11-2011

Debt Relief or Debt Cycle: A Secondary Analysis of the Heavily Indebted Poor Countries (HIPC) Initiative in African Nations

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McNair Scholars Research Journal, 2011
University of Nebraska–Lincoln

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Abstract

In 1996, the International Monetary Fund (IMF) and World Bank launched the Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative is a comprehensive approach to debt reduction designed to ensure that no poor country faces a debt burden it cannot manage (International Monetary Fund, 2011). To date, debt reduction packages providing US $72 billion under the HIPC Initiative have been approved for 36 countries, 32 of them in Africa (International Monetary Fund, 2011). Under the HIPC Initiative, the World Bank and IMF Boards first decide whether or not a country is eligible for debt relief (decision point document). In a second step, all creditors (multilateral, bilateral, and commercial) commit debt relief to be delivered at a "floating" completion point. In between those steps, the country tries to implement the policies determined at the decision point (which are triggers to reaching the completion point). This research paper will examine the HIPC Initiative using a secondary analysis to determine the effectiveness of this program for indebted countries in Africa. The results of this analysis are anticipated to assist in determining weaknesses in debt relief programs, such as the HIPC Initiative, as well as indicate historical economic conditions that set contemporary cycles of debt in motion in Africa.

Introduction

Excessive debt exhausts a country's scarce resources and can constrain its economic development. First, debt service may create a shortage of liquidity, which crowds out investment. The capacity to accumulate productive assets and the ability to adopt new technologies are constrained because of lack of funds (Dessy & Vencatachellum, 2007). Second, highly indebted countries may suffer from debt extension. This is because the marginal benefit from an improvement in their economic situation can actually be of more benefit to creditors than to the countries themselves as they are the ones to carry the full adjustment cost (Bird & Milne, 2003). If the resources to service a country's external debt cannot be mobilized, the consequences will be serious economic disruption (Bird & Milne, 2003).

There is little question that most African nations face severe financing gaps, which are the most important exogenous determinants of the external positions of developing countries. Serious economic disruptions are magnified in African nations that already face high barriers to accessing capital markets, as well as in nations where the share of the population living below the poverty line has increased during the past two decades (Nkurunziza, 2005). Therefore, it is argued that the ability of African countries to cope with those external shocks, while investing to expand their production possibilities, cannot happen until their debt is brought down to manageable levels. As a result, proponents of debt cancellation have stated that it is both inefficient and immoral for rich countries to not forgive the debt of highly indebted African nations (Dessy & Vencatachellum 2007).

Wahlers (2005) argues that Africa's underdevelopment is a direct consequence of the development of Europe. Wahlers further argues that Europe, for all intents and purposes, underdeveloped Africa because it viewed the continent as an outpost of European interest and in many ways as a storehouse of resources for the use of European communities and not for the African people (Wahlers, 2005).

This research paper examined the Heavily Indebted Poor Countries (HIPC) Initiative as a secondary analysis to assess the effectiveness of this program for indebted countries in Africa. The paper was undertaken with the anticipation that the analysis will assist in determining weaknesses in debt relief programs, such as the HIPC Initiative, as well as indicate historical economic conditions that set contemporary cycles of debt in motion in Africa.

Literature Review

While African nations have been free from overt colonialism for over 40 years, the problem of underdevelopment persists. Wahlers (2005) stated that the reason Africa is in poor economic shape due to the legacy of past European colonialism. The history of dictatorships, from Idi Amin of Uganda to Mobutu Sese Seko of Zaire (now called the Democratic Republic of Congo) to Robert Mugabe of Zimbabwe, demonstrates the problems facing the continent seem to partially be the blame of corruption within its own ranks (Wahlers, 2005). Some find it difficult to blame Africa's problems on colonialism because they believe there must be a point at which African decision-makers and rulers need to shoulder some of the responsibility for the countless failures if they want to accept praise for the successes (Wahlers, 2005).

