

Official Development Assistance and Debt Relief in Central Europe – Case Study of the Czech Republic

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Abstract

The historical record height of official development assistance (ODA) in the last year and evaluation of performance in commitments in the framework of the Millennium Development Goals for five years period (2000 – 2005) have brought new potential for discussion on development issue in Central European countries. The official development assistance topics came around to be serious theme for the Central European politics, academic staff and civil society only a few years ago. One of the most frequent and important topic in the framework ODA is debt relief issue. The Central European countries belong to creditors of developing countries since the period of socialistic regimes. Debt relief to developing countries is one of the commitments of the Millennium Development Goals programme. The prime purpose of the work is disclosure of essential information on the extent of ODA in Central European countries (Czechia, Slovakia, Poland, Hungary) in 2005 and opening for the experts and public an overview of active debts of developing countries to the Czech Republic and description of its brief progress. In the paper contemporary situation is discussed over recovering debts issue and its relief from the Czech Republic perspective, as well as the state of debts of developing countries to the Czech Republic at the end of 2004 year.

Key words: debt relief, official development assistance (ODA), developing countries, the Czech Republic, Central European countries

Introduction

The official development assistance issue came around to be serious theme for the Central European politics only a few years ago. It is related above all to membership in the European Union since 2004. But the public from the countries can remember “brotherly aid” to new socialistic allies in developing regions. That is why the development assistance is generally in Czech Republic unpopular for public (except humanitarian aid) and people does not understand why they have to devote their taxes to aid and development of “some exotic countries”. This point of view of Czech public have tried to change the national version “Czechia Against Poverty” that was component of the global campaign “Make Poverty History” going on during last year.

In 2005 the World community evaluated fulfilment of “*Millennium Development Goals*” after five years. One of the goal, that should be financed and supported by developed states, regard with enhancement of official development assistance (ODA) and debt relief of developing countries. Concretely, the goal no.8 „*Develop a global partnership for development*” that includes particular targets no.13 „*Address the special needs of the least developed countries (including tariff- and quota-free access for exports of the least developed countries; enhanced debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous official development assistance for countries committed to reducing poverty)*” and no.15 „*Deal comprehensively with the debt problems of developing countries through national and international measures to make debt sustainable in the long term*”.

Considering that the Central Europe countries are ranked among the richest countries in the world from the economic and social view, and as the members of Organization for Economic Cooperation and Development (OECD) and Europe union (EU), they have responsibility for fulfilment of their commitments.

Czech ODA was established in late 1990s and after a little stagnation the amount of ODA began to rise in first years 2000s. Since the year 2003 Czech ODA have crossed border 0,1 percent of ratio ODA/GNI and has been still keeping a little bit over the border. (CR OECD, 2005). The Czech Republic government decided to relief of debts to developing countries since 2002. But the extent of the debts has been unknown yet and Ministry of Finance did not want to disclose the key documents. So far some of the agreements with debtors are undisclosed. That is why still persist some obscurities, incorrectness and pure estimations over the issue. But in 2005 the author of the paper received first official data for 2004 year (MF, 2005a, 2005b) and published the issue first time (also together with some incorrectness) (STOJANOV, 2006). In the paper some specification of the data are published for the first time.

Methodology

On writing the paper, the information was analyzed from the Organization for Economic Cooperation and Development report (OECD, 2006), considering the progress of ODA of Central European countries in 2005 and data from documents dealing with Czech Republic's ODA for last years (see the list of references). With regard to Czech republic's government or any official state agency, none of them have published national statement about fulfilment of commitments from „*Millennium Development Goals*“ for period 2000 - 2005 (compare with REISEN, 2005: 60) or other report regarding active debts of developing countries to the Czech Republic. To make formation of the debt's schedule, we should analyze official messages from Ministry of Finance of the Czech Republic (MF 2005a, 2005b, 2006) that were given to author of the paper; Czech permanent delegation to OECD (2005); from media notes of some former state representatives (DRDA, 2004; SPURNÝ, 2004); former or present employees of Ministry of Finance (above all BBC, 2004, 2005); partial data of World Bank (WB, 2004, 2005). The advantage is that the information are generally primary sources.

At conversion exchange rates from Czech crowns (CZK) to U.S. dollars (USD) rates were used to the concrete date according Czech National Bank.

