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An Analysis of the Heavily Indebted Poor Countries Initiative in Uganda

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Abstract

This mini dissertation analyses the claims that Uganda is the success story of the Heavily Indebted Poor Countries (HIPC) Initiative. Uganda was the first country to qualify for debt relief under this debt management programme, and has a reputation for being able to address its economic and social problems simultaneously. Furthermore, the manner in which Uganda has engaged with civil society has also received praise. Thus, some scholars believe that the country offers a model example for indicating the effectiveness of debt management programmes in general, and the HIPC Initiative in particular. However, other scholars are more critical, claiming that the successes that Uganda has experienced under the HIPC Initiative have been short lived, and have also compounded the country's indebtedness. There is therefore a robust debate in the literature regarding this topic as some scholars take a more optimistic view of the impact of the HIPC Initiative in Uganda, and other scholars take a more pessimistic stance. This mini dissertation surveys these contrasting views in the literature, and argues that because the HIPC Initiative failed to deliver the promises that it made Uganda was unable to sustain its achievements under the programme. The dissertation concludes that Uganda is not an HIPC Initiative success story.

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Abbreviations and Acronyms

AfDB: African Development Bank

CG: Consultative Group

CSOs: Civil Society Organisations

DRC: Democratic Republic of the Congo

DSA: Debt Sustainability Analysis

EIU: Economic Intelligence Unit

ERP: Economic Recovery Programme

EURODAD: European Network on Debt and Development

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

GNP: Gross National Product

HDI: Human Development Index

HIPCs: Heavily Indebted Poor Countries

IBRD (or World Bank): International Bank of Reconstruction and Development

IDA: International Development Assistance

IMF: International Monetary Fund

LDCs: Least Developed Countries

MDF: Multilateral Debt Fund

MDGs: Millennium Development Goals

MFI: Multilateral Financial Institutions

NGOs: Non-Governmental Organisations

NPV: Net Present Value

NRA: National Resistance Army

NRM: National Resistance Movement

ODA: Official Development Assistance

OECD: Organisation for Economic Cooperation and Development

Oxfam: Oxford Committee for Famine Relief

PAF: Poverty Action Fund

PAPSCA: Programme for the Alleviation of Poverty and the Social Cost of Adjustment

PEAP: Poverty Eradication Action Plan

PRSP: Poverty Reduction Strategy Paper

SAPs: Structural Adjustment Programmes

UN: United Nations

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Programme

UPC: Uganda People's Congress

UPE: Universal Primary Education

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Chapter 1: Introduction

The external debt in Uganda has plagued its development for the past four decades. There have been numerous initiatives implemented to understand and manage Uganda's debt crisis. Furthermore, there are mixed signs regarding the probability of Uganda overcoming its debt. On the one hand, some may argue that the external debt problem in countries such as Uganda is a hopeless issue, whereas on the other hand, others may argue that there are a variety of solutions that need to be explored. Nonetheless, there has been robust debate around debt in poor developing countries. This mini dissertation discusses Uganda's debt and debt management in relation to the group of developing countries, known as the Heavily Indebted Poor Countries (HIPCs). The HIPCs comprise low-income countries identified by the G7 and multilateral financial institutions (MFIs), such as the International Monetary Fund (IMF) and World Bank, that are the least likely to meet their debt obligations. Uganda is one of the countries that have been identified as heavily indebted.

More specifically, Uganda provides an intriguing case study since it was the first to qualify for debt relief under both the initial HIPC Initiative of 1996 and the Enhanced HIPC Initiative of 1998, and so it is a country that is often cited as an HIPC success story. Despite the superior reputation Uganda has amongst the HIPCs, there remains a debate about whether Uganda has successfully maintained debt sustainability and managed to redirect its spending towards social welfare efficiently after attaining debt relief. This dissertation seeks to focus on the debate regarding Uganda's HIPC Initiative results. In

other words, it assesses the arguments that have been put forward regarding the successes and the failures of the HIPC Initiative and that determine whether or not Uganda is truly an HIPC Initiative success story. Therefore, the research question underpinning this thesis is whether the HIPC Initiative has, in fact, been effective in helping Uganda combat its debt problem, and whether the country is truly an HIPC Initiative success story as its supporters claim.

As a starting point, it is essential to elaborate on the general nature and extent of the debt crisis in Uganda, and the need to combat it. Cohen (2005: 181) defines a national debt crisis as “when a country lacks sufficient foreign exchange to make the principal and/or interest payment on its debt obligations”. The economic data of the CIA’s World Fact Book indicates that the country’s external debt (as at 2009) is estimated at US\$ 2.554 billion while Uganda’s gross domestic product (GDP) is estimated at US\$ 17.12 billion (CIA. The World Fact Book). According to a study, by Mijumbi (2001), on Uganda’s debt prior to the HIPC Initiative, the country’s external debt burden rose from US\$ 172 million in 1970 to US\$ 3.6 billion in 1996-1997, and debt as a percentage of GDP increased from 11.8 per cent in 1971 to 66.1 per cent in 1995. In 1997 Uganda was spending US\$ 3 per person on health compared to US\$ 9 per person on debt servicing annually. Debt servicing as a percentage of exports increased from 4 per cent in 1980 to 23 per cent in 1996 and this number excludes the debt that had not been serviced at this time (Mijumbi, 2001: 497). These figures have placed pressure on the Ugandan government and the international community to respond to the country’s debt crisis

actively and control or eliminate the damaging effects the crisis has on the nation's economy and social welfare.

