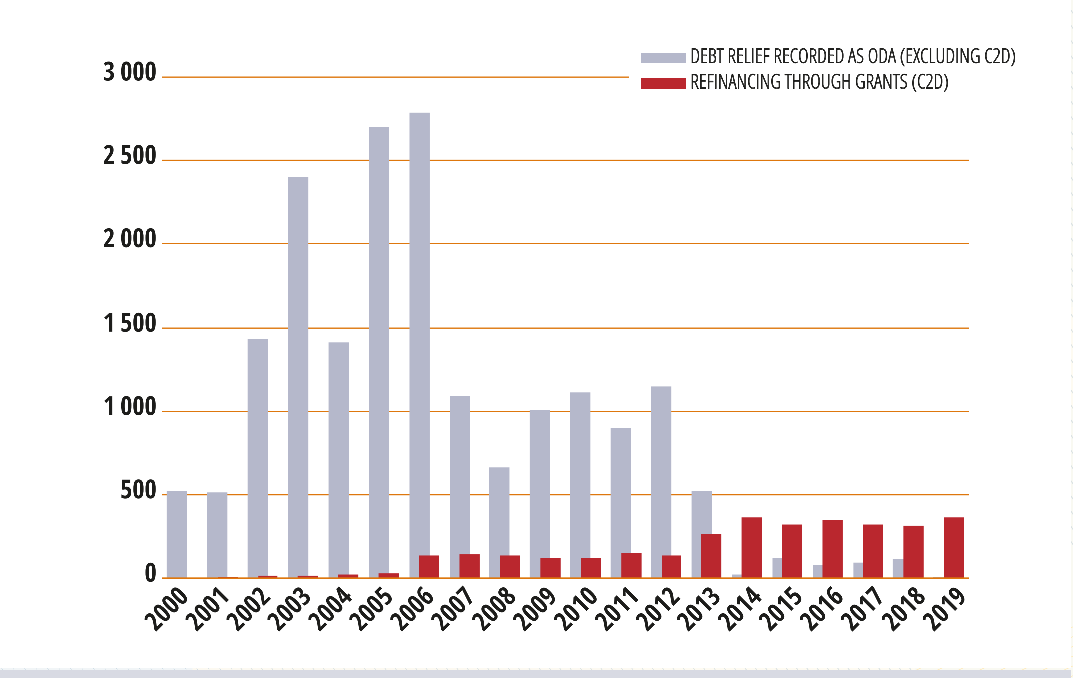
C2Ds are not accompanied by a specific mechanism to prevent re-indebtedness. From this angle, their limitations are the same as those of the HIPC initiative. The debt stock of countries eligible for the initiative was generally reduced significantly when they reach the completion point, and their debt service was also reduced. But debt rose again after a short period of relative stability, reaching worrying levels.

This risk of a new debt crisis is symptomatic of several problems: the inability of major creditors to coordinate among themselves, the emergence of new bilateral or private lenders, and the continuing difficulties for developing countries to access sufficient resources. France cannot, of course, be held solely responsible for this situation having become worse. Nonetheless, its direct contribution to the re-indebtedness of certain C2D-eligible countries does raise questions about the government's strategy in this area.

C2DS: A SMALL SHARE OF FRENCH DEBT RELIEF

Significant as they are, C2Ds represent a small share of France's debt relief in recent years. Between 2000 and 2019, the OECD's Development Assistance Committee (DAC) has recorded nearly €19 billion in debt relief granted by France, excluding C2Ds, for all countries combined (Fig. 7). This figure is five times greater than the debt-service payments refinanced through grants over the same period.

Fig. 7 – FRENCH DEBT RELIEF COUNTED AS ODA (EXCLUDING C2DS) AND ANNUAL AMOUNTS OF REFINANCING THROUGH GRANTS, ALL C2DS COMBINED, 2000-2019, IN MILLIONS OF EUROS AT CURRENT RATES.



Source : OECD Development Assistance Committee, International Development Statistics (IDS) online.

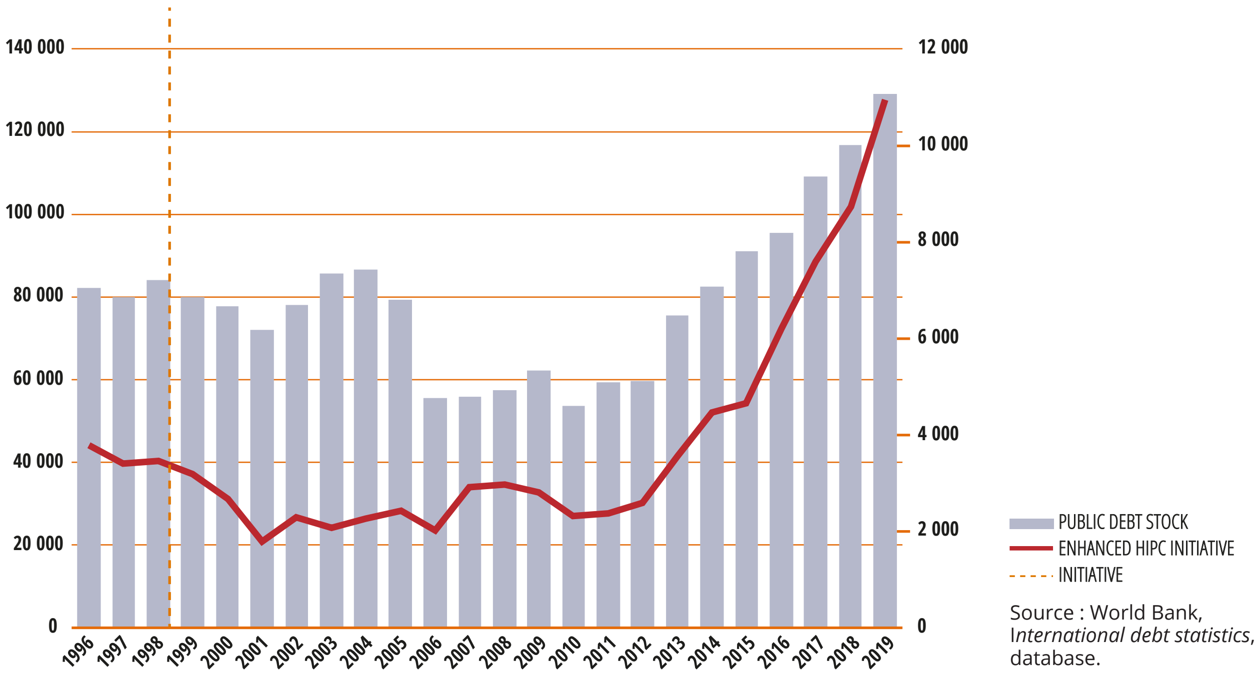
These debt cancellations mainly concern export credits guaranteed by Paris (€14 billion). They were particularly significant in the 2000s, when there were cancellations of non-concessional debt obligations of countries eligible for the HIPC initiative and some symbolic Paris Club cancellations for very heavily indebted countries, such as Nigeria. The 2004 cancellation of the Iraqi debt alone, amounting to €4 billion and mostly counted as ODA[29], represents more than the total amount of C2D financing of the last twenty years.

For the 18 countries eligible for C2Ds, these outright cancellations reached €9 billion between 2000 and 2018, representing more than double the amounts refinanced over the period for all contracts. These cancellations of non-concessional debt obligations are higher than the refinancing of ODA debt obligations for almost all eligible countries, with the exception of Cameroon and Côte d'Ivoire.

Towards a new debt crisis in C2D-eligible countries

The debt stock of the 18 countries eligible for C2Ds more than doubled in just seven years (Fig. 8). It reached its highest level ever in 2019, at US$129 billion, all creditors combined. The annual public debt service – including the C2D debt obligations – increased fourfold between 2012 and 2019. Bolivia, Cameroon, Côte d'Ivoire, Ghana and Mozambique are particularly affected by these re-indebtedness trends. Of the 18 countries eligible for C2Ds, two (Congo and Mozambique) are currently considered 'over-indebted' by the IMF, which periodically conducts debt sustainability assessments, and four are at 'high risk of debt distress' (Burundi, Cameroon, Ghana, Mauritania)[30]. Only 3 countries of the 18 are considered as low-risk: Honduras, Uganda and Tanzania.

Fig. 8 – STOCK OF PUBLIC EXTERNAL DEBT (LEFT AXIS) AND DEBT SERVICE (RIGHT AXIS) OF THE 18 COUNTRIES ELIGIBLE FOR C2DS, 1996-2019, IN $US MILLIONS AT CURRENT RATES.



Source : World Bank, *International debt statistics*, online database.

