The HIPC Initiative and its Effects on the Family

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I. Introduction

Though there has been substantial success in improving the economic and social conditions in many of the world’s developing countries, it is still necessary to see how further improvements can be made and expanded to all countries in need. Furthermore, it is essential for these measures to be extremely effective in fostering stable economic growth and poverty reduction.

One influential tactic in addressing the debt problem and the promotion of sustainable economic growth in these countries has been the Heavily Indebted Poor Countries (HIPC) Initiative, which was first created in 1996. This paper seeks to examine the effectiveness of this comprehensive approach to debt relief and development by taking into consideration the fact that a key factor for sustainable economic growth is the family. Because of the importance of the role of the family in gaining sustainable economic development, it is imperative to study the impact of the HIPC Initiative on the family. The support and promotion of a health family will help countries that want to escape debt and undergo sustainable economic growth. The aim is to see if the Initiative is effectively supporting economic growth through support for changes and aid that are beneficial for the family.

Debt relief actions before the Initiative will be described briefly in the remainder of Section I in order to show why the Initiative was created. Section II will examine the structure of the Enhanced HIPC Initiative, which was created in 1999. The effects that the role of the family has on economic growth through the promotion of human, moral, and social capital, will be presented in Section III. The impact of the Initiative in bringing about economic growth and development will be examined in Section IV and, in order to determine if it has been successful, its successes and flaws will be examined. Criticism and suggested alternatives will be examined in Section V.

1) Debt Relief Efforts before the HIPC Initiative

Several countries, especially in Latin America and Africa, were thrown into a state of severe indebtedness\(^1\) due to an array of factors. International factors included the

\(^1\)“Severely indebted” is defined by the World Bank Group as either the present value of debt service to Gross National Income or present value of debt service to exports exceeding the critical level, 80% and 220%, respectively. http://www.worldbank.org/data/countryclass/countryclass.html.
worldwide economic crises in the 1970s and 1980s, particularly the oil price shocks, high interest rate, recessions in industrial countries, and the weak commodity prices. The domestic factors sending poor countries into their state of remarkable debt included high trade deficits, domestic budget deficit, and low savings that exposed countries to the external shocks. Also, internal instability such as protracted civil wars, weak economic policies, poor governance, and erratic weather patterns contributed to the build-up of debt in some countries.

In 1982, several Latin American countries defaulted on the payment of the hundreds of billions of dollars of debt, which was partially the result of high interest rates and low commodities prices. The economies of many of these countries relied on commercial bank financing. The continual debt rescheduling and the resulting perception of countries as not having acceptable credit ratings led to economic stagnation throughout the decade. During this time, voluntary international credit and capital flows to these nations and their private sectors dramatically declined.

Although concessional lending from the international community has played a central role with regard to debt, repeatedly most poor countries still have not been able to meet their debt obligations. In the 1980’s, creditors attempted to devise a strategy to ease up on the terms of repayment for these poor countries, including the continuation of concessional relief. Following the debt crisis of the 1980s, the international financial community began offering aid to countries in debt in order to reduce their external debt burdens in the hopes to “foster growth, reduce poverty, and attain external viability.” Although certain measures were taken to combat this crisis, some of which were relatively successful in alleviating the external debt burdens of middle-income countries, many poor countries remained in unacceptable levels of poverty and held heavy external debt burdens.

One attempt to aid the least developed countries at the end of the 1980’s was the

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2 For a concise summary of events: see Trade Association for Emerging Markets website at www.emta.org.
3 Concessional lending is a form of debt alleviation provided by creditors through low-interest loans.
4 For the purpose of this paper, a person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs. Countries are poor if a majority of their population lives at this level. This definition is the one followed by the World Bank.
5 Andrews et al. (1999), 2.
6 A country is considered middle-income if Gross National Income per capita is between US $750 and $9250.
Brady plan. Under this plan, bank creditors grant debt relief in exchange for principal and interest collateral as forms of increased assurance of the collection of payment. Also, the plan called for a link to be created between debt relief and the assurance of economic reform. The plan also aimed for the resulting debt to be more highly tradable, meaning that it would enable creditors to vary and expand their financial and investment risks. The Brady Plan was partially successful because it allowed the participating countries to negotiate substantial reductions in their overall levels of debt and debt services. The Brady Plan succeeded in diversifying sovereign risk away from commercial bank portfolios more widely throughout the financial and investment communities. Also, the plan encouraged many countries to adopt and pursue ambitious economic reform programs. The Brady Plan could be seen as a success on some level because it enabled many countries to regain access to the international capital markets. However, it was still unable to solve the major debt problems in many of the struggling countries.

Another debt relief measure was devised in 1994 under the Paris Club. The terms of debt relief devised at this time by the organization were labeled Naples Terms. One aspect of these terms was that they proposed the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. For the most indebted countries, the level of cancellation was set at least 50% and could be raised to 67% of eligible non-ODA credits. The debt was rescheduled at an interest rate at least as favorable as the original concessional interest rate applying to these loans. This rescheduling aimed to result in a reduction of the net present value of the claims, as the original concessional rate aimed to be smaller than the appropriate market rate.

Even though these procedures and plans were enacted with substantial success, not

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7 An adequate summary provided by the Trade Association for the Emerging Markets (EMTA), a trade group for the Emerging Markets trading and investment community dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to helping integrate the Emerging Markets into the global capital markets.

8 “The Paris Club is an informal group of official creditors whose role is to find co-coordinated and sustainable solutions to the payment difficulties experienced by debtor nations”, as defined by the organization itself.

9 Bilateral creditors, comprised of Paris Club and Non-Paris Club members, are single countries providing debt relief to another country. They differ from multilateral groups in that they are neither formed of nor funded by a group of countries providing debt relief.

10 Official Development Assistance (ODA) lending includes, as well as straightforward loans, loans repayable in kind, and eligible loans in Associated Financing packages, according to the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee.
all countries were able to get back on a good economic track. Some of the causes for the failures of some countries, even with these aiding plans intact, were factors external to the plans. Such issues included imprudent external debt-management policies, lack of perseverance in structural adjustment and economic reform, deterioration of trade, and poor governance.\textsuperscript{11}

It was not only the efforts of bilateral and multilateral creditors that attempted to get countries out of extreme indebtedness and poverty. Further donations were obtained through different foundations as well. The Ford, Rockefeller, MacArthur, Hewlett, and Mellon Foundations each contributed between $10 million and $30 million for population activities in 1996.\textsuperscript{12} The Packard Foundation announced in November 1998 that it planned to give more than $300 million to international population and reproductive health programs over the next five years. The United Nations Foundation gave over $12 million to various reproductive health and women’s empowerment projects, including several for adolescent reproductive and sexual health in its first year of grants. William H. Gates Foundation, which aims to fund that which will improve global health and education, has contributed $1.7 million for specific use by UNFPA to support collaboration among developing countries.\textsuperscript{13} Another $20 million was earmarked to support developing countries in reproductive health. Although it was good that these countries were receiving additional and private assistance, these allocations were unable to help countries escape poverty because they promoted social changes which do not make significant improvements in the living or economic conditions of these poor countries.

2) Heavily Indebted Poor Countries (HIPCs)

The countries that continued to have unsustainable debt even after the enactment of the aforementioned debt relief actions came to be referred to as Heavily Indebted Poor Countries (HIPCs).\textsuperscript{14} The central paradox of these countries is that they became heavily indebted after the two decades of partial debt relief and concessional lending. The debt remaining thereafter created and continues to pose a profound threat to the achievement of

\textsuperscript{11} Andrews et al. (1999).
\textsuperscript{12} UNFPA, State of the World Population 1999. Chapter 5 “Finding the Resources”.
\textsuperscript{13} Ibid.
\textsuperscript{14} Definition of HIPC provided by the World Bank and the IMF.
the international development targets set for 2015. These targets, known as the Millennium Development Goals, include:

1. **Eradicate extreme poverty and hunger**
   - Reduce by half the proportion of people living on less than a dollar a day
   - Reduce by half the proportion of people who suffer from hunger

2. **Achieve universal primary education**
   - Ensure that all boys and girls complete a full course of primary schooling

3. **Promote Gender Equality and Empower Women**
   - Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

4. **Reduce child mortality**
   - Reduce by two thirds the mortality rate among children under five

5. **Improve maternal health**
   - Halt and begin to reverse the spread of HIV/AIDS
   - Halt and begin to reverse the incidence of malaria and other major diseases
   - Reduce by three quarters the maternal mortality ratio

6. **Combat HIV/AIDS, malaria and other diseases**
   - Halt and begin to reverse the spread of HIV/AIDS
   - Halt and begin to reverse the incidence of malaria and other major diseases

7. **Ensure environmental sustainability: land and air**
   - Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources
   - Reduce by half the proportion of people without sustainable access to safe drinking water
   - Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

8. **Develop a global partnership for development: development assistance and market**
   - Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally
   - Address the least developed countries’ special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction
   - Address the special needs of landlocked and small island developing States
   - Deal comprehensively with developing countries’ debt problems through national and international measures to make debt sustainable in the long term
   - In cooperation with the developing countries, develop decent and productive work for youth
   - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
   - In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies

The existing threat to the accomplishment of these goals may lead some to assume

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15 The Millennium Development Goals commit the international community to an expanded vision of development, promoting human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. See http://www.developmentgoals.org/About_the_goals.htm.

that the factors that lead to such high debt are long enduring and not easily allocated by debt relief alone.  

The World Bank currently identifies thirty-eight HIPC countries globally: Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros Islands, Republic of Congo, Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Lao People’s Democratic Republic, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, São Tomé Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, and Zambia. Figure 1 displays the location of these countries around the world. It is easily seen that Africa displays the greatest concentration of the HIPCs.

Figure 1. Location of the HIPCs

3) The creation of the HIPC Initiative

Due to the ineffectiveness of previous plans of action, a new debt relief program was formulated for the HIPCs in 1996, under the leadership of the IMF and the World Bank. This plan, labeled the HIPC Initiative, was the first international response to provide comprehensive debt relief to the world’s poorest, most heavily indebted nations. It broke

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new ground by planning to reduce multilateral debt, helping countries exit from endless debt restructuring to lasting debt relief, and removing the debt overhang for countries that pursue economic and social reform targeted at measurable poverty reduction. The original HIPC Initiative represented an important step forward in placing debt relief with an overall framework of poverty reduction.

Under this plan, eligibility criterion for debt sustainability targets was set at 200-250% of the present value of debt to the export level of goods and services. There also existed the sub-criterion that the ratio of the export of goods and services to GDP must be at least 40%. The countries that qualified for the original HIPC debt initiative were those that were only eligible for highly concessional assistance from the International Development Association (IDA), the part of the World Bank that lends on highly concessional terms, and from the IMF’s Poverty Reduction and Growth Facility (PRGF). Also, countries that faced an unsustainable debt situation even after the full application of traditional debt relief mechanisms, such as the Naples terms under the Paris Club agreement, qualified for aid under the Initiative.

- **Principles of The HIPC Initiative 1996**

The Initiative aimed to target overall debt sustainability on a case-by-case basis, thus hoping to realize a permanent exit from the rescheduling process. One of the most important aspects of the 1996 HIPC Initiative was that for the first time in their fifty-year history, the debts of the World Bank and the IMF were included for write-off under the plan. Normally, these institutions were considered preferred creditors, and debts to them were always repaid first by debtor countries. Also, it planned to have creditors begin providing debt relief only after the debtor country has demonstrated the capacity to use the

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20 Net Present Value of debt is defined as the sum of all future debt-service obligations on existing debt, namely interest and principal, discounted at the market interest rate.
21 “Debt Relief for Sustainable Development” (World Bank 2002).
22 The International Development Association (IDA) is the part of the World Bank that helps the earth’s poorest countries reduce poverty by providing interest-free loans and some grants for programs aimed at boosting economic growth and improving living conditions. For better description see <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,pagePK:118644~theSitePK:73154,00.html>
23 In September 1999, the IMF established the Poverty Reduction and Growth Facility (PRGF) to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries.
granted relief prudently.\textsuperscript{24}

One of the principles behind the creation of the HIPC Initiative is that excessive debt is an impediment in order to achieve sustainable economic growth as well as the reduction of poverty. Also, the planners of the Initiative assumed that cutting a country’s debt to a controllable level can help put it on its way to maintaining a sustainable amount of debt, provided that HIPC assistance is complemented by extensive reforms.\textsuperscript{25} Examples of these types of reforms will be mentioned later in Section IV of this paper.

