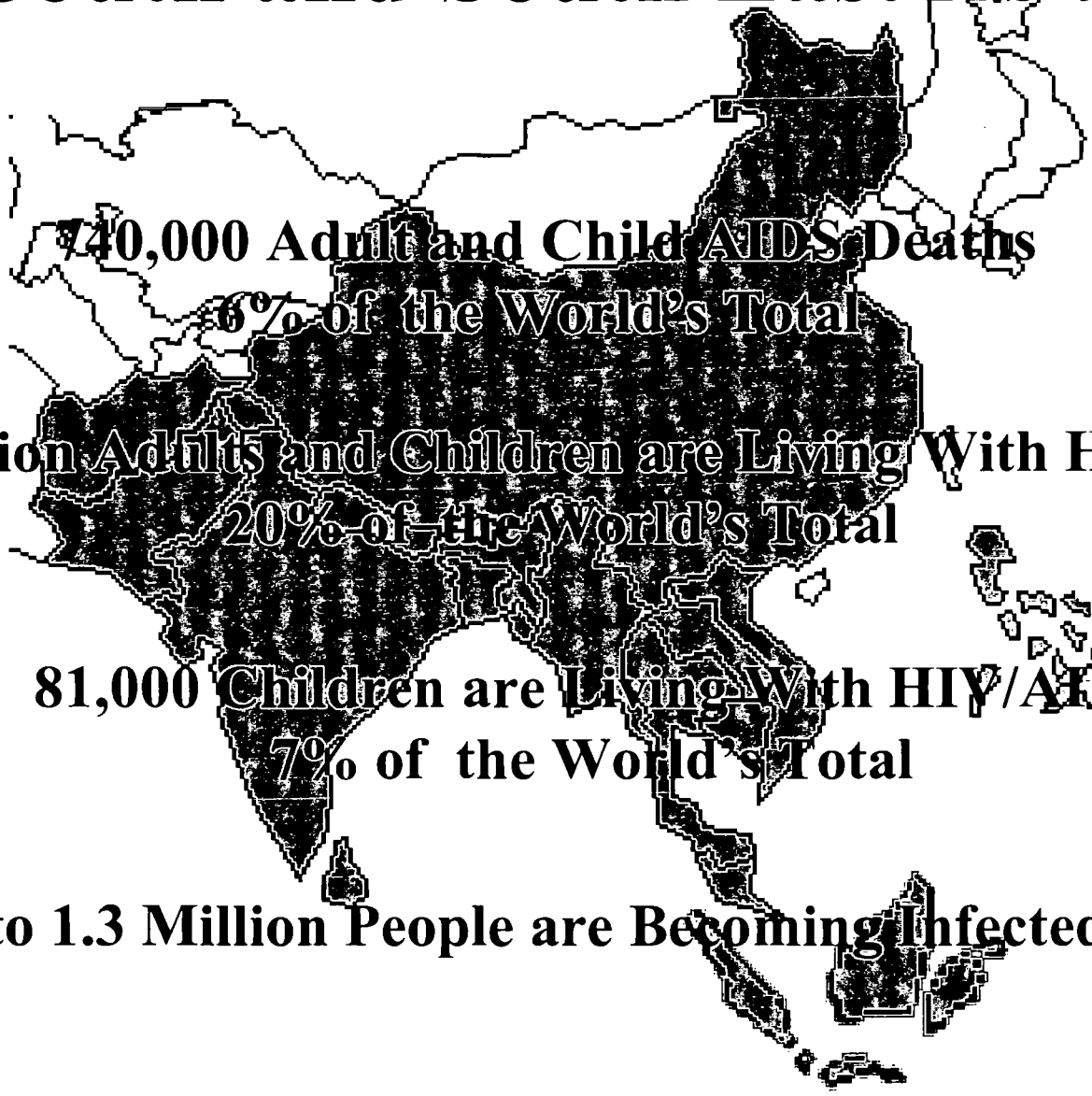
South and South East Asia



740,000 Adult and Child AIDS Deaths
6% of the World's Total

5.8 Million Adults and Children are Living With HIV/AIDS
20% of the World's Total

81,000 Children are Living With HIV/AIDS
7% of the World's Total

Close to 1.3 Million People are Becoming Infected Yearly

unicef

Children Affected by AIDS Foundation
6033 West Century Blvd. Ste. 260
Los Angeles, CA 90045
Telephone: 310-258-0850
Facsimile: 310-258-0851

FAX COVER MEMO

To: Sandy Thurman
Michael Iskowitz
Rory Kennedy

From: Catherine A. Brown
Executive Director

Re: "Epidemic Africa"

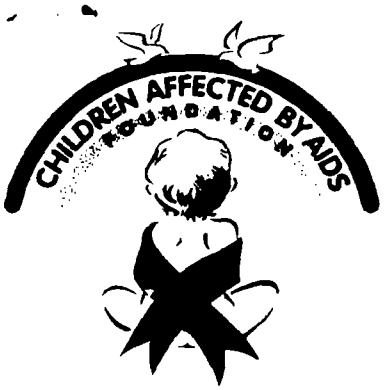
Date: July 7, 1999

Number of pages including cover sheet: 2

****

Please see the attached press release that we will be distributing in the Southern California area in the very near future. If you have any changes, additions or concerns, please contact us at 310-258-0850. If we don't hear from you by July 12, 5:00pm (Pacific time) we will assume its "ok" to go out.

Thanks your help with this. Cathy.



Press Release

For Immediate Release

Children Affected by AIDS Foundation
Funds Documentary About AIDS In Africa

Los Angeles, CA (July 1, 1999) The Children Affected by AIDS Foundation (CAAF) sponsors *Epidemic Africa*, a landmark AIDS documentary focusing on sub-Saharan Africa. Running ten poignant and powerful minutes, *Epidemic Africa* gives human faces to the staggering statistics, chronicling the stories of families and children in several regions hardest hit by the pandemic.

Moxie Firecracker Films and acclaimed director Rory Kennedy accompanied a delegation of U.S. officials led by White House Director of National AIDS Policy, Sandra Thurman, through the sub-Saharan countries that now form the epicenter of AIDS. *Epidemic Africa* is an emotionally charged journey that everyone should take. "Children can't speak for themselves," says Ms. Thurman. "They are the least of the least in this epidemic, and they are getting hit the hardest."

"Children are the hardest hit" agrees Rick Zbur, Board Vice-chair of the Children Affected by AIDS Foundation and host of the Los Angeles premiere screening of *Epidemic Africa*, scheduled for August 19. "This documentary is a critically needed instrument for raising awareness about the global AIDS epidemic. In fact, CAAF has established a unique initiative surrounding its support of *Epidemic Africa*. This special fund will help meet the emergent needs of children whose lives are being decimated by AIDS every day in Africa."

There is no question about the colossal work that must be done in order to ameliorate the situation in Africa. However, there are glimmers of optimism. *Epidemic Africa* highlights several community-based organizations that outreach to youngsters who have been marginalized by disease and poverty. Some of the film's most touching moments show children coming together for shelter, nutrition and loving support. Underscored by actress Jamie Lee Curtis' compelling narration, *Epidemic Africa's* brief window into the troubled souls of Africa's AIDS-orphaned youth is both hopeful and sobering.

For more information on the Children Affected by AIDS Foundation, CAAF's Special Assistance Fund or *Epidemic Africa*, please contact Roberta Maslanka, CAAF Development Associate, at (310) 258-0850.

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

To: Jason Franklin
(F) 456-2438
(T) 395-1448

FOR IMMEDIATE RELEASE
Wednesday, July 14, 1999

Contact: NIAID Office of Communications
and Public Liaison
(301) 402-1663

Researchers Identify a Simple, Affordable Drug Regimen That is Highly Effective in Preventing HIV Infection in Infants of Mothers with the Disease

A joint Uganda-U.S. study has found a highly effective and safe drug regimen for preventing transmission of HIV from an infected mother to her newborn that is more affordable and practical than any other examined to date. Interim results from the study, sponsored by the National Institute of Allergy and Infectious Diseases (NIAID), demonstrate that a single oral dose of the antiretroviral drug nevirapine (NVP) given to an HIV-infected woman in labor and another to her baby within three days of birth reduces the transmission rate by half compared to a similar short course of AZT. If implemented widely in developing countries, this intervention potentially could prevent some 300,000 to 400,000 newborns per year from beginning life infected with HIV.

"This extraordinary finding is the most recent in our efforts to bring an end to AIDS, not only in the United States but in countries around the world," says Health and Human Services Secretary Donna E. Shalala. "American scientists along with our international partners are committed to developing treatments that not only work, but that are also feasible in other health care settings. These results achieve both those goals."

"This study represents the most promising advance to date toward the goal of finding strategies that can be used worldwide to prevent the spread of HIV from infected mothers to their infants," says NIAID Director Anthony S. Fauci, M.D. NIAID is a component of the National Institutes of Health.

In an announcement from Kampala this morning, Ugandan officials hailed the finding. "This research provides real hope that we may be able to protect many of Africa's next generation from the ravages of AIDS," says Crispus Kiyonga, M.B.Ch.B., Uganda's Minister of Health. "We commend the collaborative effort of our country's scientists, led by Professor Francis Mmiro from Makerere University Faculty of Medicine, and their U.S. colleagues, led by Dr. Brooks Jackson from The Johns Hopkins University School of Medicine."

Finding affordable interventions for developing countries is key to curtailing the global AIDS epidemic. In parts of the hardest-hit area, sub-Saharan Africa, up to 30 percent of pregnant women are infected with HIV, and 25 to 35 percent of their infants will be born infected. The UNAIDS estimates that approximately 1,800 HIV-infected babies are born every day in developing countries.

- More -

Unfortunately, the standard AZT regimen used to prevent perinatal HIV transmission in the United States is too expensive and impractical for widespread use in developing countries where many women may not receive prenatal care.

Based on average U.S. wholesale costs, the cost of the drug used in the nevirapine regimen in the current study is approximately 200 times cheaper than the long-course AZT used in the United States, and almost 70 times cheaper than a short course of AZT given to the mother during the last month of pregnancy – a regimen tested in Thailand by the Centers for Disease Control and Prevention and reported effective in 1998.

The Uganda study investigators, part of the NIAID-supported HIV Prevention Trials Network (HIVNET), opened the trial two years ago at Mulago Hospital, affiliated with Makerere University, in Kampala, Uganda. They completed enrollment last April. All women entered into the study were in their ninth month of pregnancy. None had taken antiretroviral drugs while pregnant.

The study, known as HIVNET 012, compared the safety and efficacy of two different short-course regimens of antiviral drugs administered late in pregnancy. The women were assigned at random to receive either a 200-mg dose of oral nevirapine at the onset of labor, followed by a 2-mg/kg oral dose given to their babies within three days of birth; or a 600-mg dose of AZT at the onset of labor, and 300-mg doses every three hours thereafter during labor. The infants born to mothers in the AZT group received 4 mg/kg given twice daily for the first week of life. Both drugs appeared to be safe and well-tolerated.

Study design, data collection and analysis was provided by a team of researchers led by Dr. Thomas Fleming, a biostatistican at the Fred Hutchinson Cancer Research Center and the University of Washington School of Public Health and Community medicine in Seattle.

For the interim analysis, the study team looked at data from 618 mothers (308 receiving AZT and 310 receiving nevirapine) and their infants.

Nevirapine was markedly more effective. At 14 to 16 weeks of age, 13.1 percent of infants who received nevirapine were infected with HIV, compared with 25.1 percent of those in the AZT group.

"In this study, the short-course nevirapine regimen resulted in a 47 percent reduction in mother-to-infant HIV transmission compared with a short course of AZT. The implications of this study for developing countries, where 95 percent of the AIDS epidemic is occurring, are profound," says Brooks Jackson, M.D., the lead U.S. investigator on the trial.

Long-term follow-up of both the mothers and their babies remains a high priority to assess any late drug toxicities as well as long-term survival. The mothers and their children will continue to be actively followed until the babies are 18 months old. This period is critical to establish the efficacy of the intervention because even if a baby is born HIV-free, he or she may acquire the virus during breastfeeding. The data analyzed so far cover only the first three months of the newborn's life. Ugandan and U.S. investigators will soon launch a follow-up study to evaluate the efficacy of nevirapine administered to the mother during labor and to the newborns for a longer period of time.

Breastfeeding is practiced widely in developing countries. Most studies indicate that the rate of HIV transmission via breastfeeding is highest in the first few months of life. No intervention has yet been shown to prevent HIV transmission through breast milk other than not breastfeeding.

The single-dose nevirapine regimen to mother and infant substantially lowers the cost barrier that has kept many countries from adopting drug strategies that prevent perinatal HIV transmission. Still, access to other health care services required to implement this regimen, such as counseling and voluntary HIV testing, are beyond available resources of many developing countries. But if further research upholds nevirapine's good safety record, the investigators say that potentially all pregnant women who live in areas of high HIV prevalence could receive the drug during labor, even in the absence of an established HIV diagnosis.

In the United States and other industrialized countries, many HIV-infected pregnant women already take combination drug regimens that include AZT. A study now being conducted in the United States and Europe is evaluating if adding nevirapine to standard treatment regimens will have any extra benefit in preventing perinatal HIV transmission in these countries. For pregnant women who do not know their HIV status until they begin labor, the nevirapine regimen provides a last-minute prevention option.

Nevirapine, developed by Boehringer Ingelheim Pharmaceuticals, is a non-nucleoside reverse transcriptase inhibitor, and is in a different class of antiviral drugs than AZT but works against the same HIV target enzyme that is critical for the virus to infect new cells. It can be easily stored at room temperature. Besides being inexpensive and potent, nevirapine is rapidly absorbed and transferred across the placenta to the infant, and it breaks down slowly. For these reasons, it was thought that even a single dose to the mother and infant might provide enough protection to the baby during the time of exposure to HIV at birth. In March 1996, nevirapine was licensed in the United States for treatment of HIV infection in adults. AZT, made by Glaxo Wellcome, was first approved in the United States to treat AIDS in 1987. In August 1994, AZT received an additional indication for use in preventing perinatal HIV transmission.

NIAID is a component of the National Institutes of Health (NIH). NIAID conducts and supports research to prevent, diagnose and treat illnesses such as HIV disease and other sexually transmitted diseases, tuberculosis, malaria, asthma and allergies. NIH is an agency of the U.S. Department of Health and Human Services.

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TV Reporters, Editors and Producers: a b-roll about the study is available via satellite.

Downlink Information:

Date: Wednesday, July 14, 1999
Time: 1 p.m.-1:15 p.m. EDT AND 3 p.m.- 3:15 p.m. EDT
Satellite: Telstar 6 (93 degrees west longitude)
Downlink frequency: 3820
Polarization: horizontal
Audio frequency: 6.2 and 6.8
C Band
Transponder 6/Channel 6

For technical information, contact ATC Teleports at 703-750-0010.

Press releases, fact sheets and other materials are available on the NIAID Web site at www.niaid.nih.gov.

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR RELEASE
Wednesday, July 14, 1999
12:00 p.m. Eastern Time

CONTACT:
Office of Communications
and Public Liaison
(301) 402-1663

Researchers Identify a Simple, Affordable Drug Regimen That is Highly Effective in Preventing HIV Infection in Infants of Mothers with the Disease

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(more)

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Africa-at-Large

HIV Responsible For Prevalence Of Tuberculosis

All Africa News Agency
July 12, 1999

Nairobi - Scientists and medical practitioners once thought they had caged the Tuberculosis monster permanently in the cupboard of history. How wrong they were. TB has re-emerged; this time round with a lot of potency, thanks to ravaging HIV virus. AANA Correspondent Paul Kemei has more details.

The vengeance of this new TB is already being felt. "HIV is already causing TB to spiral out of control in parts of Africa," is the acknowledgement of Dr Harlem Brundtland, the Director-General of World Health Organisation, made during this year's global congress on health held in Bangkok, Thailand.

Statistics of infection around Sun-Saharan Africa illuminate the seriousness of the pandemic. According to Kenya's National Aids Control Programme NACP, 50 percent of adults in Kenya carry latent TB. Should these adults stay free of HIV infection, the number of new TB cases would be limited to 0.2 percent of the population. This would result in 30,000 to 50,000 new TB cases annually.

However, should the adults get exposed to HIV virus, 90,000 additional TB cases could be expected by the year 2005. NACP makes this projection with the express assumption that there wouldn't be any transmission to others. Nevertheless, the stuck reality is glaring: many are likely to contract and vector the infamous pathogen.