29. M. Charasse, 'L'impact du traitement de la dette irakienne', in P. Marini, *Rapport général fait au nom de la commission des Finances, du contrôle budgétaire et des comptes économiques de la Nation sur le PLF 2007*, French Senate, 2006, p. 122-123 - http://www.senat.fr/rap/l06-078-34/l06-078-341.pdf.

30. IMF, *List of LIC DSAs for PRGT-Eligible Countries* - https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf (accessed 23 March 2021).

A debt stock that is not being reduced

France's additional treatment of ODA debt obligations is not directly responsible for this situation and these new crisis risks. However, in a few specific cases such as Guinea and Congo, resumption of debt-service payments after several years of interruption or uptake of tighter debt-service payment schedules for certain C2Ds may have the effect of temporarily increasing debt service.

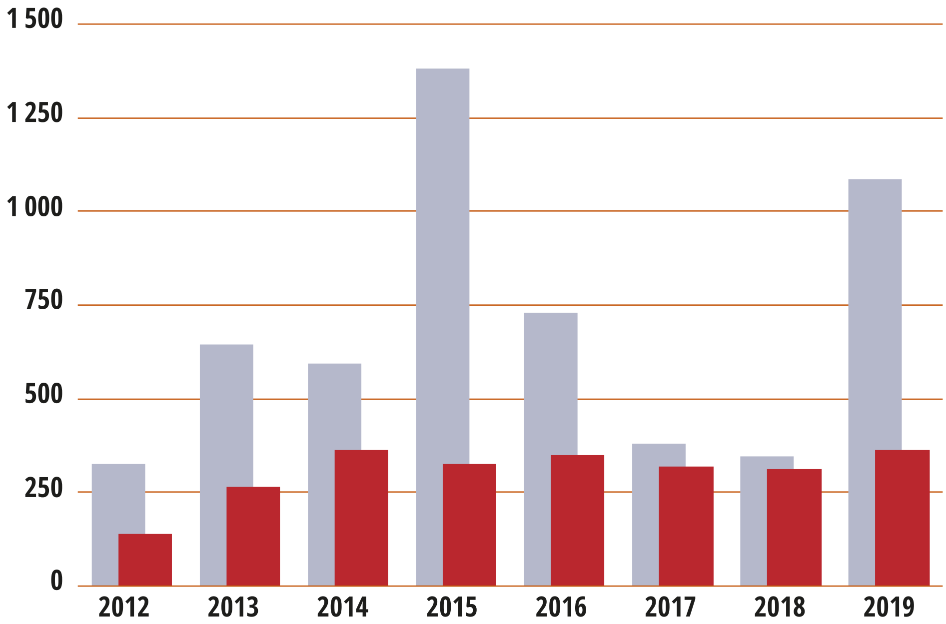
Whatever the case, France remained a top lender over the period under review, whether for developing countries as a whole (the stock of French ODA debt obligations rose by €10 billion between 2004 and 2018 to reach €28.3 billion[31]) or for countries eligible for C2Ds. Thus, since 2012 and the signing of the largest C2Ds, **the amount of new public or publicly guaranteed loans granted by France or its export credit agency to eligible countries has, each year, exceeded the volume of amounts refinanced through grants (Fig. 9)**.

As a result, despite debt cancellations under the HIPC initiative and the implementation of C2Ds, the total debt stock of these countries owed to France has not been reduced and has stagnated at around €4 billion. Apart from Côte d'Ivoire, which is very particular case, there is even a quite clear upward trend in indebtedness, which rose from €1.7 to €2.7 billion between 2012 and 2019 (**Fig. 10**). Of the 18 eligible countries, 11 finished the decade with a larger debt to France than they had in 2012. New export credits can be observed mainly for two countries (Ghana and Côte d'Ivoire)[32], while the flow of this type of loan has almost completely dried up for the other countries. On the other hand, loans considered as ODA continued at a brisk pace, particularly for Cameroon, Ghana and Mozambique.

31. P. Brisepierre, op. cit., November 2005, p. 17; 'Encours de créances de la France sur les États étrangers au 31 décembre 2018' - https://www.data.gouv.fr/fr/datasets/encours-de-creances-de-la-france-sur-les-etats-etrangers-au-31-decembre-2018/.

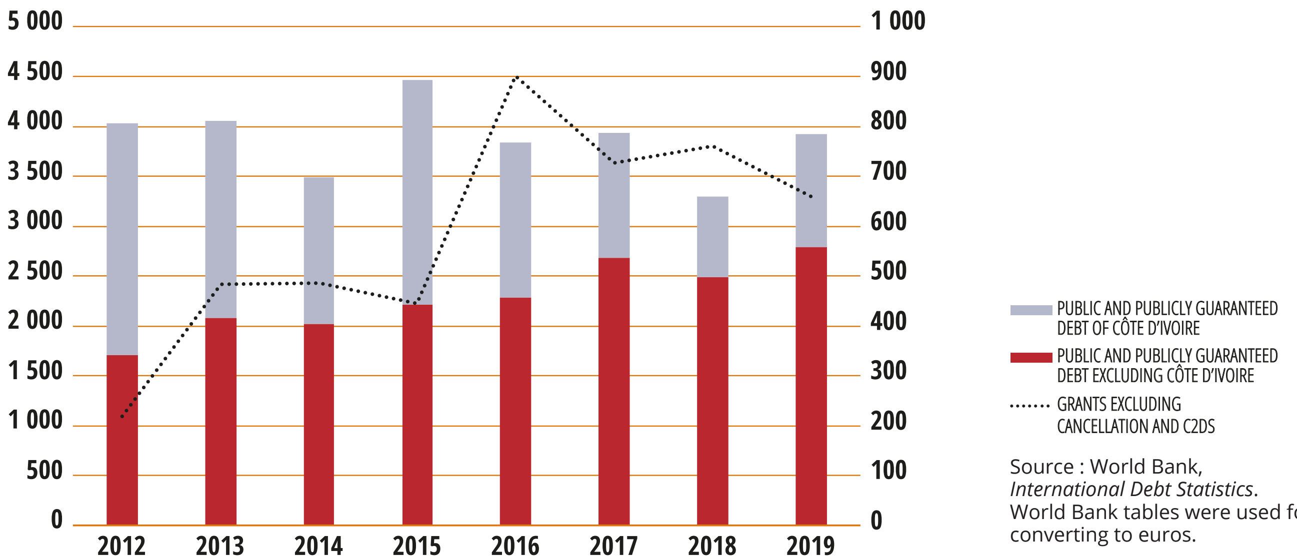
32. According to the World Bank, *International Debt Statistics* - https://datatopics.worldbank.org/debt/ids/ accessed 2 February 2021.

Fig. 9 – NEW PUBLIC OR PUBLICLY GUARANTEED LOANS (ALL TYPES OF LOANS, INCLUDING EXPORT CREDITS) CONTRACTED BY C2D-ELIGIBLE COUNTRIES WITH FRANCE, AMOUNTS REFINANCED THROUGH GRANTS (PRINCIPAL AND INTEREST), 2012-2019, IN MILLIONS OF EUROS AT CURRENT RATES.



Source : World Bank, *International Debt Statistics*. World Bank tables were used for converting to euros.

Fig. 10 – PUBLIC DEBT STOCK (ALL TYPES OF LOANS, INCLUDING EXPORT (CREDITS) CONTRACTED BY C2D-ELIGIBLE COUNTRIES WITH FRANCE, 2012-2019, IN MILLIONS OF EUROS AT CURRENT RATES.



Source : World Bank, *International Debt Statistics*. World Bank tables were used for converting to euros.

3. C2DS, AN ILLUSTRATION OF THE LIMITS OF DEBT-SWAP MECHANISMS

C2Ds have been implemented for the past two decades. It is thus now possible to assess the effectiveness of this debt-swap instrument, so that we can better identify its advantages and limitations. With this hindsight, we can also take note of the way in which these contracts have been used to serve France's influence strategy. In looking back over this period, we will question the allocation choices and vision of development that underlie the C2Ds, and then take stock of the unkept promise to 'fully involve' civil societies.

3.1 OWNERSHIP, ALIGNMENT, HARMONISATION: THE C2D'S COMPLEXITY AND FOCUS ON PROJECT AID UNDERMINE AID EFFECTIVENESS

In principle, the Debt Reduction-Development Contracts were designed to contribute 'to the process of modernising the tools of French development cooperation'[33]. Some real progress has been made, particularly in terms of traceability, sectoral dialogue and coordination with other donors[34]. But such progress cannot hide the C2D's real limitations in ownership, alignment and even predictability. In practice, the costs of the mechanism – in negotiation,

33. Agence Française de Développement, Operations Division, op. cit. May 2003.

34. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 8.

governance, procedures, dedicated management units and oversight – pose real questions of efficiency.

