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From the Executive Board to the classroom : what debt relief means for education in the Democratic Republic of the Congo (DRC)

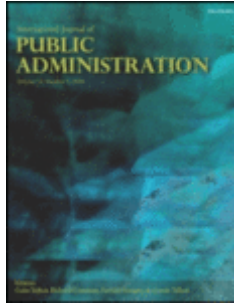
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**From the Executive Board to the classroom
What debt relief means for education in the Democratic
Republic of the Congo (DRC)**

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From the Executive Board to the classroom

What debt relief means for education in the Democratic Republic of the Congo (DRC)

Abstract

This analysis re-assesses the IMF's decision to grant debt relief to the DRC in 2010 based on the country's poverty reduction and growth performance: would the IMF come to the same conclusion given the current knowledge available about the impact of the debt relief process on public governance and service delivery? First, it shows that, whereas the direct resource effect of this aid modality was minimal, the indirect effect was more significant: the conditionalities attached to the process helped to stabilize the economy and increased the overall budget of the Congolese state. This increased resource availability also sustainably percolated to the education sector. Second, however, the impact on social development was minimal: school enrolment increased but was hardly accompanied by extra budget per pupil, whereas more complicated challenges like disparities in access or quality of schooling were left untouched. The government's strategy was also partly short-circuited by the electoral process.

JEL codes: F34, H75, I22

Keywords: debt relief, education, Heavily Indebted Poor Countries (HIPC) Initiative, Democratic Republic of the Congo (DRC), pro-poor spending

1. Introduction

On July 1, 2010, the Executive Boards of the IMF and World Bank jointly announced, under the so-called Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI), to irrevocably grant the Democratic Republic of the Congo (DRC) external debt relief of 12.3 billion USD (IMF, 2010b). Initiated in 1996, these debt relief programs aim to act as a mechanism to help eligible countries not only restore debt sustainability, but also increase macro-economic stability, improve governance of public service provision and reduce poverty. They intend to do so in two ways: first, they increase the country's available resources. Whereas savings on current and future debt service provide for a direct budget increase, the elimination of "debt overhang" also has an indirect positive effect on both domestic (through higher economic growth) as well as foreign resource availability (through more aid and foreign private investment). The second, and maybe more important channel works through conditionalities attached to the deal, which focus on structural reforms to spur economic growth and reduce poverty, for instance by improving the governance and quality of basic health care, education or other public services (IMF, 2015).

When the debt relief was granted, the IMF considered these aims to be accomplished: "[...] the country has implemented the policy measures ("triggers") required to reach the completion point, a stage in which debt relief from both the HIPC Initiative and MDRI becomes irrevocable. The triggers included satisfactory implementation of the country's poverty reduction and growth strategy, maintenance of macroeconomic stability, improvements in public expenditure and debt management, and improved governance and service delivery in key social sectors such as health, education and rural development." (IMF, 2010b, p. 1).

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2 Now, eight years after the completion point, these IMF's claims on improved governance and
3
4 service delivery can be revisited with the benefit of hindsight. The analysis focuses on two
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6 questions in particular. It first questions how and to what extent the HIPC debt relief program
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8 increased the availability of resources entering the public budget, and how it triggered, reshaped
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10 and sustained budgetary policies and priorities¹. The second question asks how and to what
11
12 extent the HIPC debt relief impacted on education, both in terms of sectoral resources and their
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14 allocation to schools and teachers as well as regarding the educational attainment of Congolese
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16 pupils. The choice for education stems from the priority given to this sector by the Congolese
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18 government in the allocation of HIPC resources. Therefore, if any impact is to be expected, then
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20 it would become visible *there first*.
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26 This replication of the IMF exercise for the process of debt relief in the DRC connects to a
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28 broader debate about whether it is possible to stimulate good governance from the outside, if
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30 country ownership is considered to be such a crucial ingredient. Indeed, the HIPC debt relief
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32 process builds on an aid architecture that considers country ownership as a basic building block
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34 for improved governance, and the Paris Declaration (2005) and Busan Conference (2011)
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36 reaffirmed this view. Several scholars remarked, however, that country ownership may be at
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38 odds with other commitments, such as managing for results, or with good governance in general.
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40 First, the institutional weakness in various countries constitutes a chicken-and-egg problem
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42 (Gisselquist & Resnick, 2014): the final outcome of a sector reform fully owned by a recipient
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44 country ultimately depends on the institutional capacity of the sector to conduct such a reform in
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46 the first place. In this respect, one should also mention the considerable administrative workload,
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48 manifest in the multiple restrictive and implicitly imposed M&E formats that accompany such
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55 ¹ For a general overview of this issue, see Cassimon and Essers (2017).
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1 reforms. Second, the tacit assumption behind the pursuit of increased country ownership is that
2 political leadership is development-oriented, which is argued to be often in tension with countries'
3 "short-term clientelistic strategies for gaining votes and seeking legitimacy" (Booth, 2011, p. 15).
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9 Given the varying degrees of institutional quality and diverse political incentives, it is thus unclear
10 whether and to what extent foreign aid, in any particular setting, will be able to advance good
11 governance and good policies. To address this issue, the generic answer is often to take context
12 more seriously when designing, implementing and monitoring reforms (Booth, 2011; Gisselquist
13 & Resnick, 2014). The concomitant research strategy to evaluate the effectiveness of aid is then
14 to conduct an in-depth country case study, which allows to peer into the black box that translates
15 donor inputs into development outcomes (Bourguignon & Sundberg, 2007), by paying due
16 attention to the myriad incentives experienced by various stakeholders involved. According to
17 Booth (2011), this type of political economy analysis, which maps actors, their interests and
18 relative power, is crucial in understanding how a particular public-sector reform evolves on the
19 ground, and how donors might help resolve any inherent collective action problem. Put
20 differently, donors should "learn how to play local politics. If they want to be successful, they
21 cannot refuse to be drawn into local events, despite their desire to appear neutral and giving
22 only technical advice" (Marenin, 2014, p. 159). Now that it can be judged with hindsight, this
23 study may contribute to teaching what donors risk when they refuse to play local politics.
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44 Methodologically, this revisiting analysis of the IMF's claims on improved governance and
45 service delivery will, just like the IMF's assessment itself, not take the structure of a formal impact
46 evaluation of the DRC HIPC program. Neither the IMF nor this analysis have a valid
47 counterfactual, allowing to know what would have happened if the DRC did *not* go through a
48 process of debt relief. Similarly, both analyses are unable to clearly attribute all changes to the
49 debt relief process as such: the HIPC process was indeed part of a larger reconstruction agenda
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1 supported by donors, which also include peace-building and democratization. Thirdly, the
2 objective of a “sustained” improvement in the quality of governance can, by definition, never be
3 comprehensively evaluated within a given time-frame. Just like the IMF, this analysis must do,
4 then, with what is called “thick description” in anthropology: it attempts to document, in as much
5 detail as possible, how the debt relief process precisely played out in the case of the DRC. This
6 will be done by piecing together different statistics, survey data, expert opinions and other
7 sources of information, while triangulating and imputing corrections where possible².