An important distinction is the difference between indebted developing countries on the one hand, and the 41 heavily indebted poor countries, including Uganda, which were identified by the G7 and Bretton Woods Institutions (the IMF and World Bank) in 1996, as needing specialised debt management on the other. Unlike many resilient developing countries, the HIPCs represent the world's poorest developing countries and the least likely group of countries to recover from debt. Therefore, the HIPCs can be differentiated from other developing countries in important ways. Firstly, although all developing countries exhibited symptoms of increasing and potentially unmanageable debt in the 1980s, the heavily indebted countries' symptoms were more extreme than the other developing countries. Necessarily, the HIPCs' debt export, debt-Gross National Product (GNP) and debt-service ratios were notably higher than in other developing countries (Birdsall and Williamson, 2002: 20).

Secondly, the HIPCs' economies are underdeveloped and their populations are generally poor. In fact, the poverty in the HIPCs has been getting worse rather than better, unlike most other developing nations (Birdsall and Williamson, 2002: 20-21). This can be reflected by the fact that 33 of the 41 HIPCs are in sub-Saharan Africa. Studies by organisations such as the UNDP have shown that sub-Saharan Africa in particular has increasing poverty rates. Despite the fact that poverty rates in 2004 were reported to have declined among the developing world, there were still around 299 million people in sub-Saharan Africa living in abject poverty compared to 168 million in 1981 (UNDP, 2005).

Furthermore, the rise in the number of poor was mainly because of continuing high population growth rates. However, it was also due to civil unrest and a succession of natural disasters, which pushed large numbers below the international poverty line (Nwachukwu, 2008: 4-5). Moreover, according to the 2005 United Nations Development Programme (UNDP), sub-Saharan Africa was the only region in the world where the overall human development index (HDI) had been declining since the 1990s (UNDP, 2005).

A third common characteristic of the HIPC nations is that these nations are high recipients of Official Development Assistance (ODA). On average, net transfers (which are all loans and grants minus debt service paid) to the HIPC nations were approximately 10 per cent of their GDP in the 1990s, representing as much as 60 per cent of their government revenue in some extreme cases, and financing most public investment (Birdsall and Williamson, 2002: 20). In contrast, the average for all other developing countries in the past two decades was approximately 2 per cent of GDP. This suggests that the high levels of development assistance and the stagnation in exports and government revenue (as a result of low growth) combined to produce an increasingly unmanageable debt (Birdsall and Williamson, 2002: 21).

The excessive debt levels and their consequences have negatively impacted the HIPC nations in ways that are relatively more extreme than most developing countries in the world. Thus, it is important that the analysis of debt and its management be sensitive to these countries' uniqueness. Nonetheless, exploring the causes and effects of debt is the next

step in contextualising the debt crisis in Uganda and this is covered in the next chapter. Chapter 3 provides a brief account of Uganda's debt management history and also assesses the HIPC Initiative in particular. This is followed by Chapter 4, which covers the contentious debate around the success of the HIPC Initiative in Uganda. Lastly, this mini thesis concludes with its own view on Uganda's performance in the HIPC Initiative and argues that the country is, in fact, not an HIPC Initiative success story.

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Chapter 2: The Causes and Effects of the Debt Crisis in Uganda

In order to address and solve the debt problem, this mini-dissertation attempts to identify and categorise the key causes of debt in Uganda as a way of understanding the nature of Uganda's debt accumulation. The purpose of this chapter is also to draw attention to some of the political and economic legacies that Uganda has inherited, which continue to impact on the country's ability to manage its debt, even decades after the country declared its debt crisis.

2.1 The Causes of Debt

A distinction is often drawn between external and internal factors which led to a country's debt crisis. Moreover, although some scholars prefer to emphasise the role of one set of factors over the other causing the debt problem, it can also be argued that both internal and external factors led to the accumulation of external debt in the HIPC's. Particularly, in the literature on the Ugandan debt crisis, there are some scholars, such as Marianne Lindner (2003), who argue that many of Uganda's economic and political problems which caused the country's debt crisis can be attributed to political factors, and especially issues that arose under the Idi Amin regime, which began in 1971. Lindner's (2003) account of the emergence of Uganda's debt crisis does not take account of any of the vivid problems that surfaced in the beginning years of the country's independence under President Milton Obote's first regime (Obote 1). These include, the Ugandan Crisis of 1966, which revealed the regional tensions, tribalism and repressive dictatorship that

occurred in the country, or the blatant corruption and promotion of General Idi Amin under the Obote 1 regime.

Other scholars, like Barbra Mbira and Michael Atingi (1997), do not mention of the impact of the controversial politics behind the accumulation of Uganda's debt. Rather they highlight the internal and external economic factors in their analysis. Mbira and Atingi (1997) summarise the most important causes of the debt crisis as the 1970s oil crises, deterioration in terms of trade and the decline in export earnings in the 1980s especially due to the fall in coffee prices, a build up of late payments and, lastly, and the highly expansionary fiscal deficit (Mbira and Atingi, 1997: 19).

However, this study takes the view that the debt problem of poor countries, such as Uganda, is complex and driven by multidimensional forces. The external factors that are generally listed as prime causes of the debt crisis in most poor countries include: the economic impact of the 1970s oil crises; the irresponsible lending activities of donors; the lending by the USA and the USSR during the Cold War; the persisting colonial socio-economic and political legacies in the HIPC's; and their marginalisation in the international political economy (Mijumbi, 2001: 497). The most popular internal factors mentioned as causes of the debt crisis are: incorrect economic policy decisions; mismanagement of the HIPC's finances; corruption in the HIPC's; the militarisation of the HIPC's; and the capital and knowledge flight in the HIPC's (Mijumbi, 2001: 497). This chapter explains how Uganda's economy and debt has been influenced by these various factors.