According to the late Claude Ake of Nigeria, a notable social scientist, "the politics of Africa under develops Africa" (Wahlers, 2005). Ake's perspective concerning African politics is not new or limited to the developing world. Also the connection between politics and debt relief is not unique to Africa, but a phenomenon exhibited across developing nations. In 1995, the eight richest countries in the world, Group of 8 (G8; United States, Britain, Canada, France, Germany, Italy, Japan, and Russia), agreed to write off 40 billion US dollars in debt owed by 80 countries around the world. Of these 80 countries, 40 are located in Africa. The HIPC Initiative could be extended to another 20 countries, bringing the overall debt relief to an amount of 55 billion US dollars (Wahlers, 2005). In the meantime, the International Monetary Fund (IMF) and the governors of the World Bank also agreed on this package (Wahlers, 2005). This HIPC Initiative has to be seen within the framework surrounding the achievements of the Millennium Development Goals, more specifically, its primary goal: to reduce absolute poverty in the world by half (Wahlers, 2005). This goal, combined with the massive increase of developing aid, is an HIPC Initiative called the "Big Push". Participating European nations promised an increase of developing aid to 0.7% of their GDP (Wahlers, 2005). The findings of the Commission for Africa justified the increase. During the run-up period to the summit, the Commission found that many African states had made "substantial progress" by holding regular elections and a noted increase in "good governance"(Wahlers, 2005). Economists and scholars caution that this tool is not necessarily effective under a different political, social, and economic context.

The reaction to the G8 debt relief HIPC Initiative has two sides, those who support and those who doubt the HIPC Initiative. Those who support development policy welcome this step as an important aid measure for the developing world. Among those who support debt relief, there are those that take a more skeptical approach regarding overall debt of the poorest countries in the world. Such supporters of debt relief say that the G8 debt relief HIPC Initiative scope is much too limited. On the other end of the spectrum, those who doubt the efficacy of debt relief as a tool to initiate development point out that debt relief funds go primarily to the same government hands that have wasted money in the past. They also point to the fact that countries that have written off debt become financial pariahs or that debt relief encourages borrowers to take an excessive amount of new loans, expecting the loans will be forgiven at some stage in the future. Hence, this program tends to reward those countries that "do not use the money properly" (Wahlers, 2005). This discussion already shows that the issue of debt relief is not only limited to financial operations but belongs to a wider discussion on how to help the developing world effectively.

Methods

This research paper analyzed the Heavily Indebted Poor Countries (HIPC) Initiative by using primary and secondary data from the World Bank, Multilateral Debt Relief HIPC Initiative (MDRI), International Development Association (IDA), International Monetary Fund (IMF), Millennium Development Goals, African Development Fund (ADF), and editorials. This paper also measured the initial debt before relief, amount of debt relief given, current GDP and GNP of the respective nations, and eligibility criteria.

Results

Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative

The Heavily Indebted Poor Countries (HIPC) Initiative, a joint comprehensive approach by the International Monetary Fund (IMF) and World Bank approach to debt reduction, is designed to ensure that no poor country faces unmanageable debt burden (International Monetary Fund, 2011 HIPC). To date, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 32 of them in Africa (see Figure 1), and have provided US $72 billion in debt-service relief over time (International Monetary Fund, 2011 HIPC). Since the HIPC Initiative was launched in 1996, the international financial community, including multilateral organizations and governments, has worked together to reduce the external debt burdens of the most heavily indebted poor countries to sustainable levels (International Monetary Fund, 2011 HIPC). According

Figure 1. Map of HIPC Countries (World Bank, 2011)

to the United Nations Conference on Trade and Development, between 1970 and 2002, Africa received $540 billion in loans. In that same period, Africa paid back $550 billion in principal and interest. Yet in 2002, Africa still had $295 billion in debt (McLaughlin, 2005).

In 1999, according to the International Monetary Fund HIPC (2011), a comprehensive review of the HIPC Initiative allowed the IMF to provide faster, deeper, and broader debt relief while strengthening the links between debt relief, poverty reduction, and social policies. The HIPC Initiative provides debt relief and low-interest loans to cancel or reduce external debt repayments to sustainable levels. To be considered for the HIPC Initiative, countries must face an unsustainable debt burden that cannot be managed by traditional means (International Monetary Fund, 2011 HIPC). Assistance is conditional upon the national governments of these countries meeting a range of economic management and performance targets (International Monetary Fund, 2011 HIPC). According to Dessy & Vencatachellum (2007), in June 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief HIPC Initiative (MDRI) to help accelerate progress toward the United Nations Millennium Development Goals (MDGs). The MDRI allows for 100% relief on eligible debts for countries that complete the HIPC Initiative process from three multilateral institutions: the IMF, the World Bank, and the African Development Fund (AfDF) (International Monetary Fund, 2011 MDRI). Countries must meet specific criteria as part of a two-step process; commit to poverty reduction through policy changes, and demonstrate a good track record. The IMF and the World Bank provide short-term debt relief during the first step in this two-step process. When a country meets its commitments, full debt-relief is provided (International Monetary Fund, 2011 MDRI).