8
9 But while this study will thus essentially be marked by the same structural methodological
10 difficulties with which the IMF team was struggling to resolve at DRC’s completion point, the
11 position of this analysis is better in three important respects. First, as new surveys (like the
12 second round of the 1-2-3 Survey) have been carried out after the completion point, actually
13 more information is available to check the robustness of the initial data and results, and to widen
14 the analytical perspective. Second, it is able to go beyond the purely technical analysis of change
15 processes and look more closely at the political economy of national-level and local-level
16 governance in the DRC. By tracing the effect of the Executive Boards’ decision up (or down) to
17 an ordinary Congolese classroom, this analysis will also inevitably be drawn into several local
18 realities. And third, this analysis is in no obligation to make a binary “yes/no” decision at a
19 particular point in time, formulating instead a richer and more nuanced conclusion, which can
20 moreover be provisional, awaiting further research.

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² One type of imputed corrections concerns the introduction of a stabilized sampling frame to increase the accuracy of the 1-2-3 household survey data. To achieve this, this analysis applied a post-stratification technique, as proposed by Marivoet and De Herdt (2017).

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2 The data used for this assessment generally fall into three categories. First, this paper will
3
4 assemble and study a series of macro-economic indicators obtained from various IMF reports
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6 and its associated databases, together with data coming from the national budget execution
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8 reports of the Congolese Central Bank (BCC) and the Congolese government. Second, to serve
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10 its data needs with respect to education, it will rely on the statistical yearbooks published by the
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12 education ministry of the DRC, complemented with individual studies on the history and most
13
14 recent reforms of the sector. Further, to measure changes in educational attainment with pupils,
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16 it makes use of the 1-2-3 Household Surveys, conducted in 2005 and 2012. These national
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18 surveys follow the same methodology and were both carried out by the National Institute of
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20 Statistics, under the technical supervision of the World Bank, AFRISTAT and DIAL (République
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22 Démocratique du Congo, 2008; 2014a). And third, this work is also informed by a substantial
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24 number of qualitative interviews conducted among a variety of stakeholders in the education
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26 sector. These interviews were carried out both in Kinshasa and in several provinces (see De
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28 Herdt, Titeca, & Wagemakers, 2012 for further details).
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35 The rest of this paper will be structured as follows. Section 2 documents the history, process
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37 and technical accounting of external debt of the DRC, and its embeddedness within the broader
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39 international debt relief framework. Section 3 investigates to what extent the debt relief process
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41 indeed provided more resources to the country on a net basis, both directly as well as through
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43 the macro-economic conditionalities attached. Section 4 then turns the lens specifically to the
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45 education sector, and discuss to what extent debt relief was able to improve the functioning of
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47 the sector. Section 5 concludes.
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55 **2. The history, process and accounting of HIPC debt relief in the DRC**

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2.1. DRC's history of debt

The origin of the Congolese debt burden can be traced back to the period between 1973 and 1975. Totalling 544 million USD at the start of this period, which represented 25% of the country's Gross National Income (GNI) and yielded a debt service of around 5% of the country's exports, the overall debt stock rose nearly six-fold and debt service doubled within only two years. This increase can be mainly attributed to four major projects: INGA I, II and INGA Shaba (800 million USD); the Tenke Fungurume Mining Company (320 million USD); Maluku/SOSIDER (182 million USD); and the Cimenterie Nationale (100 million USD) (Marysse et al., 2012). As none of these projects realized its potential, especially after the nationalization policy introduced by Mobutu in 1973, debt servicing problems emerged very early in the DRC.

In June 1976, Zaire (as the DRC was then called) was the first African country to conclude a deal with its (Paris Club) bilateral creditors. However, as the authorities did not respect the repayment schedule stipulated by the agreement, new deals followed and penalty interests kept inflating the debt stock. Although this snowball effect was briefly halted in the early 1980s (when structural adjustment programs prioritized debt repayment over social spending, resulting in severe budget cuts to education and health care) poor economic and fiscal governance soon returned to Zaire, which further eroded the formal economy. From 1985 onwards, this situation led to a *de facto* moratorium on all debt service payments and a non-stop accumulation of debt, lasting until the start of the third Republic, when Joseph Kabila took power in 2001. The new president inherited a total external debt of nearly 13 billion USD in nominal terms, nearly three quarters of which were arrears, and additional debt service arrears adding 700 million USD per year. To address Congo's unsustainable debt, Joseph Kabila's first presidential trip out of the country was therefore to Washington D.C. in order to restore relations with the international creditors and to gain access to the HIPC initiative (Marysse et al., 2012).

2.2. The DRC's bumpy process of HIPC debt relief

The HIPC Initiative, launched in 1996 under the leadership of the G8, World Bank and IMF, was the international community's response to restore foreign debt sustainability among various heavily indebted poor countries and generate more resources to fight poverty. The initial HIPC framework was reformed in 1999 to provide faster, deeper and broader debt relief. The main reform was the explicit linkage of debt relief to a recipient country's national poverty reduction strategy (Andrews, Boote, Rizavi, & Singh, 1999). Beyond HIPC, multilateral debt relief further deepened under the MDRI initiative in 2005.

Basically, HIPC is a two-stage process, with conditionalities attached to each step. The first step, called the "decision point", is the moment when a country becomes eligible for the HIPC program and starts receiving interim debt service relief. This point is reached when three conditions are met. First, the country's debt is defined as unsustainable, meaning that the Net Present Value (NPV) of all future external debt service payments exceeds 1.5 times the value of export earnings³. Second, countries are eligible to borrow from the concessional windows of the World Bank and the IMF and have used this lending facility to implement reforms and policies in a satisfactory way. And third, the country's authorities, have defined a (Interim) Poverty Reduction Strategy Paper through a broad consultative process, explaining *inter alia* how the cancelled debt service will scale-up pro-poor policies.

³ For countries with ratios of exports-to-GDP and revenue-to-GDP of at least 30% and 15%, respectively, debt unsustainability is determined by a fiscal threshold, which amounts to 250% of total government revenues. For the DRC, the standard debt-to-export threshold applies. The calculation is made after taking into account traditional debt relief mechanisms. The traditional debt relief mechanisms are known as the Naples terms of the Paris Club. They result in a reduction by two-thirds of the debt stock, as measured in NPV terms.

