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Was the Highly Indebted Poor Country Initiative (HIPC) a Success?

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Abstract

Historically, the sustainability of long-term debts has been a primary concern for both indebted countries and those who finance their debts. In the late 1990s the Bretton Wood's institutions (the International Monetary Fund, IMF, and the World Bank) launched the Highly Indebted Poor Countries initiatives (HIPC I, 1996 and HIPC II, 1999) to reduce the burden of debt on highly indebted countries. If countries could meet certain complex criteria, the HIPC would stop the rescheduling of their debts. This article analyzes the effectiveness of the HIPC initiative and finds that its successes remain questionable.

Author's Note

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1. Introduction

The sustainability of long-term debt has been brought to the forefront of economic discussion in the last three decades. This concern has involved both the indebted countries and those who finance the debts as seen in a number of schemes from the Paris Club[1] debt treatments on the terms of Toronto (1988), London (1991) and Naples (1995) to those of the IMF and the World Bank Highly Indebted Poor

[1] The Paris Club refers to an informal group of creditor governments from 19 big economies of the world, which have been meeting regularly since 1956 to co-ordinate debt restructuring, relief, and cancellation for indebted countries and their creditors. It has increasingly been granting larger debt reductions for the HIPCs.

Countries initiatives (HIPC I, 1996) and (HIPC II, 1999) and the Multilateral Debt Reduction Initiative[2] (MDRI, 2005).

The HIPC I & II, launched in 1996 and 1999 respectively, were particularly notable schemes. These initiatives differed because of the involvement of multilateral institutions like the IMF and the World Bank (Spratt, 2009, p. 246). The HIPC initiative was proposed to reduce the burden of debt on highly indebted countries after meeting certain criteria and to stop the process of repeatedly rescheduling their debts.

The success of this initiative has remained a controversial matter today, drawing interdisciplinary discussion with scholars from a variety of fields.

The initial section provides some background on both the HIPC I and II initiatives while section three discusses the theoretical and empirical literature and analyzes critical shortcomings of the initiatives. The last two sections briefly highlight the paper suggestions and findings and concluding remarks respectively.

2. Background

The initiative has gone through two stages: the HIPC I, the original HIPC or O-HIPC, and the HIPC II, or the enhanced HIPC.

2.1 The HIPC I:

The HIPC was launched in September 1996 in response to increasing pressure for debt relief for heavily indebted poor countries. It also aimed to permanently end repeated rescheduling of debts for these countries (Addison, Hansen and Tarp, 2004, p. 24).

The HIPC I was initially intended to reduce the burden of debt in the poorest economies. To be eligible for debt relief a poor country's macroeconomic policy should be robust from the IMF and the World Bank perspective after a six year term and a number of complex criteria had to be met, including those of debt sustainability.

Under the HIPC I, the debt relief mechanism necessitated that a debtor country undergo structural reforms in its economy to be eligible for concessional loans from the IMF and the World Bank. The first of these was to form a "flow-rescheduling agreement" with Paris Club creditors regarding concessional terms. The second was to ensure a good track record of meeting IMF arrangements and

[2] The MDRI refers to a new initiative of debt relief proposed by G8's meeting of Gleneagles in June 2005 in which three multilateral institutions- the World Bank, International Development Association (IDA) of the World Bank and the African Development Fund (AfDF) forgive 100% debts of countries who owe them only on their reaching to the completion point. Countries with per-capita income of $380 a year or less (whether HIPCs or not) will receive debt relief. Visit (http://www.imf.org/external/np/exr/facts/mdri.htm) and (http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040942~menuPK:34480~pagePK:34370~theSitePK:4607,00.html).

rescheduling agreements. The "flow-rescheduling" agreement would apply when there was a reduction in the stock-of-debt over a three year period. Thirdly, the debtor country needed to seek comparable debt terms from private and bilateral creditors outside the Paris Club. Fourthly, the debtor country also needed to seek bilateral debt relief in the form of official development assistance (ODA) from other creditors. Only after meeting these concessions and terms could the debtor be re-financed under the HIPC (Esquivel, Larraín and Sachs, 1998, p. 15). Under the HIPC I up to 80 percent of Net Present Value (NPV) of debt could be relieved by Paris Club creditors, but the exact value would be decided on a case-by-case basis. Multilateral creditors would commit to lower their claims' present values to ensure a sustainable debt level. However this too was to be decided on a case-by-case basis (Ibid).