PREDICTABILITY OF FINANCING PROVIDED BY THE DEBTORS THEMSELVES AND UNDERMINED BY SUSPENSION OF THE C2DS

While traditional ODA instruments generally suffer from constant uncertainty about the availability of payment credits, **C2Ds have, until recently, been unrivalled in terms of the predictability of available funding**, whether for budget support or for projects and programmes, which are practically 'overabundant' in relation to actual disbursement capacities. The mechanism secures funds over several years and makes it possible to implement large-scale projects and programmes. The extension of the duration of contracts – initially for three years but currently concluded for four years or more – has largely contributed to increasing this programming capacity. According to *Revue de la politique du C2D*, 'This predictability is even one of the main assets of the mechanism for national authorities and field operators'[35].

The new debt crisis currently experienced by the beneficiary countries completely reverses that assessment. However, **the predictability of C2D financing in reality relies on the efforts of the beneficiary country and its ability to meet its debt-service payment deadlines over time.** Refinancing through grants does not reduce the debtor's solvency problems, which can lead to a halt in (re)financing at any time, especially when the amounts converted are large. Suspension of debt-service payments under the DSSI – and consequently de facto suspension of C2Ds and of project and programme financing – show that **such a debt-swap mechanism cannot be assessed without taking into account the debtor's overall solvency**.

Priority on project aid rather than on budget support

The C2Ds were designed to focus on sectoral aid or general budget support when the conditions are met; their use as project aid was supposed to be an exception[36]. This commitment was intended to reduce disbursement times and increase absorption capacity. It was clearly in line with the Paris Declaration on Aid Effectiveness (2005), which reaffirmed the objectives of harmonisation of procedures among donors, alignment with national priorities and policies, and ownership by beneficiary countries. For the PFDD, 'the option taken in favour of sectoral programmes, in the form of budget support allocated to budget allocations of the partner State's budget, [was likely] to lessen the hold of the French authorities'[37]. It had the advantage of reducing the costs of project examination and monitoring, as well as of limiting the need for specific procedures.

The available data, which cover the 2001-2014 period, show that, **despite the initial commitments, C2Ds (and especially the largest ones) have mainly been used for project aid and very little for general or sectoral budget support. Until 2014, project aid accounted for more than three quarters (77%) of the approved amounts** (Fig. 11), compared to only 10% for global budget support and 9% for sectoral budget support. The first Congolese C2D was used

35. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 118.

36. DGCID, DG Trésor and AFD, op. cit., 2006.

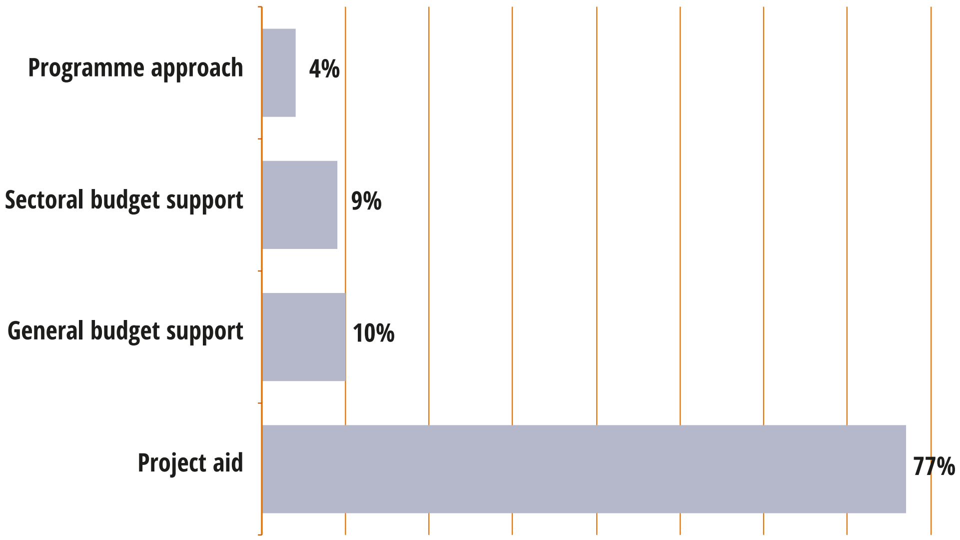
37. PFDD, 'De l'Initiative PPTE au C2D : bilan d'un mécanisme peu convaincant', *Rapport 2003 : la dette face à la démocratie*, March 2004, p. 54.

exclusively for project aid, and for the first Cameroonian and Ivorian C2Ds project aid represented 90% of commitments. Project aid was also chosen when it came to implementing C2Ds of low amounts in Rwanda and Malawi, and of large amounts in countries such as Guinea and the DRC.

Budget support represents more than 50% of the amounts in Mauritania and Bolivia. All of the C2Ds in Burundi, Honduras, Liberia, Nicaragua, Uganda and Tanzania were carried out in the form of sectoral budget support for education and health. Only Ghana saw all of its C2Ds financed in the form of global budget support.

Despite some reorientations in Cameroon's third C2D, which gave a slightly more significant role to sectoral budget support, use for project aid has remained the instrument favoured by the French public authorities since 2014. It would seem that the choice between project aid and budget support depended more on the criteria of total amount of refinancing and sometimes on diplomatic objectives than on the 'quality' of the governance of the beneficiary country, unless the risks of misappropriation were considered higher in Rwanda and Côte d'Ivoire than in Burundi and Madagascar. For this latter country, the decision to use general budget support for a large portion of the C2Ds was moreover the result of an agreement between the French and Malagasy Heads of State, which 'short-circuited' the negotiations underway between the two countries. In any case, this focus on project aid has implications for disbursement delays, preferred sectors of allocation and ownership by the beneficiary country.

Fig. 11 – BREAKDOWN OF C2D FUNDS BY HOW THEY ARE USED AS OF 31 DECEMBER 2014.



Calculation based on approved amounts, according to F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit. 2017, (see 'annexe 5, bilan financier du C2D').

Priority on securing financing, extremely burdensome oversight procedures

C2Ds were designed to ensure **traceability of refinancing**, which is also a big concern for many civil society organisations in the beneficiary countries. That objective seems to have been achieved. No 'affair' has made the headlines; the few problems identified, notably in Mauritania, were resolved; and, wherever possible, independent monitoring by civil society has confirmed that the projects have been implemented. However, this outcome has been achieved **at the cost of a very strong hold by AFD on procedural oversight, as it more or less has a 'right of veto' (by withholding its non-objection notification), which is often resented by national administrations and the local partners**[38]. This priority to 'securing' disbursements may have been used as a pretext to limit C2D use for budget support, to the benefit of project support. More generally, the French authorities have paid a great deal of attention to securing financing stemming from C2Ds alone but have made little effort to improve the management of public finances as a whole.

Payment of the grants to the earmarked account in the beneficiary country is usually made within a very short period of time – a few weeks at most after debt-service payment, with very few exceptions, in accordance with the initial commitments. Their actual disbursement for the financing of projects and programmes is generally much longer and depends on aspects such as the examination of applications, implementation capacities and examination of tenders. In reality, the debt-service payment schedules are dictated in part by the former loan agreements and are disconnected from implementation schedules. This results in **an accumulation of sometimes very large 'reserves' on the accounts of national central banks** and at times in allocation choices that are determined by need for rapid disbursement (see below). When the funds tied up are in foreign currency, as in Mozambique, for example, the cost of this accumulated cash 'is not negligible'[39] for the beneficiary government.

The latest available figures on the level of disbursements are from *Revue de la politique du C2D* as of 31 December 2014. At that date, €1.06 billion of the €1.66 billion refinancing amount had actually been disbursed. The average disbursement rate was thus 64%, with very big differences by country, e.g., 6% for the Republic of Congo (€4.5 million out of the €80.1 million paid to its central bank), 60% for Côte d'Ivoire (€244 million out of €405 million paid) and of course up to 100% for C2Ds completed several years previously. Thanks to this accumulated cash flow, it has been possible to avoid immediate halts to programmes following the suspension of debt-service payments under the DSSI, but extension of the mechanism will quickly lead to the drying up of the cash flow.

'Externalisation' of project ownership

Project ownership of C2D-financed projects officially belongs to the local authorities. However, the very tight oversight exercised by AFD at each stage leads administrations to adapt their procedures and operating methods[40]. For the largest contracts, particularly in Côte d'Ivoire, the scale of funding, the almost exclusive use for project aid and the specific procedures imposed by France have required the setting up of a separate administration body, theoretically part of the ministries involved but operating as an **autonomous administration**. These separate bodies, called *Unités de coordination de projet* (Project Coordination Units – UCP), are generally headed by the Cabinet Director of the ministry involved. They draw up action plans, act as contracting authority and internalise the expenditure circuit (commitment, liquidation, authorisation and payment) to speed up the level of disbursements. They have specific staff (coordinator,

38. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 102.