Another founding principle is that additional debt relief would be granted on top of existing traditional debt-relief mechanisms, such as funding and debt-reduction measures taken by groups in the past, as aforementioned in this paper. The debt relief measures under the 1996 Initiative were coordinated among all creditors involved, with broad and equitable participation. The steps taken by multilateral creditors had to be in line with their status as preferred creditors and preserve their financial integrity.\textsuperscript{26} The Initiative was also based on the principle that new financing for HIPCs was on appropriate concessional terms.

\section*{II. The Enhanced HIPC Initiative}

In 1999, the G-7 summit as well as the meeting between the World Bank and the IMF came to an agreement that the HIPC Initiative should be expanded in order to increase the number of eligible countries. This posed a cost increase from US $12.5 billion to US $27 billion.\textsuperscript{27} This new approach hoped to ensure greater country ownership enhanced by civil society participation in policy formation and monitoring.\textsuperscript{28}

One of the improvements to the Original Initiative is an aim for deeper and broader relief, integrating anti-poverty measures in a coherent macroeconomic framework. Thus, the Enhanced Initiative plans to create a stronger link between debt relief and poverty

\begin{thebibliography}{99}
\bibitem{24}Andrews et al. (1999).
\bibitem{25}As provided by the IMF’s “Heavily Indebted Poor Countries Initiative Fact Sheet.” March 2003.
\bibitem{26}Ibid.
\end{thebibliography}
reduction. Another improvement to the original framework is an increase in the speed at which relief is given to the HIPCs, thus causing a number of creditors to begin to provide interim debt relief even earlier than they had before. The IMF and World Bank, when reconstructing the HIPC Initiative, presumed that debt relief amounts would be ample, that all amounts not paid on debt servicing would be available for debt relief, and that the resources released would be allocated in order for that country to meet the international development goals, which have been mentioned earlier in this paper.

The Enhanced Initiative, as it is often called, was planned in order for it to be implemented in accordance with the principle that debt relief is to be additional, and that financing for such relief is not to compromise other transfers of resources to poor countries. Also, the financial integrity of multilateral financial institutions was another imperative mentioned by the IMF. The cost sharing of the Enhanced Initiative was to be on a broad and equitable basis, meaning that the cost of this framework would be divided fairly.

In order to understand the nature of the Enhanced HIPC Initiative, it must be made clear that the debt of these countries is not entirely written off. The World Bank and IMF are not actually writing off their losses; in place of total debt forgiveness, these institutions offer partial forgiveness through a restructuring of the debt. These institutions claim that, “forgiving or reducing debt would diminish assurances of repayment on new lending, and, in some cases, hurt their credit ratings.” Instead of placing their credit standing in jeopardy, the IMF and World Bank have created a separate lending facility, the HIPC Trust Fund, which is managed by the World Bank. One element of the Trust Fund is for the funds provided to go toward the reimbursement of International Development Association (IDA) for HIPC debt relief, which results from transfers from the World Bank's net income. Under the debt relief plan for HIPCs, bilateral and multilateral creditors raise funds to pay for debt reduction. These funds are channeled through debtor countries in order to pay back old multilateral debts. A second component of the Trust Fund is to support the debt relief being provided by eligible regional and sub-regional multilateral

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31 Andrews et al. (1999).
33 The International Development Association is the concessional lending arm of the World Bank.
creditors with donor contributions. However, it cannot be automatically assumed that these countries will automatically experience economic growth due to the provision of funds. “Poor spending decisions, corruption, and economic policies that undermine opportunities for growth frequently negate the benefits of loans and investment.” Poorly utilized funds makes the problems of low-income countries worse even though assistance may be well intentioned. The Initiative for the HIPC s was configured in order to restore the ability of a debtor country to repay its loans by providing debt relief that will bring the debt to a sustainable level. Under the Enhanced HIPC Initiative, countries must first begin adjustment programs before receiving debt reduction and become eligible for further lending.

The Enhanced Initiative plans to build on the existing methods for providing debt relief and is offered to all qualifying countries, including those who had progressed through the first Initiative. The Enhanced Initiative’s effectiveness relies heavily on its ability to foster the continued implementation of policies necessary to reduce poverty and achieve sustainable development. This incorporates the need for sturdy macroeconomic policies and structural reforms, which, according to the IMF, includes strengthening the focus on problems of governance, accelerating reform of the public sector, and liberalizing trade, exchange, and financial systems. The IMF also calls for prudent debt management in the HIPC s under the Enhanced Initiative, which is to be reinforced by restraints by industrial countries on non-concessional lending. This organization also asserts that such management is vital for an enduring exit from the burden of unsustainable debt.

1) Eligibility

In order for a country to be eligible under the Enhanced Initiative, it must qualify for loans from the International Development Association as well as from the Enhanced Structural Adjustment Facility. Both of these groups have supposedly established strong

34 Schaefer (2000).
35 A sustainable level of debt is a level at which the country is considered able to make debt payments.
36 Ibid.
37 The Enhanced Structural Adjustment Facility was a tool used to provide financial assistance on concessional terms before the creation of the Enhanced HIPC Initiative, which created the PRSP and PRGF mechanisms. Further information on the ESAF can be found at <http://www.imf.org/external/np/exr/facts/esaf.htm>
track records with IMF and World Bank programs. In order to qualify for assistance, an eligible country begins macroeconomic reform and structural adjustment programs with concessional financing. This requirement was put into place in order to ensure that countries can and will use their resources efficiently. From Paris Club creditors, countries receive flow-reschedulings on Naples terms. This is done as part of international support provided to a country experiencing debt-servicing difficulties and is pursing an adjustment program supported by an arrangement with major creditors.

- **Debt Values for Eligibility and Relief**

  For eligibility and debt relief, certain conditions are to be met. One in particular is the net present value of debt. When the interest rate on a loan is less than the market interest rate, the resulting net present value of debt is less than its face value. The difference between this new value and the face value reflects the grant element.

  Under the Enhanced Initiative, a single present value ratio of debt-to-export target was set to 150% as opposed to the original range of 200-250%. This ratio represents the net present value of outstanding public and publicly ensured external debt at the end of a period as a percent of exports of goods and services. The fiscal target of net present value of debt to revenue was lowered from 280% to 250%, with the eligibility thresholds of export-to-GDP ratio at 30% and 15% for the revenue-to-GDP ratio. Table 1 summarizes the 1996 and 1999 criteria for eligibility.

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38 Refer to the Section I of this paper, footnotes 2–9, regarding past debt relief measures, for an explanation of the Paris Club and Naples Terms.
39 Net present value of debt has been defined earlier in this paper as the sum of all future debt-service obligations on existing debt, primarily interest and principal, discounted at the market interest rate.
41 Ibid.
Table 1

Eligibility Criteria for the Original (1996) and the Enhanced (1999) HIPC Initiatives

<table>
<thead>
<tr>
<th>Criterion Ratios</th>
<th>1996 Requirement</th>
<th>1999 Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV Debt to Exports</td>
<td>200-250%</td>
<td>150%</td>
</tr>
<tr>
<td>NPV Debt to Revenue</td>
<td>280%</td>
<td>250%</td>
</tr>
<tr>
<td>Export to GDP</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Revenue to GDP</td>
<td>20%</td>
<td>15%</td>
</tr>
</tbody>
</table>


The IMF notes that although debt relief under the Enhanced HIPC Initiative will eliminate a major obstacle in the path of poor countries that aim for poverty reduction and growth, it is not a panacea. Without renewed growth, many of these countries may “once again fall into a debt trap.” Thus, although it is important to free up the debt owed by these poor countries, the Fund notes that it cannot be the only step taken if poverty reduction and a permanent exit from debt is to be achieved.

2) Decision and Completion Points

The Executive Boards of the World Bank and the IMF are responsible for determining the eligibility of a country for assistance under the Enhanced HIPC Initiative. The Boards look at the results of a comprehensive debt sustainability analysis and assess whether the full application of debt-relief mechanisms would be sufficient for the country to reach target levels of debt indicators. When a country is approved for assistance under the HIPC Initiative, it is said to have reached its decision point. To reach this point usually involves three years of a good track record under structural and economic adjustments, as determined by the IMF and World Bank. These kinds of changes include economic stabilization programs, public sector reforms, and reorientation of public

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43 Andrews et al. (1999).
spending toward poverty reduction, health, education, and pro-poor growth. At the
decision point, creditors commit to providing sufficient amounts of debt relief to ensure
that the countries’ debt is reduced to sustainable levels, although the debt is not yet
cancelled. Upon achieving the decision point, a country may begin to receive “interim
relief”.

The next step in the process is for a country to reach its completion point. The
completion point is “the point at which the country concerned receives the bulk of its
assistance under the HIPC Initiative, without any further policy conditions.” At this
point, creditors under the Enhanced Initiative commit debt relief irrevocably. In order to
accomplish this, a country must complete yet another period of adequate performance
under the IMF and World Bank adjustment programs. Adequate performance depends on
two things in particular, one of which is the country’s implementation of vital structural
reforms included in the Poverty Reduction Strategy Paper (PRSP), which is agreed to in
advance. Another important requirement for the country to progress through the Enhanced
 Initiative is that during this record period, the country must also exhibit considerable
economic stability.

Under the Enhanced Initiative, countries for which existing mechanisms would not
achieve debt sustainability at the decision point will receive assistance under the HIPC
Initiative starting at the decision point. In contrast to the original framework, where debt
reduction was calculated on projections of debt stock at the completion point, relief under
the Enhanced Initiative is committed based on actual data at the decision point. This
modification increases certainty to the calculations and most likely increases the amount of
relief actually provided in some cases, since most countries reduce their net present value
debt-to-export and debt-to-revenue ratios between their decision and completion points.

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44 World Bank Group, “Debt in Developing Countries: Emerging Challenges,” World Bank Group, 2004,
%257epagePK:64003015%257epiPK:64003012%257etheSitePK:4607,00.html> (13 December 2004).
<www.imf.org/external>
46 Ibid.
47 Andrews et al. (1999).
48 IMF, April 2004 “Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative. A factsheet.”
<www.imf.org/external>
50 See footnote 34.
The benefits of export and central government revenue will ideally accumulate fully to the country, allowing for greater investment in poverty reduction strategies.\textsuperscript{51}

\subsection*{3) Poverty Reduction Strategy Papers}

Poverty Reduction Strategy Papers (PRSPs) are country-driven papers developed transparently with broad participation of elected institutions, stakeholders, donors, and regional banks. National authorities, in conjunction with the IMF and the World Bank, prepare these papers. PRSPs must include outcome indicators, which can be monitored, and have connection with International Development goals of 2015.\textsuperscript{52} These papers are developed in order to provide the basis for all lending to low-income countries and to replace current policy framework papers.

The origins of PRSPs lie within the civil society movements of the late 1990s. These movements forced the issue of debt reduction onto the agenda of the international community. One of the more profound movements was the Jubilee 2000 human chain around the Birmingham G8 meeting; the group called not only for debt relief but also for the release of resources for the eradication of poverty.\textsuperscript{53}

The official launch of PRSPs at the annual meetings of the World Bank and IMF in September 1999 marked a significant event in the relation between the international financial institutions and developing nations. Soon after the PRSPs were incorporated into the HIPC Initiative, the World Bank and IMF stated that these debtor countries “armed with poverty-reduction strategies...become masters of their own development, with a clearly articulated vision for their future and a systematic plan for achieving their goals.”\textsuperscript{54}

PRSPs, when originally constructed, were to embrace a high level of participation by civil society along with a significant amount of national ownership. The proper authorities develop the PRSP of a country by collaborating with the World Bank, IMF, and other multilateral institutions and donors. The cooperation of these groups aims to outline the country’s strategy for poverty reduction. This planning is to make certain that

\textsuperscript{51} “Debt Relief for Sustainable Development: The HIPC Debt Initiative” World Bank, 1999.
\textsuperscript{52} These goals have been aforementioned in Section I of this paper and are also known as the Millennium Development Goals.
participation is broad-based and transparent in the selection of goals, the creation of policies, and the monitoring of performance, with ownership by the government.\textsuperscript{55} Since PRSPs are to be drafted by national governments, originally as interim-PRSPs and then later as comprehensive full PRSPs, this encompasses the concept of national ownership. Also, as laid out in the original PRSP plan, donors are to adopt the new strategies as their guidelines for providing aid as well as in lending. It is the responsibility of the governments to focus on the use of national resources and energy toward poverty reduction.

The erosion of the state that has accompanied structural adjustment worsened many of the problems that existed in the HIPC.\textsuperscript{56} Moral capital was restricted because privatization\textsuperscript{57} created an ample environment for corrupt practices, once fiscal restraint drove away competent government staff and kept the wages for these positions low. In certain areas, Latin America has highlighted the growing corruption that has plagued some areas of economic reform, such as privatization.

