Debt Relief in Sub-Saharan Africa:

Inching Toward a More Sustainable Future

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Spring 2011 Capstone

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Abstract:

Long acknowledged as an obstacle to development for the continent, the debt crisis in Africa has yet to be resolved. Various plans have been implemented in the past decades, growing from rescheduling debt to complete cancellation. The paper evaluates the various plans, focusing on the HIPC, HIPC II, and MDRI initiatives, which have been the most comprehensive plans yet developed. These show the biggest shift in debt relief through a move away from structural adjustment programs, calling for full cancellation of multilateral debt, and focusing on poverty reduction. However, success in achieving debt sustainability and poverty reduction has been limited. Further, meeting the goal to increase local ownership and participation has been difficult. The paper begins with the debate on the subject of debt relief and how best to administer it, then assesses the various plans. The paper concludes with recommendations for where to go beyond HIPC and MDRI.

The African continent has not had its shortage of crises in the years since independence- extreme poverty, crises of governance, wars, famine, declining institutions and infrastructure, and an enormous and increasing debt. The list goes on, and all intertwined these problems create a vicious cycle of poverty and a paradox in which no solution is a panacea, but leaving any problem unsolved continues to harm the people of Africa. The debt crisis is one issue which can be directly linked to the industrialized world, and which has the potential to solve it. Plans to deal with the debt crisis have slowly been improving to bring more relief, but continued advances are still necessary. While the Highly Indebted Poor Country (HIPC) initiatives and Multilateral Debt Relief Initiative (MDRI) have brought the greatest hope of achieving debt sustainability on the African continent, the reality is that many member countries are still far from achieving this, and the gains made are less significant than often claimed. Further, the initiative has driven little progress to achieve poverty reduction or reach the Millennium Development Goals, a stated measure in the HIPC-MDRI guidelines. It seems obvious that at the levels many African countries face, the debt cannot and will not be repaid. “Debt in and of itself,” Thomas Callaghy writes, “is not bad, but how it is used and whether it is kept within bounds matters quite a bit.”[1] It is clear that in most sub- Saharan African countries, debt has not been kept in bounds and has not been used to develop the economy or reduce poverty. With that in mind, this paper will assess the past frameworks for achieving debt sustainability and how these have contributed to poverty reduction.

Debating Debt Relief

Though the belief that the enormous debt the African continent holds stands as an obstacle to development is widely held, there is vigorous debate on how debt relief should be

[1] Callaghy, Thomas M."The Search for Smart Debt Relief: Questions of When and How Much," p 100.

administered, if debt relief is fair, and if it is the best way forward. There is a moral argument over the fairness of debt, and on the opposing side, of debt relief. Many argue the immorality of the world's poorest countries paying the world's richest. Others argue that forgiving the mistakes and corruption of certain African leaders sets an unfair precedent and rewards bad behavior, and point to the unfairness of excluded countries. Whatever the case on debt relief, the reality is that the debt crisis places serious restrictions on African countries that have to continually reschedule, have limited access to credit, and have fewer funds to spend on public services.

A central argument in favor of significant debt relief is that as governments repay foreign debt, funds are diverted away from health, education, and other social services that have a direct negative impact on women and children, those who poverty affects the most. For example, Africa spends four times as much on debt services as on health care- which on the continent with the worst HIV epidemic in the world, is severely troubling.[2] A purely economic issue is that the growth of debt relative to the size of the economy leads to capital flight and discourages private investment.[3] Also of importance, the debt crisis helps maintain dependence on foreign aid.[4] Van de Walle contends that debt relief may be as important as investment promotion in low-income states because the evidence suggests that servicing obligations signals to potential economic investors that the government has future obligations that will force it to increase revenue generation in the form of higher taxes, and that they will also have less incentive to increase revenue, as they know the funds will be returned to donor countries.[5]

On the other side of the debate, Bernard Gunter's arguments against further HIPC debt relief are 1) that debt relief initiatives are not just, since the majority of the world's poor people

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[2] Kaya, Ho. "The Debt Crisis and its Effect on African Women and Children: Cases from Southern Africa."
[3] Mulinge, Munyae. "Debt Forgiveness Initiatives and Poverty Alleviation in Sub-Saharan Africa: Too Little, Too Soon."
[4] Watkins, Kevin . "Debt Relief for Africa."
[5] van de Walle, Nicolas. *Overcoming Stagnation in Aid-Dependent Countries,* p 98.

live in countries that are not eligible for HIPC debt relief; 2) that excessive debt is not the cause of growing poverty but a symptom of waste; and 3) that debt service cannot crowd out social expenditures as long as a country receives a multiple of its debt-service payments in terms of new loan disbursements and grants.[6] Going a step further, William Easterly writes that debt relief often is merely substituted by further borrowing, rewards bad polices, and encourages incremental policy improvement at best. He criticizes the fact that debt relief responds "to *changes* rather than the *level* of policies. Obviously, countries with worse initial policies have more scope for improvement. If debt relief responds exclusively to *changes*, it may result in aid resources going to countries with a worse *level* of policies on average."[7] These may be fair criticisms, but there is mounting evidence that post-completion-point HIPCs score higher on CPIA ratings than both pre-decision point HIPCs and non-HIPCs.[8]

Even among those who agree with the need for debt relief, there is understandably no consensus on how best to administer it. Many issues have been alluded to above in the reasons for not agreeing with debt relief. Though agreeing with the many reasons for applying debt relief, Sylvain E. Dessy and Désiré Vencatachellum find several issues with the current and past implementations of debt relief. They agree with Gunter and Easterly that the system penalizes countries that have managed their debt well, and there is no guarantee that those who receive relief, as in those who have poor management records, will not borrow more and remain in the same cycle.[9] Also, debt relief may overestimate freed-up resources in countries where only a fraction of the debt was being serviced, and there is no guarantee that increased public funds will

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[6] Gunter, Bernhard G. "What's Wrong with the HIPC Initiative and What's Next?."
[7] Easterly, William . "How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief."
[8] Leipziger , Danny, and Mark Allen. " Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation." The CPIA index measures policy and institutional performance of countries.
[9] Dessy, Sylvain E., and Désiré Vencatachellum. "Debt Relief and Social Services Expenditure: The African Experience, 1989–2003."

lead to increased services, especially in countries with records of inefficiency and corruption. Other scholars also note that while debt relief is a necessary step to reduce poverty, it is not the primary one, and other steps must come with or before. Debt relief cannot be touted by creditor countries as a cure all. Countries like Botswana where the economy is not overburdened by debt and have been performing relatively well, but the number of poor is rising, show that there are various other internal factors than debt to rising poverty.[10] Callaghy contends that because debt is only an aspect of a much larger development effort, growth is essential to achieve debt sustainability. He writes that NGOs do not have any proof that total debt write-off and an end to structural adjustment programs would contribute to poverty reduction and development.[11] Another huge issue is whether debt relief is deducted from total assistance packages, which will be discussed in more detail. Past debt relief initiatives took a more blanket approach to the debt crisis, but the HIPC initiatives have attempted to allow for a tailored approach for each country with the addition of the Poverty Reduction Strategy Paper (PRSP). Kevin Watkins writes that debt relief must be for the sake of the debtors being able to attain minimum social standards and economic recovery, and not for the sake of the multilateral donors.[12]

Past Debt Relief Initiatives

The enormous debt crisis was recognized somewhat early on; unfortunately subsequent initiatives to deal with it have met little success in Africa. Various reasons include insufficient terms, poor effort by lenders, failures by African leaders, and the lack of change in the terms of trade that laid the foundation for the debt crisis. And until the mid-nineties, only bilateral debt

