EVALUATION OF THE OPERATION OF THE HEAVILY INDEBTED POOR COUNTRY (HIPC) INITIATIVE IN UGANDA

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A comprehensive evaluation of the HIPC initiative is provided by Richie Somerville in this essay. Uganda, the flagship of the IMF/World Bank operation provides a case study. He concludes by recommending a reformulated initiative which places a greater emphasis on national sovereignty.

Introduction

The HIPC Initiative was first launched in 1996 by the IMF and World Bank with the aim of ensuring that no poor country faces a debt burden it cannot manage. The Initiative necessitates coordinated action by the international financial community, including multilateral organizations and governments, to reduce, to sustainable levels, the external debt burdens of the most heavily indebted poor countries. The Initiative has undergone enhanced modifications and been extended to 42 eligible counties (mainly in Africa).

Uganda is the most advanced country in terms of the adoption of HIPC Initiative polices. The IMF & World Bank, and indeed the government of Uganda and civil society organisations, have lauded the Ugandan experience as an international flagship for participatory governance, economic growth, and approved debt disbursement. Uganda therefore is pivotal to the success of the much published polices (Nyamugasira & Rowden 2002). This paper will appraise Uganda's experience of the HIPC Initiative and draw out ideas on suitable enhancements that could be woven into the policy framework. This paper composes three sections. The first evaluates the HIPC Initiative by tracking Uganda's successful operation, and then questioning naïve assumptions commonly perceived. In section 2, the influence of the Initiative is viewed in relation to Uganda's business and economic conditions to see if improvements have occurred. Section 3 is used by the author as an opportunity to present recommendations for improving the HIPC Initiative. The paper concludes with a brief summary of its findings.

Section 1

Evaluation of the operation of the Heavily Indebted Poor Country (HIPC) Initiative in Uganda

a. The operation

Uganda has established a strong track record of economic management and policy reform. It was the first country declared eligible for such assistance in April 1997, and the first country to receive debt relief under the Initiative. Uganda's quick eligibility can be accredited to its design of a successful Pre-HIPC strategy[1]. It had built up a technical capacity to manage the complexity of the HIPC Initiative.

Throughout the construction and implementation of the Initiative, the government took proactive measures to facilitate communication with donors, NGOs, and civil society. Measures including:

- Establishing quarterly meetings with donors to discuss debt and macroeconomic issues
- Using Consultative Group meetings with the World Bank to present their views on enhancement
- Communicating their message and expressing gratefulness to NGOs and civil society.
- Constructive workings with the Bretton Woods Institutions[2].

Table 1: The operation of the HIPC Initiative in Uganda chronologically

Date	Description of occurrence	Explanatory criteria/achievement	Goal/Reward
1995-1997	Government of Uganda produced a Poverty Eradication Action Plan (PEAP)	Determined poverty-reduction priority areas for national budget	Reduce poverty from 44% in 1997 to 10% by 2017
1996	WB and IMF launch HIPC Initiative	Comprehensive effort to eliminate unsustainable debt	
April 1997	IDA & IMF Boards reach 'decision point' on Uganda's preliminary HIPC initiative documents	Considered eligible for assistance	Set a target for NPV of debt/export ratio in the range of 200 to 220 %
April 1998	Executive Boards determine a reaching of 'completion point'	External debt sustainability target for NPV of debt-to-exports ratio was within specified range	Granted US$347m of debt relief in NPV terms
Sept 1999	Enhancement of the HIPC Initiative framework by WB & IMF	Reassessment of Uganda's polices to enable benefits of enhancements	Designed to make the Initiative broader, deeper, and faster.

[1] Its first strategy was designed in 1991. It implemented a commercial debt buyback rescheduling at the Paris club and limited concessional loans (Kitabire 1999).

[2] The HIPC Initiative offered the government an important say in determining their debt relief needs, unlike traditional debt relief mechanisms. They worked hard to capitalise on this opportunity.