The PRSP of a country is ideally supposed to guarantee that its macroeconomic, structural, and social policies are consistent with the goals of poverty reduction and social development.\textsuperscript{58} Also, these papers are to be endorsed by the Executive Boards of the World Bank and the IMF as the outline for the loan operations by each institution and as the basis for support by donors. According to the IMF, the key factor for the transformation into the Poverty Reduction and Growth Facility is to base future lending to low-income countries on the comprehensive, nationally owned, and goal-oriented poverty reduction strategy encompassed in the PRSP.\textsuperscript{59} The IMF claimed greater emphasis is to be placed on full transparency as well as effective monitoring of government budgets and the efficiency of social expenditures.

From past measures, it has been conceived that education, primary health care, and resources for income generation can have a profound impact on poverty reduction at the local level. When grouped with economic stability, good income distribution, and stable

\textsuperscript{55} Andrews et al. (1999).
\textsuperscript{56} Ibid.
\textsuperscript{57} Privatization takes place when the government shifts the production of a good or the provision of a service to the private sector directly through contracting out or through voucher systems and similar backdoor movements.
\textsuperscript{58} Andrews et al. (1999).
\textsuperscript{59} Ibid.
aid flows, these factions may have the ability to lay the foundations for economic and social progress. The real significance of the PRSP approach lies within the opportunity that it brings to the poor, not the heavily political investment by the IMF and World Bank. Previous development has been hampered by a failure to understand the role of the poor, the human capital of developing states, in the formation of sustainable economic growth.  

Thus, it has been emphasized on numerous accounts that the improvement of the human condition must be the ultimate end of development.

4) Comprehensive Development Framework

In a 1998 annual meeting of the World Bank, the Bank’s president James D. Wolfensohn called for an integration of the approach for aiding developing countries. Wolfensohn suggested the need for development to focus on a framework designed and ‘owned’ by the county itself; these ideas were formed into a plan that came to be called the Comprehensive Development Framework (CDF). The CDF approach, which functions through PRSPs in poor countries, aims at providing the common foundation for applying the partnership between developed and developing countries for the improvement of poverty reduction measures at the country level. Wolfensohn asserted that one of the reasons that such a framework was necessary was to allow for more strategic thinking about the sequencing of policies, programs, and projects as well as to consider the pacing of reforms. In his proposal, he planned out a possible framework addressing the structural, social, and human aspects of development.

Structurally, this trial framework stated that a country must have an educated and well-organized government, an effective legal and justice system, and a well-organized and supervised financial system. Also, the framework called for a social safety net and social programs. Wolfensohn noted that provision for the elderly, the disadvantaged and disabled, for children, for men and women unable to find work, and those stricken by natural disasters and the aftermath of war was imperative. The World Bank president also stated that traditional institutions and relationships are often destabilized in the

60Ibid, 12.
development process, which weakens many of the bonds that hold a society together. This vicious cycle must be addressed in order to ensure effective development and re-establish a sense of community in a particular society.

The human aspects of development that the CDF addresses are education institutions and issues on health and population. Reform of education, viewed as “the single most important key to development and poverty alleviation” by Wolfensohn, must start with universal primary education as well as an open and competitive system of secondary and tertiary education. The World Bank president also stated that developments in science, technology, and knowledge transfer could help struggling countries attempt to improve in order to someday be at the level of those that are more technologically advanced. With regard to health issues, the president of the World Bank emphasized that the capacities of women and children to aid in the development of their country diminishes if they are not provided with adequate health care. Governments should ensure the provision of health services for adults and elderly at the local level as well as services for family health care. These aims reflect the desire to harbor the growth of human, moral and social capital, fundamental conditions for sustainable economic growth, which will be addressed later in this paper.

The international community, according to the World Bank, has accepted many of the principles of the CDF as foundations for reducing poverty and achieving sustainable development. The objectives of eliminating poverty, reducing inequity, and improving opportunity for people in low-income countries are incorporated into the approach of the CDF. The interdependence of the social, structural, human, governance, environmental, economic, and financial elements of development are emphasized by the CDF. The framework supports a holistic long term strategy with the country as the foremost owner and director of the plans for development, and the World Bank, IMF, and other partners supporting in their respective business proposals. The CDF also advocates for the partnerships among governments, donors, civil society, the private sector, and other development stakeholders to be stronger. In order to attempt to guarantee improved

63 Ibid, 14.
65 Ibid.
practical success in the reduction of poverty, the CDF will try to support a transparent focus on the outcomes of development.

5) Eligibility Results

As of November 2004, twenty-seven countries are receiving debt relief under the Enhanced Initiative; fifteen of these countries reached their completion points and thus receive their relief irrevocably. The remaining twelve that are in between the decision and completion points are receiving interim debt service relief. There still remain eleven countries that qualified for aid under the Initiative, but have failed to reach their decision points due to persistent social difficulties such as continual internal civil strife, cross-border armed conflict, governance challenges, as well as their substantial debt problems. Table 2 presents the countries that have reached their decision and completion points and the amount of debt relief that has been committed to that particular country by the major creditors.

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The IMF claims that its debt relief in the interim period, which is the period between decision and completion points, lowered debt-service ratios immediately after the

<table>
<thead>
<tr>
<th>Country</th>
<th>Year Reached Decision Point</th>
<th>Year Reached Completion Point</th>
<th>Amount Debt Relief Committed (in millions of US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>2000</td>
<td>2003</td>
<td>460</td>
</tr>
<tr>
<td>Bolivia</td>
<td>2000</td>
<td>2001</td>
<td>854</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>2000</td>
<td>2002</td>
<td>930</td>
</tr>
<tr>
<td>Cameroon</td>
<td>2003 *</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>2001*</td>
<td></td>
<td>260</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>2001</td>
<td>2004</td>
<td>1,930</td>
</tr>
<tr>
<td>The Gambia</td>
<td>2000 *</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>Ghana</td>
<td>2002</td>
<td>2004</td>
<td>3,700</td>
</tr>
<tr>
<td>Guinea</td>
<td>2000 *</td>
<td></td>
<td>800</td>
</tr>
<tr>
<td>Guinea Bissau</td>
<td>2000 *</td>
<td></td>
<td>790</td>
</tr>
<tr>
<td>Guyana</td>
<td>2000</td>
<td>2003</td>
<td>590</td>
</tr>
<tr>
<td>Honduras</td>
<td>2002 *</td>
<td></td>
<td>690</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2000</td>
<td>2004</td>
<td>1,500</td>
</tr>
<tr>
<td>Malawi</td>
<td>2000 *</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Mali</td>
<td>2000</td>
<td>2003</td>
<td>895</td>
</tr>
<tr>
<td>Mauritania</td>
<td>2000</td>
<td>2002</td>
<td>1,100</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2000</td>
<td>2001</td>
<td>4,300</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>2000</td>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>Niger</td>
<td>2000</td>
<td>2004</td>
<td>900</td>
</tr>
<tr>
<td>Rwanda</td>
<td>2000 *</td>
<td></td>
<td>800</td>
</tr>
<tr>
<td>Sao Tome &amp; Principe</td>
<td>2000 *</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Senegal</td>
<td>2000</td>
<td>2004</td>
<td>850</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2002 *</td>
<td></td>
<td>950</td>
</tr>
<tr>
<td>Uganda</td>
<td>2000</td>
<td>2000</td>
<td>1,950</td>
</tr>
<tr>
<td>United Rep. of Tanzania</td>
<td>2000</td>
<td>2001</td>
<td>3,000</td>
</tr>
<tr>
<td>Zambia</td>
<td>2000 *</td>
<td></td>
<td>3,850</td>
</tr>
</tbody>
</table>

Source: IMF & IDA. Heavily Indebted Poor Countries (HIPC) Initiative (info as of November 2004)

* Countries in the interim period, the period between their decision and completion point, received aid from Paris Club debt relief as well as from several multilateral creditors under the HIPC Initiative
decision point. Data in a 2003 report by the IMF and the IDA claim that HIPC relief given to eligible countries since 1998 has been additional to other forms of external financing assistance. In 2003 the IMF projected debt stocks to fall from US$77 billion before traditional relief to US$32 billion following the full delivery of such relief as well as assistance under the HIPC Initiative; it also expects the stock to fall even further, by about US$26 billion, after additional bilateral relief is committed to these countries from a number of creditors.

At present, the HIPC Initiative framework has provided countries debt relief, which will total approximately US$54 billion over time. This amount, according to the World Bank, is divided roughly evenly between bilateral and multilateral creditors. Of this, the World Bank’s and the IMF’s contributions are estimated to be US$10.8 billion and US$5.2 billion, respectively. Also, donors have pledged a total of US$3.4 billion to the HIPC Trust Fund and have already contributed more than US$2.9 billion of this pledged amount. The Fund claims that debt service-to-exports indicators were also reduced in most of these HIPCs, with savings contributing to a “substantial increase in poverty-reducing expenditures.”

Poverty-reducing government expenditures in the twenty-seven countries that receive HIPC assistance are projected to have increased from 6.4% of GDP in 1999 to 7.9% of GDP in 2003. Although the IMF boasts such progress, it admits that the process of reaching the completion has taken longer than expected for these countries.

III. Role of the Family in Economic Growth: Promotion of Human, Moral and Social Capital

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67 Ibid.
69 For a thorough display of this data, refer to the website of the World Bank Group on HIPCs: http://www.worldbank.org/hipc.
70 Ibid.
In order to put poverty reduction at the heart of the social programs, the IMF and World Bank supported the concessional lending of the HIPC Initiative. These social programs were envisioned to include access to health, education, clean water, and sanitation. Such provisions are essential for the welfare of the family. Because the family is essential in the production of quality human capital, the social protection of the family plays a key role in promoting economic growth. The promotion and protection of the family is a vital means of eradicating poverty. In order to harbor economic development, different forms of capital are some of the most necessary assets. The family should ideally be protected through policies that promote the well-being of all members of the family, as well as healthy marriages and familial relationships.

Institutions are fundamental in obtaining development. Several studies have found that countries grow faster when they have good institutions. Fostering sustained growth and social progress is a problem present in poor countries around the world. Progressively more research has revealed that weak, missing, or perverse institutions are part of the roots of underdevelopment. Institutions that are inefficient due to corruption and inadequate enforcement of contracts obstruct private investment. Cross-country regressions consistently demonstrate large and statistically significant causality between institutional variables and growth. To meet the challenge of development, countries need two distinct sets of institutions, those that promote exchange by lowering transaction costs and encouraging trust, and those that influence the state to protect private property. The first set of institutions includes beliefs favoring shared values and the accumulation of human capital. As will be examined later in this section, moral and social capitals are also imperative for improving the quality of institutions. Thus, the family, in its ability to foster

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75Capital can be considered a factor that yields income and other useful outputs over long periods of time.
79Rodik et al. (2002).
80Shirley (2003), p.3.
these forms capital, indirectly improves institutional quality, which leads to economic development.

The family is an institution, and a person normally comes into the world within a family, where the child first develops and matures as a human person. The family is an institution, and a person normally comes into the world within a family, where the child first develops and matures as a human person.\textsuperscript{81} Consumption and the means necessary for production are instrumental in providing the family with the means of subsistence and development.\textsuperscript{82} The first and most fundamental place where production and spending acquire their meaning is the family. The economic agent finds within its family the motivation to work and to overcome selfish motives, since work is directed to meet the needs of the other family members. A well functioning economy possesses the ability to foresee both the needs of families and the optimal allocation of productive factors to satisfy those needs.

In order for the HIPC initiative to truly be deemed a success in its social and economic efforts, it needs not only to free up the debts of these countries, but also to implement policies that support the family, which will in turn foster the steady growth of social, moral, and human capitals. If programs that are being placed in the HIPC\textemdash s are not fostering the strength of the family, long-term poverty reduction may be a near impossible goal. In this next section, these forms of capital will be described in brief, including how the family is essential to their growth in a given society.

\textit{1) Human Capital}

Human capital is regarded as the stock of skills and knowledge gained by education, training, and experience that enhance a person\textquotesingle s earning powers and which increases the efficiency of economic decision-making.\textsuperscript{83} Human capital is important for economic growth because of the enhancement in productivity and technology, which comes about through its increasing presence. Education and training are the most important investments in human capital.

