

UNIVERSITY OF NAIROBI
INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**IMPACT OF THE HIPC INITIATIVE ON THE DEBT CRISIS IN AFRICA: A CASE
STUDY OF UGANDA**

MURANDAFU CAROLINE NELIMA

R.50/P/9257/04

SUPERVISOR: DR. ADAMS OLOO

University of NAIROBI Library



**A Research Project Submitted in Partial Fulfillment of The Degree of Master of Arts
in International Studies**

*** 2007**


DECLARATION

I, Murandafu Caroline Nelima, hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed
Murandafu **Caroline Nelima**

Date 21 _____ 2 ff y f

This project has been submitted for examination with approval as University Supervisor

Signed  _____ Date

Dr. Adams Oloo
Lecturer and Researcher
Dept. of Political Science and Public Admin

ABSTRACT

Unsustainable debt has for over two decades undermined investment and growth in low income countries in Africa. This has posed a serious threat to the efforts of these countries to address the problem of absolute poverty. The case of Uganda is typical of the experience of many other countries in Sub-Saharan Africa. A number of initiatives have been fronted by International Financial Institutions to deliver Africa from the debt trap, the latest being the Highly Indebted Poor Countries (HIPC) Initiative.

This paper presents a country case study of the impact of the HIPC initiative on the debt crisis in Africa. The paper chooses to study Uganda - a country termed the star pupil of the IMF and World Bank Reforms. Uganda entered the HIPC process in 1997 and received debt relief from both the first and enhanced HIPC debt relief in April 1998 and April 2000 respectively. We discuss the sources of external debt in Uganda, the magnitude of the debt burden and the impact of the HIPC debt relief measures on Uganda's socio-economy.

The study establishes that while some positive effects have been experienced by Uganda after receiving HIPC's debt relief, a lot more needs to be done by all stakeholders to hasten the Initiatives pace towards achieving and maximizing its objective of ensuring debt sustainability.

ACKNOWLEDGMENT

I have depended upon countless support from various parties in writing this thesis and this is an opportunity to thank them greatly

Many thanks go to my supervisor, Dr. Adams Oloo, who tirelessly gave me guidance on how to write the thesis.

To the African Economic Research Consortium, who allowed me unlimited access to literature

And most importantly

To my daughter Cheryl Waithira Wambugu and my son Jeremy Kibui Wambugu, who had to do with weekends without mama, as I was busy working on the thesis

To my husband, Thomas Wambugu, who indefatigably sat me through the sleepless nights of working on my thesis.

ABBREVIATIONS

ADB	African Development Bank
AfDF	African Development Fund
AERC	Africa Economic Research Consortium
FDI	Foreign Direct Investment
GDP	Growth Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	International Debt Relief Association
IFI	International Financial Institution
IMF	International Monetary Fund
JFE	Joint Facility for Electives
LDC	Least Developed Countries
LIBOR	London Interbank Offer Rate
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NPV	Net Present Value
OAU	Organization of African Unity
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PAF	Poverty Action Fund
PFM	Public Financial Management
PEAP	Poverty Eradication Action Plan
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategies
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SSA	Sub-Saharan Africa

LIST OF TABLES

Table 2.1: Uganda external debt and composition 1980-2000

Table 2.2: Uganda's Debt Relief Experiences

Table 3.1: List of the forty most Heavily Indebted Poor Countries (HIPC). Figures are \$US Million:

Table 3.2: The HIPC Debt Relief - Uganda

Table 3.3: PAF Resources from HIPC savings and other donors 1998-2000

Table 3.4: Comparison of Structural Adjustment Approaches to PRSP Approaches

Table 3.5: Five principals of the PRSP

Table 4.1: Key debt burden indicators

Table 4.2: Key Indicators of Uganda's External Debt in Millions of US Dollars

Table 4.3: Gross Inflows of Foreign Aid before and after HIPC

Table 4.4: Uganda - Debt Service Profile Pre- & Post-HIPC (US\$ Million), 1998-2005

Table 4.5: Budget out-turn as a percentage of total expenditure

Table 4.6: Uganda- Social Expenditure Pre- & Post HIPC (US\$ Million), 1999-2005

LIST OF FIGURES

Figure 3.1: Enhanced HIPC Initiative Flow-Chart

Figure 4.1: Key Debt Burden Indicators

Figure 4.2: Total Debt Stock

Figure 4.3: Key Indicators of Uganda's External Debt

Figure 4.4: Debt Service Paid

Figure 4.5: Debt Service as a Percentage of Exports, Govt. Revenue and GDP

Figure 4.6: Budget out-turn as a percentage of total expenditure

Figure 4.7: Comparison of Expenditure and Budget turn-out

Figure 4.8: HIPC Savings and Poverty Expenditures

Figure 4.9: Social Expenditure after HIPC

Figure 4.10: Social Expenditure after HIPC as a Percentage of Govt Revenue and GDP

TABLE OF CONTENTS

Declaration	ii
Acknowledgement	iii
Abstract.....	iv
Abbreviation	v
List of Tables.....	vi
List of Figures.....	vii
CHAPTER 1: INTRODUCTION	1
Background	1
Problem Statement.....	3
Research Question.....	3
Objective.....	3
Justification.....	4
Literature Review.....	5
The Debt Crisis in Africa.....	5
The HIPC Initiative.....	8
Theoretical Framework.....	14
Hypotheses.....	17
Methodology of the Research.....	17
Research Design.....	17
Population Sample.....	17
Data collection procedure.....	
Data Analysis.....	18
Time Frame.....	18
Scope and Limitation of the Study.....	18
CHAPTER 2 : HISTORICAL DIMENSION, CAUSES AND EFFECT OF THE DEBT CRISIS IN AFRICA	19
Explaining Debt.....	19
Uganda and Debt.....	20
Causes of the Debt Crisis in Uganda.....	23
Effect of the Debt Crisis in Uganda.....	29
Debt Reduction Measures in Uganda.....	34
CHAPTER 3: THE HIPC INITIATIVE	35
About the HIPC Initiative.....	37
How the HIPC Initiative works.....	38
Uganda and the HIPC Initiative.....	43
<u>Criticisms of The HIPC Initiative</u>	473
Successes of The HIPC Initiative.....	53
The HIPC Initiative and the Millennium Development Goals (MDG).....	57
Comparing the HIPC Initiative to the Structural Adjustment Programmes (SAPs).....	58
Challenges of the HIPC Initiative.....	61
CHAPTER 4 : ANALYSING THE HIPC INITIATIVE IN UGANDA	63
Uganda's Debt Burden.....	63
Foreign Aid flow in Uganda and Dependency.....	65
Social Expenditure After HIPC Debt Relief.....	68
Key Informants.....	74
CHAPTER 5: CONCLUSION	76
Suggested Solutions To The Debt Crisis - Recommendations for African Countries.....	76
Suggested Solutions To The Debt Crisis - Recommendations for Lending Parties.....	79
The Way Forward.....	82
BIBLIOGRAPHY	84

CHAPTER 1: INTRODUCTION

In this chapter we give a background of the debt crisis situation, highlight the problem statement and justification of the study and review literature on debt crisis and the HIPC Initiative with reference to Uganda. This chapter also explains the theoretical framework that the study shall follow, and gives the research methodology to be undertaken.

1.1 Background

One of the major problems that have plagued African countries in recent years is the precarious debt dilemma. These countries have struggled with high and unsustainable debt levels over most of the past two decades. Some of these countries have carried net present value (NPV) of debt to export ratios in excess of 300 per cent, well above the acceptable target of 150 percent. Many African countries especially in Sub-Saharan Africa have very large debts, and the amount of money they owe is quickly increasing. Trying to pay off the debt (debt service) has become a serious problem for these countries, and it causes great hardship for their people.

Africa is the most aid-dependent and indebted region of the world. Of the 44 countries classified as Heavily Indebted Poor Countries (HIPC) 33 are in Africa and 26 are in Sub-Saharan Africa.¹ Most African countries are so burdened and overwhelmed by debt obligations that their economies and financial systems have practically haemorrhaged as they struggle to evolve a means of servicing their obligations to institutional lenders.²

The debt crisis has seriously hampered their economic development process because the money that could have been used to finance development projects is being channeled to service debts. The Sub-Saharan Africa region, for instance, pays about \$10 billion every year in debt

◊

¹ Ndung'u S, *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004) p25-26

² Luiz S, The Wealth of Some and the Poverty of Sub Saharan Africa, *International Journal of Social Economics*, Vol.33 No. 9 (2006)p664

service. That is about 4 times as much money as the countries in the region spend on health care and education.¹

The debt crisis has been in the making since the beginning of the energy crisis in the early 1970s. It however became apparent to the world only after the dramatic announcement of Mexico on 12th August 1982, that it could no longer meet previously scheduled payments on its external debt. Since then many other developing nations have announced similar difficulties.⁴

In 1973 the total external debt of the third world was \$100 billion. Now the debt has increased by more than 50%.⁵ The situation is so bad that many developing countries are finding it necessary to borrow money just to cover interest payment on their loans.

A number of solutions have been suggested on ways of curtailing the paralyzing debt crisis of the third world. These include the World Bank and IMF HIPC Initiative. This Initiative was first launched in 1996 by the IMF and World Bank with the aim of ensuring that no poor country faces a debt burden it cannot manage.⁶ This would allow resources used for debt service to be channelled instead towards development purposes. The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries.

This paper aims to critically analyse the impact of the HIPC Initiative in relieving Africa's debt burden. We take the case of Uganda which became one of the world's poorest and most indebted countries, as a consequence of the prolonged period of economic and social collapse. The country remains extremely indebted despite being the first country to qualify for

³ Luiz S, *The Wealth of Some and the Poverty of Sub Saharan Africa*, *International Journal of Social Economics*, Vol.33 No. 9 (2006) p664

⁴ Chachololiades M, *International Economics*, (New York: MC-Grawhill Publishing Co 1990) p368

⁵ Smith, J.W, *The World's Wasted Wealth 2*, (Institute for Economic Democracy, 1994), p. 143

⁶ A guide to the World Bank, 2003, WorldBank Group, Washington DC pp 114

and benefit from the HIPC debt relief. We shall examine Uganda's experience with external debt and debt relief from the HIPC Initiatives, and the impact of the debt relief on debt sustainability in Uganda.

1.2 Problem Statement

Towards the end of 1996 the World Bank and IMF, in an effort to help curb the third world debt crisis problem, proposed an Initiative known as the HIPC Debt Initiative which was agreed by governments around the world. This Initiative was seen as the first comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries, and it was also seen as representing an important step forward in placing debt relief within an overall framework of poverty reduction. Uganda was the first country to qualify for debt relief under the HIPC Initiative in April 1998.

However, almost ten years later, Uganda's debt remains extremely high and the country still remains one of the poorest in the world. The question of whether the HIPC Initiative has succeeded in its main objectives of debt sustainability, and consequently poverty reduction in Uganda is begging. This study therefore seeks to find why the debt problem persists despite the HIPC Initiative.

1.2.1 Research Question

To what extent has the HIPC Initiative curbed the debt problem in Uganda?

1.2.1.1 What explains the effectiveness or non-effectiveness of HIPC Initiative in Uganda?

1.2.1.2 Can Uganda realize development without debt relief?

•9

1.3 Objective

This study seeks to:

1.3.1 Investigate the extent to which the HIPC Initiative has curbed the debt crisis in Uganda

1.3.2 Examine the reasons behind the HIPC Initiative's success or lack of success.

1.3.3 Assess the relationship between the HIPC Initiative and Africa's dependency

1.4 Justification

Poverty and underdevelopment in Africa feature prominently in international affairs. The debt crisis that most countries in Africa currently face has been said to be one of the leading causes of the poverty situation in Africa, and the debt problem still looms despite the many efforts put forward to address it. A major question for every scholar of International studies/African studies is the reason why the debt crisis in Africa remains unresolved more than twenty years after it was discovered that the third world was facing a problem with debt.

The HIPC Initiative is one of the most pronounced attempts undertaken to curb the debt crisis. However, needless to say, the impact of the debt crisis on Africa remains devastating. Some scholars have come out strongly to say that the Initiative is succeeding in its goal while others are of the strong opinion that the HIPC Initiative is simply not working. This paper therefore attempts to make analysis from Uganda, and to draw lessons for the current global debate on the effectiveness of the HIPC Initiative.

The HIPC Initiative has evolved into an international public policy programme affecting major policy decisions of African governments. The findings of this study, therefore, will be of use to development agencies, international lending institutions as well as policy makers in HIPC governments concerned with borrowing. The study chooses to show case Uganda because Uganda has been said to be one of HIPC's initiative success story.

1.5 Literature Review

1.5.1 The Debt Crisis in Africa

It is no longer news that Africa is the world's poorest continent trailing the rest of the world on human development indicators. Similarly the debt burden on Africa is heavier than any other part of the world. Africa's debt problem has been the focus of much attention over the years. Despite important and significant measures and initiatives adopted by creditors at national and multi-lateral levels the problem persists.

A consequence of such high levels of indebtedness is a cycle of poverty. Without necessary spending on basic health, human capital and economy's infrastructure low growth is 'locked in', GDP never rises fast enough to put the country in a position to comfortably pay back what it has borrowed or to free enough income to provide the conditions necessary for growth. This condemns the country's inhabitants to perpetual poverty.

Mairaj (1993) interprets the debt crisis as the realization of a series of unanticipated harmful shocks that push debted countries to the point where they are better off defaulting and paying the penalties rather than actually repaying the debt.⁷ Unlike domestic borrowers debtors do not face bankruptcy proceedings and liquidation of their assets in the event of a default. Many authors agree that Africa's debt crisis is the single biggest obstacle to the continents development. It represents a crippling load that undermines economic and social progress. It is estimated that African countries pay \$1.51 in debt service for every \$1 they receive in aid. The external debt and debt servicing have retarded Africa's development on all fronts and thereby exacerbating long entrenched problems like poverty, hunger, disease and illiteracy as colossal
» I resources are diverted to debt servicing.⁹

•i

7

Mairaj H.A., *The Sovereign Debt Crisis, Investment Distortions and Welfare*, (Michigan: University Microfilms International, 1993)p85

⁸ Ibid p87

⁹ George, S, *A Fate Worse Than Debt*, quoted in *West Africa* (March 1988) 412-413

Ndung'u (2004) sees the debt crisis in Africa as one of the greatest challenges of the twenty first century in terms of creating productive capacities and alleviating poverty in the least developed countries.¹⁰ The 2006 African Development Report states that Africa's debt problem has been a major obstacle to its prospects for increased savings and investment, economic growth and poverty reduction. It further states that the continent's debt overhang has inhibited public investment in physical and social infrastructure and that it has hampered private investment.¹¹

The accumulation of Africa's debt reflects the fact that most African countries have consistently imported more than they exported and hence have borrowed from abroad to bridge their financing gaps. The persistence of this pattern led to the accumulation of debt to debt repayment problems

12

Sachs (2005) finds it rather regrettable that for over twenty years it has been known that the HIPC's are unable to repay their debts. Debtors have insisted for far too long that the poorest countries of the world continue to pay debt service often in amounts greater than national spending on health education. "Rather unfortunately the behaviour of creditor countries in recent decades compares very poorly with the US commitment and practice during the formulation of the Marshall plan when it decided to rebuild Europe with grants rather than loans." Notes Sachs.¹³

Mwaba (2005) explains that:

A developing country proceeds through a sequence of growth-cum-debt phases. In the initial stages investment and government expenditure exceeds savings and therefore creating a resources gap, which should be filled by either excess of imports over exports or through borrowing from foreigners. The major cost associated with foreign borrowing of a large debt is called debt service. Debt payment can only be

¹⁰ Ndung'u S, *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)

African Development Bank, African Development Report 2006, p13

¹² Ibid 472

¹³ Sachs, J, *The End of Poverty*, (London: Penguin Books Ltd., 2005) p280-281

met by export earnings. Hence if exports decline or interests rise significantly a country may experience debt payment difficulties.¹⁴

According to Nafziger (1993) the foreign debt of African nations has increased so rapidly in recent years that threats of bankruptcy hover across the continent, raising the prospect that Africa's most serious crisis will be triggered by not drought, but by debt. The debt problem is not only sowing economic growth and increasing poverty, it is fomenting political upheaval by forcing these nations to neglect social and economic development in order to make debt payments. People in many countries are denied the most basic public services as their governments devote dwindling export earnings, their main source of income, to economic and political survival.¹⁵

Nafziger adds that today's unsustainable debt burdens are a formidable obstacle to poverty alleviation and environmental protection. Many of the most indebted countries spend more on foreign debt service than on health, education and social services for their own people. The need to generate foreign exchange in many highly indebted countries is placing an extra burden on natural resources. Debt pressure has spurred increases in export oriented mining and logging in developing countries.¹⁶

It is generally agreed in the literature that a large part of Africa's debt went towards consumption and extravagance on the part of corrupt officials, and under despotic rule. Uganda while under the rule of Idi Amin is a good example. There is general consensus that it is in fact unfair that almost twenty years later, children born in Uganda recently still bear the brunt of Amin's mistakes in form of debt repayments. Ayittey (2005) argues that Africans should not be subjected to payment of such illegitimate debt. The international community, he adds, should

i

¹⁴ Mwaba A, *Beyond HIPC: What are the Prospects for Debt Sustainability in African Development Bank Report*, (Oxford: Blackwell Publishing, 2005) p536

¹⁵ Nafziger W, *The Debt Crisis in Africa*, (London: John Hopkins University Press, 1993)p 287

understand that loans to illegitimate governments are not redeemable under international law and if entities wish to continue loans to illegitimate governments they should do so at their own risk. The African people should not be held liable to repay foreign loans contracted on their behalf

• • 17

without their authorization. However the consensus ceases to exist when it comes to the specifics of total cancellation of such debts.

It is agreed by and large that solving the debt crisis in Africa is critical to sustainable growth and development, and to meeting the development challenges facing the African continent including the Millennium Development Goals, particularly that of halving poverty by 2015.

1.5.2 The HIPC Initiative

The IMF agrees that for decades, concessional lending has been an important element of international assistance to the developing world—often, for the poorest countries, at interest rates of 1 percent or less and maturities of over 30 years. Despite these favourable terms, many poor countries have had increasing difficulty making payments on their debts, mainly because they have not grown as rapidly as had been hoped.¹⁸

Beginning in the late 1980s, creditor countries have worked together to provide progressively easier repayment terms for poor countries struggling with their debts and implementing policies to increase growth. Increasingly concessional relief was provided on countries' existing debt. Nevertheless, many countries continued to have problems. According to

¹⁸ Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005) p302-303
IMF, *Logic of Debt Relief for the Poorest Countries*, 2000, pi

the IMF. it became clear that countries' repayment problems were not just temporary and that a more comprehensive solution was needed. ¹⁹

Debt relief to debt ridden countries has been fronted on many occasions as one of the options that will salvage the debt crisis situation. The first major coordinated effort towards solving the debt crisis in developing countries, known as the Highly Indebted Poor Countries (HIPC) Initiative was launched in 1996 by the IMF and the World Bank. The aim of the Initiative is to reduce the external debt burden of all eligible HIPCs to sustainable levels in a reasonably short time.