A country would be eligible to debt sustainability when it could meet its current and future external debt-service obligations in full and without needing alternatives to debt relief, debt rescheduling, accumulating the arrears and with no unduly compromising growth. The ratio of NPV of a country's debt-to-exports would need to exceed 200-250%, the ratio of debt service-to-exports needed to be over the range of 20-25% (Boote and Thugge, 1997, p. 17) while the NPV of debt-to-fiscal revenue needed to be over 280%. The minimum ratios of export-to-GDP and fiscal revenue-to-GDP would need to reach 40% and 20% respectively (Gautam 2003, p12).

Three years after its inception, the HIPC I was considered "not sufficient to provide HIPCs with a permanent exit" (G24, 2003, p. 1). It was further discovered to be too slow and stringent on qualifying criteria. In 1999 the HIPC I initiative was modified and re-presented as the enhanced HIPC, or the HIPC II.

2.2 The HIPC II:

The HIPC was considerably modified in 1999 based on a G7 proposal during a meeting in Cologne, Germany (Michaelow, 2002, p. 462) and is still in use today. Among the important changes are faster debt relief processes, expansion of relief plans for which more countries were eligible (Spratt, 2009 p. 249), creation of an interim process between the decision and completion points, addition of a floating completion point and requirement of a Poverty Reduction Strategy Paper (PRSP) from indebted county (Payne, 2005, p. 150). For more on differences, see table 1.

The HIPC II has three key objectives: To ensure debt sustainability and provide a permanent exit from rescheduling. The initiative aims to decrease the obligations of debt services so that the county can increase its export incomes and transfers in the future. It eliminates the need for future rescheduling, defensive lending, and debt forgiveness. Secondly, the initiative seeks to ensure an increasing long-term growth rate by removing overhung debts. Finally, it seeks to reduce the poverty rate by freeing up resources and promoting social spending to reduce cash debt-service payments (Gautam, 2003, p. 16). However these objectives come with the condition that only 'poor' countries are eligible for debt relief for sustainable debts. A country is considered poor when it depends on highly concessional financing from the concession lending-arm of the World Bank, the IMF and the International Development Association (G24, 2003, p. 1).

The debt sustainability criteria were also altered following the introduction of the HIPC II. The Net Present Value of debt-to-export was lowered from 200-250% to 150% while the debt-to-revenue was reduced from 280% to 250%. In addition, the minimum ratio of export-to-GDP and fiscal revenue-to-GDP each were reduced from 40% and 20% to 30% and 15% respectively (Gautam, 2003, p. 12).

The HIPC II consists of two stages. The first is that the country should complete a three year term of good economic performance and sustained poverty reduction strategy papers. Following this, the IMF and the World Bank decide upon the sustainability of the country's debt. At this, the decision point, a package of debt relief is determined (Teunissen and Akkerman, 2004, p. 74-8) as shown in Figure 1 below.

After three years if the country's debt is considered sustainable, it is not eligible for debt relief. However if the debts are judged unsustainable, the country moves on to the second stage and creditors commit the delivery of debt relief to the floating completion point. Additional policies are implemented during this stage and additional support from the IMF and the World Bank may reach the country on an interim basis. Finally if the second stage is deemed successful, the process reaches the completion point and all creditors act on their commitments from the decision point (Gautam 2003, ch. 4), (Teunissen and Akkerman, 2004, p. 74-8) and (Spratt, 2009, p. 248-9). This process is summarized in Figure 2.