[10] Mulinge, Munyae. "Debt Forgiveness Initiatives and Poverty Alleviation in Sub-Saharan Africa: Too Little, Too Soon," p 27.
[11] Callaghy, Thomas M."The Search for Smart Debt Relief: Questions of When and How Much," p 99.
[12] Watkins, Kevin . "Debt Relief for Africa."

was allowed to be rescheduled, even though Africa suffered an abnormally high level of multilateral debt. Most of the original plans were designed to solve the debt crisis of Latin American countries. For example, the Baker Plan in 1985 only included three African countries: Nigeria, Ivory Coast, and Morocco.[13]

The Paris Club group of creditors came up with various schemes over the years of varying degrees of debt relief, which were implemented through bilateral agreements, until they decided in 1995 that a more concentrated approach- HIPC- was necessary. These plans included the 1988 Toronto terms, a "menu of options, including partial forgiveness, longer maturities, and lower interest rates;" the level of debt cancellation was 33.33%.[14] Only two of the twenty countries that benefited from these terms were not African, showing a significant shift in focus from the earlier Baker Plan.[15] The Trinidad Terms, proposed by the UK and Netherlands, would have increased eligible debt forgiveness to 67%. Next came the enhanced Toronto terms, which were again more concessional. In 1991 the London Terms were implemented, which increased the debt cancellation rate to 50%. The Club states that 23 countries benefited from the program from 1991 to 1994, when the Naples terms were introduced. The 19 African countries that benefited are: Sierra Leone, CAR, Cameroon, Cote d'Ivoire, Niger, Senegal, Benin, Burkina Faso, Mozambique, Mauritania, Ethiopia, Sierra Leone, Guinea, Mali, Zambia, Togo, Uganda, Equatorial Guinea, and Tanzania.[16] In December 1994, the Naples terms increased levels of cancellation and permitted stock treatments on a case by case basis.[17]

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[13] Bogdanowicz-Bindert, Christine A. . "The Debt Crisis: The Baker Plan Revisited."
[14] "Club de Paris." http://www.clubdeparis.org/termscountry_view?t=TO;Easterly, William . "How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief."
[15] "Club de Paris." http://www.clubdeparis.org/termscountry_view?t=TO.
[16] *UNCTAD Virtual Institute on Trade and Development – UNCTAD Virtual Institute on Trade and Development*. N.p., n.d. Web. 25 Apr. 2011. < http://vi.unctad.org/debt/debt/m3/Naples.htm>
[17] "Club de Paris." http://www.clubdeparis.org/termscountry_view?t=TO.

There were several issues with these plans. Two inadequacies Watkins writes in regards to the Trinidad Terms, one of the more wide reaching proposals, can be said of all the schemes prior to the introduction of the HIPC initiative: the possible levels of debt reduction remained too small, and the huge amount of multilateral debt was not addressed.[18] Further, an issue Duncan Green points out is that the creditor countries negotiated terms in groups, amongst each other, as is the case with the Paris Club, while case by case agreements were negotiated bilaterally with the poor, debtor country facing these pre-negotiated terms alone.[19] These major faults led to an outcry from domestic populations in creditor countries and NGOs the world over for a new, concentrated, and all encompassing approach to debt relief.

HIPC

The HIPC initiative showed a huge shift in debt relief politics- from being driven by the Paris Club, and therefore bilateral efforts, to being driven by the IMF and World Bank, now a multilateral effort. This enormous shift reflected the power of new actors in the debate- namely, NGOs with large social movements behind them who believed the situation was unjust and required new ideas and efforts. It also showed that the powers that be were recognizing the faults in long depended on structural adjustment programs and the seriousness of the debt crisis. Thomas Callaghy also gives credit to changes in leadership in members of the G8 and the World Bank to people who were more open to new ideas and more concerted efforts. The HIPC initiative was launched in 1996 amidst this background of calls from NGOs and civil society for complete debt cancellation. The initiative seemed to mark a sharp change for the better and came with the stated realization that past initiatives were not working, that structural adjustment

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[18] Watkins, Kevin . "Debt Relief for Africa."
[19] Green, Duncan. *From Poverty to Power: How Active Citizens and Effective States Can Change the World*,, p 306.

programs were not working, that more significant cancellation was needed, that multilateral debt cancellation was needed, and that more attention needed to be paid to poverty reduction.[20] Duncan Green writes that with HIPC, creditors began actually writing off debt rather than rescheduling, included both bilateral and multilateral debt relief and divided relief equitably among creditors.[21]

HIPC's original objective was to bring debt to sustainable levels, subject to satisfactory policy performance. To qualify, countries had to have an unsustainable level of debt after using traditional mechanisms and a strong record of policy performance. Forty-one countries were eligible, with 29 expected to qualify. The target range for NPV debt-to-exports was 200-250%, and NPV debt -to-revenue 280%, export to GDP ratio 40%, revenue to GDP ratio 20%. A decision point required a three year record of macroeconomic stability and policy reform (in implementation the countries did not have to wait an additional three years, credit was given for prior performance), and a completion point required an additional three-years of the same. The calculation of relief was dependent on reaching a completion point based on projections of debt indicators, which was the time of relief delivery as well. The guiding principle was that action only be taken after the debtor showed ability to efficiently use the relief to be provided. Creditor participation was to be coordinated among all creditors equitably, and any new external finance was to be on appropriately concessional terms.[22]

HIPC inevitably faced challenges. Inclusion of countries was a shortcoming from the beginning- from the inception of the initiative to 1999, only seven countries reached eligibility for debt relief. Also, results were less than hoped for. A United States General Accounting Office

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[20] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*.
[21] Green, Duncan. *From Poverty to Power: How Active Citizens and Effective States Can Change the World*, p 307.
[22] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 12.

report reviewed the HIPC initiative in spring 2000 and concluded that “unless strong, sustained economic growth is achieved, the initiative is not likely to provide a lasting exit from debt problems.”[23]

Also, the issue of lone debtor nations negotiating agreements for debt relief with Paris Club members is only partly addressed through the HIPC initiative: “although the amount of debt relief from the Paris Club is determined in the context of the HIPC initiative and is not subject to subsequent negotiation, the HIPCs are obliged to meet with the Paris Club after the decision point to agree on the broad terms of the debt relief to be delivered by the participating creditors. After this agreement, the HIPCs must reach a formal agreement with individual Paris Club creditors on the modalities of debt relief. They also have to secure comparable treatment from non-Paris Club bi-lateral creditors and commercial creditors.”[24] Reaching agreements with individual Paris Club creditors has proved to be a difficult and lengthy process, and can create budgetary problems for HIPCs who incorporate anticipated relief in budgets. Further, agreements with non-Paris Club members has proven to be near impossible- many of these creditors have either not responded to or have refused the requests of HIPCs.[25] Some countries have also faced commercial creditors who have refused to take part in HIPC and some have even sued HIPCs for outstanding debt. As the HIPC initiative is legally non binding, HIPCs have weak legal cases.[26] Liberia has had the most serious problem with this- it has faced 10 lawsuits with a total contested amount equal to 49% of its GDP.[27] Though most cases have been decided in favor of the creditors, creditors have been still been unable to receive the decided award, hopefully dissuading future court cases. Fortunately, in 2008, the African Development Bank established

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[23] *Ibid,* p 13.
[24] *Ibid, p 13.*
[25] *Ibid, p 35.*
[26] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 35.
[27] Leipziger , Danny, and Mark Allen. " Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation,” p 33.

the African Legal Support Facility to provide legal advice and assistance regarding creditor litigation. And the Commonwealth Secretariat established an HIPC Clinic to assist with possible litigation.[28] These both will also help African governments review future loan agreements and debt restructuring, hopefully helping to prevent additional debt traps.