In Malawi, World Health Report for this year report that 77 percent of HIV positive people have concurrent TB. "Among communicable diseases, TB is our single best cause of adult illnesses and death. We had 40,000 new cases last year. And many of these people are dying in their productive years," Malawi's TB Programme Director Felix Salaniponi was quoted as saying by a recent issue of The TB Treatment Observer magazine.

In Botswana, Nigeria, Uganda and South Africa, the WHO report estimates that by the year 2000, the TB incidence rates would be 115 - 1653 per 100,000 inhabitants as compared to 64 - 125 per 100,000 people in 1980. International averages, however, disguise the explosive nature of the disease.

While the dual plague is harvesting lives en masse in some countries, in others the effect is insignificant. In this regard, high burden countries have been identified. These include Nigeria, Kenya, Zimbabwe, Uganda, Tanzania, South Africa and Congo.

...That because HIV suppresses the immune system, people who are harbouring the TB germ and who become infected with HIV are up to 30 times more likely to develop active TB in a given year than those who are infected with TB alone.

The World Health Report 1999 - Making a Difference says that currently "over 6 million people are thought to be co-infected with HIV and TB. TB in people living with HIV/AIDS is expected to increase from about 300,000 cases worldwide to 1.4 million by the year 2000".

This TB/HIV partnership has been explained but casually. Scientists say that TB patients would not have developed the disease if their immune system had not been dented by HIV. That because HIV suppresses the immune system, people who are harbouring the TB germ and who become infected with HIV are up to 30 times more likely to develop active TB in a given year than those who are infected with TB alone. The time scale too is telescoped: An HIV carrier who is exposed to the communicable TB will develop active TB far more rapidly than normal.

WHO has curved out a cure: the famous Directly Observed Treatment Short- course DOTS programme. This standard treatment has been embraced by over 100 countries of the world today... And success stories of its effectiveness have already been noted in some places.

This explanation holds true for the developing world "where TB causes some 25 percent of preventable mortality among young people," says the WHO report. Elsewhere, as in Northern Europe, TB is a passing cold that is tamed by improved living conditions and use of effective chemotherapy.

Any hope then for TB burden countries of Africa? Yes. WHO has curved out a cure: the famous Directly Observed Treatment Short-course DOTS programme. This standard treatment has been embraced by over 100 countries of the world today. And success stories of its effectiveness have already been noted in some places.

Though DOTS is presently the magic bullet against TB, some factors are militating against its success. Such factors include the emergence of multi-drug resistant TB, financial crises, poverty and ignorance, lack of adequate supervision of TB programme and displacement of people due to war and famine.

Malawi health care system had at one time been reported as bursting under the burden of TB congestion in some TB wards had reached levels of three or four patients per bed. The understaffed hospital laboratories could hardly cope with the increased sputum-specimen.

But this is no longer the scenario. When DOTS was employed, the burden eased considerably. The Malawi TB Programme Director, Salaniponi, couldn't help voicing this success excitedly to the TB treatment Observer magazine: "DOTS is one of the few hopes that the country has in treating TB. So if the DOTS programme works in Malawi, then the same method should be effective anywhere in Sub-Saharan Africa".

Though DOTS is presently the magic bullet against TB, some factors are militating against its success. Such factors include the emergence of multi-drug resistant TB, financial crises, poverty and ignorance, lack of adequate supervision of TB programme, displacement of people due to war and famine, substandard treatment either prescribed by private practitioners or their self- medication, among others.

Hence, WHO has introduced a new strategy call - Stop TB Initiative - to back up DOTS. This new approach is a coalition effort which aspires to promote increased investment in TB control in the high burden countries.

The coalition will be in form of global plans of action in drug-making facilities, advocacy, research TB control programme implementation. This new strategy is supported by WHO, the World Bank and other US-based organisations.

But before TB is financially arrested, the havoc it's currently wreaking is hefty: many victims will be yielding to its noose slowly, growing thin and hollowed eyed, as their loved ones watch helplessly.

Others will meet their maker away from home and family, life ebbing out of them in crowded hospital beds where staff are too busy to offer solace. And some will be children who will live their last moments in whirling of pain from TB.

THE DEBT RELIEF INITIATIVE TO COMBAT HIV/AIDS

WHAT IS DEBT RELIEF?

- Developing country governments have borrowed billions of dollars from the multilateral institutions, bilateral assistance organizations and from private sources.
- This debt has to be repaid, and where the borrower has not used the loans to grow its economy, the debt service payments (interest and repayment of principle) become onerous in two ways: (1) they use up scarce foreign exchange needed for imports and (2) they use up scarce government revenues needed to provide critical services.
- Debt relief can come in the form of writing off debt or rescheduling (postponing) debt payments.

WHAT IS THE DEBT INITIATIVE PUT FORWARD BY THE ZAMBIAN GOVERNMENT?

- The Zambian Government proposes an agreement with its creditors to use the resources that would have been used to pay creditors (now averaging about $120 million per year) to combat the HIV/AIDS epidemic.

HOW WOULD THIS WORK?

- There are a number of possible mechanisms. For the U.S., the Treasury would write off the amount of debt service expected. This might or might not involve a budgetary cost, but the Treasury has authority and has some resources available in FY 99 to do so. In return, the U.S. (or the donor community) would negotiate over the use of the freed-up resources.

WOULD A DEBT SWAP BE A BETTER MECHANISM?

- Debt swaps usually involve a PVO buying private debt on a secondary market (where, because full payment of the debt is not expected, the IOUs are heavily discounted to 5-10% of their face value).
- The PVO would then sell the debt back to the debtor government for local currency at some value between the face value of the debt and the actual amount paid for the IOU (say 25%).
- The PVO would probably have received the dollars to purchase the debt from a donor; its agreement with the borrower government would include how the local currencies could be used to deal with a development problem (in this case, combating HIV/AIDS).

ARE DEBT SWAPS TO BE PREFERRED TO DEBT RELIEF?

Debt swaps have many disadvantages as compared to debt relief:

- They are complicated
- They require USAID funds
- They have high overhead costs
- They take time
- They exacerbate a country's budgetary problems (because they require local currency transfers equal to a percentage of the debt that is probably much larger than the debt service which the government is probably not paying anyway)

HOW DOES ALL THIS FIT IN WITH THE DEBT RELIEF INITIATIVES BEING DISCUSSED FOR COLOGNE?

- There will probably be some progress made around the HIPC (Heavily-Indebted Poor Country) Initiative, which will broaden and deepen the debt relief, make it more flexible, and reduce the waiting period.
- HIPC is an economic growth initiative and its parameters do not center on debtor country abilities to provide social services.
- Given the difficulties of negotiation, the result is not likely to be radical

WHAT COULD/SHOULD THE U.S. DO?

- The U.S. could unilaterally adopt a debt relief initiative to combat HIV/AIDS by negotiating relief of African debt owed the U.S. for both concessional debt (largely PL480) and for non-concessional debt (largely EX-IM). The table on the next page presents the possible scope of such relief.
- For HIPC countries, the debt relief--AIDS nexus is strongest in Cote d'Ivoire, Ethiopia and Zambia, while two of the non-HIPC countries (Nigeria and Zimbabwe) might be interesting if their economic policies improve (budget scoring for South Africa and Botswana would probably be one-for-one).
- Neither DROC nor Sudan would be eligible for any debt relief.
- More generally, the U.S. could shape its proposals for the G-7 to focus more on government expenditure targets and providing debt relief tied to both economic policy and a strong commitment to investment in human resources -- education, health and especially HIV/AIDS.

DEBT OWED THE U.S. BY HIPC AFRICAN COUNTRIES

	DEBT (millions of US$)	NUMBER OF PEOPLE WITH HIV/AIDS
ANGOLA	35.0	111,000
CENTRAL AFRICAN REPUBLIC	9.4	180,000
COTE D'IVOIRE	378.2	700,000
DROC	2,079.6	950,000
ETHIOPIA	90.1	2,600,000
GHANA	16.0	210,000
KENYA	126.1	1,600.000
MADAGASCAR	32.6	8,600
MALAWI	0.0	710,000
MALI	0.0	89,000
MOZAMBIQUE	49.3	1,200,000
RWANDA	1.3	370,000
SENEGAL	17.3	75,000
SUDAN	1,202.1	140,000
TANZANIA	34.9	1,400,000
UGANDA	2.6	930,000
ZAMBIA	278.0	770,000

DEBT OWED TO THE U.S. BY NON-HIPC AFRICAN COUNTRIES

BOTSWANA	24.0	190,000
NIGERIA	897.4	2,300,000
SOUTH AFRICA	143.6	?
ZIMBABWE	204.6	1,500,000

DEPARTMENT OF THE TREASURY
WASHINGTON

Facsimile Transmittal

From

Office of Multilateral Development Banks (OASIA/IDB)
1500 Pennsylvania Avenue, N.W.
Room 3501 NY
Washington, D.C. 20220
(Fax # 202-622-1228)

Date: 4/28/99 Page 1 of 10 Page(s)

To: Ms. Sandy Thurman,
Director, National Office of AIDS Policy

Tel. #
FAX # (202) 456-2438

From:

Comments:

Ann MacNamara -

Ms. Shurman,
Helen Walsh asked me to send you these two speeches from the INTERNET:

- Secretary Rubin's Budget Speech on Treasury's international programs
- Deputy Assistant Secretary's Speech to the House International Relations Committee on Africa

Best regards,
Ann MacNamara

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
March 17, 1999

TREASURY SECRETARY ROBERT E. RUBIN
TESTIMONY BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS

Mr. Chairman, Ms. Pelosi, I appreciate the opportunity to testify today about the Administration's FY 2000 budget request for Treasury's international programs. Last year, the leadership of this Committee was critical in approving the increase in our quota to the International Monetary Fund and our participation in the NAB, and that, in turn, was critical to dealing with the financial instability abroad that could so affect our own economy. This year, continued support of Treasury's international programs, which are central to the ongoing response to the financial crisis and to the overall effort to foster a healthy global economy, will promote the economic well-being of American workers, farmers and businesses.

Our FY2000 request for these programs totals $1.523 billion, an increase of less than one percent from FY1999. Our investment in these programs supports the international financial institutions -- the World Bank, the International Monetary Fund and the regional development banks -- in helping to restore financial stability where needed, in promoting long term sustainable growth in developing countries, and in working with developing countries committed to economic reform to reduce unsustainable levels of debt.

With respect to the financial crisis, the International Monetary Fund, in close collaboration with the World Bank and the regional development banks, has developed new programs to bolster needed structural and policy reforms in the countries experiencing crisis, while at the same time helping protect the most vulnerable.

I believe that, on balance, the IFIs have made sensible judgments in confronting the enormously complex and, in many ways, unprecedented issues posed by the financial crisis, and have adjusted their judgments when appropriate.

In those countries that have taken ownership of reform, for example, Korea and Thailand, there has been considerable progress toward a return to stability. Korea, which had $4 billion in usable reserves when the crisis came to a head in December of 1997, now has $52 billion. Short term interest rates, which were as high as 35 percent at the end of 1997, now are at 5 percent.

But despite this progress, much remains to be done. The problems that gave rise to the crisis took a long time to develop, and they will take time to work through.

Here at home, while the most likely scenario remains solid growth and low inflation -- subject to the usual ups and downs -- certain sectors have been impacted by the crisis, some because of increased imports, and others because of decreased exports. Moreover, problems in the global economy do constitute a risk to our overall economic well being. That is why we have been enormously focused on the effort to restore stability and growth to troubled parts of the world, and the IFIs are at the center of this effort.

Now, let me make several observations with respect to why the IFIs are at the center of our efforts to promote growth in the developing and transitional countries, as well as being at the center of our work to deal with the financial crisis.

First, they internationalize the burden. In 1998, $1.4 billion in U.S. appropriations gave us great influence with respect to $57.1 billion in total MDB lending.

Second, our FY 2000 request for the IFIs is about 5.5 percent below last year's appropriation, with both years having included funds to pay arrears. On-going U.S. financial commitments to MDBs have been negotiated down by $700 million dollars per annum, or more than one-third since the mid-1990s, without a reduction in our influence. The United States has been a leader in shaping policies in the MDBs and most of our key developmental objectives are now broadly shared by other members.

Third, because they are multilateral, these institutions have the ability to induce recipient countries to accept conditions that no assisting nation could obtain on its own.

Fourth, each institution has expertise special to itself to shape effective reform programs.

The United States, in concert with the international community, has worked forcefully with these institutions to reform their operations, reduce overhead, become more open, do more to prevent corruption, promote the private sector, and become more sensitive to environmental concerns, core labor standards and human rights. Under the leadership of Jim Wolfensohn, the World Bank has taken significant steps to improve operations. The United States and the international community are also looking very closely at the role of these institutions in the future international architecture.

Mr. Chairman, let me now comment briefly on long term growth promotion in the developing world.

The IFIs have been instrumental in helping countries throughout the developing world embrace market-based economic systems and become more fully integrated into the global economy. As a result, even taking into account the adverse impacts of the recent crisis, the last few decades have witnessed substantial improvements in living standards in most of the developing world. Infant mortality rates fell by nearly 50 percent from the early 1970s to the mid-1990s and life expectancy has risen by four months on average each year since 1970. Adult literacy has risen from 46 to 70 percent. As they have grown, these nations have turned into new markets for U.S. goods and services. In 1997, before the recent crisis, the developing world absorbed somewhat over 40 percent of U.S. exports.

As an example of the IFI role, IDA is the world's largest lender of concessional resources for projects in areas such as health, primary education, nutrition, safe drinking water, and proper sanitation. For every dollar the U.S. contributes, IDA lends about 8.5 dollars for programs that promote higher standards of living and foster stability.

Even so, the vast economic and human potential of the developing world has barely been tapped. Just last summer, for example, I visited Africa, a continent with enormous potential and enormous challenges and still largely left behind in the global economy. Clearly, in Africa, and elsewhere, the need for -- and the importance of -- the IFIs helping to bring developing nations into the economic mainstream has not abated.

However, Mr. Chairman, bringing these countries into the economic mainstream often requires us to review the debt burden that they have accumulated over the years. Yesterday, the President announced a major debt reduction initiative to help promote the integration of the poorest countries into the world economy. It includes components providing for deeper or accelerated debt reduction, and inclusion of additional countries into existing debt reduction programs, both multilateral and bilateral. Our policy tries to strike an economically sensible balance between competing considerations with respect to debt reduction. Firstly, debt reduction is unlikely to have lasting benefit if not accompanied by meaningful economic reform, so that the resources freed up by debt reduction are used for good purpose. And as the President said yesterday, "the more debtor nations take responsibility for pursuing sound economic policy, the more creditor nations must be willing to provide debt relief." Secondly, our approach is designed to support substantial reductions in debt service payments and total debt burdens to levels consistent with what these countries can reasonably be expected to afford. And, here, there is a tension with respect to debt relief, and we have tried to find sensible balance. On the one hand, many developing countries are simply overwhelmed by unsustainable debt burdens. On the other hand, if the private sector does not believe that a country has a culture of credit in which there is a commitment to repaying debt, private sector capital probably won't flow to that country, and private sector capital is an absolute requisite for economic growth over time. In addition, if

borrowers feel they are not going to have to pay back debt, it may result in unsound borrowing, which will then lead to future problems.

In line with this analysis, our budget request includes $120 million for debt programs, broken out as follows: $50 million for the Initiative for Heavily Indebted Poor Countries, which was launched by the World Bank and the IMF in September 1996, to reduce debts to sustainable levels for those poor countries prepared to pursue economic and social policy reforms; $20 million for the traditional Paris Club mechanism to reduce debt; and $50 million to finance Debt Relief for tropical rainforest countries, as called for under the Tropical Forest Conservation Act of 1998.

Before concluding, let me note that, with the leadership of this Committee, we have made great progress in clearing our arrears to the Multilateral Development Banks. If the FY2000 request is fully funded, our arrears will be reduced to $141.9 million. Delays in paying U.S. commitments on internationally negotiated agreements come at a high price in terms of our influence and effectiveness with the institutions and their members. We want to continue working closely with this Committee and the Congress to fully meet U.S. financial commitments.