A large stock of human capital should allow for the hopefully constant creation of new ideas. For these ideas to be beneficial for a nation, they need to be non-rivalrous, and

\textsuperscript{81} Aguirre, (1999) “Remarks to the World Congress of Families II Geneva, November 14-17”.
\textsuperscript{82} Ibid.
should lead to increasing returns, thus promoting internal economic growth. Since new ideas cannot arise without solid education to back them up, it is clear that education is necessary for the development of human capital. However, in order to obtain a higher quality of human capital and lead to greater innovation and economic growth, it is necessary for more people in a society to be achieving higher and higher levels of education. Thus, it can be inaccurate at times to only measure a country’s human capital growth by examining their expenditures on education.

Formal education is not the only way to invest in human capital. In many instances, workers also obtain knowledge and training skills outside of schools, especially those skills that pertain to jobs. The limited data available indicates that on-the-job training is an important source of the increase in earnings that workers get as they gain greater experience at work. Large increases in education and training have accompanied major advances in technological knowledge in all countries that have achieved significant economic growth, thus displaying how this kind of growth depends on the interaction between new knowledge and human capital. As employability, which can be specific to individuals, firms, or in a more general way, improves, earning power rises.

When taking human capital into consideration, it is necessary to not see humans as the means of production and material wealth but as the ends of such development. According to Nobel Laureate Gary Becker, “no discussion of human capital can omit the influence of the families on the knowledge, skills, values, and habits of their children”; thus, we cannot neglect the influence of the family on the current and future productivity of human beings. The most successful countries will be the ones that promote human capital in the most effective and efficient approaches. Such countries will provide good learning environments and ensure the improvement of human productivity and innovation necessary for economic development. With the future in mind, achievements in productivity,
technical progress, and successful location in a globalized economy will all be related to any society’s human capital.\(^{89}\)

One way in which the family is responsible for human capital growth is that the academic performance of a child is significantly related to family structure.\(^{90}\) The quality of schooling does have an impact on educational performance, but studies also show that 60% of the differences in school performance are related to the environment of the home.\(^{91}\) Basic features of the structure of the family have a significant impact on educational performance, including educational atmosphere, social and economic levels, the household infrastructure, and the stability of the family. Children develop in the best way within a functional family; that is, one with both biological parents and a stable marriage.\(^{92}\) The development of human capital requires close involvement of parents, especially during the early years of the child. This has been overlooked in the past, and as a result additional social costs to society as a whole have been imposed, hampering economic development.\(^{93}\) Thus, if a child is in a stable family, he will tend to perform better in school, thus enhancing his own personal human capital and contributing to the economic improvement of the society in which he lives.

Families promote human capital in ways other than education. One way in which the family generates human capital is that it provides a sort of health service. A family is able to reduce the need for extensive health care through preventative measures, and at times it also takes on the responsibilities caring for children and for the sick. These services would have a high economic cost if the market or the public sector had to cover all of these types of expenditures.\(^{94}\) Another way in which human capital and the family coincide is that men and women are better off when their working conditions take their families into consideration. The improvement of working conditions is able to foster human capital growth, which can increase productivity. Worker performance, productivity and profitability have increased with the presence of innovations that make family

\(^{89}\) Kliksberg (2002), 98.
\(^{91}\) Kliksberg (2002), 68.
\(^{93}\) Ibid.
\(^{94}\) Kliksberg (2002), 73.
responsibilities compatible with work outside the home.\textsuperscript{95} Productivity at the workplace is negatively influenced on a daily basis by family difficulties and educational limitations.\textsuperscript{96}

Thus, if the family is conducive to creating a physically healthy environment in which one can develop a strong education, this will advance the growth of human capital. If the family is well off in terms of education and health, then as economic agents they can contribute more to the community and to their jobs, and innovation and productivity will expand tremendously. These changes for the improvement of the economy are incited from the basic unit of the economy: the family.

2) Moral Capital

Another form of capital that is crucial for development is moral capital. It is found in many forms, with some of the most prominent ones including justice, beneficence, and temperance.\textsuperscript{97} Also, honesty, respect, consideration, and work ethic incorporate moral capital. Simply providing shallow pledges to uphold certain values will not lead to a growth in moral capital. It requires an excellence of personality or character, which depends on obtaining and practicing the right habits.\textsuperscript{98} These virtues result from the repeated performance of appropriate actions. Ancient views on morality can even be examined in instances where right and wrong are difficult to determine. In his \textit{Nichomachean Ethics}, Aristotle discussed the conditions under which moral responsibility may be ascribed to individual agents. He also examined the nature of the virtues and vices, and the methods of achieving happiness in human life – in essence what an individual human being is required to obtain and to do in order to be a good person. According to Aristotle, good conduct arises from habits that in turn can only be acquired by repeated action and correction. This makes ethics a practical and intense discipline. The good for human beings involves an activity of the soul that expresses genuine virtue or excellence.\textsuperscript{99}

\textsuperscript{96}Kliksberg (2002), 99.
With Aristotle’s views in mind, building one’s own character will lead to one’s happiness and, as through the accrual of moral capital, will lead to economic growth.

Moral capital acts as a means of yielding useful outputs over periods of time in two ways. First, the capacity for personal growth in good habits is practically unlimited, given that adequate investments in assets are made in order to gain an excellent character. These investments would include, among other things, truthfulness, honesty, fairness, and compassion.\(^{100}\) If a person is regularly moral in conduct, they have the ability to gain a reputation of trustworthiness that will entice others to deal with them. This form of capital may also increase in value where people seek reliable trading partners when they cannot rely on institutions.

Moral capital refers to the conduct of an individual. Individuals make up social networks and thus moral capital is a requirement for the formation of social capital. Conversely, constraints are placed on individual behavior by social networks and thus contribute to moral capital. In contrast to human capital, moral capital can be applied beyond the needs of specific professions and education is only one of many factors on which the accumulation of moral capital depends. Ethical norms relevant to a person’s profession are encompassed in an adequate professional education. Because of this encouragement of ethics, professional training for an increase in human capital can in turn generate moral capital.\(^{101}\)

One who lives in a community of individuals who habitually conduct themselves under a common set of moral rules will be able to make transactions with others at reduced costs. Such costs include the costs of finding reliable trading partners and the costs of enforcement through self-help or third-party intervention, if a breach of obligation were to occur. A person living with those who break the rules will have to take necessary yet costly precautions in making transactions. The accrued cost saving through moral conduct is a representation of part of that person’s moral capital. A community’s moral capital is in a way represented through the ways in which the moral rules of a group reduce transaction costs, facilitating mutually advantageous dealings between members of the group as well as

\(^{100}\) Ibid.

\(^{101}\) Ratnapala (2002).
those outside of it.\textsuperscript{102} If particular moral rules are prevalent in a group, that group will possess the ability to obtain an economic advantage.

Morality aids production and exchange through enhancing the security of person and property and also by promoting the fulfillment of contracts. Laws that incorporate both of these goals are based on ubiquitous moral laws, the origins of which lay lost in time. A general understanding of capital is that it consists of resources owned by individuals or firms that are applied in the production of goods and services.\textsuperscript{103} Recently this definition has been stretched out to cover conditions that help production by facilitation coordination among various parties to transactions. It provides firms with a clear advantage although this form of capital may not be ‘owned’.

Institutions are important with regard to the accumulation as well as the retention of a society’s moral capital. The value of morality as capital relies on a reputation of moral conduct. People predict behavior through observation and when they live in societies of many individuals, they only have direct and personal knowledge of very few persons though the activities of any regular day depend on the coordination of the transactions of numerous strangers. These transactions and the coordination amongst strangers is not done through personal knowledge of others, but on the reliance on observable constraints, called institutions, on unjust conduct.\textsuperscript{104} These constraints include laws and less formal rules like customs, social practices, and moral rules. “Morality is constitutive of these institutions for it is the coincidence of moral conduct of individuals that creates and sustains them.”\textsuperscript{105} It has been shown that commerce co-evolves with moral rules and leads to the accumulation of moral capital as well as prosperity.\textsuperscript{106} Thus, without moral capital, commerce is unsustainable. While forms of morality are typically conducive to commerce, justice is of special significance. The market is a process of social cooperation where people specialize in a variety of tasks expecting a demand for the goods and services they generate.\textsuperscript{107} The business realm is a cooperative system of value-seeking individuals who produce and trade for mutual advantage. Commerce, in order to thrive, attempts to lead to the emergence of

\textsuperscript{102} Ibid.
\textsuperscript{103} Ibid.
\textsuperscript{104} Ibid.
\textsuperscript{105} Ibid.
\textsuperscript{106} Ibid.
the rules of justice. Through logical and empirical grounds the often-believed claim that commerce distorts morals can be rejected.

The family relates to the growth of moral capital because it acts as the source of an individual’s good habits. The family, acting as a social unit, interacts with other people and units. Good habits that are nurtured within the family, such as the basic understanding in nature of right and wrong, can and should be applied to daily conduct, the work place, and business transactions. Bandura (1986, 1997) showed the importance of modeling and mental representation in the child’s moral development.\(^\text{108}\) Other research (Okin 1989) suggests that children apply what they derive from their own personal experiences to the formation of mental models of relationships between themselves and others. With the flourishing of morality, originally fostered by the family unit, more business transactions are likely to occur and economic development will be achieved.

3) Social Capital

Another form of capital that enhances economic growth is social capital. Social capital differs from moral capital in that it refers to more than just the conduct of an individual. Its definition is often vague, but one of the most standard descriptions of social capital is that it “is an instantiated informal norm that promotes cooperation between two or more individuals.”\(^\text{109}\) The norms that constitute social capital can range from simple to complex, and these components pertain to the condition of a society’s basic social fiber in its common functions. Also, these sorts of standards of social capital expand the society’s possibilities and capabilities for growth and development. Some see social capital as ‘networks together with common norms, values, and comprehensions that facilitate cooperation within or among groups.’\(^\text{110}\) However, by the aforementioned definition, trust, networks, civil society, and other similar interactions arise as a result of social capital but

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do not constitute social capital itself.\textsuperscript{111} Social capital is able to act as leverage in linking to public agencies, bonding in terms of developing essential community level supports, and reaching out to disadvantaged groups, if properly developed and employed. Social capital is widely used in the analysis of social factors that help or hinder communities in achieving prosperity.\textsuperscript{112} It is not considered an alternative to policies that already exist, but rather it should act as a potential complement to the pre-established policies as well as those that are newly developed. The role of learning and skills, inclusive of human capital, together with the relationships, networks, and social norms of social capital, are recognized as being vital in exploring new policy approaches in reference to social inclusion and the quality of life.\textsuperscript{113} It is nearly impossible that there will be ample economic development without effective parallel social development. Social development reinforces human capital, empowers social capital, supports moral regulations, and generates political stability, all of which are necessary for sustained growth.\textsuperscript{114}

The relationships that attempt to amass social capital can be as simple as informal social support networks, friendships, neighborhood generosity, interpersonal trust, and volunteering activities. The social norms are not always simple; at times they could also be complex and elaborately articulated doctrines like Christianity or Confucianism. Aspects of local and community development, public-private-voluntary partnerships, and civic spirit are also incorporated in the application of social capital.

The kind of development that takes place in communities helps to generate higher levels of social participation and trust. These improvements draw on processes that are vital in the development of community as well as the functioning of a democratic, inclusive, and cohesive society.\textsuperscript{115} Democracies that are effective rely on two necessary foundations. The first is the civic demeanor of inclusion, tolerance, and regard for other’s rights.\textsuperscript{116} The other foundation of an effective democracy is civic behavior. Studies show

\textsuperscript{114} Kliksberg (2000), 5.
\textsuperscript{116} Ibid.
that social development indicators improve with increases in democratic participation, greater distribution of political power among the entire population, and closer responses to the needs of the majority of the population.\footnote{\cite{wickrama_mulford}}

The perspectives on social capital vary. One extreme is the approach arising from government initiative and the other extreme draws from emerging experience and practice of various kinds of community. When taking economic slowdown and fiscal readjustment into consideration, some think that it is important to consider the benefits of investment in communities and other facilities that incorporate the long-term growth of social capital.\footnote{\cite{policy_implications}}

The broadest and most encompassing idea of social capital includes the social and political environment that molds the social structure and allows for the development of social norms. The importance of social capital is thus extended to the most formalized institutional relations and structures, such as the government, the court system, and civil and political liberties.\footnote{\cite{poverty_net}} The positive and negative aspects of social capital are taken into consideration in this broad view as well as the importance of forging ties within and across communities. The ability of differing social groups to act in their best interest relies on the support they receive from the state as well as the private sector, “...the state depends on social stability and thrives when representatives of the state, corporations, and civil society create forums in and through which they can identify and pursue common goals.”\footnote{\cite{ibid}}

At times, social capital has been seen more as a liability than an asset; economic modernization has been regarded as an opposition to traditional culture and social organizations, and it would either wipe them away or have itself stopped by these traditional organizations. However, social capital is extremely vital for economic growth. The economic function of social capital is to reduce the transaction costs associated with formal coordination mechanisms. Occasionally, some view social capital as less of a good thing than other forms of capital because of the negative externalities that sometimes occur with the cohesion of humans. Hate groups and inbred bureaucracies are examples of this kind of negative cohesion. It is very important when measuring social capital to consider the true net utility of its externalities.

\begin{thebibliography}{9}
\bibitem{wickrama_mulford} Wickrama and Mulford (1996).
\bibitem{ibid} Ibid.
\end{thebibliography}
Measuring social capital growth is neither simple nor is there a real consensus on the right way to go about measuring it. There are, however, three broad approaches to measuring social capital. The first is through conducting a census of groups and group memberships in a given society. Some think that another way to measure social capital is to look at data on levels of trust and civic engagement, as collected in surveys. A third possible way of measuring social capital relates to specific organizations; an example of this is that one may look at changes in market valuations of a company or organization before and after takeover offers.