March 2000	Revised PEAR officially transformed into Uganda's PRSP	PRSP was necessary requirement for HIPC II	Speedy improvement for WB/IMF debt relief (approx $46m in 2000/01)
May 2000	Uganda reached 'completion point' under the enhanced framework	Framework strengthens the links between debt relief, poverty reduction and social policies.	Continued efforts toward social policy reforms- higher spending on social sector programmes like basic health and education
March 2001	IMF changed the name of its ESAF to the Poverty Reduction and Growth Facility (PRGF)	Remain based on PEAR/PRSP and to reflect broadened objectives	Function: to provide assistance on prudent macroeconomic polices
Sept 2002	Execute Board of IMF approves Uganda's three-year Poverty Reduction and growth facility (PRGF) arrangement	Accumulating a potential US$19m disbursement on successful completion	Intention of PRGF- to insure supports are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty
June 2003	IMF completes the First Review Under Uganda's PRGF Arrangement	Approves US$2.8m disbursement	
July 2003	Government of Uganda initiate the preparation of second revision of the PEAR (Its PRSP)	Intended to articulate the medium-term macroeconomic policy framework	
Dec 2003	IMF completes second review under Uganda's PRGF arrangement	Approves US$3m disbursement	
July 2004	IMF completes third review under Uganda's PRGF arrangement	Approves US$2.9m disbursement	
Feb 2005	IMF completes fourth review under Uganda's PRGF arrangement	Approves US$3m disbursement	

Source: This table was constructed using information from various IMF & IDA prepared papers[3]

Table 1 provides the key occurrences in Uganda's operation of the HIPC Initiative. The government's hard work has produced almost ten years of successful 'completion' criteria. Uganda has proven responsive to evolutionary policies of the IMF and World Bank; it has also been proactive in establishing poverty reduction measures. The Poverty Action Fund (PAF) was created to use debt-relief proceeds to supplement the government's education and health budgets. It has been able to increase expenditure in these and other priority areas.

b. An evaluation of the HIPC Initiative

At face value, it can be concluded that the HIPC Initiative in Uganda has been successful[4]. The remainder of this essay will provide a compressive evaluation of its operation and in doing so, offer a different perspective and alternative measurements of success (or lack thereof). The IMF and World Bank have a clear prescription for achieving economic growth in a country. It assumes neo-liberal instructions based on privatisation, liberalisation, and deregulation leading to higher economic growth rates, and that such higher growth rates will, in

[3] (IMF 1999, IMF 2001a, IMF 2001b, IMF 2005)

[4] Economic indicators also project good performance. Real GDP growth at market prices is estimated to have increased to about 6% in 2003/04 and inflation has been reduced to the low, single-digit rates that have prevailed for much of the 1990s (Ministry of Finance 2004).

turn, lead to poverty reduction (Nyamugasira & Rowden 2002). The following investigation questions critique policy prescriptions, regimented by the Funds, which may impair Uganda's ability to effectively realise its anti-poverty and growth goals.

1 Are the Funds using leverage to impose neo-liberal polices on a supposed 'national' PRSP?

The World Bank's PRSC and the IMF's PRGF are supposedly designed to support the goals of the PRSPs. There is controversy regarding macroeconomic polices, including targets for growth and inflation, and the thrust of fiscal, monetary, and external polices, as well as structural polices to accelerate growth, are subjects for public consultation" (IMF 2001a). Ugandan NGOs and CSOs claim they were invited to provide input on the development of the poverty-reduction goals, but not on the nature of the policies to achieve those goals. Many CSOs felt that the unspoken implication of this was that the neo-liberal policy framework contained in the so-called Washington Consensus was not up for negotiation because it was already decided this would not change. "Our own government officials would not allow us to diverge from the neo-liberal policies," explained Jane Halunga, Programme Coordinator for DENIVA; "they would say that we could not diverge from the existing policy framework because the donors would not accept it." Zie Gariyo, Director of the Uganda Debt Network (UDN), said "in many ways, participation in PRSPs is engineering consent for structural adjustment policies" (2001a). There is a clear divergence of opinion here and sadly there is also a resource dependency relationship whereby donors can leverage their policies into enforcement. It places the legitimacy of the policy framework and the integrity of the WB and IMF in doubt.