Enhanced HIPC

The IMF and the World Bank formally agreed in September 1999 to enhance the framework. The enhanced HIPC includes the same main objectives, and in addition seeks to ensure that the freed up resources are allocated to social services for the sake of poverty reduction. The enhancements provide broader, deeper, and faster debt relief through: 1) a lowering of the ratios considered to provide debt sustainability (together with a lowering of the minimum thresholds to qualify for the openness/fiscal criteria), 2) replacing the fixed three-year period between decision and completion points by the concept of a floating completion point and 3) the provision of interim relief from some creditors between the decision point and the completion point. Qualifications were the same, but applied retroactively so that countries already past decision or completion points were eligible- 41 in 1999, 42 in 2003, with 38 expected to qualify. The principle behind the enhanced initiative was to provide a permanent exit from the debt overhang and give appropriate protection from external shocks. The targets changed to NPV debt-to export 150%, NPV debt to revenue 250%, export to GDP ratio of 30%, and revenue to GDP ratio of 15%. Calculation of relief was changed to the decision point and used actual data on NPV debt for the year prior to the decision point and a three year average for exports. Relief delivery was also changed to be given at the decision point on an annual basis, interim relief was to be bulk of anticipated post completion point relief and irrevocable (the same

[28] *Ibid, p 35.*

as with HIPC). Performance criteria was expanded to include a full or interim PRSP at decision point and the maintenance of macroeconomic stability, completion of a PRSP plus a year of its implementation, and introduced performance benchmarks for structural and social reforms. The principle behind these changes was not merely to expand debt relief, but to utilize other tools of the international community to promote sustainable development and poverty reduction.[29]

The introduction of the PRSP was the single biggest change in the initiative and was driven by a desire to strengthen the incentives for debtor countries to adopt strong programs of adjustment and reform. PRSPs have become a hugely important aspect in the relationship between debtor nations and the IFIs.[30] The introduction of this addition was meant to show a greater move away from the often criticized SAPs and to ensure consistency between macroeconomic policies and poverty reduction. They also are intended to help solve the issue of donor fragmentation and multiple aid activities by allowing donors to collaborate on more streamlined activities, determined by the PRSP.[31]

The concern that the process of developing the paper would delay countries from reaching decision points was at least partially solved by the option to develop an interim PRSP, which qualified a country for decision point, at which time interim debt relief would be administered.[32] The PRSP is meant to increase debtor ownership over the process and increase applicability to individual countries, but because of several factors, the process of formulating and implementing the strategies still needs to become more participatory and state owned, which is confounded by continuing donor conditionality. Donor countries are invited to help implement the strategies formulated and the Bank also develops a country assistance strategy (CAS) from

[29] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 12.
[30] van de Walle, Nicolas.*Overcoming stagnation in aid-dependent countries, p 52.*
[31] *Ibid.*
[32] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 32.

the PRSP which outlines activities to undertake in the country, often budget support for social services.[33] The PRSP process will be analyzed more below.

Conditionality under E-HIPC has decreased pretty dramatically, from an average of 41 or more conditions per country to 13. The reduction has mostly been in economic policy and structural reform conditions. Showing an emphasis on good governance, two thirds of all countries had at least one condition related to governance. Thirteen countries had structural reforms in public expenditure management. A huge decrease was in rural development- only two countries under E-HIPC had a rural development condition (down from more than half under the original HIPC).[34] However, while the conditions under E-HIPC were more streamlined, they were much more specific about where to allocate the funds freed by debt relief, to increase the emphasis that these "savings" be used for poverty reduction- for instance, forty-nine percent of the freed funds are targeted to go to education and health.[35] However, a 2006 study conducted by the Norwegian government found that 23 out of 40 poor countries still had privatization and liberalization conditions with their IMF loans.[36]

Recognizing that too few countries were reaching eligibility to enter the HIPC initiative, the World Bank and IMF accelerated implementation in 2000, and by December, 22 countries reached their decision points (now the point of relief delivery).[37] These countries (Cameroon, Gambia, Guinea, Guinea Bissau, Guyana, Madagascar, Malawi, Mali, Nicaragua, Niger, Rwanda, Sao Tomé & Principe and Zambia), nicknamed the "millennium rush," were given more leniency in eligibility, especially the requirement to have a track record of thee-years macroeconomic stability. For example, Cameroon made the list even after being listed as the most corrupt

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[33] Van de Walle, Nicolas.*Overcoming stagnation in aid-dependent countries, p 51.*
[34] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 33.
[35] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 34.
[36] Green, Duncan. *From Poverty to Power: How Active Citizens and Effective States Can Change the World*, p 301.
[37] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 27.

country in the world the year before by Transparency International.[38] The OED report finds that these millennium rush countries are less likely to have successful development results, based on low outcome ratings on World Bank projects and the fact that their CPIA scores in 2001 were lower than the earlier eligible countries.[39]

By linking the issue of debt cancellation and an end to structural adjustment to issues such as AIDS, the larger health crisis and declining infrastructure and services, NGO coalitions and African governments were able to apply enough additional pressure to get the HIPC program, scheduled to expire December 31, 2004 to be extended to the end of 2006 and set up discussions on an improved effort.[40] This allowed eleven more African countries to enter the program and would lead to the MDRI.

Overall, the enhanced HIPC initiative allows for faster relief, as debt relief is no longer dependent on a completion point as with the original HIPC initiative. However, there has been much of the same criticism mounted against it as its predecessor- that there is mounting evidence that it's incapable of leading to debt sustainability, and that it continues to ignore the overarching terms of trade as leading factor for debt problem. Husaain writes that the trade gap that got them into debt in the first place still exists, and African economies are still highly vulnerable to external shocks.[41] Further, Easterly argues HIPC II steps backward in holding governments accountable by decreasing conditionality. Van de Walle, who believes that selectivity and conditionality are paramount in the success of aid and relief, points out that while criticism of HIPC is focused on the failure of creditors to generate sufficient levels of relief, the ability of debtor nations to meet the original criteria of the initiative has mostly been ignored; this has been

[38] Van de Walle, Nicolas.*Overcoming stagnation in aid-dependent countries, p 45.*
[39] Gautam, Madhur. *Debt relief for the poorest: an OED review of the HIPC initiative*, p 31.
[40] Callaghy, Thomas M."The Search for Smart Debt Relief: Questions of When and How Much," p 91.
[41] Hussain, M. Nureldin, and Bernhard G. Gunter. "External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa."

much more prevalent under the enhanced version, especially in regard to the millennium rush countries.[42]

Assessing the PRSP-

While the PRSP seems an important and well intentioned step, in implementation it has its inevitable shortcomings. Cheru Fantu finds five main issues with constructing and successfully implementing a PRSP: 1) the scope and nature of the growth strategies; 2) how to finance the PRSP in national budgets; 3) the legitimacy of the participatory process; 4) the national capacity for PRSP formulation, implementation and monitoring; and 5) the harmonization of donor aid practices with PRSP objectives.[43] These issues have proved to be substantial obstacles to achieve the broader goals of the enhanced HIPC. Two important goals, promoting local government ownership of poverty reduction and increasing participation of local stakeholders, are difficult to assess but seem to be failing. Though Van de Walle considers the PRSP approach to be the most comprehensive attempt to promote local government ownership over development agendas, unfortunately, this seems to be a failure thus far.[44] First, the relationship between debtor and creditor has remained unchanged. The entire process itself was developed by the creditors and itself is a condition for relief. To illustrate the influence of creditors in the outcomes, PRSPs predominately focus on social sectors, which creditors have in recent years begun to emphasize. PRSPs have mostly ignored other areas- such as defense policy, an area in which many African governments spend much of their revenue. Further, the policies that result from PRSPs are consistently in line with official World Bank policies.