Social capital is frequently a byproduct of religion, tradition, shared historical experience, and other factors that lie outside government jurisdiction. Although public policy cannot duplicate the effect of religion as a source of shared values, it can be conscious of already existing forms of social capital, such as the social networks used to develop information for microlending. Governments indirectly foster the creation of social capital by efficiently providing necessary public goods, particularly property rights and public safety. When governments or policy makers undertake activities that are better left to the private sector or to civil society states, their actions can have serious negative impacts on social capital. The ability to cooperate is based on habit and practice; if those who formulate policy end up with total organizational control, people will become dependent on them and lose their some of their impulsive ability to work with one another.

The family serves as a vital part of civil society, and thus the accrual of social capital in the family is important for the benefit of the larger network, of which it is a part. According to Putnam (1995), “the most fundamental form of social capital is the family”\textsuperscript{121}, and Fukuyama asserts that throughout the world, families are vital sources of social capital.\textsuperscript{122} The family circumstances that might be associated with measures of social capital include education, economic hardship, residential mobility, time stress, female labor force participation, and marriage.\textsuperscript{123} It is assumed that the family possesses the power to provide a model of appropriate relationships and civic behavior. Family difficulties cause a loss of credibility in political systems and thus cause much of the

\textsuperscript{121} Putnam (1995), 73.  
\textsuperscript{123} Putnam (1996), 35.
population of such an area to withdraw from participation.\textsuperscript{124} Studies suggest that it is good for children to live in a two-parent household in which the father promotes a positive marital relationship, a positive co-parental relationship, and order.\textsuperscript{125} Also, it is seen through the studies of Katzman (1997) that the loss of lines of contact to male networks, in both the business and political world, and the reduction of potential family relations in severing the link with relatives on the father’s side is entailed in the absence of a father.\textsuperscript{126} Social capital has been examined within the family and as an important generator of social capital beyond the family.

The level of education is a key aspect of family and individual circumstances associated with a greater accumulation of social capital; the level of education is often closely related to family structure. Education continues to be the primary factor in social capital growth, even when allowing for the effects of income and social status upon group memberships. Governments have a direct ability to generate social capital through education. Places of education, in addition to generating human capital, promote the growth of social capital through social rules and norms. Those who are well educated are much more likely to participate in good social practices, “partly because they are better off economically, but mostly because of the skills, resources and inclinations that were imparted to them at home and in school.”\textsuperscript{127} The structure in schools is closely related to family structures. Within the family, Coleman (1988) examined the importance of social capital with relation to the outcomes of children’s education. The social capital of the family in his studies is measured through the strength of the relations between parents and children, and he asserted that the presence of social capital is important in the transfer of human capital from parent to child. “If the human capital possessed by parents is not complemented by the social capital embodied in family relations, the human capital of the parents becomes irrelevant to the child’s educational growth.”\textsuperscript{128} Modern labor markets require better training, which implies the need for increasingly extended educational processes; an integrated family is a strategic element to achieve these goals for higher education by providing emotional and practical support. Since integrated families support

\textsuperscript{124}Kliksberg (2002), 99.
\textsuperscript{125}Amato (1998), 258.
\textsuperscript{126}Kliksberg (2002), 75.
\textsuperscript{127}Amato (1998), 258.
\textsuperscript{128}Coleman (1988), 110.
the growth of social capital, Katzman (1999) concluded that children from disrupted families\textsuperscript{129} are at a disadvantage in gaining this key social capital.\textsuperscript{130}

Thus, it can be seen that a lack of focus on the family is damaging to the economy because human capital, social capital, and moral capital are reduced and social costs are increased. The HIPC Initiative, in order to bring about poverty reduction and real economic growth in the debtor countries, must emphasize policies that will be beneficial to the family. In terms of economic and social statistics, the countries that rank highest are those that included family protection and development as well as increasing investment in education at the foundations of their strategies.\textsuperscript{131} The growth of human, moral, and social capital, necessary for sustainable economic growth, will occur through placing the family as one of the higher priorities when determining legislative policies and social programs.

IV. Progress and Problems

Although the HIPC Initiative was designed as an expansive plan for debt relief and poverty reduction, different countries have taken different approaches, and thus the effects so far have varied. Some of the variations in results of improvement are due to the conditional differences between countries, similar to the factors that kept some from escaping heavy indebtedness before the Initiative was created. Nearly every country has had particular problem areas in their approach to poverty reduction and the allocation of moneys that were freed up through the HIPC Initiative; nevertheless, the optimal situation for every country must consider the family in its aim for the reduction of poverty. If this vital unit is not in good order, the forms of capital necessary for economic growth and other development, especially moral, social, and human capital, will not expand to their full potential. The following section will examine the optimal condition of an HIPC at its completion point, the way in which improvements and errors can be determined in the actions of HIPCs, and the social expenditures through PRSPs.

\textsuperscript{129} According to the researcher (Katzman, 1999), ‘disrupted families’ are those in which children live with only their mother, with a stepfather or stepmother, or without parents at all.

\textsuperscript{130} Katzman, (1999).

\textsuperscript{131} Kliksberg (2002), 97. These countries included Canada, Norway, Belgium, Israel, Sweden, the Netherlands, and Denmark.
1) The Ideal Completion Point

As aforementioned, when a country reaches its completion point under the HIPC Initiative, it has reached the point at which the country concerned receives the bulk of its debt relief without any further policy conditions. The creditors of the Initiative must commit debt relief irrevocably to countries at this point as well. Table 3 displays the amount of debt relief reduced as well as the nominal debt service relief during both the original and the enhanced HIPC initiatives.

Table 3
Committed Debt Relief* under the HIPC Initiative As of February 2004
(In millions of US Dollars in NPV terms of the year of the country’s decision point)

<table>
<thead>
<tr>
<th>Reduction in NPV terms</th>
<th>Nominal Debt Service Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996 Initiative</td>
<td>1999 Initiative</td>
</tr>
<tr>
<td><strong>Countries that have reached completion point</strong></td>
<td></td>
</tr>
<tr>
<td>Benin</td>
<td>0</td>
</tr>
<tr>
<td>Bolivia</td>
<td>448</td>
</tr>
<tr>
<td>Burkina Faso**</td>
<td>229</td>
</tr>
<tr>
<td>Guyana</td>
<td>256</td>
</tr>
<tr>
<td>Mali</td>
<td>121</td>
</tr>
<tr>
<td>Mauritania</td>
<td>0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1,717</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0</td>
</tr>
<tr>
<td>Tanzania</td>
<td>0</td>
</tr>
<tr>
<td>Uganda</td>
<td>347</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,118</td>
</tr>
<tr>
<td><strong>Countries between decision and completion points</strong></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>0</td>
</tr>
<tr>
<td>Chad</td>
<td>0</td>
</tr>
<tr>
<td>Congo, Dem. Rep. Of</td>
<td>0</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>0</td>
</tr>
<tr>
<td>Gambia, The</td>
<td>0</td>
</tr>
<tr>
<td>Ghana</td>
<td>0</td>
</tr>
<tr>
<td>Guinea</td>
<td>0</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>0</td>
</tr>
<tr>
<td>Honduras</td>
<td>0</td>
</tr>
<tr>
<td>Madagascar</td>
<td>0</td>
</tr>
<tr>
<td>Malawi</td>
<td>0</td>
</tr>
<tr>
<td>Niger</td>
<td>0</td>
</tr>
<tr>
<td>Rwanda</td>
<td>0</td>
</tr>
<tr>
<td>Sao Tome and Principe</td>
<td>0</td>
</tr>
<tr>
<td>Senegal</td>
<td>0</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>0</td>
</tr>
<tr>
<td>Zambia</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Debt Relief committed for 27 countries</strong></td>
<td></td>
</tr>
<tr>
<td>3,118</td>
<td>28,013</td>
</tr>
</tbody>
</table>

Sources: HIPC country documents; World Bank and IMF staff estimates
*Committed debt relief with assumed full participation of creditors
**Assistance under Enhanced Initiative includes ‘topping up’ with NPV calculated in year of completion point

Andrews et al. (1999).
The amount of time it takes for a country, which has previously qualified for the HIPC initiative and reached its decision point, to reach its completion point relies on a number of factors. In order to reach completion point, a country must maintain macroeconomic stability under a PRGF-supported program, carry out key structural and social reforms, and implement a PRSP for one year upon which staff members of the IMF and World Bank prepare recommendations to their respective Boards for consideration. The Boards of the IMF and the World Bank make the final determination of whether or not the country has reached its completion point.

2) Analyzing PRSPs: The plan for effective social expenditures

As has been previously stated, the PRSP of a country is a tool of the HIPC Initiative that attempts to have a country’s macroeconomic, structural, and social policies develop in a way to reach the goals of poverty reduction and social development. In order to examine the progress of the HIPC in combating poverty and making social changes, the PRSPs are observed to see how countries provide changes to reduce deprivations of HIPCs. Social development and poverty reduction can be done in many ways. Common means of attempting to make these changes often include improvements in health care, education, governance, and the resources for income generation. These improvements can all be traced to the human, moral, and social capital growth that occurs because of a well functioning and healthy family.

In the World Development Report 2000-2001, it was emphasized that insecurity of income, food, and access to health services were some the many deprivations suffered by the poor that needed to be eliminated through attacking poverty. As of 2004, twenty-seven countries have reached their decision points, and the total poverty reducing expenditures in both Latin American and African HIPCs have increased from (in millions of US dollars) $6,066.9 in 1999 to around $9,103.9 in 2003. In all cases of the twenty-four countries that had reached their decision points in 2001, the average social spending

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133 The Poverty Reduction and Growth Facility (PRGF), established in 1999, is the IMF’s low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies. These programs aim to strengthen governance, poverty reduction and growth priorities, and broad public participation.


was expected to be more than 45% higher than when originally planned in 1999.\textsuperscript{136} All of the social spending numbers include health and education spending. The total social expenditures in African and Latin American countries were aimed to increase from (in millions of US dollars) $4,407 in 1999 to almost $6,897 in 2002.\textsuperscript{137} Over this same period of time, the ratio of social expenditures to government revenue was projected to increase by 6%. Data from 2002, however, turned out to be lower than expected as it shows that the actual amount of social expenditures in these areas increased by 29% instead of the projected 37%, and the increase in the ratio of social expenditures to government revenue increased by only 3.4%.\textsuperscript{138}

Some observers of the implementation of the PRSP into the Enhanced HIPC Initiative believe that there have been some very welcome signs of progress.\textsuperscript{139} The successes or failures of PRSPs are important because these documents provide the framework for future social spending, and will make or break a country’s ability to reduce their poverty level and improve the quality of life for their citizens. In short, if PRSPs are faulty, then they will not help countries to enhance their social, moral, or human capital.

The provision of health care, as aforementioned, is extremely important in the poverty reduction system. A health system’s essential role is to ensure that providers deliver health services to patients through a structure of payments and regulation.\textsuperscript{140} Health outcomes are the result of the relations between households, communities, health services, other sectors, and government. Households, in essence, “produce’ health, through their consumption of food, their sanity practices, their consumption of health-damaging commodities…and their use of preventative and curative health services.”\textsuperscript{141} Health facilities should be sufficiently accessible to the poor, and they should be well provided with staff and necessary supplies and medications.