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2 Regarding the first condition and according to all analyses, there was no doubt that Congo's
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4 debt was unsustainable: by the end of 2002, and after the application of traditional debt relief
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6 mechanisms, the NPV of total external debt amounted to 8.5 times the value of export earnings.
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8 The second condition, however, was more complicated: given the arrears accumulated by the
9
10 DRC, the multilateral creditors could not directly engage in a new program with the country. To
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12 resolve this issue, arrears to these donors (IMF, World Bank and African Development Bank)
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14 were therefore first cleared with bridge loans provided by bilateral donors, who in turn were
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16 repaid the next day with a new concessional loan provided by the multilateral creditors (Marysse
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18 et al., 2012). Having thus regained access to the conditional lending facilities of IMF and World
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20 Bank, the DRC implemented the first significant adjustment program between June 2001 and
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22 March 2002 to stabilize the economy. In this process, the Kabila government was supported with
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24 technical advice provided by IMF and World Bank and with extra financial support in the form of
25
26 a 50 million USD grant from the World Bank. Liberalization of the economy and the
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28 implementation of major structural reforms successfully cut hyperinflation, halted currency
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30 depreciation and resulted in positive growth rates. Because of these reforms, the World Bank
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32 and IMF both endorsed the government's reform program. The final hurdle before reaching the
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34 decision point was the elaboration of an interim PRSP. This document was published in March
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36 2002 (République Démocratique du Congo, 2002) and focused on the following three main
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38 pillars: (i) the establishment of peace and good governance, (ii) the stabilization of the macro-
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40 economic environment and the realization of pro-poor growth, and (iii) the inclusion of local
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42 communities to set social and development priorities. Having met all three conditions, the
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44 country finally reached the HIPC decision point in July 2003 (Marysse et al., 2012; IMF, 2003).
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53 The second step of the HIPC debt relief mechanism concerns reaching the "completion point",
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55 the point at which full and irrevocable debt stock cancellation is granted upon the fulfilment of
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2 another set of three conditions. First, the debtor maintains satisfactory performance under a
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4 macro-economic stability program supported by the IMF. Second, the country adopts and
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6 successfully implements the national PRSP for at least one year. And third, the country also
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8 complies with a set of additional country-specific benchmarks (or “triggers”), agreed upon with
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10 international creditors at decision point. In the case of the DRC, these triggers focus on the use
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12 of budget savings for poverty reduction, public expenditure management, future debt
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14 management, and governance and service provision in priority sectors (IMF, 2010a). While the
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16 duration of the second phase was initially fixed, it was made variable after the HIPC reforms of
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18 1999. As such, the length of this phase depends on the accuracy and speed by which the country
19
20 authorities comply with the conditionalities above (IMF, 2015).
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26 In the case of the DRC, especially this second step proved to be a long and bumpy process:
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28 while the completion point was originally anticipated for June 2005, it took the country five more
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30 years to reach it. The main reasons for the delay were threefold. The first, mainly internal, reason
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32 were the budgetary slippages of 2005 and 2006. In the run-up to the elections of 2006, the
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34 Congolese authorities started printing money, as a result of which the country deviated from its
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36 IMF program. Consequently, creditors suspended their interim HIPC debt relief and the
37
38 Congolese government again started building up arrears. Secondly, the global economic
39
40 recession of 2009 illustrated the vulnerability of the DRC to external crises, further impairing
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42 macro-economic discipline. Finally, the mining and infrastructure contracts negotiated between
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44 China and the DRC in 2007 and 2008 also delayed completion point as they precisely
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46 jeopardized the debt sustainability which the HIPC Initiative would provide at completion point.
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48 Indeed, if the initial contracts had been signed, the debt stock would have increased by an
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50 amount similar to the debt stock reduction under negotiation (Marysse et al., 2012). In the end,
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52 the joint intervention of the IMF and World Bank resulted in a modification of certain clauses
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2 within the contract which prevented a significant increase in the future debt burden of the DRC⁴.
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4 In July 2010, the DRC finally reached completion point. As of April 2018, it is one of 36 countries
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6 that have taken both steps of the HIPC debt relief program (IMF, 2015).
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9 10 2.3. The unorthodox accounting of Congo's debt relief

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12 The HIPC program usually provides for two types of debt relief: interim debt service relief at
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14 decision point and irrevocable debt stock cancellation upon completion point. In addition to
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16 HIPC, different bilateral and multilateral creditors have provided additional debt relief to fully
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18 erase the debt stock of debtor countries so as to provide them with a clean slate. In the case of
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20 the DRC, they even exceptionally provided debt stock relief prior to decision point. As these debt
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22 relief operations were provided at different points in time, using different accounting methods,
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24 often documented only in confidential bilateral agreements, and given the fact the country also
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26 accumulated limited amounts of new debt in the meantime, it is simply impossible to offer a full
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28 and comprehensive account of all transactions⁵. However, in the following, details are provided
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30 of the most important aspects and the final result.
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42 ⁴ In fact, at the same time this was a missed opportunity, as the contract still contains certain weaknesses due to
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44 the awkward status of the Congolese government in the negotiations. Indeed, for the long-term development of the
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46 DRC, the contract is very unfair because tax revenues owed to the state for mining operations are minimal and no
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48 clause provides for infrastructure maintenance (Marysse et al., 2012).

49 ⁵ To illustrate the lack of transparency covering the accounting process of Congo's debt relief, it suffices to compare
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51 the official press release of the IMF (2010b) with the associated technical documents. As it appears, the latter
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53 documents make no reference to the officially declared amount of 12.3 billion USD of debt relief granted to the DRC
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55 in 2010.
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2 In contrast to other countries, the first important debt relief operation concerns the debt stock
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4 reduction granted by the Paris Club in September 2002. This settlement, succeeding the bridge-
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6 loan operation to make the country again eligible for multilateral credit, treated roughly 8,980
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8 million USD in NPV terms, consisting of arrears and debt service due between July 2002 and
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10 June 2005 (the latter date being the initially foreseen completion point). This arrangement
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12 resulted in a debt stock reduction of 4,640 million USD, the remainder being rescheduled with a
13
14 grace period (Marysse et al., 2012). A similar operation took place before reaching completion
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16 point, when another Paris Club agreement (in 2010) cleared the arrears which had accumulated
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18 following the end of debt service relief in June 2005 and the budgetary slippages leading up to
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20 the elections in 2006. At completion point, the debt stock relief needed to restore the
21
22 sustainability of Congo's debt can be read from Table 1. Starting from the nominal external debt
23
24 stock of 2001, it shows how this stock had already been reduced before decision point following
25
26 the Paris Club agreement of 2002. As a result, the eligible nominal external debt stock at the
27
28 end of 2002 was estimated at 10,772 million USD, which corresponds to a NPV of 8,801 million
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30 USD, once traditional debt relief (already committed prior to the HIPC Initiative) was taken into
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32 account. Starting from the NPV of eligible debt and the 3-year average of exports at the time of
33
34 decision point, the table shows that HIPC assistance had to amount to 7,251 million USD in
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36 order to reach the HIPC target of 150% of export earnings. This necessary stock reduction
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38 implied a common reduction factor of 82.4% (IMF, 2010a). This factor was applied to the debt
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40 stock of the different creditor groups to calculate their contribution to the debt relief.
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49 **[Table 1 about here]**

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52 As already mentioned, most creditors went beyond the HIPC threshold of debt sustainability and
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54 provided full relief on all eligible claims. This was true for most of the Paris Club creditors, the
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56 main multilateral creditors through MDRI (World Bank, IMF and African Development Bank), and
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1 the European Union. After full execution of all these deals, and given the accumulation of new
2 debt in the meantime, the total external debt was reduced by 12.3 billion USD to slightly less
3 than 2 billion USD (in NPV terms) in 2010. Representing only 31% of exports in 2010 and with
4 an annual debt service below 120 million USD (only 2% of exports in 2010), the DRC's debt level
5 was rendered sustainable again⁶.
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17 **3. Resource availability through debt relief**

