

FINANCIAL CLAIMS OF THE CZECH REPUBLIC

IN DEVELOPING COUNTRIES

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INTRODUCTION

The emergence of the Czech Republic's claims towards the developing countries has its source in the history of the former socialist Czechoslovakia, which was a generous supporter of its actual and potential ideological allies. Within the building of a worldwide socialist society, Czechoslovakia supported mostly countries which had friendly relations with socialist regimes.

Until the 1960s, assistance to such countries mostly took the form of material aid. In the case of Czechoslovakia, an important role was played by support for business that could also prove advantageous to the Czechoslovak economy. It is, for instance, the case of the construction of technological units, engineering products and a significant volume of arms (Jelínek 2012).

Czechoslovakia also supported the "export of the revolution". This particularly concerned the operations *Double Juego* and *Manuel*, which were targeted at supporting underground leftwing revolutionary guerrillas in Latin America (Bortlová 2010).

One of the manners of financing these supplies was providing loans on the basis of established international agreements or financial agreements that, in the case of civilian loans, included supplies of investments, and in the case of special government loans concerned supplies of what is known as specialized technology (MF 2005a). The term "specialized technology" includes arms and other military equipment as well as military vehicles that could be used for non-military purposes. However, their military use is likely to be presumed in view of the confidential nature of these contracts, the texts of which have not yet been published, as a result of which their specific content is not yet known.

The issue of financial claims (debts) of the developing countries towards the CR has been relatively unexplored in scholarly literature. The scope of loans and other kinds of assistance provided to "friendly" developing countries was published as late as 2006 (Stojanov 2006). Before that, only indefinite sums without the necessary context were leaked to the public. There is very little data on the efficiency of the assistance in question. That has been one of the reasons why the Czech and Slovak public in the 1990s and at the beginning of the 21st century displayed very little interest in providing any assistance to developing countries with the exception of humanitarian aid.

The main goal of this text is to provide basic information concerning the development of financial claims and obligations (i.e. debt) of the developing countries towards the CR, primarily from the 1990s up to 2017 and in the context of the development of the post-socialist country and its relation to the developing countries. The secondary goal of this work is to point out particular ways to get rid of the debt that were chosen in the period in question.

METHODOLOGY

For the needs of this paper, the information was analyzed from primary sources such as the Ministry of Foreign Affairs of the Czech Republic and the Ministry of Finance of the Czech Republic, and the data dealing with Czech debt relief. The advantage is that the information is generally from primary sources. We also analyzed media newspaper information such as the BBC (former Czech branch), the Respekt journal, etc. As for the conversion exchange rates from Czech crowns (CZK) to U.S. dollars (USD), the rates were used according to the Czech National Bank on the specific date.

FROM DONOR TO RECIPIENT AND DONOR AGAIN

Czech developmental policies have a long tradition dating back to the time of Czechoslovakia, which engaged extensively in the developing regions throughout the post-1945 period. The available sources show that this most often concerned cooperation in trade realized by supplying investments, special government loans and specialized technology (arms) and providing expert services. These were funded by the governments from their own resources or by Czechoslovak army (firm) loans (for details see Zidek, Sieber 2007 and 2009).

Contemporary developmental assistance has been ongoing again since 1995, when the CR entered the club of OECD countries (Horký, Lightfoot 2019: 23). One of the main declared strategies was the transfer of experience from the process of political and economic transformation in the 1990s into the „Southern“ countries and Eastern Europe, which became more of a myth than reality according to Horký (2012: 27–28). This also corresponds to the weak results of the Czech ODA in the CDI Index (marking the willingness to assist developing countries) in 2012 among the 27 richest countries in the world, where the CR ranked 24th (see below for details).

As a new member of the EU, the CR was supposed to enhance its Official Development Assistance (ODA) to 0,17 percent in the ratio ODA/GNI¹ in 2010 and 0,33 percent in 2015 (MZV 2010b). Figure 1 shows that this financial obligation has not yet been met.