Bigsten and Kayizzi-Mugerwa (1999 and 2001) capture the various internal and external elements that shaped the context under which Uganda's debt arose. Furthermore, they trace some of the fundamental problems that led to the country's debt crisis in the 1960s, before the Amin regime and before the global economic crisis of the 1970s. This contrasts with other literature on the topic, like Lindner (2003), as some authors tend to give the impression that the 1960s was an era of optimism for Uganda in light of the country's political independence and expanding economy. Thus, they provide more and important information and analysis that is essential in contextualising the debt issues that some authors lack. This chapter details the specific and most important causes that can explain the nature of the debt problem in Uganda as explained by several authors. This thesis argues that there are numerous internal, external, political and economic factors that contributed to the Ugandas debt crisis, and the effects of the debt.

As debt is a problem of post-independent Uganda, this thesis begins its analysis of the causes of the country's debt from Uganda's independence by providing a context. Uganda gained independence from Britain in 1962, which led to Milton Obote being elected the Prime Minister of Uganda (1962) and subsequently becoming the president of the country in 1966. The literature on the post-independence Ugandan economy of the 1960s generally describes the country as having an expanding economy and optimistic economic outlook. According to Marianne Lindner (2003: 1), Uganda was among the strongest sub-Saharan economies at independence from England in 1962 and was growing steadily, with an annual GDP of about 5 per cent (Lindner, 2003: 1).

Furthermore, Uganda's economy was enjoying positive and high growth levels in domestic investment, private consumption, and domestic savings rates, which was essential for their government funding (Lindner, 2003: 1). In addition, Uganda had a favourable balance of payments level, its fiscal discipline was effective and its external debt was relatively small and manageable (Lindner, 2003: 1).

Moreover, Bigsten and Kayizzi-Mugerwa (1999: 7) point out that it was hoped that independence would redress the colonial legacies of the country which had reinforced the economic disparities within Uganda's public and private sectors. Bigsten and Kayizzi-Mugerwa (2001) also describe the 1960s as the decade of "the pressures of nationhood", in which Uganda's post-independence policy making was preoccupied with expanding investment; increasing economic growth; incorporating peasants and the rural sector in the development process; redressing the income inequalities and access to opportunities; overcoming the regional economic disparities; and preserving political power.

The Ugandan leadership chose to achieve these aims through implementing leftist policies which entailed the nationalisation of all sectors and maintaining control of all areas of the economy. For instance, in order to eliminate agricultural marketing and private sector activities in the agricultural sector, a produce marketing board was established in 1968, with the mandate to market over 30 commodities (Mwaba, 2001: 5). Furthermore, in 1969 the government gave cooperative unions a monopoly of collecting and developing coffee, cotton and tobacco. Moreover, in the financial sector, the Banking Act of 1969 nationalised all commercial banks operating in the country and set up other

national banks (Mwaba, 2001: 5). Lastly, in order to give the government overriding influence on monetary and fiscal policy, a Central Bank was established to replace the East African Currency Board (Mwaba, 2001: 5). The government tightening its grip on the economy and finance, as seen in the examples above, can be viewed as an internal reason for the rise of debt in the country.

Despite the vibrant economy and the government's efforts to create important policies that would make tangible differences to Uganda and its people, there were signs of internal problems and emerging tension. The causes of the tension that led to instability have been ascribed by some to ethnic and religious divisions in the Ugandan society, and by others to the socially divisive policies pursued by the British during the colonial period (EIU, 1998/1999: 4). Both explanations contain some truth. Uganda has 28 ethnic groups, the major ethnic division being between the Nilotic peoples of the north (such as the Acholi and the Langi tribes) and the Bantu of the south (including the Baganda tribe). According to the Economic Intelligence Unit (EIU, 1998/1999: 4), the British pursued a policy of recruiting security forces, mainly from the northern ethnic groups, in this way initiating a military dominance of the south by the north. This dominance continued into the post-colonial period until the emergence of the predominantly Bantu-based National Resistance Army (NRA), led by Yoweri Museveni, who seized power in 1986.

Moreover, British efforts to prevent the country from splitting into similar units after independence led to the imposition of a complex federal constitution (EIU, 1998/1999: 5). The first government of independent Uganda was formed by an alliance of southern

and northern political parties which secured the election of the traditional Kabaka (king) of Buganda (a Bantu from the south) as president and of Milton Obote (a Langi from the north) as prime minister (EIU, 1998/1999: 5).

Nonetheless, shortly after independence there was tension in the military for a number of reasons. Firstly, there was a collapse of the political alliance between the radical and conservative streams of Uganda's political elite. Secondly, there was rising disaffection, both within and outside the party, with the ruling party and increasingly powerful and monolithic Uganda People's Congress (UPC), led by Milton Obote (Glentworth and Hancock, 1973: 239-240). The Ugandan crisis, which involved a power struggle between the Obote government and his former ally Kabaka leader of Buganda, was proof of this increasing tension and divisions within the political leadership. This tension led to a bloody military confrontation by the government with the relatively defenceless Buganda region and palace in 1966. It can be argued that the Ugandan crisis demonstrated how the military in the country was becoming an increasingly powerful tool for government in preserving power and using coercion, which was similar to the previous colonial order (Glentworth and Hancock, 1973: 240). In addition, military spending became a highly prioritised expense for the government.

Militarisation is a common element mentioned by authors regarding the causes of debt in the HIPC's. Author Meghad Desai (2002) explains that for these countries their independence struggles were based on "the naïve premise that the nation state is actually a happy family of homogenous beings and that the route to development entailed

banishing colonisers who were exploiting and taking the wealth of the indigenous inhabitants” (Desai, 2002: 12). In this way, the liberation leaders promised to reclaim the control and benefits of the indigenous people's resources and invest them for the poor (Desai, 2002: 12). However, the post-liberation industrialisation process proved to be explosive. Furthermore, conflicts which resulted from issues around arbitrary colonial frontiers and undeclared territorial claims became strong motivation for many governments to increase the strength of the army and military equipment (Desai, 2002: 12).