18 **3.1. Are debt savings fictitious?**

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20 For a couple of reasons, large amounts of debt cancellation do not necessarily translate into real
21 cash flows. First of all, most debt relief provided to the DRC involves the cancellation of
22 accumulated arrears, instead of current or future debt service. If so, then the process of debt
23 reduction is just one of "cleaning the slate" without putting additional resources on the table. As
24 such, the bilateral debt settlement with the Paris Club in 2002, which involved a large share of
25 arrears, could indeed be considered largely fictitious. In a similar vein, the upper panel of Table
26 2, which provides some estimates of the annual debt relief granted to the DRC during the interim
27 period 2003-2009, indicates that between 2003 and 2005 still around two thirds of debt relief
28 consisted of the clearance of historic arrears.
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45 Second, how and to what extent debt stock cancellations translate into annual debt service
46 savings depends on the original contractual debt service schedule. As shown in Table 2, the
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51 ⁶ At completion point, 96% of planned debt reduction was effectively assured; only some minor creditors did not or
52 only partially provided their share of HIPC. As a result, the effective final debt stock, the debt-to-exports ratio and
53 the annual debt service might be slightly higher than indicated.
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2 annual cash flow relief from the DRC debt deals never amounts to more than a few hundreds of
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4 millions USD per year: current debt service relief increased from slightly more than 100 million
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6 USD in 2003 to more than 400 million USD in the period 2007-2009 and more than 500 million
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8 after HIPC completion point.
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12 **[Table 2 about here]**
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14
15 But even more importantly, especially in the case of the DRC, contractual debt service relief will
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17 only translate into cash flow savings to the extent that the debt could (or would) have been
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19 serviced otherwise. As the DRC was not servicing any of its debt before 2001, critics will claim
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21 that debt service savings in such cases will be purely fictitious (Kennedy, 2010). In fact, this
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23 means that the DRC would be paying more debt service after debt relief than before (i.e. the
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25 debt service due on the sustainable part of debt), which means that fewer resources are
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27 available instead of more. However, for two reasons, it can be argued that debt service savings
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29 are not purely fictitious. First of all, the counterfactual, that nothing would have to be paid in the
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31 absence of a deal, is simply not correct. Being part of the broader international community
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33 requires at least some debt service to multilateral organizations like the IMF and World Bank,
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35 which would make this part of debt service relief a genuine cash flow gain. In fact, this is explicitly
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37 included in the HIPC mechanism: for each individual case the IMF and the World Bank, together
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39 with country authorities, try to identify what part of the overall (HIPC) debt could/would have
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41 been serviced in the absence of a debt deal. Typically, this is the part labelled as “HIPC grants”,
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43 reflecting the notion that this is truly identical to receiving new (aid) money in the form of a grant
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45 (De Groot, Jennes, & Cassimon, 2003). This was also done in the case of the DRC. According
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47 to Table 2, these HIPC grants, which are true direct cash flow savings available for additional
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49 spending, went up from 24 million USD in 2003 to more than 400 million USD in 2007, before
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51 being halved again in 2013. The same table also shows the expenditure budgeted and executed
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1 on this HIPC funding. From 2012 onwards, the budgeted HIPC grants were further
2 supplemented by MDRI debt relief.
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7 Second, as part of the conditionality process between decision and completion point, the
8 international community aims to maximize the pro-poor impact of cash flow savings by
9 earmarking their use. This entails that *at least* that part of HIPC debt relief is used for additional,
10 monitorable pro-poor expenditure. The final part of Table 2 presents the total amount of pro-poor
11 expenditures in the Congolese budget as well as the share of HIPC-financed expenditures
12 therein. Overall, it shows that the level of pro-poor spending is much higher than the cash flow
13 savings generated by HIPC debt relief. Indeed, except for 2007, the share of HIPC expenditure
14 in the executed pro-poor budget is generally much lower than 50%, and even decreased to less
15 than 10% by 2013. Of course, any additional budget earmarked to reduce poverty beyond HIPC
16 expenditures involves the withdrawal of funding elsewhere or the collection of additional
17 revenues. As such, from a poverty perspective, this expenditure reshuffling is anything but
18 fictitious. Figure 1, which breaks down the HIPC expenditure between 2004 and 2013 (of Table
19 2) by sector, shows that education is the main recipient of HIPC funding. Over the whole period,
20 more than half of HIPC funding was spent on primary, secondary and professional education.
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40 **[Figure 1 about here]**
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45 3.2. Indirect resource effect of debt relief 46 47

48 In addition to the direct cash flow savings and following the macro-economic discipline as
49 prescribed by the HIPC conditionalities, the DRC managed to generate many more indirect
50 resources. Figure 2, which displays the evolution of two key macro-economic indicators, shows
51 that the initial adjustment program implemented between June 2001 and March 2002,
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1
2 succeeded in breaking the vicious cycle of hyperinflation. Since 2002, the DRC has further
3
4 managed to keep inflation at relatively low levels, except for 2009 when the global economic
5
6 crisis hit Africa. Moreover, the economic reforms resulted in the first positive economic growth
7
8 rates in 13 years, a trend which continued and was only interrupted again in 2009. As a result of
9
10 this global crisis, economic growth between 2008 and 2013 was lower than forecasted by IMF
11
12 growth models, but still positive and resuming its upward trend in 2012. Even if this trend shift
13
14 cannot be fully attributed to the debt relief process, it is clear that the prospect of debt
15
16 cancellation was an important “carrot”, which has helped produce this macro-economic
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18 performance and attract attention from the donor community.
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23 **[Figure 2 about here]**
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25
26 The resumption of economic growth and macro-economic stability, combined with the
27
28 pacification of the country, also had large effects on the evolution of the Congolese budget and
29
30 the inflow of new aid. Figure 3 shows that the state budget, including aid resources registered
31
32 on the budget, witnessed an impressive, almost six fold increase over the period 2003-2013,
33
34 from around 1 billion USD to nearly 6 billion USD in 2013. Compared with the additional funding
35
36 obtained through aid (including the HIPC Initiative), the increase in tax revenues from merely
37
38 400 million USD to more than 4000 million USD, partly as a result of higher economic growth, is
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43 the most salient.
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46 **[Figure 3 about here]**
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49 Thus, although direct debt savings from the HIPC program are not fictitious, the indirect
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51 mechanism of debt relief has clearly proven to be much more powerful in generating additional
52
53 resources in the DRC. This result mainly stems from the attached conditionalities, which,
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56 together with debt sustainability restoration, has helped establish macro-economic stability,
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1
2 economic growth and an extended tax base while attracting back external donors and private
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4 investors. As such, significantly more resources have become available for public spending in
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6 general, whose allocation also became clearly more pro-poor.
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12 **4. Linking debt relief, education reform and schooling outcomes**

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16 In this section, the analysis focuses on the education sector, the sector allegedly most affected
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18 by the debt relief process. It will first track the evolution of some key indicators obtained at
19
20 different levels – from the education ministry, to primary schools and their teachers, up to the
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22 learning outcomes of Congolese pupils. The second subsection will then embed and qualify
23
24 these observations within a broader logic of post-conflict reconstruction.
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28 **4.1. From debt relief to educational attainments**

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31 Following Figure 1, it was already observed that the education sector was the most important
32
33 “beneficiary” among the social sectors targeted by the debt relief process. This is further
34
35 specified by Table 3, which shows that, within the period 2003-2013, more than half of all HIPC
36
37 expenditures, or 56%, were spent on education. In a similar vein, HIPC financed nearly half, or
38
39 45%, of the overall education budget.
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44 **[Table 3 about here]**