1 Gross National Income (GNI).

Figure 1: The level of Czech ODA in the ODA/GNI ratio (1999–2017)

Year	ODA (in million CZK)	ODA/GNI (in percentage)
1999	516	0.027
2000	624	0.032
2001	1,007	0.047
2002	1,486	0.065
2003	2,556	0.101
2004	2,780	0.106
2005	3,236	0.114
2006	3,637	0.120
2007	3,633	0.110
2008	4,245	0.124
2009	4,077	0.120
2010	4,342	0.127
2011	4,426	0.125
2012	4,291	0.124
2013	4,125	0.114
2014	4,404	0.112
2015	4,894	0.115
2016	6,365	0.142
2017	6,371	0.150

Source: Stojanov (2006), MZV (2010a, 2012, 2013, 2016, 2017, 2018a, 2018b)

The primary forms of assistance are the following: multi-lateral (70% in the long run) and bilateral assistance (30%). While multilateral assistance is mostly mandatory ((the Czech Republic committed itself to payments as part of its memberships in international institutions such as various UN agencies and the European Union), and the expanding

contributions of the CR to the EU budget (and consequently to its development policies). Bilateral assistance is mostly focused on projects realized by Czech subjects. The projects mostly aim at so-called programme and projects countries². According to the new concept of the Czech ODA, the program mostly focus on environmental, agricultural and social sectors (including education, social and health services), economic development (including energy) and support for democratic development, human rights and social transformation.

The Ministry of Foreign Affairs of the Czech Republic (MFA) as the overseer of developmental assistance according to the Act on Development Cooperation and Humanitarian Aid from 2010. It secures the strategic and financial framework for the realization of developmental, transformative and humanitarian activities, including their probing and evaluation. The Ministry of Foreign Affairs is also responsible for compliance of the implementation of the Czech ODA with the international obligations and with the overall priorities of the Czech Republic's operations abroad. The MFA runs the Czech Development Agency (CRA) and is responsible for the implementation of bilateral Czech ODA projects in priority developing countries and partly also in Ukraine (MFA 2018).

In 2017 a new strategic and program framework of the Czech ODA was formed. Government Resolution no. 591 of 21 August 2017 adopted the Strategy for International Development Cooperation of the Czech Republic for the period 2018 - 2030. In the fall of 2017, the Council for Foreign Development Cooperation confirmed six bilateral development cooperation programs for the period 2018-2023 with Bosnia and Herzegovina, Ethiopia, Georgia, Cambodia, Moldova and Zambia. Both the new Strategy and bilateral development programs reflect the priorities of the Agenda 2030 and Strategic framework of the Czech Republic 2030. In addition, the

2 The concept of the Development Cooperation Strategy of the CR (MZV 2010b) divides the priority countries from the CR's perspective into the following: i) programme countries (Bosnia and Herzegovina, Ehtiopia, Moldavia and Mongolia) with more precise programmes of bilateral cooperation with a more concentrated sector-driven focus, and ii) project countries (Georgia, Cambodia, Kosovo, Palestinian autonomous territories, Serbia), i.e. countries that acutely need developmental aid, but which for objective (financial) reasons, cannot be founded on a bilateral basis. The ministry also lists within the ODA iii) other countries in the regions (often former priority countries, e.g. Angola, Vietnam, Zambia), where historical projects are still operational and the current support mostly takes form of small, local projects or so-called trilateral cooperation. After the session of the Council for International Cooperation held in 2015-2016, the government approved its resolution no. 631 from July 21, 2016, which includes a new list of partner countries for the period until 2018. The countries are: Bosnia and Herzegovina, Ethiopia, Georgia, Cambodia, Moldavia, Zambia. The same resolution includes a specific category of countries that includes Afghanistan, Palestine and Ukraine and, based on the resolution no. 588 from June 27, 2016, also Syria. The remaining priority countries, i.e. Mongolia, Kosovo and Serbia, should see the completion of current projects in the period of 2018-2020 and the cooperation in this manner should then come to an end. The countries will cooperate, but in different forms, mostly on a commercial level (MZV 2017b).

recommendations of the OECD-DAC Peer Review of 2016 have been taken into account (MFA 2018).

The main objectives of the Czech ODA strategy include more concentrated implementation of bilateral programs in accordance with comprehensive SDGs and better continuity of humanitarian and development activities to support the rapid stabilization of the partner countries and more efficient linking of bilateral and multilateral activities, including stronger involvement of Czech organizations in international financial instruments (MFA 2018). The implementation of these principles in practice at the bilateral level has been the responsibility of the Czech Development Agency since 2008. Conceptual matters have been dealt with by the Department of Development Cooperation and Humanitarian Aid within the Ministry of Foreign Affairs since 2003. Above them is the inter-ministerial Council for Foreign Development Cooperation as a co-ordinating body since 2008.

In 2012, bilateral projects were mainly targeted at the Western Balkans and Eastern Europe (27% of the total budget for bilateral projects in 2012), Sub-Saharan Africa (11%), the Middle East (7%), East Asia (10%), South and Central Asia (28%) (see MFA 2013). In 2016, the Balkans and Eastern Europe received the largest part of the budget of the Czech ODA earmarked for bilateral aid (26%), followed by Middle East and North Africa (16%), South and Central Asia (11%), sub-Saharan Africa (8%) and the other Asian states and the Pacific (6%) (MFA 2017a).