Moreover, in most cases the military equipment was often manufactured in the industrial countries and then imported. Thus, substantial amounts of the HIPC's small foreign exchange budget were allocated to military expenditure. Consequently, once their foreign exchange reserves were depleted suppliers often granted them substantial military aid loans. On numerous occasions, governments of developing countries did not stop buying arms, even when foreign exchange earnings and foreign exchange reserves had declined. The debt crisis became acute and recourse to the IMF was inevitable. It has been estimated that arms imports and militarisation account for a fifth of total foreign debt. In fact, Uganda's military expenditure by 1980 was 20.6 per cent over budget (Korner, Maass, Siebold and Tetzlaff, 1986: 38-39).

In addition to this, another internal cause of the debt crisis in Uganda was the anti-Asian sentiment that developed in the politics of the country. The anti-Asian sentiment in Uganda was established under Obote in the 1960s, and reinforced under Amin in the

1970s, and proved to have detrimental economic effects. Asians in Uganda dominated the wholesale and commercial trade industry, which were two important and thriving areas of the economy. Asian-generated wealth for the country and Asian business activities became the fibre of the economy, providing Uganda with entrepreneurs, artisans and financiers. However, the impact of anti-Asian sentiment, which accused Ugandan Asians of “milking the economy of its wealth” led to their expulsion in 1972 (Lindner, 2003: 2). As a result of the expulsion, the government confiscated business and property from Asians and mandated untrained people from the military to manage these businesses, which was an unprofitable decision. This led to corruption, mismanagement, inefficiency, economic uncertainty, and a decline in output and revenues in the 1970s, which in turn caused the government to seek more loans from banks (Mwaba, 2001: 6).

All these trends of internal weaknesses in the leadership and decision making of the 1960s were examples of the concentration of power in the government. According to Bigsten and Kayizzi-Mugerwa (1999: 17), the developments of the 1970s were more the consequences of this concentration of power than the weakening of the institutions of the 1960s. Thus, some of the major fundamental internal causes of debt in Uganda that emerged in the 1960s, despite the period being viewed as optimistic by many, included corruption, economic mismanagement and military expenditure.

Furthermore, in the early 1970s Uganda also ushered in a new leader as the infamous General Idi Amin became Uganda’s president. On the one hand, Bigsten and Kayizzi-Mugerwa (1999) and the EIU (1998/1999) acknowledge the general optimism in Uganda

in the 1960s while highlighting the fundamental issues that were emerging in this decade and contribute to the analysis of the causes of Uganda's debt. On the other hand, Lindner (2003) provides an optimistic account of Uganda's political economy of the 1960s, by focusing on how the Ugandan economy expanded and the new regime was determined to redress the country's colonial legacy, and provides a blatantly negative account of Uganda as of 1971, associating many of Uganda's problems with Amin's coming into power. Another distinction between Bigsten and Kayizzi-Mugerwa (1999) and Lindner (2003) is that Bigsten and Kayizzi-Mugerwa (1999: 20) acknowledge that the rise of Amin was not a sudden occurrence but rather the result of his increasing popularity among key groups in Uganda during the first Obote regime, especially within the southern region of Uganda, the bureaucrats, businessmen, Bugandan royalty and Western diplomats who had all been experiencing declining power and privilege during the Obote I regime. His regime was initially expected to put an end to human rights violations and economic inefficiencies that had been highly controversial issues under the Obote I rule (Bigsten and Kayizzi-Mugerwa, 1999: 20). However, when assessing the entire period of his rule from 1971 to 1979, it is clear that Amin began to lose support and that his approach to ruling Uganda was much more repressive and misguided than Obote I.

Interestingly, General Idi Amin and his allies accused Obote of corruption and tribalism and instigated a coup in 1971, which resulted in Amin becoming president. However, instead of addressing tribal tensions Amin continued to reinforce them as a strategy to keep himself in power, and even surrounded himself with a small military elite who were mainly from his own northern Kakwa tribe (EIU, 1998/1999: 5). Furthermore, during his

regime Amin initiated violent attacks on the Langi (Obote's tribe) and their Acholi neighbours, and random murders of well-known people lost him support in the Bantu south. An estimated 300 000 people were killed in a succession of purges lasting seven years (EIU, 1998/1999: 5). In addition, the positive GDP growth plummeted persistently and reached negative digits at -3 per cent per annum for the period 1971 to 1979 due to the civil war, and the economy was on the verge of collapse towards the end of the 1970s (Easterley et al., 1993: 473).

Furthermore, economic mismanagement and decision making under Amin led to more indebtedness. General Amin undertook a number of economic policies which were aimed at stabilising the economy, but in actual fact owing to their general lack of focus they proved to be further detrimental. These policies included: the Commercial Transactions Levy of 1972, which aimed to expand the tax base but failed because of the poor tax culture in Uganda and weak administrative capacity; the Land Reform Decree of 1975, which was socioeconomic legislation which failed to generate the economic resources necessary to finance the civil service and the army and to maintain political support. The Action Plan of 1977, which was the final and expensive attempt by the government to stabilise the economy. It targeted investment and domestic savings. However, this plan proved to be unrealistic especially because of its reliance on foreign exchange availability and export earnings, which were both unfavourable during this time (Bigsten and Kayizzi-Mugerwa, 1999: 23-24).

The misguidance and failure of these plans proved costly as the money that was spent on implementing them was lost, and the money that was expected they would generate never materialised. Thus, more debt was accumulated to compensate for these losses in government spending.

Political instability and brutal repression plagued Uganda within and even outside its borders throughout the Amin regime. The 1970s ended with a war against Tanzania, and the ousting of Amin in 1979. For the whole of its existence, Amin's regime had had poor relations with Tanzania, where Obote and the bulk of Uganda's political elite were in exile after Amin assumed power in 1971 (EIU, 1998/1999: 5). Even subsequent to Amin's regime, Uganda has executed military interventions in Congo and sent combat soldiers to Angola, Eritrea, Ethiopia, Ghana, Guinea, Nigeria, Rwanda, Zimbabwe and others (Reno, 2002: 416). Nonetheless, Amin's fall in 1979 occurred because of the conflict with Tanzania at the time. This was also influenced by ex-President Obote, who refused to recognise the new regime in Kampala. The Tanzanian forces, with the additional support of an army of Ugandan expatriates, invaded Uganda following a territorial dispute, and General Amin fled abroad (EIU, 1998/1999: 5).