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46
47 While HIPC funding has been an important financial resource base for the education sector, the
48
49 table also shows high volatility over time, going from non-existent in 2003 to more than 50% in
50
51 2007, before suddenly dropping to 1% and increasing again to almost 90%. After this peak in
52
53 2010, education's share in total HIPC fell sharply back to 11% in 2013. As HIPC resources are
54
55 in fact domestic taxes which have been randomly earmarked to pay debt service before the latter
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1
2 were cancelled within the course of the debt relief process, there is no reason for concern. More
3
4 important is what happened to the education budget. Contrary to the HIPC share in it, the overall
5
6 education budget displays a nearly continuous upward trend, without a similar erratic pattern,
7
8 going from a mere 16 million USD in 2003 to more than 400 million USD in 2013. Of particular
9
10 importance within this time interval is the sustained growth observed in education budget after
11
12 completion point. After the budget declines of 2009 and 2010, which can be traced back to the
13
14 global economic crisis, the Ministry of Primary, Secondary and Professional Education saw its
15
16 budget further increase, both in absolute terms and as a percentage of overall expenditures. In
17
18 other words, the process of debt relief, through its conditionalities, seems to have triggered a
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20 relatively sustainable change in the government's spending patterns in favor of the education
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22 sector.
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28 **[Table 4 about here]**
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31 While these budget increases look impressive, it is important to see them in a broader historical
32
33 perspective. As illustrated by Table 4 for the primary school cycle, the education budget
34
35 imploded in two waves. The first blow came during the mid-1980s, the years of Structural
36
37 Adjustment, when the budget per pupil was reduced to less than one sixth between 1982 and
38
39 1987. This budgetary reduction was accompanied by laying off teachers (reduction by one third)
40
41 combined with a large cut in their salaries (to less than half, in real terms). A second blow came
42
43 during the transition period of the 1990s. By 2002, the education budget was further reduced to
44
45 less than 5 USD per pupil (compared to more than 150 USD in the early 1980s), which again
46
47 led to reductions in the number of teachers and their salaries. By 2002, the number of teachers
48
49 was halved and salaries were cut to less than one fifth of their pre-crisis level in 1982. Since
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51 then, the number of teachers as well as their salary have gradually increased again. In 2013,
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53 the DRC again counted more teachers than in 1982. It is important to note, however, that the
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1
2 number of teachers reported includes all teachers engaged by the different state and non-state
3
4 school networks. Only an estimated two thirds of them are effectively paid by the central state,
5
6 while the remaining third is just paid a “teacher bonus fee” made available by the parents.
7
8 Although the salary of those paid by the state has quadrupled since 2002, it has still not reached
9
10 its 1982 level. In a similar vein, it can be observed that the budget per pupil has tripled since
11
12 2002, yet it is still far below the level of 1982. In other words, the HIPC Initiative and its
13
14 conditionalities have clearly changed the tide, but the associated budget increase was not
15
16 sufficient to return to the pre-adjustment level of state engagement in the sector, or to reach
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18 Sub-Saharan African averages in this respect (République Démocratique du Congo, 2014b, pp.
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20 53–55).
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26 The remainder of this section details how these marked improvements on the input side have
27
28 been translated into educational outcomes. To begin with, as was already observed in Table 4,
29
30 the number of primary school pupils more than doubled between 2002 and 2013. This evolution
31
32 is more than just reflecting demographic growth. Indeed, Table 5, which displays the evolution
33
34 in gross enrolment rates of children between 5 and 18 years of age, points to a substantial
35
36 increase in school participation between 2005 and 2012, from 55% to almost 70%. More
37
38 importantly, when considering disparities in school enrolment, it is observed that they remain
39
40 important in general, despite being (slightly) reduced in some respects. More specifically, boys
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42 still have a higher probability to be enrolled in school compared to girls, the urban sector is doing
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44 better than the rural, and richer households continue to outperform the poorer in terms of school
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46 participation of their children.
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52 **[Table 5 about here]**
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1
2 Furthermore, according to a recent World Bank study, three problems of internal efficiency seem
3
4 to persist. First, most children continue to enter school relatively late: they enter the system
5
6 around the age of 9. Second, the percentage of children abandoning school remains about as
7
8 high as before. And third, there is practically no change in the repetition rate, which amounts to
9
10 approximately 10% in primary school (World Bank, 2015). Finally, when it comes to the quality
11
12 of education, there is not much reason for optimism either. Indeed, even though the data do not
13
14 allow for an accurate comparison of literacy rates over time⁷, some systematic but geographically
15
16 limited studies report alarming figures. A study carried out in a series of primary schools in
17
18 Katanga in 2011 reported that more than two thirds of the pupils from the second to the fourth
19
20 grade were unable to read 10 words of text, and of those who could, only less than 10% actually
21
22 understood what they were reading (Torrente et. al, 2011). Another study, carried out in several
23
24 schools in Bandundu, Orientale and Equateur in 2010, reported that no less than 23% of the
25
26 sixth grade children were unable to read a “single” word of French text (RTI International, 2010,
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28 p. 2).
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35 In brief, there is quite some contrast between, on the one hand, the substantial increase of funds
36
37 geared towards education, and, on the other, the persisting disparities in schooling as well as
38
39 the sector’s poor performance in addressing internal efficiency and quality.
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42 4.2. The political economy of post-conflict reconstruction

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46 It is argued here that the above observations need to be related to three essential aspects of
47
48 political economy covering this period of post-conflict reconstruction.
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53 ⁷ The principal reason being the varying methods used by different surveys conducted in the DRC: whereas some
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55 involve a small test, others rely on self-assessment questions, where often no differentiation is made between either
56
57 the capacities of reading and writing or between literacy in French and the national languages.
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1
2 Firstly, it should be borne in mind that, in the configuration of actors constituting the education
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4 sector, the Congolese State still has a relatively minor position. The spectacular increase in the
5
6 state's education budget has not been, and will not be in any foreseeable future, sufficient to
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8 substitute for the sizeable contributions made by the parents. This financial participation in the
9
10 sector dates back to the structural adjustment period of the mid-1980s. In response to falling
11
12 government budgets in that period, an "informal tax" system emerged to make parents pay, not
13
14 just for the functioning costs of schools, salaries of unregistered teachers or any financial
15
16 incentive needed at the local level, but also for the education administration, from the district up
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18 to the national level (Titeca & De Herdt, 2011; De Herdt & Titeca, 2016). Around the turn of the
19
20 millennium, parents' contributions to the sector of primary education were estimated at 90% of
21
22 all expenditure (World Bank, 2005).
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28 This system has largely remained in place up to today, despite the state's re-engagement with
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30 the sector: the household share in the overall education budget, as of 2013, is estimated at
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32 around 75% (World Bank, 2015, p. 38). Given the increase in public spending on education, this
33
34 relative decrease of private contributions should not be read as an absolute decline as school
35
36 fees in fact continued to increase over time (De Herdt, Marivoet, & Muhigirwa, 2015). As a result,
37
38 and compared to other determinants of primary school achievement like gender, province or the
39
40 rural/urban distinction, the income level remains the single most important predictor of ability to
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42 obtain a primary school certificate, varying from 94% for the richest income quintile to 41% for
43
44 the poorest quintile (République Démocratique du Congo, 2014b). But more importantly, from a
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46 political economy point of view, this means that the education sector remains largely structured
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48 by the capture of school fees, rather than in response to the state, its policies and the new
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50 financial means available. Yet, in the case of DRC's education sector and as opposed to what
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52 is typically observed with foreign aid, it is rather the *downward* accountability towards the parents
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2 which distorts the *upward* accountability of schools towards the state and its education policies.
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4 As a result, and unless the state is able to substantially reduce the parents' financial contribution,
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6 schooling will largely remain the privilege of those who can afford it.
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10 A second essential element of the political economy of post-conflict reconstruction relates to the
11
12 tension perceived in practice between several of the newly introduced partnership principles to
13
14 pursue the overarching agenda of poverty reduction. Deepening democracy, granting more
15
16 ownership to recipient countries and promoting public management based on monitorable
17
18 results are all principles of good governance, which look good in theory, yet their coherent
19
20 implementation on the ground may well be more complicated.
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22