39. R. Barradas, A. Deshormes, M. Raffinot, op. cit. 2006, p. 12.

40. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 59.

accountant, auditor, experts) paid through the C2D budget, sometimes with technical assistance or support from outside consulting firms. While these units have undoubtedly become more competent and efficient over time, they remain dependent on French aid. But the biggest risk of this 'externalisation' is that it weakens already fragile institutions by depriving them of their most competent human resources. It contributes little to the strengthening of administrations as a whole, and the process raises real questions about the sustainability of capacity building and ownership of new management procedures.

Coordination, harmonisation and bilateral reflexes

As the evaluation of the first C2D in Mozambique pointed out, the specific nature of C2Ds and their particular financing and management circuits place them 'outside the scope of coordination and harmonisation efforts'[41], even though all development cooperation stakeholders are faced with the same fiduciary risks and the same issues of transparency, traceability and accountability. Nonetheless, *Revue de la politique du C2D* considers that the mechanism has been 'generally effective' in terms of harmonisation among the various donors[42]. In eight countries, C2Ds have been integrated directly into a multi-donor budget support body. Elsewhere (Cameroon, Guinea, DRC), the C2D sometimes provides funding for multi-donor programmes, and consultations have regularly been held with other donors (World Bank, Global Fund to Fight HIV/AIDS, European Union, etc.).

Consistent with this, more effort has been put into coordination and harmonisation in cases of low C2D amounts and places where French development cooperation is traditionally less active, this with a dual concern for efficiency and influence. **But in countries where French influence is historically stronger and the volume of C2Ds greater, particularly in Côte d'Ivoire, bilateral reflexes quickly take over**. For example, formalised consultation is limited; France assumes leadership; and priority is given to project aid, which does not favour harmonisation approaches.

41. R. Barradas, A. Deshormes, M. Raffinot, op. cit . 2006, p. 46.

42. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 56.

3.2 C2DS AS A TOOL FOR INFLUENCE

ODA can, as a whole, be considered as a tool of influence used by the donor, as much in the choice of the countries that benefit from it as in the areas of action and in the forms of its implementation. C2Ds are no exception. But, by definition, the mechanism is 'a contract between two governments, which strengthens the political nature of discussion on the projects and programmes implemented', and because of this **'the political and diplomatic dimension stands out more** [...] than in other traditional French ODA instruments'[43].

Postponements, suspensions and negotiations: the great game of diplomacy

This strong 'diplomacy' aspect of C2Ds can be seen in several contract postponements and interruptions that have occurred. Rwanda, for example, reached its completion point in April 2005 but did not sign its sole contract until five years later, in March 2010. An initial C2D dedicated to the education sector had been planned to be signed in December 2006, but the break-off of Franco-Rwandan diplomatic relations interrupted the negotiations. The decision by the Rwandan government to adopt English as the language of school instruction led to the abandonment of support to the education sector, and in the end the country's rural electricity access programme was selected for allocation of C2D funds. Similarly, Uganda's involvement in the war in the DRC delayed the signing of its first C2D by two years[44]. Meanwhile, uncertainties in the DRC about the conditions for organising the presidential election and its repeated postponement led to interruption of the mechanism for almost three years, between two contracts. Conversely, the French authorities refused to use the C2D as a means of pressure on the Guinean authorities during the constitutional revision that allowed President Alpha Condé to stand for a third term, or in Cameroon to try to influence Paul Biya's military strategy in that country's English-speaking region.

43. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 37.

44. Agence Française de Développement, Operations Division, op. cit., May 2003.

UNTIED AID VERY 'FAVOURABLE TO FRENCH FIRMS'

The authorities of the beneficiary countries interviewed by the authors of *Revue de la politique du C2D* generally consider that interests of French companies were taken into account and were a determining factor in the choice of sectors to which C2D funds were allocated. This claim could not be verified by the evaluators, who were not given the task of analysing the market shares actually awarded to French companies. Information on this issue is no more available now than previously.

However, there are some indications that this perception is not entirely unfounded, although the practice has not necessarily been widespread. In the infrastructure sector, where French companies and engineering and design offices are well positioned, we can note the awarding of the so-called *route de la corniche* (coastal road) project in Brazzaville to the French company Razel-BEC; repair and improvement of National Road 3 in Côte d'Ivoire to Bouygues and Razel-BEC; the Félix Houphouët-Boigny Bridge in Abidjan to Eiffage and SPIE Fondations, and urban infrastructure in Douala to Razel-BEC, etc. The list of large-scale projects entrusted to French companies, each with contracts worth tens of millions of euros, is long.

The conditions under which they have been awarded can also be controversial. In Cameroon, the tender for the construction of a second bridge over the Wouri River in Douala was won by a Chinese group for nearly €100 million. However, AFD refused the decision on the grounds of doubts about the regularity of the selection process, and the tender was declared unsuccessful. A mutually agreed procedure then entrusted the project to a group of French firms led by the Vinci Group for €183 million, with financing of €33 million by the C2D, €100 million by a new concessional loan from AFD and the balance by the Cameroonian government.

It has become commonplace to talk about ODA helping to defend French economic interests. Even the French authorities are supporting this perception of it as a tool that is very favourable to French companies. Thus, it is not rare that AFD's public information documents (*Notes de communication publique*), which present the stakes and objectives of projects financed with C2D funds, insist on the markets that are open to French companies[45]. We may also find it strange that a representative of the French private sector or the head of the French Embassy's economic mission is an ex-officio member of the Cameroonian, Congolese or Ivorian C2D Steering and Monitoring Committees. And in January 2015, during a workshop with business leaders co-organised by Ubifrance and AFD, the directors of the AFD offices in Cameroon and Côte d'Ivoire presented the C2D as 'an instrument which, while remaining faithful to the principle of untying aid, helps make the most of French expertise'[46]. **They emphasised the very large share of contracts won by French companies**:

→ **First C2D in Côte d'Ivoire (2012-2015):**
55% of contracts in the roads and sanitation sectors and over 80% of all study, training and technical-assistance services (all sectors) ;

→ **Second C2D in Cameroon (2011-2016):**
88% of the international tenders and 100% of the study contracts for the 'Roadworks C2D', 67% of the international tenders for the 'Urban C2D' and 100% of the expertise and technical assistance in the agriculture and rural development sector.

Naturally, the French authorities deny any favouritism. They say the outcomes are thanks to the quality of the offer by the French companies, which often seem to be the only ones to meet the technical requirements of C2D tenders or to satisfy the social and environmental responsibility requirements. However, French practices in this area are not without ulterior motives, as evidenced by a note presenting AFD operations in Congo which states that, in the framework of calls for tenders for works financed by the first C2D, **'the introduction of more demanding environmental and social criteria has made it so that only French companies are qualified'**. AFD goes on to propose that 'the same provisions [be] included in future contracts financed as part of this project [for renovating the Brazzaville University Hospital]' [47].

45. For example, see AFD's public information document *République de Côte d'Ivoire : Programme filières agricoles durables de Côte d'Ivoire (FADCI)* - http://www.afd.fr/base-projets/consulterProjet.action?idProjet=CCI1434.

46. B. Leclerc and H. *Conan, C2D Côte d'Ivoire et Cameroun*, 15 January 2015 - https://www.villes-developpement.org/wp-content/uploads/2015/03/150311_PPT-C2D-15012015.pdf.

47. *AFD, Projet de réhabilitation des infrastructures d'eau et d'assainissement du Centre Hospitalier et Universitaire de Brazzaville (CHUB) et le renforcement des capacités des cadres en gestion hospitalière. Operation Presentation Note, 2015* - http://www.afd.fr/base-projets/consulterProjet.action?idProjet=CCG1094.

A tool whose influence grows along with the C2D amount

The 'presumption' that C2Ds are being used to serve French interests is strong when the beneficiary country is part of the traditional French 'private reserve' or when the amounts refinanced are very significant for the beneficiary[48]. The fact that implementation methods differ from one contract to another is also cause for concern. For example, we can see that the 'negotiation process, which is steered country by country and placed under the responsibility of the ambassadors [...] [has] led to differing interpretations of the policy, which are not devoid of a desire to show there is a political choice in the points of application or pressures resulting from political commitments of various kinds'[49]. Some French MPs are fully comfortable with this strategy, e.g., Philippe Cochet and Seybah Dagoma, who in 2017 authored a parliamentary information report on Côte d'Ivoire and for whom 'the C2D is a formidable tool of influence'[50]. AFD's Africa Director, Jean-Pierre Marcelli, quoted in the same report, considers that it even allows the French authorities to ensure 'co-piloting on the country's development trajectory.'

French influence has been significant in the choices on how the funds are allocated, as when France asserts its preferences, highlights AFD's know-how, or refuses certain sectors of intervention or certain projects carried by the debtor governments. This influence varies from country to country but is generally perceived as very strong by the local authorities interviewed by the authors of *Revue de la politique du C2D*[51].