After the Amin regime, there were three governments in less than two years. The Lule government was in office for only 70 days (April to June 1979); followed by Binaisa who ruled for close to a year; and the Military Commission, which ushered in the elections of 1980 (Bigsten and Kayizzi-Mugerwa, 1999: 32). However, since there was a leadership vacuum left by the swift end of Amin's military government in early 1979, this increased

insecurity in the country and also led to the deterioration of economic reform by the subsequent regimes. Furthermore, the civil war and the failure to contain corruption resulted in political and economic chaos, while power continued to be seen as a means to private enrichment (Bigsten and Kayizzi-Mugerwa, 1999: 32). Thus, the legacy of the poor governance continued to haunt the country.

The relevance of discussing how internal factors caused and compounded the debt in Uganda is that it acknowledges that Uganda's own leadership played an integral part in attaining the country's enormous levels of debt. Many of the HIPCs have fallen into similar circumstances and currently struggle to overcome these leadership legacies. The failure of development projects, overly ambitious economic policy decisions, corruption, militarisation, dictatorship, and diminishing opportunities for investment are all common causes of debt that HIPCs have experienced and Uganda is a classic example of this.

Nonetheless, Uganda's economy and debt accumulation were also significantly impacted by events within the international political economy that were out of the Ugandan leadership's control. Many developing countries, including Uganda and the HIPCs, were significantly affected by the oil crisis and the world economic recession during the 1970s. The 1970s oil crises brought about a dramatic shrinkage of oil supplied globally, and had disastrous consequences such as a rise in oil prices, a slowdown in trade between countries, a decrease in the price of basic commodities, world wide recession, rising interest rates and an expensive battle for countries to find oil substitutes (Balch, 2001: 6). Particularly, Uganda's external debt went from an estimated US\$ 138.4 million in 1970,

to US\$ 732.7 million by 1980. In addition, considering these economic hurdles experienced in this decade, more debt was acquired in order to meet debt obligations and restore the economy. Thus, the economic climate during the 1970s worsened the payment position and economic resilience of Uganda as well as countries around the world (Mijumbi, 2001: 497). The country's real value of exports declined from 19 per cent of GDP in 1970 to 2 per cent in 1980, which flowed from a decline in the production of export crops (with a narrowing of the export base to coffee only), and falling world coffee prices. Moreover, the country's public deficit worsened, and as the government borrowed from the banking system inflation became rampant. In addition to this, government expenditure contracted as a proportion of GDP (Lindner, 2003: 2).

The heavy lending of funds to Uganda has also been identified as an external factor that led to high indebtedness (Mijumbi, 2001: 497). Rich countries, especially the United States of America and the Soviet Union during the Cold War, and banks have been accused of reckless and manipulative lending practices towards the HIPCs. For example, the Soviet Union and the West continued lending to countries in Africa which had been in civil war for more than a decade, including Uganda, Angola and Mozambique during the Cold War (Balch, 2001: 25). Thus, there was a clear political agenda attached to the loans provided by the USA and USSR during the Cold War, in which the US and USSR loaned money to HIPCs and dubious leaders, such as Idi Amin, in order to win the support of the governments of the HIPCs (Balch, 2001: 25).

The commercial banks were often accused of “loan pushing” in the years leading to the 1980s debt crisis, which encouraged debtor countries to increase their liabilities (Cohen, 2005: 184). Some believe that the banks engaged in loan pushing, with little regard to the creditworthiness of countries, because they sought to increase their loan activity in the South. As a result these large commercial banks charged extremely low interest rates, which did not give least developed countries (LDCs) adequate signals as to when to stop borrowing (Cohen, 2005: 184). This was also a way in which Uganda might have increased its national debt.

Also, writers such as Korner, Maass, Siebold and Tetzlaff (1986: 26) believe the colonial legacy in HIPCs is revealed by certain aspects of their economic, social and political structures which contain the germs of ‘indebted’ development. Furthermore, Akokpari (2001: 155-156) argues that in many poor countries the convergence of debt, inflation and a narrow export base concentrated in primary commodities has sunk the competitiveness of the group’s economies, and reduced these countries’ ability to be conspicuous members of the “global village”. Hence, on the one hand, poor countries became heavily dependent on international financial institutions and the global economy through aid and structural adjustment programmes. On the other hand, these countries became marginalised in the global economy as illustrated by the decline of development aid and foreign investment, especially since the lowering of the strategic significance of these nations after the Cold War (Akokpari, 2001: 155). Furthermore, the deteriorating terms of trade that Uganda has experienced has also put a strain on its ability to grow out of debt (Mijumbi, 2001: 497). Thus, the contemporary international political economy

does not offer sufficient support structures for poor countries to end their economic dependence on rich countries or institutions which are influenced by the developed world. Therefore, this argument suggests that Uganda and countries listed as HIPCs are unable to explore and develop their economic, political and social structures fully on their own terms, and are permanently locked into indebtedness and underdevelopment.

However, in as much as this thesis may examine economic and political elements behind the debt crisis, Uganda also needed to recover from its social crisis. The reality the Ugandan people lived was that their taxes were misspent, their country's infrastructure had been destroyed, their lives and communities were in danger, and their country leadership was fundamentally flawed and had managed to convert one of the African continent's most promising nations into a heavily indebted and poor country. Furthermore, the Ugandan people were the most important stakeholders of the economy and in terms of the mounting debt the country was accumulating and there were a number of agents responsible for the situation the country found itself in.