According to the sectoral focus, the Czech bilateral projects under the ODA in 2017 focused on the themes of education, health, water and sanitation, governance and civil society, disaster prevention and preparedness solutions, manufacture and supply of energy, agriculture and forestry, and also on protection of the environment (MFA 2018).

According to the CDI Index³, the Czech Republic was in 19th position in 2017 in terms of assistance to developing countries. The best results are in the field of the environment, thanks to high gasoline taxes and decreasing greenhouse gas emissions per unit of GDP. It also has above-average results in technology and trade, where relatively low barriers to imports from developing countries and substantial research support is involved. Nevertheless, in the area of development aid provision, the Czech Republic is assessed very badly, mainly due to low financial performance, which is

³ The CDI index (Commitment to Development Index) is compiled every year (since 2003) by the Center for Global Development (CGD). It concerns a table of the 27 wealthiest countries in the world according to their policies towards developing countries. This index goes beyond the framework of a standard comparison of the volume of foreign aid; it evaluates the policies of advanced countries in seven areas which are important for developing countries: aid, trade, investment, migration, environment, security and technology (CGD 2013). Further information is available at the website cgdev.org/cdi.

at one of the lowest places among the CDI countries. The Czech Republic also has a low rating with regard to the quality of ODA provision. In this respect, the Czech Republic should improve in the area of how the assistance it provides improves the transparency and quality of teaching in the target countries. In the field of migration, the Czech Republic is second worst because of its immigration policy and is again criticized for its low openness to immigrants, students and refugees from developing countries (CDG 2018). This evaluation is similar to the results from 2013 when the Czech Republic was criticized for not-too-extensive foreign aid program, barriers to migrants and small proportion of foreign students from developing countries, a small number of refugees from areas hit by the humanitarian crisis and a small number of immigrants from developing countries (Rodman and Clark 2013).

In this way, the Czech Republic is repeatedly criticized for its fragmentation and low efficiency in providing foreign development assistance. The most frequent criticism is the excessive promotion of national (security, economic and political) interests, the low financial volume of the Czech ODA (Majerová 2012) and lack of coherence or contradiction with other policies of the Czech governments, such as migration policy (Stojanov et al. 2017).

LOANS – THE NEW SITUATION THAT EMERGED IN THE 1990s

The end of the Cold War completely changed the situation also in terms of the provision of further loans, but also in political and economic relations with many developing countries⁴. The provision of government credits was terminated in 1991 due to the growing amount of bad debts, with the exception of deliveries to previously concluded contracts (MF 2005a). The Ministry of Finance of the Czech Republic (MF) has the responsibility for their enforcement and evidence. The general strategy of the Czech Republic was the effort to conclude an agreement with the partner government on repayment of these financial receivables, or to find another alternative form of solution of the situation.

The reason why the confidentiality of data on certain receivables still persists is that “the Czech Republic is bound by the terms of the intergovernmental loan agreements on the basis of which these claims arise. Although most of these agreements were concluded before 1989, they remain valid as basic legal documents on the basis

⁴ Defined according to the DAC List of ODA Recipients (OECD 2017). It includes nearly all countries with low and average income as listed by the World Bank (World Bank 2018).

of which the claims of the Czech Republic can be enforced. One of the terms of the intergovernmental loan agreements concluded for the export of “special material” is the confidentiality of the type and quantity of this material, including its price” (MF 2005b; compare with BBC 2004). The Czech Republic allegedly initiated the declassification of some agreements, but the debtor states allegedly declined these proposals in view of the special nature of the deliveries (MF 2005b).

In the past, the Ministry of Finance has remunerated receivables in accordance with the terms agreed in intergovernmental loan agreements, even in cases where the debtors do not fulfill their obligations. If the debtor failed to repay its debts and refused to negotiate any way of settling its financial obligations on the level of state institutions, the Ministry of Finance used any substitute forms of solution ensuring at least partial recovery of receivables, including through commercial entities (MF 2005b; BBC 2004). This process is still being used..