The first step of this process is the decision point. To be considered for HIPC Initiative assistance, a country must, according to the International Monetary Fund (2011 HIPC),

1. Be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to the world's poorest countries, and from the IMF's Extended Credit Facility, which provides loans to low-income countries at subsidized interest rates.
2. Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms.
3. Have established a track record of reform and sound policies through IMF- and World Bank-supported programs.
4. Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process.

Once a country has made sufficient progress in meeting these four criteria, the Executive Boards of the International Monetary Fund and World Bank formally decide on the country's eligibility for debt relief, and the international community commits to reducing its debt to a sustainable level. Once a country reaches its decision point, it may immediately begin receiving interim relief on its due debt (International Monetary Fund, 2011 HIPC).

The second step of this process is the completion point. In order to receive full and irrevocable reduction in debt under the HIPC Initiative, a country must, according to the International Monetary Fund (2011 HIPC):

1. Establish a track record of good performance under loan-supported programs from the IMF and the World Bank.
2. Implement key reforms agreed at the decision point.
3. Adopt and implement the country's Poverty Reduction Strategy Paper (PRSP) for a minimum of one year.

Once a country has met these criteria, it can receive the full debt relief committed at decision point. According to the International Monetary Fund (2011), of the 40 African nations eligible or potentially eligible for HIPC Initiative assistance, 32 are receiving full debt relief from the IMF and other creditors having already reached their completion points (see Table 1). Four of the forty African countries have reached their pre-decision points and four others countries are receiving interim debt relief.

Table 1. List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC Initiative Assistance. (International Monetary Fund, 2011)

Post-Completion-Point Countries (32)		
Afghanistan	Ghana	Nicaragua
Benin	Guinea Bissau	Niger
Bolivia	Guyana	Rwanda
Burkina Faso	Haiti	São Tomé & Príncipe
Burundi	Honduras	Senegal
Cameroon	Liberia	Sierra Leone
Central African Republic	Madagascar	Tanzania
Republic of Congo	Malawi	Togo
Democratic Republic of Congo	Mali	Uganda
Ethiopia	Mauritania	Zambia
The Gambia	Mozambique	
Interim Countries (4)		
Chad	Côte d'Ivoire	
Comoros	Guinea	
Pre-Decision-Point Countries (4)		
Eritrea	Somalia	
Kyrgyz Republic	Sudan	

Debt Relief Frees Resources for Social Spending

Debt relief is one part of a much larger effort to address low-income countries' development needs and confirm that debt sustainability is maintained over time. For debt reduction to have a tangible impact on poverty, additional money needs to be invested in programs that benefit the poor. Before the 1996 HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined (International Monetary Fund, 2011 HIPC). Now, they have markedly increased their expenditures on health, education, and other social services. According to the International Monetary Fund HIPC (2011), such spending is, on average, about five times the amount of debt-service payments. Also according to the International Monetary Fund HIPC (2011), for the 36 countries receiving debt relief, their debt service paid, on average, has declined by about two percentage points of Gross Domestic Product (GDP) between 2001 and 2009. The debt burden of these 36 countries is expected to be reduced by about 80% after the full delivery of debt relief (including under the MDRI) (International Monetary Fund, 2011 MDRI). To maintain this reduction, countries must reduce their debt vulnerabilities by pursuing cautious borrowing policies and by strengthening their public debt management to reduce debt vulnerabilities.

International Monetary Fund Debt Relief Complemented by Other Sources

About 45% of debt relief funding comes from the IMF and other multilateral institutions, and 55% is provided by bilateral creditors (International Monetary Fund, 2011 HIPC). The estimation of the total cost of providing assistance to the 40 countries that have been found eligible or potentially eligible for debt relief under the Enhanced HIPC Initiative is about $75 billion in end-2009 net present value (NVP) terms (International Monetary Fund, 2011 HIPC). Currently, resources available are insufficient to finance the debt relief cost to all countries that meet the initial conditions for debt relief and reach the decision point. The original financing plan did not include the cost of debt relief to Sudan and Somalia, or to countries entering the HIPC Initiative after 2006 (International Monetary Fund, 2011 HIPC). Should these countries progress to the decision point, more resources would need to be assembled urgently.