23
24 To illustrate, the abolition of school fees was a reflection of both national and international
25
26 concerns, and many initiatives in this regard were included in the process of debt relief. The
27
28 establishment of thematic groups and priority action plans also served to harmonize different
29
30 actors' points of view. But these plans and good intentions did not work out in practice. The
31
32 government eventually proclaimed the policy of school fee abolition on the eve of the school
33
34 year 2010-2011 in anticipation of the November 2011 elections. It thereby ignored virtually all
35
36 "preconditions" previously defined within its priority action plan. This became obvious not only
37
38 through the unclear communication about the exact coverage, timing and prerequisites of the
39
40 policy to be rolled out, but also by the insufficient financial resources provided alongside (De
41
42 Herdt & Kasongo, 2013). In other words, school fees were abolished on paper only. This strategy
43
44 may have been politically rewarding in the run-up to the elections; in the longer term, however,
45
46 it has proven to be a recipe for policy failure. Furthermore, it is important to note that the electoral
47
48 pressure behind the premature implementation of school fee abolition in fact reflects another
49
50 part of the post-conflict reconstruction agenda. In the words of Collier and Rohner (2008),
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52 democratization does have a long-term "structural accountability effect", making democracy
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1 compatible with well-functioning public services, but it also brings “cyclical short-term horizon
2 effects”, each time a next election arrives. In Booth’s terms, short-term effects of elections are
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4 overpowering the developmental effects at the moment of implementing school fee abolition.
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9 A third aspect of political economy related to post-conflict reconstruction involves the problem of
10 institutional capacity combined with the ever-extending toolbox (implicitly) imposed by well-
11
12 intentioned donors to better design, implement, monitor and evaluate public policies. As argued
13
14 by Pritchett, Woolcock, and Andrews (2013), these externally induced tools stand in the way of
15
16 stimulating indigenous learning. As a matter of fact, given the level of technicity required to
17
18 comply with the various logical frameworks, sectoral strategies and annual joint reviews
19
20 developed under the new aid architecture, the Minister of Education decided to group his best
21
22 staff within a separate technical support unit (called *Cellule d’Appui Technique*) to be able to
23
24 process all donor requirements. The role of such a special unit, intermediating between donors
25
26 and the existing education administration, is however ambiguous, as it may also create just the
27
28 *appearance* of a well-functioning administration, make it “look like a state”, rather than act as a
29
30 catalyst for change. This phenomenon was labelled as “isomorphic mimicry” by Pritchett et al.
31
32 (2013). Because of this brain drain away from the regular administration and the requirement for
33
34 monitorable targets, it is no surprise that the Congolese government opted to first pick some
35
36 low-hanging fruit, in terms of increased school participation, while leaving other, more difficult,
37
38 challenges, like a reduction of disparities in access or an improvement of internal efficiency and
39
40 quality, largely unaddressed. Furthermore, this strategy was partly induced by the debt relief
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42 process itself, knowing that the DRC’s performance would be judged on measurable outcomes,
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44 rather than on less precise, but more structural, indications of a long-term improvement of the
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46 country’s governance system.
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2 In short, neither the national-level political actors, nor the local-level school principals have an
3
4 immediate incentive to reduce disparities, let alone improve the internal efficiency or quality of
5
6 schooling. The latter's interests depend more on the capture of parents' school fees than on
7
8 what the state can offer them, and the former's interests in improving the sector's governance
9
10 have to be balanced against the pressure to win the next elections and to ensure donor loyalty.
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13
14 Faced by this political economy context, improving the performance of the education sector in
15
16 the DRC will critically depend on two broad policy orientations. First, a more transparent system
17
18 to administer the collection and spending of school fees would be a first step to restore financial
19
20 accountability in the sector. Second, donor requirements should be made more context-specific,
21
22 mutually consistent, realistic in terms of required human capacity and focused on structural
23
24 reforms rather easy-to-monitor targets. More specifically, this paper pointed to the importance
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26 of paying more attention to internal efficiency and education quality than to mere access to
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28 school.
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36 **5. Conclusion**