THE HISTORY OF CZECH CLAIMS TOWARDS DEVELOPING COUNTRIES AT THE BEGINNING OF THE CENTURY

The amount of claims from indebted countries recorded a significant decline during the first years of the 21st century, but it has to be emphasized that this was only due to the significant cancellation of the Russian government’s debt. At the turn of 1999/2000, the amount of receivables amounted to over CZK 200 billion (equivalent to about USD 7.5-8 billion according to the exchange rate). In March 2004, it was just over CZK 70 billion (approximately USD 2.8 billion according to the exchange rate in 2004), due to the settlement of the said debt claim of the Russian party (BBC 2004).

As of 31 December 2004, the Ministry of Finance of the Czech Republic recorded receivables from foreign debtors amounting to CZK 43.5 billion (about USD 1.8 billion according to the exchange rate). The highest claim related to Russia’s debts of CZK 14.4 billion (USD 643.9 million) and Kazakhstan at an estimated CZK 7.3-8 billion (USD 327-360 million). (MF 2005a, Spurný 2004, own calculations, compare with BBC 2004).

According to the Ministry of Finance, the overwhelming majority of debtors did not fulfill their obligations at the beginning of this century (MF, 2005a). For example, the recovery of the debt owed to Kazakhstan at that time resembled “a game of blind man’s buff”. The debt amounted to CZK 8 billion (at a rate of about USD 320 million at that time) (Spurný 2004). The emergence of Kazakhstan’s indebtedness to the Czech

Republic is linked to the implementation of the Agreement between the Government of the Czechoslovak Socialist Republic and the Government of the USSR on cooperation in the acquisition of the Jamburg Gas Site. Under the agreement, Czechoslovakia provided supply of machinery for the gas industry through s.p. Transit gas pipeline, later transformed into ČPP Transgas, o.z., after the privatization of part of the company now ČPP Transgas, state enterprise, founded by the Czech Ministry of Industry and Trade. The project was funded through the state loan and provided from the state budget. In 1996 a protocol was signed between the Czech Republic and Kazakhstan, whereupon the debt is still recorded in URE units (156 million) (MF 2018). The Ministry of Finance began to recover it from the local government already in 2001, and a year later it declared this problem to be resolved. Allegedly, both sides agreed to pay half of their amount (Spurný 2004, BBC 2004). Consequently, there were some opaque negotiations of the Czech government about its sale to a private subject (Spurný 2004, compare to BBC 2004). However, total disillusionment occurred during the visit of the Czech government delegation to Kazakhstan in 2004, when the president of Kazakhstan Nazarbayev announced to Czech president Klaus that these debts had no connection with his country, since it was Russia that was the successor state of the Soviet Union (Spurný 2004). The claim for Kazakhstan has not yet been recorded in monetary form, and yet negotiations have not yet produced any tangible results.

Similarly, the Czech Republic's Cuban debt amounted to CZK 5.5 billion (USD 245.9 million according to the exchange rate in 2004) (MF 2005a), but the Cuban party refused to negotiate its debts with the Czech party, or to recognise any debts longer than 15 years (details see below). The reason is the Cuban demand for "normalization" of foreign policy relations, and only subsequent debt negotiations. For so-called normalization of relations, Cuban government officials consider the so-called normalization of relations to cover primarily the cessation of submitting declarations of human rights violations in the United Nations and stopping support for Cuban dissent (BBC 2004).

This unwillingness to repay the receivables from majority countries has led to the gradual privatization of the recovery of receivables, for instance their sale to private low-income entities. In this regard, Tožička (2016) highlights a number of problems and uncertainties. Some of these companies reside outside the Czech Republic or directly in tax havens. The result was huge losses, which the Czech state is trying to get back at least to a minimum.

Perhaps the most bizarre example that has created large public interest and has reached a court decision is the case of the receivable of Peru, which since the time of the CSSR had owed the Czech state more than USD 40 million. This amount was repaid into the account of the Czechoslovak Trade Bank (ČSOB), without anyone noticing it. When the Czech Republic wanted to recover the debt, Peru naturally refused.

The Ministry of Finance of the Czech Republic hired the company Anper, in unclear circumstances, to recover the debt and to obtain 95% of the recovered amount. One of the deputies of the MF then designated one of the ČSOB accounts as the account into which the money had been paid, and on that basis paid tens of millions to Anper. When an audit was conducted, it was ascertained that the money had been in the account for eight years, without Anper's involvement. Although the Czech Ministry of Finance tried to conceal the whole matter, the Czech press published the case (Tožička (2016), the fraudsters were finally convicted and the Czech Republic is now recovering this amount from the former owners of the company (for details, see Table 2).