Previous assessments by the World Bank and IMF have shown that the HIPC Initiative has led to demonstrable social and economic gains and has reduced the debt burden of a number of African countries. However the debt of many HIPCs past completion point remains unsustainable. Many African countries continue to suffer from a debt overhang despite the HIPC Initiative. According to an African Development Bank Report, the Initiative has not in any significant way enabled African countries to achieve debt sustainability. The Initiative has not gone far enough and fast enough to allow many deserving African Countries to escape the debt burden.

Critics have been quick to criticize the HIPC Initiative as being an old policy with a new name. They look at it as being similar to the Structural Adjustment Programmes of the 1990s which are said to have failed. Quoting remarks to the UNCTAD Trade and Development Board Meeting of October 2005,

For decades, the Fund has impose^ its will on the countries of the South, reshaping their economies with virtually no input from the millions of people affected by their policies.

¹⁹ IMF - *Logic of Debt Relief for the Poorest Countries*, 2000, pi
IMF and World Bank, 2001a, p4

Farmers, workers, consumers, small entrepreneurs, indigenous people and many others have taken to the streets to express their anger and frustration, but to little avail. Not only has the Fund failed to respond, but it has ensured that governments are unresponsive as well by threatening a cut off of all international financing if its adjustment policies are not implemented. Now the institution that has undermined democratic processes around the world as it forces the adoption of poverty-inducing measures is set to be the arbiter of the adequacy of citizen involvement in the design of poverty-reduction programs.^{v21}

Burnside and Fanizza (2005) argue that given the Initiative's design of providing only partial debt relief, there is an implicit donor side objective function that puts a great deal of weight on the costs of poverty, while putting little or no weight on the costs associated with high indebtedness and fiscal insolvency. They are of the opinion that the Initiative is an indirect way to ensure that increased aid flows are used to increase government spending on programs favoured by donors, rather than to programs that might be preferred by local policy makers.²² They further argue that due to its conditionality the Initiative's limited debt relief is only a modest relaxation of the government's lifetime budget constrain. They conclude that the Initiative provides only modest amounts of debt relief to heavily indebted poor countries.²³

Cohen (2001) reasons that the HIPC Initiative if properly managed could have the same positive impact on the poor African countries like the Brady deal had in the late 1980s on the middle income debtors. His view is that the HIPC Initiative is distorted by the fact that, contrary to the Brady deal, it lacks an understanding of the market value of debt which is written down and that the correct market value is one that takes account of the risk on non payment: arrears, rescheduling and refinancing of various sorts.²⁴ Cohen concludes that the Initiative delivers less

²² Remarks to the UNCTAD Trade and Development Board meeting, 25 October 1999

* Burnside C and D. Fanizza, *Hiccups for HIPCs? Implication of Debt Relief for Fiscal Sustainability and Monetary Policy Contribution to Macro Economics in Berkeley* Electronic Press, 2005

²⁴ Ibid p29

Cohen Daniel, The HIPC Initiative: True and False Promises in *International Finance* 4:3, 2001, p363-364

than it promises. He argues that HIPC Initiative's debt reduction exercise actually frees fewer **resources** than the face value indicates.²¹

Mwenda (2006) argues that debt relief measures in general including the HIPC Initiative have exacerbated Africa's problem by postponing economic reforms. He says that Uganda's implementation of significant economic reforms in the 1990s led many to term the country an economic success story leading to considerable debt relief for the country. He argues that debt relief to Uganda has enabled the country to borrow more and remain highly indebted, and that there is a lot of obsession with debt cancellation and many equally or more important African problems have been ignored. He states that there is no evidence of a positive relationship between debt relief and poverty reduction and he gives the example of Uganda having steadily declining poverty levels between 1992 and 1999, but the reverse being seen after the HIPC debt relief.²⁶

Mijumbi (2000) sees the major shortcomings of the HIPC Initiative as lack of coordination and follow through. Delayed implementation of the Initiative by creditors who have otherwise signed on tends to distort a HIPC country's budget. He gives an example of the African Development bank which had included year 2000 in its disbursement schedule to Uganda, yet no implementation procedures for disbursement were made.²⁷ A number of academics like Welch (2000) accuse the Initiative of having terms and conditions that are too stringent. They argue that the debt to export ratios that determine eligibility for HIPC are too high hence locking out deserving debt ridden poor countries.²⁸

Martin (2004) praises the HIPC Initiative for advocating debt sustainability, broadening burden-sharing among creditors, mobilizing additional funding for development and changing the

[^] Cohen Daniel, *The HIPC Initiative: True and False Promises in International Finance 4:3, 2001, p378*

[^] Mwenda A, *Foreign aid and the Weakening of Democratic Accountability in Uganda, Foreign Policy Briefing July 2006*

ⁿ Mijumbi P.B, *Uganda's External Debt and the HIPC Initiative, (Unpublished)2000 p23*
ⁿ Welch C, *A World in chains - developing countries and debt, The Ecologist, Sept 2000*

focus of Bretton Woods conditionality towards poverty reduction. He however suggests that a lot **more** needs to be done to ensure that the Initiative guarantees long term debt sustainability.²⁴

Teunissen (2004) compares the current debt crisis to that of the 1980s where HIPC creditors now, like then, remain reticent in providing substantial and prompt debt relief. They remain successful in putting conditions to the delivery of debt relief and by so doing make sure that the IMF and World Bank continue to exercise influence over the economic policies of the poor nations.³⁰

Sachs (2005) recommends that the debt of HIPC countries be cancelled, without further discussion, as part of the financing package for the Millennium Development Goals-based poverty reduction strategies.³¹ In other words Sachs is advocating for an increase in foreign aid to Africa. He strongly supports the idea of a big push in aid and debt relief with a view to finding an end to poverty. He believes that a massive injection of new aid and the provision of debt relief should help Africa to grow and move out of the poverty trap. However it is of general consensus among many African development analysts that foreign aid to Africa has not been effective³² and some believe that not much good will come out of planned massive injections of aid. It is obvious that there is almost nothing to show for all the foreign aid that has been poured in Africa since the exit of colonial rule from the continent.

Mwaba (2005) envisages that the full implementation of the HIPC Initiative would substantially reduce the existing stock of debt of the eligible countries' external indebtedness. His concern is however 'what next, after debt relief?' What strategies and measures will ensure that

²⁴Martin, M., *Assessing the HIPC Initiative: the Key HIPC Debates*, From HIPC Debt Relief- Myths and Reality, Fondad. 2004

Teunissen, J., *HIPC Debt Relief- Myths and Reality*, (The Hague: Fondad 2004) p10

³² Sachs, J., *The End of Poverty*, (London: Penguin Books Ltd., 2005) p280-281

³¹ Ayittey, G., *Africa Unchained*, (New York: Palgrave Macmillan, 2005) p290

Mwaba A, *Beyond HIPC: What are the Prospects for Debt Sustainability* in African Development Bank Report, (Oxford: Blackwell Publishing, 2005) p545-546

countries meet their development resource needs while avoiding accumulating excessive debts and maintaining debt sustainability? He goes on to suggest that HIPC countries should develop and strengthen policies and institutions that enhance their capacity to manage debt and reduce their vulnerability to exogenous shocks. These countries will also need to keep new borrowing in line with their capacity to repay loans, diversify exports and build up foreign exchange reserves.³⁴

Hussain and Gunter's findings (2005) show that the HIPC debt relief has actually boosted economic growth in countries that have benefited from it and consequently a reduction in poverty. However their studies show that deteriorations in terms of trade have counter-balanced the positive effects. They argue that the positive impact emanating from the HIPC Initiative has been eroded by deteriorations in the terms of trade. They advocate for 100 percent debt cancellation for African HIPCs and the need for formation of long-term development strategies that foster necessary structural transformations.[^]

A fundamental goal of the debt relief HIPC Initiative is to help poor countries move towards macro-economic sustainability. The World Bank and the IMF have argued, however, that this will not be automatic. Edwards in his findings states that whether a country indeed achieves external sustainability is likely to depend on two variables (i) availability of concessional loans going forward, and (ii) the future path of grants and donations/¹

Obwona and Ndhaye (2003) are of the opinion that the HIPC Initiative is just but a debt reduction programme and that no amount of debt forgiveness can guarantee future financial

Hussain M.N and B. G. Gunter, *External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa*, in African Development Report 2005 (Oxford: Blackwell Publishing Ltd, 2005) P 461

2003) *External Shocks, Debt Relief and Current Account (An Analysis of the HIPC Initiative*, (Oxford: Blackwell Publishing Ltd,

olvency. They add that long-term debt sustainability depends on solid growth based on sound government policies, including prudent external borrowing and debt management.³⁷

From the literature review above, we deduce that there are very many divergent views on the HIPC Initiative.

1.6 Theoretical Framework

Most researchers who have studied the debt crisis have relied on theories of economic development in their explanation of the debt problem. This paper however departs from the main stream economic studies and chooses to remain at the surface viewing the problem from a social point of view. Since the debt burden is directly linked to poverty and underdevelopment this study seeks to rely on the Dependency Theory Concept to critically analyse the debt crisis and the HIPC Initiative.

For most countries in Africa, dependence on rich nations is and has always been a stark fact of their economic lives. Dependency refers to over reliance on another nation. Dependency theory uses political and economic theory to explain how the process of international trade and domestic development makes some Least Developed Countries (LDC's) ever more economically dependent on developed countries. Dependency theory refers to relationships and links between developed and developing economies and regions. Fifty five percent of Uganda's budget is financed by foreign aid. This effectively paves way for foreign control on Uganda's internal matters.³⁸

Obwona M and S. Ndaye, *Do the HIPC debt initiatives achieve the debt sustainability objective? Uganda's experience* (Kampala: Economic Policy Research Centre, 2003)p20
Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p238

Dependency theory sees underdevelopment as the result of unequal power relationships between rich developed capitalist countries and poor developing ones. Powerful developed countries dominate dependent powerless LDC's via the capitalist system. In the Dependency model underdevelopment is externally induced. Growth can only be achieved in a closed economy and pursue self-reliance through planning. Dominant developed countries have such a technological and industrial advantage that they can ensure the 'rules of the game' (as set out by World Bank and IMF) works in their own self interest. Critics argue that no one in the capitalist class wants to end the debt crisis in Africa because debt is performing a function, as part of the credit system which is supposed to accelerate the material development of the productive forces and establishment of the world market.³⁹

According to this theory only a break up of the world capitalist system and a redistribution of assets including elimination of world debt will free LDC's.

Globalization is also a theory that has been used by researchers to study the debt crisis. There has been the argument that "trade not aid" will deliver Africa from the debt burden. Globalization calls for opening up to international trade which in turn leads to economic development. Proponents of globalization insist that developing countries must accept it if they are to grow and fight poverty effectively. But to many in the developing world, globalization has not brought the promised economic benefits. In fact the growing divide between the haves and the have nots has left increasing numbers in the third world in dire poverty living on less than a dollar a day,⁴⁰

⁴⁰ ^ e r r e s t < S, *The Debt Crisis, Africa and the new enclosure*, *The commoner* No.2, September 2001 ,p 12
Stiglitz, J.E, *Globalization and its Discontents*, (London: Penguin Books Ltd, 2002) p 5-7

The African continent for instance continues to plunge deeper into misery, as incomes fall and standards of living decline. It is argued that developed countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers preventing developing countries from exporting their agricultural products and depriving them of desperately needed export income which would in turn help them pay off their debts without straining their budgets.⁴¹ The focus of this paper is however not so much centred on international trade and therefore Globalization is not the preferred theory.

Similar to globalization some scholars have used the neo-liberalism theory to explain Africa's debt burden with respect to structural adjustment policies of the International Monetary Fund (IMF) and World Bank, which are all driven by neo-liberal economic ideology. Some scholars, such as Stephen Gill, see these agents as representing an emerging system of global economic governance ('disciplinary neo-liberalism') based on a quasiconstitutional framework for the reconstitution of the legal rights, prerogatives, and freedom of movement for capital on a world scale ('new constitutionalism').

This study will however only dwell on the dependency theory as it best informs the origin and persistence of Africa's debt problem.

⁴¹ Stiglitz, J.E., *Globalization and its Discontents*, (London: Penguin Books Ltd, 2002) p 5-7

⁴²Gill, S. "New Constitutionalism, Democratisation and Global Political Economy", in *Pacific Review* 10, 1, 1998

1.7 Hypotheses

I 7 | The HIPC Initiative has led to the reduction of Uganda's debt burden

I 7 2 There are better solutions to the debt crisis in Uganda than the HIPC Initiative

I 7 3 The HIPC Initiative has contributed to Uganda's dependency on external aid

1.8 Methodology of the Research

The purpose of this study is to determine whether or not the HIPC Initiative has helped to curb the debt crisis in Africa

1.8.1 Research Design

This research adapted the Case Study Design. There is a wide resource of literature in respect of most of the aspects of the research problem on both divergent and supporting views. The paper relied mainly on secondary sources of information. The main sources of data included the World Bank Development Finance, African Development Bank indicators, International Financial Statistics, literature from the Africa Economic Research Consortium (AERC), Uganda government reports and budget statements and other publications. The paper also relied upon primary sources of information particularly information obtained from key informants in the area of development economics.

1.8.2 Population Sample

The population constituted randomly selected key informants in the area of economics and development.

1.8.3 Data collection procedure

Effort was made to interview a few key informants from the Joint Facility for Electives (JFE), an economics training centre under the Africa Economic Research Consortium (AERC) and the main respondent was Dr. Adam Mugume, an economist from Uganda with vast

experience working with International Financial Institution programmes including the HIPC Initiative.

1.8.4 Data Analysis

Based on statistics collected from secondary data which are presented on tables and graphs, the study has employed measures of dispersion as a tool to evaluate the impact of debt relief by the HIPC Initiative on Uganda from three angles. We analysed the Initiative's impact on (i) Uganda's debt burden and debt service (ii) Uganda's dependency on foreign aid and (iii) Uganda's social expenditure. From these we have determined the response to the research questions.

1.8.5 Time Frame

The Research took four months. Data collection was carried out and compiled within the first three months, and the final month was used for data analysis.

1.9 Scope and Limitation of the Study

This study is limited to Uganda and the data collected may not be representative of all HIPC countries. The research period is from the date of inception of the HIPC Initiative, 1996 to date.

In the next chapter we explore the historical dimension of the debt crisis in Uganda

CHAPTER 2: HISTORICAL DIMENSION, CAUSES AND EFFECT OF THE DEBT CRISIS IN AFRICA

This chapter explains the debt phenomenon, looks at factors leading to accumulation of Uganda's debt and the impact of the debt crisis on debtor nations. Uganda's external debt burden is studied and its experience in debt relief measures is explored.

2.1 Explaining Debt

Borrowing, even under very concessionary terms is a debt, implying that all of it, with the exception of outright grants, must be reimbursed at one time or another with interest. It has been established that the accumulation of foreign debt is a common phenomenon among developing countries at the stage of economic development when domestic savings are low, current account deficits are high and capital imports are necessary to augment domestic resources.

Let us first look at how a country becomes indebted as explained by Todaro.

While foreign borrowing can be highly beneficial - providing the resources necessary to promote economic growth and development - it has its costs. These costs have clearly outweighed the benefits for most African countries. The main cost associated with the accumulation of large external debt is "debt servicing". Debt servicing is the payment of amortization and accumulated interest; it is a contractually fixed charge on domestic real income and savings. As the size of the debt grows or as interest rates rise, debt-service charges increase. Debt-service payments must be made with foreign exchange. In other words, debt-service obligations can be met only through export earnings, curtailed imports, and/or further external borrowing. Under normal circumstances most of a country's debt-service obligations are met by its export earnings. However, should the composition of imports change or should interest rates rise significantly, causing a ballooning of debt-service payments, or should export earnings diminish, debt-servicing

difficulties are likely to arise. This is what has been the experience of most of the heavily indebted poor countries.⁴⁴

There are three types of foreign aid: humanitarian relief aid, given to victims of natural disasters such as floods and earthquakes; military aid, and economic development assistance also known as Official Development Assistance (ODA). Contrary to popular misconceptions ODA is not for free – it is essentially a soft loan, or loan granted on extremely generous or concessionary terms.⁴⁵ Basically there is more to aid than what a casual observer would imagine, (i) loans must be repaid and therefore they cost the donor less and benefit the recipient less than the nominal value of the loan itself, (ii) aid can be tied either by source (i.e. loans or grants have to be spent on the purchase of donor country goods or services) or by project (funds can only be used for a specific project, e.g. a power plant). In either case the real value of the aid is reduced because the specified source is likely to be an expensive supplier or the project might not be of the highest priority.⁴¹ ODA is what translates to Africa's debt burden today.

2.2 Uganda and Debt

At independence Uganda had one of the most vigorous and promising economies in Sub-Saharan Africa (SSA) and the years following independence demonstrated this economic potential. Its social indicators were comparable or better than most countries in Africa. However, heavy debt amidst other things has plunged the country into serious poverty. By 1986 Uganda had become one of the world's poorest countries as a consequence of the prolonged period of economic and social collapse (1971-1985). Per capita incomes, which had averaged US\$800 in the 1970s, hovered just over US\$200, spawning widespread poverty. The education and health systems had collapsed, the physical infrastructure had crumbled, and low wages and poor morale had destroyed the civil service'. The public revenue base had collapsed, inflation was

⁴⁴ Todaro, M., *Economic Development in the Third World 4th Ed.* (New York: Longman Publishing, 1999) p411-412
⁴⁵ Ibid p483-484
⁴¹ Chavkin, S. *Unchained* (New York: Palgrave Macmillan, 2005) p148

raging and government expenditure, exports and investments had all fallen below 10 percent of GDP.⁴⁷

As a result of the economic collapse, Uganda faced debt payment problems on its accumulated foreign borrowing. The country's debt burden in nominal terms rose from \$172million in 1970 to \$3.6 billion in 1998, the year in which it first received debt relief under the HIPC Initiative.