2 Do IMF policies lead to sustainable economic growth?

The 20-year track record of neo-liberal polices has been under fire from an ever-increasing body of research. The "dollar-Wall Street" economic regime, in place since the breakdown of the Bretton Woods regime, would say the core solution for lagging regions, Africa above all, is freer domestic and international trade, and more open financial markets, leading to deeper integration into the world economy (Wade 2004).

Prof. Dan Rodick, Harvard University, claims that the Bank is for the first time acknowledging that trade liberalisation may not be an effective instrument for stimulating growth (2001).[5] In light of these developments, the IMF and WB should not have continued to stipulate rapid trade liberalisation, and other traditional neo-liberal policies, in Uganda's new loan packages[6] (Nyamugasira & Rowden 2002).

Uganda has experienced fluctuating positive growth rates during the HIPC Initiative. But an exploration of Uganda's type of export production questions the sustainability of their economic growth. This will be explored further in later sections.

iii. Has the HIPC Initiative failed to encompass Uganda's commitments to the WTO and other loans?

The lending policy documents do not incorporate the risks and opportunities posed by Uganda's membership of the WTO or any bi-lateral and multi-lateral trading policy. IMF and World Bank loans prescribe that Uganda must privatise its key utilities and markets. The documents (for example, the World Bank's Private Sector Development (PSD) Strategy) emphasise that effective state regulation 'will eventually follow' in these sectors' markets. Yet close analysis of WTO rules clearly shows that Uganda will not be permitted to develop adequate regulation. Oxfam have documented "the relationship between the World Bank's proposed Private Sector Development (PSD) Strategy and the national PRSP process as unclear" (2001).

It is likely that WTO rules will restrict Uganda's ability to develop its key public services or provide state supports and regulations needed to effectively regulate its new private markets. This has been either overlooked or ignored in the development of Uganda's PRSP. The next section of this essay will look at the impact this has on business conditions.

Section 2

Has the HIPC improved the country's business and economic conditions?

To recap, the HIPC Initiative has brought about the establishment of Uganda's Poverty Action Fund (PAF), allowing gross savings from debt disbursement to be channelled into poverty reduction strategies. The Initiative has

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[5] Rodick cites the growth of China, India, Vietnam, and Indonesia, over the last two decades. Yet in these countries, the main trade reform took place about a decade after the onset of higher growth, a time when these countries' trade restrictions remained among the highest in the world.

[6] William Easterly from the World Bank called it 'puzzling' that poverty-reduction was indeed more successful in the prior two decades than in the last two under WB and IMF influence, and that per capita income growth rates had been much higher in the earlier period too (2001).

also enacted strategies dominated by the neo-liberal philosophy of decentralisation, liberalisation, and privatisation.

The following analyses will investigate economic and business conditions in Uganda affected by the HIPC Initiative, beginning with three economic indicators, then progressing to consider trade liberalisation, privatisation, and agricultural production.

1. Education

Since 1996/1997 education expenditures have increased to 2.5% of their national budget (from 1.5%) following the implementation of a new effort called the Universal Primary Education (UPE). Enrolment of primary school education immediately skyrocketed, more than doubling from approximately 2.5million to 6 million. This was possible following increases in resources made available by the donors, debt-relief proceeds from the Poverty Action Fund (PAF), and increases in domestic revenue (MSE 2001). Oxfam reported “Access to education has dramatically increased under the UPE program, [but] the ratio of pupils per classroom is still far from the targets included in the PRSP” (2001).

2. Sector Wide Approach Policy & The Health Service

A Sector Wide Approach Policy (SWAP) was instigated under the World Banks PRSC. This has aided efficiency gains through a focus on increasing technical, financial, accounting, and legal reforms within the sectors, but there has been a neglect of issues such as access and coverage. Within the health service, immunisation rates have dropped in Uganda since 1998, when the health sector reforms began. The World Bank’s Operations Evaluation Department (OED) has expressed serious concern that the focus on increasing sector efficiency may be occurring at the expense of expanding health coverage and access to those who need it most (Nyamugasira & Rowden 2002).