\textsuperscript{137} Ibid.
\textsuperscript{140} Claeson \textit{et al.} (2001), 212.
\textsuperscript{141} Ibid, 205.
Distance, travel time, and seasonal variation of physical accessibility are all factors that can change the availability of health care to a population. Also, household influences, cultural norms, and community institutions all influence the actions taken by persons in a given society toward getting health care. These issues are particularly prevalent in Africa, which also deals with issues of physical infrastructure of facilities. In Burkina Faso, the country’s PRSP cited that 40% of health center users had to walk more than one hour to reach the center. In Mozambique, the PRSP cited that 38% of people who had not sought care for an illness cited that the reason they did not seek care was that their local facility was too far away.

One problem regarding the provision of healthcare is that health facilities may not be properly stocked with essential resources. They may also not pass inspections of adequacy and often times may face staff shortages. In the PRSP of Mozambique it was noted that a small proportion of those who were ill but did not seek care chose to do so due to a lack of drugs. These occurrences were all in rural areas. The Burkina Faso PRSP reported that nearly 20% of its health care facilities had run out of essential vaccines. It also reported that in 24% of centers, the refrigerators for storing vaccines and other necessary items did not function. Due to the health reforms laid out in the PRSP, Burkina Faso underwent notable progress in raising immunization coverage rates, according to the World Bank. They were able to obtain an adequate supply of essential drugs, as well as improve staffing of primary health facilities. In Mauritania, the PRSP reported drug shortages as the most important reason explaining why usage of services is so low. The Health Sector investment program was incorporated into Mauritania’s domestic policies in 1998 to try and fix some of these problems. One main facet of this program expands health service coverage, improves health services performance, improves health facility utilization rates, and institutes quality assurance measures. The World Bank asserts that access to primary health care has increased from 30 percent in 1990 to

142 Ibid, 210-211.
143 Ibid, 213.
144 Ibid.
about 70 percent in 2001. This success is attributed in large part to the approval and carrying out of the changes incorporated in Mauritania’s PRSP under the HIPC Initiative.

The World Bank noted the significant improvements that have occurred in Uganda, which place the country closer to reaching its Millennium Development Goals. One way in which it accomplished this is the access to safe water increased by 11% in urban areas of Uganda from 2000 to 2003, and by 5% in rural areas over this same time period.

Household surveys are significant determinants of health care progress. They are able to determine the impact of income or consumption on health-related actions. Examples of this were seen in two countries where PRSPs have already been developed: Burkina Faso and Mozambique. Household surveys found that 24% and 35%, respectively, of respondents reporting sickness but not seeking health care said their decision was based on financial considerations.

Knowledge plays an important role in the poverty reduction process. Within a household, the human assets are those encompassed in knowledge, literacy, and education. One particular type of knowledge that is important for those in highly indebted countries is a general awareness and understanding of health issues. The absence of such knowledge leaves members of the household unaware of available opportunities, regardless of what improvements are implemented through policy makers. In the Mozambique PRSP, those who formulated the strategies noted that it is not lack of food that is main cause of malnutrition, but lack of knowledge on the caregiver’s part which led to a lack of diversification in their diet and the diet of their children. This basic improvement to the family has the ability to create even greater improvement to the economy through growth of necessary forms of capital.

The community also influences the process of aiming to reduce poverty. Community groups often manage to mobilize community action and resources for better health and nutrition outcomes, improving social accountability. In Burkina Faso, for example, the work supporting the PRSP was argued to have improved the quality,

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147 See “Uganda: Development Results”, as part of the World Bank Website, for the best representation of this information.
148 Claeson et al. (2001). 211.
149 Ibid.
affordability, and stability of local health services. They aimed to inform the poor as to where they could obtain essential services and drugs and how to prevent communicable diseases at household level. Also in their PRSP, they mapped out having the poor participate in the planning and targeting of specific health services and monitoring availability and prices. Providing a supporting environment for household health practices was another major goal of the PRSP of Burkina Faso, as well as the provision of institutional support to community co-management, co-financing, and co-planning services. The reason for this is that the framework planners hoped these could become real forces to support the power of public and private providers.

Governments of these poor countries can reduce income poverty by directly improving the health of their populations and by indirectly reducing the impact of ill health on household living standards. An example of this kind of indirect action is through the modification of health-financing arrangements to guarantee that people do not have large out-of-pocket payments to deal with when they become sick. This is sometimes called the financial protection goal of health systems and although it is a secondary goal to that of improving health, it is still an important aspect to consider. The scarcity of funds in the HIPC's calls for wise and efficient allocation. Governments have difficulties addressing everything in the health sphere, yet they play a key role in that they coordinate with other actors in the health system such as donors, NGOs, civil societies, and community organizations, in order to try and formulate services, which need to be accessible, affordable, and effective in addressing real health needs. The ability of poor households to obtain adequate health services, adopt healthy dietary and sanitary practices and so on, depends on a variety of conditions. “Funds linked to PRSPs including debt relief…will have a far greater impact on poor countries’ health levels if they are accompanied by a thorough review of existing policies and by a willingness to link new spending with reforms that make health systems work better, especially for the poor.”

Education is another imperative area that must be addressed by the HIPC Initiative changes in poor countries. Education has been described as an asset that is crucial in

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150 Ibid, 212.
151 Ibid, 204.
152 Claeson et al. (2001), 211.
enabling the poor to contribute to and benefit from economic growth. Studies have shown that each year of schooling increases individual productivity, and hence income, by a worldwide average of about 10 percent. Some measures that have been invested in for the improvement of education systems include taking steps to make education free, and expanding the number of classrooms and teachers. By taking these sorts of measures to help families keep children in school, developing countries, with the support of international donors, can protect and even strengthen the main foundation of economic growth, namely the base of skills and knowledge. Education will boost the earning power of adults and increase their children’s chances of a healthy and prosperous life. Mothers with even a few years of education are better able to ensure that their children grow up healthy, well-fed, and educated.

In the field of basic education reform, the World Bank noted that Burkina Faso met or exceeded most of their listed targets. They exceeded their target for gross enrollment rates for girl and primary school registration in rural areas. Also, the budget allocation for basic education increased from 15.3% of the total budget in 1999 to 18.3% in 2000. In March 2001, the government of Burkina Faso adopted the Education Policy Letter. This was the presented plan to reform the hiring and retention of teachers. Because of this policy implementation, 159 new schools, 342 latrines, 206 housing units were constructed.

Uganda pioneered the use of a Poverty Action Fund (PAF) in order to combat poverty. It was developed in the context of a national Poverty Eradication Action Plan (PEAP), under which significant increases in public spending on social priorities have been instilled. The grant for primary education has increased by over 33% from 2000 to 2002

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154 Ibid.
156 Ibid, 4.
157 The PAF acts as the means for the finance saved under the HIPC relief.
158 The PEAP was developed through a participatory process; its key goals were developed to directly increase the ability of the poor to raise their incomes, directly increase the quality of the life of the poor, create an enabling environment for economic growth and structural transformation, and ensure good governance and security. See Uganda Country Brief as provided by the World Bank Group for further reference. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/UGANDAEXTN/0,,menuPK:374947~pagePK:141132~piPK:141107~theSitePK:374864,00.html> (12 November 2004).
and spending on roads has more than doubled during that period of time.\(^{159}\) This has amounted to almost $37 million a year. In Uganda, from 1992 to 2003, net enrollment rates for primary school increased from 62.3% to 86%, with total youth literacy increasing by 6% from 1995 to 2003. Also, another significant development in Uganda was that the ratio of girls to boys in primary and secondary schooling improved from 67% to 86% since 1997, respectively.

An indicator of the progress of PRSPs is that the concept of participation within policy-making has gained some ground. This shows a slight improvement in social capital, since stronger network fibers are being created. Also, donors have seemed to move towards a common framework for assistance, and poverty reduction has moved more firmly into the center of policy. One way that Burkina Faso dedicated itself to reaching its completion point, as cited by the World Bank, was its implementation of a set of social and governance reforms monitored under the Initiative and outlined during the decision point.\(^ {160}\) These reforms would attempt to eradicate governmental and other forms of corruption, thus promoting the growth of moral capital and facilitating social capital as well. According to the World Bank, the government has improved budgeting and public expenditure management practices. Over the past decade, the government of Burkina Faso has increased budget allocations for social expenditures by substantial amounts. As a result, key education and health indicators have improved, among other things.\(^ {161}\)

**Table 4A**

<table>
<thead>
<tr>
<th>Population with sustainable access to improved sanitation (%)</th>
<th>Population with sustainable access to an improved water source (%)</th>
<th>Population undernourished (% total)</th>
<th>Life expectancy at birth (years)</th>
<th>Infant mortality rate (per 1,000 live births)</th>
</tr>
</thead>
<tbody>
<tr>
<td>23   35</td>
<td>51   61</td>
<td>34  33</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


\(^{161}\) *Ibid.*
Table 4B

Key Education Indicators for Least Developed Countries

<table>
<thead>
<tr>
<th>Adult literacy rate (% ages 15 and above)</th>
<th>Youth literacy rate (% ages 15-24)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2003</td>
</tr>
<tr>
<td>44</td>
<td>54</td>
</tr>
<tr>
<td>1990</td>
<td>2003</td>
</tr>
<tr>
<td>57</td>
<td>64</td>
</tr>
</tbody>
</table>


Burkina Faso was also able to establish a multi-year program to enhance staff capabilities on public financial management matters. In order to combat corruption, authorities launched a unit with the ability to investigate cases and refer them to competent a judicial establishment, including a Supreme Audit Court, with senior jurisdiction over the control of public finances.

Appendix 1 presents how HIPC's have had considerable growth through their social expenditures by examining human development indicators in the HIPC's as found by the Development Assistance Committee (DAC). These indicators include public health expenditures, life expectancy, the percentage of the population living below the national poverty line, and public expenditures on education, among others. In essence, it can be seen that countries that tend to undergo economic growth are those that improved key social areas in order for families to have better living and working conditions, since such changes stimulate the growth of moral, social, and human capital.

V. Criticism and Proposals

With plans to amend the convoluted situation of debt relief and poverty reduction, flaws in structure as well as other unforeseen problems and predicaments are to naturally occur. Some have been quick to criticize different parts of the Initiative to explain why it has not been running as smoothly. Proposals to make changes to the Initiative have appeared since the Initiative’s implementation; different organizations and individuals have
noticed what tasks still remain to be done to bring about the right changes in highly indebted countries.

1) PRSPs: Indicators of Progress and Shortcomings

Certain critics indicate that although some progress has been made with regard to fulfilling the needs mapped out by the PRSPs, such progress only represents small steps in the right direction, and that much work still remains. This view of PRSPs as a “work in progress”, is somewhat supported by statements by the World Bank and IMF.  

Countries, civil society and their external supporters are learning by doing in the PRSP context, and strategies will evolve in the light of experience…the program will stand or fall on the basis of persistent poverty reduction efforts at the country level and their measurable outcomes in the lives of poor people.

Those who are not satisfied with the HIPC Initiative criticize the fact that the promise of PRSPs was always at the hand of the surrounding policy context, significantly shaped by the Organization for Economic Co-operation and Development (OECD). Critics also claim that PRSPs have been vulnerable to the political imperatives of the IMF and the World Bank. This being said, it seems to some as if the most important stakeholders involved, the poor of the highly indebted countries, are delegated less power in the decision making progress for debt relief.

Many of the present concerns of the PRSPs can be grouped into three broad areas: process, content, and resources.

a) Process

Timing is one aspect of the PRSP process that has undergone some criticism. In general, it seems as if the PRSPs are trying to be completed too rapidly due to the impetus created through the conditionality element. The pressures faced by the World Bank and

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162 Ibid
164 World Vision. Masters of their Own Development: PRSPs and the Prospects for the Poor, Ed: Alan Whaites, World Vision 2002, 15. The following four sub-sections relate, for the most part, to this report.
IMF, the impossible tasks that the national governments must tackle in formulating sound policies, and the lack of support for traditional macro-economic prescriptions all threatened to create a short window of opportunity for the construction of some form of credibility. According to critics Adam and Bevan (2001):

Countries are very loath to settle for interim relief (obtainable at the decision point)…without moving rapidly on to the “completion point” at which the relief is locked in, and which requires implementation of a full PRSP for a year. The HIPC thus creates considerable pressure to speed up the transition to a full PRSP.165

The US General Accounting Office has shown that developing countries require up to five years formulating and implementing an adequate poverty-reduction strategy. Thus, some think that options to create a longer time frame for PRSPs, as well as deeper levels of interim debt relief, should be considered. In Senegal, the government, civil, society and donors who participated in the formulation of Senegal’s PRSP considered time constraints as the most restricting factor.166

Those who criticize the PRSP system also consider there to be more work remaining to be done in order to formulate a sense of ownership by the country rather than conditionality. In several countries, stakeholders perceive the planning of PRSPs as being overwhelmingly motivated by getting access to debt relief and having little further significance, such as full poverty reduction.167

Another change that some would like to see with the PRSP process is closer collaboration among partners. There are opportunities for more intimate cooperation between development partners such as WHO, the World Bank, UNICEF, and others; this collaboration could lead to increased support for the working groups as well as the development of a common understanding of the frameworks for analyzing the link between education and health and poverty reduction.168

Language is another area which some think needs to be improved. Examples of this

165 Ibid, 16.
166 Ibid, 17.
167 Ibid.
168 Claeson et al. (2001), 227.
were prevalent in parts of Latin America as well as Cambodia, where key PRSP documents, including the draft of the paper itself, were only available to civil society groups in English.\textsuperscript{169} It seemed illogical to many that essential materials in the participatory process appeared in a language foreign to the country developing the poverty reduction plan.