2.2 The Effects of Debt

Some of the effects of high indebtedness in poor countries include: lack of investment flows; the debt overhang, which is the negative impact of a large external debt burden on economic growth and investment (UNCTAD, 2004a: 9); the contraction in access to international financial markets (Classens et al, 1997: 36); and the "debt boomerang", which is a concept coined by Susan George (1992: 20) and which explains how a number of effects of an unresolved debt crisis in the third world, such as immigration issues and the threat to global security, can significantly impact the first world. For instance, as

Uganda's economy uses more resources to pay its debt, the opportunity cost of this is that fewer resources are available for the country to generate a variety of opportunities for Ugandans. Thus, Ugandans may want to explore the resources that other richer developing countries and developed countries have and immigrate to these countries, either legally or illegally. Another example of the debt boomerang could be that the political instability and civil wars that emerge in Uganda mean that government is spending money on militarisation instead of its debt obligations and so the country sinks into more debt. Simultaneously, the country will also require the government to request the assistance of the developed countries to prevent this instability or bring it to an end or assist with Uganda's recovery, as insecurity in Uganda is a threat to global insecurity. These examples indicate that the developed world is also impacted by Uganda's (and other poor countries') debt.

Given these and many other effects of debt, it can be argued that debt in Uganda needs to be addressed from a number of different strategies and through a variety of stakeholders. The debt overhang, lack of investment and exclusion from financial markets that the HIPC's experience imply that their debt hampers them from improving their economies and providing more resources for their citizens. Therefore, debt management needs to address and facilitate the HIPC's successful integration into the global economic and financial system. Furthermore, the debt boomerang indicates that debt in the HIPC's, particularly in an era of increasing globalisation, needs to be viewed as a global issue because of the spillover effects that emerge and impact influential nations and organisations. This means that a solution to the debt problem should involve assistance

from the international community as this community can also be argued to be stakeholders of the debt in HIPC's. International institutions, particularly the World Bank and IMF, have arguably been significantly involved in Uganda's economic decision making and reform and in providing debt relief.

The next chapter of this thesis discusses the reforms that have been made since the 1980s by the government of Uganda to manage the national debt. Particularly Uganda's experience of the HIPC Initiative and the debate concerning whether the Initiative has been effective.

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Chapter 3: Uganda's Debt Management and the HIPC Initiative

External debt has been Uganda's concern for decades. Despite Amin's absence since early 1979, coordinated economic reforms were not embarked upon until 1981, when a military-civilian coalition, Obote II, began to receive technical and financial assistance from the IMF and the World Bank. These MFIs have been major actors in Uganda's economic adjustment efforts since then. The aim of this chapter is to discuss the numerous attempts that the Ugandan government has made to save the economy from the debt crisis, and to explain the role of international financial institutions, such as the IMF and World Bank, in facilitating the policy changes that Uganda has made to address the economic situation.

Thus, the intention of this chapter is to reveal reasons for the lack of success of Uganda's previous debt management policies and to discuss why the HIPC Initiative and the country's perceived success with the Initiative are so relevant. Furthermore, in the literature that praises Uganda's performance under the HIPC Initiative, there is often mention of the country's history of following the economic reform policies prescribed by the international financial institutions, and how this can explain the nation's debt management success relative to the other HIPCs. This chapter also argues that, although Uganda has demonstrated a greater commitment to economic reform than most of the HIPCs, the consequences of this are that the country has become more dependent on international assistance. Thus, although Uganda has been cooperative with the international financial institutions and has received benefits (which include loans) as a

result of its cooperation, these benefits have had limited utility because they require stringent economic reforms in a country with few resources and capacities. And so the country continues to grapple with debt; it remains dependent on international assistance and cannot explore its own alternatives as the country's leadership has little autonomy over its economic policy. Therefore, the question remains: is giving in to the demands of the IMF and World Bank, which include having to face these unfavourable consequences, the price that must be paid in order to be an HIPC success story?

Undeniably, the IMF and World Bank assistance, together with aid from other Western donors, was crucial to the country's stabilisation, adjustment, and recovery during the reforms pursued in the 1980s and 1990s in Uganda. However, such assistance typically comes with associated conditions. When it came to loan conditionality, generally all of the donor institutions' conditions overlap (Bigsten and Kayizzi-Mugerwa, 1999: 52). Nevertheless, in terms of distinguishing policy areas targeted by the institutions, the World Bank's programmes focused on two broad areas: public sector reform, including overhaul of public expenditures, tax reform, and reform of the civil service; and trade reform, including liberalisation of commodity marketing and reform of tariff barriers. In contrast, the IMF focused more on monetary and financial sector reforms, in addition to external indebtedness (Bigsten and Kayizzi-Mugerwa, 1999: 52).

Necessarily, Uganda's external debt owed to the IMF and World Bank was at low levels at the end of the 1970s (Lindner, 2003: 3). However, once the structural adjustment policies were implemented to rejuvenate the economy under the Obote II regime, the

country received increased IMF and World Bank assistance through loans. This may seem counterproductive, but structural adjustments are a key reason for the debt problem in the HIPCs and the developing world at large. In fact, Mwenda (2006: 6) argues that over 90 per cent of Uganda's debt was incurred during the implementation of World Bank– and IMF-sponsored economic reform policies of stabilisation and structural adjustment, beginning in 1981. He claims that if those policies had worked as their advocates had argued, Uganda should have been able to pay its way out of debt (Mwenda, 2006: 6). Nonetheless, Uganda's adjustment experience is often divided into two distinct phases, as outlined below.