Figure 1: Enhanced HIPC Initiative Flow Chart: First Stage

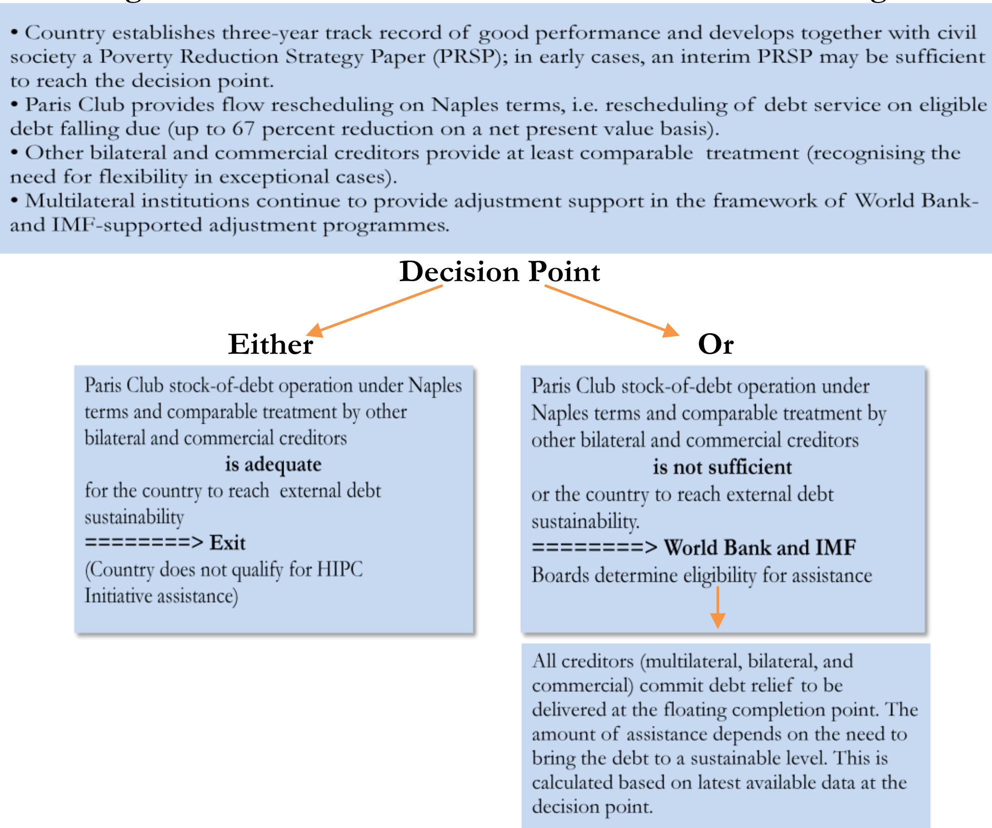

Figure 1 Enhanced HIPC initiative flow chart of first stage (Source: Teunissen and Akkerman 2004, 76)

Figure 2: Enhanced HIPC Initiative Flow Chart: Second 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 IMF-supported adjustment programmes.

Floating Completion Point

Timing of completion point for non-retroactive HIPCs (i.e., those countries that did not qualify for treatment under the original HIPC Initiative) is tied to at least one full year of the implementation of a comprehensive poverty reduction strategy, including macroeconomic stabilisation policies and structural adjustment. For retroactive HIPCs (those countries that did qualify under the original HIPC Initiative), the timing of the completion point is tied to the adoption of a complete PRSP.

- All creditors provide the assistance determined at the decision point; interim debt relief provided between decision and completion points counts toward this assistance.
- All groups of creditors provide equal reduction (in NPV terms) on their claims as determined by the sustainability target. This debt relief is provided with no further policy conditionality.
- Paris Club provides stock-of-debt reduction on Cologne terms (90 percent NPV reduction or higher if needed) on eligible debt.
- Other bilateral and commercial creditors provide at least comparable treatment on stock of debt.
- Multilateral institutions provide debt relief, each choosing from a menu of options, and ensuring broad and equitable participation by all creditors involved.