UPGRADING OF NATIONAL ROAD 3: CONVERGENCE OF INTERESTS BETWEEN FRANCE AND CÔTE D'IVOIRE

Negotiating C2Ds can be difficult. Sometimes there are real differences between France and national authorities regarding allocation priorities, along with political wrangling and compromises that do not necessarily have to do with poverty-reduction objectives. *Revue de la politique du C2D* points out that discussions with Côte d'Ivoire were particularly difficult and that this case was 'the clearest example of political takeover of the negotiation process by the beneficiary country'[52].

But it can happen that the two countries also agree to large-scale projects that satisfy their respective interests. This is the case of the upgrading of National Road 3, which links the city of Bouaké to the far north of the country, up to the border with Burkina Faso. Repair of the first 46-km section, between Ferkessédougou and Ouangolodougo, was financed by the first C2D, for nearly €30 million. In 2018, a new AFD loan of €120 million and €92 million of financing from the second Ivorian C2D – nearly 50% of its 'transport infrastructure' allocation – financed the upgrading of 220 km of roads between Bouaké and Ferkessédougou[53]. For Côte d'Ivoire, this road is the backbone of its road network in the north of the country and a tool for regional integration with Burkina Faso and Mali. Its upgrading can easily be 'highlighted' and credited to President Ouattara. For France, it is a key strategic route in the logistical chain of the Barkhane Operation, which links the port of Abidjan to the French troops stationed in the Sahel.

48. The total C2D refinancing for Côte d'Ivoire between 2012 and 2018 represents half – and up to 62% in some years – of the grants excluding debt cancellations received by Côte d'Ivoire from all OECD countries. (Calculations based on IDS online databases of OECD DAC with World Bank tables used for currency conversion: https://stats.oecd.org/qwids/).

49. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 37.

50. P. Cochet and S. Dagoma, *Rapport d'information déposé par la commission des Affaires étrangères en conclusion des travaux d'une mission d'information constituée le 27 avril 2016 sur la Côte d'Ivoire*, French National Assembly, February 2017, p. 137 - https://www.assemblee-nationale.fr/14/pdf/rap-info/i4481.pdf.

51. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, pp. 41-42.

52. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., p. 41.

53. AFD, République de Côte d'Ivoire : *Réhabilitation de la route Bouaké-Ferkéssedougou et interventions prioritaires d'entretien du réseau routier*, public information document on operations, 2017 - https://www.afd.fr/base-projets/consulterProjet.action?idProjet=CCI1596.

Of course, France is not always in a position – and does not necessarily have the determination – to impose its choices or to completely reduce fiduciary risk. For example, the coastal road in Brazzaville, a prestige project desired by Sassou Nguesso, was probably not one of the priorities of the local AFD office. Its financing from C2D funds was the result of a high-level agreement signed in April 2010 between the French and Congolese presidents[54]. In the end, €40 million from the first Congo C2D (50% of its total budget) and €40 million from the second C2D were mobilised to build these 4.6 km of road.

3.3 **WHAT DEVELOPMENT VISION IS BEHIND THE ALLOCATION CHOICES?**

The example of the coastal road in Brazzaville clearly shows that **the priority given to 'securing' expenditure is not always synonymous with 'good use' of the funds**. In this case, even though the contract was awarded according to a strict procedure approved by AFD, the project did not necessarily respond to Congo's needs in fighting poverty and inequality. The decision to devote a significant portion of Congolese C2D financing to this project was made without public discussions, during negotiations behind closed doors.

PRSPs as a 'catalogue' for donor use

C2Ds are often aimed to match needs listed in national Poverty Reduction Strategy Papers (PRSPs), which are perceived as a guarantee of project ownership. Such alignment is greatly facilitated by the fact that the PRSPs themselves can be vague, listing a large number of objectives and actions but without any real prioritisation. As *Revue de la politique du C2D* points out, PRSPs are most often 'a catalogue of the country's development policies and programmes for donors, where each can find justification for its actions'[55]. They generally cover AFD's priority sectors of action in the beneficiary country, which may therefore be renewed. 'For these reasons, when sectors targeted by the C2Ds match those included in the PRSPs, it is difficult to consider that there is real effort to align them with national priorities, or that their inclusion in the C2Ds reflects real effort carried out on strategic priorities.'

Dominance of the infrastructure sector

The facility and infrastructure sector accounts for about 30% of total C2D fund allocations[56], for all countries combined (Fig. 12). It alone represents more than the social sectors of education and health combined and reaches up to 68% of the projected amount of allocations for the two Congolese C2Ds.

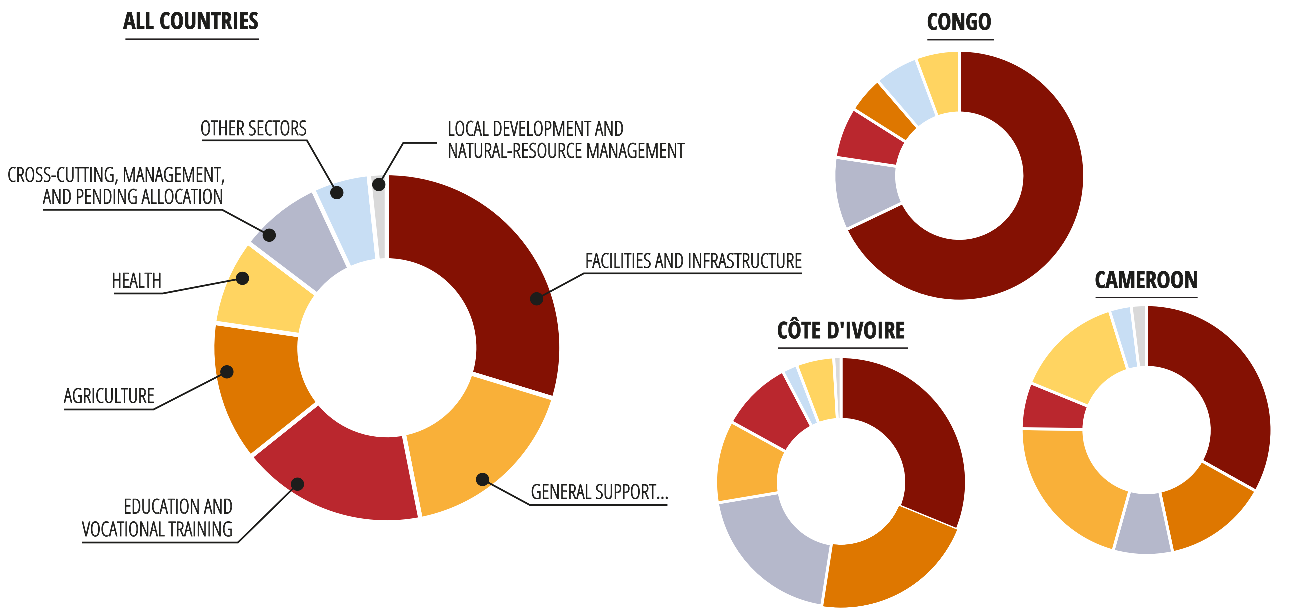
The education and vocational training sector (17%) and agriculture sector (13%) come in second and third. They both make up a significant share in the DRC (58% of the amounts) and Guinea (39%). Education is heavily prioritised in Burundi, Mauritania, Nicaragua and Tanzania, as is agriculture in Côte d'Ivoire (21%) and Cameroon (14%). The health sector comes next (8% of the amounts), particularly in Cameroon, Bolivia, Liberia, Mozambique and Uganda, far ahead of natural-resource management (except in Madagascar) and democratic governance.

54. *AFD, République du Congo : Amélioration des conditions de circulation à Brazzaville et de l'accès au centre-ville pour les quartiers de Bacongo et Makélékélé (CCG 1093)*, public information document on operations, 2015 - https://www.afd.fr/base-projets/consulterProjet.action?idProjet=CCG1093.

55. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2017, p. 58.

56. Amounts approved for C2Ds signed before the end of 2014, projected amounts for the second Ivorian, Congolese and Guinean C2Ds and for the third Cameroonian C2D. Some of the sectoral budget support that was not broken down when the most recent contracts were signed is likely to swell the 'General budget support' budget entry, at the expense of the traditional sectors.

Fig. 12 – BREAKDOWN OF C2D FUNDS BY INTERVENTION SECTOR.



The 'tyranny' of disbursement and allocations aligned... with AFD know-how

The French authorities have realised, since the start of the C2Ds, that rapid disbursement is needed to ensure acceptability of the mechanism. Indeed, to prevent the beneficiary countries from questioning the principle of refinancing, it was essential that disbursements be adjusted as closely as possible to the pace of refinancing through grants[57]. This subject has remained a recurring source of tension with local authorities.