Another very problematic method of debt relief was the sale of a Russian debt under very non-transparent conditions to Falcon Capital. This was the largest claim of the Czech Republic, which was originally around CZK 100 billion (about USD 4 billion in the early millennium). Based on the conclusion of new contracts between 2001 and 2002, its yield would be around 23 percent and maturity by the end of 2006 (BBC 2004). These transactions were accompanied by a great deal of confusion and the Czech media was also very much involved.

The debt ratio of developing countries in the Czech Republic was estimated at approximately CZK 19.8 billion (USD 883 million) in 2004, excluding the unclear claim for Kazakhstan (see Table 1). Taking into account the estimated amount of the Kazakh debt, the total debt of developing countries to the Czech Republic would be around CZK 27 billion (USD 1.21 billion).

The highest debt ratio in developing countries (excluding Kazakhstan) was recorded by the Czech Ministry of Finance in the case of Cuba, at the end of 2017 amounting to CZK 5.5 billion (equivalent to the then USD 245.9 million), with Libya at CZK 4.5 billion (USD 199,2 million) and Iraq with the expected amount of more than CZK 4 billion (USD 183 million) (MF 2005a, MF 2005b). The last two receivables are subject to confidentiality due to the supply of special technologies to these countries.

The Czech Republic's Ministry of Finance recorded relatively large receivables from Algeria, of the amount of CZK 2.8 billion (USD 125.5 million), from Sudan of the amount of CZK 1.7 billion (77.7 million USD), in the case of Nicaragua CZK 1.1 billion (USD 49.2 million), Iran CZK 851 million (USD 38.1 million), and Myanmar CZK 835 million (USD 37.3 million). (MF 2005a; MF 2005b)

Among the least indebted developing countries toward the Czech Republic were Laos at the end of 2004 with a financial debt of 4.9 million CZK (200 thousand USD), Cambodia with a commitment of CZK 63 million (USD 2.8 million) and Afghanistan with a debt of CZK 77.3 million (USD 3.5 million) (MF 2005b).

Figure 2:
The obligations of developing countries towards the CR by December 31, 2004

State	Debt (million CZK)	Debt (million USD) *
Afghanistan	77.3	3.5
Algeria	2,806.5	125.5
China	252.5	11.3
Iraq ^{1), 2)}	4,100.0	183.3
Iran	851.2	38.1
Cambodia	63.0	2.8
Cuba	5,500.0	245.9
Laos	4.9	0.2
Libya ¹⁾	4,455.9	199.2
Myanmar	835.1	37.3
Nicaragua	1,100.0	49.2
North Korea	196.7	8.8
Sudan	1,737.6	77.7
Syria ^{1), 2)}	2,319.3	103.7
TOTAL	19,755.9	883.3
Belarus	40.0	1.8
Former republics of Yugoslavia	2,000.0	89.4
Kazakhstan ³⁾	7,304.1	326.6
Russia	14,400.0	643.9

Notes:

* Exchange rate USD~CZK – 1 : 22.365 (31.12.2004) 1) Confidential 2) Estimated 3) Unclear

Source: Stojanov (2006)

THE DETAILED DEVELOPMENT OF SELECTED OBLIGATIONS OF DEVELOPING COUNTRIES TOWARDS THE CR

Iraq

In 2006, an intergovernmental deal between the CR and Iraq was signed, cancelling 60% of the Iraqi debt. Another part of the debt (20 %) was pardoned at the end of 2008 in connection with the evaluation conducted by the IMF. The rest is listed as an obligation with interest of 5%. In 2009–2017, Iraq paid back approx. 1.1 bn. CZK and did so in accordance with the agreed schedule (MF 2009–2018)⁵

Cambodia

In 2008, the CR pardoned three quarters of Cambodian debt, which originally amounted to 3.6 mil. USD. A quarter of the obligation was deposited into an account held by the CR at the Cambodian National Bank and is used to finance health and educational projects. We may regard it as a way of efficient debt relief (MF 2009).

Cuba

The Ministry of Foreign Affairs attempted, without success, to address members of the Cuban state administration and central banks (MF 2011, 2015). In 2012, The Cuban Ministry of Finance simply announced that it was not the right time for negotiations and that damages that Cuba suffered with the collapse of the COMECON and the Warsaw Pact should be taken into consideration (MF 2013). As late as 2014, the Cuban ministry started negotiations on financial obligations towards the CR, and in 2015 the Cuban National Bank and the Central Bank agreed to operate with the debt in its entirety (i.e. its civilian and military in clearing Rubles and the obligation in Euros), while requesting that the CR pardon the part in clearing Rubles (XTR). In contrast, it promised to pay the obligation in Euros, probably in a long series of payments (MF 2016). In 2017, Cuba expressed willingness to pay back the entire sum (in EUR)