[42] Van de Walle, Nicolas. *Overcoming stagnation in aid-dependent countries.*
[43] Cheru, Fantu. "Building and supporting PSRPs in Africa: What Has Worked Well so Far? What Needs Changing?."
[44] Van de Walle, Nicolas. *Overcoming stagnation in aid-dependent countries, p 51.*

While there has been increased participation in the development of these strategies, however, the extent and legitimacy of that participation is questionable. Lucy Binauli et al. find, "Evaluations show that participation [in the PRSP process] has been limited to suggestions on monitoring social progress and not on making an input into the macro-economic policies."[45] Oxfam too found that "consultation" more aptly described the process than "participation" in almost all countries, and that stakeholders spanning across the spectrum from landless women to elected politicians had been mostly excluded. Donors maintain a high degree of control through conditionality and outside negotiations.[46]

On the goal of streamlining donor activities, Van de Walle finds that the PRSP has not led to major changes in the way donors coordinate or conduct activities. Outside of the social sectors, he finds, the effect of the PRSP on donor coordination is even less.[47] This is largely a result of the World Bank's dominance of the dialogue on which the PRSP is based, only after which individual donors are asked for contributions. At this point, they feel their existent aid approach would require major overhauls to accommodate the new PRSP system. For instance, the Japanese made clear that not all aid would be directed to PRSP initiatives and they would maintain other objectives outlined in their own aid strategies. The fact that most donors continue to pursue individual programs, Van de Walle concludes, leads not to local ownership of policy outcomes, but another parallel management structure.[48] Another issue with donor projects is that domestic evaluations call for quantifiable, short term results that may not contribute to the long term goals of a PRSP.[49]

[45] Binauli, Lucy, Asiyati Chiweza and Naomi Ngwira. "Engendering the Malawi Poverty Reduction Strategy Paper: Lessons from Failure," p 224.
[46] Green, Duncan. *From Poverty to Power: How Active Citizens and Effective States Can Change the World*,p 301.
[47] van de Walle, Nicolas.*Overcoming stagnation in aid-dependent countries, p 52.*
[48] van de Walle, Nicolas.*Overcoming stagnation in aid-dependent countries, p 56.*
[49] *Ibid, p 57.*

Largely in agreement with Fantu, Oxfam finds that for the process to be truly participatory and lead to poverty reduction, five things would need to happen: PRSPs would have to be detached from the HIPC initiative. They believe this qualification leads to the papers being done hastily, and dominated by the government. Second, the IMF and World Bank need to promote national ownership over the process so that countries are not merely following a path with limited choices. Third, governments have to encourage participation as opposed to consultation from civil society groups. Fourth, the PRSP must be reviewed beforehand for a genuine pro-poor focus. Fifth, the IMF should limit the conditionalities on the poverty reduction and growth facility.[50]

Malawi's PRSP process

The PRSP process in Malawi could be seen as very participatory. It included a coalition of civil society groups called the Malawi Economic Justice Network (MEJN), formed to be able to participate in the formulation of the strategy. The founding of this coalition "led to the birth of civil society coalitions for education, health and agriculture," in Malawi, which could be seen as a major milestone in itself. Twenty-one Thematic Working Groups developed the strategy, each focusing on separate areas such as gender empowerment, HIV/AIDS, agriculture, health, and macro-economic stability. A consultation team was formed to go into the various districts in Malawi to get feedback on the reports done by the working groups. From these district consultations, the primary issues that rose to the fore were: the need to depoliticize development, curb corruption and fraud, and get incentive structures right. These and other issues were recorded in a "Findings to Date" document that served as the interim PRSP. This allowed for

[50] Cheru, Fantu. P 224.

interim debt relief to be allocated by the HIPC initiative.[51] Malawi reached its HIPC completion point in 2006, received $1.1 billion in debt relief from Paris Club creditors, the IMF, World Bank, and then received an additional $1.4 billion in MDRI relief from the IMF, World Bank, and AfDF. Barring further debt accumulation, Malawi has the more sustainable debt service burden of about $5 million a year from 2006 to 2025.[52] Eight priority poverty expenditures (PPEs) were identified to be specifically addressed in the budget and HIPC funds have been allocated predominately to these areas. The new PRSP focused on 1) empowering the poor, not handouts, 2) emphasis on implementation- making budgets for plans, 3) making implementation participatory and transparent, 4) PRSP will be the only framework for development- plans that do not fit in will not be financed.[53]

While broader criticisms of PRSPs apply to Malawi's process to some extent, and the process remained more consultative than truly participatory, the fact that civil society was able to assert itself and have a genuine influence on the outcome of the PRSP should not be undervalued in its long term contribution to good governance and development. However, Jenkins and Tsoka contend that in Malawi the "participatory process" does not necessarily increase the accountability of the government and this is extremely unlikely to "result in the emergence of domestic political leverage sufficient to hold government (or donors) accountable for commitments undertaken in the PRSP formulation process. Civil society remains extremely weak and fragmented, and government highly suspicious of the more vocal elements within its ranks."[54] In spite of this, any opening in what have usually been completely closed processes can be seen as a step forward.

[51] Cheru, Fantu. 221-225.
[52] Callaghy, Thomas M. p 93.
[53] Cheru, Fantu. 223.
[54] Van de Walle, Nicolas. *p 56.*

MDRI

In 2005, to help accelerate progress toward the eight United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the MDRI. MDRI is distinct from the HIPC initiative, "but linked to it operationally."[55] The goal specifically is to provide additional support for HIPCs to reach the MDGs. Under MDRI, countries that had reached or would eventually reach the completion point under the enhanced HIPC were to receive 100% cancellation from three multilateral institutions, (the IMF, the IDA of the World Bank and the African Development Fund (AfDF)) of the debts owed to them at the end of 2004.[56] The three institutions reach decisions to grant relief separately and have implemented the program differently.[57] Though MDRI has taken the furthest step towards full debt cancellation by allowing 100% relief of debt owed to the IMF, World Bank, and AfDF up to certain dates, the program still comes up short to the call for 100 percent cancellation by activists and NGOs in creditor and debtor countries alike, by only calculating debt up to 2004.[58]

To qualify, countries must reach the completion point under the enhanced HIPC and show a good track record, as with the two prior initiatives. Those countries that had already reached completion point had to show that performance had not deteriorated in 1) macroeconomic performance, 2) implementation of a poverty reduction strategy, or 3) public expenditure management systems. Those post-HIPC countries that qualified for MDRI assistance by the end of January 2006 are: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Honduras,

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[55] Callaghy, Thomas M. p 92.
[56] Nwachukwu, Jacinta. "The Prospects for Foreign Debt Sustainability in Post-Completion-Point Countries: Implications of the HIPC-MDRI Framework," p 171.
[57] Callaghy, Thomas M, p 93.
[58] Green, Duncan. *From Poverty to Power: How Active Citizens and Effective States Can Change the World*, 302.

Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia – 16 in all, 13 African countries.[59]

In part accounting for the issue of fairness of debt relief under HIPC, the IMF modified how it allocated resources. All countries, whether HIPC or not, with per capita income of $380 a year or less would receive MDRI relief through the IMF's resources in the MDRI-I Trust. HIPCs with per capita income over $380 a year would receive MDRI relief from bilateral contributions to the IMF's MDRI-II Trust. The World Bank's system of funding is more complicated, but it is important to note that it is much more dependent on future donor contributions.[60]

Assessing MDRI

MDRI is criticized by NGOs for many of the same reasons as prior initiatives- it is not comprehensive enough, discriminatory, and covers debt up to only a certain date. MDRI does not include Paris Club members, commercial creditors, or other multilateral institutions. It only covers debt up to the end of 2004 for the IMF and the end of 2003 for the World Bank. And the inclusion of non-HIPCs with under $380 per capita income only adds a few countries to the program, still excluding many poor countries.[61] In addition, it seems very unlikely for any of the post HIPCs to reach all the MDGs or even debt sustainability as defined by the HIPC by 2015.[62] The IMF cautions that the only real reason for thinking the MDRI will help move countries towards reaching MDGs is the greater amount of funds freed for spending on these sectors.[63]

From the IMF HIPC and MDRI Implementation report, several of the 19 African post completion point HIPCs could reach one or more MDGs. Zambia is on track to meet the most

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[59] Leipziger , Danny, and Mark Allen. "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation."
[60] Callaghy, Thomas M, p 93.
[61] Callaghy, Thomas M, p 93.
[62] Nwachukwu, Jacinta.
[63] "Factsheet -- Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative."

MDGs- only environmental sustainability is out of reach for 2015. In Benin, the goals of reducing child mortality, universal primary education, gender equality and the empowerment of women could be reached. In Cameroon and the Gambia only the goal of universal primary education will likely be met. In Ghana and Uganda, both the eradication of extreme poverty and hunger, and universal primary education seem possible. In Madagascar the goals of primary education and gender equality could be in reach. Gender equality and the empowerment of women could be met in Malawi, but it is unclear whether other goals are on target. Mali could reach the goals for combating HIV/AIDS, malaria, and other diseases, and ensuring environmental sustainability. Mauritania is only on target to meet the goal of gender equality, but sustained growth and efficient use could help reach the goal of eradicating extreme poverty and hunger. In Mozambique, the goals of eradication of extreme poverty and hunger and the reduction of child mortality could be reached. In Niger, only the goal of reducing child mortality seems possible to meet. Rwanda seems on track to meet several goals: universal primary education, gender equality and the empowerment of women, and combating HIV/AIDS, malaria, and other diseases, but the others seem unlikely. Sierra Leone, too, is on target for several: universal primary education, gender equality, and the empowerment of women, and combating HIV/AIDS, malaria, and other diseases. However, information is not available on the progress of the other MDGs. In Tanzania, progress has been made in achieving universal primary education and lowering child mortality, but reducing poverty and hunger, increasing access to water, and reducing the prevalence of HIV/AIDS has proved more challenging.[64]

On the negative side, most goals will likely not be met. In Benin goals including the eradication of extreme poverty and hunger, improving maternal health, and ensuring environmental sustainability will most likely not be met. In Burkina Faso, Cameroon, the

[64] Leipziger , Danny, and Mark Allen.

Gambia, Niger, Mauritania, Malawi, it seems likely that few goals will be met by 2015. Ghana requires a significant increase in the number of physicians and nurses and hospitals to reach the goal of improving child and maternal health. Environmental sustainability also will require huge investments. Most goals will not be met in Mali, but with increased efforts, the country could meet the eradication of extreme poverty and hunger and universal primary education goals. São Tomé and Príncipe currently lacks reliable social indicators, and based on available data, only the goal of universal primary education seems possible. Though Senegal has seen a reduction in maternal and child mortality, and improvement in access to safe water and primary education, the country needs a serious reorientation of spending, and most MDGs seem unlikely. In Ethiopia, economic growth has been strong and there has been much progress in poverty reduction, but data is lacking to indicate what MDGs are likely to be met.[65]

Overall, MDRI countries grew by over 5.3 percent during 2000–06, a greater rate than usual.[66] Nwakchukwu finds that the eventual debt cancellation is expected to only decrease the time taken to reach sustainability (defined as 150% of exports) by at most three years. Though multilateral debt is exceedingly high in Africa, she finds that "the reduction in [post HIPCs] prospective NPV of debt stock by the end of the MDGs following the 100% cancellation of multilateral debt was only 25%, from 236% to 176% of average exports." Nwachukwu concludes that the MDRI initiative will not have significant effect on the debt to export ratio of HIPCs. She finds that the external debt outlook in Ghana, Madagascar, Nicaragua and Zambia is projected to worsen up to 2030, and that their potential ratios of debt-to-GDP were higher than the average for the rest of the post HIPCs.[67] Further, she finds that "The outlook for debt sustainability for our post-HIPCs as a group is expected to worsen significantly up to 2030. The

[65] Leipziger , Danny, and Mark Allen.
[66] Go, Delfin , and John Page. *Africa at a Turning Point? Growth, Aid, and External Shocks*, p 46.
[67] Nwachukwu, Jacinta, p 178.

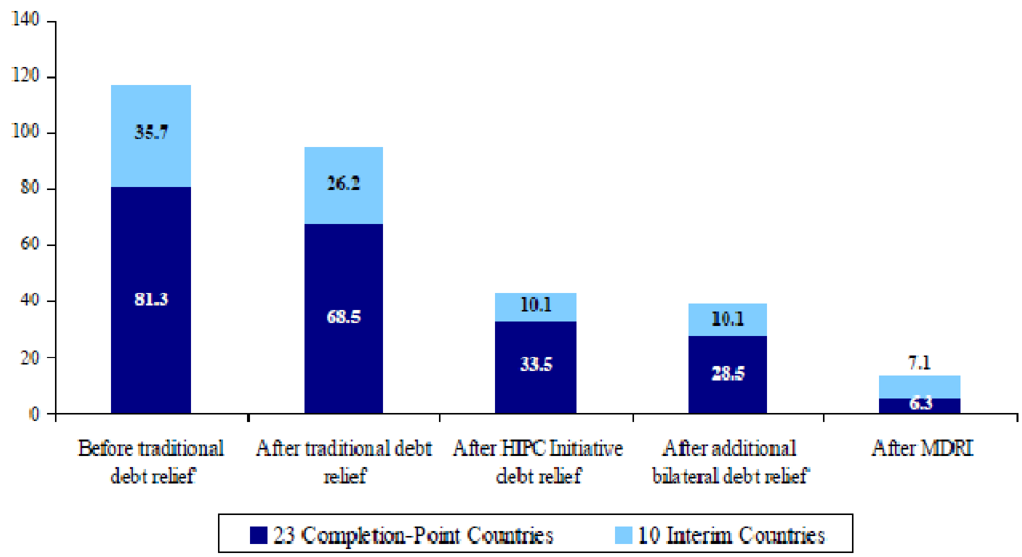
NPV of their un-weighted mean stock of debt is projected to rise from 74% of average exports (or US$885 m. in constant 2000 prices) in 2004 to 236% of exports (representing US$5 billion) in 2015, before reaching its peak of 281% (or US$9 billion) in 2024." She does project that the NPV of the external debt stock will fall to 150% of exports by 2047, the sustainability threshold, so there will be a time in the future when HIPCs can pay their debt payments without dependence on aid.[68]

[68] Nwachukwu, Jacinta.