An intrinsic tension has been formed between the pressure to create PRSPs, which some claim to be merely repackaged versions of existing plans and the external emphasis on participatory process that could result in radically different strategies. Several PRSPs, in effect, appear to some critics to be existing plans that have been intertwined within the framework of a PRSP.\textsuperscript{170} This is somewhat good since it allows governments to handle known quantities. However, in the opinion of some, the use of existing procedures merely put in the format of a PRSP suggests limited space for participation to lead to real innovation and change. Those cynical of the success of the HIPC claim that a lack of participation will ultimately diminish public commitment and weaken the quality of information and advice available in the drafting of poverty-reduction strategies. The PRSP development in Senegal has been cited as an example of this; “the limited inclusion of traditional groups and village level participation was an element of concern raised by both donors and civil society organizations...Parliamentarians will only be officially included in the final ratification of the PRSP.”\textsuperscript{171}

\textit{b) Content}

In the opinion of some groups, data has played an inadequate part in the overall PRSP process. Critics claim that there have been only limited attempts at poverty mapping and thorough research. One example that is used to support this notion is Tanzania’s PRSP, which was one of the earliest full strategies approved by the IMF and World Bank. The data used for the majority of the planning came from a household survey from ten years before.\textsuperscript{172} Thin \textit{et al}, after reviewing some of the PRSPs of Africa, stated that these

\textsuperscript{170} Ibid, 19.
\textsuperscript{171} Ibid.
\textsuperscript{172} Ibid, 20.
plans had “significant deficiencies in their poverty profiles”. These shortcomings included lack of precision with regard to important categories of the poor as well as neglecting specific dimensions of anti-poverty plans.

The policies that will provide the best prospect for sustainable poverty reduction are also an issue being debated. The policies within PRSPs are undoubtedly influenced by World Bank and IMF advice. Some critics wonder whether such assistance could possibly be improved, without wanting to increase conditionality on the developing countries. In a review paper by Stephen Klassen, three policy messages became apparent. The first was that policies to promote growth should help the poor, yet in most cases the growth was neutral instead of pro-poor. Marcus and Wilkinson concurred, saying that policy prescriptions for central areas in poverty reduction are largely not present. Only a quarter of the six full and seventeen interim PRSPs mentioned pro-poor growth or statements about ensuring the equal distribution of growth. Secondly, Klassen felt that due to its triple effect on poverty, initial asset inequality should receive the highest priority. Generally, it seems that important aspects of rural development, including the reduction of inequality, are neglected. In most PRSPs, asset redistribution, such as land reform, is almost always ignored. The other message regarding policy was that priority should be given to reducing gender inequality in order to achieve pro-poor growth. The continued presence of privatization plans within these social strategies is more often seen as a mechanism for corruption and cronyism, a display of poor moral capital, than as a means for reducing poverty.

Critics of the current PRSP format affirm that planning for social impact monitoring is both to limited and too late. “Assessment and monitoring processes, according to these same critics, should be built in during the planning stage of the initiatives if they are to give an accurate depiction of results.” Some also believe that the PRSP system generally lacks a commitment to the principles of rights-based development. The achievement for basic human rights should thus be an obligation on the part of donors, lenders, and the

173 Ibid.
174 Ibid.
177 Ibid.
178 Ibid, 22.
developing nations involved.

A similar problem that critics also point out is the neglect of human rights in sections of PRSPs that pertain to governance, judicial, and law-enforcement reform. They think that the creation and improvement of law-enforcement agencies is one area that should be the focus for human rights training. This would include education in dealing with issues pertaining to the legal protection of children in especially difficult circumstances. All these issues are pertinent to the formation of moral capital within a society.

c) Resources

The World Bank and the IMF originally suggested that resources freed from unproductive areas would also complement the resources released through debt relief. However, certain groups who criticize the Initiative believe that governments might be pressured to redirect funds from lower profile areas of social policy into the health and education sectors, since they have been strongly focused on during the development of PRSPs. The IMF and World Bank have, in the opinion of some critics, been blunt in admitting flaws in the public expenditure management systems, thus making the goal of formulating expenditure reviews that would identify unproductive expenditures difficult. Such reviews, if applied with efficient public expenditure management systems to support them, would possibly reduce the threat of siphoning funds from pro-poor areas and budget savings would potentially go to bridging the funding gap.

With the start of the HIPC Enhanced Initiative, the World Bank and the IMF expressed that new funding was necessary. There have been a number of donors who have agreed to organize their existing aid flows around the PRSP concept yet few who have actually committed to increasing the amount they are funding. This poses a problem in the eyes of certain critics, since many PRSPs promise new social interventions, replete with programs of school building, health clinic opening, and infrastructural enhancement. For example, one PRSP in West Africa estimates the cost of its PRSP at US$475 million, yet only US $108 million will be available through the HIPC Initiative and US$54 Million

179 Ibid.
181 Ibid.
from budget savings.\textsuperscript{182} In Tanzania, the issue at hand is that although they calculated the proper health care provisions to its citizens at US$9 per person, budget realities forced the government to cut back to a considerably lower level.\textsuperscript{183}

PRSP documents generally look for savings from the HIPC Initiative, but there also is a reliance on projected increases in tax receipts and the benefits of economic growth. These assumptions are particularly challenging considering the difficulty many of these countries have had in their efforts to increase tax receipts as well as the obstacles in stirring economic growth if the right forms of capital are not developed. Some governments are not concerned that they may become extremely vulnerable to negative fluctuations in the terms of trade if they depend too greatly on healthy macro-economic performance. The World Bank and the IMF, however, are a little uneasier about that kind of reliance, although they push for anti-corruption methods. “Sometimes, the PRSPs assume unrealistically high rates of growth of overall GDP, fiscal revenues, and/or exports...projected targets for poverty reduction will likely prove to be too ambitious.”\textsuperscript{184}

Many within both organizations hope that bilateral donors will come forward in bridging the funding gap, yet as more PRSPs are completed, it seems that reliance on such lending may prove to be inadequate.

Government capacity is an issue that affects the PRSP process in every country, and may eventually determine the success of strategy implementation. The impact of structural adjustment programs was to decrease state sectors, with such a reduction strongly impacting social policy. Some countries, such as Cambodia, are in the process of emerging from long periods of political instability that has eroded government capacity.\textsuperscript{185} PRSPs have the ability to possibly bring greater resources from donors to rebuild this kind of capacity. However, this also would bring obstacles such as demands in relation to public expenditure monitoring. PRSPs also increase the transaction costs for developing countries to do business with their donors.

Critics also find problems with the HIPC Initiative because of their skepticism of the international financial institutions in charge. One claim against the IMF is that its

\textsuperscript{182} Ibid, 27.
\textsuperscript{183} Ibid.
\textsuperscript{184} Ibid, 28.
\textsuperscript{185} Ibid, 29.
agenda of macro-economic conditionality is more suitable for crisis management rather than sustainable human development.\textsuperscript{186} Also, certain critics of the Initiative claim that the IMF has turned countries into loan addicts, even though this institution has received high ratings. They maintain that the high ratings are based on the fact that borrowing is guaranteed by all member nations.\textsuperscript{187} The IMF and similar institutions offer the best terms available and due to their role in the international financial system, they demand preferred creditor status. This status infers that debtor countries must pay them back prior to any other creditor; if the payments on loans are not on time, the country is considered off track by these institutions and will ordinarily not receive loans from other creditors.\textsuperscript{188} Some claim that the IMF has a weak track record in enabling economic growth and poverty reduction, but that this kind of framework continues to be supported by the organization’s board. The economic policy solutions normally ascribed to IMF conditionality have been reviewed by a number of economists. Craig and Porter, for instance, commented, “PRSPs continue to impose a narrow neo-liberal economics that seems unacceptably hard…that the much hope for general and robust relations between its precepts and growth, equality and poverty reduction may simply not be there.”\textsuperscript{189} The goal of making poverty reduction the focal point of economic policy is weakened through the continued observance to these policy recommendations. There also exists uneasiness amongst development organizations working alongside the poor that PRSPs will become a rehashed outline for traditional and commonly unsuccessful solutions to economic problems.

Other critics of the Initiative claim that country ownership is more of a façade in the PRSP formulation. They assert that the PRSPs should follow a framework that proposes "sound macroeconomic policies", which are consistent with the conditions attached to the PRGF.\textsuperscript{190} According to these critics, this leaves only one option for country governments and CSOs; they are left with the identification of areas where safety nets are most needed to alleviate poverty. Skeptics of the HIPC Initiative assert that because of this limited

\footnotesize
\begin{itemize}
\item \textsuperscript{186} Ibid, 33.
\item \textsuperscript{188} Ibid.
\item \textsuperscript{190} Dembele, (2004).
\end{itemize}
participation, governments of HIPC's tend to put what the IMF and the World Bank would like to see in their PRSPs, rather than what their development priorities may actually be. ¹⁹¹ Also, these critics claim that CSOs have found themselves used more like an alibi than being recognized as a true partner in the process. Some have even gone far enough to claim that the IMF and World Bank are not committed to poverty reduction at all. “Their real mission is to promote the interests of global capitalism, by opening Africa's economies to multinational corporations and financial speculators and by transforming them into markets for Northern countries' goods and services.”¹⁹² These critics also believe that these international financial institutions attempt to blame the HIPC countries' governments and citizens for the inevitable failure of the PRSPs instead of accepting it themselves.

\[d\) Children\]

Other major concerns amongst both proponents and critics of the Initiative are economics and a safer world for children. Children, because of their generally vulnerable status, have been proven to be acutely vulnerable to the fluctuations of their economic context.¹⁹³ One particular example of this was the Asian crisis of 1997, in which economic problems caused a rapid movement of hundreds of thousands of children out of school and into the informal workforce.¹⁹⁴ Both poverty and the process of development can bring their own dangers to children. Taking deliberate measures to address issues of violence against children, child abuse, and child exploitation must be done to build a safer environment for children.

The World Bank, in the perspective of certain groups, unfortunately has a weak track record on the protection of children, tending to be slow in reacting during economic crises as well appreciating the need for government capacity building on protection issues.¹⁹⁵ Due to these relative weaknesses, some believe that the PRSP approach fails to emphasize the necessity of national level action for the safety of children in that they do not

¹⁹¹ Ibid.
¹⁹² Ibid.
¹⁹⁴ Ibid.
¹⁹⁵ Ibid, 25.
think that child labor was not emphasized as strongly as they believed it should be as an issue of concern.\textsuperscript{196}

Moral capital is hindered when child protection is absent. Children who are forced into prostitution or the informal economy are often criminalized by the legal system instead of receiving care and support. Critics assert that proposals for reform of the police and judiciary should specifically include improved responsiveness to the needs of children.\textsuperscript{197} Some claim that, for children, the PRSP approach risks becoming simply another strategy for health and education improvement that renders little change or success in improving the living conditions of those in heavily indebted countries. Thus, if little attention is paid to children through family oriented policies in the PRSPs, it could lead to a hampering in the growth of the forms of capital necessary for economic growth.