Official development assistance of Central European countries in 2005

Official development assistance to developing countries from member countries of the OECD's Development Assistance Committee (DAC) rose by 31.4 percent to 106.5 billion USD in 2005 (OECD, 2006). That is a record amount in absolute numbers in history of development assistance. It represents 0.33 percent of the Committee members' combined Gross National Income in 2005, up from 0.26 percent in 2004. Aid in the form of debt relief grants increased by more than 400 percent between 2004 and 2005, while other aid increased by 8.7 percent in the same period (OECD, 2006).

The main factors that contributed to the increase in 2005 were debt relief for Iraq and Nigeria (approx. 14 and 5 billion USD) and "tsunami aid" to countries affected by the disaster in December 2004 in Indian Ocean (together about 2.2 billion USD). ODA is expected to fall back slightly over 2006 and 2007 as debt relief declines. But other forms of aid are likely to continue their recent steady increase as donors fulfill their ODA volume pledges for later years (OECD, 2006).

The combined ODA of the fifteen members of the DAC that are EU members rose by 27.9 percent in real terms to 55.7 billion USD, equivalent to 0.44 percent of their combined GNI. The bulk of this increase was for debt relief grants. In 2002, the DAC/EU members committed to reach an ODA level of 0.39 percent of their combined GNI by 2006, with a minimum country target of 0.33 percent. Greece, Italy, Portugal and Spain still need to increase their ODA in order to reach this target (OECD, 2006).

Among the non-DAC OECD donor European countries, only the Czech Republic, Poland and the Slovak Republic reported preliminary ODA figures for 2005. In 2004 the Czech Republic devoted 108 million USD for ODA to developing countries and the ODA/GNI ratio was 0.11 percent. The Czech Republic's ODA have rose to 131 million USD due to a larger contribution to the EC development budget and rise of 12.6 percent in real terms. It represents still 0.11 percent of Czech Gross National Impact in 2005 (OECD, 2006; compare with CR OECD 2005).

Poland's net ODA was 118 million USD and corresponded with the ODA/GNI ratio 0.05 percent in 2004. In 2005 Poland's net ODA rose to 283 million USD as it increased its contributions to the EC development budget and rise of 101.2 percent in real terms. Its ODA/GNI ratio almost doubled to 0.09 percent (OECD, 2006).

In 2004 the Slovak Republic's net ODA was 28 million USD and its ODA/GNI ratio was 0.07 percent. The net ODA from the Slovak Republic nearly doubled to 56 million USD, partly due to increased aid to the least developed countries, notably in Sub-Saharan Africa. The net ODA rise of 87.7 percent in real terms. The ODA/GDI ratio rose to 0.12 percent (OECD, 2006).

We have to note the ODA figures do not give evidence about the efficiency of the assistance.

Official development assistance of the Czech Republic (brief overview)

The Czech Republic is member of OECD since 1995 and European Union since 2004. Of course, the Czech Republic undertook to development assistance commitments as every member state. In the case of membership in EU, the Czech Republic had to take over commitments from Millennium Development Goals, concerning the growth of financial sources to ODA.

Transition of the Czech Republic from recipient of aid to donor was considerably painful (see data in Table 1). Significant growth of finance is apparent only since 2001. Overview shows that total amount of Czech ODA in 2003 reached 2,556 billion CZK (90.6 million USD), in comparison to nearly half-size budget (especially in USD) 1,486 million CZK (45.4 million USD) in 2002. Partially to the growth contributed stronger (exchange rate of) Czech Crown and thus, the real growth of Czech ODA between 2002 and 2003 was 69 percent (RS, 2004).

Since 2004 the trend of ODA provision is getting slower and in 2005 the finance for ODA grew due to larger contribution to the EC development budget only.

Table 1: The Czech Republic's net ODA in 1999 - 2005

year	ODA (in million CZK)	ODA (in million USD)	ODA/GNI (percent)
1999	511.5	14.80	0.027
2000	623.6	16.16	0.032

2001	1,007.2	26.48	0.047
2002	1,485.9	45.39	0.065
2003	2,556.0	90.55	0.101
2004	2,780.1	108.17	0.106
2005 ¹⁾	3,137.1	131	0.11

1) Preliminary figures - net ODA rounded on whole number, ratio ODA/GNI rounded on hundredths only.
Source: CR OECD (2005); OECD (2006); compare with DC (2004)

Debt relief from the Czech perspective

Foreign debts of African, Asian and Latin American countries are roughly equal to 2 billion USD and the economic poor states have never pay the foreign debts. There are a few examples of countries (e.g. Nigeria) which paid former borrowed sum but their debts is still growing due to interest charges and payments for delay.