3. Water

The World Bank’s PRSC plans involve privatising the operation of Water Supply Sanitation Services Provision in urban centres, and having the services provided by management contracts with local or international private operators. Cross-subsidies had long been built into the price/tariff structure, designed so that wealthier customers could subsidise the costs for poorer users. The WB Water reforms ‘unbundled’ the sector’s provision, allowing private operators to select profitable service contacts and create market prices that the poorest citizens could not afford (Nyamugasira & Rowden 2002).

Trade liberalisation and Privatisation

The IMF and WB continually pursue further trade liberalisation as a condition of the PRGF and PRSC. This process, coupled with a stable political environment and strong economic performance, makes Uganda a top African foreign investment destination[7]. Most of the new FDI has been attracted by the continuing privatisation of telecommunications, and profitable sectors such as wholesale and retail, finance, and transportation (Strategies for financing Development 2004).

FDI has brought with it many negative externalities, resulting in a massive number of farms and enterprises (that have employed large portions of the population) being wiped out (hitting hard lower-skilled, lower-income people). Trade liberalisation has not been good for small and medium sized companies and infant industries due to a:

- Rapid influx of cheap goods due to premature liberalisation
- Lack of access to affordable credit
- Decline in incomes and purchasing power due to labour market and other adjustment measures
- Removal of government supports in line with WTO commitments including the elimination of price controls, abolition of marketing boards, reduction or removal of export taxes, and the elimination of import controls (SAPRIN 2001).

Privatisation is a pre-condition for WB and IMF loans regardless of the extent or effectiveness of public ownership in a particular country. State enterprises and services have increasingly been labelled as inherently inefficient, an obstacle to free competition, and a constraint to private-sector-led growth. In Uganda, foreign ownership increased as a result of privatisation, bringing to the economy advanced technology, investment capital, new knowledge, and products.

The changing conditions also brought disadvantages. Local industries have been obstructed from developing, and existing ones were crowded out. Strategic services have been placed under foreign control (electricity, water, telecommunications), therefore they now respond to interests of foreign capital and strategic considerations rather than to local needs (Nyamugasira & Rowden 2002). Their strategic considerations can prove volatile if they suddenly decided to relocate and lay off employees, causing serious local problems.

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[7] A survey result confirms that Uganda is now the 11th highest investment destination in Africa (Strategies for financing Development 2004).

Agricultural production

Massive coffee exportation has been the prime engine of Uganda's economic growth. Through continual investment, the industry has experienced growth in output. Uganda has a comparative advantage in coffee (and banana) production. In the liberalised international market that the IMF and World Bank seek to sustain, increased specialisation and commercialisation of economic activities in different locations is encouraged (Pender et al 2004). This general neo-classical approach guides Uganda to an export-led development model.

This theoretical underpinning seems flawed when faced with reality. In spite of increases in farm-gate prices, relative prices have not improved for producers. The terms of trade for food producers have fallen.[8] Uganda's PRSP document was concluded in 2000, the PRSC in April 2001, but by May, coffee prices had plummeted to a 20-year low, and by 2002, a 30-year low. Its reliance on primary commodity products makes it highly susceptible to world market prices. Basic cash crop production cannot lead to much value added nor make little headway in eradicating poverty.[9]

Section 3

What improvements can be suggested to the HIPC Initiative?

In the investigations of section one and two, various limitations and flaws in the HIPC Initiative have been brought to attention. The improvements this section suggests are based on these previous findings.

A new debt sustainability framework

The HIPC Initiative is limited due to blanket consistency and rigid rules across countries. It requires a fully coordinated approach to provide debt relief on an equitable basis across creditors and recipients. A further limitation is its function of addressing an existing debt overhang; it is not progressive.

A new debt sustainability framework was proposed and discussed by the Boards of the Fund and the Bank in Spring 2004. The new framework is intended

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[8] A rate of -2.3% terms of trade growth in 1990's (Easterly 2005).