Figure 2 Enhanced HIPC initiative flow chart of second stage (source: Teunissen and Akkerman 2004, 77)

Element	Original (HIPC I)	Enhanced (HIPC II)
Stated objectives	To bring the country's debt down to sustainable levels, subject to satisfactory policy performance	Maintains the original focus to remove the debt overhang and provide a permanent exit from rescheduling, plus free up resources for higher social spending aimed at poverty reduction to the extent that cash debt-service payments are reduced.
Qualification Criteria	IDA-only countries (poverty) Unsustainable level of debt after full use of traditional mechanisms Strong record of policy performance. 41countries eligible, 29 expected to qualify	Same. Applied retroactively to include countries already past decision or completion points under the original framework. 41 eligible in 1999, currently 42, of which 38 are expected to qualify.
Debt sustainability	Guiding principle: Target overall debt sustainability to provide a durable exit strategy from the rescheduling process	Principle for change: Provide a clear exit from unsustainable debt burden to remove the debt overhang and provide an appropriate cushion against exogenous shocks.
Indicators: Targets	Target range for main indicator: NPV debt-to-exports: 200–250% NPV debt-to-revenue: 280% with export/GDP: 40%; revenue/GDP: 20%	Uniform application of single target: NPV debt-to-exports: 150% NPV debt-to-revenue: 250% with export/GDP: 30%; revenue/GDP: 15%
Calculation of relief	Fixed at completion point, based on projections of debt indicator for completion point	Fixed at decision point, using actual data on NPV debt for year prior to decision point and 3-year average for exports
Time of relief delivery	Completion point (CP), irrevocable commitment	Decision point: on an annual basis, interim relief is bulk of anticipated post-CP relief, it is irrevocable
Forward-looking assessments	Debt sustainability analysis to project profile of key debt indicators	Same
Performance criteria	Guiding principle: Action only after the debtor has shown, through a track record, the ability to put to good use whatever relief is provided	Principle for change: To strengthen the incentives for debtor countries to adopt strong programs of adjustment and reform.
For decision point	3-year track record of macroeconomic stability and policy reform	Same plus interim or full Poverty Reduction Strategy Paper (PRSP)
For completion point	Further 3-year track record of macroeconomic stability and policy reform	Maintenance of macroeconomic stability Completion of PRSP, plus one-year PRSP implementation for E-HIPC Performance benchmarks for structural and social reforms
Interim period	3 years	Flexible, with the introduction of floating CP
Creditor participation	Guiding principle: Comprehensive debt relief action: coordinated among all creditors involved with broad and equitable participation New external finance to be on appropriately concessional terms	Principle for change: Same plus debt relief should be additional to reinforce the wider tools of the international community to promote sustainable development and poverty reduction

Figure 3 Summary of the Original and Enhanced HIPC (Source: Gautam, 2003, 12)

3. Theoretical and Empirical Literature

Following the observations of the mechanisms and criteria of the HIPC, this section examines theoretical and empirical evidence which suggest that, although the HIPC was desirable in countries which met the complex criteria, it excluded many and accumulated a number of critiques.

Of 40 HIPCs, 32 achieved the completion point while the other four reached the decision point (as shown in the below table). The debt relief of these 36 countries in post decision-point under the HIPC represents 35% of their total GDP

in 2010. The debt relief of HIPC initiative has cost its creditors an estimated amount of US$75 billion in 2010 present value terms (IMF, 2011, p. 2–5).