⁵ In 2009, Iraq paid 12.2 mil. CZK (= only interest) according to the agreed schedule, in 2010 it paid 27.8 mil. and in 2011 85.3 mil. CZK (MF 2009, 2010, 2011, 2012). In 2012, the Iraqi government paid nearly 152 mil. CZK (MF 2013) and 151 mil. CZK a year later (MF 2014). In 2014 it paid 153 mil. CZK (MF 2015) and in 2015 176 mil. CZK (MF 2016). In 2016 it paid 173 mil. CZK (MF 2017) and in 2017 it paid 162.5 mil. CZK (MF 2018).

and settle the interest with material goods. The XTR debt is still seen by the Cuban party as a debt that should not be tied to any deadlines of financial sums to be paid. Cuba rejected the Czech offer that the XTR debt should be settled by creating a joint fund that would support the development of Czech–Cuban relationships, arguing that they see no reason to change their policy regarding these debts.

Laos

In the identical year (2008), Laos paid back 748,000 CZK as agreed. The remaining part, 1.1 mil. CZK, was paid the following year (2009) and the debt is therefore settled (MF 2009, 2010).

Libya

The Libyan obligation emerged from the realization of the agreement on supplies of military material from 1985 (MF 2014). During the 2007 talks, Libya submitted a copy of a document that quotes the issue as solved. Intergovernmental talks were thereby halted until a full assessment of the nature of the document could be done (MF 2009). A final agreement has so far been out of reach, with the political and security situation in current Libya playing a part.

Myanmar (Burma)

Myanmar is paying its debt to the CR and the SR on the basis of an agreement reached with the mediator company Transakta in 1995. By 2008, 91.7 mil. CZK was paid, and 101.7 mil. CZK a year later.

In 2010, 141 mil. CZK was paid, in 2011 it was 119.9 mil. CZK. This marked the fulfillment of the Burmese obligations (MF 2009, 2010, 2011, 2012).

Nicaragua

In 1996, via Swiss mediator company Raffaels AG, a payment schedule was agreed upon with Nicaragua. According to the schedule, the state would pay the negotiated sum by 2009 with a part of the debt pardoned by the CR (MF 2009, 2010).

Peru

In the case of fraud in connection with the Czech receivable, Anton Murárik and Karel Ponocný were obliged by a court ruling to pay solidarity compensation to the Ministry of Finance of the CR of 43 mil. CZK (MF 2009). In 2010, two properties were auctioned in seizure and the Ministry was therefore paid 5,1 mil. CZK (MF 2011), two years later, another 90,000 was paid (MF 2013). By 2016, 11.5 mil. CZK was paid via seizure and auction (MF 2017).

North Korea

At the 2009 negotiations between the ministries of finance of the CR and North Korea, the entire debt was recognized, with the Korean side acknowledging the previously denied component in USD located in the so-called barter account. The Korean side proposed a 100 % or 95 % pardon with partial payment, which would be used to educate North Koreans in e.g. banking and customs, which the Czech side rejected. After calculating the debt in convertible currency, the North Korean debt is 3 mil. USD (MF 2011), but the Korean side rejected the calculation until the CR accepts a maximum of 5 % payment of the debt (MF 2013).

Sudan

Sudan has not been paying its dues. The Central Bank and Ministry of Finance of Sudan recognize the debt in its entirety (including interest), but refuse to take any steps until the international community decides on the manner and form of partial or full pardon (MF 2009). The delegates of the Ministry of Finance attended the 2016 conference of the Paris Club, which is attending to the issue in cooperation with other international financial institutions such as the International Monetary Fund (IMF) and World Bank (WB) (MF 2017).

Syria

In 2008, the CR and SR agreed with Syria on dealing with the debt. In July 2008, Syria paid the agreed sum, the CR receiving 9.6 mil. CZK. The CR pardoned the debt of approx. 10.3 mil. CZK, which could be filed as ODA within foreign aid of the CR. The pardon was linked to past civilian supplies (MF 2009).