With respect to U.S. financial commitments, let me say a word about the proposal before Congress to rescind appropriated U.S. callable capital. If enacted, the rescission of U.S. callable capital could be perceived as a major reduction in U.S. political support for the institutions, and could lead to a serious market reassessment of the likely U.S. response to a call on MDB capital should one ever occur. Such a reassessment could increase borrowing costs for the institutions, costs which would then be passed on to the developing countries they are mandated to help. At a time when the global economy is facing difficult new challenges every day, I believe that a rescission of callable capital would be an extremely negative message.

I would also like to bring to your attention an item that has been of great interest to this Subcommittee in previous years. We have worked hard to make the domestic window of the North American Development Bank fully productive. It is fulfilling its mission, and I urge you to support this year's request.

Mr. Chairman, Ms. Pelosi, let me conclude by reiterating that our strong support for the international financial institutions -- as well as the United Nations, I would like to note – strongly promotes America's economic well being and national security interests. This Committee is central to providing that support, and we look forward to continuing our good working relationship as we deal with this budget request.

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TREASURY NEWS

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TREASURY DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL DEVELOPMENT, DEBT AND ENVIRONMENTAL POLICY WILLIAM E. SCHUERCH HOUSE INTERNATIONAL RELATIONS COMMITTEE SUBCOMMITTEE ON AFRICA

Mr. Chairman, Ranking Member Payne, and Members of the Committee, it is a pleasure to testify before you on international debt issues with principal emphasis on the countries of Sub Saharan Africa. The international policy response to the issues of excessive indebtedness is still evolving, and we very much welcome the participation of this Subcommittee.

I have worked on these issues for many years. Here in Congress, I was on the Appropriations Committee staff for over 14 years and was involved in developing much of the current legislation and in suggesting funding levels. Now, in the Treasury, I continue to have an advisory role on these matters as the Office of International Debt Policy reports to me. I appreciate this opportunity to discuss this rather complex issue with you, particularly in a year in which it is receiving so much focus.

Mr. Chairman, today my comments will be structured around three components: first, to provide information on the President's debt initiative presented here in Washington at the Conference on U.S.-Africa Ministerial on March 16th; second, to provide some overview and history; and, third, to review the Administration's FY 2000 budget request.

Debt Policy Initiative

The Administration is pressing for significant improvements in debt-related programs. At the March 16 U.S.-Africa Ministerial, President Clinton outlined our approach saying: "Today, I ask the international community to take actions which could result in forgiving $70 billion. . . . . Our goal is to ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its people's basic human needs and spurring growth. We should provide extraordinary relief for countries making extraordinary efforts to build working economies."

To this end, the President said that the United States will press for substantial changes in the Heavily Indebted Poor Countries (HIPC) initiative. In consultation with Congress and within the framework of our balanced budget, the Administration will press for:

- First, a new focus on early relief by international financial institutions, which now reduce debt only at the end of the HIPC program;
- Second, the complete forgiveness of all bilateral concessional loans to the poorest countries;
- Third, deeper and broader reduction of bilateral debts, raising the amount to 90%;
- Fourth, to avoid recurring debt problems, donor countries should commit to provide at least 90% of new development assistance on a grant basis to countries eligible for debt reduction;
- Fifth, new approaches to help countries emerging from conflicts that have not had the chance to establish reform records, and need immediate relief and concessional finance; and,

- Sixth, support for IMF gold sales to do its part, and additional contributions by the U.S. and other countries to the World Bank Trust Fund to help meet the cost of this initiative.

The President also stated that "We should be prepared to provide even greater relief in exceptional cases where it could make a real difference."

The President summed up his remarks stating, "What I am proposing is debt reduction that is deeper and faster. It is demanding, but to put it simply, the more debtor nations take responsibility for pursuing sound economic policies, the more creditor nations must be willing to provide debt relief".

U.S. Policy on International Debt

Let me step back for a moment and make a few broad comments. The subject of international debt is particularly complex and raises a broad range of considerations. Nevertheless, I think it is fair to say that U.S. policies on international debt generally have been bipartisan. It should be observed that historically the primary interest of U.S. legislation has been collection of debts to the maximum extent possible; borrowers should pay their debts. General legislation permits the Executive Branch to reschedule debts only in circumstance of "imminent default". Debt collection for all but the poorest remains the rule today. Over the past decade or more, special purpose legislation on occasion has passed Congress permitting international debt rescheduling or reduction in defined circumstances.

These special circumstances have focused on either the poorest economically reforming countries or on countries with unique political circumstances. Since 1989, they include: concessional official development assistance and agriculture assistance for the poorest countries undergoing economic reforms, Egyptian military debt, Polish debt, Jordanian debt, some concessional loans in Latin America under the Enterprise for the Americas Initiative and finally reductions permitted under the Highly Indebted Poor Countries (HIPC) debt initiative and its precursors. Additionally, since the passage of credit reform legislation in 1993, we have included in the budget a specific debt account which provides for the appropriation of an estimated value of reductions that we anticipate will take place during that year.

Attached to my testimony is a table that summarizes U.S. Government Public Sector International Debt Reduction activities from 1989 through 1998. It shows that during this period we have granted debt reduction totaling in face value $14.4 billion.

President Clinton's Economic Initiative for Africa assigns high priority to helping reduce the burdens of countries in the region to manageable levels. In terms of broadly held views, it is this Administration's, and prior Administrations', overall debt policy that the poorest most indebted countries committed to basic economic reforms should be provided substantial reductions in debt service payments and where necessary in total debt stock to levels consistent with what they can reasonably be expected to afford to service. The view that excessive indebtedness in many of the poorest countries is one of the significant barriers to economic growth and to rationalization of expenditure toward social and developmental priorities has not changed over the past 10 years.

It is clear that this is a complex policy area which requires that a balance be reached. We require collection, but in certain circumstances, we permit rescheduling to achieve that end. In other circumstances, for the poorest and most burdened, we embrace debt reduction. Still, we recognize that debt relief minus other economic policy actions and conditions will achieve little to improve the lives of a country's citizens.

As Secretary Rubin recently commented to his African colleagues when the Finance Ministers were here in Washington, "Debt reduction has no lasting benefit if not accompanied by meaningful economic reform. The country itself must act to address the underlying causes of poverty and under development or the funds freed up by debt forgiveness will not have long lasting effect."

To achieve long term growth, countries must develop institutions independent central banks, judiciary,

and media and must create transparent, participatory and decentralized governance. Simply put, individuals and companies both inside and outside a country must feel secure that their persons and property will be respected and that an economy will be well managed before they will provide the private savings and investment that is necessary to ensure long term growth.

We recognize that public foreign assistance resources are insufficient to provide the kind of investment that is needed to make Sub-Saharan Africa prosper at the level we all desire. If the private sector does not believe there is a culture of credit in which there is a commitment to repaying debt, the necessary private capital to support that growth cannot be mobilized.

In the context of proposals for unilateral U.S. debt action, and calls for U.S. leadership we have to recognize that such action in the poorest Sub-Saharan African countries would achieve little, simply because we do not hold a high portion of the exposure. Further, a coordinated and concerted action among virtually all creditors is needed to ensure that benefits flow to debtors -- rather than enhancing the prospect of repayment of debt owed to other creditors .

I would like to add one important point of information: I remarked that the relative share of Sub-Saharan debt owed to the United States is relatively modest. This is because, since 1985 and in some cases earlier, the U.S. has provided its concessional agricultural and development assistance to the poorest African countries primarily in the from of grants. These grants total well over $14 billion for the most heavily indebted Sub-Saharan countries from 1985 to 1997.

As the committee knows, there is a cost to debt relief programs and therefore budgetary trade offs to consider. As we all know, in the budget process, once budgetary caps and Subcommittee spending allocations are set, increases in one program must be achieved either by reduction or by less growth in other programs. There is a tension between funding debt relief and funding other foreign assistance grant or lending programs. We would argue that, in the case of reforming overburdened poorest countries, debt reduction can be a good investment.

Finally, the international community has yet to fully fund the current HIPC program and the existing shortfall is estimated at approximately $1.7 billion.

Let me comment briefly on indebtedness levels of poorest countries. There are several tables attached to my testimony, so I can be very brief. First, the multilateral, bilateral and private debt owed by Sub-Saharan African Countries totals some $227 billion. Of that $227 billion, the U.S. share is about 3% or $6.8 billion.

Looking at the list of 41 poor countries around the world potentially eligible for the HIPC program we see that the total debt owed to the United States by these 41 countries is just a hair over $6 billion. 25 of these countries are in Sub-Saharan Africa and together these 25 potentially HIPC eligible African countries owe the United States about $5.5 billion.

In order to provide some perspective on the evolution of the international debt policy let me give a little history. The U.S. and other international creditors in the late 1980's, moved from policies which aimed at repetitive rescheduling of debt, in order to buy time for countries to regain the capacity to service their debts, to recognizing that reduction of debt stocks was necessary in order to return some countries to economic growth and sustainable debt servicing. That realization has evolved further over time to recognition that it would require deeper and deeper levels of stock reduction in some countries to achieve that growth.

The programs have evolved from Toronto terms of 33% reduction of eligible debt payments in 1988, to Naples terms of 50-67% reduction in 1994, to HIPC terms of up to 80% in 1997. The HIPC program uniquely marks the first point at which proportionate action was required by the International Monetary Fund (IMF), the Multilateral Development Banks (MDBs) and other multilateral organizations.

Here, I want to make a clarifying point. The HIPC program is being criticized in some quarters for being structured as a rigid formula which fails to respond to changing circumstances in a country. In fact, it has

been implemented in a very flexible manner. Attached to my testimony is a table which summarizes the actions to date under this program. It shows that six of the seven countries determined eligible at the decision point have been given less than three years to the completion point, indeed five of these countries have had this period shortened to about one year or slightly more. It also should be noted that in these seven cases the targets, which have been treated flexibly, have been set overwhelmingly at the low end of the range, which is what the U.S. has urged.

FY 2000 Budget Request

The FY2000 Administration budget contains important new debt initiatives as well as continuation of funding requests for ongoing programs, these include:

- A first ever request for a U.S. contribution to the World Bank HIPC Trust Fund --$50 million;
- The first year of implementation of the debt for rainforest legislation which passed Congress last year $50 million;
- Two authorization requests which would permit us to support IMF gold sales and the use of resources in the IMF SCA2 trust fund for increases in IMF concessional lending and HIPC debt reduction activities for the poorest countries;
- The second year of implementation of debt reduction under the Africa Initiative, and the regular debt rescheduling and reduction activities of the Paris Club including the Naples and HIPC programs;

In total, these requests amount to $120 million in budget authority.

While debt relief can be an important instrument to help promote economic growth in Sub- Saharan Africa, it is a complement for other more traditional forms of financial and development assistance. The International Development Association (IDA) and the African Development Bank and Fund play a central role. Both IDA and the African Bank and Fund are carrying through on institutional reforms and in the last replenishments agreed to allocate resources increasingly to issues of health with strong attention to AIDS, primary education, nutrition, safe drinking water, infectious disease, proper sanitation and to an extent, disaster recovery. We are working with these institutions to develop an effective program for dealing with the very difficult and unique issues faced by the poorest countries which are emerging from conflict.

To help carry out this essential work of the international financial institutions in Sub-Saharan Africa, the Administration is seeking Authorizing and Appropriation legislation in FY 2000 for both the African Development Bank and Fund and the International Development Association.

Conclusion

Mr Chairman, I would like to take a moment to review the Sub-Saharan Africa economic position. I would say that here we can find cause for both encouragement and concern. The immediate road ahead presents a formidable challenge and we need to see a sharp reversal in many trends if positive growth is to be sustained. Africa remains the most protectionist region in the world. In many cases the process of fundamental reform has just begun. Low investment is a chronic problem with investment rates still only about 18% compared to 25% in low income countries on average. The re-emergence of conflict has been devastating. Some 20% of Africans live in countries formally at war or disrupted by war, according to World Bank estimates. Corruption is a serious economic cost -- an area where the World Bank is making a strong push.

But some underlying trends are the basis for optimism. There has been significant progress in improving social indicators such as education and infant mortality. While there was some weakening in overall economic performance in 1998 it reflected primarily declines in prices of key commodities including oil, cocoa and copper and economic crisis in many of Africa's Asian markets. But overall, given the events

and forces which have buffeted African economies in the last two years, economic growth proved surprisingly resilient. We believe this resilience reflects the level of basic and continuing economic reform in many countries -- including gains in fiscal stability, decontrol of prices, and liberalization of exchange rates.

Mr Chairman, despite great challenges, Africa has accomplished a great deal . We have seen some major advances in economics and politics. Public participation is spreading. Countries that have pursued sound economic programs along with good governance are the ones registering the highest sustained growth. It is this backdrop that sustains our determination to work for Africa's economic growth and sustainable development. African growth and stability is essential not only for Africans, but to future U.S. and global prospects.

Models of Debt-for-Development Transactions for Designing African Debt-for-Health Exchanges

Harvard Institute for International Development
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Attachments (not included with electronic version of paper)

Models of Debt-for-Development Transactions for Designing African Debt-for-Health Exchanges

1. Introduction

In the twelve years since the first debt-for-nature swap was completed in 1987, many dozens of transactions have occurred that have involved, in one way or another, the exchange of foreign currency debt owed by a developing country government for a commitment by that government to invest domestic currency in a social good, such as environmental protection, child health, or education. These transactions have taken a number of different forms, with varying results. The purpose of this paper is to describe the models of debt-for-development transactions that have been used in the past and identify which models, or parts of models, are likely to have the best outcomes for debt-for-health initiatives in sub-Saharan Africa.[1]

The paper is organized as follows. The rest of this section provides some background on debt-for-development swaps in general and summarizes the record of transactions over the last decade. The next section examines the structure of private debt-for-nature and debt-for-development swaps. In section 3, several public debt-relief-with-development programs are described in detail. Section 4 looks at recent U.S. legislation on debt swaps. The paper concludes with a discussion of lessons learned from past debt swaps and the implications of these lessons for debt-for-health exchanges in sub-Saharan Africa.[2]

How debt swaps work

In this paper, the term "debt swap" refers to a transaction involving the retirement of a fraction of a developing country's external debt in exchange for a commitment of resources for social programs (e.g. debt-for-nature and debt-for-development swaps). The transactions discussed in this paper are *not* debt-for-equity swaps.[3]

Although there are several different kinds of debt swaps, most proceed along roughly similar lines. In the standard debt swap, the creditor, which can be a commercial bank or export company, a government, or a multilateral institution, agrees to donate or sell some or all of the hard currency-denominated debt it holds. The donation or sale can

[1] The widely-used short-hand for this type of transaction is a "debt swap." While some transactions might more accurately be thought of as a form of debt relief and/or foreign assistance, we will call them debt swaps for the sake of simplicity.

[2] A practical and more detailed discussion of many of the topics covered in this paper can be found in Kaiser and Lambert (1996).

[3] Debt-for-equity swaps have been used by many creditor countries to reduce the bilateral debt owed to them by developing and transitional countries without any cost to the creditor country. In a debt-for-equity swap, the creditor typically exchanges debt for ownership of some asset in the debtor country, with the expectation of a financial return on the asset.

be directly to the debtor government (a buyback), or it can be to a non-governmental third party, which then retires it. If the debt is sold, the purchase price is usually, though not always, a fraction of the face value of the debt, reflecting the debt's discounted price on secondary markets or the creditor's estimate of its net present value.

In return for the reduction of its debt, the debtor country agrees to provide a specified amount of domestic currency for activities that are identified in the debt swap agreement, such as environmental protection. The amount of domestic currency involved varies widely: in some cases, it is a small fraction of the face value of the debt retired; in others, it is equivalent to the face value of the debt. The domestic currency is usually deposited in a swap account held by either the NGO that is party to the agreement or by a "counterpart fund" created by the agreement.[4] It is then used to support projects in the debtor country, either directly from the principal or indirectly from the interest earned by the counterpart fund.

Kinds of debt swaps

The debt swaps, and swap-like transactions, that have been carried out to date fall fairly comfortably into two categories: private swaps (those including one or more NGOs as parties and the retirement of commercial debt); and public swaps (those to which the parties are governments only and bilateral or multilateral debt is retired).[5] There have been more private debt swaps over the years than public; on the other hand, public swaps tend to involve much greater amounts of money. Table 1 compares a typical private debt-for-nature swap with a typical public swap.[6,7]

[4] Different debt-swap programs have different names for the domestic currency fund created by the swap. To avoid confusion, we will use the term "counterpart fund" whenever we refer to these funds, unless they have a specific name (like the Polish EcoFund).