Remaining Challenges

The eight countries that have not yet completed the requirements for full debt relief face common challenges. These challenges include preserving peace and stability, improving governance, and delivering basic services (International Monetary Fund, 2011 HIPC). Another challenge is to ensure that eligible countries get full debt relief from all creditors. The largest creditors (the World Bank, the African Development Bank, the IMF, the Inter-American Development Bank, and all Paris Club creditors) provide debt relief "in line with their commitments under the HIPC Initiative, and even beyond. There are those who are lagging behind, and" have only delivered a small share of their expected relief so far (International Monetary Fund, 2011). Smaller multilateral institutions, non-Paris Club official bilateral creditors, and commercial creditors account for about 25% of total HIPC Initiative costs (International Monetary Fund, 2011 HIPC). Non-Paris Club bilateral creditors as a whole have delivered close to 40% of their share of HIPC Initiative debt relief, but about half of these creditors have not delivered any relief at all (International Monetary Fund, 2011 HIPC). A number of commercial creditors have initiated litigations against highly indebted countries, raising significant legal challenges to further the burden of sharing among all creditors, including the multilateral institutions (International Monetary Fund, 2011 HIPC).

Those who doubt the HIPC's scope and structure have criticized the HIPC's definition of debt sustainability, arguing that the debt-to-export and debt-to-government-revenues criteria were arbitrary and too restrictive (International Monetary Fund, 2011 HIPC). As evidence, those who doubt the HIPC Initiative highlighted that:

1. By 1999, only four countries had received any debt relief under HIPC.
2. The six-year program was too long and inflexible to meet the individual needs of debtor nations (International Monetary Fund, 2011 HIPC).
3. The IMF and the World Bank did not cancel any debt until the completion point, leaving countries under the burden of their debt payments while "they struggled to institute structural reforms" (International Monetary Fund, 2011).
4. The Enhanced Structural Adjustment Facility (ESAF) conditions often undermined poverty-reduction efforts. For example, privatization of utilities tended to raise the cost of services beyond the citizens' ability to pay.
5. Creditors designed the HIPC Initiative to protect creditor interests, leaving countries with unsustainable debt burdens even upon reaching the decision point (International Monetary Fund, 2011 HIPC).

Inadequate debt relief for indebted countries means that they will need to spend more on servicing debts than actively investing in programs that can reduce poverty (International Monetary Fund, 2011).

Response to Criticism

In response to the shortcomings of the HIPC Initiative that its critics have highlighted, The IMF began modifications in 1996 and first restructured the HIPC Initiative in 1999 with revisions that modified HIPC's threshold requirements. The HIPC Initiative addressed its shortcomings by expanding its definition of unsustainable debts. The expansion extended greater and quicker relief to more counties. Today, HIPC defines three minimum requirements for participation in the program (International Monetary Fund, 2011 HIPC):

1. The country must show its debt is unsustainable as before; however, the targets for determining sustainability decreased to a debt-to-export ratio of 150% and a debt-to-government-revenues ratio of 250% (International Monetary Fund, 2011 HIPC).
2. The country must be considered "sufficiently poor" in order to qualify for loans from the World Bank's International Development Association or the IMF's Poverty Reduction and Growth Facility (PRGF, the successor to ESAF), which provide long-term, interest-free loans to the world's poorest nations (International Monetary Fund, 2011 HIPC).

3. The country must establish a track record of reforms to help prevent future debt crises (International Monetary Fund, 2011 HIPC).

In addition to the modified threshold requirements, the 1999 revisions introduced several other changes. First, the six-year structure was abandoned and replaced by a "floating completion point" that allows countries to progress towards completion in fewer than six years (International Monetary Fund, 2011 HIPC). Second, the revised HIPC allows for interim debt relief so that countries begin to see partial relief before reaching the completion point (International Monetary Fund, 2011 HIPC). Third, the PRGF heavily modified ESAF by curtailing the number and specifics of IMF conditions and by encouraging greater input from the local community into the program's design (International Monetary Fund, 2011 HIPC). Given the "voluntary nature of creditor participation in the HIPC Initiative", the IMF and the World Bank will continue to encourage creditors to participate in the HIPC Initiative and to deliver fully their share of HIPC Initiative debt relief (International Monetary Fund, 2011 HIPC).