State	Debt (mil. CZK)			
	2004	2010	2015	2017
Afghanistan	77.3	-	-	-
Albania	?	76	-	-
Algeria	2,806.5	418 ⁵⁾ 6)	621 ⁵⁾ 6)	556 ⁶⁾
Belarus	40	34	44	38
China ⁴⁾	252.5	256 ⁸⁾	317 ⁸⁾	279 ⁸⁾
India ⁵⁾	?	72	775)	78
Indonesia	?	?	?	90
Iraq	4,100 ^{1), 2)}	3,501 ⁸⁾	3,481 ⁹⁾	3,102
Iran	851	2,890 ⁹⁾	4,070 ⁹⁾	3,588
Former countries of Yugoslavia	2,000	2,365	4,136	2,641
Cambodia	63	-	-	-
Cuba ⁶⁾	5,500	6,447	6,943	7,072
Cuba, Libya ¹⁾		5,705		7,152
Laos	5	-	-	-
Libya ¹⁾	4,456	?	?	?
Myanmar	835	26	-	-
Nicaragua	1,100	-	-	-
Peru ⁵⁾	?	38	40	29
North Korea	197	187	203	194
Serbia	?	?	?	697
Sudan	1,738	2,120	3,395	2,912
Syria ^{1), 2)}	2,319	-	-	-
Tanzania ⁵⁾	?	25	32	28
Kazakhstan ³⁾	7,304	4,566	2,886	2,886
Ukrajine ³⁾	?		1,680	1,680
TOTAL	33,644	28,726	27,925	30,136
Russia	14,400	1,912 ⁸⁾	1,076 ⁸⁾	1,032 ⁵⁾
Slovenia ⁷⁾	?	?	?	5
TOTAL CLAIMS	48,044	30,638	37,059	34,016

paid (mil. CZK)				pardoned
2008	2010	2015	2017	Total
-	-	-	-	?
21.5	19.0	-	-	-
41.7 ⁶⁾	4.7	-	-	?
-	-	-	-	-
-	-	-	-	-
-	-	-	1.5	-
-	-	-	-	-
	27.8	175.9	162.5	80%
-	-	-	-	-
-	-	-	-	-
-	-	-	-	75%
-	-	-	-	-
-	-	-	-	-
0.7	-	-	-	0.7
-	-	-	-	-
91.7	141.0	-	-	?
7.3	-	-	-	93%
-	5.1	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
9.6	-	-	-	10.3 mil.
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
172.5	197.6	175.9	164.0	-
308.6	2.6	?	?	?
-	-	-	-	-
524	200	177	164	

Fig. 3: Development of obligations of developing countries towards the CR in 2004–2017 (always as of 31.12. of given year)

Notes:

- 1) Confidential
 - 2) Estimated
 - 3) Obligation of ČPP Transgas, state enterprise
 - 4) Balance, including loans of Czech companies
 - 5) Debblockers and other subjects
 - 6) Without special loans
 - 7) Slovenian enterprises
 - 8) Debblockers and the government claim combined
 - 9) State assurance and government claim combined
 - ? Information is missing
- Debt was payed back, or no repayments or debt relief according to available information

Source: Stojanov (2006), Ministry of Finance of the CR (MF 2018) and original calculations

The figure shows us that the general trend of debt of developing countries in the last period grew up to 2015 and partially fell in 2017. One of the reasons is the irrecoverable nature of the debts, lack of will on the partners' part and refusal to recognize the claims (e.g. China, Cuba), with the CR's refusal to pardon the debts also being a factor.

Figure 4:
Obligations of developing countries to the CR as of December 31, 2017

State	Debt (mil. CZK)	Debt (mil. USD) *
Algeria ⁵⁾	556	25.7
Belarus	38	1.8
China ⁴⁾	279	12.9
India ⁵⁾	78	3.6
Indonesia	90	4.2
Iraq	3,102	143.2
Iran	3,588	165.6
Kazakhstan ³⁾	2,886	133.2
Cuba, Libya ¹⁾	7,152	331.1
Cuba ⁶⁾	7,072	326.4
Former Yugoslav republics	2,641	121.9
Peru	29	1.3
North Korea	194	9.0
Serbia	697	32.2
Sudan	2,912	134.4
Syria ^{1), 2)}	?	?
Tanzania	28	1.3
Ukraine ³⁾	1,680	77.5
TOTAL		1,525.3
Russia ⁵⁾	1,032	47.6
Slovenia ⁷⁾	5	0.2

Notes:

* the exchange rate USD~CZK – 1 : 21,668 (31.12.2017) 1) Confidential 2) Estimated

3) The obligation of ČPP Transgas, state enterprise 4) Balance, including loans of Czech companies (44 mil. CZK)

5) Deblocators and other subjects 6) Without special loans 7) Slovenian enterprises

Source: The Ministry of Finance of the CR (MF 2018)

DEBT RELIEF BY THE CR

Czech governments have been consistent since the 1990s that receivables are generally not to be pardoned. The Ministry of Finance of the CR, however, often took the situations in individual countries and their possibilities into account and respected the joint decisions of the EU regarding pardons and the recommendations given by the World Bank and the International Monetary Fund regarding the process of the debt relief program suggested in cases of the poorest countries (the Heavily Indebted Poor Countries Initiative – HIPC) (MF 2005b; cf. BBC 2004).