[5] We borrowed these terms from Deacon and Murphy (1997). They are not perfectly accurate, as "private" swaps can involve public debt and "public swaps" can result in grants for NGOs, but they provide a generally useful distinction between swaps that are largely initiated and carried out by NGOs and those that are mainly governmental.

[6] Debt-for-nature swaps and debt-for-environment swaps are sometimes treated as a subset of debt-for-development swaps. For clarity, we will use "debt-for-development" to refer to swaps that generate resources for all activities *except* environmental protection and conservation.

[7] While private debt-for-nature and debt-for-development swaps have tended to be similar in structure, public swaps have differed widely from one another. The public swap we include in Table 1 is a composite of various public swap models, which will be described in more detail below.

Table 1: Characteristics of private and public debt swaps

Characteristic	Typical private swap	Typical public swap
Parties to the transaction	A creditor country NGO, a debtor country NGO, and occasionally the debtor country government (central bank and a line agency).	The debtor and creditor country governments.
Eligibility of debtor country	Creditor country NGOs choose countries in which they have an interest (e.g. high biodiversity value).	The creditor country sets criteria for participation, typically including satisfactory implementation of a structural reform program.
Amount of debt retired	Generally small.	Much larger.
Recipient of domestic currency funds	The NGO that is party to the transaction or a counterpart fund.	A counterpart fund.
Oversight of use of funds	The two NGOs jointly oversee disbursal of funds.	A board comprised of debtor and creditor country representatives oversees the disbursal of funds.
Debt relief process	All debt is cancelled immediately as part of the initial transaction.	Debt is cancelled incrementally based on debtor country's fulfillment of the terms of the contract ("pay-as-you-go").
Source of financing	Funds raised by the creditor country NGO or donation by the commercial entity holding the debt.	Budget of creditor country.

Why debt swaps are attractive (or not)

For the debtor country, debt swaps have several potential advantages:

- The country's total debt obligation is reduced (unless the amount of domestic currency that must be deposited in the counterpart fund is equivalent to the full face value of the debt)

- The country's foreign exchange commitments are reduced (payment into the counterpart fund is usually in domestic currency)

- Resources are generated for the activities specified in the agreement, which is likely to garner support from the relevant line Ministry (e.g. Environment or Health)

- If the amount of debt reduction is large enough, the transaction might improve the debtor country's standing in international financial markets.[8]

On the other hand, debtor countries have resisted debt swaps for at least two reasons:

[8] Ironically, one result of this can be that the value on secondary markets of the country's remaining debt increases (because with less debt left the odds of repayment are higher), causing the total amount of money that creditors expect to receive from the country to rise.

- From the perspective of the debtor country, a public debt swap is essentially "debt relief with conditionalities."[9] In return for debt relief, the country has to pledge to invest in activities specified by the creditor. Most developing countries don't like conditionalities. In the late 1980s and early 1990s debt-for-nature swaps were labeled by some developing countries (notably Brazil) as a form of imperialism that threatens the sovereignty of the debtor country over its own natural resources

  - A debtor country is not likely to volunteer for debt swaps if it believes that it can negotiate unconditional (or less conditional) debt relief. Similarly, if the country is not making any debt service payments, then maintaining the status quo--a *de facto* cancellation of debt--might make more sense than a transaction that does require some payment.

Debt swaps also offer advantages to creditors.

- If the creditor is a commercial firm, selling the debt to an NGO at a discount from face value, or allowing it to be bought back directly by the debtor country, is a way of recovering at least some of the value of a bad loan.

- If the creditor is a government or multilateral bank, debt swaps can help ensure that the savings to the debtor country from debt relief are used for activities that are important to the creditor, like poverty alleviation, HIV prevention, or environmental protection. A swap is thus one way to make debt relief politically palatable to creditor country constituencies while at the same time achieving international development or conservation objectives.[10]

- In at least one case (the Polish EcoFund) the terms of the debt swap agreement specify that creditor country firms will be given preference when selecting contractors to implement projects.

For creditors, the drawbacks include:

- Debt swaps involve at least some debt relief. Government creditors are not likely to support debt swaps if they do not wish to provide debt relief, and commercial creditors will refuse to sell if they believe that the market value of the debt they hold is higher than what they are being offered for it.

- To the extent that public debt swaps are simply another vehicle for providing foreign assistance, creditors might also feel that they do not have sufficient control over the domestic

[9] A debt swap can also be thought of, of course, as a form of foreign assistance that happens to be combined with debt relief.

[10] According to Randy Curtis of The Nature Conservancy, many creditor country NGOs believe that current momentum toward debt relief offers a once-in-a-lifetime opportunity to leverage resources for poverty alleviation, conservation, etc. and should not be wasted (Randy Curtis, personal communication, May 1999).

currency fund created by the swap, and thus prefer more traditional forms of foreign assistance.

- Ensuring proper use of the domestic currency fund created by a public debt swap generally requires ongoing involvement by the creditor country. If there are problems in administering the fund, the creditor country government might also be criticized for its role. There is thus some risk for the creditor that might not exist were the debt to be cancelled without conditions or sold on the secondary market.

Summary of debt swaps since 1987

Since the first debt-for-nature swap was carried out in 1987, there have been a range of swap transactions involving a large number of debtor countries and a handful of creditor countries. Table 2 summarizes these transactions. In the following sections, several of them are discussed in more detail.

Table 2: Debt-for-nature and debt-for-development transactions, 1987-1997

Instrument	Countries involved (debtor/creditor)	Face value of debt retired	Purchase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
Private transactions					
Private debt-for-nature swaps (45 commercial debt transactions as of end of 1997)[11]	Madagascar, Zambia, Ghana, Nigeria, and 11 others in Latin America, Asia, and Eastern Europe/U.S. NGOs	$174 million as of end of 1997	$42 million (24%)	$127 million (73%)	Nature conservation (usually parks)
Private debt-for-development exchanges negotiated by Finance for Development (FFD)[12]	Nigeria, South Africa, Tanzania, Kenya, Ghana, and several countries in Latin America and Asia/U.S. and local NGOs and FFD	$500 million			Various development projects

[11] Including three transactions in which the purchaser of the debt was a government (Netherlands, Sweden, and Japan); it is not clear what the role of NGOs was or whether the debt retired was commercial or bilateral.

[12] Finance for Development was a U.S. NGO dedicated to promoting debt-for-development exchanges. It was originally called the Debt for Development Coalition and has now evolved into a private firm called New York Bay.

[13]UNICEF's debt swap in Zambia was arranged by Finance for Development (FFD). It is possible that other UNICEF swaps were also arranged by FFD and thus appear in both this row and the preceding row of this table.

UNICEF debt-for-child-development swaps[13]	Zambia, Madagascar, Senegal, Sudan, and several countries in Latin America and Asia/UNICEF national committees in OECD countries	$199 million	$29 million (14.5%)	$53 million (27%)	UNICEF programs
Bilateral transactions					
U.S. Enterprise for the Americas Initiative	7 Latin American and Caribbean countries/U.S.	$875 million between 1991 and 1993	$90 million (10%)	$154 million (18%)	Environmental protection and child health and survival
USAID-funded debt-for-nature swaps in 1989-90[14]	Costa Rica, Honduras, Panama, Mexico, Jamaica, the Philippines, Indonesia, and Madagascar/U.S.	unknown	$95 million	$146 million	Natural resource conservation
Swiss Debt Reduction Facility	12 countries in Africa, Latin America, and Asia/Switzerland	$760 million	$152 million (20%)	$172 million 23%)	Projects in all development sectors
Belgian commercial debt-for-aid conversion	Least developing countries excluding Congo (Zaire)/Belgium				
Canadian International Development Agency Debt Conversion Program	Honduras, El Salvador, Costa Rica, Nicaragua, Columbia, and Peru/Canada	$86 million between 1992 and 1997	unknown; up to $145 million ceiling	$45 million	Environmental protection and natural resource conservation
French Libreville Fund	Cameroon, Congo, Gabon, Cote d'Ivoire/France		$177 million as of the end of 1993 ($706 million ceiling)		Priority development projects
German Rio Fund	14 eligible countries/Germany			(20% of face value)	Ecology and poverty alleviation projects

[13]UNICEF's debt swap in Zambia was arranged by Finance for Development (FFD). It is possible that other UNICEF swaps were also arranged by FFD and thus appear in both this row and the preceding row of this table.

[14] Some of the USAID funds listed here were used to finance some of the private debt-for-nature swaps listed in the first row of this table.

[15] The debt swap with Costa Rica is probably also included in the private debt-for-nature swaps in the first row of the table, though it might be in addition to that one.

Netherlands debt swaps[15]	Tunisia, Costa Rica, Chile, Pakistan, Jamaica, and Madagascar/Netherlands	$45.5 million between 1990 and 1997			Nature conservation in Costa Rica; other uses unknown
Poland/Finland debt-for-environment swap	Poland/Finland	$14 million in 1990			
Multilateral transactions					
Poland/Paris Club debt-for-environment swap	Poland/Paris Club countries	$510.7 million as of 1998 ($3.3 billion ceiling)	n.a.	$510.7 million (100%)	Polish environmental projects of international significance
Inter-American Development Bank debt-for-nature swap	Mexico/IADB	$121 million in 1992	$100 million (83%)	$121 million? (100%)	Tree-planting in Mexico City

Sources: World Bank (1998); Swiss Coalition (1997); OECD (1998); U.S. Senate Committee on Foreign Relations (1998); Kaiser and Lambert (1996).

2. Private Debt Swaps

The debt-exchange transaction later dubbed a "debt-for-nature swap" was pioneered by a U.S. biodiversity conservation organization, Conservation International (CI), in 1987 based on an idea first proposed by its vice president, Thomas Lovejoy, in 1984. In 1987, CI purchased $650,000 of Bolivian debt from Citibank for $100,000 (15 percent of face value), using a grant from a U.S. foundation. In return for CI's retiring this debt, the Bolivian government agreed to establish a local endowment account with the equivalent of $250,000 in Bolivian currency (38 percent of face value) to be used for managing the Beni Biosphere Reserve. The swap agreement also included a policy reform provision aimed at strengthening the legal basis for park protection in Bolivia (Rubin et al. 1994).

Since that initial transaction, there have been roughly forty-five "private" debt-for-nature swaps involving (mainly) U.S. NGOs, along with a series of private debt-for-development transactions. Most of them have been roughly similar to one another, varying mainly in the specific activities to be carried out and the source of the financing for the swap. In this section, we will describe the structure of private debt swaps, on which the public models described in the next section are based.

Structure of private debt swaps

[15] The debt swap with Costa Rica is probably also included in the private debt-for-nature swaps in the first row of the table, though it might be in addition to that one.

[16] This section is drawn mainly from Deacon and Murphy (1997) and Rubin et al. (1994).

Private debt swaps involve at least two non-governmental parties.[16] In a typical swap, a creditor country NGO, in partnership with a debtor country NGO, negotiates the swap with the government of a debtor country. Conservation International, which participated in a number of swaps, reported that negotiations with debtor governments took an average of three to five months (Rubin et al. 1994). The swap agreement, which can be a private contract between the two NGOs or a contract with the debtor government as a party, usually specifies:

- face value of the debt to be retired in the deal
- amount of domestic currency to be contributed by the debtor government
- form in which the domestic currency will be provided (cash, bonds, etc.)
- the sequence and timing of the debt retirement and domestic currency contributions (up front or "pay as you go")
- purposes for which the domestic currency generated will be used
- organization that will receive and administer the domestic currency (counterpart fund or NGO)
- eligible recipients of grants from counterpart fund (NGOs, universities, local government agencies, etc.)
- structure of counterpart fund (endowed or sinking)
- governance, oversight, and evaluation of counterpart fund.

Once an agreement is reached, the creditor country NGO purchases discounted debt from private creditors or receives it as a donation from the creditor. The NGO then retires the debt, whilst the debtor government deposits the domestic currency in the specified account belonging to a local NGO or the counterpart fund. The amount of domestic currency can be either the full face value of the debt (but paid in local currency rather than foreign exchange) or somewhere between the face value of the debt and the discounted value that the NGO paid to purchase the debt.

A sample debt-for-development swap

NGOs began to exchange debt for projects other than nature protection around 1992. Most debt-for-development swaps since then have been undertaken by one of two organizations, UNICEF and a U.S. nonprofit called Finance for Development (FFD) (and in some cases, FFD has arranged debt swaps for UNICEF). UNICEF swaps, which were financed by its national committees in various OECD countries, all generated domestic currency for UNICEF's programs. The swaps arranged by FFD were usually on behalf of other NGOs, which used the domestic currency for their own activities (World Bank 1998).[17]

[16] This section is drawn mainly from Deacon and Murphy (1997) and Rubin et al. (1994).

[17] UNICEF ceased its debt swap activities in 1995, reportedly due to the concern of UNICEF's headquarters that country committees were allocating resources to debt swaps without the approval of the headquarters.

One debt-for-development-transaction about which we have more detailed information involved both UNICEF and FFD.[18] In 1994, the government of Zambia negotiated an agreement with IDA and its commercial creditors to buy back $200 million of its commercial debt at a rate of 11 cents on the dollar. Financing for the buyback came from IDA, several bilateral donors, and, under a debt-for-development program, a set of NGOs.

FFD was contracted by the Zambian government to design and administer a program under which approved NGOs could purchase Zambia's commercial debt for the same price (11 percent of face value) but then receive from the government 1.5 times the purchase price, in local currency, for development projects in Zambia. To obtain approval to participate in the program, NGOs submitted applications with projects within one of the governments priority areas (including water supply and sanitation, health, primary education, etc.). Fifty NGOs were approved, and fourteen (including UNICEF) raised enough money to participate in a swap.

Each NGO was matched with a commercial creditor by FFD, and the NGOs deposited a total of $10.2 million in an escrow account, which was then used to purchase $92.3 million in debt from the commercial creditors. To complete the transaction, the Zambian central bank placed $10.2 million in Zambian kwacha in an escrow account for the NGOs and allocated an additional $5.1 million in kwacha from the national budget for the NGOs. Payment to the NGOs was made quarterly from an interest-bearing account indexed to the dollar. The Zambian debt-for-development program is regarded as a well-designed debt swap, which also cancelled a significant share (45 percent) of Zambia's commercial debt (Kaiser and Lambert 1996).[19]

Although it is not clear from the literature, it appears that all, or almost all, of the private debt-for-development exchanges that have taken place to date have generated project funds for individual NGOs, rather than to endow a long-term sinking or endowment counterpart fund. This is probably partly due to the modest size of most private transactions and partly to the immediate funding needs of the participating NGOs. The choice of counterpart fund structure will be discussed in some detail in the final section of this paper.

Limitations of private debt swaps

For NGOs, debt-for-nature and debt-for-development swaps have been a creative vehicle for leveraging resources for their work and, in some cases, for noticeably increasing the level of funding devoted to their area of work in the debtor country. We have not found any effort to evaluate in a systematic way the performance of the

[18] The description that follows is taken from Kaiser and Lambert (1996).

[19] According to the former director of Finance for Development, all but one of the NGOs involved in the program has received the domestic currency owed to it by the Zambian government. Payment was not timely in all cases (Jack Ross, personal communication, May 1999).

counterpart funds and projects supported by the swaps. Results presumably vary with the individual projects, organizations, and governments involved, just as they would were a foundation to make a direct grant of the domestic currency without any debt swap transaction at all. Five potential problems with the private debt swap model have been identified in the literature, however. Some also apply to public debt swaps, though generally to a lesser degree.