32 Post-Completion-Point HIPCs *

Afghanistan	Congo, Rep. of	Liberia	Rwanda
Benin	Ethiopia	Madagascar	São Tomé and Príncipe
Bolivia	Gambia, The	Malawi	Senegal
Burkina Faso	Ghana	Mali	Sierra Leone
Burundi	Guinea-Bissau	Mauritania	Tanzania
Cameroon	Guyana	Mozambique	Togo
Central African Republic	Haiti	Nicaragua	Uganda
Democratic Republic of the Congo	Honduras	Niger	Zambia

4 Pre-Decision-Point HIPCs **

Eritrea	Kyrgyz Republic 4/	Somalia	Sudan

** Countries that have qualified for irrevocable debt relief under the HIPC Initiative*

*** Countries that are eligible or potentially eligible and may wish to avail themselves of the HIPC Initiative or MDRI.*

Figure 4 Highly Indebted Poor Countries in July 2011 (Source: IMF 2011, 2)

The IMF (2011, p. 4) argues that concurrently to delivering debt relief, the HIPC also increased these countries' poverty-reducing expenditure. From 2001 to 2010, poverty reduction spending for the 36 post-decision point countries increased by over three percent point of GDP on average while debt service payment decreased by a relatively smaller amount. However, the development of HIPCs in some cases is limited progress as far as meeting Millennium Development goals is concerned. In most of the 32 countries which reached the completion-point, universal primary education can be achieved; however, almost half still cannot make additional reforms to meet this target. More than half of these countries still need to reach their targets pertaining to gender equality and the prevention of HIV/AIDS, TB and malaria spread. About half of these countries are on track to reduce mortality rate of children under five as well as ensure environmental sustainability targets.

These countries face many challenges beyond just the high cost of debt relief. For instance, only a quarter of completion-point countries are on track to eradicate extreme poverty and hunger (MDG1). There is even less certainty that these countries will improve maternal health as in the 6th millennium development goal. For instance, only a few are on track to build a global partnership for development (MDG 8) (Ibid).

In addition to these challenges, the HIPC is also associated with a number of critiques which indicate that the initiative has been less successful than claimed by the IMF and the World Bank. These critiques are discussed in the following sections.

3.1 The Inappropriateness of the Initiative

Despite the fact that the initiative was considerably modified under the enhanced HIPC, the suitability of the scheme remains questionable. The eligibility criteria and the debt sustainability indicators used by the HIPC are arguably completely inappropriate. A G24 paper (2003, p. 3) argues that the HIPC is

extremely politically charged and uses IDA-only criterion. It suggests replacement by a more poverty-focused criterion to omit the two ratios applicable for fiscal criteria and to take into consideration other factors that could lead to vulnerability such as export concentration and export price volatility. There are still countries which are equally as poor and as indebted as the HIPCs but have exited the HIPC due to the inappropriate consideration of the criteria.

For instance countries like Nigeria and Equatorial Guinea were HIPCs at first but were later excluded as they were not considered IDA-only eligible countries. This was particularly so in the case of Nigeria which was highly indebted and whose value of debt-to-export ratio was around 188%, 38% higher than what is eligible under the HIPC, and was a poor economy with GDP per capita below US$300 (Gunter 2001, p. 19-20).

Watkins (2004) claims that as a result of complexity in debt eligibility criteria, countries' debt reliefs have either been repeatedly delayed or cut off as they could not meet the IMF loans conditions. Using debt relief as a force for deep structural reforms in difficult policies like privatization, civil service pay and utility management is difficult to justify.

Another critique observed in Malawi is on the profits from improved hybrid types of maize which need substantial applications of fertilizer. Farmers were forbidden from being subsidized as this would be considered a breach of the criteria set under the free market mechanism (Dent and Peters, 1999, p. 54).

The fact that most poor countries are ineligible for the HIPC initiative attracts much criticism. The reason that certain countries' debts were not considered sustainable even though they were poor and heavily indebted as Gunter (2007, p. 7) observes is due to a very narrowly defined criterion of debt sustainability, particularly regarding debt-to-export and debt-to-revenue ratios as in the case of Nigeria discussed above.