3.1 Uganda's Debt Management History

The first period of structural adjustment was between 1981 and 1986 under Obote II. This began with a degree of optimism as the economy responded but which quickly gave way to policy regression as domestic civil strife overshadowed economic concerns and the country lost its World Bank support (Nannyonjo, 2001: 4). Furthermore, Lindner (2003: 3) writes that during this first phase loans were made under two IMF standby arrangements, totalling about US\$ 270 million and an International Development Assistance (IDA) credit of about US\$ 105 million, which together marked the beginning of the increase in Uganda's external debt to unsustainable levels. Nonetheless, the reforms of this first period failed to revive the economy. Thus, the NRM (National Resistance Movement) Army led by Museveni managed to overthrow the government in a coup d'état in 1986.

The second phase of the adjustments, called the Economic Recovery Programme (ERP), began in the period 1987 to 1992 and was the more successful phase of economic reform of the 1980s under the new Ugandan leadership of Museveni (Bigsten and Kayizzi-Mugerwa, 1999: 32). The aims of the ERP were to bring about internal financial stability and lower inflation, and external stability by increasing exports and investment, rehabilitating assets and infrastructure and promoting long-term growth (Holmgren et al, 1999: 19). Necessarily, key reforms were carried out during this period, which encouraged economic liberalisation, like abolishing price controls for coffee, and the government loosening its grip on the economy. The reforms were strongly supported by the IMF and World Bank, as well as with bilateral aid, and Uganda became heavily reliant on loans from international financial institutions. Furthermore, these loans and strict conditionalities contributed further to a worsened debt position; particularly, over the period 1987 to 1992 the World Bank loaned US\$ 1 billion towards the ERP (Holmgren et al., 1999: 20).

According to a study conducted by officials from the World Bank and the Bank of Uganda, there were a number of key results of the ERP between 1987 and 1991. These included a reduced rate of inflation from an average of 190 per cent to 28 per cent; a boost in GDP growth rate to an annual average of 6.3 per cent between 1988 and 1991; and a gradual improvement of exports and investment (in both the private and public sectors) (Holmgren et al., 1999: 20). Interestingly, by 1991 most properties had been returned to their former Asian owners, who started to come back to the country (Lindner, 2003: 2). Thus, Uganda seemed to be making a genuine and committed attempt at

managing its economy, with the aim of reviving its former economic significance and prosperity. Furthermore, it was believed that, through implementing reforms to manage the economy with international assistance, the country could possibly grow its way out of the debt trap. However, the country and the international financial institutions soon realised that growing out of debt would be particularly difficult for Uganda. Furthermore, the distinction between economic recovery and social recovery became more apparent as Uganda continued to boast economic progress, while its population continued to be impoverished.

Moreover, on the one hand Ugandan policy makers embarked on broad corrective measures supported by a variety of financial packages from the international community, while on the other hand the country's capacity to generate its own resources remained weak (Bigsten and Kayizzi-Mugerwa, 1999: 51). Furthermore, Uganda's dependence on external aid and loans increased at the same time as the country was experiencing adverse terms-of-trade movements, and continued civil instability in some regions (Nannyongo, 2001: 4).

Bigsten and Kayizzi-Mugerwa (1999: 51) further note that economic reform was difficult to establish in the 1980s because, although the country had just emerged from economic and political chaos, Uganda in the late 1980s had serious problems of programme sequencing. The government was caught in a vicious circle. For example, while improving internal security was crucial for creating a peaceful environment for production, imports of ammunition competed with imports of raw materials for industry.

There was also the contradiction of the public sector, which was declared in all policy statements to be ill equipped, poorly run, and corrupt, and yet was expected to spearhead the adjustment effort. Thus, it is argued that an unreformed public sector would likely have hindered reforms in the rest of the economy (Bigsten and Kayizzi-Mugerwa, 1999: 51).

It has also been claimed that many of the reforms further presupposed a functioning financial sector, and yet the country's financial institutions themselves, including the Bank of Uganda, were still weak, and rampant inflation hindered the pace of policy and institutional reform (Bigsten and Kayizzi-Mugerwa, 1999: 51). Therefore, failure to resolve these dilemmas delayed many ambitious initiatives, such as civil service reform, eradication of corruption, and a new Investment Code which legalised foreign investment, and thus foreign ownership in the economy (Bigsten and Kayizzi-Mugerwa, 1999: 54). Consequently, much of the ERP had been based on expected increased foreign investment which in fact did not materialise (Bigsten and Kayizzi-Mugerwa, 1999: 51).

Thus, in the 1990s the debt levels continued to increase. In fact, the proportion of concessional loans increased from under 20 per cent of bilateral and multilateral loans in 1981 to almost 60 per cent in 1990 (GDF 2001; Lindner, 2003: 4). In addition, concessional loans were far higher than that of bilateral loans. Also, most foreign aid received in the 1980s was in the form of loans as opposed to grants, but this proportion declined from about 70 to 80 per cent in the first half of the 1980s to 60 per cent in 1990. Interestingly, although an increasing part of these loans was concessional,

many loans were not. As a result, debt accumulated and debt service payments became a burden to the economy, especially from the 1980s and well into the 1990s (Lindner, 2003: 4).

Muwanga-Zake and Ndhaye (2001: 5) argue that an important aspect to note about the structural adjustments is that they did not purely focus on the external debt management in Uganda and, thus, the Ugandan government only really started to target its external debt problem from 1991. The authors explain that the 1991 Debt Strategy and the 1995 Enhanced Debt Strategy, which aimed to reduce national debt. This entailed the following considerable accomplishments that were critical for the economic foundation for the rest of the decade:

- Paris Club debt rescheduling and stock-reduction options;
- A commercial debt buy-back;
- Donor contribution to service multilateral debt;
- Strict limits on new non-concessional borrowing;
- Consistent implementation of economic recovery programme targets;
- Major efforts to improve the management of debt, fiscal policy and reserves; and
- The establishment of clear procedures for negotiating new loans and an emphasised commitment to reduce the stock of arrears significantly (Muwanga-Zake and Ndhaye, 2001: 5).