- **First, conspicuously absent from the list of items specified in swap contracts above is any reference to performance indicators or outcomes needed to make the swap a success. Private debt swap agreements generally do *not* specify required outcomes, for two reasons. First, environmental and development outcomes are difficult to measure, and specifying outcomes is likely to lead to disputes. Second, as we discuss below, the NGOs that arrange and are party to the agreements have no authority to enforce their conditions. Instead, the contracts specify inputs, such as persons to be trained, vehicles to be purchased, etc. There is thus no easy way to evaluate the success of the swaps as instruments of environmental protection or development finance.**

- **As implied above, private debt swap agreements typically lack enforcement provisions. An exception was a swap that The Nature Conservancy carried out with Panama in 1992, which contained financial penalties for Panama if it failed to service the conservation bonds it had created. Deacon and Murphy (1997) argue that this was possible because USAID provided funding for this swap, making the U.S. government a *de facto* party to it. Public debt swaps, in contrast, typically do contain enforcement provisions, backed up by the powers of the creditor government. In addition, multi-year public debt swaps have tended to be designed on a "pay as you go" schedule. Instead of canceling the entire amount of debt up front--and then counting on self interest, public opinion, and good will to persuade the debtor government to honor the agreement--as private swaps typically do, multi-year public swaps usually cancel the debt incrementally, and only after performance targets have been met.**

- **The one effort by the parties to a private debt swap to influence policy in the debtor country is considered to have been a failure. The original debt-for-nature swap, between Bolivia and Conservation International, stated that certain legislative changes would be required as part of the deal. The Bolivian government delayed enactment of these changes due to pressure from local stakeholders, and its contribution to the domestic currency fund created by the swap came nearly two years late. As a result of this experience, later debt-for-nature swaps shifted to specifying inputs, such as training and equipping park rangers, rather than policy changes, such as changing the legal status of the park (Deacon and Murphy 1997).**

- **Many observers raised concerns about debt swap transactions in general, and private swaps in particular, on the grounds that the counterpart fund created by a swap is subject to expropriation by the debtor government once the transaction is completed. A related fear is that the debtor government will fail to honor domestic bonds or budgetary commitments issued as part of the swap. Deacon and Murphy (1997) believe that this risk creates a constraint on what NGOs can do with the domestic currency generated by the swap--if they support activities to which the government objects, the risk of expropriation or failure to pay increases. It does not appear that any debt-for-nature swaps have actually suffered this fate to date, however. Jamie Resor of World Wildlife Fund reports that WWF has never encountered this problem, as most countries are willing to cover their domestic currency obligations even when they are in arrears on hard currency loans (Jamie Resor, personal communication, May 1999). The record for private debt-for-development swaps is unclear.**

- **Finally, if the debtor country generates its contribution to the domestic currency swap fund by printing money, debt swaps could be inflationary. Given that most debt swaps, public as well as private, have been relatively small in size and in many cases have involved payment on a domestic currency bond rather than an up-front infusion of money, concerns about inflation have not been borne out (Rubin et al. 1994).**

NGO enthusiasm for traditional private debt swaps has waned to some extent in recent years because of the difficulty of raising money to purchase the commercial debt involved and because many debtor countries have already converted their commercial debt to bilateral or multilateral debt. Attention within the U.S. NGO community has instead turned to efforts to leverage public funds and build a swap component into government debt relief initiatives.

3. Models for Public Debt Swaps

In contrast to private debt swaps, public debt swaps are transactions between debtor governments and creditor governments or groups of governments (like the Paris Club) and/or inter-governmental organizations, like the World Bank. NGOs are typically not party to the agreements, although the domestic currency funds generated by the swap can be granted to NGOs to spend.[20] Public debt-for-development exchanges generally have two components: a "debt" component, which involves debt relief, and a "swap" component, under which domestic currency is allocated to development projects. The models described below include both components--debt relief and development project financing.

[20]An exception is the Tropical Forest Conservation Act, under which NGOs can purchase bilateral debt owed to the U.S. government.

There are three debt swap programs of which we could find detailed descriptions: the U.S. Enterprise for the Americas Initiative; the Swiss Debt Reduction Facility; and the Poland-Paris Club debt-for-environment swap.

United States

Program **Enterprise for the Americas Initiative (EAI)**

Purpose To promote market reform and economic growth in Latin America through debt reduction, investment reforms, and community-based conservation and environmental protection.

Eligibility Latin American and Caribbean countries were eligible to participate in the EAI if they met four conditions:

i. Have in effect an IMF structural adjustment program
ii. Be implementing World Bank or IDA structural or sectoral adjustment loans
iii. Have underway major investment reforms or be making progress toward an open investment regime
iv. Have negotiated a satisfactory financing program with commercial creditors.

In addition, if a country wanted to participate in the debt swap component of the EAI, it had to sign an Environmental Framework Agreement with the U.S. to establish an Environmental Fund.

Implementing agencies and organizations In the U.S., the Treasury and USAID (the State Department negotiated the Environmental Framework Agreements). In the debtor countries, an endowed Environmental Fund was created to administer the program.

Process The U.S. reduced the amount of concessional debt (PL 480 and USAID) owed to it by participating countries up to the amount of the annual appropriation by Congress (the original ceiling was $1.7 billion of PL 480 loans). The debt reduction was carried out by exchanging old obligations for new. Following the reduction, interest on the remaining debt, which was at concessional rates, could be paid in domestic currency into an Environmental Fund provided that the debtor country had negotiated an Environmental Framework Agreement (EFA) with the U.S. The EFA established the Environmental Fund and specified its purposes. If there was no EFA, interest had to be paid to the U.S. in dollars. Repayment of principal on the remaining debt also had to be paid in dollars whether or not an EFA was negotiated. Environmental Funds were apparently intended to be trust funds that made grants out of the interest on their endowments.

Use of domestic currency generated

Environmental Fund resources were to be used for "local community initiatives that promote conservation and sustainable use of the environment," sustainable agriculture activities, and other environmental projects. It appears that child health and child survival activities were added to the program in 1991. [The same law that implemented the Enterprise for the Americas Initiative (S.2830/PL 101-624) contained a section entitled "Debt-for-health-and-protection swap," which authorized grants to U.S. and foreign nongovernmental organizations to purchase discounted commercial debt and generate domestic currency for the purpose of managing animal and plant pests and diseases in the debtor country. It is not clear whether any grants were made under this section.]

Grantmaking procedures

An EAI Environment Fund was administered by a local body on which local NGO representatives were required to hold a majority. In Bolivia, for example, the administrative council included two representatives appointed by the Bolivian government, one appointee of the U.S. government, and four Bolivian NGO representatives, while Jamaica's administrative board included one representative of each government, one university representative, and four local NGO leaders. These bodies were responsible for selecting projects, making grants, and overseeing grant implementation. Grants from the fund could be made to NGOs, to other local or regional organizations, and in exceptional circumstances to government agencies. Grants of more than $100,000 were subject to U. S. and local government approval.

Structure and oversight of the fund

An "Environment for the Americas Board" was established with five U.S. government officials and four representatives of organizations with experience and expertise in Latin America and the Caribbean, all appointed by the U.S. The Board was responsible for selecting the body to administer the Environmental Fund in each participating country and reviewing its performance.

Financial results

Seven countries participated in the program in 1991-93. Debt reductions under the EAI as of 1993 totaled $875 million (of which 89 percent went to El Salvador and Jamaica). This constituted 54 percent of the participating countries' eligible debt to the U.S. The domestic currency equivalent of $154 million (interest on the remaining debt) was deposited in Environmental Funds. (1993 was apparently the last year of the program.[21])

[21] Although budget allocations for the EAI seem to have ended in 1993, the EAI Board and Treasury Facility apparently still exist, as recent legislation on tropical forest debt swaps refers to them in the present tense. SYDNEY CHECK THIS.

Performance	In hearings on the Tropical Forest Protection Act of 1998, which was closely modeled on the EAI, the EAI is praised by Rep. Gilman as being highly successful, with only one of the Environmental Funds it created, in Bolivia, having a poor track record.[22]
Sources	S. 2830; Hansen-Kuhn (1993); U.S. Dept. of State (1992)

Switzerland

Program	**Swiss Debt Reduction Facility (1991)**
Purpose	The primary purpose is to alleviate the debt burden of highly indebted countries. A secondary purpose is to create "Counterpart Funds" to support development projects in participating countries.
Eligibility	Highly indebted countries that have rescheduled their debt with the Paris Club; countries that have rescheduled their Paris Club debt and are recipients of Swiss development aid; and all other "least developed countries" are eligible. Participating countries must also be implementing economic reform programs (structural adjustment) and have acceptable political conditions.
Implementing agencies and organizations	The Swiss Federal Office for Foreign Economic Affairs (for debt relief); the Swiss Agency for Development and Cooperation (for implementation of Counterpart Funds); the Debt-for-Development Unit of the Swiss Coalition of Development Organizations (for technical assistance in designing funds and project selection criteria).[23] Swiss and local NGOs play a small role in administration and receive most of the grants.

[22] The U.S. Treasury issues an annual report on the EAI; we expect to obtain a copy of the latest one shortly.

[23] The Swiss Coalition of Development Organizations is an association of five non-governmental organizations: Swissaid, Catholic Lenten Fund, Bread for All, Helvetas, and Caritas.

Process	The Debt Reduction Facility supports four types of debt reduction operations: (i) buyback of unguaranteed portions of official bilateral export credit debts owed to Swiss exporters and banks; (ii) buyback of commercial bank debt under the IDA Debt Reduction Facility; (iii) financing of multilateral debt arrears, including participation in the HIPC Initiative; and (iv) capacity building and public education. In exchange for debt relief, the debtor country must agree to put a small part of its savings into a local currency fund called a Counterpart Fund, to be used for a range of development projects specified in the agreement with the Swiss Government. The domestic currency for the counterpart fund must be paid in advance and in cash.
Use of domestic currency generated	Counterpart Funds make grants to NGOs and government agencies to carry out development projects in social services, infrastructure, small enterprise promotion, environmental and natural resource management, agriculture, and other sectors.
Grantmaking procedures	Grants are made from the counterpart funds' principal, and the funds have anticipated lifespans of 3 to 10 years. Counterpart Funds fall into two broad categories: "project funds," which provide short and medium term grants; and "loan funds," which serve as credit-making and institution-building entities.
Structure and oversight of fund	A Counterpart Fund must be an interest-bearing account with a private commercial bank. The fund is managed by an independent body composed of representatives of the Swiss government and the participating government. A technical committee including local NGO representatives advises on project selection.[24]
Financial results	The Debt Reduction Facility had an initial endowment of $320 million. As of the end of 1997, Switzerland had granted debt relief totaling to 18 countries, and 12 of these had established counterpart funds. For these 12 countries, approximately $760 million of debt was retired, and $192 million (domestic currency equivalent) was generated for the counterpart funds (about 25 percent of the face value of the debt). $103 million of this had been committed to 570 projects by the end of 1997 (average project size = $180,000).
Performance	Unknown.
Sources	Swiss Coalition (1997)

[24] A diagram of the structure of a typical Swiss Counterpart Fund is included as an attachment to this paper.

Poland

Program	**Poland-Paris Club Debt-for-Environment Swap (1991)**
Purpose	To reduce Poland's bilateral debt to Paris Club creditors and generate resources for internationally important environmental issues.
Eligibility	The agreement was negotiated directly between Poland and its bilateral creditors.
Implementing agencies and organizations	The proposal for the swap was made by Poland's Minister of Environment, and the Minister of Finance established the EcoFund to receive the domestic currency generated by the swap. Procurement by the EcoFund is done by international competitive bidding, with rough quotas for Paris Club country firms.
Process	The Paris Club agreed in 1991 to cancel 50 percent of Poland's bilateral debt. Poland then proposed that individual creditor countries be allowed to invest up to 10 percent of the original debt (20 percent of the remaining debt) in an environmental protection counterpart fund called EcoFund. Each creditor country would sign a voluntary bilateral agreement with Poland to participate in EcoFund. EcoFund proposes projects to the Paris Club countries' representatives. When a project is approved, the funds for it are released to EcoFund from a hard currency escrow account with the Bank of International Settlements where Poland services its external debt (instead of being passed on to the creditor that agreed to fund the project). Unlike most debt swaps, this model does not reduce Poland's foreign exchange obligations, though the funds are presumably returned to EcoFund in foreign exchange as well.
Use of domestic currency generated	Poland identified four environmental issues of international importance for EcoFund to support: transboundary air pollution, Baltic Sea contamination, greenhouse gas emissions, and biodiversity loss.[25] Each creditor can specify which issue it wishes to support. EcoFund support must be "additional" to what the Polish government would otherwise have spent; additionality is defined relative to a 1991 baseline of total expenditures on environmental protection.

[25] A fifth was added in 1996, waste management and contaminated soil reclamation.

Grantmaking procedures	EcoFund contracts are awarded competitively, but only countries that contributed to EcoFund are allowed to bid, and an effort is made to achieve a "fair" distribution of contracts to countries in proportion to their contributions to EcoFund. In 1996, two thirds of EcoFund's support went to government agencies, and most of the rest went to publicly-owned enterprises. NGOs received only 2 percent of EcoFund resources. As of 1996, EcoFund had approved 171 projects, with an average size of $639,000. EcoFund is expected to disburse all its resources over a period of 18 years, ending in 2010.
Structure and oversight of fund	EcoFund is a foundation governed by a Council of 7-15 members on which creditor country representatives are a minority. The Minister of Environment appoints the chairperson and the Minister of Finance appoints the members of the Council. Polish members represent national and local government agencies, scientific organizations, and other organizations. All projects must be approved by the creditor governments that will fund them, as noted above. A Management Board runs the fund, reviews and recommends projects, and monitors project implementation. EcoFund has a staff of 21.
Financial results	EcoFund had a hypothetical ceiling of $3.3 billion (equal to 10 percent of Poland's original bilateral debt). As of 1998, $510.7 million had been contributed to the fund by the six Paris Club countries that chose to participate (out of a total of seventeen Paris Club members). Only two countries, the U.S. and Switzerland, contributed the full 10 percent allowed, and the U.S. contribution accounted for 72 percent of the total in EcoFund. Other countries' contributions were in the range of 1-2 percent. Three of the six participating countries signed agreements with Poland only in the past three years (1997-98). Germany, Poland's largest creditor, with 18 percent of its bilateral debt, has not participated in the swap program.
Performance	An OECD evaluation of EcoFund in 1998 found that the projects it funded have generated significant environmental benefits. It estimated that about two thirds of the projects would not otherwise have been funded. Through very rigorous project identification and appraisal procedures, EcoFund has been able to select good projects and leverage additional funding for them. Creditor interest in EcoFund has been limited, however, as indicated by both the small number of Paris Club countries that have participated and the fact that none of the participating creditors has ever bothered to specify which of the issue areas it wishes to support.
Sources	Zylicz (1998); OECD (1998)

Unlike most of the private debt-for-nature and debt-for-development swaps, a common element of all three of these public programs was the creation of a counterpart fund in the debtor country

that functioned very much like a charitable foundation, making grants for projects according to the guidelines laid out in the transaction agreement. In the case of the Swiss Debt Reduction Facility, Counterpart Funds make grants out of their principal, giving them finite (3-10 year) lifetimes. Poland's EcoFund is also a sinking fund, expected to spend down all its resources over an eighteen year period (18 years). The EAI Environment Funds, in contrast, were designed to be endowed trust funds, with grants made out of the interest earned on principal. International organizations have amassed a good deal of experience in recent years in designing and managing earmarked funds and foundations in developing countries.[26] Once the debt-relief component of a debt swap is completed, the parties involved can draw on this experience to improve the performance of the counterpart fund. We will summarize some of the most important lessons from past experience with counterpart funds in the final section of this paper.

A note about HIPC

Before moving on to U.S. debt swap legislation, it is worth noting that among the criteria for debt relief of the Highly Indebted Poor Countries (HIPC) Initiative are performance targets in such areas as basic health care, education, and poverty alleviation. Based on the experience of Uganda, it appears that a set of outcome indicators (e.g. school enrollment, immunization rates, health sector spending, etc.) will be used both to evaluate past performance and set targets for the future. There is no indication that funds saved through debt relief will be directly channeled to social projects, however (IMF 1998). In mid-May, 1999, several U.S. conservation organizations sent a letter to Treasury Secretary Larry Summers urging him to ensure, among other things, that the HIPC Initiative does generate funds for social projects (including conservation) (Jamie Resor, personal communication, May 1999).

4. Recent U.S. Debt Swap Legislation

During the past decade, the U.S. has passed three laws promoting the use of debt-for-development and debt-for-nature swaps, and a fourth bill is now under consideration. The legislation is described below.

- The *International Development and Finance Act of 1989* encouraged debt-for-development swaps and authorized USAID to provide funds for debt-for-nature swaps. The legislation appears to have been part of the overall discussion that led to the Enterprise for the Americas Initiative a year later. A pilot program of debt-for-nature swaps for Africa was also authorized.[27] In the legislation, a "debt-for-development swap" was defined as the purchase of qualified debt by, or the

[26] See, for example, the Global Environment Facility's recent evaluation of conservation trust funds (GEF 1998) or the publications of the Synergos Institute (www.synergos.org). The Synergos Institute already has underway a program for building the capacity of charitable foundations in southern Africa.