From modest beginnings in the seventies, Uganda's debt levels and the corresponding debt burden increased considerably. The country's external debt had increased over the decades because of arrears accumulation as a result of successive governments defaulting on debt obligations, deteriorating terms of trade, expansionary fiscal policies and heavy borrowing for economic recovery and stabilisation programmes. Before 1992, Uganda's capacity to service its debt fell steadily to about one-third of programmed levels due to a shortage of foreign exchange. This led to a rise in arrears. In the early 1990s donors stepped in and provided funds for multilateral debt service commercial debt buybacks. By 1997 Uganda owed US\$3.7 billion in nominal terms to international creditors. Uganda's large debt burden constrained investment and growth. Resources used to service debt were shown to contribute to the crowding out of public investment, and the discouragement of private investment, as well as restriction of the flow of imports.

Uganda's debt has historically been medium and long-term because short term credits virtually ceased in the late 1970s, when political turmoil set in. The proportion of concessional debt to total debt rose steadily in the 1980s and 1990s, and exceeded 70% by the end of 1994.

This was a reflection of adherence to new borrowing guidelines of the Ugandan government

Mwaba, A., External Debt and Debt Reduction Measures in Uganda, paper presented at the UNU/WIDER Development Conference on Debt Relief, 2001, p8

Kuteesa, F. and R. Nabbumba, HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004) p 48

which required contracting only loans with a grant element exceeding 78%. Under these guidelines, the government contracted large multilateral concessional loans, which averaged US\$700 million a year from 1989 to 1994, and turned down many commercial loans. The total external debt owed to multilateral creditors rose from 54% to 72% between 1989 and 1994, by 1996 it had reached 76% and it rose further to 81% by 2000.

Table 2.1: Uganda external debt and composition 1980-2000

Creditors	1980	1994	1995	1996	1997	1998		
Multilateral creditors		2,156	2,448	2,655	2,763	2,827		
Non-Paris Club Bilateral		398	408	457	424	357		
Paris-Club creditors		332	380	351	339	324		
Commercial Non-Banks		38	27	26	29	31		
Commercial Banks		1	8	3	1	3		
Other loans	732.7	2,999	3,387	3,516	3,660	3,557	3,510	3,400

Source: World Bank - Global Development Finance 1999

Uganda, prior to 1982, lacked a debt management system. This meant there was insufficient information and lack of coordination on matters concerning debt. The government in 1991 introduced some measures to address these weaknesses including revamping of debt management activities in the central bank. Uganda has since implemented a debt management strategy which aims to achieve sustainable debt levels.⁴⁹

Between 1994 and 1997 Uganda posted a real GDP growth rate of 8 percent, the highest in Africa. In response to its reforms and performance, foreign aid poured in, amounting in 2000 to 55 percent of the total government budget or 13 percent of GDP. Uganda's macroeconomic performance showed an average real growth rate close to 7 percent per year, leading the World

Mvumba, A., External Debt and Debt Reduction Measures in Uganda, paper presented at the UNU/WIDER Development Conference on Debt Relief, 2001, p 10

Bank to declare her an economic success story in 1998. Uganda is one of the few African countries that have been willing to embrace the stringent structural adjustment programmes that the World Bank deems vital to restore fiscal discipline and monetary stability. By African standards, Uganda has performed very well and President Yoweri Museveni has made credible, serious, and committed efforts at reform. Unfortunately, dangers lurk behind the corner. First Uganda's economic recovery is not sustainable as it is "aid-induced." Dependent on the international community for 55 percent of its budget, it is doubtful if the recovery can be sustained if the aid spigot is turned off.⁵⁰

2.3 Causes of The Debt Crisis In Uganda

The origins of Africa's debt crisis in Uganda, like in the other third world states, stem from external and internal factors spanning the last two decades. Researchers have suggested a number of fundamental factors that have played a significant role in the developing countries debt crisis. As a typical Sub-Saharan African country sharing similar characteristics with the majority of other countries in its position, the sources of Uganda's debt problem are in keeping with the major sources of the debt crisis. These factors emanated from international events of the 1970s and were reinforced by specific country features like successive oppressive governments and civil conflict. Some of the major factors contributing to Uganda's debt crisis are outlined as: high and expansionary fiscal deficits incurred by successive governments, oil price shocks, sharp deterioration in the terms of trade and a build up of interest arrears on overdue payments/¹ The paper expounds on some of the factors that contributed to the debt crisis in Uganda and Africa in general.

⁵⁰ Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p207

¹ B. and M. Atingi, Growth and Foreign Debt: the Ugandan Experience, in Ajai and Khan, *External Debt and capital flight in Sub Saharan Africa*, IMF 2000 p68

2 4.1 Legacy of Colonialism

It is believed that developing countries' debt is partly the result of the unjust transfer to them of the debts of colonizing states in billions of dollars at very high interest rates. A sum of US\$ 59 billion external in public debt was imposed on the newly independent states in 1960. Many poor countries today started their independent status with heavy debt burdens imposed by former colonial occupiers. For instance South Africa has found that it now has to pay for its own past repression. The debts incurred during apartheid era are now to be repaid by the new South Africa.⁵² African nationalists have accused colonialism of having failed to promote credible social and economic development for Africans.

It has also been put that the colonialists forged and sustained economic regimes which cast the colonies into permanent producers of raw materials with the sole purpose of satisfying the economic demands of the metropolis. Each colonial economy became characterized and dominated by one primary product, hence presenting the problem of commodity risk.

2.4.2 Rise in Interest Rates

In the late 1970s a large portion of the debt of developing countries carried floating interest rates that were tied to the London Interbank Offer Rate (LIBOR). (Under a floating loan contract the lender is allowed to adjust the interest rate on the loan as the market interest rates change). This institutional feature of bank lending turned out to be an important contributor to the world debt crisis, Africa included.⁵³

To combat inflation in the 1970s, the Federal Reserve Bank of the United States initiated a tight monetary policy in 1979. This led to a rise in the US prime rate, which eventually peaked at 20.5% in 1981. It also caused LIBOR to increase sharply, from 9.5% in 1978 to 16.6% in

Third world Debt a Continuing Legacy of Colonialism, South Centre, Bulletin 85, August 2004
Chachololiades M. *International Economics*, (New York: MC-Grawhill Publishing Co, 1990) p402

1981 Thus the sharp rise in LIBOR not only made new borrowing more expensive for developing countries but also caused the interest payments on old loans to rise sharply. This led to the significant rise of the debt-service ratio of developing countries.

2.4.3 The Global Recession

The high interest rates propelled the world economy into the worst recession since the 1930s. By 1981 the average unemployment rate in seven major industrial countries surpassed 8% while real GDP growth became negative. The world recession of 1980-1982 decreased the income of developing countries for two reasons: one it made their exports to decline; and secondly the reduction in demand caused the prices of their products to fall, which, given a relatively inelastic demand for these exports, led to declining export revenues. Developing countries were forced to increase their borrowing in order to meet their import requirements.

2.4.4 The Oil Shocks

Another factor that might have contributed to the debt crisis at the start of the 1980s is the oil shocks. As a result of the oil price increases of the 1970s hundreds of billion of dollars (petrodollars) were transferred from the oil importing countries to the oil exporting countries. In 1974, for example, the OPEC nations taken as a whole had a current account surplus of about \$60 billion. The oil exporting countries could surely not convert this tremendous influx of funds into imports of goods and services, because their economies lacked the necessary capacity to absorb such vast amounts of resources, hence they had to search for alternative ways to spend their massive funds.⁵⁴

As the oil exporting countries were seeking alternatives for their surpluses, the rest of the world was searching for ways to finance its deficits. Most third world countries, which were hit

hard by the oil price increases, were desperate for new sources of development capital. This situation eventually led to the recycling of petrodollars. The OPEC nations exported oil to advanced countries in exchange for dollars. These dollars were deposited in the Eurocurrency market and then were loaned to developing countries. In turn the developing countries used the loans for net imports of goods and services from advanced countries.⁵⁵

The recycling of petrodollars provided developing nations with easy access to badly needed funds. As a result they continued to increase their borrowing in order to finance their additional export expenditures. The second oil shock only exacerbated this situation and ignited the debt crisis in 1982.

2.4.5 Poor Public Sector Investment

Inadequate supply situations coupled with soaring government expenditures financed by printing money resulted in inflation in many African countries including Uganda. This discouraged savings and thereby depleted funds for investment. To compensate for low domestic savings African countries borrowed feverishly from abroad to establish state enterprises and initiate development projects. However there is evidence that borrowed funds were not wisely invested.⁵⁶ Development policies of most African countries led them to undertake grandiose development projects, which failed to pay back. A large part of the loans went towards consumption and extravagance on the part of corrupt officials; The funds were poorly invested in inefficient public enterprise; Many of the investments were made with the expectation that domestic growth would continue at the same expansionary rate as in the 1970s consequently some of the borrowed money was used for investment in energy production sources especially

⁵⁶ ^hachololiades M, *International Economics*, (New York: MC-Grawhill Publishing Co, 1990) p402
[^]yntey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p238-239

hydro-electricity. The fact that the expected growth did not materialize made these investments for the most part fruitless.

2.4.6 Cold War Loans

Foreign assistance was wasted by bloated aid agencies pouring money into pockets of corrupt African governments, especially during the cold war. Some creditor nations are accused of having given loans to African countries during the cold war to win them on their side with little regard to how the money was going to be spent.

2.4.7 Poor Management of External Debt

Another underlying factor in Uganda's debt problem as in many other African countries was the country's poor management of its external debt. A working debt management system entails the planned acquisition, deployment and retirement of loans, reinforced by articulate external borrowing policies, and maintaining accurate data on external borrowing. In Uganda, these issues were not well addressed. Prior to 1982 very little was known about the country's external debt and there were no basic institutions to follow up debt matters. Responsibilities of debt management were shared among several units including the Ministry of Finance, the Central Bank and the Aid and Coordination Unit in the Prime Minister's office. As a result of insufficient information on terms and condition the government was not able to ensure that all new debt was contracted on terms and conditions compatible to the country's needs and abilities. There was no clear policy defining priority for meeting the payment obligations."⁷

2.4.8 Capital Flight from Developing Countries

Capital flight refers to the transfer of funds from one nation to another by private firms or individuals. It happens when the expected returns from keeping funds abroad are higher or more

Mwaba. A., External Debt and Debt Reduction Measures in Uganda, paper presented at the UNU/WIDER Development conference on Debt Relief, 2001, p 9

secure than from keeping them at home. During early 1980s the external debt outlook of developing nations worsened further due to extensive capital flight. The enormous capital flight was probably caused by the unsettled economic conditions in the developing countries, over-valued exchange rates, lax fiscal and monetary policies, interest-rate ceilings, inflation, taxes on domestic financial assets. As a result many residents of developing countries used their savings to purchase assets in the more efficient financial markets of foreign countries.


2.4.9 Diminishing Export Returns

The collapse in export earnings stems from two fundamental factors: the first is the collapse in primary commodity prices in the 1980s after the commodity prices boom of the 1970s; the second is the expansion of protectionism in the form of managed trade among major industrial countries. This has affected most African Countries notably in terms of agricultural subsidies for commodities on which the export earnings of many of these countries depend. As exports earnings of the African countries decline, so too does flows of external investment resources.⁸ The balance of payments of these African countries are consequently affected negatively, and thus they are unable to service their debts let alone meeting other social requirements.

2.4.10 Commodity Risk Vulnerability

The international task force on Commodity Risk Management pointed out that HIPCs depend on primary commodities for more than half of their merchandise export earnings. An estimated half of the HIPCs generate more than 90% of their merchandise export revenues from a few commodities like tea and coffee. In Uganda for instance about 5 million small holders and poor households (a quarter of the population) earn their living from producing coffee. Prices of

• (S)^{10351^} ^ ^ ^¹¹¹¹¹¹¹¹¹¹¹ *African Debt and Financing* (New Jersey: Institute for International Economics,



commodities can be extremely volatile. As already mentioned Uganda's export earnings are highly correlated to coffee prices. Taking the level of Uganda's export earnings as 100, this benchmark fell to 47 in 1993 following a sharp fall in coffee prices and rose to 170 in 1997 after prices improved. Such changes are said to have direct impact on debt indicators and on a country's ability to adhere to debt sustainability.⁵⁹

2.4.11 Deterioration in Terms of Trade

This point is directly linked to the one above. The Terms of Trade of African HIPC's have deteriorated over time. This decline like commodity risk vulnerability continues to have significant implications for debt sustainability of these countries.

2.5 Effect of the Debt Crisis in Africa

The turning point of the debt crisis in Africa came in 1986 when the Organization of African Unity (OAU) decided to bring Africa's debt problem to the UN, asking Western countries to help solve it. By this time almost every country in the continent was defaulting on its interest payments and many countries were devoting 30 to 40 percent of their budget to debt servicing.⁶¹ About 80% of Africa's foreign debt is owed to Western governments and multilateral institutions like the IMF and the World Bank.⁶¹

Total debt continues to rise, despite ever-increasing payments, while aid is falling. The developing world now spends \$13 on debt repayment for every \$1 it receives in grants. For the poorest countries approximately \$550 billion has been paid in both principal and interest over the last three decades and yet there still is a \$523 billion debt burden. Large debt payment limit foreign exchange reserve build-up and contribute to the balance of payments financing gap while

Hussain M.N and B.G Gunter, *External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa*, in African development Report 2005 (Oxford: Blackwell Publishing Ltd, 2005) P 463-464

⁶¹ a ' Debt Crisis, Africa and the new enclosure, *The commoner* No.2, September 2001,p8
^{^y>}«ey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p290

lacing significant pressure on the budget. The high debt service burden reduces funding that would go to priority sectors (primary education, primary healthcare, water and sanitation, agricultural extension and rural roads) outlined by Uganda's Poverty Eradication Action Plan (PEAP)

Foreign indebtedness of many developing countries has risen to such high levels that the casual observer is forced to wonder if the debt will ever be paid back. Many scholars are now arguing that the debt obligations of some of the Heavily Indebted Poor Countries (HIPC) are so large that they act as severe disincentives to investment. These disincentives in turn reduce growth rates thereby making future repayments even less likely.

Many poor countries in Africa have to use an unreasonably large share of the foreign currency at their disposal to pay interest and amortisation on their foreign debt. When export revenues are not enough to cover these payments development assistance funds must be used to fill the gap. Chronic indebtedness cripples the economic and social development effort. Indebtedness poses a serious hindrance to development in the poor countries of Africa. Social and political unrest follow in the wake of the increasing debt burden. ' The poorest most indebted countries find themselves having to use an unreasonable large share of their convertible currency reserves to service debts.⁶³

High debt service consumes convertible currency and thereby limits a country's ability to import goods and services. It also constitutes a considerable share of the budget in many countries. In Uganda for example, interest payments amounted to nearly 20% of public disbursements in 1985.⁶⁴ A high level of debt has a generally detrimental effect on a country's macro-economic situation. It affects inflation, interest rates and exchange rates. It increases

⁶³ *IDA's Way Out of The Debt Trap* (Stockholm: Vastergotlands Tryckeri, 1992) p6
Ibid

⁶⁴ Ibid, p10

budget deficits which may fuel inflation leading to interest rates that deter investment. Economic problems and heavy indebtedness often also lead to political unrest. All these factors discourage foreign investment.⁶³ The poorest countries lack resources to pay their debts. Chronic arrears lower a country's credit worthiness, which in turn makes it more difficult to raise new loans due to higher interest rates, and access to short-term and commercial credit is reduced. The poorest countries today have to pay 20 to 40 per cent higher prices for imports than wealthier, more credit worthy countries.⁶⁶

A heavy debt burden can affect investment and growth through other avenues. The debt burden can have a depressing effect on growth through the government budget by crowding out public investment and effecting both a reduction in private and total investment and a fall in the productivity of investment. This is referred to as the "crowding -out" effect. Reduced public investment can ultimately lead to lower growth rates.⁶⁷

Unsustainable debt levels have led to instability in key economic variables like inflation and exchange rates by imposing pressure on foreign reserves and budget resources. The debt overhang has also created a major obstacle to economic growth and investment. High levels of debt create a high degree of uncertainty about the country's capacity to service its debt. High debt service is perceived by investors as a form of 'tax' on future incomes of the country.⁶⁸

Continued dependence on new inflows to cover debt service and constant rescheduling can increase uncertainty about governments spending on new and on-going projects. For the last decade, Uganda has been depending on external assistance to cover over fifty percent of its national budget. Although it is internationally accepted that a dependence ratio of external

⁶³ SIDA, *A Way Out of The Debt Trap* (Stockholm: Vastergotlands Tryckeri, 1992) p6

⁶⁷ African Development Bank, *African Development Report 2006: Aid, Debt Relief and Development in Africa*, (Oxford: Oxford University Press 2006)p22

Muwanga-Zake E, and S. Ndhaye , *The HIPC Debt Relief Initiative - Uganda's Experience*, Presented at the United Nations diversity (UNU/WIDER) Conference on Debt Relief .Helsinki, 2001 p4 "

assistance to GDP of 25 percent and below is sustainable, there is cause to worry for Uganda because since the year 2000 this ratio has steadily increased to over 30 percent.⁶⁴

In summary the debt problem for the national economy cannot be over emphasized. Credit facilities dry up as the full ramifications of the debt problem becomes clearer. The absence of medium to long term financing means that the completion of a number of projects is stalled, while the absence of short term cover further drains the foreign exchange reserves and constitutes a negative balance of payment financing. It also results in an accelerated deterioration in terms of trade, as suppliers raise prices to build in a risk premium against delays in payments

70

thus compounding the payments difficulties. The debt burden then presents itself as an endless circle of poverty.

2.3 Debt Reduction Measures in Uganda

Since the 1980s Uganda has had debt strategies that clearly laid down procedures for negotiating new loans and emphasised commitment to reduce the stock of debt. Consequently over this period the country benefited from a number of debt relief schemes from the international community. However the relief had only a limited impact on Uganda's overall debt position. The actions taken have included debt rescheduling, commercial debt buy backs and restructuring, implementing special programs with multi-lateral agencies, and lately the HIPC Initiative. We shall now examine some of these relief strategies.

Paris club

Uganda has benefited from rescheduling and cancellation schemes granted by its Paris Club creditors. This is in addition to the reductions obtained under the 1989 rescheduling on Toronto terms and the 1992 rescheduling on enhanced Toronto terms. Uganda was also the first

Obwona M and S. Ndaye, *Do the HIPC debt initiatives achieve the debt sustainability objective? Uganda's experience* (Kampala: Economic Policy Research Centre)p6
Centre for Economic Research on Africa, *New Initiatives for Africa's Debt*, (New Jersey: Centre for Economic Research on Africa)p6

country to receive debt rescheduling on Naples terms in February 1995, corresponding to a reduction in debt of 67 percent in NPV terms.⁷¹

Debt buy back and restructuring of Unsecured Commercial debt

Uganda has benefited from debt reduction in the form of debt buy back. In February 1993, Uganda implemented a debt buy back plan at 12 cents to the dollar to the tune of US\$151 million of eligible debt and this represented 6% of the total debt outstanding and disbursed, one third of the total arrears or three quarters of the commercial debt. The impact of this was a debt forgiveness amounting to US\$133 million. Uganda became the fourth country to benefit from this facility after Niger, Mozambique and Guyana.