From the historical view debt relief together with long-term and well-aimed development projects represent one of the most effective tools for regional or national development. We can mention examples of debt (or reparation) relief of Germany after Second World War (in contrast of development in period 1920s and 1930s) or approximately 50 percent debt relief to Poland in 1990s. In both examples the debts (or reparation) relief were followed by another financial measure (e.g. Marshall Plan in the case of Germany; European funds in the case of Poland).

The origin of the Czech Republic's claims to developing countries comes from former socialistic Czechoslovakia, that was generous supporter of real or potential ideological allies among developing countries. In the framework of world socialistic community building, the Czechoslovakia supported most of socialistic (communistic) regimes in the world by various ways. One of the tool was providing credits between national governments based on intergovernmental agreements or payment agreements. Concerning civil credits, supplies of capital units were realized. In the case of special governmental credits, special technology was supplied. (MF, 2005a). The term "special technology " means not only all weapons or different military systems, but also equipments usable in military sector (e.g. terrain trucks). These agreements were subject of secrecy and therefore details about the contest of the agreements (including finance conditions) have not been known apart from declassified agreement in May 2006 between Czechia (former Czechoslovakia) and Iraq.

Contemporary situation

The end of Cold War have completely changed situation in political and economic relations between Czechoslovakia (and the Czech Republic) and many developing countries, including the issue of providing of new credits. The provision of governmental credits was stopped in 1991 due to growing amount of impregnable claims except supplies coming from early concluded contracts (MF, 2005a). Ministry of Finance has prime responsibility for screwing the claims out and for their registering . Czech general strategy leans on an effort that is aimed at making an agreement with partner's governments on debt service or finding alternative forms for solution of the financial situation.

The main reason for restraining of selected claims is that the Czech Republic is committed itself to rules of intergovernmental credit agreements. Although the most of the agreements were

contracted before 1989, they are still valid as the basic legal document for screwing the claims out. One of the condition of intergovernmental credit agreements that were concluded to export of "special technology" is confidentiality of sort and amount of the material, including its price (MF, 2005b; compare with BBC, 2004). Allegedly, the Czech Republic initiated declassification of the agreements, but debtor states refused these proposals with consideration to special characters of the supplies.(MF, 2005b). The new exception is agreement with Iraq, mentioned in the paper.

The claims remain in existence and are charged interest in accordance with conditions that intergovernmental credit agreements contain. The same accounts for debtors who do not fulfill their commitments. If debtor does not pay up his debt and refuse to negotiate any way of settling up of his obligations on state level, Ministry of Finance will use any kind of compensatory solutions that ensure at least partial returnability of the claims, for instance through private companies (MF, 2005b; BBC, 2004).

Progress in last period

The progression in claims of the Czech Republic achieved dramatic decrease in last period thanks to significant debt relief to Russia. On turn 1999/2000 the height of claims amounted to 200 billion CZK (it is equivalent of 7.5 – 8 billion USD). In March 2004 it was only more than 70 billion CZK (approximately 2.8 billion USD) due to solution of the Russian debts (BBC, 2004). At December 31, 2004 Ministry of Finance of the Czech Republic registered total foreign claims of amount 43.5 billion CZK (around 1.8 billion USD). The highest claim still belongs to Russian debt 14.4 billion CZK (643.9 billion USD). (MF 2005a; SPURNÝ, 2004)

According to data of Ministry of Finance of the Czech Republic the most debtors do not meet their obligations (MF, 2005a). For instance, the debt of Kazakhstan – approximately 8 billion CZK (it is equivalent of about 320 million USD) – has its origin in the Soviet Union period when Kazakhstan did not pay up to deliveries of state Czech company Transgas to Kazakhstan petroleum refineries. The Czech Ministry of Finance started to screw the claim out of Kazakhstan government in 2001 and one year later declared that the problem has been solved. Allegedly, both contractors made agreement for repayment the half of total amount (SPURNÝ, 2004; BBC, 2004). Then some opaque negotiations of the Czech government were being held concerning possibility of selling off to any private company (SPURNÝ, 2004; compare with BBC, 2004). But total disillusion came up when the Czech government delegation and president Vaclav Klaus visited Kazakhstan in 2004 and Kazakhstan's president Nazarbayev declared that there is no debt between the states, because the responsibility rest with Russia as successional state of the Soviet Union (SPURNÝ, 2004). No other official information exists about new negotiations, if any are being held.