Valid Changes in Nations' Debt

Debt cancellation agreed upon by rich-nation finance ministers will enable Zambia to hire 7,000 new teachers (McLaughlin, 2005). Likewise, Tanzania will no longer spend 12% of its annual budget servicing its debts (McLaughlin, 2005). Instead of spending the annual budget servicing debt, it could build new hospitals and roads. Eventually, a total of 38 nations with populations totaling 552 million people may get full debt relief, for all the impressive figures, "the deal strikes a middle ground" (McLaughlin, 2005). For some, these concessions are too small given that, at most, it cancels less than one-sixth of Africa's $295 billion debt, while leaving out crucial countries like Nigeria (given that Nigeria is not eligible for the HIPC Initiative). For other countries, it is too risky given that, by erasing bad debts, it allows struggling nations to apply for new loans. McLaughlin cautions that "it could spark a new cycle of dependency" (McLaughlin, 2005). "In theory, it primes the pump," says Stephen Hayes of the Corporate Council on Africa in Washington (McLaughlin, 2005). It may also help countries lift themselves up through better education, stronger agriculture, and expanded trade.

But who pays? Consider three things: first, in the short term, "it's not all that expensive" (McLaughlin, 2005). The United States plans to donate up to $1.75 billion over ten years. This donation is part of the share of a pledge by rich nations to cover $16.7 billion in debt repayments the 18 countries would have made (McLaughlin, 2005). Second, one of the larger debts, some at $6 billion, will be paid by the IMF (McLaughlin, 2005). The IMF is one of the global institutions to whom poor African nations owe debt. Third, the critical relief should have come after 2008, when the US and other G8 nations supplied billions of US dollars to cover the amount owed to two other big lending institutions: the World Bank and the African Development Bank (ADB). The G8 ministers promised to "cover the full costs" of the loans (McLaughlin, 2005).

One of the risks is that rich nations would not fully replenish "global lenders' coffers, which could trim the size of future loans" (McLaughlin, 2005). Should this HIPC Initiative succeed, poor countries, in theory, would not need to borrow as much because the debt relief will boost their economies. This HIPC Initiative is expected to save these African nations a total of about $1.5 billion in debt payments each year (McLaughlin, 2005). This $1.5 billion could be earmarked for education, healthcare, agriculture, and infrastructure. According to the CIA World Factbook (2011), the 18 governments' total spending was $23.5 billion in 2004, "so the $1.5 billion represents a sizable, though not enormous, amount of freed-up cash" (McLaughlin, 2005). In Tanzania, a previous debt-relief deal helped end school fees, enabling 1.5 million more children to attend classes, says DATA, a debt-relief group in Washington (McLaughlin, 2005).

African Nations' Opinions

The deal was generally well received in Africa. "We greatly appreciate the HIPC Initiative," said Ugandan official James Nsaba Buturo. It means "we can have more money ... directed to education, health, infrastructure, and social sectors," said the Prime Minister of Mozambique Luisa Diogo (McLaughlin, 2005). There is concern in Africa about a major missing African nation: Nigeria. Unlike the initial 18 nations, Nigeria does not pass "muster for cutting corruption and better transparency" (McLaughlin, 2005). As West Africa's anchor country, Nigeria is the key to regional stability. A recent US intelligence assessment warned it could face "outright collapse" in the next 15 years (McLaughlin, 2005). It is the world's seventh-largest oil producer, yet has $36 US dollars billion in debt (McLaughlin, 2005). The G8 ministers acknowledged Nigeria's need for debt relief, "but they've (G8 ministers) got to do more than that," argues Francis Kornegay of the Center for Policy Studies in Johannesburg: "If you're talking about stabilizing Africa, you've got to focus on countries like Nigeria, Sudan, Congo, and Angola, which pull regional weight." None of these listed countries were included in initial rounds, mostly because they are "considered too corrupt" (McLaughlin, 2005).