Assessing HIPC, Enhanced HIPC, and MDRI

Though there is vast room for improvement, HIPC and its offshoots have made enormous and important strides. Osei-Hwedie states that the HIPC initiative is a "commendable effort as it mobilizes all creditors in debt reduction efforts and seeks to provide efficient and broader debt relief."[69] Whether or not the initiative has led to successful poverty reduction, which is difficult

Figure 5. Post-Decision Point HIPCs' Debt Stock under Different Debt Relief Stages
(In billions of U.S. dollars, in end-2007 NPV terms)



Sources: HIPC Initiative country documents, and IDA and IMF staff estimates.
Note: Estimates based on decision point debt stocks.

to determine, it has led to, or at least contributed to, an increase in poverty reduction *expenditure*- from 7% of GDP in 1999 to 9% in 2009. The IMF HIPC and MDRI implementation report declares that as of 2008, a total of $117 billion in relief had been given to 33 post-decision-point HIPCs through HIPC and MDRI. On average, this represents 50% of these countries' 2007 GDPs. After the full delivery of debt relief through HIPC and MDRI, the

[69] Osei-Hwedie, Bertha Z. "The politics of Debt Relief and Poverty Alleviation in Zambia,"p 385.

burdens of these countries is expected to be reduced by 76%. With traditional and voluntary debt relief included, it is expected to be reduced by a total of 90%. Research from the North South Institute finds that debt cancellation needs to be around 85% to have any significant impact on economic growth and poverty reduction.[70] The figure below from the IMF shows the decline in the total debt stock of the 23 completion point countries and 10 interim countries as of the end of 2007.[71]

On the other hand, Kajimpanga regards the HIPC initiatives as inadequate to address the debt crisis and should be reviewed completely, with the participation of all stakeholders in African countries, and says that "The debt relief provisions of the HIPC initiative remain temporary rather than a permanent solution to the debt crisis."[72] Concrete examples can be found for both countries that have registered real changes from the initiatives, and those that have not. Osei-Hwedie writes that Mozambique and Uganda, which have received debt relief, register no real change in debt burdens and debt service obligations, further, "Mozambique's debt service will decline by less than 10% after debt relief under HIPC."[73] One example of a country achieving significant positive results is Tanzania- the World Bank claims that debt sustainability for the country is no longer an issue. Extensive relief was received through the HIPC Initiative (completion in 2001) and MDRI (2006).[74] Uganda is another example of a country that the World Bank deems has achieved debt sustainability. Uganda reached the completion point in the Enhanced HIPC Initiative and was eligible for future MDRI debt relief as of 2008. With both these countries, it is clear that debt reduction has not automatically produced poverty reduction. Callaghy writes the "HIPC initiative has not been a magic bullet. It has been important for a

[70] Mulinge, Munyae, p 27.
[71] Leipziger , Danny, and Mark Allen.
[72] Osei-Hwedie, Bertha Z, p 387.
[73] *Ibid, p 391.*
[74] Go, Delfin , and John Page, p 149.

number of countries, but very far from turning Africa and other poor countries around."[75] This reflects the fact that while debt relief is crucial for a number of countries, this initiative alone cannot solve the crisis, and the crisis is far from being the only obstacle for development on the continent.

A cause for concern is that only 40% of post completion point HIPCs have a low risk of debt distress as categorized by the most recent DSAs. Four post completion point HIPCs had a high risk of debt distress- up from just one the year prior. Debt sustainability in all HIPCs continues to be vulnerable to shocks, especially those related to exports, and is also sensitive to new terms of financing.[76] Overall though, post-completion point HIPCs fare better in the DSAs than pre-decision point HIPCs and non-HIPCs.

The challenges the report identified are the lingering weaknesses of countries' institutions and policies, and the need for continued support from the international community in order for countries to truly benefit from the debt relief. This includes the need for smaller multilateral creditors, non-Paris Club bilateral official creditors, and private creditors to allow for total debt relief. Another challenge is to make sure that HIPC and MDRI receive full financing. (imf report 6-7). Resources are not currently sufficient to provide relief to all countries when pre-decision point countries are accounted for. This is partly because the cost of countries that entered the program after 2006 (a total of 8) were not calculated into the total cost. This could become an urgent problem if two of these countries, Sudan and Somalia, advance to decision point.[77]

One of the main issues is whether or not debt relief is additional to, or considered a part of current aid packages- therefore subtracting from aid in the form of grants. The OED finds that "whether or not HIPC debt relief is additional to overall aid flows has important implications for

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[75] Callaghy, Thomas, p 89.
[76] Leipziger , Danny, and Mark Allen, p 7.
[77] Leipziger , Danny, and Mark Allen, p 37.

the distributional impact of the initiative."[78] In order to free up funds for increased social spending, additional resource transfers are needed, and the initiative has no means of ensuring this.[79] For net resource transfers to increase as a result of debt relief, donors must maintain current levels of other aid flows, and an "increase in net resource transfers is necessary to free up resources for higher social spending for poverty reduction." As of 2003, evidence was mounting that net resource transfers to the HIPCs were declining. The OED writes that there are still some gains to be made without an increase in transfers, called "efficiency gains," such as the elimination of complex debt negotiations which require involvement by senior government officials and the uncertain outcome of which creates economic instability. Another is increased ownership over development by putting resources more directly in debtor countries' hands. And a "transfer-neutral reduction in aid would lessen the transactions cost associated with external financing."[80] Neither of these is by itself substantial, but they have some potential to increase growth and tax revenues.

An additional problem is the excluded countries. Edo suggests that the HIPC Initiative be expanded to include more countries, such as Nigeria and Morocco.[81] The E-HIPC adds an additional layer to this problem, because of the fact that to meet the objective of freeing up resources for increased social spending, donors must maintain current levels of aid. This widens the commitments of donor countries to HIPCs specifically, and assuming that overall foreign aid does not increase, funds available for non HIPC countries decrease. However, current levels of aid do not seem to be constant. Pledges have been made by the G8 countries to significantly increase aid flows, but these promises have not been completely met, and the current global

[78] Gautam, Madhur, p 17.
[79] *Ibid, p 18.*
[80] *Ibid, p 17.*
[81] Edo, S.E. "The External Debt Problem in Africa: A Comparative Study of Nigeria and Morocco."

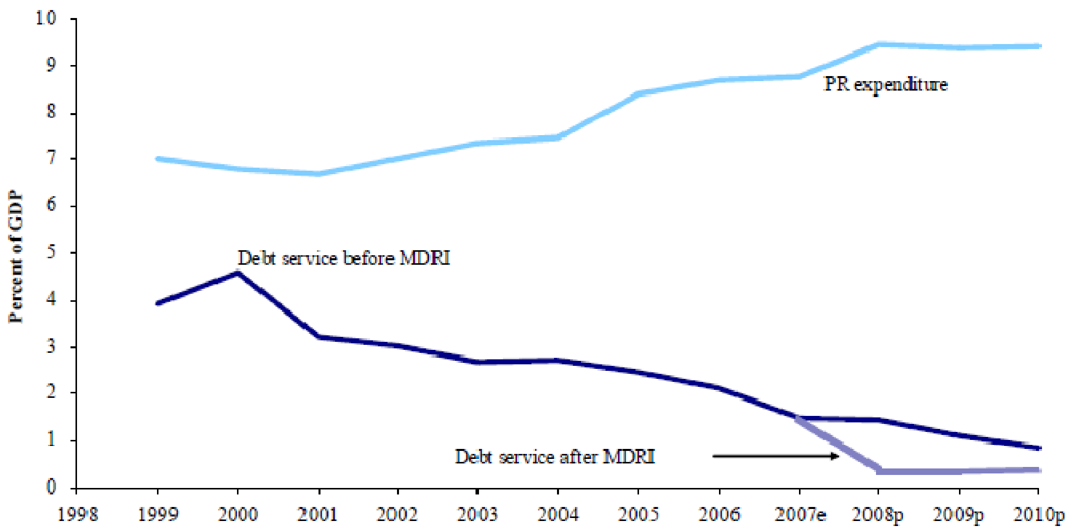
economic crisis places further strains on available funds. It also remains a challenge to bring the 18 pre-completion point HIPCs to completion point. Almost half of these have been affected by war in recent years and maintaining peace and stability are the most crucial challenges. Despite this, the IMF report found that half these countries were making significant progress towards completion point.[82]