[27] We do not know if any transactions were ever completed under it. Note that while debt-for-development swaps were encouraged, USAID only had authority to support debt-for-nature swaps.

donation of such debt to, a nonprofit organization and the transfer of the debt to an agency or organization in the debtor country in exchange for a commitment to undertake charitable, educational, or scientific activity. Under this legislation, USAID provided $95 million to NGOs for debt-for-nature swaps that led to $146 million in domestic currency being made available for environmental protection in eight countries (5 in Latin America and the Caribbean plus Madagascar, Indonesia, and the Philippines). According to Rubin et al. (1994), USAID issued guidelines for NGOs explaining the many steps required to participate in the program.

- The *Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1998* permits debt cancellations, buybacks, and swaps. Swaps include debt-for-development and debt-for-nature transactions. Under a buyback, a country can purchase its own debt to the U.S. at the market price, but it has to use an amount of domestic currency equal to either 40 percent of the price paid for the debt or the difference between the price paid and the face value of the debt to support i) projects that link conservation and sustainable use of natural resources with local community development; or ii) child survival and child development projects. USAID administers this program. Under the program, Peru apparently bought back USAID debt at one third of its face value and generated $23 million for environment and child survival projects.

- The *Tropical Forest Conservation Act of 1998* (TFCA) authorizes three mechanisms for protecting tropical forests: i) buybacks, as described above (with the same 40 percent rule); ii) debt swaps involving non-governmental third parties which can purchase U.S. bilateral debt; and iii) bilateral concessional debt reduction followed by deposit of interest payments into a domestic currency tropical forest fund, as was done under the EAI. The Treasury Department administers the program, which is structured much like the EAI. The legislation authorized spending of up to $325 million over three years. The budget request for FY 2000 for this program was $50 million. The debt that is sold or cancelled by the U.S. government is to be valued by the Treasury at its net present value, which is considered to be comparable to its market value (and might thus be heavily discounted from its face value). Domestic currency generated is to be placed in a tropical forest fund administrated by a board including U.S. officials, local officials, and NGO representatives, based on a Tropical Forest Agreement similar to the EAI Environmental Framework Agreement. Oversight of the program as a whole is to be handled by the EAI board. Participation criteria are the same as for the EAI.

- A bill introduced into the House in March, 1999, the *Debt Relief for Poverty Reduction Act of 1999* (H.R. 1095, sponsored by James Leach of Iowa), proposes that the U.S. cancel all concessional debts to heavily indebted poor countries and reduce non-concessional debts by 90 percent. A condition of participation is that all savings generated by debt reduction under the HIPC Initiative and other programs be deposited into a "Human Development Fund" which will be used for poverty

alleviation. The bill also calls on the U.S. to urge the Bank, the IMF, and the Paris Club to modify the HIPC Initiative to include a similar Human Development Fund, as well as expand and speed up debt relief under the Initiative. The bill is currently in committee; hearings were held on March 21 but no proceedings are available.

5. Lessons learned and implications for debt-for-health exchanges in sub-Saharan Africa

A number of conclusions can be drawn from the experience with debt swaps described above. These conclusions offer some guidance on how a debt-for-health exchange between the U.S. and an African country might be structured. Two important provisos apply, however:

- There does not appear to have been any systematic attempt to evaluate debt swaps as tools for achieving specific social ends or as mechanisms for reducing developing country debt. Most of what we know about the success or failure of various swaps is anecdotal, and should be taken as such.

- Most of the swaps that have been described and analyzed in the literature have been debt-for-nature swaps, and most of the counterpart funds that have been created in developing countries have been for conservation (the main exception are the Swiss Counterpart Funds). While debt-for-health exchanges will probably resemble debt-for-nature swaps in many ways, there are probably also important differences involving such things as service delivery approaches, timing of expenditures, and the role of local government agencies that will need to be taken into account in designing a debt-for-health exchange.

With that in mind, we can offer the following comments and recommendations.

The debt-exchange transaction

1. Public debt swaps should be part of the debtor country's overall debt management strategy and should be undertaken at the initiative of the debtor country. Having in place a realistic strategy for managing debt could be made a condition of the swap, though this is probably not necessary for a small or one-time transaction. Zylicz (1998) argues that one reason the Polish EcoFund has been so successful is that it was proposed by the Polish government, rather than pressed upon Poland by the Paris Club.

2. Similarly, debt exchange activities should be part of the creditor country's overall foreign assistance and debt relief strategy. The creditor country should also take steps to ensure that financing for swaps is not counted against the existing foreign aid budget (i.e. it's in addition to foreign aid, not a substitute for it).

3. Two decisions need to be made on issues of timing.

i. First, the swap could be a single up-front transaction or a series of incremental transactions ("pay as you go"). The choice will depend on the nature of the activities to be funded, the ability of the debtor country to generate enough domestic currency to meet its obligations under the swap all at once, and the level of control that the creditor government wishes to maintain. For a public swap involving a debtor government that has a record of financial management problems, a pay-as-you-go approach, in which each incremental swap is contingent on good performance with the last increment, would probably make the most sense. The pay-as-you-go approach has higher transaction costs for both the debtor and the creditor countries, however.

ii. Second, the domestic currency contributed by the debtor government could be paid in cash or in domestic bonds. From the creditor's perspective, the decision depends on the creditor's confidence that the bonds will be honored over time and the financing needs of the kinds of projects to be supported. (For example, conservation projects often require a steady but modest income over time, while for health projects it might make more sense to spend larger amounts of money in a shorter time period.) Debtor countries are likely to prefer issuing bonds than making lump-sum cash payments, of course. Domestic bonds should be indexed to the dollar to safeguard their value in the event of local currency devaluation.[28]

4. A number of steps can be taken to reduce the risks inherent in a debt swap for the creditor country, the debtor country, and any NGOs participating in the transaction. These include using escrow accounts to hold funds until certain actions are taken; indexing volatile

[28] If possible, bonds issued for this purpose should also be high-quality or "senior" bonds, rather than subordinated bonds, so that the counterpart fund has a priority claim on government resources.

currencies against the dollar; establishing accounts that are independent of either government and have strict access rules; holding funds in offshore accounts; and so on. Given the potential fallout to both sides if the debt exchange fails, it is worth investigating all of these mechanisms and incorporating them into the formal agreement whenever possible (Jack Ross and Jamie Resor, personal communications, May 1999; Deacon and Murphy 1997).

Creation of the counterpart fund

5. As explained above, most public debt for development transactions result in the creation of a counterpart fund in the debtor country that makes grants for the activities specified in the agreement. The counterpart fund can be an endowed trust fund, making grants out of the returns on its principal, or a short- or long-term project or sinking fund that draws down its principal until it is either replenished or disappears. The timing of payments into the counterpart fund will influence what kind of fund it is, along with the total amount of domestic currency to be contributed and the financing needs of the kinds of projects proposed. Endowed funds have been popular for conservation activities, such as protecting national parks, as these typically require stable funding over long periods of time. For public health activities, particularly in areas hard hit by AIDS, malaria, etc., it might make more sense to opt for a short-term project fund, with an intended lifespan of perhaps 3-5 years. If the amount of domestic currency generated by the swap is not great enough, it will not provide a sufficient endowment for an endowed trust, and a sinking fund should be established instead. The Global Environment Facility recently reviewed thirteen conservation trust funds and came up with a set of criteria for making this choice. These criteria are included as an attachment to this paper (GEF 1998).

6. Governance of the counterpart fund is an issue of critical importance to its credibility, survival, and performance. Most counterpart funds are overseen by a committee or board, with representation divided between the creditor and debtor countries and between government representatives and NGO representatives. The optimal composition of the board will of course depend in part on the size, lifespan, and purpose of the fund. Needless to say, the NGOs that have taken the lead in promoting debt swaps prefer that NGO representatives comprise a majority on counterpart fund boards. This has been the case for EAI Environmental Funds. Swiss Counterpart Funds, in contrast, have rarely included NGO representatives. Poland's EcoFund is unusual in having a majority of its board appointed by the Polish government.

In general, most experience with debt swaps in the past suggests that the EAI model, in which both governments have representatives on the counterpart fund board but local NGOs hold the majority, has the greatest chances for success, for several reasons. First, since one of the reasons for establishing a counterpart fund is to dedicate the debt relief "savings" to a specific set of activities, making the fund independent of the debtor country government is usually considered important. For this to succeed, however, the government must actively support the creation of an independent fund (GEF 1998). Second, giving the lead in fund oversight to NGOs can also be reassuring to creditor country decision-makers who are wary of possible

diversion of resources to other uses by debtor country governments. Third, if the counterpart fund is a grantmaking institution, most of its grantees are likely to be NGOs. Finally, an NGO majority on the board can be the best way to foster a sense of ownership of the counterpart fund among those whose support is vital to the success of the swap.

The World Wildlife Fund reviewed the pros and cons of different governance structures in 1996. It's findings are included as an attachment to this paper (Kaiser and Lambert 1996).

7. Assuming the counterpart fund is a grantmaking institution, a decision must be made about eligibility for grants. While local NGOs are almost always eligible, government agencies often are not. In the case of debt-for-health exchanges, allowing service delivery units of the Ministry of Health (like community clinics) to apply for grants might make sense, provided that these units can be held accountable for the use of the grant funds. One option in this regard is to allow government agencies to apply only in partnership with NGOs, which can receive the grants and take responsibility for accounting for their use. The performance records of counterpart funds that have made grants to government agencies should be investigated further before a decision on this issue is made.

8. One of the criticisms of debt swaps and counterpart funds is that they replace debtor country government social spending, rather than adding to it. Ensuring "additionality" is thus an important consideration. Since it is nearly impossible to prove than any one project would or would not have been financed in the absence of the counterpart fund, additionality is often measured against a historical spending baseline. For example, average annual government expenditures on health over the preceding three years might be taken as a baseline; if government spending on health falls below this baseline, disbursals from the counterpart fund would not be regarded as "additional" spending (OECD 1998; Zylicz 1998).

Implementation of activities

9. One of the trickiest tasks in designing a debt-for-health exchange is likely to be the identification of the specific activities to be supported by the counterpart fund. It is important that the activities specified for support in a debt-swap agreement be part of the debtor country's overall strategy for addressing its needs in the relevant sector. For health, this means that the projects that the counterpart fund supports should be consistent with the national health plan or other long-term strategy. If they are not, there is a risk both to the long-term survival of the counterpart fund, which might be seen as obstructing national policy objectives, and to the fund's overall effectiveness in promoting better health.

At the same time, the counterpart fund is likely to generate greater benefits for the debtor country if its activities are focused on a fairly narrow set of issues, rather than

on health as a whole. Focusing on a small set of issues allows the staff of the fund to develop expertise and experience in selecting good projects and to provide technical assistance to grantees and reduces the number of grant applications that might otherwise overwhelm the staff. Perhaps more important, limiting the counterpart fund's agenda to just a few issues might make it possible to define indicators against which progress on the issues can be evaluated. To our knowledge, this has not yet been done for any of the counterpart funds created by debt swaps or for the conservation trust funds established by the Global Environment Facility (GEF 1998).

10. As indicated above, for counterpart funds to achieve their social goals, they must have the ability to select good projects. Building the capacity of counterpart fund staff and/or technical advisors to identify and evaluate projects and grant proposals is thus an important task. In countries where NGOs generally do not have experience in applying for grants and managing grant funds, providing training for NGO staff is also a prerequisite for generating good proposals and making successful grants (Randy Curtis, personal communication, May 1999; GEF 1998).[29]

11. One of the reasons that assessing the record of debt-for-nature and debt-for-development swaps in the past decade is the scarcity of rigorous evaluations of their results. Monitoring and evaluation of the counterpart fund should be built into any debt exchange agreement, to allow adjustments to be made mid-course if necessary and, equally important, to inform future debt exchanges.

12. Finally, it is worth calling attention to two publications that are likely to be particularly useful to anyone involved in designing a debt-for-health exchange. One is the evaluation of conservation trust funds carried out by the Global Environment Facility in 1998 (GEF 1998); the other is a manual for NGOs interested in debt swaps prepared by the International Union for the Conservation of Nature in 1996 (Kaiser and Lambert 1996).

[29] OECD (1998) provides a good discussion of the project cycle for Poland's EcoFund.

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Persons Interviewed

Randy Curtis, The Nature Conservancy, May 12, 1999

Melissa Moye, Independent Consultant, May 14, 1999

Jamie Resor, World Wildlife Fund, May 13, 1999

Jack Ross, New York Bay, May 17, 1999

Michael - FYI. Maybe you've seen this?

National Institutes of Health
National Institute on Drug Abuse
Division of Epidemiology and Prevention Research
6001 Executive Boulevard, Room 5N-5160, MSC 9589
Bethesda, Maryland 20852-9589

FACSIMILE MESSAGE COVER SHEET

Date: June 22, 1999

Following are 12 pages including this cover. If any part of this message is received poorly or missing please call us immediately on the number listed below.

To: Name: Ms. Sarah Holewinski
Organization: White House Office of National AIDS Policy
FAX Tel No.: (202) 456-2439
Tel No.: (202) 456-2437

[redacted]

From: Name: Dr. Peter I. Hartsock
FAX Tel No.: (301) 480-4544
Tel No.: (301) 402-1964

Sarah:

Please share the attached with Sandy, Todd, Cheryl, and other interested staff.

Refer, especially, to page 32, which shows why there IS HOPE and why what your office is doing internationally is so important. Indeed, the attached article reinforces your office's position. Note emphasis on prevention, including behavioral prevention and development of a vaccine. Note, also, basic policy principles beginning on page 33. Best wishes.

Peter

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MAY/JUNE 1999

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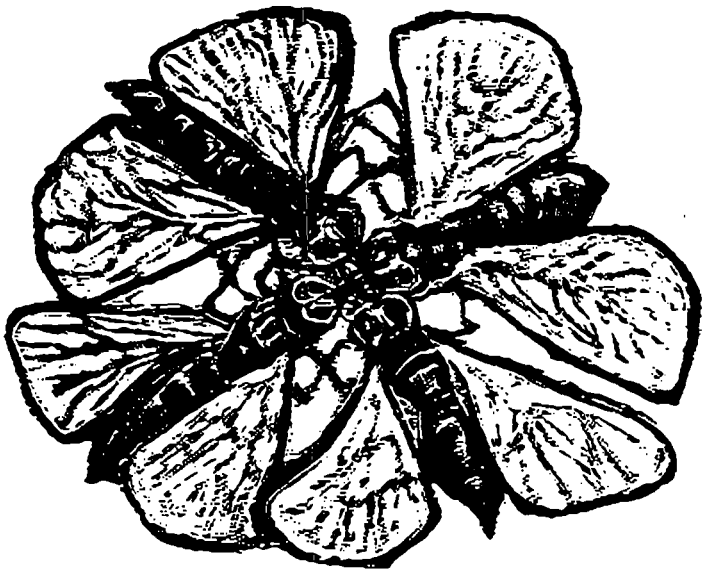

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The Politics of Life and Death

Global Responses to HIV and AIDS

If effectively fighting HIV means openly getting condoms to teenagers or clean needles to addicts, or candidly discussing the prevalence of prostitution in their communities, many politicians would rather avoid the subject altogether—even if it means allowing an epidemic to flourish. Where leaders have lifted their heads from the sand, however, millions of lives have been saved.

by Mary Caron

Both Rajesh and his wife—who prefers not to give her name for fear of being ostracized by neighbors in their Bombay community—are infected with HIV. With the help of money quietly contributed by relatives, they are among the few families in India who can pay for life-prolonging anti-viral drugs—but only for Rajesh. Other couples in India are finding themselves in a similar situation. "It is the woman who is stepping back" so her husband can get treatment, said Subhash Hira, director of Bombay's AIDS Research and Control Center in a recent *Associated Press* story. "She thinks of herself as dispensable."

In Zimbabwe, where 200 people are dying every day from AIDS, life insurance premiums have quadrupled to keep up with rising costs. It would take roughly two years for the average Zimbabwean to pay for one month of treatment at U.S. rates.