Debt Conversion

The other operation that was extended to Uganda was the debt to equity conversion. A total debt of US\$13.1 million largely in arrears to the private sector joint venture partners was resolved under this conversion exercise. The operations under this head were facilitated with an IDA debt restructuring facility of US\$10 million and the Organization for Economic Co-operation and Development (OECD) member grants of about US\$8 million.

Multilateral Debt Fund

Despite the relief effort outlined above, debt continued to rise in the 1990s. By end June 1996, Uganda remained heavily indebted with a stock of external debt of US\$3.5 billion or 63% of GDP, and of which 75.5% constituted multilateral debt. Regarding sustainability targets, Uganda's NPV of debt (after implementing Paris club rescheduling and stock reduction) was approximately US\$1.7 billion or 23 % of exports of goods and non-factor services; a clear

indication that Uganda could not achieve debt sustainability within a reasonable period even with good performance.⁷²

the HIPC Initiative

Having established a satisfactory track record of adjustment and reform supported by the IMF and the World Bank, Uganda became the First country to qualify for debt relief under the HIPC Initiative in April 1998. The HIPC Initiative is seen as an important extension of previous debt relief Initiatives. Chapter 3 shall further discuss Uganda and the HIPC Initiative.

Table 2 below summaries Uganda's debt relief experience under the different debt relief strategies.

Table 2.2: Uganda's Debt Relief Experiences

	Year
Paris Club	
• Toronto terms	1989
• London terms	1992
• Naples terms	1995
• Lyon terms (HIPC 1)	1998
• Cologne terms (HIPC II)	1999
Commercial Debt Buyback	1992
Multilateral Debt fund	1992-95
HIPC	1998
Enhanced HIPC	2000

Source: HIPC Debt Relief- Myths and Reality, FONDA D

CHAPTER 3: THE HIPC INITIATIVE

This chapter looks exclusively at the HIPC Initiative, how it came about, what it is all about, and how it has affected Uganda. The chapter shall also look at the criticisms and successes of the initiative, and its relation to the Millennium Development Goals (MDG) and also the Structural Adjustment Programmes. The challenges that the initiative faces shall be discussed.

3.1 Pre-HIPC Initiative Debt Relief Strategies

Debt relief in the form of a restructuring or rescheduling of debt has been provided by creditors to debtors for a long time. Since the late 1980s, when industrial countries first agreed to reschedule low-income countries' debts on concessional terms in the context of the Paris Club (Toronto terms), the degree of debt forgiveness has increased in several steps. By mid-1990s, under what came to be known as Naples terms, Paris Club creditors were forgiving two-thirds of low-income countries' eligible debts. (Uganda's experience with Pre-HIPC debt relief strategies has been discussed in Chapter 2). Despite these efforts, some low-income countries especially those in sub-Saharan Africa, continued to face heavy external debt burdens and difficulties with servicing them, sometimes repeatedly resorting to debt rescheduling.⁴¹

The figure below illustrates in clear terms the heavy debt burden which hangs like a millstone around the neck of forty of the Heavily Indebted Poor Countries a massive US \$212.6 billion.

IMAbre₀, S. Ross D. *Debt Relief Under the HIPC Initiative: Context and Outlook for Debt Sustainability and Resource Flows*,

table 3.1s List of the forty most Heavily Indebted Poor Countries (HIPC). Figures are in \$US Million:

Country	Total Debt	Country	Total Debt
Angola	12173	Madagascar	4394
Benin	1647	Malawi	2444
Bolivia	6074	Mali	3202
Burkina Faso	1399	Mauritania	2589
Burundi	1119	Mozambique	8202
Cameroon	9829	Myanmar	5680
Central African Rep	921	Nicaragua	5968
Chad	1091	Niger	1659
Congo, Dem. Rep.	12929	Rwanda	1226
Congo,Rep	5119	Sao Tome/Principe	246
Cote d'voire	14852	Senegal	3861
Ethiopia	10352	Sierra Leone	1243
Ghana	5899	Somalia	2635
Guinea	3442	Sudan	16843
Guinea-Bissau	964	Tanzania	7603
Guyana	1653	Togo	1448
Honduras	5002	Uganda	3935
Kenya	7010	Vietnam	22359
Lao PDR	2437	Yemen	4138
Liberia	2103	Zambia	6865
		Total	\$212.6 billion

Source: Global Development Finance 2001, World Bank

2 1 About the HIPC Initiative

Moral outrage in the developed countries focussing on the issue of debt relief on poor countries, whose debt was with no doubt unsustainable, led the IMF in concert with the World Bank to begin the HIPC Initiative in 1996. The HIPC Initiative is the first comprehensive approach to reducing the external debt of the world's poorest most indebted countries. The Initiative was intended to manage and even resolve the debt problems of the most heavily indebted poor countries. It was to make it possible for all HIPCs so designated to meet their current and future external debt service obligations in full, without recourse to debt rescheduling or accumulation or arrears, and without compromising growth.^{9:1} According to the IMF the Initiative seeks a permanent solution to the debt problem by combining substantial debt reduction to policy reforms.⁹⁶

Debt relief under the HIPC Initiative differs from previous major debt relief Initiatives, such as the Baker and Brady plans, in that it concerns official rather than commercial debt and that it imposes well-defined conditionality. The design of the Initiative provides a way for HIPCs to effectively use the resources released from lower debt service payments towards poverty reducing expenditures. This also distinguishes the enhanced HIPC Initiative from previous official debt relief programs.⁹⁷

The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. Three years after launching the Initiative (1999) it was clear that the original HIPC was not sufficient to provide HIPCs with a permanent exit from repeated debt rescheduling. Consequently a number of modifications were

i

Obwona M and S. Ndaye, *Do the HIPC debt initiatives achieve the debt sustainability objective? Uganda's experience* (Kampala: Economic Policy Research Centre)p2

⁹⁷ Peter R, *Unholy Trinity, The IMF, World Bank and WTO*, (London: Zed book, 2003)p74

⁹⁶ A guide to the World Bank, 2003, WorldBank Group, Washington DC p 114

World Bank Group, *The HIPC Initiative*, Washington DC p7

approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies, hence the Enhanced HIPC Initiative.

The enhanced HIPC Initiative aims at providing substantial debt relief to eligible countries by reducing their overall debt stocks by about one-half. This Initiative seeks to (i) build on debt reduction under traditional mechanisms, (ii) lower debt service payments of HIPCs on average by about one third to percent of exports, (iii) provide a solid basis for HIPCS to achieve debt sustainability and to exit the rescheduling cycle. In 2005, in the context of accelerating progress toward the Millennium Development Goals, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI is separate from the HIPC Initiative but linked to it operationally. The MDRI allows for 100 percent debt relief by three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF)—for countries completing the HIPC process.⁴⁹

3.1.1 How the HIPC Initiative works

To be considered for HIPC Initiative assistance, a country must first face an unsustainable debt burden, beyond traditionally available debt-relief mechanisms; secondly a country must establish a track record of reform and sound policies through IMF- and World Bank-supported programs; and finally, a country must have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process (an interim strategy is sufficient to begin the process).¹⁰⁰ Preparation of the PRSP involves domestic stakeholders and external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to

promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing.¹⁰¹

At present forty-two countries, primarily from the Sub-Saharan Africa region, are deemed to be eligible for HIPC assistance based on the above criteria, although four of these (Kenya, Yemen, Angola and Vietnam) are considered to already have a sustainable level of debt, and are thus unlikely to receive further debt cancellation.¹⁰²

The first step is to carry out a debt sustainability analysis to determine the country's debt relief needs. If a country's external debt ratio after traditional debt relief mechanisms is above a threshold for the value of debt to exports (or, in special cases, the value of debt to fiscal revenues), it qualifies for assistance under the Initiative. Once a country has made sufficient progress in meeting the criteria for debt relief, the Executive Boards of the IMF and World Bank formally decide on a country's eligibility, and the international community commits to reducing debt to the sustainability threshold. This is called the decision point.

Once a country reaches its decision point, it may immediately begin receiving interim relief on its debt service falling due. In order to receive the full and irrevocable reduction in debt available under the HIPC Initiative, however, the country must establish a further track record of good performance under IMF and World Bank-supported programs. The length of this second period depends on firstly the satisfactory implementation of key policy reforms agreed at the decision point, secondly the maintenance of macroeconomic stability, and lastly the adoption and implementation for at least one year of the PRSP. Once a country has met these criteria, it can

¹⁰¹The World Bank, *Strategic Framework for Assistance to Africa*, (Washington: The World Bank 2004)p82
¹⁰²Ibid

reach its completion point, at which time lenders are expected to provide the full relief committed at the decision point.¹⁰³

HIPC -2 assumes that country's external debt is sustainable if the NPV debt-to export ratio is around 150 percent (lowered from the 200-250 percentage range under HIPC-1)

⁰³ Madhur Gautman, *Debt Relief for the Poorest: An OED Review of the HIPC Initiative*, Washington DC, The World Bank, 2003

Figure 3.1

Enhanced HIPC Initiative Flow Chart

First Stage

Country establishes three-year track record of good performance and develops together with civil society a Poverty Reduction Strategy Paper (PRSP); in early cases, an interim PRSP may be sufficient to reach the decision point. Paris Club provides flow rescheduling on Naples terms, i.e. rescheduling of debt service on eligible debt falling due (up to 67 percent reduction on a net present value basis).

Other bilateral and commercial creditors provide at least comparable treatment (recognising the need for flexibility in exceptional cases).

Multilateral institutions continue to provide adjustment support in the framework of World Bank- and LMF-supported adjustment programmes.

Decision Point

Either

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors

is adequate for the country to reach external debt sustainability

=====> Exit
(Country does not qualify for HIPC Initiative assistance)

Or

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors

is not sufficient for the country to reach external debt sustainability.

=====> World Bank and IMF Boards determine eligibility for assistance

All creditors (multilateral, bilateral, and commercial) commit debt relief to be delivered at the floating completion point. The amount of assistance depends on the need to bring the debt to a sustainable level. This is calculated based on latest available data at the decision point.

3 1.2 Boost for the HIPC Initiative

A group of the eight richest countries in the world (also known as the G8 i.e. UK, USA, Canada, France, Italy, Germany, Japan and Russia) meeting in Cologne in July 1999 agreed to reduce Third World debt by \$100 billion. However, so far less than \$13 billion of that total has actually been cancelled, and most of that had already been cancelled before the Cologne Summit. Since Cologne, less than \$2 billion has been written off.¹⁰⁴

An agreement for 100 percent debt cancellation for HIPC countries was reached during the July 2005 G-8 summit held at Gleneagles. Under this agreement the debt for the 18 countries that have reached completion point within the context of the HIPC Initiative will be written off in full, including the debt stock rather than just the debt service. The debt write-off will cover those debts owed to the ADB, the IMF and the World Bank. The G8 nations through bilateral contributions to the World Bank and the ADB will provide the funds based on agreed burden sharing. This has been termed as an extremely important milestone in the debt relief measures. In a press statement the President of the World Bank announced that 'the path to complete debt relief now has been cleared. Across Africa and around the World, leaders in 38 countries will no longer have to choose between spending to benefit their people and repaying impossible debts, often the legacy of governments past'¹⁰⁶

Whether the G8 will keep their promise this time round remains to be seen.

World Bank. *World Debt Tables: External Debt of Developing Countries*. (2000-01 edition)
Mwaba A, *Beyond HIPC: What are the Prospects for Debt Sustainability in African Development Bank Report*. (Oxford: Blackwell Publishing, 2005) p544
World Bank, Statement of Paul Wolfowitz, President of the World Bank at the Development Committee Press Conference, Sunday, 25 September 2005

2 Uganda and the HIPC Initiative

Uganda's current debt situation is dominated by developments with the HIPC Initiative. HIPC governments were required to provide an acceptable country's Poverty Reduction Strategic paper (PRSP) to the World Bank and IMF for debt relief consideration, which Uganda did satisfactorily. She was the first country to qualify for debt relief under both the First HIPC and the Enhanced HIPC Initiative in April 1998 and April 2000, respectively. Based on debt sustainability analysis carried out by the World Bank, the original HIPC framework was to reduce Uganda's debt to achieve the following: cut the NPV of debt to exports from about 243 percent in 1997/98 to 196% at the completion point of the program. The debt service ratio (without HIPC assistance) was to decline from 27 percent in 1997/98 to below 21 percent in 1998/99, and thereafter to about 9 percent. The debt service ratio (after HIPC assistance) was estimated to fall to about 17 percent in 1998/99 and to about 13 percent by 2000/01, and remain below 10 percent thereafter.¹⁰⁷

Uganda's experience with the HIPC Initiative has been broadly positive. The country achieved debt relief equivalent to US\$347 million in NPV terms (or US\$650 million of relief on debt service over the next 30 years), a reduction approximately 20% of the net present value of the total debt stock.¹⁰⁸ Having qualified for the first HIPC, Uganda easily met the requirements for enhanced HIPC. As at end of April 2005, HIPC debt relief had been topped up for some countries, but Uganda did not benefit from the top up because she had already reached her completion point before the policy of topping ups was implemented.¹⁰⁹

¹⁰⁷ Mwaba, A., *External Debt and Debt Reduction Measures in Uganda*, paper presented at the UNU/WIDER Development Conference on Debt Relief, 2001, pi 1

Muwanga-Zake E, and S. Ndhaye, *The HIPC Debt Relief Initiative - Uganda's Experience*, Presented at the United Nations University (UNU/WIDER) Conference on Debt Relief, Helsinki, 2001 p8

Hussain M.N and B. G Gunter, *External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa*, in African development Report 2005 (Oxford: Blackwell Publishing Ltd, 2005) P 466

Uganda's estimated assistance under the Initial HIPC initiative is US\$347 in Net Present Value (NPV) terms and will be delivered over 30 years. Under the Enhanced HIPC Initiative the relief amounts to US\$656 in NPV terms to be delivered over a period of 20 years. The total relief that Uganda has been granted is therefore US\$1003 in NPV terms. See the Table below below.

Table 3.2 : The HIPC Debt Relief - Uganda

	Agreed HIPC Debt Relief, NPV (US\$ million)	Nominal Debt Service Relief (US\$ million)	Decision Point	Completion Point
Original HIPC Initiative			April 1997	April 1998
Total	347	650		
Multilateral	274			
Bilateral	73			
Enhanced HIPC Initiative			February 2000	May 2000
Total	656	1300		
Multilateral	546			
Bilateral	110			
Total HIPC Debt Relief	1003	1950		

Source: IMF/World Bank HIPC Initiative Documents/Uganda

The total amount of relief to be received is US\$656 million in NPV terms (US\$1.3 billion nominal terms) over a 20 year period. The immediate impact of Uganda's HIPC eligibility was that in 1999, the country's external debt stock fell from US\$3.62 billion in 1998 to US\$ 3.5 billion by June 1999. The debt service ratio also fell from 24 percent in 1997/98 to 15% in 1998/99. According to the Government of Uganda's assessment of assistance under the HIPC Initiative,

debt relief has had a significant impact on the country's debt burden. Nevertheless results of debt sustainability analyses carried out in 2002 do not seem to concur with the government's assessment. The debt relief given to Uganda under the HIPC Initiative was meant to enable Uganda remain on a sustainable debt path, but the 2002 analyses showed a rise in Uganda's debt to export ratios.¹¹⁰

Kuteesa F and R. Nabbumba are however quick to point the blame away from the HIPC Initiative and instead attribute it to among others deterioration in terms of trade, creditors unwillingness to deliver debt relief and outright rejection to participate in the HIPC Initiative. They suggest that the international community needs to do more to help Uganda achieve and maintain debt sustainability."¹

The speed with which Uganda qualified, without having to go through a standard six-year qualifying period, was a reflection of the country's exemplary record of macroeconomic reform and a proven commitment to poverty reduction. In total, as a result of both Initiatives, Uganda was granted debt relief amounting to \$1 billion in NPV terms to be delivered over a period of twenty years.¹¹² As a consequence, Uganda had the resources saved from HIPC debt relief that were purposively channelled to the Poverty Action Fund (PAF) which allowed the country to increase the budget for the most critical areas such as primary education, primary health care, rural roads, safe water and sanitation, and agriculture. Over the past four years, annual expenditures on education increased by 9 percent. Yearly growth for health expenditures was 20

Kuteesa, F. and R. Nabbumba. *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004) p53
111 Ibid

112 Mutum G, *Industrial Countries Write off Africa's debt*, *Africa Renewal* Vol 19 No. 3, United Nations Department of Public Information, 2005

percent. There have also been substantial increases in spending on water, rural roads, gender, HIV/AIDS, justice, law and order, and on environmental spending.¹¹³

Throughout the 1990s, social service delivery improved significantly and poverty declined noticeably, as a result of increased budgets for poverty reduction. These achievements are in line with the fulfilment of the Millennium Development Goals (MDGs) since there is a substantial overlap between the Poverty Eradication Action Plan and MDG targets.

3.2.1 The HIPC Debt Relief Initiative and Poverty Reduction Strategies in Uganda

The HIPC Initiative and other international debt relief programs have in recent years come to emphasize linkages between debt relief and poverty reduction. There is general impetus to see that the resources freed by debt relief are invested in pro-poor social and rural sectors. To this effect, Uganda came up with the Poverty Eradication Action Plan (PEAP) and the Poverty Action Fund programs. The PEAP is a comprehensive development framework which sets out Uganda's poverty reduction strategy, and whose objective is to reduce the incidence of poverty to 10 percent by the year 2017. The plan outlines objectives of achieving universal access to primary education, primary health care, and safe drinking water among others. It also encompasses Uganda's actions to foster the development of the private sector, which will contribute directly to poverty reduction through employment generation.¹¹⁴

¹¹³ Kuteesa, F. and R. Nabbumba, *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience*, in J. Teunissen and A- Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004) p51

Mwaba, A., *External Debt and Debt Reduction Measures in Uganda*, paper presented at the UNU/WIDER Development Conference on Debt Relief, 2001, p22

The Poverty Action Fund (PAF) is Financed by contributions from debt relief under the HIPC Initiative, other bilateral financial contributions and the government. This fund is committed to programmes focusing on poverty reduction.^{11^}

3,3 Criticisms of The HIPC Initiative

The HIPC Initiative, great as it may sound, has come under a lot of criticisms for a variety of reasons, which are discussed below.