In the absence of more systematic recourse to budget support, **the speed of disbursements has thus become an accepted objective and a decisive criterion for allocation**. It 'focuses in practice on sectors where achievements are more easily controlled (infrastructure construction), with implementation of significant financial resources'[58]. Sectors that did not see sufficiently rapid disbursement in the first C2Ds (e.g., health and agriculture in Mozambique) were abandoned or had their share reduced in subsequent C2Ds. As *Revue de la politique du C2D* points out, this practice 'potentially raises the question of the relevance of certain sectoral choices for which the achievements are more easily controllable, but which are not always the highest priority in terms of the objectives and principles of the C2D or the partner country's doctrine'[59].

While the need for rapid disbursement partly explains the large share of financing devoted to infrastructure, there is no doubt that it is also the result of a French aid bias in this area and, more specifically, of AFD's historical focus on this type of intervention. For example, in some countries, C2Ds have represented an 'opportunity to finance projects already in AFD's project pipeline or already started'[60].

Beyond the questions of the large amount of sector-based allocations and the 'infrastructure paradigm', we might ask about the issue of the development models underpinning the projects. The impact in reducing poverty and inequality is obviously not the same between the €80 million that went into financing the aforementioned 4.6 km of coastal road in Brazzaville and the €13 million invested, along with the World Bank (IDA), in upgrading 1,467 km of rural tracks and the maintenance of another 4,400 km in Côte d'Ivoire. A recent report

57. Agence Française de Développement, Operations Division, op. cit., May 2003.

58. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit, 2007, p. 42.

59. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit, 2007, p. 43.

60. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2007, pp. 40-42.

by Action Contre la Faim (Action Against Hunger), CCFD-Terre Solidaire and Oxfam France, for example, points out that the 'Sustainable Agricultural Sectors Programme of Côte d'Ivoire (FADCI)', to which €77 million of C2D funds were allocated, was a missed opportunity to promote the agro-ecological transition[61]. Similarly, the strategy adopted for agricultural vocational training in Guinea has an impact on the type of agriculture that will develop in that country in the future. But these critical issues have never been discussed publicly, and the French public authorities have never let civil society in the countries concerned become involved in determining policies or allocation choices.

3.4 THE UNFULFILLED PROMISE TO 'FULLY INVOLVE CIVIL SOCIETIES'

From the very first announcements concerning the use of refinancing through grants, the French government had undertaken to implement this additional relief 'fully involving civil society'[62]. This commitment has regularly been reaffirmed but hardly ever put into practice. And this is a quantitative assessment, **as civil society has been involved in the process, through its presence in the governance bodies, in only 5 of the 18 countries eligible for the C2D**. Those five countries are admittedly also the ones with the highest C2D amounts, but in two of them 'full involvement' is nonetheless limited to participation for the sake of form, without the possibility of oversight.

Yet, the scope of involvement by civil society, as initially envisaged, was very broad. The idea was that civil society had 'a crucial role to play, particularly in terms of determining priorities and social oversight of [the C2Ds'] implementation'[63]. Putting its involvement (which was 'necessary but tricky') into practice was not easy, as the beneficiary States were 'very reluctant to create rigorous and overly formal structures for consultation, especially if they are specific to the C2D'. But, more than procedures, it was 'a new mindset that need[ed] to be gradually established in the tripartite relationship (State, donors, civil society)', and it was considered that 'the C2D should be a tool to accompany this change'.

Twenty years of advocacy and a question still pending

From the very first C2D (Mozambique), the very real reluctance of the beneficiary governments to set up specific consultation frameworks for C2Ds with low amounts was quickly used as a pretext to exclude civil society from the negotiation phase. Nor was civil society involved in designing or implementing the first C2Ds in Uganda, Bolivia, Tanzania or Madagascar. It was not until 2006 **that the first notable step forward was taken in the form of official participation by Cameroonian and French organisations in the Steering and Monitoring Committee of the C2D in Cameroon**. Six additional years of advocacy were needed to transform this initial trial and to extend the principle of participation by civil society to the other C2Ds under negotiation (Côte d'Ivoire, Guinea, Congo and DRC). The PFDD also managed to have **independent monitoring projects, initiated in Cameroon, be covered by C2D funds in each country** (see below) and to have AFD finance a project to 'strengthen the mobilisation of civil societies for C2D monitoring'.

C2Ds are thus one of the few international development cooperation mechanisms to have granted the right for independent civil society to participate in their governance bodies. The French public authorities finally went along with their commitment to institutionalising civil society

61. Action Contre la Faim, CCFD-Terre Solidaire and Oxfam France, *Une pincée d'agroécologie pour une louche d'agro-industrie*, February 2021, p. 58 - https://ccfd-terresolidaire.org/IMG/pdf/newmaquette_agro_rapport_impr_210207_bd.pdf.

62. Communiqué by the French Prime Minister's office on the actions and objectives of the CICID, 22 June 2000 - https://www.vie-publique.fr/discours/128460-communique-des-services-du-premier-ministre-en-date-du-22-juin-2000-su.

63. AFD, Operations Division, op. cit. May 2003.

representation within C2D governance bodies. They have been decisive, despite differences by country, in getting the national authorities to accept the presence of associations or trade unions within the steering and monitoring committees and the technical committees. In Cameroon, Côte d'Ivoire and Congo, these representatives of independent civil society in C2D bodies are peer-appointed during a process organised by civil society itself; they are no longer co-opted solely by the national and French authorities, which had focused on a civil society that was simply 'technical' or under control. However, such headway remains very fragile, as seen by a case in Guinea in which an independent civil society platform that was a member of the steering and monitoring committee was removed in favour of a group of organisations that was openly pro-government and supported the president's project to amend the constitution. It can especially be noted that the conditions under which civil society involvement takes place in practice remain very dependent on the national situation: in some cases, freedom of speech can be limited, even for an 'independent' civil society.

Obtaining this participation in governance or acceptance of the principle of independent monitoring required considerable energy that otherwise could have been used on the substantive issues that French and African civil societies wanted to address, such as determining sectoral and local priorities[64]. On many occasions, the PFDD has asked the French authorities to 'formalise' their conception of civil society participation and the limited progress made, by amending the C2D 'doctrine' or by making independent monitoring a component of the contracts signed with the eligible countries. They have always refused to do so, despite the recommendations to this effect by *Revue de la politique du C2D*, the view of which was that the challenge was to make the transition from involvement as a principle to involvement as an operational practice, with the goal of 'strengthening and clarifying participation [by civil society] in the preparation, implementation and monitoring phases of C2Ds'[65]. Without formalisation, **without implementation in practice and without clarification of expectations, discussions on the role and position of civil society or on independent monitoring are left to country-by-country discussions** which are time-consuming and quite ineffective.

Independent monitoring: a tool for strengthening civil societies

In 2016, *Revue de la politique du C2D* considered that the CD2s had 'exerted a minor effect on the structuring of civil society organisations (CSOs), due to their changeable involvement in the implementation and monitoring of C2Ds and too few actions for their capacity building'[66]. Today's assessment is more positive. However, this change is thanks more to the setting up of independent monitoring in Côte d'Ivoire and, for the other countries, to the results of the project carried out by the PFDD (to strengthen civil societies in monitoring C2Ds) than to significant changes in the ways in which C2Ds have been implemented since the 2016 review was conducted. The Ivorian 'sectoral reviews', which enable real dialogue each year between government administrations and CSOs on the C2D achievements, remain an exception.

The first concrete expression of the commitment to support the strengthening of civil society and consultation with local public authorities was the implementation of **Concerted Multi-Stakeholder Programmes (CMSPs)** in Cameroon (from 2002), Guinea (from 2006) and Congo Brazzaville (from 2007)[67]. For the PFDD, this is 'a considerable change in the practice of the traditionally State-to-State French development cooperation'[68], especially since the CMSPs have substantial resources over the long term. They will help in initiating convergence between families of stakeholders (associations, unions, etc.) and in organising them into a collective process of change. Their purpose was systematically broader than just

64. PFDD, *Suivi des C2D au Cameroun, en Côte d'Ivoire, au Congo, en Guinée et en RDC. Projet de renforcement de la mobilisation des sociétés civiles : Rapport d'évaluation, capitalisation et prospective*, May 2018, p. 10 - https://dette-developpement.org/IMG/pdf/rapport_exe_bd.pdf.

65. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit, 2007, p. 74.

66. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit., 2007, pp. 7- 8.

67. See in particular: *Mieux faire société ensemble : la contribution des Programmes Concertés Pluti-Acteurs à une rénovation du dialogue entre sociétés civiles et pouvoirs publics. Document on capitalisation of experience*, May 2008 - https://www.diplomatie.gouv.fr/IMG/pdf/Mieux_faire_societe_ensemble-2.

