



# Swiss Coalition News

SWISS COALITION OF DEVELOPMENT ORGANIZATIONS

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## Ten Years of Swiss Debt Reduction Policy: Switzerland as an Innovative Pace-Setter



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Ten years ago, in March 1991, the Swiss Parliament voted to establish the first comprehensive debt reduction programme in Switzerland, in response to political pressure by non-governmental organisations (NGOs). The Parliament approved CHF 500 million to be used for debt relief in developing countries. By that, Switzerland played a pioneering role at the international level. What has been achieved to date?

In 1989, six development organisations – Swissaid, the Catholic Lenten Fund, Bread for All, Helvetas, Caritas and Swiss Interchurch Aid – launched a petition campaign with the title «Development Requires Debt Reduction». The campaign called on the Swiss Parliament and the Federal Council to create a fund with at least CHF 700 million, to be used for debt reduction in developing countries, on the occasion of Switzerland's 700<sup>th</sup> anniversary as a nation. As the result of a broad campaign, 250,000 signatures were collected in support of a demand for complete cancellation of debt owed to Switzerland by developing countries.

### «Creative» debt reduction

The initiators of the petition were pointedly opposed to an outright cancellation of debt, advocating instead what came to be known as «creative debt reduction» that would benefit the poor. Those responsible for the debt crisis would each bear a share of the burden in reducing debt. Creditors (the Swiss export sector and banks) would absorb some of the costs of reducing the debt, while debtors (governments in indebted countries) would pay a portion of the cancelled debt into a so-called «counterpart fund» (CPF). This fund would then be used to finance projects that benefited popula-

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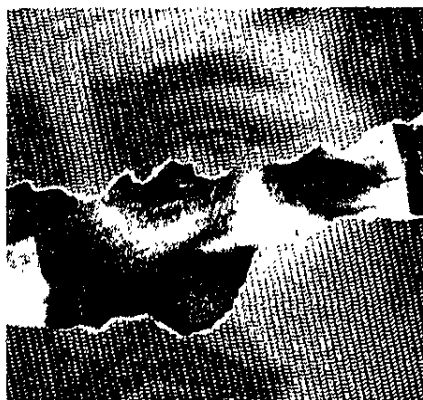
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# Entwicklung braucht Entschuldung

*Logo and slogan of the debt campaign  
conducted by Swiss NGOs in 1990*

tions in indebted countries. Finally, NGOs would administer the CPFs locally and also have a voice in the debt reduction programme in Switzerland.

The debt reduction programme approved by the Swiss Parliament had various components. A total of CHF 500 million was available for the programme. Another CHF 970 million was made available when the federal government assumed control of export credits held by the Swiss Export Credit Agency (ERG) and cancelled loans in the same amount made to the ERG in earlier years. The debt reduction programme was not only concerned with reducing debts owed to Switzerland, but also focused on Swiss participation in international debt reduction campaigns. The programme was administered by the State Secretariat for Economic Affairs (SECO) and the Swiss Agency for Development and Cooperation (SDC), with the Swiss Coalition's Debt-for-Development Unit serving as a consultant.

What did the Swiss debt reduction programme achieve? An external evaluation of the programme was undertaken in order to answer this question and also offer a perspective on the future. The results were compiled and published in a document that is available in French, German and English.

On a statistical level, 90% of the CHF 500 million had been allocated for debt reduction measures by the end of 2000. As a result, almost CHF 2 billion in debt was cancelled, approximately half of which was directly owed to Switzerland. Switzerland concluded contracts with 19 countries (14 of which were highly indebted poor countries, or HIPC's). Counterpart funds were established in 11 countries; in one country the resources made available went directly to NGOs. In 7 countries the amounts involved were too small to set up a counterpart fund. Another 9 countries indebted to Switzerland do not yet have a contract for debt reduction as they have so far been unable to fulfil the necessary conditions.<sup>1</sup>

## Who has benefited?

Switzerland was unable to achieve significant reductions in the «mountain of debt» owed by developing countries; the volume of cancelled debt was too small. On the other hand – as the evaluators of the programme pointed out – Switzerland was one of the first countries to offer a comprehensive, adequate response to the enormous problem caused by debt that stifles development in many countries. It compensated for the rela-

tively small reductions in the volume of total debt by actively working to achieve more comprehensive debt reduction measures at the international level and among other bilateral and multilateral creditors. Thus, Switzerland has had an influence on debt reduction strategies in the Paris Club (bilateral creditors) and also in the International Monetary Fund and the World Bank. Its innovative approaches served as a model for the first international debt reduction initiative, the so-called HIPC Initiative (see pp. 4–5), established in 1996.