Growth assumptions and projections of future debt levels have proved to be unrealistic.

Uganda is a clear example. The combined debt relief given to Uganda under HIPC I and II was supposed to enable Uganda to remain on a sustainable debt path for the foreseeable future, as measured by a continuing NPV debt-to-exports ratio of below 150 percent, thus delivering total exit from debt rescheduling. However results conducted in 2002 showed a rise in Uganda's debt to exports ratio. In June 2003 the debt-to-exports ratio of Uganda was fifty percent higher than before Uganda obtained debt relief under the HIPC Initiative.^{1^U1} As at 2004 Uganda had a debt-to-exports ratio (in present value terms) of 172 percent, which is above the 150 percent ceiling of the HIPC Initiative.¹¹⁷ Simply put, Uganda's debt still remains unsustainable even after receiving debt relief from the HIPC Initiative. This means the Initiative is not meeting its goal of achieving sustainable levels for countries that qualified for debt relief under its umbrella. Something is therefore not right.

Mwaba, A., External Debt and Debt Reduction Measures in Uganda, paper presented at the UNU/WIDER Development Conference on Debt Relief, 2001, p22

Kuteesa, F. and R. Nabbumba, HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience, in J. Teunissen and A Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004) p43

African Development Bank, *African Development Report 2006: Aid, Debt Relief and Development in Africa*, ^Oxford: Oxford University Press 2006)p138

The current requirement to spend all savings from debt service solely on social expenditures is seen by most of the debtor countries as highly inflexible.

The IMF/World Bank demand that HIPCs focus their economies on exports and privatize national industries. Many studies have concluded that the Structural Adjustment Programs (SAPs) maintained by PRSP requirements have contributed to increasing inequality and marginalization of the poor. Carlos Pacheco, director of the Center for International Studies, a Managua think tank, believes that the cancellation of debt is being used as a wedge to force a nation to accept privatization and higher costs of living through these SAPs¹¹⁸. This is the result of SAPs' focus on quick financial fixes instead of long-term social and economic development. Many HIPC governments have to make long-term contractual arrangements for companies to be the sole supplier of their services in order to persuade the company to invest. Without having to respond to market signals, companies turn into private monopolies that easily increase prices for basic utilities, in the absence of any effective competition.¹¹⁹ For example, once the Dominican Republic privatized its electrical company, prices increased by 51 percent. Consequently, the government attempted to absorb 42 percent of the price increase so as to only pass on 9 percent of the price to the consumer, driving the government even further into debt.

The implementation of the Initiative has been (extremely) slow

Quite a limited number of countries have reached the decision point for actual implementation of debt relief, which indicates the implementation needs some hastening. As of March 2007, about ten years after the launch of the Initiative, only 22 of the 38 countries eligible

¹¹⁸ African Development Bank, *African Development Report 2006: Aid, Debt Relief and Development in Africa*, (Oxford: Oxford University Press 2006) p44
¹¹⁹ Inkota B., *Debt relief for the poor. Five years after the Cologne summit - A review of the HIPC Initiative*, (Washington: Pearson Edu, 2004) pp37

for the Initiative, had reached the completion point and had thus received the debt relief. ¹²⁰

Based on the current IMF/World Bank procedures, most of the HIPC countries usually find it to be a Herculean task to reach Completion Point and write off the majority of their unsustainable debt. The IMF/World Bank and other creditors should work toward easing the requirements to reach Completion Point, thereby enabling the HIPC countries to receive the debt relief that now painfully eludes so many of them. The HIPC prerequisites must be cognizant of the fact that many of these countries endure external and internal shocks that directly exacerbate economic deterioration and increase the difficulty for them to reach IMF/World Bank standards.

As mentioned earlier HIPC countries are discovering that once they privatize they are inextricably bound to fixed rates and long-term agreements, which could, very well, produce monopolies and promote pseudo-free enterprises. If privatization is carried out with increased regulation by the HIPC governments and backed up by the IMF/World Bank, the process could be beneficial not only to the trans-national company, but to the country's citizens as well.

Too Many Conditionalities

The speed of providing debt relief is severely hampered by the conditions set for the implementation of debt relief. The main hindrance to quicker debt relief seems to be the traditional IMF macroeconomic conditionality. Therefore, many experts argue that such conditionality should either be minimal or even completely abandoned.

The time-horizon of debt relief in the context of the HIPC Initiative is too limited.

Instead of just looking at the period in which countries enter and complete the debt reduction scheme, attention should be focused on the longer-term future of debt sustainability. It is suggested that bilateral donors should stop bailing-out the multilateral and that aid should be given in the form of grants rather than loans. It is also suggested that the IMF should completely

¹²⁰ r i

Oilman, M and W. Mitchell, Achievements to Date and Challenges Ahead - A View from the IMF, in *HIPC Debt Relief- Myths and Reality* (The Hague: Fondad 2004)p74

withdraw from long-term lending to poor countries, implying that the poverty-reducing growth facility (PRGF) should be abolished altogether.

Eligibility

The eligibility criteria excludes countries that are as poor and hard hit by high debts as the selected group of HIPC's. A good example is Kenya.

Protection from exogenous shocks

The Initiative has done very little to protect countries against exogenous shocks such as the volatility in commodity prices, and thus failed to address the impact of these shocks on debt **sustainability**. Again, star HIPC country Uganda is a good example. Uganda experienced a fall of 28 percent in export earnings during the three years it received debt relief, which undermined its

• • • 191

debt sustainability.

The Initiative has been accused to provide very little additional financing for development

Large amounts of aid are being diverted from bilateral budgets to fund relief by multilateral institutions.¹²² On top of that large amounts of aid are being used to repay loans due to western companies. An evaluation study of the results of debt relief revealed that during the years 2000-2002, when implementation of the Enhanced HIPC Initiative began, the amounts of debt relief destined to repayment of Dutch export credits exploded. This led to what innocent observers might applaud as an all-time high of debt relief granted by the Netherlands in 2002. However, in practice it meant that much less money became available for regular aid.¹²³

*' Kuteesa, F. and R. Nabbumba, *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004), p55

Mathew. M, *Assessing the HIPC Initiative: The Key HIPC Debates*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief Myths and Reality*, (The Hague: FONDAD 2004) p15

Geske D, *Debt Relief from a Donor Perspective: The Case of Netherlands*, (The Hague: Fondad 2005)

The Initiative is not linked to the funding of the Millennium Development Goals

(MDGS)

The current design of HIPC relief does not maximise its potential contribution to poverty reduction. Many HIPCs do not include achievement of the MDGs in their HIPC programmes. HIPC conditionality impedes the attainment of the MDGs. This is because: HIPCs are forced to **spend** more on social projects from their tax income while in many cases debt relief does not free **resources** for such expenditures; it implies the "double tying" of aid since conditions are first set for the original loans, and then *new* conditions are posed to the relief on these same loans; the setting of conditions to aid in general has little effect because governments will not carry out policies that they do not believe in while the donors seldom impose real sanctions on lack of performance.

One of the biggest problems for HIPC countries upon reaching Completion Point is being able to keep their economies growing, while still paying off their external debt. The Enhanced HIPC Initiative never erases the entire debt; it only cancels enough of it to ensure that the impoverished nations are able to reliably service the remainder of their debt. However, nations such as Uganda, whose debt after Completion Point still equals almost three times its GDP, find it all but impossible to sustain their debt with service payments worth more than half the value of the nation's exports. Thus, while the IMF/World Bank are intent on ensuring repayment of creditors, the HIPC Initiative is not, in many cases, moving countries toward sustainable debt levels while simultaneously stimulating development.

The Initiative has not resulted in long-term debt sustainability

It is strongly advocated that debt sustainability would become an intrinsic goal of the Initiative, rather than something one hopes would happen after the debt relief is fully granted¹²⁴. An investigation by Stanford Business School determined that within a year of debt relief, 16 developing countries' local stock markets began to appreciate by 60 percent, foreign capital began to flow in and robust economic growth began. However, the study further determined that debt relief did not produce debt sustainability for the HIPC countries, due to the international creditors' nervousness over the credibility of the HIPC government's repayment prospects.¹²⁵ This was caused by the HIPC countries' lack of "basic social infrastructure that forms the basis for profitable economic activity. Apprehensive foreign creditors began to immediately ask for debt payments all at once. However, the HIPC countries have difficulty in repaying their external debts when they do not have an adequate social and economic infrastructure allowing them to service the debt and improve the economy. This study concludes that even with the IMF/World Bank debt relief policy in place, HIPC countries are unable to sustain their debt as well as improve economic and social development.

Some HIPC countries that have reached Completion Point have demonstrated an ability to focus their national budgets away from external debt payments and toward social programs, as is the case in Uganda. However, for many HIPC countries, even after Completion Point is attributed, a large debt remains and the capacity of augmented social spending is minimal. For example, Tanzania paid \$168 million in debt servicing in 2002, while only spending \$87 million on health. In addition, in April 2002, the World Bank admitted that of the six countries that had successfully reached their Completion Points, at least two still did not have a sustainable level of

¹²⁴ Mathew. M, *Assessing the HIPC Initiative: The Key HIPC Debates*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004) p91

¹²⁵ *Ibid*

igbt. Furthermore, in half of the 20 countries that were between Decision Point and Completion point, the external debt had significantly worsened. One plausible solution to improving debt sustainability is setting a ceiling on debt repayments in terms of government revenue, thereby ensuring that sufficient funds remain in the budgets of the HIPC governments to finance social services.¹²⁶

Much of the basis behind the IMF/World Bank debt forgiveness program focuses on optimistic projections of an HIPC country's exports and GDP growth, neither of which has produced at forecasted levels. Thus, many HIPC countries, regardless of IMF/World Bank debt relief Initiatives, continue on a mired economic and social development path. Part of the problem stems from the strict IMF/World Bank stipulations that require HIPC countries, above all, to privatize. The free trade world market is an incredibly complex, fast-paced arena; many of the HIPC countries are so eager to minimize their debt that they will adhere to any requirement in order to receive debt assistance.

The debt sustainability of the HIPC Initiative is general, instead of being country specific. Given an across-the-board threshold debt-to-export ratio of 150 percent, some country's debts could be easily sustainable, even when their debt ratios are well above 150 per cent, while for other countries, their debts may not be sustainable even if lower than the threshold.

The HIPC Initiative has been criticised by a number of advocacy NGOs for putting the servicing of debt before the HIPC governments' primary responsibility to meet the needs of their people and to fight poverty. They argue debt sustainability should only be defined after primary responsibilities of governments have been met.¹

¹²⁶ William R. Cline, *International Debt and the Stability of the World Economy*, Policy Analyses in International Economics, No. ^Washington, Institute for International Economics,

Odedokun, M., *Life After Debt Relief: Sustainable Debt and Poverty Alleviation in Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)p58

Odedokun, M., *Life After Debt Relief: Sustainable Debt and Poverty Alleviation in Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)p58

There is no guarantee that resources released by debt relief from the HIPC Initiative will be channelled to a countries social needs and not foot expenses like purchase of military weapons. The World Bank supernova Uganda has had over \$650 million of its debt cancelled. Yet it has spent an equal amount prosecuting a war in neighbouring Congo and crushing rebel insurgencies within its own territory. In fact the first item President Museveni purchased after obtaining debt

• • • 190

relief was a new presidential jet.

Many HIPC countries have tried to implement reforms through privatizing and by focusing their economies toward exports, only to find that they are economically worse off. Thus, HIPC Initiatives are not always adequately allowing poor countries to integrate in the world market. If more lenient prerequisites are not applied to the IMF/World Bank stipulations and fair trade principles are not carried out by developed nations, then HIPC countries will assuredly witness prolonged economic deterioration and minimal development activity. For such nations, it becomes a matter of choices, leadership, responsibility and democracy.

3.4 Successes of The HIPC Initiative

Despite the criticisms wedged against the HIPC Initiative, it is also without doubt that it has produced beneficial results in some HIPC countries under the right circumstances. Let us look at the case of Uganda.

Uganda's commitment of debt relief savings, like is the case with PAF, to pro-poor programmes has achieved some encouraging results: incomes are rising without a significant increase in equality, and therefore has resulted to falling poverty levels.

Uganda's Poverty Action Fund (PAF) was established in 1998 to protect funds for poverty eradication from budgetary cuts. The PAF is funded by HIPC savings, earmarked donor funds, -and government revenues. HIPC savings doubled between 1988/99 and 2002/2003. This was accompanied by an expansion in pro-

ⓓ Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p299

poor spending. The resources saved from HIPC debt relief that were channelled to the PAF allowed Uganda to increase the budget for primary education, primary healthcare, rural roads, safe water and sanitation and agriculture.¹¹⁰

Table 3.3: PAF Resources from HIPC savings and other donors 1998-2000

"Source of funds	1998/99 Budget	1998/99 Actual	1999/00 Budget
HIPC Savings	44.64	44.64	65.55
"Earmarked donor support	2.35	1.41	12.19
PAF donor support	9.76	31.74	63.94
Government own resources	23.82	19.97	47.75
Total PAF resources	80.57	97.66	193.98

Source: Ministry of Finance-Background to the budget 2000/2001

Poverty levels have continued to decline, in part due to the continued implementation of direct actions financed by the PAFs. Uganda has achieved some encouraging results from the commitment of debt relief savings to pro-poor programs. There however has been concern that inequality has persistently worsened, which calls for a resolute stance to address unequal access to social services and promotion of pro-poor growth.¹³¹

Debt Relief

As of August 2005, 38 countries potentially qualified for HIPC assistance. Of these, 18 have passed through to the "completion" point and are receiving irrevocable debt relief. 10 have reached their "decision" points and are receiving interim relief. Most of the remaining 10

¹¹⁰ Kuteesa. F. and R. Nabbumba, *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief, Myths and Reality*, (The Hague: FONDAD 2004), p50

¹¹¹ IMF and World Bank, *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral debt Relief Initiative (MDRI) - Status of Implementation*, presented at the Development committee Meeting of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, 2006, p62

countries have been beset by persistent social difficulties such as continual internal civil strife, **cross**-border armed conflict, governance challenges, and substantial arrears problems.¹³²

Civil Society and Transparency

An important part of the HIPC program has been the inclusion of civil society and greater government transparency in the creation of country poverty reduction plans. Recipient governments must engage in a broadly participatory consultation process with civil society, business, labour, academic, religious and others to determine the poverty reduction priorities for the country. This Poverty Reduction Strategy Paper (PRSP) process has not been perfect, but still represents a significant new approach to improving country ownership by non-government actors, as well as enhancing transparency.

HIPC has helped provide a more effective environment for aid

According to the World Bank, the HIPC Initiative, in addition to increasing resources for debt relief, has helped to support policy improvements and thereby contributed to aid effectiveness. That is because debt relief under the HIPC Initiative is intended for countries that are pursuing effective poverty reduction strategies, and increased social expenditure as a critical element. For the countries that have reached decision points under the HIPC Initiative, social expenditures are projected to increase about 1.1 percent of GDP. This seems to be a partial fulfilment of HIPC's objective. Full participation by all creditors is extremely essential to ensure that the countries already at decision points reach sustainable external debt levels and that the HIPC Initiative achieves its objectives in full.

¹³² The HIPC Initiative, <http://www.worldbank.org/debt>.
World Bank, *Global Development Finance: Financing the Poorest Countries, 2002*

Reduction in reliance on guaranteed loans

HIPCs that have reached a decision point and hence have a policy framework in place that is agreed-on with the international community, have seen a reduction in export credit commitments from \$0.9 billion per year 1990-96 to \$0.5 billion from 1997-2000. Moreover, in these countries very little by way of new export credits are going to public sector borrowers, with the bulk of the finance absorbed by the private sector.

Improved Public Financial Management (PFM)

Due to the HIPC conditionalities, HIPCs have improved on their public financial management. Uganda, for instance, continues to make progress in improving its PFM systems and met nine out of the 16 benchmarks during 2004 HIPC assessment. In addition to strengthening the legal and regulatory framework for efficient public financial management, Uganda is in the process of rolling out its integrated Financial Management System, which will help in the implementation of commitment control system.¹³⁴

3.5 The HIPC Initiative and the Millennium Development Goals (MDG)

Making debt sustainable for poor countries is one of the Millennium Development Goals. According to the World Bank between 1999 and 2005 the debt stock of 29 HIPCs had been reduced by 90% and their debt service by 2 percent. As a direct result of debt relief, public expenditures in education and health have increased by 3 percent in these countries. The resources saved from the HIPC debt relief have allowed Uganda to increase the budget for the

¹³⁴ IMF and World Bank, *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral debt Relief Initiative (MDRI) - Status of Implementation, presented at the Development committee Meeting of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, 2006*

f .

most critical areas. Uganda has made notable achievements in terms of budgetary allocations towards poverty reduction inline with the fulfillment of the Millennium Development Goals.

This shows the HIPC Initiative has helped to make positive steps towards achieving the MDGs.¹³⁵ As seen in chapter 3 however, critics argue that the Initiative does not maximise the potential contribution of debt relief to funding the MDGs.

3.6 Comparing the HIPC Initiative to the Structural Adjustment Programmes (SAPs)

In terms of SAPs countries were required to abide by certain conditions to be allowed to borrow from International Financial Institutions (IFIs). The countries were required to: devalue their currencies so that their exports can be cheaper; stop subsidizing domestic agriculture and domestic consumption of basic food; change their agricultural policies away from producing crops for local consumption towards crops better suited for international markets; keep public sector spending to the minimum and invite private companies to buy public properties (privatization).

The programmes were aimed at redressing structural weaknesses and adjusting economies to attain sustainable economic growth. However by the 1990s even the IMF and the World Bank realized that the SAPs were failing and that Africa's share of international investment was even less than before and its people poorer. This meant that the structural reforms were producing the opposite of their intent. African governments have been held at fault for permitting a disproportionate share of the heavy cost of Structural Adjustments to be posed to the poor, but the main criticism is on the cartel of Western lender institutions whose ill-conceived policies are

¹³⁵ World Bank, *World Development Indicators*, 2007

held ultimately responsible for Africa's worsening economic woes. The SAPS were simply ineffective.