68. J. Merckaert, 'La campagne dette en France: bilan politique de l'action de la PFDD 2001-2005', November 2005.

civil society participation in C2Ds, but in all three countries they played a role in creating and/or expanding national debt platforms. More generally, the prospect of civil society participation in the C2D mechanism has often been a **'catalyst of energy' within national civil societies**, by contributing to collective dynamics, expanding the number of stakeholders involved and federating national and French stakeholders around a single objective.

When **independent monitoring projects were implemented in Cameroon and Côte d'Ivoire, they enabled the independent monitoring stakeholders to visit the projects throughout the countries and to help strengthen collective capacities for citizen oversight of public action**. This structuring gives the organisations involved visibility and the capacity to take action locally, including on issues other than C2Ds. It sometimes leads to interesting spaces of dialogue with local and regional authorities. The methodological work that accompanies the establishment of independent monitoring, including the sometimes difficult discussions with the French authorities, has also helped strengthen the capacity of the organisations.

This contribution to the structuring of collective dynamics is also the result of **a long and still ongoing struggle lasting nearly 15 years to obtain guarantees of the sustainability of funding for independent monitoring**. The independent monitoring may have been granted on an annual or multi-year basis, in the form of a grant or service contract, included within the C2Ds, or subject to a specific contract. **The principle of funding independent monitoring by C2Ds has now been accepted**, but release of funds is still pending in the Congo and DRC. Above all, there are still in-depth differences between the public authorities and civil society on the meaning of the independent monitoring[69]. Difficulties may have existed or may still exist in implementing projects (e.g., efficiency of the strategies adopted, monitoring that is more technical than political, limited citizen mobilisation, difficulty in making good use of the work achieved and in justifying the added value provided by independent monitoring by civil society rather than by specialised auditors). However, these tensions are just as much the result of the contradictory orders issued by the French and national public authorities, without clarification and real discussion of the parties' expectations. The 'politicisation' of CSOs is seen as a problem, especially for bilateral relations between States, and French public authorities have sometimes been looking for more 'professional' and more 'technical' negotiating partners. Moreover, **one of the obstacles to improving the quality of relationships remains access to accurate and full information**, a subject which the French public authorities tend to defer to local authorities by referring civil society stakeholders to the technical secretariats of each country.

69. See the common definition of independent monitoring adopted by the platforms involved in PFDD, op. cit, May 2018.

Lack of impact by civil societies on C2D implementation

More generally, civil society in the various countries concerned has never been considered by the French public authorities as a source of new ideas or as a counterbalance, but at best as a guarantee that funds are used properly.

Nearly all the stakeholders (with a more qualified assessment for the Cameroonian platform) share the same observation on this issue, i.e., that despite the initial commitments to 'fully involve' it in the process and in the steering and monitoring committees, **civil society has not influenced the orientation or implementation methods of the C2Ds**, especially on the development policies they underpin. It has not been involved in any of the prior negotiations between the French authorities and debtor-country governments, which are a veritable 'preserve' of bilateral diplomacy; any consultations that were held prior to the signing of the contracts have remained purely for the sake of form. Moreover, 'the steering and monitoring committees are usually organised as simple bodies for rubber-stamping decisions taken previously at another level'[70], thereby leaving little room for negotiation or for expressing alternative proposals. The midterm reviews have sometimes provided space for civil society to express its expectations, but they carry little weight in the face of government demands and AFD recommendations. In each case, the sectors on which the contracts will focus are negotiated between governments, far from the eyes of citizens and organisations.

There is thus a wide gap between the initial commitments and the hopes for in-depth renewal of practices, on the one hand, and the reality of 'fully involving civil society' on the other. **The C2Ds have not been the expected 'laboratory'** of civil society's real involvement in determining, implementing and monitoring development policies. The old reflexes of 'State-to-State' cooperation quickly took over again. For the French authorities, C2Ds simply implement the priorities of the beneficiary countries, as defined in the PRSPs. Since the contracts are 'a fully fledged and complete component' of the latter and since civil society in the country concerned has, in theory, been involved in drawing up the PRSP, it is considered that there is no need to initiate new consultations. Even the possibility of informal discussions, upstream or as part of preparatory missions, is ruled out.

Programme preparation therefore remains the exclusive responsibility of the two States, which avoid any risk of interference. The French authorities merely admit that 'the monitoring/evaluation mechanisms of the PRSPs [are] often unsatisfactory, particularly in the way they take into account civil society'. It is therefore possible that C2Ds contribute to the effort '[to] establish a minimum of social oversight to judge the effectiveness of policies' and thus contribute to improving the functioning of States. The reasoning in this case would be to **limit civil society to factual monitoring of the implementation of projects decided on elsewhere, and to confine it to a role of guaranteeing that the funds are used properly**. But even on this issue of accountability, the link between independent monitoring by civil society and monitoring-evaluation by AFD has never been clarified. Furthermore, in the recent refusal of the French authorities to include the financing of the Abidjan metro within the scope of independent monitoring by Ivorian civil society, we can see that the accountability claimed by the authorities is in fact limited when the subject touches politically sensitive projects.

For many stakeholders, participation by civil society in C2Ds is more like that of a 'cast member who has been imposed' than an actor that is truly sought after, including vis-à-vis partner countries. The authors of *Revue de la politique du C2D* sum up this situation very well: 'The hesitations maintained concerning the role granted to civil society, both in terms of steering and monitoring at the central level and in the commitment to involve it in monitoring at the local level, reveals that the approach to accountability practices within French institutions is more an administrative approach and for the sake of form. [...] Several examples show that French authorities are hardly committed to involving representatives of local civil society in the implementation process and monitoring of C2Ds on the ground: they claim that CSOs at the local level are weakly structured, and that meek excuse helps them to avoid embarrassing the country's authorities'[71]. The little progress that has been obtained is jeopardised by the de facto suspension of contracts with the DSSI and therefore of the guidance and monitoring bodies in most countries.

70. PFDD, op. cit., May 2018, p. 17.

71. F. d'Aversa, A. Bordreuil, D. Voizot et al., op. cit, 2007, p. 74.

Recommendations

The record of Debt Reduction-Development Contracts shows that this type of bilateral debt-swap arrangement has not been a suitable response to the scale of the debt crisis faced by developing countries in the 1990s and which is now re-emerging. The fact that the French refinancing-through-grants mechanism is tied to the timetable and conditionalities of the HIPC initiative weighs heavily on this assessment (as seen by the slowness of the process, high costs of postponing debt-service payments for beneficiary countries, etc.). However, beyond this specific context, the mechanism's own constraints limit its usefulness, particularly for significant amounts of debt relief. With this hindsight on a specifically French initiative, we can indicate a few essential points and make more general recommendations in the event that new debt-swap mechanisms were to be implemented:

The experience of C2Ds shows that a great lack of clarity can remain with regard to the origin of the claims concerned by a debt-swap mechanism and the way in which the 'stocks' of refinanced debt have accumulated. This lack of transparency calls into question both the legitimacy of the swapped claims and the fairness of treatment among beneficiary countries. This may affect the legitimacy of the system itself.

- Opting for debt relief through a swap mechanism requires – as much as outright cancellation does – a **high degree of transparency on the origin of the claims and on the way they have accumulated**.

Compared to other debt-swap mechanisms, a mechanism that works by 'refinancing through grants' has major drawbacks: the beneficiary country makes its debt-service payments in foreign currency, and the debt stock remains on the debtor country's balance sheet, thereby reducing the country's solvency. Debt servicing thus weighs all the more heavily on the country's balance of payments because the mechanism involves interest payments. These latter can represent a significant proportion of the amounts refinanced, even for loans taken out at low rates, when these debt-swap mechanisms are spread out over time.

- Give priority to **counterpart funds in domestic currency** rather than refinancing foreign currency maturities.
- Adopt **debt-swap mechanisms that do not involve the payment of interest** by the beneficiary country.

The purpose of any debt relief or cancellation, whatever the form, is to provide the beneficiary country with additional financial leeway to finance its development. Its impact is considerably reduced if the creditor accompanies this cancellation with a reduction in the amounts of ODA previously granted to its debtor. The experience of C2Ds shows that debt-swap mechanisms can, in part, substitute for other aid flows. It is difficult to assess to what extent it does so, unless the additionality objectives and verification criteria are determined in advance.

- Commit to a principle of **full additionality of the debt-swap amounts** vis-à-vis other ODA flows.
- Determine, upstream, the **criteria for verifying additionality** (by country, by type of financing, etc.) and the objectives for how ODA should evolve for the beneficiary countries, including for its loan/grant components which may be impacted by the debt-swap mechanism.
- Do not count debt swaps, whether from concessional or non-concessional loans, as ODA.