In the United States, of course, incomes are much higher—about 74 times those in India, and 46 times those in Zimbabwe. Yet, even here, nearly half of HIV positive patients in a recent national study had annual incomes less than $10,000, whereas the annual costs of their care and treatment came to about $20,000. Two of every three patients in the study had either no insurance or only public health insurance—which may not adequately cover their needs.

And then there is the Central African Republic, where I worked as a Peace Corps volunteer a few years ago. The five-bedroom house where I lived was owned by my neighbor, Victor, who rented it to me while living in a more modest mud-brick house next door. He used the income from rent, plus whatever his eldest daughter could earn selling food in the market, to support ten people. One of them was a little girl of five or six, who used to come over and sing me songs. I didn't realize that Victor was her uncle, not her father, until someone explained that her mother and father had died following "a long illness." There are many households like Victor's. Worldwide, more than 41 million children will have lost one or both parents by 2010, mostly as a result of AIDS. The grandparents or other surviving family members, who often have their own difficulties making ends meet, may find themselves taking care of up to a dozen children.

Clearly, AIDS is a disease that the world cannot afford. And yet, the relentless spread of the virus forces us to confront painful life-and-death choices about allocating resources. Communities, nations, and international donors are all struggling to care for a growing number of the sick; to invest in prevention that can avert millions of future infections; to fund research that can yield life-prolonging treatments; and ultimately to develop a vaccine. To do all of these things at once seems an almost impossible task. But experience in the field demonstrates that there are reasons for hope, even in relatively poor countries where HIV is already a serious problem.

While other diseases target children or the elderly, HIV often strikes otherwise strong and healthy people—those most likely to be taking care of children and contributing to the

economy. And it does so in a way that has repeatedly caught societies unprepared. HIV does not kill within a matter of days or weeks, like other infectious diseases; rather it gives death a kind of "rain check." The asymptomatic period may last 10 years or longer in a country like the United States, though the infection can progress to AIDS in as little as two to three years in a country like Zimbabwe or India, where the percentage of people who can get full treatment and care is much smaller. An infected person may be ill off and on for years, requiring extended care from family or community members. And HIV, while relatively slow to develop in the body, can spread rapidly within a population. About 75 percent of HIV transmission worldwide is through unprotected sex. The rest occurs mainly through sharing of unsterilized needles, through childbirth or breastfeeding from an infected mother to her child, and from the use of infected blood in transfusions.

AIDS now rivals tuberculosis as the world's most deadly infectious disease. Every day last year, 16,000 people were infected with HIV—11 people per minute. Women now account for 43 percent of all adults with HIV/AIDS. And about half of all new infections are in 15- to 24-year-olds. Since AIDS was first recognized in 1981, more than 47 million people have become infected and nearly 14 million have died. The epidemic has taken its heaviest toll in Africa, which has just 10 percent of the world's population but 68 percent of the HIV/AIDS cases—most of them in the sub-Saharan region. In some southern African countries, one in four adults are HIV positive. Thus, the world's poorest countries are staggering under the burden of the world's most unaffordable disease.

As HIV wears down the body's defenses and the infected person becomes increasingly ill from opportunistic infections, the costs of providing care and treatment mount. Worldwide, about 63 percent of the $18.4 billion spent on HIV/AIDS in 1993 went to care, according to a 1996 study by Harvard researchers Daniel Tarantola and the late Jonathan Mann.* Another 23 percent was spent on research and just 14 percent on prevention. Moreover, only 8 percent of global spending took place in "low economy" countries of the developing world, yet more than 95 percent of all HIV-infected people live in developing countries.

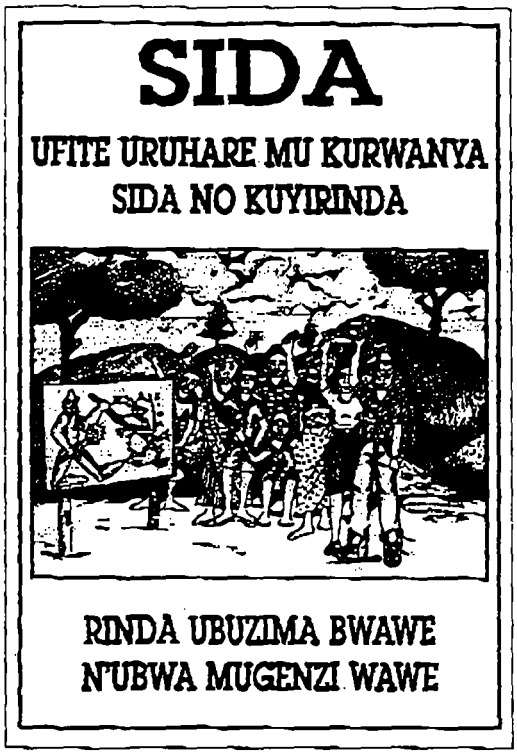
Preventing an HIV infection costs much less than caring for an infected individual. And the benefit of prevention is compounded, since preventing one per-

Figure of a mother and child, from the Yombe tribe of sub-Saharan Africa. *Courtesy of the Museum for African Art, New York. Photo by Jerry L. Thompson.*

**Mann and his wife, Mary Lou Clements-Mann, died in the crash of Swissair flight 111 last September. Mann founded and headed the World Health Organization's Global Program on AIDS.*

son from getting HIV keeps that person from spreading it to others. If a man has sex with three different women in a year, shielding that man from infection also shields his three partners and any children they may have.

However, global resolve to protect the uninfected may be overwhelmed by the challenge of providing for the staggering number already infected. AIDS already rivals the horror of the smallpox epidemic which decimated Native American populations in the 16th century, and the Black Death which wiped out a quarter of Europe's population in the 14th century. If one of every four adults is already infected in Botswana and Zimbabwe, what hope is there for those countries and their neighbors? Many people may now be under the impression that Africa is a continent essentially lost to AIDS, and that the rest of the developing world may soon follow.



Tanzania: Poster in a Rwandan refugee camp. *Courtesy of Population Services International.*

Look more closely, however, and two signs make it clear that the situation is far from hopeless.

First, more than half of the populations of developing countries—about 2.7 billion people—live in areas where HIV is still low, even among high-risk groups. Another third live in areas where the epidemic is still concentrated in one or more high-risk groups, yet "HIV prevalence"—the proportion of a population infected at a given time—is still below 5 percent in the general population. Even in hard-hit Africa, there are at least a few countries—such as Benin, Senegal, Ghana, and Guinea—where adult infections are still under 3 percent. These areas of relatively low HIV prevalence present a one-time opportunity—and one that will not last long—for policy makers to implement solid strategies for keeping HIV at bay.

Second, even in places where the epidemic has taken hold, campaigns to stop further escalation have proven successful in both the early *and* the later stages of an epidemic. It's instructive to see how that was done in each case—first in Thailand, where an effective campaign was able to ward off an incipient epidemic and to keep prevalence relatively low in the general population, and then in Uganda, where a high percentage of the population was already infected.

By taking action relatively early, Thailand was able to keep HIV infections from spiraling out of control in the general population. In early 1988, officials were alarmed by reports from an ongoing survey at a Bangkok hospital showing that infections among drug addicts who use needles, or "injecting drug users" (IDUs), had jumped from 1 percent to 30 percent in the preceding 6 months. In response, the Thai Ministry of Public Health set up a system to collect data on HIV infection at selected sites throughout the country. These "sentinel surveys," as they are called, revealed even more alarming news. By mid-1989, HIV was present in all 14 provinces surveyed. In the northern city of Chiang Mai, 44 percent of the prostitutes were infected. And HIV was also found in some pregnant women, who are considered representative of the general population.

Concerned about the possibility of a general epidemic, the Thai government then conducted a national survey to identify behaviors that might be driving the spread of the virus. What it found was that more than one-fourth of the country's men were having sex with prostitutes, both before and outside marriage. In 1991, Prime Minister Anand Panyarachun assumed personal leadership of the National AIDS Committee and aggressively escalated the government's response. Official spending on HIV/AIDS was pushed from $2.6 million in 1990 to $80 million in 1996.

The Thai effort mobilized sectors of the population ranging from prostitutes to teachers to monks. In the commercial sex industry, which accounts for an estimated 14 percent of Thailand's GDP, brothel owners and employees now require every male customer to use a condom. Government STD clinics hand out about 60 million free condoms a year, and encourage their use. Several monasteries in northern Thailand are providing counseling services for HIV-affected people, and helping them find employment. Schools are teaching children how to reduce sexual risk-taking.

Within three years after this heightened response got underway, there were signs that it might be working. A second national behavior survey showed that between 1990 and 1993, the percentage of 15–49 year old men reporting sex outside of marriage had dropped from 28 percent to 15 percent. Among men

who continued to engage prostitutes, the percentage reporting that they always used a condom doubled. Condom sales rose and sexually transmitted disease declined throughout the country. HIV infection also declined. Annual testing of 21 year-old military conscripts, which had found 0.5 percent of them infected in 1989, showed prevalence peaking at 3.7 percent in mid-1993 (reflecting a predictable lag between risky behavior and evidence of infection), then declining to 1.9 percent in 1997. Similarly, testing of pregnant women in all 76 provinces found HIV infection at 0.5 percent in 1990, increasing to 2.4 percent in 1995, then declining to 1.7 percent in 1997.

The health and social costs of this disease still inflict a heavy burden on the Thai economy, and the costs continue to grow. The Asian financial crisis, which began in Thailand in 1997, has forced cuts in the national AIDS budget and has put greater strains on affected families. And Thailand will have to remain vigilant to keep prevalence low. While condom use has increased in the country as a whole, it remains much lower in rural areas among people with limited education, and among those who engage in casual sex. A 1995 survey also showed that many drug users were reverting to sharing needles. Nonetheless, by acting quickly and aggressively, Thailand may have averted a full-blown HIV epidemic.

Uganda, unlike Thailand, launched its prevention campaign at a time when a high percentage of the population had already been infected. By 1999, in a population of less than 21 million, 1.8 million Ugandans have already died and 900,000 more have HIV. Moreover, Uganda has far less financial capability than does Thailand, with a per-capita GNP of just $300 compared with Thailand's $2,960. Yet Uganda's success in bringing down high HIV prevalence provides evidence that fighting HIV is not impossible, even when the situation at the outset looks dire. When Yoweri Museveni became president in 1986, HIV was already a serious problem. Museveni quickly implemented a national plan, enlisting both government agencies and non-governmental organizations (NGOs) to join the fight. Uganda established the first center in sub-Saharan Africa where people could go for voluntary and anonymous HIV testing and counseling.

Like the Thai campaign, the Uganda one succeeded by mobilizing a wide spectrum of groups. A student heading home after class at Makerere University in Kampala, for example, may well get an update of the latest information on avoiding HIV—courtesy of her "boda boda" bicycle taxi driver, who has been trained by the Community Action for AIDS Prevention project. Or if you live in the Mpigi district, the local Muslim spiritual leader, or Imam, may stop by for a discussion of AIDS and Islam. Trained by the Family AIDS Education and Prevention Through Imams project of the Islamic Medical Association of Uganda, some 850 of these leaders have taken HIV prevention messages directly to the homes of more than 100,000 families throughout the country.

The Ugandan government has conducted regular surveys of sexual behavior, and these studies show signs of substantial change from 1989 to 1995. The share of 15–19 year-olds who report never having had sex has increased from 26 to 46 percent for girls, and from 31 to 56 percent for boys. The share of people reporting that they had used a condom at least once rose from 15 to 55 percent for men and from 6 to 39 percent for women.

HIV prevalence has also dropped, most notably among young people between the ages of 13 and 24. Between 1991 and 1996, the percentage of pregnant women testing positive for HIV in some urban areas dropped by one half, from about 30 percent to 15 percent.

So it is apparently possible to keep HIV in check. But it's not easy, whether the problem is caught in its early stages as it was in Thailand, or has become full-blown as it was in Uganda. It's difficult to change people's behavior, especially when it means challenging highly sensitive—and very personal—questions about sex, prostitution, infidelity, and drug dependence. "We have to stop thinking that HIV/AIDS is only a health problem. It is a development problem," says the World Bank's HIV/AIDS coordinator Debrework Zewdie. To stop it will take "a commitment from governments in developed and developing countries. Zoom-in-and-zoom-out programs are not going to work; we have to build local capacity."

There is no single formula for building that capacity, although the most innovative and appropriate solutions often come from within communities. Wherever initiatives are taken, however, there are some basic policy principles that seem to apply.

Early and aggressive action: Worldwide, we already spend nearly $5 on HIV/AIDS treatment and care for every $1 spent on prevention. Implementing prevention measures before even the first case of AIDS is reported can reduce that ratio and thereby greatly reduce the overall costs of care. On the other hand, if governments avoid thinking about prevention until AIDS cases start to burden the health system, the epidemic may already have invaded large parts of the population. Yet because symptoms of AIDS typically do not show up until several years after infection, the threat may be largely invisible until large numbers of people have been doomed.

Communities: Mobilizing business, religious, and civic leaders can galvanize broad support for raising public awareness of the risks of HIV and reducing the stigmatization of those infected. In

Zimbabwe, for example, the Commercial Farmers Union recruited and sponsored farm owners to participate in a Family Health International-supported program that trained more than 2 million farm employees and family members in a nationwide HIV/AIDS prevention effort.

Political leadership: In both Thailand and Uganda, HIV/AIDS prevention moved from simply a public health concern to a national priority. Prevention campaigns can succeed when political leaders put them at the top of the national agenda, use their public platform to encourage safer behavior, ask communities and NGOs to join the fight, and work to change laws that prohibit such effective tools of prevention as condom advertising and needle purchases.

Data collection and dissemination: HIV is a stealthy attacker that can infiltrate an unsuspecting community and spread rapidly. It is therefore important to collect infection data from health clinics and to assess behavior trends. By publicizing the results of its sentinel and behavior surveys, Thailand made its population aware of the extent of risk in the country.

Low-cost, high-quality condoms: Mr. Lover Man, a human-size condom mascot, can now be seen cruising the streets, attending soccer games—and, of course, passing out condoms—in several South African cities. In Portland, Oregon, teenagers have been given discreet access to protection via 25-cent condom vending machines in public rest rooms. Using new variants of old marketing techniques, organizations like Population Services International (PSI) have dramatically increased the worldwide distribution of HIV prevention information and reliable low-cost condoms. In Zaire, PSI "social marketing" programs helped condom sales to rise from 900,000 in 1988 to 18.3 million in 1991, averting an estimated 7,200 cases of HIV.

Targeting interventions to high risk groups: HIV usually gains a foothold in one or more groups whose behavior puts them at higher risk: prostitutes, IDUs, people with another sexually transmitted disease, young military recruits, migrant workers, truck drivers, or homosexual men. The virus can spread rapidly within the group and, once established, can move to those at lower risk of infection through people who act as a bridge between high and low risk groups—for example, men who have visited prostitutes and then bring the disease home to their wives.

A World Bank report, *Confronting AIDS*, suggests that countries can keep HIV at bay by targeting these high-risk groups with HIV prevention. It is important to note, though, that such efforts, if not managed with particular care, can trigger unintended public reactions. Singling out particular groups may inadvertently raise perceptions that HIV is a problem only for "those" people. Some public health experts have also noted that programs to give prostitutes a regular monthly course of antibiotics, for example, may reduce STDs but are harmful to overall health. And when HIV is present in the general population, questions of equitable distribution of resources arise as well.

Preventing HIV infection in someone with a high rate of partner change can avert many more future infections than preventing infection in a person with low-risk behavior, says the World Bank report. For example, compare two prevention programs. The first, in Nairobi, Kenya, provided free condoms and STD treatment to 500 prostitutes, of whom 400 were infected. Each of the women had an average of four partners per day. Under the program, condom use rose from 10 to 80 percent. A calculation based on the estimated rate of transmission, number of partners, condom effectiveness, and secondary infections, shows that this program averted an estimated 10,200 new cases of HIV infections each year among the prostitutes, their customers, and their customers' wives. If the same program had instead targeted a group of 500 men, who had an average of four partners per year, 88 new cases of HIV would have been prevented. The second program would have saved fewer than 1 percent as many people as the first.

When IDUs share needles contaminated with blood, HIV can sweep through their population even more rapidly than it does among prostitutes, because the risk of transmission per contact is higher. In January 1995, HIV prevalence among such drug users in the Ukraine was under 2 percent. Eleven months later, it had shot up to 57 percent. As of December 1997, 66 percent of HIV infections in China and 75 percent in Kaliningrad, Russia resulted from shared needles. Half of all new HIV infections in the United States occur among intravenous drug users, even though less than half of 1 percent of the U.S. population injects drugs frequently. And as with prostitution, HIV can spread from this high-risk group to the population at large.