Africans worry that the G8 focus on Africa will distract from African solutions to the continent's problems. "There's a serious concern it might eclipse NEPAD" and other indigenous institutions, says Mr. Kornegay, referring to the New Partnership for Africa's Development, a South-Africa-backed program that seeks to boost good governance (McLaughlin, 2005). Another key concern is that the debt relief is not innovative enough. "There have got to be mechanisms so the same thing doesn't happen over and over," says Mr. Hayes, referring to the aid and lending paradigms that have dominated development work for decades. "I don't think Africa develops without a middle class," he says, and that will emerge only through trade and entrepreneurship. "But that's where issues like easing trade barriers come in," he says (McLaughlin, 2005).

The industrialized world now realizes debt relief can free funds for social programs in poor African Nations. Because of the HIPC Initiative, the country of Burkina Faso has reduced the cost of AIDS drugs; Mozambique has vaccinated half a million children against easily preventable diseases and electrified rural schools and hospitals. Tanzania has built 32,000 new classrooms and hired 18,000 more teachers. Uganda has filled schools by abolishing tuition fees (Faris, 2004). But in Africa, such limited relief may not be enough. Despite $29 billion in write-offs to date, the countries in the HIPC program still collectively owe an estimated $90 billion to Western countries and organizations like the World Bank and the IMF (Faris, 2004).

Discussion

Uganda: The First Country

In 1998 Uganda became the first country to have its debt burden eased under the HIPC Initiative. Classrooms in Uganda were half empty because parents could not afford the $40-$50 annual tuition (Faris, 2004). According to Faris (2004), the World Bank stated that even nations that are in the HIPC Initiative program pay on average more than 12% of their revenues each year to creditors from the developed world (see Figure 2). Loan repayments often exceed spending on health care and education, and governments continue to sink deeper into debt simply by paying interest on their loans.

The HIPC Initiative reduced Uganda's loan payments on the condition that the savings would be channeled into health care, agricultural development, and free primary education.

Yet to many Ugandans, debt relief appears to be working. "We've turned around a lot of things here," says Francis Omaswa, director general of Uganda's Health Services (Faris, 2004). The HIPC Initiative program cut Uganda's loan payments by approximately $90 million a year (Faris, 2004). The funds freed by this cut were used to hire hundreds of teachers and build new schools and health facilities (Faris, 2004). Enrollment in the nation's primary schools jumped from 5.3 million in 1997 to 7.6 million in 2003 (Faris, 2004). Immunization rates for tetanus, whoop-

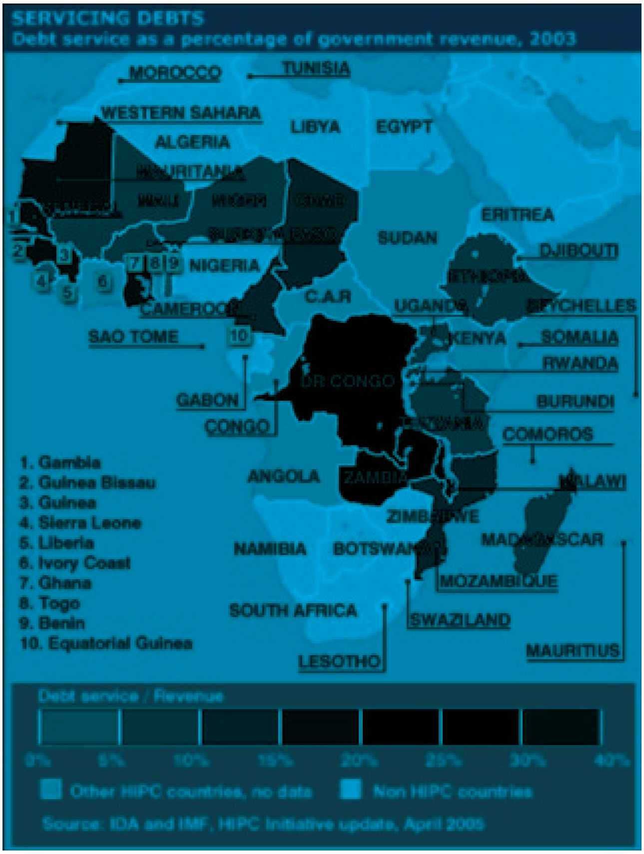

Figure 2. African Nations and Debt Service (International Development Association, 2005).

ing cough and diphtheria jumped from 49% in 1998 to 83% in 2004, and the HIV infection rate was halved over the same period.