Another enormous issue is the ability of freed funds to contribute to development and poverty reduction. This is also difficult to quantify because of the wide variety of factors and data limitations. Increased funding to the social sector does not automatically improve performance. It often means that more money is applied to weak institutions, which seriously limits efficiency. Corruption is another huge hurdle to overcome in order to ensure these funds are used efficiently and for the good of African populations. Of the thirteen African countries eligible for MDRI as of 2006, only Ghana (with a ranking of 62), Rwanda (ranked 66th), and Burkina Faso (98th), ranked in the top 100 countries in Transparency International's Corruption Perceptions Index for 2010. The rest ranked as follows: Zambia-101st, Senegal-105th, Benin-110th, Mali, Mozambique, Tanzania and Ethiopia tied for 116th, Madagascar and Niger-123rd, and Uganda- 127th.[83] However, data from the IMF HIPC and MDRI Implementation report finds that "poverty reducing spending has increased by about 2 percent of GDP in HIPCs since the late 1990s, while debt service has decreased by about the same amount. Recent empirical research also seems to suggest that debt relief has not affected negatively revenue mobilization, an important development if debt relief is to increase fiscal space."[84] The figure below from the

[82] Leipziger , Danny, and Mark Allen, p 24.
[83] "Transparency International - the global coalition against corruption."
[84] Leipziger , Danny, and Mark Allen, p 14.

IMF shows the decrease in average debt service compared with the increase in Poverty Reducing Expenditures for all HIPCs.[85]

Figure 1: Average Debt Service and Poverty Reducing Expenditures[1/]



Sources: HIPC documents; and IMF staff estimates.
[1/] Prior to 2006, figures represent debt-service paid, and thereafter, debt-service figures are projected. For detailed country data refer to Appendix Table 2.

Zambia

Zambia is a country that has gone through several of the various debt relief schemes. First, rescheduling with the Paris Club was conditional on IMF-World Bank adjustment programs- in 1990 the Paris Club granted Zambia the somewhat concessional Toronto terms, which reduced annual debt service payments by $14 million. In 1992, the Paris Club cancelled $590 million of Zambia's total debt, which allowed the government to save $17 million in payments. But debt service payments for rescheduled debt due between 1992 an 1994 "remained very high," writes

85 *Ibid.*

Bertha Osei-Hwedie.[86] This is because of Zambia's extraordinarily high level of multilateral debt- by the end of the eighties, debt owed to the IMF and World Bank was over 80% of the debt burden.[87]

The IMF's Rights Accumulation Program (RAP), which was introduced in 1990 and lasted until 1995, encouraged creditors to reschedule loans. In Zambia, this facilitated the clearing of $500 million of Zambia's commercial debt. All of Zambia's efforts have not prevented the accumulation of arrears- which Osei-Hwedie says suggest that only the creditors can significantly reduce the burden. In 1998, Zambia's debt was $6.4 billion, or 700% of its export earnings.[88]

Zambia has been considered one of the most successful reformers of African countries since 1991 and has benefited from the HIPC initiatives and MDRI. Zambia's risk of debt distress was categorized as "low" by the Debt Sustainability Analysis in 2007. This improvement is largely thanks to higher copper export receipts and debt relief received under the HIPC initiative and MDRI, writes the IMF report. Total HIPC and MDRI relief to Zambia equaled $6,683 million.[89] The DSA also finds that the debt situation will continue to improve in the following years, provided economic policies remain strong. In 2000, 40% of new aid was spent on repaying multilateral loans. Zambia developed an interim PRSP and in 2000 received $3.8 billion debt service relief. Zambia's interim period lasted 4.3 years.[90] Annual service repayments were expected to decrease by $260 million from 2001-2005 and $130 million from 2006- 2015. The

[86] Osei- Hwedie, p 384.
[87] Osei- Hwedie, *p 380.*
[88] *Ibid.*
[89] Leipziger , Danny, and Mark Allen, p 69.
[90] *Ibid.*

table below from the IMF HIPC and MDRI Implementation report shows the decline in debt service up to 2007 Zambia has benefited from, and the projections for the years up to 2012.[91]

Table 2 (concluded). Debt Service of 33 Post-Decision-Point HIPCs, 2001-2012

(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
							Prel.	Projections				
Zambia												
Paid	138.5	122.7	191.5	373.2	$\boxed{165.6}$	66.0	61.6	...	...	...	...	...
Due after enhanced HIPC Initiative relief 1/	...	...	...	...	...	...	...	156.7	172.7	185.5	184.4	183.0
Due after MDRI	...	...	...	...	...	...	...	41.1	41.3	52.5	65.6	80.8
In percent of export	13.1	10.8	15.2	17.9	6.5	1.6	1.3	0.8	0.8	1.1	1.5	1.9
In percent of GDP	3.8	3.3	4.4	6.9	2.3	0.6	0.5	0.3	0.3	0.4	0.5	0.5

It is unclear if these savings, as intended through the PRSP, were successfully spent on improving education and health services, but from 2004 to 2005, there was an amazing jump in the percentage of government revenue allocated to poverty reduction expenditure- from 11.2% to 74.6%. This percentage remained near or above 50% in the years from 2005 to now.[92]

Apart from the HIPC initiative and MDRI, it is unfortunate that less than 15 percent of the expected relief from non Paris Club members was received as of 2008. Zambia is one of the countries that has had a problem with creditors suing for payments that was discussed earlier. Two creditors have sued for a total of $55 million, and $16 million was awarded by the court.[93]

In its 2008 HIPC and MDRI Implementation report, the IMF found that Zambia was on target to achieve most MDGs by 2015, especially in the areas of primary education, gender equality, and combating diseases such as HIV and malaria.[94] Life expectancy has increased from only 41 years in 2000 to 52.[95] On the negative side, Zambia has actually dropped in its Human Development Index rating- from 143rd in 2000 to 150th in 2010, both in the lowest level of human development.[96] It is also unlikely that Zambia will meet the MDG on environmental

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[91] *Ibid, p 75.*
[92] Leipziger , Danny, and Mark Allen, p 69.
[93] *Ibid, p 34.*
[94] Leipziger , Danny, and Mark Allen.
[95] "Zambia Profile." *CIA World Factbook*.
[96] "International Human Development Indicators - UNDP."

sustainability.[97]