Similar situation is in case of Cuban obligation to the Czech Republic of amount 5.5 billion CZK (245.9 million USD) at December 31, 2004 (MF, 2005a), but with some differences. Cuban partner does not want to accept the existence of debts at all and reject any negotiation about the issue. Cuba requires "normalization" of political relations between the states first .

From Cuban side the "normalization" of the relations means that the Czech Republic will end advancing the declaration to United Nations about breaking the human rights in Cuba and supporting Cuban opposition (BBC, 2004). But it was not sure if the Cuban government would accept the debts after desiderative "normalization".

The Czech Republic started to slowly relieve of debts to developing countries since 2002 year (for details see Table 2). Amount was about 380 million CZK (11.61 million USD). Next year Czech government continued with far lesser figure 247.6 million CZK (8.78 million USD) and in 2004 the amount of debt relief rose to nearly 276 million CZK (10.73 million USD).

Table 2: Debt relief to developing countries by the Czech Republic in 1999 - 2005

year	Debt relief (in million CZK)	Debt relief (in million USD)
1999	0.0	0.00
2000	0.0	0.00
2001	0.0	0.00
2002	380.1	11.61
2003	247.6	8.78
2004	275.8	10.73
2005	240	10

Source: CR OECD (2005); OECD (2006)

The debt relief/ODA ratio of the Czech Republic reached the highest figure in 2002, it was 25.58 percent. In next two years the debt relief/ODA ratio came near to 10 percent (see Table 3).

Table 3: Debt relief/ODA ratio of the Czech Republic in 1999 - 2005

year	Debt relief/ODA (in percent)
1999	0.0
2000	0.0
2001	0.0
2002	25.58
2003	9.69
2004	9.92
2005	13.1

Contemporary situation in debt of developing countries to the Czech Republic

The debt of developing countries to the Czech Republic at the end of the 2004 was about 19.8 billion CZK (883 million USD), excluding unclear claims to Kazakhstan (see Table 4). The highest debt rate among developing countries (excluding Kazakhstan) Czech Ministry of Finance registered in Cuba amounted 5.5 billion CZK (equivalent to 245.9 million USD to date), in Libya amounted 4.5 billion CZK (199.2 million USD) and in Iraq amounted 6.38 billion CZK (286 million USD) (MF 2005a; MF 2005b; MF 2006). Last two claims are under secrecy, at present declassified debt of Iraqis known.

Ministry of Finance registers relatively high claims to Algeria amounted 2.8 billion CZK (125.5 million USD), to Sudan amounted 1.7 billion CZK (77.7 million USD), to Nicaragua amounted 1.1 billion CZK (49.2 million USD), to Iran amounted 851 million CZK (38.1 million USD) and to Myanmar amounted 835 million CZK (37.3 million USD). (MF 2005a; MF 2005b)

Among the smallest claims to Czechia at the end of 2004 belonged Laos with debt 4,9 million CZK (200 thousand USD), Kambodia with debt 63 million CZK (2.8 million USD) and Afghanistan with

debt 77.3 million CZK (3.5 million USD). (MF, 2005b)

Table 4: The claims of the Czech Republic (December 31, 2004)