2) Recent disputes

In June 2004, there was talk claiming that the HIPC Initiative might be terminated as of December 2004. Oxfam claimed that the G8 agreed to only give another US$1 billion for the efforts, although the World Bank estimated that another US$2.3 billion was necessary to meet the HIPC commitments.\textsuperscript{198} They, along with other civil society organizations, pushed for G8 members to direct the IMF and World Bank to cancel 100% of the debts of these poor countries using the institutions’ existing reserves and resources. These groups cited that:

\begin{itemize}
  \item Barely half of the $100 billion in debt relief promised at the Cologne G-8 Summit in 1999 has become reality\textsuperscript{199}
  \item African nations still spend about $15bn a year in debt service to the IMF, World Bank and other creditors\textsuperscript{200}
  \item Senegal would spend fifteen percent of its revenue this year on servicing debt, compared with six percent allocated to health\textsuperscript{201}
\end{itemize}

\textsuperscript{196} \textit{Ibid.}
\textsuperscript{197} \textit{Ibid.}
\textsuperscript{198} Christopher Swann, “Pledges on debt relief likely to fall short”, Jubilee Debt Campaign, 04 June 2004.
\textsuperscript{199} OneWorld United States, “Civil Society Urges G8 to Focus on True Global Priorities”, 02 June 2004.
\textsuperscript{200} Christopher Swann, “Pledges on debt relief likely to fall short”, Jubilee Debt Campaign, 04 June 2004.
\textsuperscript{201} \textit{Ibid.}
Zambia, Mali, Niger and the Gambia spend more on debt servicing than on education, even after debt relief.\textsuperscript{202}

All these support the notion of these civil societies that HIPC Initiative has provided debt relief “too slowly, for too few countries and with too many harmful conditions.”\textsuperscript{203}

3) Proposed Alternatives

One year after the launch of the Enhanced HIPC Initiative, some already began to believe that it was inadequate. Some believed that primary needs of human development were not being met in poor developing countries, and developed their own proposal to the poverty problem in such countries.\textsuperscript{204} They pointed out that despite the HIPC Initiative, the ambitious goals set by the international community to meet specific human development targets by 2015 would not be reached due to the lagging and Official Development Assistance and excessive external debt draining resources from poor countries. The proposal is centered on raising the level of human development in 49 poor countries, and will only succeed if the governments of the beneficiary countries willingly cooperate.

One of the main premises for their proposal is that the concern for human development should apply to poor countries, not only the highly indebted ones. In the group’s fifteen-year program, they wanted to integrate the Development Assistant Committee (DAC), HIPC, and civil society initiatives while resolving the debt overhang.\textsuperscript{205} This would require additional contributions amounting to one tenth of 1% of the GNP of twenty-three rich countries over each of the fifteen years.\textsuperscript{206} This would amount to about $US22 billion a year that would be put into a Trust Fund, either the existing HIPC Trust or a similar institution. The proposal basically calls for a ‘pairing up’ of each citizen of a rich country with one of a poor country. The PAIR trust fund, as the group calls it, will use the money to co-finance long term programs that will help implement the IDG-Millennium targets. The money will also be used to acquire all the eligible public and publicly guaranteed debt of the 49 poor countries, offering to creditors a price reflecting a

\textsuperscript{202} Ibid.
\textsuperscript{203} OneWorld United States, “Civil Society Urges G8 to Focus on True Global Priorities”, 02 June 2004.
\textsuperscript{204} Berlage, Lode, et al. 2000.
\textsuperscript{205} The DAC is the principal body through which the OECD deals with issues related to co-operation with developing countries.
\textsuperscript{206} Ibid.
reasonable economic value. They do not recommend unconditional full debt cancellation, because it is pointless and counter productive to collect debt service, which drains resources away from basic human needs thus simultaneously increasing aid targeted at basic needs. Collectively, all debt is cancelled and the remaining debt service paid by individual debtor countries is redistributed among poor countries.

Debt reduction may be less productive in restoring the incentives to invest and adjust; to avoid this the proposal finds it necessary to make a clear commitment that debt reduction will be additional to current aid efforts by rich countries, since no in-built mechanism enforces this principle in the HIPC Initiative. The main challenge of the proposal is to translate targets and funding into operational programs for education, health, and sanitation. With regard to debt relief, the proposing group and Sachs et al (1999) claim that “the instability, unpredictability, and time-consuming nature of [current] roll-over mechanisms contribute to the incapacity of HIPC governments and the international community to formulate long-term solutions to the pressing social crises in the HIPC countries.”

Another proposal for debt relief and poverty reduction is one designed by Oxfam and UNICEF. At the core of their proposal for reform is a new approach to eligibility. They believe that the track record for establishing eligibility should be shortened, with more emphasis placed on poverty reduction objectives than allotted in the Initiative, since they assert that human development goals should be centered in macro-economic reform. The Chief Economist of the World Bank, according to this paper, noted that existing conditions are often too restrictive of the set fiscal targets, and are not developed with any reference to the 2015 targets. This has resulted in a fragmented approach to conditionality, with short-term macro-economic criteria being given priority over long-term development goals. They claim that eligibility for HIPC debt relief should be on a more integrated level.

In a particular critique, they state that the majority of HIPC countries are off-track for achieving the 2015 human development targets. These targets included halving extreme poverty, universal primary education, and a reduction in child-mortality by two

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207 Jeffrey D. Sachs, et al., Implementing Debt Relief for the HIPC, CID Policy Paper on Debt Relief, 1999.
208 Oxfam International is “a confederation of 12 organizations working together with over 3000 partners in more than 100 countries to find lasting solutions to poverty, suffering and injustice… Oxfam International seeks increased worldwide public understanding that economic and social justice are crucial to sustainable development.” Oxfam takes a rights-based approach, aiming to help people living in poverty.
thirds. The World Summit for Social Development set the target of two-thirds reduction in child mortality, implying a target rate of 52 deaths per 1000 live births in each country. UNICEF, though, projects that based on current trends, there will only be an 18% decrease in the HIPC child mortality rate from 1995 to 2015, putting the figure closer to almost 134 deaths per 1000 live births.\textsuperscript{209} This represents almost 2 million additional child fatalities and falls very short of the projected 66% decrease.\textsuperscript{210}

With regard to the 2015 goals for education, UNESCO estimates that up to 40 million primary school-aged children in HIPCs will remain out of school in 2010, and Oxfam suggest that this figure will increase to almost 57 million by 2015.\textsuperscript{211} Due to these grim outlooks, certain groups claim that debt relief should be seen as a mechanism used to finance the closure of the gap between current trends and target rates needed to achieve human development goals. In the proposal, it is stated that the revised HIPC framework should provide stronger incentives to convert debt liabilities into human development investments and should not make debt relief contingent on compliance with more stringent conditions related to economic reform.\textsuperscript{212} Although there was much criticism about the HIPC initiative, including that it was not a sufficient condition for achieving the international community’s shared human development goals, the proposal did note they had no doubt that the HIPC reform is necessary and that HIPCs will need access to increased net flows of development assistance.

These projections indicate that all this money being allocated health, education, and other reforms is perhaps not being used efficiently, or that these changes have any hope of improving the condition of heavily indebted countries.

Those in Oxfam International who doubt the effectiveness of the Initiative believe that “some of the world’s poorest countries will emerge from the HIPC Initiative still spending far more on debt than they are able to invest in priority social investments like health and education.”\textsuperscript{213} They point to the limited budget savings provided through enhanced HIPC Initiative debt relief, claiming that some of these poorest countries will continue to transfer far more to their creditors than they are able to invest in basic services.

\textsuperscript{209} “Debt Relief and Poverty reduction: Meeting the Challenge” (Oxfam& UNICEF), 1999.
\textsuperscript{211} Ibid.
\textsuperscript{212} “Debt Relief and Poverty reduction: Meeting the Challenge” (Oxfam& UNICEF), 1999.
According to Oxfam, there are eight countries in which debt service payments will surpass the budgets for health and education. In five of these, Tanzania, Senegal, Zambia, Cameroon, and Mauritania, debt repayments will exceed health and education budgets combined following debt relief.

Oxfam suggests that the key requirement for entry into HIPC Initiative should be the development of a poverty action fund. This would show how the financing of debt relief would be applied to the initiatives of poverty reduction and government, civil society, and donors would oversee its implementation. Obvious priority areas include education, health, rural roads, water supply, and employment generation programs.

This type of action fund, as aforementioned was pioneered in Uganda, where Poverty Action Fund financed Universal Primary Education, basic health, and rural road programs. According to Oxfam, “the use of debt relief to eliminate charges for basic education and health is one option with potentially large human development returns.”

A particular problem in the realm of health expenditures in some countries is that it remains extremely difficult to establish what is being spent on implementing the population and reproductive health packages. Accounting systems measure general categories of inputs such as salaries and supplies rather than the provided services. Out of pocket expenditures by individuals are also difficult to monitor because not all countries survey the expenditures of households, and even if there are surveys, they usually do not inquire about specific health services. Such donations include those of the Ford, Rockefeller, MacArthur, and Mellon Foundations, which contribute millions in funds for population activities. There is a growing body of information regarding payments for maternal and child health services, but they do not reveal clearly what these expenses are, thus making difficult to identify the real impact of these expenditures on the family. This lack of information could put the family at risk, which in turn puts the country harboring these planning programs at an even greater risk of propelling their poverty into the years to come.

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214 Ibid.
215 Ibid.
VI. Conclusion

The focus on poverty reduction in addition to the pre-established debt relief plans is a significant change in policy and will hopefully render success when appropriately applied to poor countries. It cannot be denied that the augmented provision of education, health care, and other social services in these poor countries can render many benefits to those living in extreme destitution. Significant changes have been made in some of the debtor countries, some changes bringing about improvements and others whose effects have yet to be seen. Thus, it cannot be said that the institutions involved have been lagging or neglecting their duties.

There is still much amiss about the HIPC Initiative. The IMF affirms that “the HIPC Initiative is not a panacea…even if all of the external debts of these countries were forgiven, most would still depend on significant levels of concessional external assistance, since their receipts of such assistance have been much larger than their debt-service payments for many years.” Also, some facets of the process in this debt relief plan may not be as efficient as possible, leading to numerous problems in terms of carrying out desired changes and gaining appropriate funds through the relief of debt. The regulation used by the HIPC Initiative that debt stock should not exceed 150% of annual exports definition of debt sustainability has also been criticized.

More importantly, though, it is not enough for the lenders and supporting institutions to simply aim for poverty reduction through vague social expenditures; these social expenditures have to place a heavy emphasis on policies that support, protect, and foster healthy families. The family promotes the growth of three essential forms of capital: moral, social, and human. Economic growth lies in the promotion of these forms of capital; their weakening, as caused by a weakening of the family, will hamper economic growth and thus perpetuate the poverty in the Heavily Indebted Countries. In conclusion, it can be seen that the HIPC Initiative, although generally with good intentions, is not succeeding in being truly helpful to the family, and will thus not be sufficiently beneficial to the countries needing aid.

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## APPENDIX I

**Selected Human Development Indicators for HICPs that have reached their completion point by November 2004**

<table>
<thead>
<tr>
<th>HDI Rank</th>
<th>Country</th>
<th>Population living below the national poverty line (%)</th>
<th>Public health expenditure (%of GDP)</th>
<th>Health expenditure per capita (PPP US$)</th>
<th>Contraceptive prevalence rate (%)</th>
<th>Population with sustainable access to improved water source (%)</th>
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<th>Under-five mortality (per 1,000 live births)</th>
<th>Public expenditure on education (as % of GDP)</th>
<th>Adult literacy rate (% ages 15 &amp; above)</th>
<th>Net primary enrolment ratio (%)</th>
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This table presents data for members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) as part of the Millennium Indicators Database.
Sources:

Notes:

a. Data refer to the most recent year available during the period specified.
b. Data refer to the most recent year available during the period specified.
   Data usually refer to married women ages 15-49; the actual age range covered may vary across countries.
c. Data refer to estimates for the period specified.
d. Data refer to total public expenditure on education, including current and capital expenditure. See the definitions of statistical terms.
e. Data may not be comparable between countries as a result of differences in method of data collection.
f. Data refer to the most recent year available during the period specified.
g. Data refer to estimates produced by UNESCO Institute for Statistics in July 2002, unless otherwise specified. Due to differences in methodology and timeliness of underlying data, comparisons across countries and over time should be made with caution.
h. The net enrolment ratio is the ratio of enrolled children of the official age for the education level indicated to the total population of that age. Net enrolment ratios exceeding 100% reflect discrepancies between these two data sets.
i. Data on net enrolment ratios refer to the 2001/02 school year, and data on children reaching grade 5 to the 2000/01 school year, unless otherwise specified. Data for some countries may refer to national or UNESCO Institute for Statistics estimates.
j. The Debt Initiative for Heavily Indebted Poor Countries (HIPC) is a mechanism for debt relief, jointly overseen by the International Monetary Fund (IMF) and the World Bank. Bilateral and multilateral creditors have provided debt relief through this framework.
k. Data refer to a UNESCO Institute for Statistics estimate where no national estimate is available.
l. Data refer to the 1999/2000 school year.
m. Data refer to a year between 1995 and 1999.
n. Census data.
o. Preliminary UNESCO Institute for Statistics estimate, subject to further revision.
p. Survey data.
q. Data refer to a period other than that specified.
r. Data refer to the 1998/99 school year.