There is also similar empirical evidence in the cases of some other countries that have suffered the inappropriate treatment of the initiative. For instance, Bangladesh and Cambodia, despite having low GDPs per capita of US$413 and US$377 respectively in 2006, are not yet part of the HIPC while Ghana, whose GDP per capita was higher (US$ 457), is eligible for debt relief (Spratt, 2007, p. 8-9).

3.2 Slowness of the Initiative

The slowness of the HIPC has consistently been a matter of concern. For instance, by 1998, only seven countries (Uganda, Bolivia, Burkina Faso, Guyana, Cote d'Ivoire, Mozambique and Benin) were actually issued with resolutions from the IMF and the World Bank, and only six of these countries were decided eligible. Benin's debt was considered sustainable and therefore would not benefit from the initiative (Esquivel, Larraín and Sachs, 1998, p. 21). In this respect the World Bank and Gautam (2003, p. 27) argue that the initiative was only slow in the early years and was later expedited, particularly after the enhancement of the initiative. However the slowness of the process was also evident in the following years.

For instance, by December 2003, the total number of countries that reached the completion point was only ten (Teunissen and Akkerman, 2004, p. 7). This means that within six years after 1998, only four countries could achieve the

completion point. The slowness of the process further continued until 2009 and, as Spratt (2009, p. 251) argues, since 2004 only 15 countries are eligible to reach the HIPC completion point.

Finally when three debtor countries, Bolivia, Uganda and Mauritania achieved the debt relief on the conditions set by the HIPC, they still had to wait for months until creditors could organize the distribution of the funds (Roy, 2000, p. 27).

3.3 Limited Coverage

Over the decade and a half since the HIPC initiative was launched, the countries considered eligible for the HIPC are below 40. However the number of countries potentially eligible should be far higher.

For instance, Dent and Peters (1999, p. 55) argue that the IMF and World Bank only predict 40 countries under HIPC, where in fact there are some 51 countries which are in desperate need of debt remission.

This critique has also been noticed in the UN report (1999, p. 16) which emphasizes that about half a dozen Global South countries are not covered in the HIPC although their debt indicators classify them as severely and moderately indebted and they are vulnerable to unfavorable external development.

3.4 HIPC Ignores Economic Shocks

The world has inevitably witnessed a number of economic shocks throughout history and many of these have been caused by exogenous factors which affected many poor economies beyond their control. The HIPC ignores the reality of such factors because countries, including those eligible for debt relief, as Addison, Hanson and Tarp (2004, p. 97) indicate, are usually subject to very wide variation in their terms of trade (TOT) and in their agricultural primary export volumes.

Likely Payne (2004, p. 151) claims that the global fall of prices of commodities has harmfully affected the debt sustainability measurement in Africa, particularly in Uganda, despite being the first and the best performer of the HIPC.

As a consequence of the global fall in commodity prices, the TOT for Uganda's exports[3] deteriorated. For instance during the decision point stage of HIPC, the three-year average value for exports earnings of Uganda for the year ending 2002-03 was projected over one billion dollars while the actual value only amounted US$726 million, representing a 28% decline. Additionally, Tanzania, although it similarly reached the completion point, still remained vulnerable to exogenous economic shocks like adverse weather and deteriorating TOT (Teunissen and Akkerman, 2004, p. 22, 54, 61).

Spratt (2009, p. 251) also argues that the secular fall of agricultural product prices lead to lower earnings from exports for most HIPCs despite their economies being based on a debt-to-export ratio.

[3] Uganda's economy is largely dependant on its agriculture, which almost supplies all of its foreign exchange earnings. Its coffee alone makes it the leading producer in Africa and accounted for 27% of its exports in 2002.

Furthermore the IMF (2010, p. 2) itself admits the shortfall of this section of the initiative. It states that many countries are still vulnerable to shocks, particularly those which affect exports.