Country	Debt (millions CZK)	Debt (millions USD) *
Sudan	1.737,6	77,7
Algeria	2.806,5	125,5
Libya	4.455,9 ¹⁾	199,2 ¹⁾
Afghanistan	77,3	3,5
China	252,5	11,3
North Korea	196,7	8,8
Cambodia	63	2,8
Myanmar	835,1	37,3
Iran	851,2	38,1
Iraq	6.384,5 ⁴⁾	285,5 ⁴⁾
Laos	4,9	0,2
Syria	1.849,9 ^{1) 2)}	82,7 ^{1) 2)}
Cuba	5.500,0	245,9
Nicaragua	1.098,9	49,2
TOTAL	19.755,9	883,3
Kazakhstan	7.304,1 ³⁾	326,6 ³⁾
Russia	14.367,4	643,9
Belorussia	40	1,8
Albania	276,4	12,4
Slovenia	5,1	0,2
Yugoslavia	2.000,0	89,4
* Exchange rate USD~CZK - 1 : 22,365 (31.12.2004)		
¹⁾ Undisclosed; ²⁾ Estimation; ³⁾ Uncleared		
⁴⁾ Undisclosed to 31.12.2004, declassified in May 2006		

Source: MF (2005a; 2005b; 2006) and author's own calculations.

Realization of debt relief

In the issue of debt relief the Czech governments held general conviction not to forgive foreign claims. But, when Ministry of Finance tries to make an agreement with debt states about the way of settling their debts, Ministry can take into consideration concrete economic situation of the debt country and respect resolution of European Union about partial debt relief or recommendation of World Bank and International Monetary Fund towards process of debt relief of states included in programme Heavily Indebted Poor Countries Initiative (HIPC). (MF, 2005b; compare with BBC, 2004)

For instance, in 1996 negotiation between Ministries of Finance of the Czech Republic and Nicaragua was being held, concerning debt service to the Czech Republic. Both contractors made agreement about debt servicing to the Czech Republic gradually in next 14 years and relief 93 percent of debt and compound interests (MF, 2005b). In December 31, 2004 the amount of the debt was still relatively high – 1.1 billion CZK (49.2 million USD). (MF, 2005a)

New agreements about debt relief were concluded with Algeria (MF, 2005a) (but without published details), with Nicaragua and probably with Syria (compare with BBC, 2005), which is still subject of secrecy. In case of claims to India, Slovenia and Croatia the debts were serviced nearly to 100 percent. The details are not known.

According the estimations of World Bank, in 2003 the Czech Republic undertook to debt relief to programme HIPC in total amount 6.1 million USD. Specifically, it was about decrease of claims to Nicaragua by 5.1 million USD, to Tanzania amounted 900 thousand USD and to Zambia by 100 thousand USD (WB, 2004: 97). In 2004 the total amount for debt relief was 6.3 million USD, concretely was dealt the amount 5.3 million USD for Nicaragua (WB, 2005: 74). In the report (WB, 2005: 74) Tanzania and Zambia were not mentioned, thus probably meant, that the Czech Republic had no claims to the countries.

Conclusion

The height of developing countries claims to the Czech Republic is still accompanied by unclear data, lack of information and unwillingness of state authorities to set about any public or scholarly discussion about the issue. Some of data are still purposely subject of secrecy, based on international agreements with debt countries. It is still challenging to receive detail and clear information, and in many cases it is impossible. It often depends on willingness of politicians and officers to tell desiderative information.

Still, unknown questions remain, if we are to consider some of mentioned debts as being legitimate (strategy „odious debts“). We have to take into account historical and political facts accompanying providing credits and compare with present situation (e.g. Laos, Cambodia). Did these credits contribute to development of given country, nation, local communities or to some authoritative rulers to oppression of people? (e.g. Iraq, North Korea). Were delivered aid and weapon indeed used to protect freedom of people or conversely to stronger repression by local governments (Sudan, Syria, Iraq, Libya)? Pertinently, did not they serve as tool to invasion into other country (Iraq, Syria, Libya)? And who is receiving payer today and under what economic and social conditions (Afghanistan, Nicaragua, Algeria).

The important problem remains, how to face the debts in countries where dictatorial, military or authoritative regimes still govern (Cuba, Iran, Myanmar, China, Kazakhstan). Is ethical and correct to relieve debt or persist on debt service to these regimes? Pertinently, is more effective to wait with debt relief for change of regime, that will lead to democratic, liberal and suchlike these values? Or is not better strategy mass debt relief and minor part of the debt obligate for development of given spheres (e.g. independent education, public health, nature conservation, social sphere, civic society, etc.). At the end of the paper we can note that still, more questions remains than clear answers and systematic strategies in the issue of debt of developing countries to the Czech Republic.

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