Needle exchange programs aim to reduce the transmission of bloodborne infections, including HIV, by providing sterile syringes in exchange for used, potentially contaminated syringes. After the U.S. state of Connecticut made needles available from a pharmacy without a prescription, the percentage of IDUs who share needles dropped from 71 percent to 15 percent in three years. A review of studies conducted between 1984 and 1994 showed that HIV prevalence among IDUs increased by 5.9 percent per year in 52 cities that did not have needle

exchange programs, but declined by 5.8 percent per year in 29 cities that did.

The experience of the past two decades has given us a set of policies that are proven to work, at least at mobilizing communities to keep HIV in check. Such policies should be in place in every country in the world. Yet, proven policies aren't always enough. Even when faced with the specter of an ever more devastating human and economic toll, people in positions of political power too often ignore—or thwart—the most effective HIV-fighting strategies. If confronting AIDS means talking about such potentially explosive topics as distribution of condoms to teenagers, or of needles to addicts, or the prevalence of prostitution in their communities, many politicians would rather avoid the subject altogether.

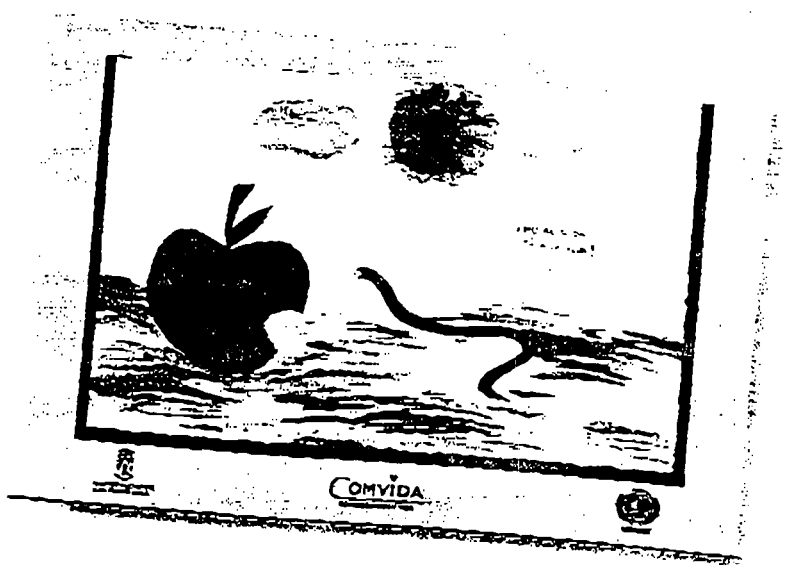
In Kenya, where tourism brings in more money than exports of tea, coffee, or fruit, officials—perhaps leery of scaring off tourists—declared the country AIDS-free, even when studies among Kenyan prostitutes showed 60 percent of them to be HIV-infected. The government did not admit the scope of the epidemic until late in 1997. By then, more than a million Kenyans were infected. The country is belatedly taking steps to implement some HIV-fighting programs, such as an awareness campaign for students. Muslim and Catholic religious leaders, however, object to sex education in schools, saying it would corrupt students' morals. By now, the number of infected Kenyans has passed 1.6 million—about 12 percent of the adult population.

Refusal to pay serious attention has been a common failing in these battles, in which the invasion is so stealthy and the victims are often socially marginalized. Even in Thailand, where the government eventually roused itself to lead an aggressive anti-HIV campaign, there was an initial period of denial in the late 1980s, when infections were burgeoning among prostitutes in the Northern provinces, particularly in the Chiang Mai area. Given the large role of commercial sex in the Thai economy, officials may at first have been more concerned about the possible loss of tourism dollars than about the risk of an epidemic. Fortunately, they did not continue to ignore the problem.

In the United States, where about half of all new HIV infections are spread through shared needles or to sexual partners of IDUs, the government bans the use of federal funds for needle exchange programs. Last April, after carefully reviewing research on needle exchange programs, U.S. president Bill Clinton declared that these programs curb AIDS without promoting increased illegal drug use. Yet, in the same announcement, he declined to lift an existing ban on federal funding for needle exchange, which applies to all domestic and overseas programs. Senator Paul Coverdell of Georgia introduced a bill that would prevent the ban from ever being lifted, and Representative Todd Tiahrt of Kansas authored a provision in the federal budget that bans the use of federal and city funding for needle exchange in the nation's capital. Politicians do not want to appear "soft on drugs" by helping drug users, who are often perceived as a criminal element—and who some cynically believe would die of drug overdoses anyway, even if they didn't die of AIDS. Even the more self-interested argument that preventing HIV among drug users could prevent it from spreading to the general population is largely ignored.

Similarly, U.S. officials were slow to act when HIV was first recognized in the early 1980s among homosexual men. Condemnation of the gay community was widespread, and some people went so far as to suggest AIDS was a heavenly retribution for worldly sins (i.e., homosexual sex). Fortunately for the U.S. population as a whole, as well as for those segments most at risk, members of the gay community launched their own aggressive and highly organized campaign to prevent HIV. Between the 1980s and the 1990s, AIDS was turned from a marginalized problem of "those people" to a high-profile national health threat. And while about half of those infected are still not in ongoing care, prevalence has been kept low.

In less politically or economically stable countries than the United States, however, leaders are sometimes overwhelmed by social and economic upheaval that may fatally distract them from the threat of HIV. As apartheid was ending in South Africa, for example, an influx of commercial trade and migrant workers from neighboring countries opened up a kind of viral superhighway for the epidemic. Legislators,



Honduras: "No to AIDS! Yes to Life," says the sign. *Courtesy of Population Services International.*

South Africa: *a stylish "hat." Courtesy of Population Services International.*

grappling with the momentous political and social changes at hand, failed to foresee that these changes might also bring deadly consequences, and no proper prevention strategy was put in place. Forced displacement of black people under apartheid, and the deploying of workers far from their families, had also led to higher rates of extramarital sex and prostitution. Today, more than 3 million South Africans—one of every eight adults—have HIV. In a country of just 43 million, 1,500 people are infected every day.

The political and social climate in South Africa has been slow to change. The government has been accused of stifling non-governmental action with bureaucratic restrictions. Social stigmatization runs very high. A woman who had just publicly declared her HIV-positive status as a means of helping others to fight discrimination was beaten to death just after Christmas last year by a mob of neighbors who stoned her, kicked her, and beat her with sticks.

After a long period of rarely addressing the issue, departing president Nelson Mandela declared in March that "the time for such silence is now long past. The time has come to teach our children to have safe sex, to have one partner, to use a condom."

The painful lessons learned in South Africa and other AIDS-ravaged countries can now be brought to bear on the world's two largest countries, where the future health of a large portion of humanity lies at stake. The choices that Chinese and Indian leaders make about fighting HIV in the next few years will affect the course of the epidemic for one-third of the world's people. India and China both have relatively low HIV prevalence, but alarming signs of increasing infections among some groups, coupled with known risk factors, make both countries precariously susceptible. If HIV prevalence in China and India were to reach the levels now seen in some southern African countries, up to 300 million people would be infected. The magnitude of the impact—on economic productivity, social and political stability, psychological health, and the human spirit worldwide—is almost unimaginable.

In India, at present, less than 1 percent of adults are infected. Still, with an adult population of almost 500 million, that comes to 4 million HIV positive people—in absolute numbers, more than any other nation. Prevalence is highest among prostitutes, truckers, and IDUs, and there are signs that HIV is also gaining a foothold in the general population. A study conducted between 1993 and 1996 in the city of Pune, south of Bombay, showed that close to 14 percent of the city's monogamous married women had been infected.

In Bombay, by now, more than 50 percent of the city's 50,000 "sex workers" are HIV-positive, as compared with just 1.6 percent in 1988. Prevalence has also jumped into the double digits among prostitutes in the cities of Pune, Vellore, and Chennai (Madras). By 1993, about 70 percent of the 15,000 IDUs in India's Manipur state, located near the "Golden Triangle" of Myanmar and China, were HIV-positive. And more recently, a random survey in Tamil Nadu indicated that some 500,000 of that state's 25 million people are now infected. The epidemic has also spread among people who live and work along the major north-south truck corridor. In short, the evidence suggests that India's AIDS situation is on the verge of exploding, if the country's leaders don't mobilize quickly enough to stop it. Moreover, in a country with 16 major languages, more than 1,600 dialects, and six major religions, such mobilization will require exceptionally skillful coordination and organization.

The Indian government has made a commitment to fighting HIV and is working with donors to coordinate prevention and care efforts. The question now is whether it can mobilize quickly enough. Last December, Prime Minister Atal Behari Vajpayee declared HIV and AIDS to be the country's most serious public health challenge. With financial assistance from the World Bank, the government is implementing a National AIDS Control Program. It aims to give autonomy and financial support to the country's 25 states in order to upgrade their health service delivery infrastructures and carry out HIV preven-

tion and care targeted to high risk groups. The state of Tamil Nadu already has a system in place to give financial and technical support to NGOs and has set a precedent for an effective decentralized anti-HIV campaign.

Greater reason for hope, though, lies in India's active local communities and a thriving network of NGOs. Following on the Gandhian legacy of grassroots resistance to British colonialism, local groups are emerging throughout India to tackle HIV. In 1992, for example, representatives from SANGRAM, a rural women's group in Maharashtra, went into a local red light district and began passing out condoms, telling prostitutes, "This will save your life and mine." Some prostitutes, resentful of mainstream disdain for them, did not appreciate outsiders coming in to tell them what to do. "In the beginning, it was difficult; they even threw stones at us," said SANGRAM General Secretary Meena Seshu. Eventually, though, a small group of prostitutes took over the condom distribution and began educating their peers on how to avoid STDs and HIV. Since then, some 4,000 prostitutes in seven districts have formed their own collective, called the Veshya AIDS Muquabla Parishad (VAMP). The women attend training sessions on personal health, sexuality, STDs and superstition, negotiating condom use with clients, and how to be counselors for the infected and their families. Seshu notes that, in addition to lowering STDs and pregnancies, the collective has given the women strength to tackle difficult issues that might previously have been neglected. Whereas their health needs were often overlooked in the past, for example, the prostitutes are now demanding that doctors examine them and treat STDs properly. Organizations like SANGRAM and VAMP are gaining strength in several regions of India, and as they grow they are using their programs as a basis for advocating improved AIDS-prevention policies throughout the country.

In China, as far as we know, there is not yet a large-scale HIV epidemic. However, the potential for an enormous epidemic is becoming evident. China—shades of South Africa—is relaxing once-stringent economic constraints and opening previously closed doors to the outside world. These economic policy shifts are driving rapid social change, and may also be paving the way for HIV.

Once confined to foreign visitors and small groups of injecting drug users in Yunnan province, HIV has entered a phase of "fast growth" throughout the country according to a recent report by the Chinese Ministry of Health. Left unchecked, HIV infections could exceed 1 million by the year 2000 and 10 million by 2010. The World Health Organization's most recent estimate puts the number infected in China at 600,000.

China eradicated open prostitution in 1949. Since the 1980s, however, commercial sex has resurfaced and seems to be growing. Girls, lured by money in China's burgeoning cities, are moving from rural areas and are often drawn into prostitution. Economic expansion is also increasing the number of migrant workers, who may now represent up to 15 percent of the total labor force. Often young, unmarried or living away from their spouses, migrants may be more likely to have casual sex or sex with prostitutes, greatly increasing their risk of infection. And here, as elsewhere, the sharing of needles by drug addicts spreads HIV even faster than prostitution. Among injecting drug users in Yunnan province, almost 86 percent are now infected.

The Chinese government apparently recognizes the magnitude of threat to its more than 1.2 billion people. A national program for HIV/AIDS control has been approved by the State Council, China's highest governing body. Hypodermic syringes and needles are available for sale at all pharmacies throughout the country. More than a billion condoms were produced by Chinese manufacturers in 1998 and distributed by the State Family Planning Commission. At a time when other ministries were facing stiff cutbacks in staff and resources, the National Center for HIV Prevention and Control was set up last July to study the epidemiology of HIV, to develop health education, and to conduct clinical work for pharmaceuticals. The Chinese Railways Administration distributed AIDS prevention information to its staff of 6 million workers and among railway passengers, many of them migrants.

China's past performance with public health management offers additional reason to hope the country can keep HIV in check. China has a unique history of bringing about swift social changes to improve health. As part of the "barefoot doctors" program in the 1970s, village representatives throughout the country were given basic public health training. Their efforts to provide basic health care and convey preventive health messages to their communities brought significant declines in infectious disease and child mortality in China. Today, China's health indicators are much closer to those of industrialized nations than to those of the developing world.

An emphasis on preventing HIV infection is essential to stemming this global health catastrophe. But even though behavior changes can dramatically reduce the spread of infection, they will never eradicate HIV. And while scientific advances have greatly improved treatment, no drug therapy has yet been able to fully rid the human body of the virus. Furthermore, anti-viral treatment is out of reach for all but a small fraction of the more than 33 million infected.

Ultimately, successful containment and eventual

eradication of HIV will require a safe, effective, and affordable vaccine. Many scientists think we can eventually develop such a vaccine—despite some significant hurdles. HIV is very efficient at making copies of itself, a replication that leads to disease despite a vigorous immune response. It also mutates rapidly, and has produced many different strains of itself, which means an effective vaccine would have to be able to recognize and fight off each nuance of the virus. Nevertheless, candidate vaccines have already been able to stimulate some immune response in human volunteers, and seem to be safe.

Namibia: *Two options. Courtesy of Population Services International.*

Even under the most optimistic scenarios, however, the development of an effective vaccine will take years—and the risks to humanity will continue to escalate if not powerfully addressed. In the last decade or so, 25 experimental vaccines have been tested in studies involving small numbers of volunteers but only one has advanced to larger scale "efficacy trials." "Unless there's a major breakthrough," says Dr. Seth Berkley of the International AIDS Vaccine Initiative, "it's unlikely we'll have a vaccine within the next decade."

Meanwhile, even the testing poses formidable challenges. For example, some standard preparation strategies used for other vaccines cannot be used for fear that a weakened form of the live virus or a whole killed virus might cause HIV infection in the person vaccinated. Even after the basic research on safety and effectiveness has been conducted, private pharmaceutical companies will still need to develop a commercial product—a process that takes an average of 10 years and costs at least $150–250 million. Because HIV has hit developing countries hardest, a vaccine that offers any real hope of eradication will need to be inexpensive, easy to transport and administer, require few if any follow-up inoculations, and protect against any strain or route of transmission of the virus.

Getting adequate funding, too, has been an uphill battle. Five years ago, the National Institutes of Health (NIH) decided not to fund large-scale efficacy trials of any leading AIDS vaccines—at the time causing a serious setback to the research. This year, NIH increased vaccine research funding by 79 percent. But if it takes over 10 years to develop a vaccine as Dr. Berkley expects, it could be several decades before the vaccine allows us to put HIV on the road to eradication.

Sitting on the edge of a big wooden chair in my living room, Amélia—the young niece of Victor, next door—used to sing hymns, waiting for lunchtime, while I did Saturday cleaning. She was a skinny kid so I liked giving her a good meal. But she got thinner and thinner. And then, her grandmother had to tie an old towel around her head to hide the open sores. But she couldn't cover up Amé's nose, which had somehow melted away. My neighbor came one day to tell me that Amé was no longer allowed to eat at my house, for fear she would infect me.

Amé died about a year later. I could tell, by the look in her eyes, that she knew what was happening to her. I didn't do anything to take her pain away. I didn't go over to my neighbors and insist that they let her come back. I didn't explain to them that Amé couldn't possibly infect me by eating from my dishes. I was immobilized—perhaps because I didn't know how to answer the unspoken questions of a little girl who didn't understand why this was happening to her.

This article has been based on numbers, but for every number that adds up incrementally to give us the startling statistics we now have, there is a human tragedy. Facing up to the scale of the suffering that lies behind those rising numbers can become an overwhelming challenge—one that we'd rather not think about. Yet, if we don't think about it clearly enough to find a way of stopping HIV in its tracks, a great many more communities, on every continent, will lose those men and women who are in the prime of life, as Amélia's parents were. And then they will lose their Amélias.

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