The table below shows the continuous falling trend in prices of some real commodities from the 1970s to 2005. As can be seen in the table below, the prices of sugar and coffee between the 1970s and 2005 decreased by over three times. The decline for maize and rice was more than a half, whereas for butter and bananas, it was over 97 and 52 percent respectively for the same period (FAO, 2007, p. 42).

Commodity	1970s	1980s	1990s	Average 2000–05	2003	2004	2005
Bananas	775	682	553	472	351	478	509
Butter	164	131	99	68	64	80	83
Coffee	322	215	109	56	49	57	79
Maize	311	191	130	93	98	102	87
Rice	932	504	329	203	187	224	254
Sugar	37.27	18.91	12.13	7.51	6.63	6.53	8.72
Tea	n.a.	3.14	1.96	1.52	1.41	1.51	1.44
Wheat	371	237	153	123	143	128	n.a.

Base year is 2000

Source: FAO 2006, 42

Figure 5 Trend in Commodity Prices (Source: FAO 2006, 2)

3.5 HIPC, Tool for the Creditors

Trotsenburg from the World Bank and MacArthur from the IMF (1999) argue that the HIPC is a sound and effective instrument to provide a way out of the debt trap for poor countries. Yet, rather than being an effective instrument for debt relief in favor of poor countries, the initiatives have been strategic tools for creditor countries to realize their objectives. Enrique and et al (2007) argue that the HIPC was mainly designed to protect the interests of the creditors. It left countries with unsustainable debt burdens, even though they qualified for the decision point.

The World Bank's Comprehensive Development Framework (CDF) and that of the Poverty Reduction Strategy Papers framework and supporting matrix[4] have not been developed to address the debt relief and poverty reduction in low income countries, but rather were means for intervening in the economic and social policy and political governance, trialed in most of the HIPCs dependant on the IMF and the World Bank (Wilkinson and Hughes, 2002, p. 50).

Furthermore Sachs (2000) states that the IMF and the World Bank were instrumentally utilized tools by a few rich governments and that the debt sustainability criteria that they put forward for poor countries has nothing to do with actual debt sustainability. They ignore the deaths of millions of people who demand access to basic medication and nutrition.

[4] In January 1999, the World Bank launched the CDF where its heart was constituted by a matrix which covered key policy issues in regards to four actors including those of the international development community, the governments, civil society and the private sector (Wilkinson and Hughes 2002, p36).

Even the treatment of certain countries by the IMF and the World Bank has been more favorable than their criteria would seem to allow under a strict interpretation of the rules. For instance, Payne claims that countries like Turkey, due to its geopolitical location in regards to the Middle East, Brazil, because of its good relationship with the fund and lately Iraq, whose 80% of US$39 billion debt owed to the Paris Club was forgiven after the re-election of President Bush are obvious examples where countries benefited for extraneous reasons over those that really deserved support.

3.6 Other Shortcomings of HIPC

Other failures of the HIPC initiative are that it fails to address the human and social development perspective (EURODAD, 2001, p. 7) and that its PRSP does not do enough to deal with ethnic, religious and social tensions affecting the lives of most Africans (Gunter, 2002, p. 11). Furthermore it is criticized for having unrealistic and over-optimistic assumptions and projections of growth (Teunissen and Akkerman, 2004, p. 6-7) (Addison, Hansen and Tarp 2004, p45).

The HIPC also omits other types of debts, such as domestic and private sectors, which are becoming more predominant in low-income countries. The thresholds of debt sustainability particularly those of debt-to-export and debt-to revenue ratio are still high (Teunissen and Akkerman, 2004, p. 14-8) and the initiative was not supported with funding from the Millennium Development Goals (MDG). Additionally the program designed for six years was too long with too little flexibility to meet the individual needs of debtor nations (Teunissen and Akkerman, 2004, p. 62), (Spratt, 2006, p. 8-11), (Enrique and et al, 2007) (Spratt, 2010, p. 250).