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39 The objective of this paper was essentially a replication of the IMF's exercise to evaluate the
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41 process of HIPC debt relief granted to the DRC in 2010 and to assess its effects both in terms
42
43 of macro-economic performance as well as regarding the governance of public services. By
44
45 focusing on the education sector and by following an in-depth country case study approach, it
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47 investigated to what extent the process of debt relief was able to generate more public resources,
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49 both directly and indirectly, and how this eventually affected the education budget and the
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51 sector's overall performance.
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2 In the case of the DRC, the debt relief process indeed led to “new” resource inflows. These new
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4 resources were quite limited, however, and they were only to a small extent channelled through
5
6 the Congolese state administration. Instead, the indirect resource effect has proved to be more
7
8 powerful: through the elimination of debt overhang and by stabilizing the macro-economic
9
10 landscape, which was partly a result of the country’s pacification, partly triggered by the
11
12 conditionalities attached to the HIPC deal, the country has managed to substantially broaden its
13
14 fiscal base. Furthermore, a part of this increased Congolese budget has been successfully
15
16 earmarked to social sectors, of which education received the biggest share.
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21 The success story of debt relief in the DRC needs to be curtailed halfway, however, and here
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23 this analysis parts ways with the IMF’s conclusion: based on the data available for the education
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25 sector (where its effect should have been most visible), the debt relief process did not result in
26
27 improved public service delivery. True, at the level of the Ministry of Education, the HIPC initiative
28
29 and its conditionalities have reversed the downward trend and contributed to a sustained
30
31 increase in budgetary resources. However, this increase was still insufficient to reach the
32
33 average level of state expenditures allocated to education in other Sub-Saharan African
34
35 countries or to regain its pre-structural adjustment level of 1982. Moreover, apart from some
36
37 measurable improvements in terms of gross enrolment rates observed between 2005 and 2012,
38
39 disparities in school access as well as generic problems related to internal efficiency and
40
41 especially quality remained paramount. To understand these meagre outcomes, the interests
42
43 and logics of various stakeholders within the education sector have to be disentangled. First and
44
45 foremost, as the lion's share of overall resources spent on education is still directly provided by
46
47 the parents through the payment of (only formally abolished) school fees, the education sector
48
49 remained very much dominated by a market logic, with schools being accountable to the parents
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51 rather than to the education administration. As a result, private income inequalities are translated
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2 into disparities in schooling, despite the increase of the state education budget. Apart from this
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4 explanation, the policy leverage to pursue larger degrees of schooling inclusiveness is further
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6 jeopardized by tensions within the good governance agenda as well as in relation to short-term
7
8 political rent-seeking strategies. Whereas myopic reforms and the adoption of generic blueprints
9
10 might produce some superficial results and maintain donor loyalty in the short run, they will most
11
12 probably hinder the promotion of a more structural and domestically-driven policy process in the
13
14 longer run.
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18 It is important to remark that these conclusions diverge from the IMF's assessment of 2010,
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20 particularly on engaging in a local political economy analysis. A mere technical analysis of
21
22 macro-level results and micro-level outcomes, especially in a context with data of debatable
23
24 quality, clearly does not suffice to make a final judgment of the effectiveness of aid in improving
25
26 governance. In this respect, this analysis can only concur with Marenin's (2014) conclusion that
27
28 if they want to be successful, donors should be clear about the intended effects of their actions
29
30 on the beneficiary country's political economy.
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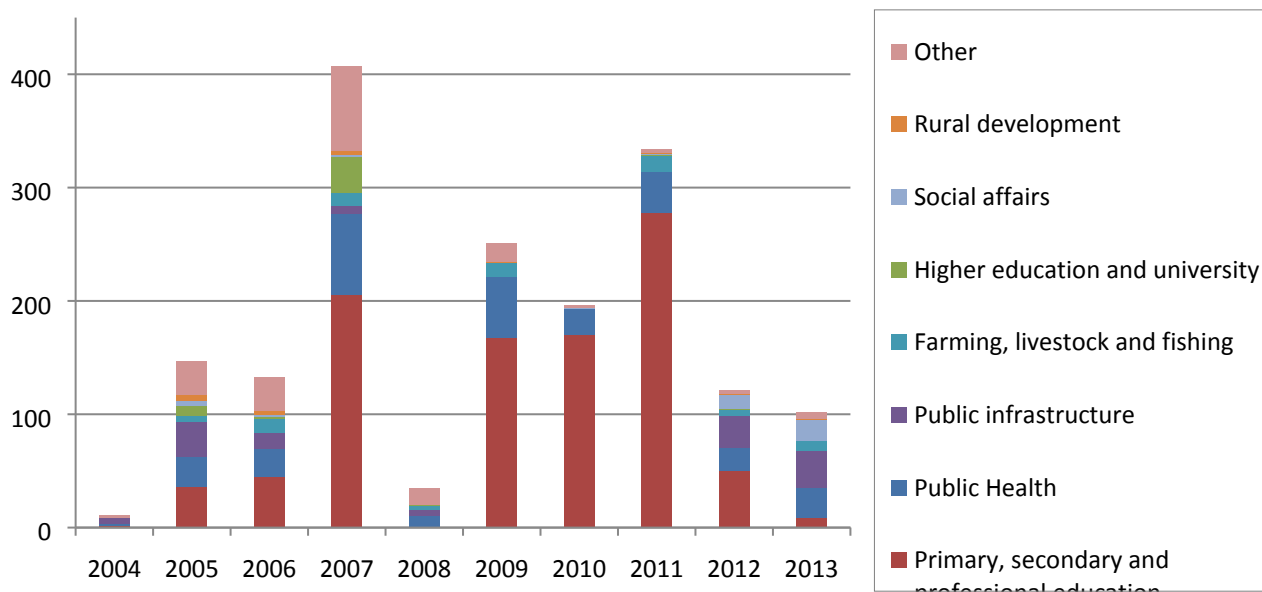
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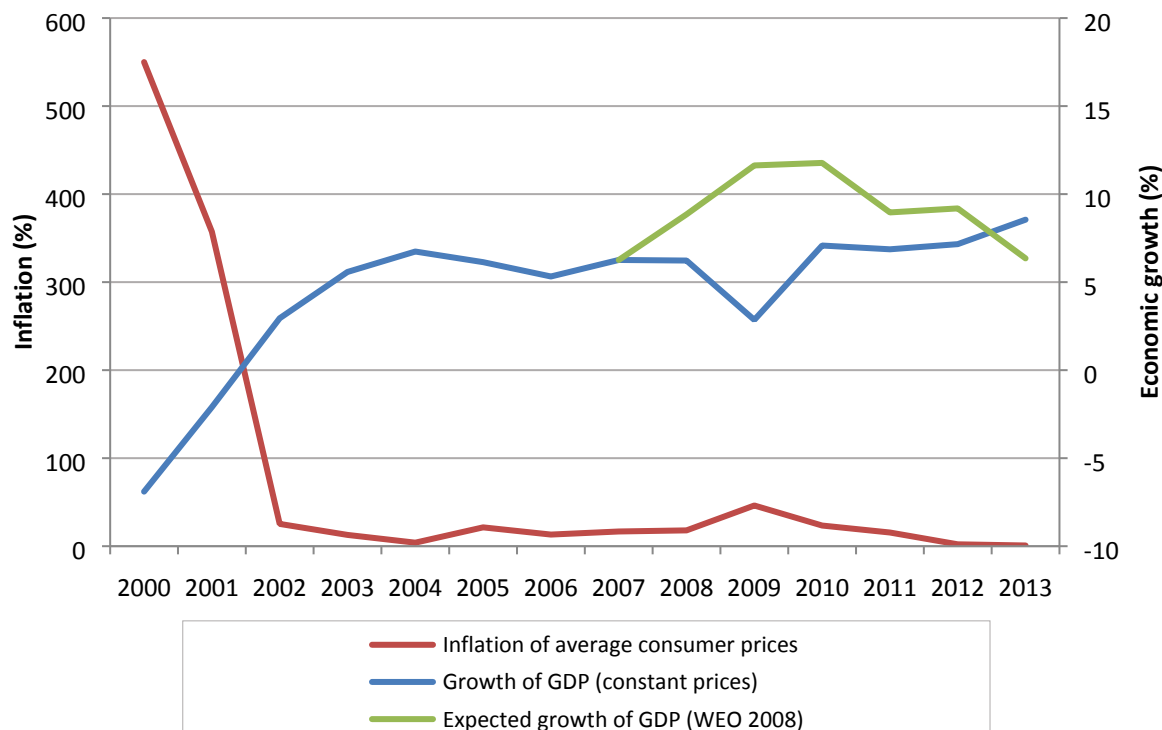
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Figure 1. HIPC expenditures by sector (in current million USD), 2004-2013



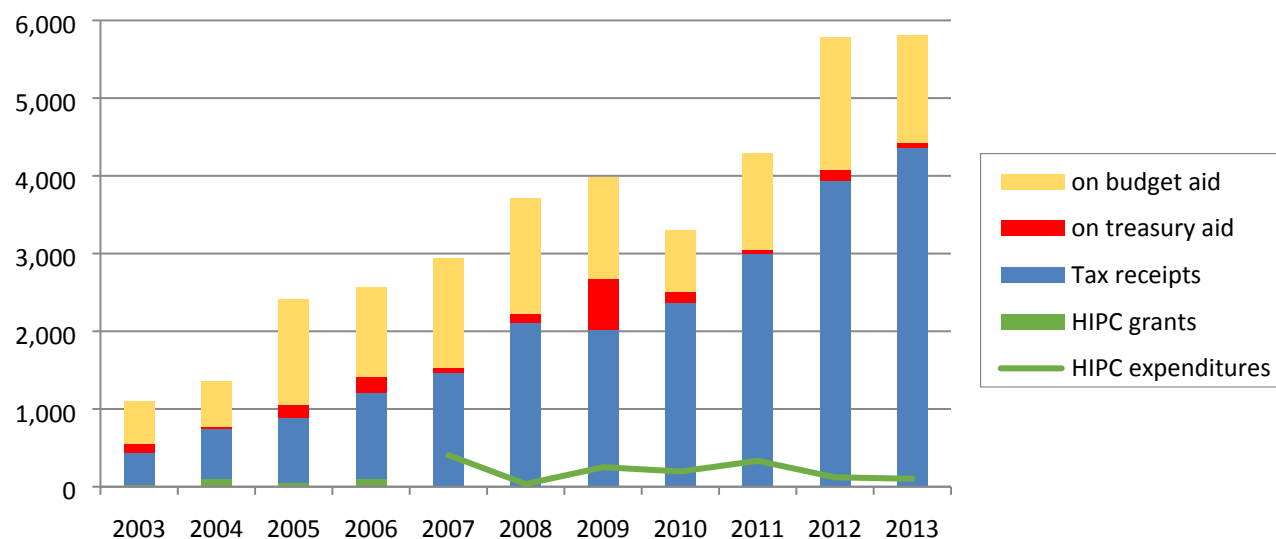
Source: Authors' calculations based on the government's budget execution reports (Etats de Suivi Budgétaire, ESB).