The International community agreed that debt relief needed to be part of a comprehensive poverty reduction strategy focused on strengthened institutional capacity, higher growth, and better targeted social programs. The HIPC Initiative debt relief programme was henceforth linked to the preparation of Poverty Reduction Strategies (PRS) which, as put by the IMF, was designed to be country driven and developed with the broad participation of civil society.¹³⁶ Poverty Reduction Strategies, which have been criticized as being the SAPs with a different name, are a condition for obtaining debt relief under the HIPC Initiative. Arguments have been ripe that PRSP contains nothing really new in comparison to the SAPs. Below is a summarised comparison of structural adjustment approaches to those of PRS.¹³⁷

Table 3.4: Comparison of Structural Adjustment Approaches to PRSP Approaches

IMF SAP PRESCRIPTION	IDENTICAL PRSP MEASURES
Monetary austerity; reducing money supply in economies	A stringent monetary policy in order to contain inflation is proposed
Fiscal austerity; reduce government spending while increasing tax collection	Fiscal austerity exists as a strategy focusing on reducing deficit, increasing tax yields by broadening the tax base and lowering corporate taxes
Privatization; sell off public enterprises to the private sector	Sale of state-owned enterprises
Financial liberalisation; removal of restrictions	Deregulation of the financial sector;

-9-

¹³⁶ IMF and World Bank, *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral debt Relief Initiative (MDRI) - Status of Implementation, presented at the Development committee Meeting of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, 2006*

¹³⁷ Ibid

the in-flow and outflow of capital, foreign businesses and banks	liberalisation and putting in place of mechanisms to ease inter-bank money transfers included
--	---

Source: AFRODAD PRSP series 2003

Table 3.5: Five principals of the PRSP

Country -driven	The Initiative to formulate a PRSP should originate with the countries themselves; a broad participation by CSOs and the private sector in the elaboration of the strategy is essential
Result-oriented	The PRSP should focus on the effects of the policies rather than on the policies as such.
Comprehensive	Poverty is multi-dimensional and cannot be reduced by increasing economic growth alone.
Partnership-oriented	Includes the various partners of development, from bilateral donors and multilateral institutions, via national governments and parliaments, to domestic and international CSOs.
Long-term	It is not possible to reduce poverty in the short-run, which implies that the PRSP must be consistent over time.

Source: IMF/World Bank, PRSP 2003

From the table above, it is clear that PRSPs claim to be everything that the SAPs were not. That

PRSP's are country-driven is quite questionable. One of our key informants, a Ugandan economist who has had experience working with the World Bank, says that the simple fact that

the PRSPs are approved by the World Bank and IMF (meaning they must meet these IFIs expectations) shows that it is incorrect to say that the PRSPs are country driven, but rather are remote controlled from abroad.

3.7 Challenges of the HIPC Initiative

The HIPC Initiative has not been without its challenges. First, not all creditors have been willing to deliver debt relief under the HIPC Initiative as had been assumed. In particular commercial creditors have been unwilling to extend relief, leading to arrears accumulation, which has contributed to the debt stock. Participation by all creditors is essential in order to ensure that the debt stocks of H IPCs are reduced to sustainable levels. Such support is also critical for many countries in their interim. Assistance by major creditors during this period is critical as it supports the efforts of HIPC's and lowers their near-term debt service cost substantially¹³⁸.

As at end of June 2003, Uganda's arrears amounted to 7 percent of the total debt stock. A number of creditors have taken Uganda to court, suing it for the payment of their debts in full, plus compensation. By 2004 Uganda had been forced to pay over \$20 million in recompense. This amounts to almost a quarter of that year's HIPC relief savings.¹³⁴ Unfortunately there is no clear legal framework for enforcing compliance with HIPC agreement for this category of creditors.

Secondly, as findings by Hussain and Gunter indicate - 66 percent of the benefits from the HIPC debt relief have been lost due to changes in Terms of Trade. For Uganda the overall effect on growth as well as poverty has been less than 1 percent.

¹³⁸

Gilman M and W. Mitchell, *Achievements to Date and Challenges Ahead - A View from the IMF*, in *HIPC Debt Relief-*

Myths and Reality (The Hague: Fondad 2004)p82

¹³⁹ Kuteesa F & Nabbumba R, *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience in HIPC Debt Relief-*
Myths and Reality (The Hague : Fondad)2004 p 55

A third and major challenge of the HIPC Initiative is maintaining debtor sustainability. Long-term debt sustainability depends on (i) the existing stock of debt and its associated debt service, (ii) the evolution of a country's fiscal and external repayment capacity, (iii) the growth and terms of new borrowing. The HIPC Initiative only deals with the first of these three elements providing a one-time debt reduction, but this is not an ongoing guarantee of debt sustainability. The other two elements fall beyond the Initiative's scope and more under the responsibility of the HIPC governments and their creditors.¹⁴⁰

The next chapter shall analyse and compute data that has been gathered in this research.

¹⁴⁰ Martin and Wayne Mitchell, *Achievements today and Challenges Ahead: A view from the IMF, in HIPC Debt Relief- Myths and Reality* (The Hague : Fondad) 2004 p 95

CHAPTER 4: ANALYSING THE HIPC INITIATIVE IN UGANDA

In this chapter, as the title suggests, we critically analyse the social and economic impact of the HIPC Initiative in Uganda. Data has been compiled from various sources, and from different angles to measure the impact of the HIPC Initiative on debt reduction, poverty reduction, Uganda's dependency on external aid and policy reform. The data is presented in tables and graphs for easy comparison. Measures of dispersion have been used to compute the data - in particular Mean, Standard Deviation and Average Deviation.

4.1 Uganda's debt burden

Table 4.1 below shows the debt burden indicators in Uganda for the period 1991 to 2000. This table shows that between 1991 and 1998 (the year the HIPC Initiative was launched) there was a steadfast increase in the total debt stock, however after 1998 the debt stock started reducing. The percentage of debt service to exports, and total debt to exports also reduced, showing that there was some improvement on Uganda's debt burden after the introduction of the HIPC Initiative.

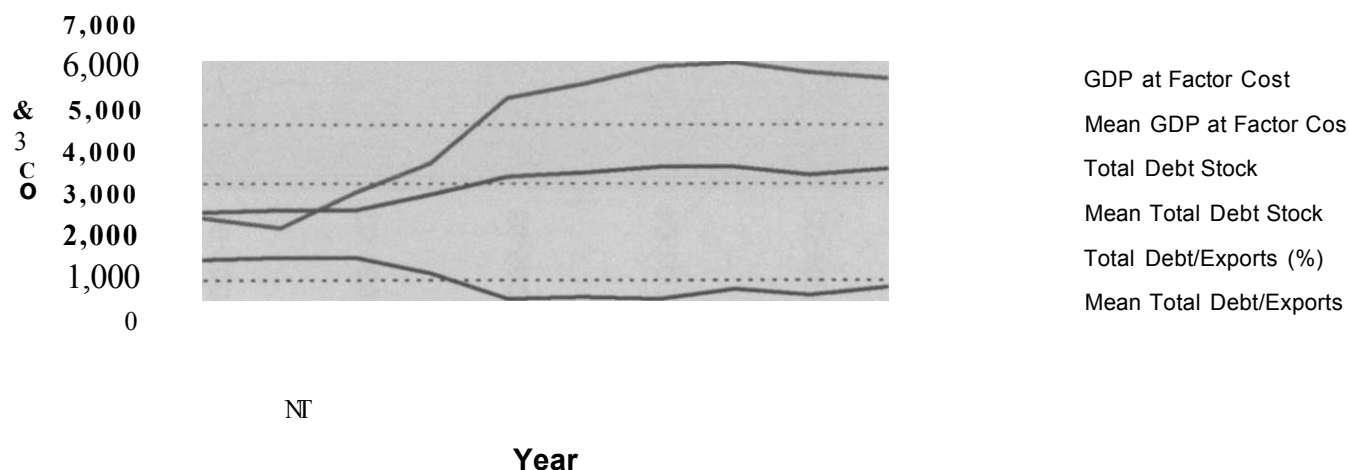
table 4.1: Key Debt Burden Indicators

Debt burden indicators:													Uganda 1991 - 2000 (US\$M.)		
	Jun-91	Jun-92	Jun-93	Jun-94	Jun-96	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Mean	St. Dev	Av. Dev		
Total Debt Stock	2,592	2,647	2,637	2,999	3,387	3,516	3,658	3,644	3,460	3,574	3,211	445	394		
Mean Total Debt Stock	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	0	0		
Multilateral	1,644	1,756	1,816	2,156	2,488	2,655	2,763	2,807	2,792	2,928	2,381	493	430		
Rilateral Paris Club	286	273	282	332	380	350	339	324	283	259	311	40	34		
Bilateral Non-Paris	526	378	416	398	408	404	457	462	353	333	414	56	41		
other ¹	136	240	124	113	111	106	99	51	33	54	107	58	38		
Multilateral/Total Debt (%)	63	66	69	72	74	76	76	77	81	82	74	6	5		
Total Debt/GDP (%)	106	119	87	81	64	63	61	60	59	62	76	22	18		
Debt Service/Exports (%) ²	73	91	105	56	30	29	24	38	30	30	51	29	25		
Debt Service/Exports GDS&NFS (%)	65	80	71	43	26	23	20	27	22	21	40	23	20		
Total Debt/Exports (%)	1,478	1,539	1,527	1,133	571	598	535	795	630	814	962	418	366		
Total Debt/XGS (%)	1,304	1,358	1,040	872	510	486	437	575	476	571	763	355	304		
GDP at Factor Cost	2,443	2,219	3,018	3,727	5,270	5,566	5,976	6,057	5,847	5,722	4,585	1,556	1,386		
Export of Goods	175	172	173	265	593	588	684	458	549	439	410	198	171		
Export of Goods & NFS	199	195	254	344	665	723	838	634	726	626	520	245	218		
Total Debt Service	129	156	181	147	175	169	166	174	163	133	159	18	14		
Average Exchange Rate	700	1,166	1,199	963	968	1,041	1,068	1,231	1,447	1,566	1,135	249	187		

Note:
 (1) Other include commercial debt and other loans
 (2) Debt service refers to maturities falling due and includes IMF.
 Source: Bank of Uganda

Figure 4.1: Key Debt Burden Indicators

Key Debt Burden Indicators



Records show that that the debt stock and debt service for Uganda was on an increasing trend between 2000 and 2005. Savings from the HIPC Initiative were also on an increasing trend which is quite positive, and so did the ratio of debt stock to GDP. Table 4.2 below and the graph that follow show this trend.

Table 4.2: Key Indicators of Uganda's External Debt in Millions of US Dollars

	2000-01	2001-02	2002-03	2003-04	2004-05	Mean	St. Dev	Av. Dev
Total debt stock	3,574.80	3,785.80	4,284.20	4,510.00	4,874.90	4,205.94	529.37	420.51
Total debt service	164.7	133.6	172	179.7	192.1	168.42	21.95	15.42
Debt service after HIPC	90.3	53.2	78.8	97	96.6	83.18	18.30	13.74
Savings from HIPC	74.4	80.4	93.2	82.7	95.5	85.24	8.89	7.29
Ratio of debt stock to GDP	63.20%	64.80%	68.50%	63.20%	56.20%	63.18%	4.46%	2.79%

Source: Uganda, Ministry of Finance, Planning and Economic Development, Background to the budget, 2005-2006

Figure 4.2: Total Debt Stock

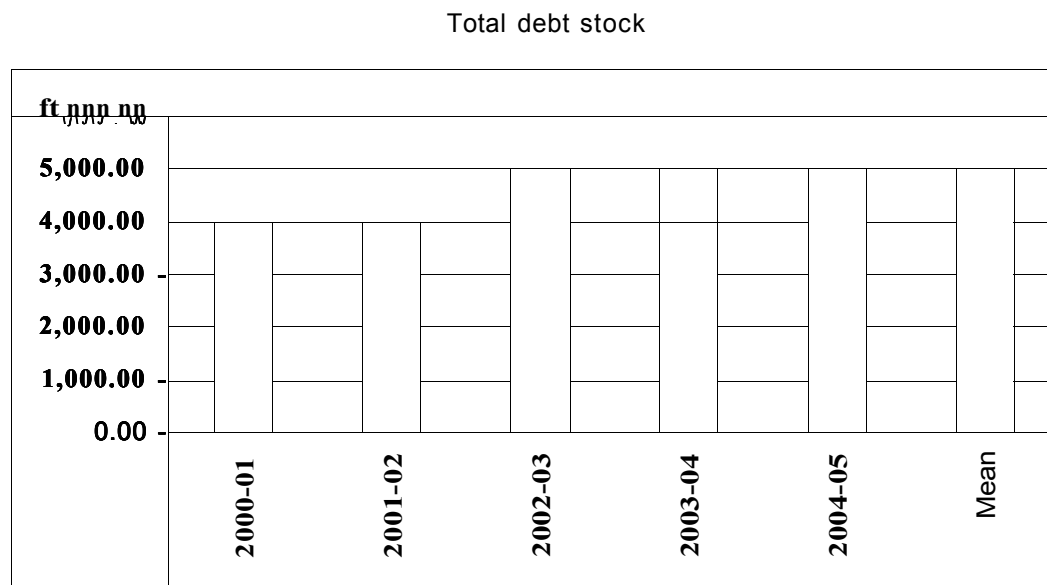
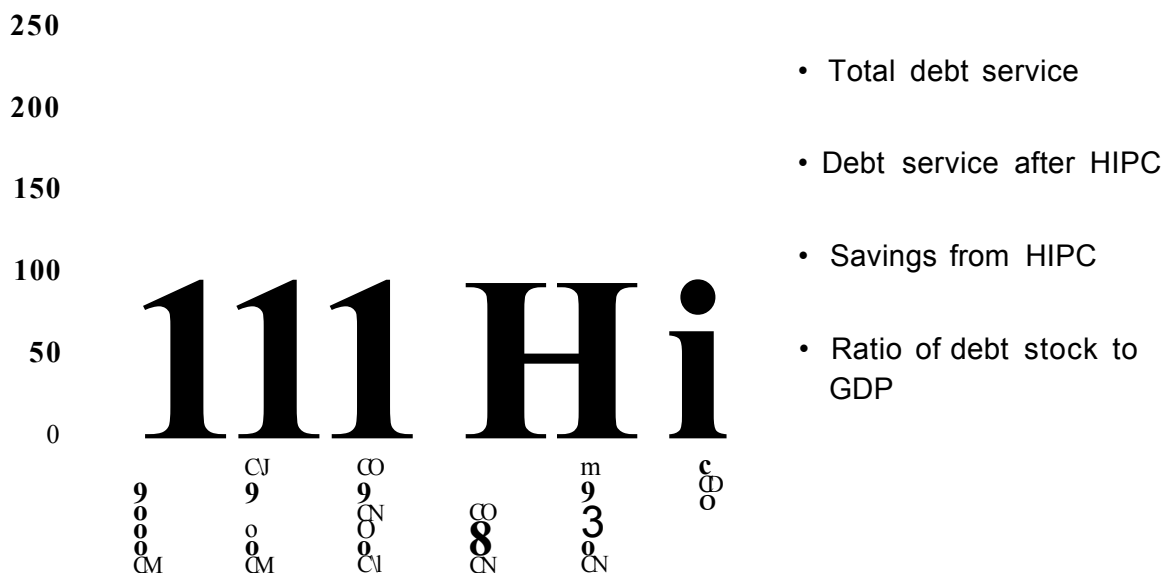


Figure 4.3: Key Indicators of Uganda's External Debt



Source: Uganda, Ministry of Finance, Planning and Economic Development, Background to the Budget, 2005-06

129
4.2 Foreign Aid Flow in Uganda and Dependency

As a result of significant economic reforms in Uganda in the 1990s, the country experienced an increase in debt relief and foreign aid. Some analysts have argued that the foreign aid, which makes up 50 percent of the Ugandan government budget, is providing the government with an independent source of "unearned" revenue. This allows the government to avoid accountability of its citizens. Moreover the increased aid and debt relief enables the Uganda government to meet its expenditure without having to undertake further necessary economic reform. The vast increase in foreign aid can therefore, be interpreted as negative because it has only increased Uganda's dependency on external support and weakened its mechanisms of self reliance.

The table below illustrates the increase in foreign aid after HIPC.

Table 4.3: Gross Inflows of Foreign Aid before and after HIPC

<u>Inflows of Aid before HIPC</u>	<u>Inflows of Aid after HIPC</u>
1991-92 US\$509m	1997-98 US\$842m
1992-93 US\$696m	1998-99 US\$795m
1993-94 US\$508m	1999-00 US\$700m
1994-95 US\$651m	2000-01 US\$666m
1995-96 US\$668m	2001-02 US\$849m
1996-97 US\$525m	2002-03 US\$847m

Source: Uganda, Ministry of Finance, Planning and Economic Development, Background to the Budget, 1999-92 through 2002-03

4.3 Debt Service Profile

The debt service reduced significantly after introduction of the enhanced HIPC Initiative in 1999. It however started rising again from 2003. This is an indication that the initial positive effects of the Initiative were being reversed, which is a major cause for concern. This, perhaps, could be the reason why some economists have dismissed the Initiative as having failed to provide a sustainable exit from debt and therefore not a panacea to the debt burden in Africa. The table below shows the debt service profile for Uganda for the period 1998 to 2005.