Third, the IMF and the World Bank did not commit to cancel any debt unless the debtor country reached the completion point. This left countries under the pressure of debt payments while they also struggled to institute structural reforms (Enrique and *et al,* 2007).

Fourthly, any efforts of poverty reduction were weakened by Enhanced Structural Adjustment Facility (ESAF) conditions. For instance, privatizing the utilities led to rising service costs which were beyond the ability of citizens to pay (Ibid).

Finally the funding allocated for development under the initiative was insufficient for long-term progress (Teunissen and Akkerman, 2004, p. 7), (UN, 1999, p. 15) (Addison, Hansen and Tarp, 2004, p. 45).

3.7 Suggestions

Although the HIPC was relatively successful in countries which met the criteria, it was associated with a number of challenges and shortcomings discussed previously. The following modifications could improve the success of the HIPC:

The complex criteria need further enhancement and modification despite modification under the HIPC II. The only-IDA criterion limits the ability of many poor countries to qualify for debt relief. As a G24 paper (2003, p. 3) argues, the IDA-only criterion should be replaced by a more poverty-focused criterion to omit the two ratios pertaining to the fiscal criterion and must take into consideration other factors of vulnerability such as export concentration and export price volatility. Many

countries, equally as poor and indebted as the HIPCs, have exited the HIPC due to the limited scope of the criteria. The slow process of the HIPC should be expedited as many more countries with immediate needs have the potential to be eligible for debt relief. As discussed earlier, by December 2003 the total number of countries that reached the completion point was ten (Teunissen and Akkerman, 2004, p. 7) while by 2009 the number was only 15 (Spratt, 2009, p. 251). 32 out of 40 HIPCs had to wait for over one and a half decades to reach the completion point.

Only 40 countries meet the IDA-only criterion while there are many other countries that need support. As Dent and Peters (1999, p. 55) argue, there are 51 potential HIPCs in desperate need of debt remission. A UN report (1999, p. 16) noted that about half a dozen LDCs are not covered by the HIPC although their debt indicators classify them as severely and moderately indebted countries which are furthermore vulnerable to unfavorable external development. Thus the limited list needs further expansion to include other potential HIPCs.

The HIPC is meant to be a financial tool to help relieve the debt burden of poor countries. However it has been politicked and instrumentalized to ensure the interests of creditor countries. Creditors, the IMF and the World Bank show favoritism which may eventually lead to resistance and uprising, especially likely in this financial crisis, as a result of which the HIPC may inevitably collapse.

4.0 Conclusion

The HIPC initiative cannot be considered an absolute failure or success. However, available theoretical and empirical evidence suggest that the initiative has been associated with a number of shortcomings which raise doubts about its success.

It was discovered that the HIPC rests on a number of complex criteria which restrict eligible conditions. Empirical evidence has analyzed the cases of Bangladesh and Cambodia. Although these countries were poor and highly indebted they were not able to meet the criteria. Similarly Nigeria, although only eligible for debt relief, was still excluded because it was not an IDA-only country. Bangladesh and Cambodia in spite of being poor and highly indebted have not yet been included in the HIPC.

The HIPC is also a very slow process. For instance Bolivia, Mauritania and particularly Uganda, the first and best candidate of the HIPC, had to wait for months until their creditors distributed the responsibility of funding the relief. By 2009 only 15 countries had reached the completion point of the HIPC.

More importantly, the HIPC ignores exogenous economic shocks that unavoidably affect many debt-burdened countries. In the case of Uganda, the fall of global commodity prices damaged its economy and particularly its exports, a main source of its foreign exchange earnings. Even the IMF, creator of this initiative, confessed this failure.

Most significantly, the HIPC initiative, rather than being a useful mechanism for countries to reduce their debt burden and develop their economies, has been a tool for larger economies to influence global governance and maintain smaller countries dependence on biased decisions. Therefore, this essay concludes that the HIPC cannot be an entirely successful initiative unless its current criteria and mechanisms are either substantially replaced or modified.

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