[9] "Poverty in Uganda is predominantly a rural phenomenon, most intense outside the central region, and is most prevalent and intransigent among food crop framers, a majority of whom are women" (IMF & IDA 2000: 6).

to provide forward-looking guidance on new borrowing and lending decisions (IMF & IDA 2004). The proposed framework is designed to minimise the possibility of the build up of unsustainable debt by signalling to low income borrowers and creditors the appropriate financing terms that will keep debt indicators at manageable levels.

Overall, HIPCs welcome the proposed framework as it contains a more open-minded view of debt sustainability than that in the HIPC Initiative. However they envisage areas of concern[10], since its recommendations for setting clear but variable thresholds for debt sustainability are based on just one institution's method of judging country performance (Strategies for Financing Development 2004).

A suggestion I pose is that the IMF's & World Bank's exclusive roles as overseers of poverty reduction programmes in HIPCs should be downgraded to include the participation of other United Nations agencies, the WTO, bilateral donors, and all sectors of civil society, not just those hand-picked for PRSP participation. They should be fully brought into the entire process. A second suggestion I can make regarding the drawing up of a new framework is that an HIPC Initiative should not be conditional to privatisation. The decision on privatisation should not be based on narrowly defined measures of efficiency or profitability. Ownership forms should be based on each country's unique set of social, economic, political, and cultural circumstances that can best serve the developmental needs of that country. This will give governments the ownership discretion of basic utilities and social services in order to best ensure the provision of affordable, quality services to all fragments of the population. Nor should trade liberalisation be a condition for debt relief initiatives; "the only way Uganda will become independent of its current donor dependency is to develop its own domestic economy with selective and strategic supports not different than those used successfully by the industrialised countries" (Nyamugasira & Rowden 2002: 6).

100% debt cancellation should be completed and extended

This suggestion has not been left to last because of any lesser significance; in fact this is the suggestion I recommend most strongly. It diminishes the IMF's and World Bank's leverage power to enforce their neo-liberal polices on HIPCs. I suggest all debts owed by HIPC countries be written of, with no conditions, and the list of eligible countries be extended, thus making

[10] HIPCs would like the proposals expanded to take shocks, absorptive capacity, and debt management into account more objectively, and set thresholds for other types of debt, to help them chart a clearer path towards long-term debt sustainability (Strategies for Financing Development 2004).

redundant the term ‘HIPC.’ In Uganda, like almost all HIPCs, the people being forced to pay back loans are not the people who prescribed for the money or received its benefit. Debts have been socialised and those with power have privatised the profits.

The end of 2004 saw the start of a major new push for debt relief for HIPCs and other low-income countries. G7 finance ministers’ meeting on 5th Feb 2005 said that “as much as” 100% of their multilateral debts should be forgiven (The Economist Feb 12th 2005). The current push is lead by UK Chancellor Gordon Brown. He announced a new debt relief initiative in which the UK will unilaterally pay its share of debt service to IDA and the African Development Fund of post-completion point HIPCs and several other low-income countries. It encourages other G7 members and creditors to take similar action. Further debt service can be implemented if the IMF sells more of its gold reserves. One of the greatest benefits of this recommendation is that HIPC debt relief could be de-linked from the PRSP process. This would give nationals true ‘ownership’ of their poverty reduction goals and frameworks without an explicit connection with macroeconomic polices.

Conclusion

The aim of the HIPC Initiative has been to insure no poor country faces a debt burden it cannot manage. After nearly a decade of operation in Uganda, the country still has an unsustainable debt burden. Positive influences of the Initiative include substantial debt disbursement and the establishment of the Poverty Action Fund (PAF), which has successfully supplemented government education and health budgets using debt-relief proceeds. But on a negative side, the IMF/World Bank enforced neo-liberal policies have not brought sustainable development to the economy of Uganda nor support to the country’s poverty reduction goals. An amended policy framework allowing greater national sovereignty can, in my opinion, bring substantial improvements. But the greatest improvement is complete debt forgiveness for controversial loans.

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