Figure 2. Evolution of inflation and economic growth (%), 2000-2013



Source: Authors' compilation based on the World Economic Outlook databases (IMF 2008; 2014).

Figure 3. Evolution of tax receipts, aid and HIPC resources (in current million USD), 2003-2013



Notes: HIPC grants and expenditures are as in Table 2. Aid is considered to be “on budget” when its intended use is reported in budget documentation. Aid is considered to be “on treasury” when it is disbursed into the regular revenue accounts of the government and managed through government’s systems (Mokoro, 2007).

Source: Authors’ calculations based on the government’s budget execution reports (Etats de Suivi Budgétaire, ESB).

Table 1. Calculation of the debt relief provided at completion point (in million USD)

	Total	Multilateral	Bilateral	Commercial
Nominal stock of external debt (end-2001)	12,880*	3,332	9,215	166
Eligible nominal debt after Paris Club deal (end-2002)	10,772	3,626	6,530	616
NPV of eligible debt after Paris Club deal (end-2002)	8,801	3,196	5,222	383
3-year average of exports (2000-2002)	1,033			
NPV of debt-to-exports target (150% of exports)	1,550			
HIPC assistance needed to reach debt sustainability = NPV of eligible debt - NPV of target	7,251	2,633	4,303	315
Common reduction factor (%)	82.4			
NPV of external debt stock (after additional debt relief) (end-2010)	1,994	n.a.	n.a.	n.a.

Notes: * Also included are 167 million USD of short-term debt in arrears for more than one year. n.a. stands for non-available.

Source: Authors’ compilation based on IMF (2003; 2010a).

Table 2. Annual debt relief estimates and evolution of pro-poor spending (in current million USD), 2003-2013

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt relief		313	509	411	398	448	416	443	390	528	478	511
of which	Arrears clearance	201	344	100	0	0	0	0	0	0	0	0
	Current debt service relief	111	166	311	398	448	416	443	390	528	478	511
HIPC grants (revenue-side)	Budgeted	24	72	186	255	407	333	277	238	375	210	208
	Executed*	16	105	55	98	-	-	-	-	-	-	-
HIPC expenditures	Budgeted	24	112	113	191	407	70	277	238	375	210	265
	Executed	0	11	146	132	407	35	251	196	333	121	102
MDRI debt relief in the budget		-	-	-	-	-	-	-	0	0	108	107
Pro-poor spending	Budgeted	221	456	625	765	833	909	1585	3067	3480	3055	3250
	Executed	87	138	352	474	597	717	954	658	1153	1153	1226
Share of HIPC in pro-poor expenditures executed		0%	8%	42%	28%	68%	5%	26%	30%	29%	11%	8%

Notes: *Initially, the government deposited HIPC assistance in a special treasury account at the Central Bank. Given the newly introduced Public Finance Management system, this practice has been discontinued from 2007 on (IMF, 2010a). "-" stands for non-applicable.

Source: Authors' calculations based on the government's budget execution reports (Etats de Suivi Budgétaire, ESB), IMF (2010a), and Marysse et al. (2012).

Table 3. Evolution of HIPC and education expenditures (in current million USD), 2003-2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2003-2013
HIPC expenditures	0	11	146	132	407	35	251	196	333	121	102	1735
of which education	0	2	36	45	209	0	168	170	279	53	11	972
Overall budget	699	1009	1309	1471	1783	2418	2616	2517	3817	3920	3827	25386
of which education	16	13	85	137	210	255	205	179	322	352	405	2179
Expenditure shares												
HIPC education to total HIPC	n.a.	19%	24%	34%	51%	1%	67%	87%	84%	44%	11%	56%
HIPC education to education budget	0%	16%	42%	33%	100%	0%	82%	95%	87%	15%	3%	45%
Education budget to overall budget	2%	1%	7%	9%	12%	11%	8%	7%	8%	9%	11%	9%

Note: n.a. stands for non-available.

Source: Authors' calculations based on the government's budget execution reports (Etats de Suivi Budgétaire, ESB).

Table 4. Evolution of budget per pupil, number of teachers and teacher salary of the primary school cycle, 1982-2013

	Number of primary school pupils	Budget per pupil (USD 2006)	Number of teachers	Average teacher salary (USD 2006)
1982	n.a.	159.7	285,900	68.3
1987	4,156,032	23.4	196,300	27.2
2002	5,470,977	4.5	142,900	12.9
2006	8,839,888	6.8	214,200	30.0
2013	12,600,876	12.4	345,088	49.4

Source: Authors' calculations based on the government's budget execution reports (Etats de Suivi Budgétaire, ESB), World Bank (2005), MEPSP (various issues), BCC (various issues), and De Herdt and Kasongo (2013).

Table 5. Evolution in gross enrolment rates (age 5-18 years) by sector, gender and consumption deciles (%), 2005-2012

Deciles	2005					2012				
	Urban		Rural		Total	Urban		Rural		Total
	Boy	Girl	Boy	Girl		Boy	Girl	Boy	Girl	
1	56.9	56.7	47.6	44.7	48.8	63.1	55.2	65.5	57.5	61.0
2	64.3	57.8	53.2	43.5	51.8	68.2	62.2	68.7	61.8	65.2
3	65.0	62.5	47.3	42.9	50.2	77.0	73.9	67.7	59.9	68.4
4	61.2	60.6	51.0	46.0	52.4	80.2	74.5	67.8	59.0	69.1
5	69.6	66.5	57.1	41.0	55.0	80.9	79.8	64.7	62.0	70.6
6	68.7	67.9	56.2	42.2	55.4	84.0	84.6	68.8	62.4	72.6
7	71.7	73.6	57.8	48.8	59.4	80.0	83.1	70.7	57.8	71.4
8	77.2	73.6	55.7	40.8	57.1	83.6	83.8	68.7	63.9	73.0
9	79.9	70.0	58.9	44.6	59.5	84.5	87.3	72.5	63.3	74.3
10	79.9	72.4	61.9	35.9	60.1	87.9	83.9	69.1	62.0	72.5
Total	69.7	66.6	53.9	43.3	54.7	78.9	77.4	68.2	60.8	69.5

Notes: The deciles were derived from consumption levels per equivalent adult expressed in Kinshasa prices of 2012, using the BCC price index and a series of 56 price zones. All survey data results benefit from a stabilized sampling frame.

Source: Authors' calculations based on 1-2-3 Surveys (République Démocratique du Congo, 2008; 2014a).