Sustainability of Debt Burden and Health Funding

According to the World Bank (2011), the HIPC Initiative was set up for the poorest of nations, for which the debt of the HIPC countries was, on average, more than four times their annual export earnings, and 120% of GNP. As it has already been stated, the HIPC Initiative has been met with an ample amount of criticism for not actually helping the countries it is supposed to be helping (the indebted nations/debtors) while helping those it was not necessarily meant to help (the rich nations/creditors) by making sure that the debt is repaid. Guttal also believes that the HIPC process is aimed not at canceling debts, but at ensuring that they can be repaid. "It has little to do with enhancing human development, reducing poverty, or even increasing economic growth in the debtor countries. Rather, it is designed to massage debt figures down to a level where they would be deemed 'sustainable' again according to the criteria of the International Monetary Fund (IMF)" (Guttal, 2000, p.35).

It has been argued that the HIPC Initiative functions as extortion forced on poor, highly indebted nations to convince them to stay within the debt-finance system (Guttal, 2000, p.36). This HIPC Initiative seeks to make and keep poor countries sufficiently solvent so that they can continue paying their debts to international creditors. Guttal argues that "easing of eligibility conditions for debt reduction, interim strategies for providing credits and grants, and announcements of a multi-billion dollar trust fund for fighting poverty" are all ways to soothe frustrated debtor governments, which are fed up with the conditioning of meager debt relief benefits on continued adherence to structural adjustment type policies (Guttal, 2000, p.36). By the end of 1998, HIPC had made little progress and only three of the four nations qualified for extremely small amounts of debt reduction are African (Uganda, Guyana and Mozambique) (Gutta, 2000, p.34). In September 1999, in reference to a global review of the HIPC Initiative and growing pressure from civil society organizations and proposals, the World Bank and IMF announced changes to the HIPC Initiative. The new, Enhanced HIPC Initiative used more flexible criteria to assess debt sustainability and eligibility for debt relief, and offered quicker and greater support to more countries.

The World Bank and the IMF have widely promoted the Enhanced HIPC as an innovative and groundbreaking HIPC Initiative towards debt relief. The key benefits that the Enhanced HIPC Initiative promises are rhetoric when compared with reality. The World Bank claims that, external debt servicing will be cut by approximately $50 billion through the new HIPC framework, and that the World Bank itself will reduce its debt claims by nearly $11 billion (Guttal, 2000, p.35). In reality, the current relief amounts proposed by the major multilateral creditors are far from the promised $50 billion reduction. The World Bank proposed to reduce $5.7 billion of the debt through the International Development Association (IDA) and $600 million through the International Bank for Reconstruction and Development (IBRD) (Guttal, 2000, p.35). These proposals do not fulfill the $11 billion promise. Further, after debt relief, many countries will continue to spend more on debt servicing than on priority areas such as health, food security, and education.

The current method used to assess debt sustainability is deeply flawed. The current method is based purely on econometric and financial indicators (debt/export and debt/government revenue ratios). The current method also does not take into account the chronic levels of poverty in the HIPC Initiative or what debt servicing would cost the population of a chronically poor country even if its financial indicators showed that the country's debt was "sustainable" (Guttal, 2000, p.38).

Research conducted by Jubilee (2000) shows that the first five recipients of HIPC Initiative assistance will continue paying more than half a billion dollars every year to external creditors. Additionally, countries already in the pipeline for HIPC Initiative assistance will continue to allocate more towards debt servicing than they will to public healthcare and education. Despite claims that the funds "freed up" from debt reduction can be redirected towards social spending, reports from Africa show that increased expenditures in areas such as health and education are miniscule in light of the combined cutbacks in these areas over fifteen years of structural adjustment programs (SAPs; Jubilee, 2000).

The Challenge of Maintaining

A report from the World Bank and IMF released in April 2001 casted a dark shadow over their HIPC Initiative, showing little confidence that the controversial debt package will provide an end to the debt crisis for the countries involved. The report "The Challenge of Maintaining Long-Term External Debt Sustainability" emerged after a number of rewrites, and confirmed debt campaigners' concerns that HIPC does not reduce debt to a low enough level (Global Issues, 2001). The report gave a renewed urgency to discussions on debt by the G8 finance ministers at the World Bank and IMF spring meetings in Washington, D.C. on April 29, 2011. Funds are urgently needed for health care, especially in light of the spreading HIV/AIDS crisis in Africa (Global Issues, 2001).