In 1996, for instance, bilateral negotiations took place between the delegates of the respective ministries of finance of the CR and Nicaragua regarding the payment of Nicaraguan debt to the CR. “Based on these negotiations, a contract on gradual relief of the majority of the debt towards the CR was signed, pardoning 93 % of all debt calculated during the period of repayment” (MF 2005b) By December 31, 2004 the claim was still quite considerable – 1.1 bn. CZK (49.2 mil. USD according to the then-current exchange rate) (MF 2005a). The remaining part of the claim has since been repaid.

According to the data from the WB, the CR promised debt relief to the states within the HIPC relief program of a total of 6.1 mil. USD.⁶ In particular, the promise was linked to Nicaragua (5.1 mil. USD), Tanzania (0.9 mil. USD) and Zambia (0.1 mil. USD) (WB 2004: 97). One year later this came to 6.3 mil. USD, since the CR decided to relieve the Nicaraguan debt of 5.3 mil. USD.

In this respect, what is striking is the enormous generosity of Czech governments towards the private sector, in which financial receivables were often sold to private sector under extremely favourable conditions, contrasting with the “greed” or unwillingness of the Czech government to pardon debts to the poorest countries.

According to the World Bank report, the CR belongs among the countries least amenable towards debt relief initiatives such as the HIPC and MDRI of all the new member states of the EU. If we observe the data on the total costs of debt relief, Bulgaria was most willing to pardon debts – 126 mil. USD; Slovakia decided to relieve of 43 mil. USD; Poland 22 mil. USD, Hungary 20 mil. USD and the Czech Republic 15 mil. USD (Tožička 2016).

6 In order to make them comparable to other countries, I will use only sums in USD in the following paragraphs.

In 2017, the CR paid the third (and last) obligation within the 17th complement of the IDA sources, paying 116.81 mil. CZK. IDA belongs to the World Bank group and provides partner countries with interest-free loans and grants to support sustainable growth and improve living conditions of the people (renewing infrastructure, agriculture, institutional reforms, basic education, health care, access to clean drinking water or environmental policies etc). 75 countries are eligible for support from the IDA. The Czech Republic has been a donor since 1990 and in 2014 it promised to provide support to the IDA funds of a total sum of 349.73 mil. CZK (MZV 2013).

The goal of the Multilateral Debt Relief Initiative (MDRI) is 100% debt relief to the developing countries selected by the IDA. The CR has taken the goal for the fiscal years 2015–2025 to contribute to the MDRI with 140.26 mil. CZK. It has been doing so in regular yearly payments (the payment schedule is revised every three years). In 2017, the CR deposited the 11th payment of 9.81 mil. CZK (MZV 2018).

Nevertheless, the CR did not relieve developing countries of any of the debt in 2016 and 2017 (MZV 2017a and 2018).

FINAL REMARKS AND RECOMMENDATIONS

An important problem remains how to deal with claims in countries where dictatorial, military or authoritarian regimes still exist (Cuba, Iran, Myanmar, China, Kazakhstan). Is it morally correct to pardon debts to these regimes, or to demand payment? Alternatively, is it more effective to delay pardoning until a system change that will lead to democratic, liberal or other values providing equal opportunities for all? There are still many more questions than clear and systematic responses to the debt of developing countries to the Czech Republic.

Another problem remains the reluctance of Czech governments to pardon receivables from developing countries. Instead of relief, Czech governments have preferred to sell loans to private Czech and foreign companies with very low yields. Similar yields also occur for pardoned receivables and the pardoned portion can still be included in ODA. We can only guess about the reasons for these practices; Czech journalists speculate about the connection of these companies to political parties that made sales decisions.

The following recommendations are based on the above findings:

1. Do not pardon debts to dictatorial regimes such as North Korea's present government, and on the contrary support new democratic regimes with an appropriate debt relief approach.

2. Stop selling developing countries' claims to private entities.
3. Pardon 90-95% of commitments of those countries that are heading for democratic regimes, and dedicate an amount equivalent to approximately 5-10% of the original claim to the development of bilateral relations, for example by building quality education, research capacities, etc. Similarly, the Czech Republic has already applied in the case of Nicaragua and Cambodia.

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