When the amounts of debt to be dealt with are significant and the share of project aid is large, debt-swap mechanisms generally result in specific 'externalised' implementation mechanisms that contribute little or nothing to strengthening national administrations. These specific mechanisms and procedures undermine the objectives of ownership, alignment and harmonisation as defined by the Paris Declaration on Aid Effectiveness.

- Avoid specific fund-management mechanisms and **rely instead on national institutional systems for managing aid and on the procedures in force in each country**.
- **Use sectoral budget support rather than project aid as much as possible**, by providing the means to strengthen the capacities of the national administrations concerned and by setting up systems to monitor, with involvement by civil society, the proper use of the funds.

C2Ds, and debt-swap mechanisms more generally, have the advantage of allowing for good predictability in the availability of financing. However, this effort in obtaining predictability is based more on work by the beneficiary country and its ability to free up financial leeway over time than on effort by the donor itself. When the debt-swap amounts are large, the debtor's solvency problems may at any time lead to a halt in the (re) financing. This is what happened with the de facto suspension of C2Ds in 2020.

Predictability of the financing available in a debt-swap mechanism can be analysed only **in the light of the financial capacity of the beneficiary country and its overall solvency**.

C2Ds are, and rightly so, particularly attentive to 'securing' the use of funds and preventing possible misappropriation. In these debt-swap mechanisms, there is a strong temptation to prioritise project aid or to increase the number of oversight procedures or specific implementation mechanisms to reduce fiduciary risks. Yet, the real guarantees on the use of funds do not come from accumulating conditionalities, but from strengthening the rule of law, transparency and democracy.

Pay close attention to **strengthening the rule of law** in the beneficiary countries and to **democratic oversight** of the proper use of funds by members of parliament, by civil society and by oversight institutions

Ensure access to information and full transparency on the use of funds throughout the process.

In principle, debt-swap mechanisms make it possible to earmark funds to the fight against poverty and inequality. However, the experience of C2Ds shows that 'securing' expenditure channels is not necessarily synonymous with 'good use' of funds and that alignment with national priorities is often a commitment made for the sake of form. All too often, allocation choices are the result of negotiations behind closed doors, diplomatic compromises, influence strategies, or priority given to rapid disbursements or to donor expertise, etc. Civil society can play a role in improving the use of funds if it has real capacity to influence allocation choices and the opportunity to question the development models underpinning the programmes that are financed.

Discuss the orientations and the allocation choices of the funds resulting from the debt swaps, within a framework of **open and transparent discussion**.

Arrange for upstream involvement by national CSOs in determining orientations and fund allocation choices

Like all ODA instruments, C2Ds can be considered as tools of influence for the donor. The French authorities are quite comfortable with this strategy, and, if the financing is officially untied, it is often perceived as largely benefiting French companies. The effects of this influence are quite pronounced in the beneficiary countries considered part of France's traditional 'private reserve' and when the amounts of refinanced loans are high. In these countries, particularly in Côte d'Ivoire, efforts to coordinate and harmonise with other donors are more limited.

Make coordination and harmonisation a priority of debt-swap mechanisms.

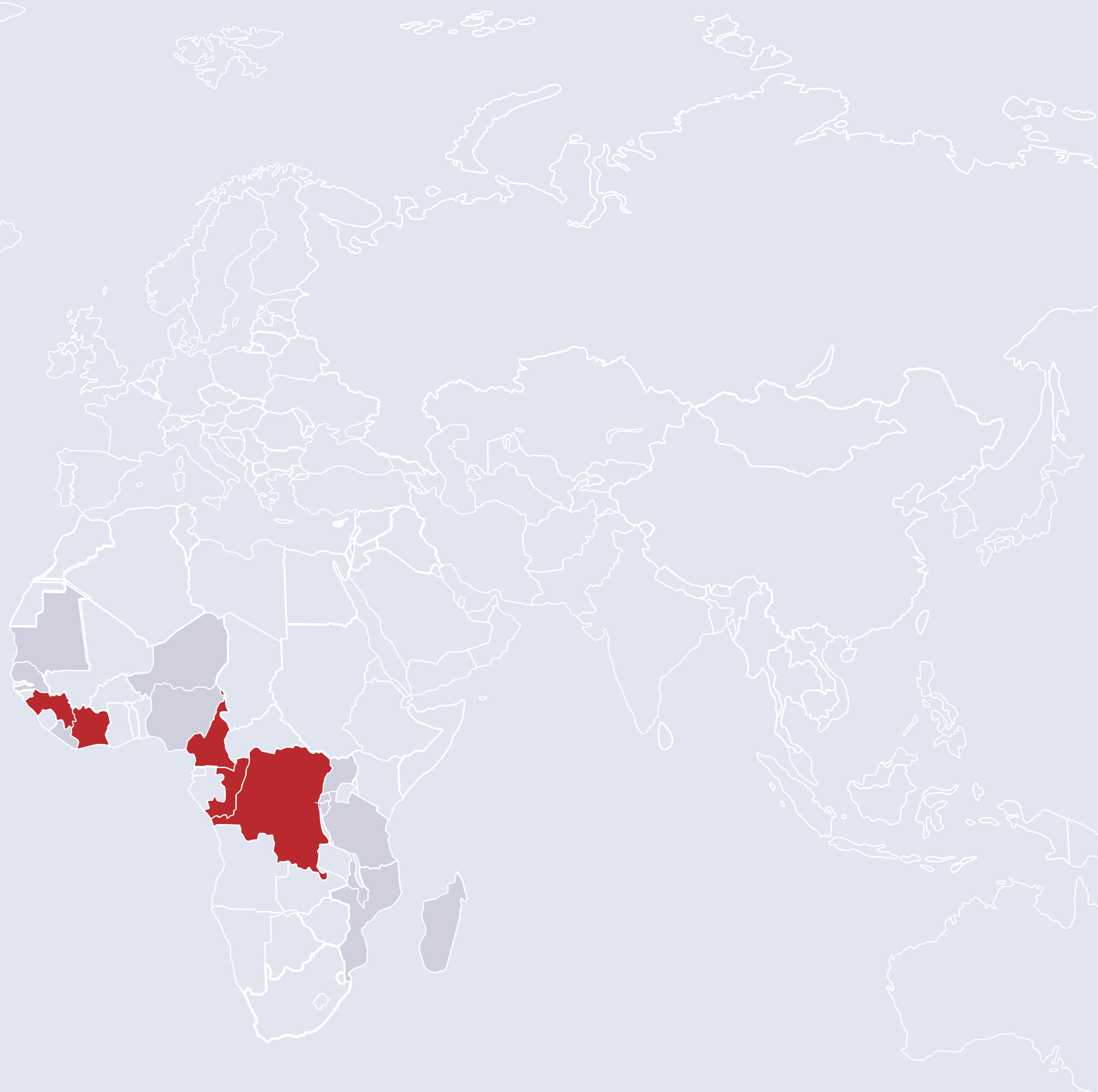
Give priority to multilateral debt-swap mechanisms over bilateral mechanisms, to reduce the risk that funds be allocated to other purposes by the creditor country.

The commitments to 'fully involve civil society' in implementing C2Ds have not been met. The CSOs involved have been limited to the role of merely guaranteeing how the funds are used. While their presence in the governance bodies of the system is a real step forward, there has never been real political determination to create the conditions for them to be able to influence choices and orientations. It is crucial for civil society to be both a source of new ideas and a counterbalance, which means that its independence must be guaranteed, that its role in the system must be defined and ensured upstream, and that it must have the resources necessary for its action.

→ **Determine, upstream, the exact place, role and forms of involvement by CSOs** in the debt-swap mechanism, by guaranteeing their **independence** and **capacity to influence** orientations.

Independent monitoring of C2Ds, where it has been established, is a powerful tool for strengthening civil society: it helps ensure the proper use of funds and entrench new practices of dialogue among the State, donors, organisations and citizens.

→ Design debt-swap mechanisms as tools that **help strengthen civil society in the beneficiary country**, especially through independent monitoring processes. This implies providing specific financial resources to that effect.



THE FRENCH DEBT AND DEVELOPMENT PLATFORM brings together 27 French organizations and unions acting in favor of a broad, fair and sustainable solution to the debt problem of developing countries. It folllows the activities led by the campaign "Pour l'an 2000 : annulons la dette" (1998 to 2000).

ORGANIZATION MEMBERS

AFVP, ATTAC France, CADTM France, CCFD-Terre Solidaire, CFDT, CGT, CSM, CRID, DCC, Justice et Paix, Oxfam France, Secours catholique - Caritas France, SEL, Service Protestant de Mission – DEFAP, Survie, Vision du monde.

SUPPORTING ORGANIZATIONS

Amis de la Terre, ASPAL, CFTC, France Libertés (Fondation Danielle Mitterrand), Mouvement ATD Quart Monde, MRAP, RENAPAS, RITIMO, Secrétariat général à l'enseignement catholique, Sherpa, Terre des Hommes.

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