Debt campaigners have long argued that the 150% debt-to-exports level underpinning the HIPC Initiative is based on precarious projections of export growth (Global Issues, 2001). This embarrassing report acknowledged for the first time that original export growth predictions were overly optimistic (Global Issues, 2001). The report shows how if exports grow more realistically at an average of 4.2%, in line with 1990 - 1999 levels, debt levels will have risen above the declared "sustainability threshold" to 160% by 2005, reaching around 180% by 2015 (Global Issues, 2001).

Three of these countries, Bolivia, Malawi, and Niger, will not reach the 150% threshold in the first place because of export growth rate volatility. Three further countries (Burkina Faso, Rwanda, and Tanzania) are not predicted to reach the 150% level until the medium term because of anticipated new borrowing. Even for countries that do reach the 150% debt-to-export level, the World Bank and the IMF acknowledge that the HIV/AIDS emergency in many African HIPCs will mean that debt levels will soon rise. Longer-term growth prospects can be undermined by natural disasters, war, or health threats such as the AIDS epidemic (Global Issues, 2001). HIV/AIDS is compounding the failures of HIPC and making delay more costly and inexcusable. In such cases, in the absence of adequate grant financing, external indebtedness may need to rise to accommodate the financing of reconstruction and rehabilitation.

Despite the overwhelming evidence presented in the World Bank/IMF report that the HIPC Initiative is not delivering sustainable debt levels, the World Bank and the IMF do not consider the furthering debt cancellation. Instead they focus only on solutions through economic growth and policy reform, while they examine the importance of future financing patterns. While these are crucial to long term debt sustainability, the starting point must be to make debt repayments affordable (Global Issues, 2001). The IMF, World Bank, and their shareholders have the resources to cancel 100% of the debts these institutions are owed by the poorest countries (Global Issues, 2001). Even so, the HIPC Initiative is failing yet again to meet its stated objectives. The question is now: is the World Bank and the IMF are more "interested in saving cash or saving lives?" (Global Issues, 2001).

Conclusion

In conclusion, debt is not just a financial or a political problem, but in every way a social one. This research paper examined the HIPC Initiative using secondary analysis to examine the effectiveness of this program for indebted countries in Africa. The results of this analysis assisted in determining valid weaknesses in the HIPC Initiative, as well as indicated historical economic conditions that set modern cycles of debt in motion in Africa.

The HIPC Initiative is not an outright debt cancellation HIPC Initiative. It is a program designed to lower debts to a "sustainable" level. Because there are so many strict requirements for qualifying to receive debt relief under the HIPC Initiative, this program is seen as a hindrance for impoverished and indebted nations. The HIPC Initiative's other weaknesses include that it does not involve enough countries, it does not deliver enough debt relief, and the relief is delivered far too slowly. The debt crisis is an immediate concern that must be addressed quickly and efficiently. Failing to do so compromises the well being of over a billion people in indebted African nations.

The HIPC Initiative is controlled by wealthy creditors/nations and fails to acknowledge the important role creditors played in the accumulation of unsustainable debt. Instead of accepting their part in all this, creditors presented the HIPC Initiative as an almost humanitarian mechanism to help poor nations that found themselves in a debt cycle due to over-borrowing and poor economic management. Also, once countries qualify for HIPC classification, they must comply with strict macroeconomic requirements prescribed by the IMF, known as Structural Adjustment or Austerity Programs. It takes years to implement these policies before any debt cancellation is delivered. Countries must also be in an agreement with the IMF to borrow more money in order to remain eligible for debt relief through the HIPC Initiative.

Nevertheless, it is crucial that the indebted African nations acknowledge their responsibilities, including the awareness and need to shape their own future. This will mean that deliberations of debt relief will not be limited to the question of debt relief only, but also the need to focus on the potentially successful social and financial opportunities African nations have to offer, as well as on how to use development aid more efficiently.

Debt is one of the best instruments of power and control, arguably even far superior to colonialism. It would be interesting to examine the HIPC Initiative through the lens of post-colonial theory as further direction for this research. Control through debt not only requires monetary changes in infrastructure but actually makes indebted African citizens pay for their own oppression.

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