Nigeria

Nigeria has had a long and slow history with debt management. Nigeria had hopes to be included in the HIPC initiative, but turned out to be declared ineligible. In 1999, after returning to democratic rule, it received a fourth debt rescheduling from the Paris Club, but was not allowed the more concessional Naples Terms. Nigeria continued to try to get another, more concessional deal, but because of technical issues and perceived economic mismanagement, was unable to until 2005 when it signed a major debt cancellation deal with the Paris Club. The Nigerian government reported in 2004 that with an original loan total of $17 billion, they had paid $18 billion, yet still owed $34 billion. The 2005 deal led to a significant cancellation, but the country had to pay a down payment of a further $12 billion. This $18 billion deal was the second largest deal ever signed with the Paris Club (only after Iraq).[98] This was largely thanks to Finance Minister Okonjo-Iweala who provided the necessary vision, perseverance, and connections. Despite this enormous accomplishment, she was removed from that post and the position as head of the National Economic Intelligence team by President Obansajo. She was moved to be the foreign minister. Obansanjo was simultaneously trying to amend the constitution to allow him to seek a third term. With these developments in mind, Callaghy writes that from a perspective that the debt agreement was supposed to consolidate democracy and bolster economic reformers, it seemed to have failed, and that "the Nigerian story reinforces the point that Africa's main problem is not that it is poor. It lacks the kind of political incentives required for sustained economic reform, whether the country is rich or poor, while being hindered by low

[97] Leipziger , Danny, and Mark Allen.
[98] Callaghy, Thomas.

levels of state capacity. One of the main tragedies of Nigeria is that it has more wealth and capacity than most African countries, yet it continues to squander both."[99] He concludes that Nigeria was given too much debt relief too soon and has never been able to sustain serious economic reform. 99. Samuel Edo recommends that for Nigeria to handle its debt burden, it should 1) reduce the size of the government through privatization and checking fiscal expenditures, 2) increase exports and 3) restructure and develop capital markets through diversity and awareness. In addition, he believes that HIPC should be expanded to include countries such as Nigeria.

Suggestions for improving on current initiatives

Nwachukwu suggests that current programs "should be complemented by initiatives aimed at encouraging the inflow of long-term non-debt-creating flows, in particular foreign direct investment and emigrant remittances." Additionally, she recommends that the growth of exports is equally important to debt sustainability.[100] Export expansion policies require governments to address infrastructural problems and trading policies. Further, she advises that African governments "remove impediments to private-sector development, notably in those areas which relate to the earning of foreign exchange. These constraints may include the limited availability of skills and capital for entrepreneurs, as well as price regulation, corruption and bureaucracy, an absence of law and order and a poor protection of property." African governments must also thoroughly consider terms of any future loans and use freed up funding efficiently.[101]

[99] Callaghy, Thomas, p 98.
[100] Nwachukwu, Jacinta, p 184.
[101] *Ibid,* 185.

Many critics point to the global trading system as a major obstacle to achieving debt sustainability. With respect to the creditor nations, Nwachukwu writes they "should reduce barriers to, and within, their markets, including agricultural subsidies. By insulating their farmers from swings in world prices, trade-distorting subsidies are reputed to have contributed to debt distress in HIPCs by exacerbating the volatility in commodity prices. Donors should also improve access to their markets by allowing duty- and quota-free entry for goods from HIPCs."[102] Callaghy also recommends access to markets in countries in the Organization for Economic Cooperation and Development (OECD).[103] Unfortunately, it is doubtful that the industrialized world will ever change the rules of the game so that they no longer favor themselves. NGOs are finding changing the trading system is infinitely harder than even forcing improvements in debt relief initiatives.

It is also important that grants form a large portion of future aid packages. Nwachukwu advises that including grants, or at the least loans with concessional terms, in aid packages to HIPC countries has a great positive impact on the likelihood of debt sustainability.[104] Duncan Green also believes the poorest countries should receive aid as grants, not loans.[105] And when loans are part of the picture, he believes creditors should share the risk, by tying repayments to commodity prices, as a country's ability to pay is determined by its exports earnings. Or loans should be given at fixed interest rates.[106] Further, he also believes the debt accrued by corrupt or repressive regimes should be dealt with accordingly. He points to the unfairness of the debt incurred by the repressive Mengistu regime in Ethiopia now being paid off by the freedom

[102] Nwachukwu Jacinta, p 186.
[103] Callaghy, Thomas, p 99.
[104] Nwachukwu, Jacinta, p 183.
[105] Green, Duncan, p 309.
[106] *Ibid.*

fighters currently in government, and the ANC in South Africa paying debt that was accrued by the apartheid regime.[107]

Conditionality is hotly contested, and there are views across the spectrum on this. As mentioned earlier, Nicolas van de Walle recommends selectivity and conditionality in debt relief.[108] He envisions limiting economic conditionality to macroeconomic targets, and a focus on political conditionality. He would have conditionality build democratic institutions that foster reform, as true reform has been rare in Africa, and has usually come with visionary leadership. He believes that neither countries with military governments or constitutions with no term limits should receive donor assistance.[109] To that point, Callaghy points out that neither Uganda under Yoweri Museveni or Ghana under Jerry Rawlings would have been eligible for aid, despite that fact that both leaders introduced significant economic reform. Callaghy also believes incentives and conditionality are essential, though he acknowledges their faults. He believes that governments that show significant and sustained economic reform, whether democratic or not, should receive assistance. "Democracies," he says, "with leadership that rejects or neglects economic reform will do no better than semi- or undemocratic states with leaders that embrace reform." SA 99. Callaghy supports an expanded but selective expansion of the HIPC program with a larger multilateral debt reduction component, with continued detailed conditionality to "achieve more development-oriented outcomes… If debt relief is to mean anything, growth and trade on one side, and African incentives and capacity on the other, must be tackled simultaneously."[110]

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[107] *Ibid, 310.*
[108] Van de Walle, Nicolas, p 34.
[109] *Ibid, p 84.*
[110] Callaghy, Thomas, p 100.

Conclusion

These initiatives have to be seen as part of an overall international strategy for combating poverty in Africa. The fact that they exist and have been improving over the years reflects a growing dedication to the problems on the continent. On the other hand, it is evident that actions have not lived up to promises. At the Gleneagles summit in 2005, the G8 leaders pledged to double aid to Africa by 2010. This did not happen. G8 assistance to the continent increased by only 2 percent in 2006- excluding the one-time debt deal with Nigeria.[111]

While the HIPC initiative and its two subsequent versions show the biggest commitment from the international community to do something about the debt crisis on the African continent and bring the most potential for progress than any prior framework, its inability to address root causes of poverty in African countries limits its capacity to accomplish serious poverty reduction or progress toward the Millennium Development Goals. Callaghy sums up the central paradigm- that "more money will not guarantee solutions to many of Africa's problems, but less money will certainly make them worse, with serious consequences for millions of Africans and the rest of the world."[112] Debt relief is necessary, but alone will not accomplish much.

NGOs have been working for years to alter the relationship between Africa and the industrialized world, and none of these initiatives have accomplished this. Unfortunately, the current global economic crisis places considerable new challenges to both the economies of donor and African countries. This could potentially slow down domestic movements in creditor countries that have provided the extra impetus for the HIPC and MDRI initiatives in the past. The idea that has had the most potential to shift power to African governments may have been the PRSP, but as was discussed earlier, the lingering dominance of the IFIs and creditors in the

[111] Callaghy, Thomas, p 100.
[112] *Ibid, p 98.*

development and implementation of these strategies shows a lack of shift in power. Further, the initiatives only seek to cancel current or previously acquired debt- not to alter the trading scenario which created the debt burden in the first place. This structural imbalance between Africa and the industrialized world, along with misrule and weak institutions and infrastructure, have made the cycle of poverty and economic stagnation increasingly difficult to break out of. Frameworks set up by the industrialized world will never have the goal of altering this relationship, and therefore, will likely never be able to implement tools to bring African countries a holistic approach to development. Transitional and visionary leadership across the African continent is needed to come up with a framework that will work, and to use the progress efficiently and for the good of the people.

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