But what benefits have accrued to people in developing countries? A total of CHF 270 million was made available in counterpart funds for development projects and programmes – a respectable amount in relation to the total allocated for Swiss development cooperation. The evaluators of the programme concluded that the resources made available in counterpart funds «probably» reached the poor, although they were unable to

<sup>1</sup> Further details about the Swiss debt reduction programme and individual counterpart funds can be found in the brochure entitled *From Debt to Development – The Swiss Debt Reduction Facility* (August 1998), published by the Swiss Coalition of Development Organisations.

gather evidence for this conclusion at the local level. However, thorough analyses and evaluations of these counterpart funds, their structures, their financial policies and their achievements can be found in the individual final evaluations being carried out for each fund.

### Improved political dialogue

Setting up counterpart funds proved to be a complex undertaking and a demanding challenge for everyone concerned, in Switzerland as well as in indebted countries. Evaluators believed the initially difficult discussions between

SECO, SDC and the Swiss Coalition – which eventually led to close «trilateral collaboration» – were a definite strong point in a «creative» debt relief programme. The fact that the counterpart funds brought government officials and representatives of different social sectors together was also found to be a positive development. On the other hand, the organisational structure of this «creative» aspect of debt relief was not optimal. The three parties concerned had no agreement on a common approach or on how to execute the entire process.

The evaluators believed, however, that



A borehole and water tank supplying water to the Children's Town/Zambia: a donation of the Zambian-Swiss Counterpart Fund. (Photo: ZSCF)

### A Counterpart Fund Project in the Philippines: New Hope Replaces Old Debts

**Maya Doetzkies** • Thanks to support from the Swiss counterpart fund, Coco Technologies, a Philippine company, is now producing environmentally friendly coco blocks. Claro Fair Trade AG markets the coco blocks in Switzerland.

It is not often that a signature on a petition brings such fruitful results. The Foundation for a Sustainable Society administers a counterpart fund that is part of Switzerland's debt relief programme in the Philippines. The foundation has more than 150 projects whose value exceeds US\$ 4 million in the form of financial credits and other resources. One such project is Coco Technologies, which specialises in environmentally friendly coco products. Among its products are huge nets made of coco fibre to control erosion on mountain slopes. Products made by Coco Technologies have improved environmental conditions for more than 30,000 people.

The coco blocks are an interesting product that is becoming increasingly popular in Europe. They are made from coconut shells that are dried, pressed into briquettes and soaked in water prior to use. The resulting substance is a perfect substitute for peat, low in acidic content and resistant to bacteria and fungi. It can be mixed with earth for potted plants and also used as fertiliser in gardens.

The coco blocks are made by poor families in the Philippines, who receive about 60% of the sale price of the blocks from Coco Technologies. Claro AG is now importing the coco blocks for sale in Switzerland in order to expand the market for them. This represents a process that has come full circle. Ten years ago many Claro retail outlets collected signatures on a petition for debt relief. Now they can offer their customers an ecological product that is also beneficial to their own environment.

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the role of innovative pioneer was a worthwhile one. The idea of «creative debt reduction» was ultimately incorporated into the broadened HIPC initiative of 1999, in which debt relief was regarded as part of a comprehensive development approach aimed at alleviating poverty. However, Swiss development organisations were not included in the global NGO Jubilee 2000 Campaign, which played a decisive role in leading to HIPC II, nor was the Swiss government involved in shaping the new initiative. Thus there is a need for a new direction in Swiss debt reduction policy, with a commitment to sustainable debt reduction at all levels (see pp. 6–8).