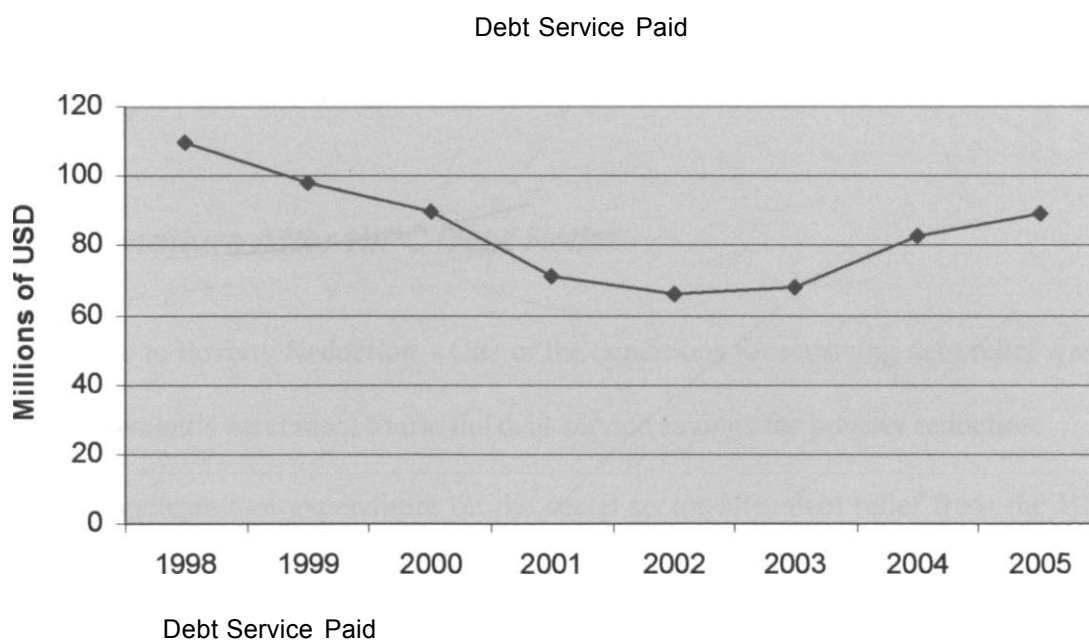
Table 4.4: Uganda - Debt Service Profile Pre- & Post-HIPC (US\$ Million), 1998-

2005

	1998	1999	2000	2001	2002	2003	2004	2005	Mean	St. Dev	Av. Dev
Debt Service Paid	110	98	90	71	66	68	83	89	84	16	12
Debt Service/Exports (%)	15	12	14	11	10	9	10	10	11	2	2
Debt Service/Govt. Revenue (%)	16	13	13	12	9	9	10	9	11	3	2
Debt Service/GDP (%)	2	2	2	1	1	1	1	1	1	1	0

Source: Centre for Economic Training in Africa

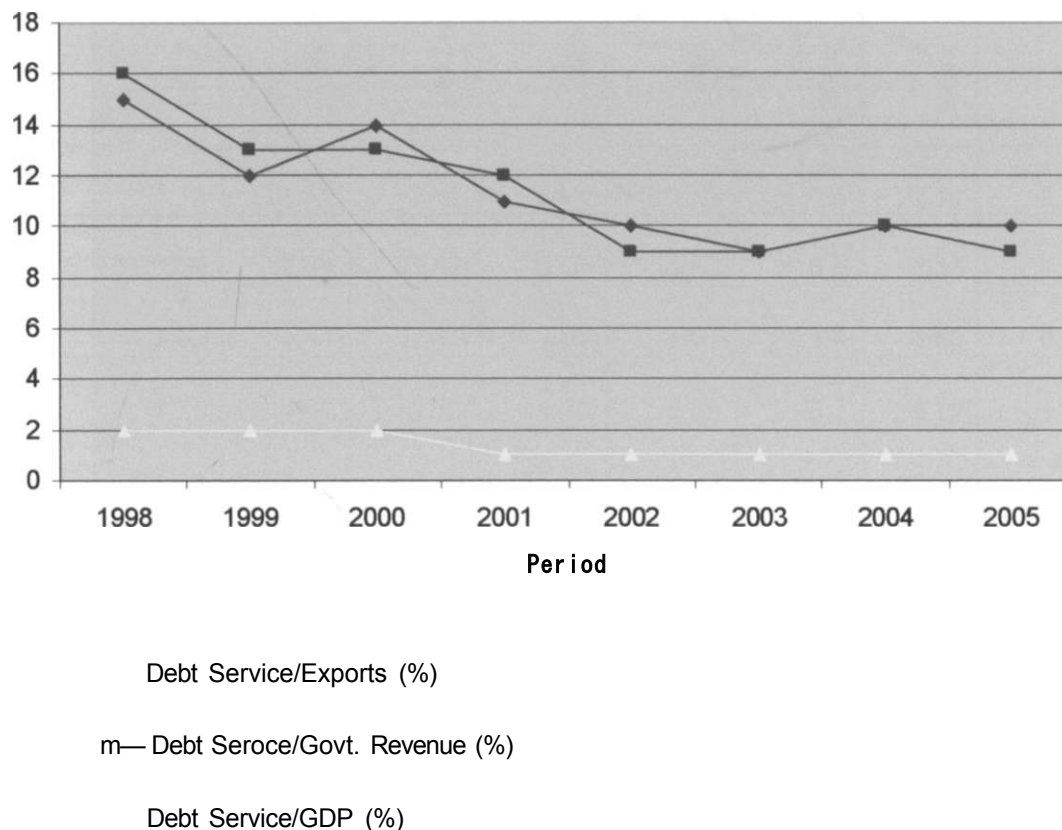
Figure 4.4: Debt Service Paid



9

Source: Centre for Economic Training-in Africa

Figure 4.5: Debt Service as a Percentage of Exports, Govt. Revenue and GDP



Source: Centre for Economic Training in Africa

4.4 Social Expenditure After HIPC Debt Relief

Debt Service to Poverty Reduction - One of the conditions for receiving debt relief was the recipient government's agreement to use the debt service savings for poverty reduction.

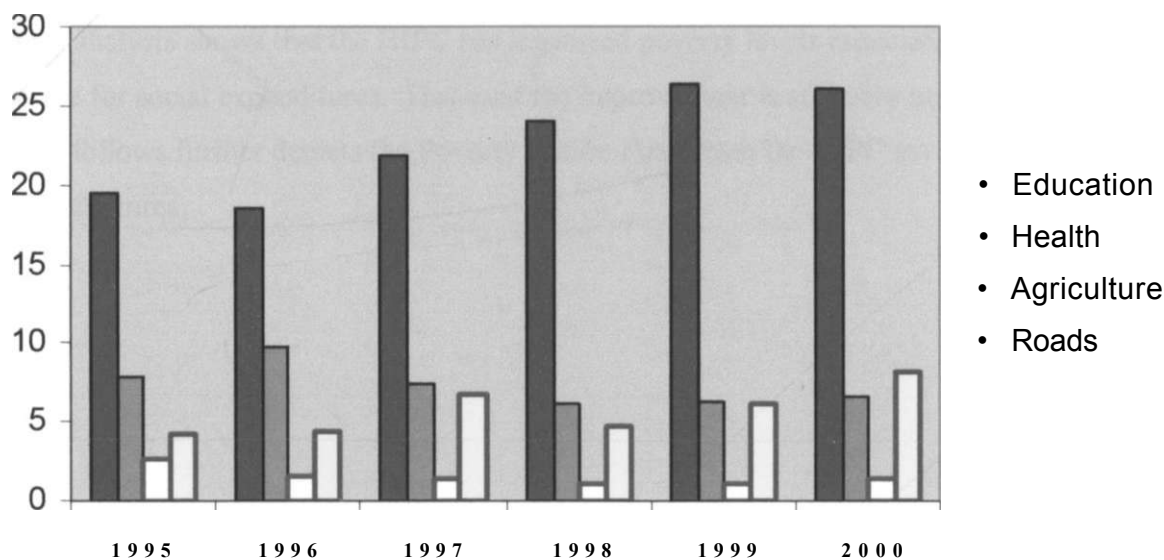
Records available indicate that expenditure on the social sector after debt relief from the HIPC Initiative remained around 35% of total government spending between 1996 and 2000 while that of debt service slightly reduced from 24% in 1996 to around 21%. Some improvement in government spending on the social sectors is recorded during 1999 and 2000 at 39% and 42% respectively. Details of the share in total expenditure by selected sectors are presented below.

table 4.5: Budget out-turn as a percentage of total expenditure

Expenditure Head	tn ON ON	SO ON ON	f- ON ON	oo ON ON	ON ON ON	® ON n	ON ON ON	ON ON ON
Education	19.53	18.59	21.82	24.1	26.39	26.1	22.76	3.31
Health	7.9	9.78	7.43	6.06	6.32	6.6	7.35	1.38
Agriculture	2.63	1.51	1.39	1.05	1.03	1.4	1.50	0.59
Roads	4.26	4.32	6.75	4.76	6.05	8.2	5.72	1.57
Sub-total	34.31	34.2	37.39	35.97	39.79	42.3	37.33	3.21
Total Debt Service	22.04	24.56	21.01	21.65	21.21	11.11	20.26	4.66

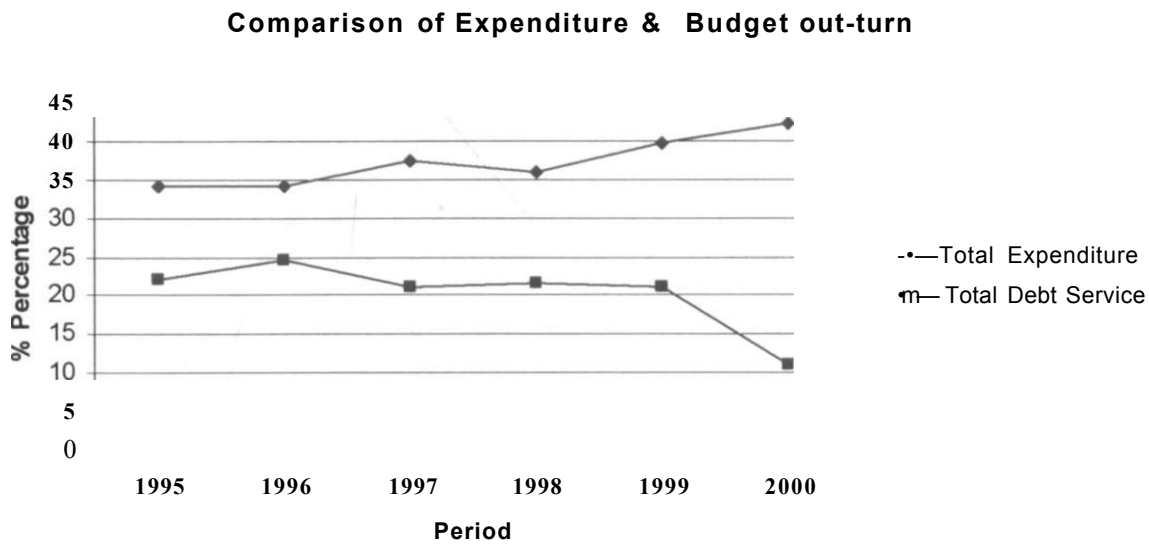
Source: Background to the Budget '99/00' and '00/01' Ministry of Finance, Planning and Economic Development, Uganda

Figure 4.6: Budget out-turn as a percentage of total expenditure



Source: Background to the Budget '99/00' and '00/01' Ministry of Finance, Planning and Economic Development, Uganda

Figure 1.7: Comparison of Expenditure & budget out-turn

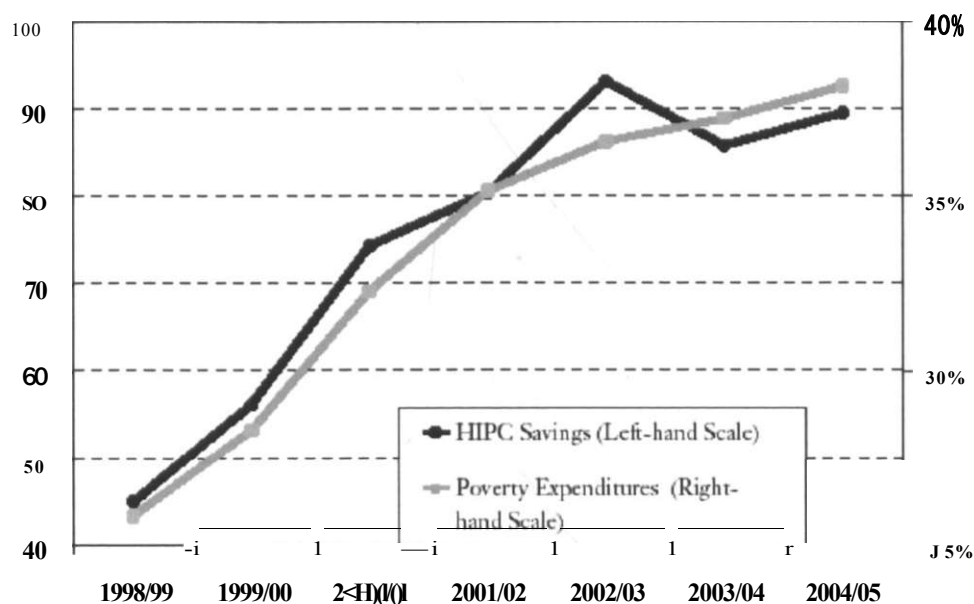


Source: Background to the Budget '99/00' and '00/01' Ministry of Finance, Planning and Economic Development, Uganda

4.5 HIPC Debt Relief and Poverty Reduction

Our analysis shows that the HIPC has improved poverty levels especially through money set aside for social expenditures. However the improvement is still very negligible. The figure 4.8 that follows further depicts the Poverty Action Fund from the HIPC savings in relation to poverty expenditures.

Figure 1 HIPC Savings and Poverty Expenditures
(in millions of dollars and percentage of total budget)



From: *HIPC Debt Relief - Myths and Reality*
FONDAD. February 2004. www.fondad.org

The table 4.6 below shows social expenditure as a percentage of government revenue and as a percentage of Gross Domestic Product (GDP). Poverty reducing expenditures have been on the increase since 1999.

Table 4.6: Uganda- Social Expenditure Pre- & Post HIPC (US\$ Million), 1999-2005

	1999	2000	2001	2002	2003	2004	2005	Mean	SD	CV
Social Expenditure	306	401	438	559	614	682	756	537	162	133
Social Expenditure/Govt. Revenue (%)	40	60	71	78	79	80	81	70	15	11
Social Expenditure/GDP (%)	5	7	8	9	10	10	11	9	2	2

Figure 4.9: Social Expenditure after HIPC

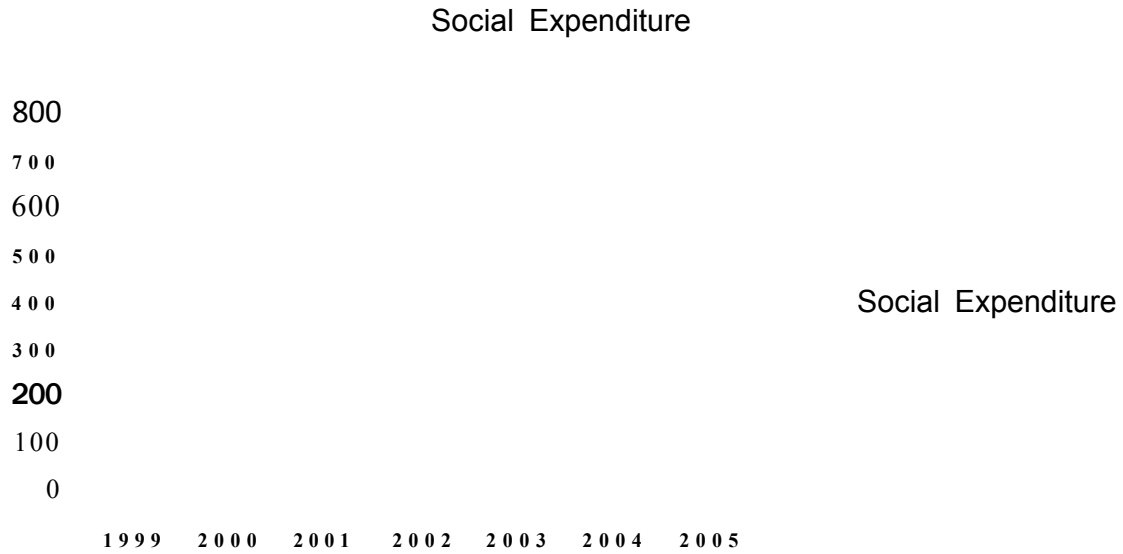
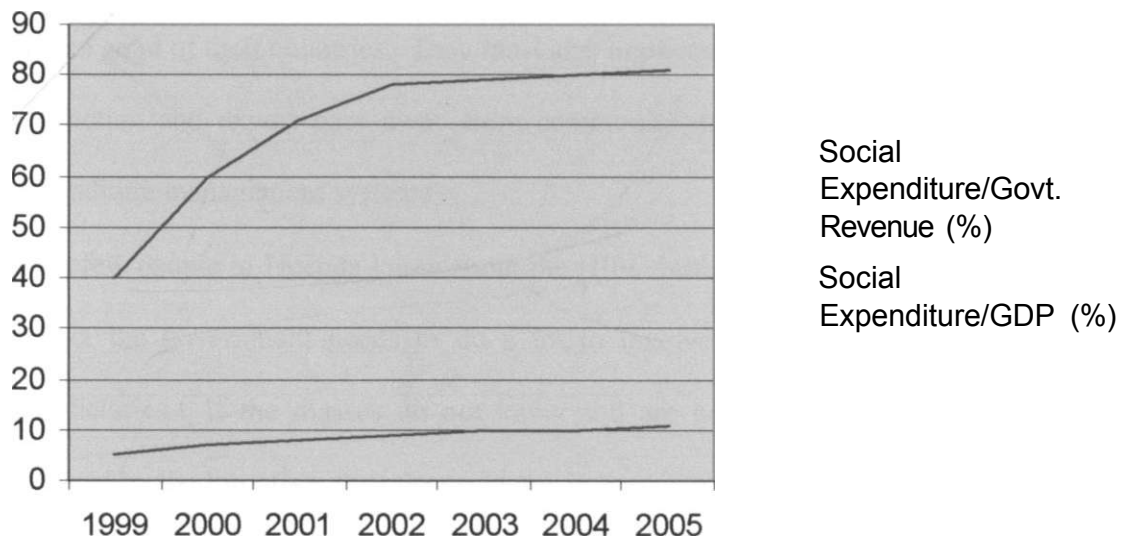


Figure 4.10: Social Expenditure after HIPC as a Percentage of Govt Revenue and GDP



Source: Centre for Economic Training in Africa, 2005

4.6 Key Informants

A limited survey of key informants from the academia (specifically Ugandan economists at the Joint Facility for Electives (JFE)) brought out the following views:-

- Foreign aid is crucial for Africa's development because it fills in the gaps that are not filled by export earnings. The notion that 'trade not aid' is all Africa needs is not quite true. Africa needs both aid (to set up the infrastructure necessary for trade) and trade.
- The HIPC Initiative has not failed as such, neither has it succeeded exceedingly. The Initiative has made some progress in advocating debt sustainability and mobilising funding for development. However it is yet to achieve its full potential.
- Uganda and all other African HIPCs must pursue sound economic policies and debt management strategies if at all the HIPC Initiative or any other debt relief Initiative is to work for the good of their countries. They must also implement structural reforms to diversify their production and export base away from commodity dependence, and improve their public expenditure management systems
- Very few people in Uganda know about the HIPC Initiative. For the Initiative to have more impact the government needs to do a lot to involve the masses, who are the supposed beneficiaries. If the masses do not know and are not associated in the reform machine required by the Initiative, then the problems in implementation becomes inevitable.
- African countries must understand that donor countries give aid primarily because it is in their political, strategic and economic self-interest to do so. Some development assistance may be motivated by moral and humanitarian desires to assist the less fortunate, but as

backed by Todaro, there is no historical evidence to suggest that donor nations assist others without expecting some corresponding benefit in return.

- Illegitimate debts must be cancelled by creditor countries unconditionally. Poor people in Africa although not responsible for the debt have been forced to pay back with their health, their jobs, their lives and those of their children. Sir Sridath Ramphal, former Secretary General of the Commonwealth Secretariat is quoted as having said that the lives of poor African Nations have been mortgaged to rich country banks and governments, often by leaders they did not choose and for projects that did not benefit them. Poor African Nations are still paying for debts that were misused by dictators of the likes of Idi Amin of Uganda.

Summary of Data Analysis

From the data analysed in this chapter one can conclude that (i)Uganda has experienced a reduction in the debt burden in terms of debt service, however Uganda's debt still remains unsustainable. (ii)Poverty reduction at the moment is negligible but if Uganda continues with the policy reforms stipulated in its Poverty Reduction Strategy Papers, over time poverty will be reduced, (iii) Uganda's dependency on external aid has increased tremendously which might interfere in the countries sovereignty.

The next and final chapter makes a conclusion to the study and gives recommendations on the way forward.

CHAPTER 5: CONCLUSION

This chapter discusses results analysed in chapter 4, gives recommendations for both the debtors and creditors, and maps the way forward.

The problems associated with aid effectiveness and their implications for development in Africa, notwithstanding, there are indications that the increase of aid and its redirection toward developmental ends are still critical to Africa's future. Take the example of Uganda, as we have seen in previous chapters, the country depends on foreign aid for 55 percent of her budget. Foreign aid in Uganda is important because it finances free primary education, free basic health care, and infrastructure rehabilitation and maintenance¹⁶⁵. However the question of dependency then arises. When will Uganda and the entire Africa free themselves from the bondage of dependency on foreign aid, which, as we have already seen is in fact not 'free". We give a few recommendations that Africa can try to apply, in order to overcome the debt burden, but first and foremost Africa must endeavour to reduce its dependency on foreign aid and instead look for other options of increasing and financing her resource gap.

5.1 Suggested Solutions To The Debt Crisis - Recommendations for African Countries

5.1.1 Diversification of Commodities

As has been seen in this study, Uganda, like many of the poorest countries especially those in Africa, is entirely dependent on a handful of primary commodities for her export incomes. This undiversified nature of the countries economies makes them highly vulnerable, particularly in times of recession. Falling prices on many international primary commodity

¹⁶⁵ Mairaj H.A, *The Sovereign Debt Crisis, Investment Distortions and Welfare*, (Michigan: University Microfilms International. 1993)p10

¹⁶⁷ AFRODAD, *Reality of AID*(Harare: AFRODAD, 2004)p12

markets have reduced these countries ability to service their debts. African countries therefore need to diversify their products so that they can assure themselves of a buffer in cases of recession.

5.1.2 External Trade

Decades of development aid to Africa do not seem to have helped the continent advance its development agenda. Despite that amount of aid coming into Africa, poverty has continued to deepen.¹⁶⁷ Africa generates less than 2% of global trade. Given that open trade is the most profitable business in the world today, it is argued that trade could give Africa what development aid has failed to provide, sustainable development.¹⁶⁸ This would then gradually solve the debt crisis problem. The foreign exchange gap which is usually filled by aid can be closed in a sustainable way by increasing export earnings. What is remarkable about the poor external performance of African economies is the fact that, as well as being unable to match South East Asia in the area of manufactured exports, they have also lost ground with the export of primary commodities. African governments should come up with clear policies to support export promotion.¹⁶⁹

5.1.3 South -South Cooperation

South and North are non-geographical terms used to draw a line between the poor developing countries (south) and the rich developed countries (North). Some scholars in African studies have suggested that poor countries should develop amongst themselves and shut-off the northern countries. That is, they create markets within the south and trade within this region. Even though exports are very much needed in developing nations, Africa's export growth has barely kept pace with that of developed countries. Consequently even in their best years, most

¹⁶⁸ AFRODAD, *Reality of AID*(Harare: AFRODAD, 2004)p12

¹⁶⁹ Amani, H. Long-term Debt Sustainability in Developing Countries, in *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)p58

non-oil exporting developing countries have been losing ground in terms of their share of total world trade to the more developed countries. At the same time the developed countries have increased their share of world trade (mostly by trading with each other) from 60% to 90%.¹⁷⁰ Many development economists have argued therefore that third world countries should orient their trade more towards each other and less towards the developed world. The scholars argue that African solutions to African problems would be more practical than the assistance seemingly given by the Northern countries which for decades and decades now seem not to be working to the advantage of poor African Nations.

5.1.4 Domestic resource mobilization

The need for countries to mobilise resources domestically is crucial. This can be done through strengthening tax collection and widening the tax base.

5.1.5 Attracting Foreign Direct Investment (FDI) and private capital flows

Developing countries have not been significant beneficiaries of the dramatic increase in global foreign direct investment flows. The difficulty of attracting FDI is attributed to the perception that investment in these countries is a high risk activity. African countries should take major steps to eliminate those factors that inhibit the flow of FDI including the maintenance of a supportive macroeconomic policy environment, increased liberalisation of markets and trade regimes, business facilitation and improvements in the regulatory framework for private investment.

5.1.6 Reversing capital flight

Capital flight refers to large private capital outflows from developing countries. Capital flight has serious negative consequences. Any sum of money sent to a foreign land cannot contribute

¹⁷⁰ Todaro, M., *Economic Development in the Third World 4th Ed*, (NewYork: Longman Publishing, 1999)p42

to domestic investment. Income and wealth generated and held abroad are outside the purview of domestic authorities, and therefore cannot be taxed.

5.1.7 Efficient management of capital expenditure

Developing countries must manage resources prudently combined with tight finance and accounting control, priority setting and execution. They should endeavour to avoid waste arising from fraudulent practises by public servants, and this can be done through setting the salaries of public servants at levels that motivate them to achieve higher efficiency and dissuade them from becoming involved in corrupt practices.

5.1.8 Enhanced debt management

African governments should formulate sound debt management policies. Debt management plays an important role in ensuring long-term debt sustainability. A survey conducted by the IMF and World Bank revealed that most HIPC countries close to their decision point have significant weaknesses in basic debt management. Proper debt management will ensure that money borrowed is put in good use and projects upon which the borrowed money has been utilized on are successful.

5.2 Suggested Solutions To The Debt Crisis - Recommendations for Lending Parties

5.2.1 Practice Fair Trade

In the global world poor African countries face an uneven playing field. Therefore, although Africa can and should address the domestic environment which hinders development, there remains the international economic system over which it has no control and in which it is being penalised. The richest nations of the world, which also happen to be the major shareholders of the IMF and World Bank; must practice fair trade. Giving aid and then shutting off markets is hypocrisy and if these rich countries are serious about relieving debt and producing

social infrastructure for the HIPC countries through the magic of free market policies, then they also must diligently implement them in their own countries. They must open up their markets to exports from developing countries and slash their enormous agricultural subsidies and then increase foreign aid.

Ultimately, it is up to the world, as a community, to recognize the poverty of their fellow global citizens and legitimately work to minimize their debts, so that they might economically and socially flourish and become responsible members of the society of nations. ¹⁷¹

5.2.2 Total Debt Cancellation

Jubilee 2000/USA vigorously recommends this as an essential first step. Some scholars however think that, the problem with simple cancellation of the debt is that it gives a reprieve to third world elites-many of them undemocratic-without requiring any reforms. There is nothing to guarantee that they won't simply get into debt all over again and continue to owe more allegiance to first world elites than to their own people. Cancellation also let's off the hook the World Bank, IMF and commercial lenders who made such stupid loans in the first place. So the question becomes: how can we relieve the pressure of third world debt from the workers and family farmers of debtor countries yet not let elites off the hook. ¹⁷² UNICEF recommends that governments and commercial banks cancel some of the debts of the poorest countries.

Loans/grants to poor nations should be in smaller amounts targeted; huge sums of money are often misspent by corrupt government officials.

¹⁷¹ The scale of the debt crisis

<http://www.undp.org/povertyreport/chapters/chap4.html>

¹⁷² Luiz S, The Wealth of Some and the Poverty of Sub Saharan Africa, *International Journal of Social Economics*, Vol.33 No. 9 (2006) pi4-18

5.2.3 Increase Foreign Aid

Advocates of foreign aid argue that African country's capacity to earn foreign exchange through exports is limited by the following constraints: an inelastic foreign demand for African exports, an unjust international economy system, protectionist policies of industrialized nations, and monopolistic as well as oligopolistic practices of multinational corporations. Foreign exchange earnings from exports would still be insufficient to finance huge capital imports.¹⁷³ There should therefore be an increase in foreign aid.

Critics of increasing foreign aid however argue that, "A bucket full of holes can only hold a certain amount of water for a certain amount of time. Pouring in more water makes little sense as it will all drain away." African is the bucket full of holes and pouring in more foreign aid makes little sense.¹⁷⁴

5.2.4 Create new ratios for the Heavily Indebted Poor Countries (HIPC).

To measure the real impact of the Initiative, it would be vital to create new ratios. For example, debt-to-GDP (Gross Domestic Product) and debt-to-budget expenditures instead of debt-to-exports (the overall debt of a country defined by the average level of exports over a 3-year period) and debt-service-to-exports (the comparison of a country's annual debt repayments to its exports per year).

5.2.4 Debt swaps

Some organisations have thought of clever ways to help developing countries lessen their debts. UNICEF's Debt for Child Relief is an example of how an organization helped some developing countries with debt problems. In this program, UNICEF and international banks made a deal. Some of the money that poor countries owed the banks was not paid to the banks but was

¹⁷³ Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)p150

¹⁷⁴ *Ibid*, p 171

paid to UNICEF. Instead of the money, the banks received tax deductions. UNICEF collected the debt repayments in local currency (not hard currency) and then spent this money for programmes to help children inside.

5.3 The Way Forward

This study concludes that (I) the HIPC Initiative, like previous debt relief Initiatives, has not provided a robust exit from unsustainable debt levels, and (II) The Government programs designed through the HIPC Initiative, targeting pro-poor social sector investment are very positive and if followed through and improved on will lead to declines in the levels of absolute poverty across Uganda. In view of (I) above, the surest way of ensuring that HIPCs maintain sustainable debt ratios beyond the completion point is to (i) grant 100 percent debt relief. (ii)The HIPC Initiative and any other debt relief Initiative must define debt sustainability in a way that allows African countries to realize their targeted development objectives by expanding their investment beyond the limits permitted by their export earnings. (iii)Total and unconditional cancellation of illegitimate debts without any further repress, and (iv) increased funding on sufficiently concessional terms in support of HIPCs' poverty reduction and growth strategies without jeopardizing their external debt sustainability. This should include an increase in grant financing.

While the HIPCs continue to press for additional/total debt relief they also have to undertake the measures discussed above. Additional resources that African countries are likely to receive from increased debt relief will only be effective if both African countries and their development partners develop policies that are focussed on a long-term economic development strategies that foster the necessary structural transformation.

Finally the HIPC Initiative, being an international public policy program with potentially far reaching consequences for the future economic well being of poor countries,

presents a lot of room for scholarly inquiry into the social, economic and political aspect of debt relief under its umbrella.

BIBLIOGRAPHY

- African Development Bank, *African Development Report 2006: Aid, Debt Relief and Development in Africa*, (Oxford: Oxford University Press 2006)
- AFRODAD, *Reality of AID* (Harare: AFRODAD, 2004)
- Amani, H, Long-term Debt Sustainability in Developing Countries, in *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)
- Ayittey, G, *Africa Unchained*, (New York: Palgrave Macmillan, 2005)
- Barnet R.J., "But What About Africa?, On the Global Economy's Lost Continent," *Harper's*, Vol. 280, no. 1680 (May 1990)
- Barungi, B. and M. Atingi, *Growth and Foreign Debt: the Ugandan Experience*, in Ajai and Khan, *External Debt and capital Flight in Sub Saharan Africa*, IMF 2000
- Briggs J., *The IMF/World Bank HIPC Initiative: Debt Freedom or Disguised Bondage*, (New York, Hallmans Inc, 2004)
- Bulow, J, and K. Rogoff., *Cleaning Up Third-World Debt without Getting Taken to the Cleaners. Journal of Economic Perspectives* 4 (1990)
- Burnside C. and D. Fanizza, *Fliccups for HIPC's? Implication of Debt Relief for Fiscal Sustainability and Monetary Policy Contribution to Macro Economics in Berkeley Electronic Press*, 2005
- Centre for Economic Research on Africa, *New Initiatives for Africa's Debt*, (New Jersey: Centre for Economic Research on Africa)
- Chachololiades M, *International Economics*, (New York: MC-Grawhill Publishing Co 1990)
- Cheryl Payer, *The Debt Trap: The International Monetary Fund and the Third World* (New York: Monthly Review Press, 1974)
- Cohen Daniel, *The HIPC Initiative: True and False Promises in International Finance* 4:3, 2001, p363-364
- Edwards, S, *Debt Relief and the Current Account (An Analysis of the HIPC Initiative)*, (Oxford: Blackwell Publishing Ltd, 2003)
- Federici, S, *The Debt Crisis, Africa and the new enclosure*, *The commoner* No.2, September 2001

- Gill, S. 'New Constitutionalism, Democratisation and Global Political Economy', in *Pacific Review* 10, 1, 1998
- Gilman, M and W/ Mitchell, Achievements to Date and Challenges Ahead - A View from the IMF, in *HIPC Debt Relief- Myths and Reality* (The Hague: Fondad 2004)
- Hussain M.N and B.G Gunter, *External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa*, in African Development Report 2005 (Oxford: Blackwell Publishing Ltd, 2005)
- George, S, *A Fate Worse Than Debt*, quoted in West Africa (March 1988)
- Gilman, M and W. Mitchell, Achievements to Date and Challenges Ahead - A View from the IMF, in *HIPC Debt Relief- Myths and Reality* (The Hague : Fondad 2004)
- Gumisai M, Industrial Countries Write off Africa's debt, *Africa Renewal* Vol 19 No. 3, United Nations Department of Public Information
- The HIPC Initiative,

<http://www.imf.org/external/np/exr/facts/hipc.htm>
- IMF, *The Logic of Debt Relief for the Poorest Countries*, 2000
- IMF and World Bank, 2001a
- Inkota B., *Debt relief for the poor. Five years after the Cologne summit - A review of the HIPC Initiative*, (Washington: Pearson Edu, 2004)
- Kuteesa F & R. Nabbumba, *HIPC Debt Relief and Poverty Reduction Strategies: Uganda's Experience in HIPC Debt Relief- Myths and Reality* (The Hague : Fondad 2004)
- Lancaster C and J. Williamson., *African Debt and Financing* (New Jersey: Institute for International Economics, 1986)
- Luiz S, The Wealth of Some and the Poverty of Sub Saharan Africa, *International Journal of Social Economics*, Vol.33 No. 9 (2006)
- Madhur G., *Debt Relief for the Poorest: An OED Review of the HIPC Initiative*, (Washington DC: The World Bank, 2003)
- Mairaj H.A., *The Sovereign Debt Crisis, Investment Distortions and Welfare*, (Michigan: University Microfilms International, 19^3)
- Mathew. M, *Assessing the HIPC Initiative: The Key HIPC Debates*, in J. Teunissen and A. Akkerman (eds) *HIPC Debt Relief Myths and Reality* , (The Hague: FONDAD 2004)

- Mijumbi P.B, Uganda's External Debt and the HIPC Initiative, (Unpublished) 2000
- Mutum G, Industrial Countries Write off Africa's debt, *Africa Renewal* Vol 19 No. 3, United Nations Department of Public Information, 2005
- Muwanga-Zake E, and S. Ndhaye., The HIPC Debt Relief Initiative - Uganda's Experience, Presented at the United Nations University (UNU/WIDER) Conference on Debt Relief ,Helsinki, 2001
- Mwaba A, Beyond HIPC: *What are the Prospects for Debt Sustainability* in African Development Bank Report, (Oxford: Blackwell Publishing, 2005)
- Mwenda A, Foreign aid and the Weakening of Democratic Accountability in Uganda, *Foreign Policy Briefing* July 2006
- Nafziger W, *The Debt Crisis in Africa*, (London: John Hopkins University Press, 1993)
- Ndung'u S, *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)
- Obwona M and S. Ndaye., Do the HIPC debt initiatives achieve the debt sustainability objective? Uganda's experience (Kampala: Economic Policy Research Centre)
- Odedokun, M., Life After Debt Relief: Sustainable Debt and Poverty Alleviation in *Long-term Debt Sustainability in Low-income Countries: The HIPC Initiative Revisited*, Antoniou A and Berya A (Eds), (London: Commonwealth Secretariat, 2004)
- Peet R, *Unholy Trinity, The IMF, World Bank and WTO*, (London: Zed book, 2003)
- Sachs, J, *The End of Poverty*, (London: Penguin Books Ltd., 2005)
- SIDA, *A Way Out of The Debt Trap* (Stockholm: Vastergotlands Tryckeri, 1992)
- Smith, J.W., *The World's Wasted Wealth 2*, fSun City: Institute for Economic Democracy, 1994)
- South Centre, Third world Debt a Continuing Legacy of Colonialism,, Bulletin 85, August 2004
- Stiglitz, J.E, *Globalization and its Discontents*, (London: Penguin Books Ltd, 2002)
- Teunissen J. and A. Akkerman (eds.), *HIPC Debt Relief: Myths and Reality*, (New Jersey: FONDAD, 2004j
- Todaro, M., *Economic Development in the Third World*^{4th} Ed, (New York: Longman Publishing, 1999)p411-412
- Uganda, Ministry of Finance, Planning and Economic Development, *Background to the Budget, 1999-92 through 2002-03*

Uganda, Ministry of Finance, Planning and Economic Development, Background to the Budget, 2005-06

Welch C, A World in chains - developing countries and debt, *The Ecologist*, Sept 2000

William R. C, *International Debt and the Stability of the World Economy*, Policy Analyses in International Economics, No. 4 (Washington: Institute for International Economics, September, 1983)

World Bank , *A guide to the World Bank*, (Washington DC, 2003)

World Bank, Global Development Finance: Financing the Poorest Countries, 2002

World Bank, *Strategic Framework for Assistance to Africa*, (Washington: 2004)

World Bank, *World Debt Tables: External Debt of Developing Countries*. (2000-01 edition)

World Bank, World Development Indicators, 2007

World Bank and IMF, Debt Sustainability Analysis, Confidential report for the government of Uganda, 2004

World Bank, World Debt, [Http://www.worldbank.org/debt](http://www.worldbank.org/debt).

World Bank, Statement of Paul Wolfowitz, President of the World Bank at the Development Committee Press Conference, Sunday, 25 September 2005