Furthermore, various debt-reduction operations involving the Paris Club, bilateral and commercial creditors, were relatively successful at relieving the debt in Uganda.

However, despite the relief efforts outlined above, debt continued to rise in the 1990s, although at a slower rate than in the second half of the 1980s. By end June 1996 Uganda remained heavily indebted with a stock of external debt of US\$ 3.5 billion or 63 per cent of GDP, and of which 75.5 per cent constituted multilateral debt (Muwanga-Zake and Ndhaye, 2001: 6). Regarding sustainability targets, Uganda's net present value (NPV) of debt (after implementing Paris Club rescheduling and stock reduction) was approximately US\$ 1.7 billion, or 233 per cent of exports of goods and non-factor services. This is a clear indication that Uganda could not achieve debt sustainability within a reasonable period even with good performance (Muwanga-Zake and Ndhaye, 2001: 6).

The high share of multilateral debt also represented a significant barrier by way of the debt relief options available to the government. Government, with the assistance of creditors, set up the Multilateral Debt Fund (MDF) in 1997 to receive contributions from donors to be applied to servicing multilateral debt. From its inception the fund attracted contributions to the tune of US\$ 135 million (Muwanga-Zake and Ndhaye, 2001: 7). In a sense the MDF assisted in reducing Uganda's debt, especially since the HIPC Initiative was launched a year before. However, it simultaneously perpetuated the country's dependence on donor funds to solve its debt problem, and revive its economy.

3.2 The Introduction of the HIPC Initiative in Uganda

The Heavily Indebted Poor Countries (HIPC) Initiative was first launched in 1996 by the IMF and the World Bank. The aim of the HIPC Initiative was to ensure that no poor country faces a debt burden it cannot manage. Necessarily, the initiative entails coordinated action by the international financial community, including multilateral

organisations and governments, to reduce HIPC external debt to sustainable levels. Moreover, the initiative involves a commitment made at the decision point – after a three-year track record by the international financial community – to provide sufficient debt relief to eligible countries (Boote, Kilby, Thugge and van Trotsenburg, 1997: 126). However, this deal is on condition that the country completes a further three-year period of strong policy performance (Boote, Kilby, Thugge and van Trotsenburg; 1997: 126).

Many believe that the HIPC Initiative was unique compared to the traditional debt relief approaches. This is because it sought to reduce debt stock to sustainable levels, subject to satisfactory policy performance of beneficiaries. Furthermore, many thought the HIPC Initiative situated debt relief within a framework of social welfare development. Boote, Kilby, Thugge and van Trotsenburg (1997: 126) believed that the initiative would enable HIPCs to focus on the policies required to tackle impediments to sustainable growth. These policies would include addressing issues regarding the inadequate physical infrastructures, untrained workforces, and weak institutions (Boote, Kilby, Thugge and van Trotsenburg; 1997: 126). In addition, UNCTAD (2004b: 14) felt that the initiative was governed by the principle of “equitable burden sharing”. This meant that each multilateral creditor, donor agency and commercial creditor would provide debt relief proportional to the amount of a country’s indebtedness to it.

The African Development Bank (AfDB) and the Organisation for Economic Cooperation and Development (OECD) explain the composition of Uganda’s external debt IS as follows: 90 per cent of Uganda’s total external debt was owed to multilateral institutions,

9 per cent was owed to non-Paris Club bilateral creditors, and 1 per cent to Paris Club creditors (AfDB/OECD, 2006: 512). Thus, it was believed that through the HIPC Initiative, the G7 would significantly improve Uganda's long-term debt sustainability and, even further, the Initiative was expected to lower the country's debt to export ratio to about 50 per cent in 2015 (AfDB/OECD, 2006: 512).

Birdsall and Williamson (2002: 26) recall the enthusiasm and optimism about the new Initiative. In 1996 the IMF and the World Bank predicted that 20 of the 41 countries then eligible to participate in the Initiative would eventually reach their completion point, and that the HIPC Initiative would provide a total debt stock reduction of US\$ 8.2 billion (about 20 per cent of their outstanding debt). However, after nearly three years in the process, only six countries - Bolivia, Burkina Faso, Cote d'Ivoire, Guyana, Mozambique, and Uganda - had reached the decision point, and only Uganda had reached the completion point (Birdsall and Williamson, 2002: 26). These disappointing figures resulted in strong pressure from the public, including from non-governmental organisations (NGOs) and civil society at large, academics and some HIPC governments. These groups highlighted the inadequacies of the original Initiative. The public outcry culminated in the official creditors meeting in September 1999. This resulted in the creditors formally agreeing to an enhanced HIPC framework that provided more and faster debt relief for more countries (Birdsall and Williamson, 2002: 26).

According to scholars Muwanga-Zake and Ndhaye (2001: 8):

The government of Uganda thus embraced the HIPC initiative with much optimism and anticipation and committed itself to promoting rapid economic growth with equity. In recognition of the country's track record of a decade of adjustment, it lobbied hard to persuade the Bretton Wood Institutions and the G7 that it should receive both the decision and completion points early in 1997. However, several G7 governments opposed this idea and the completion point was fixed at April 1998.

Somerville (2005: 218) explains that what especially distinguished the HIPC Initiative from other debt relief programmes was that throughout the construction and implementation of the Initiative the governments of the HIPCs took proactive measures to facilitate communication with donors, NGOs, and civil society. The measures included:

- Establishing quarterly meetings with donors to discuss debt and macroeconomic issues;
- Using Consultative Group meetings with the World Bank to present its views on enhancement;
- Communicating its message and expressing gratefulness to NGOs and civil society; and
- Constructively working with the Bretton Woods Institutions.

Nonetheless, having established a satisfactory track record of adjustment and reform supported by the IMF and World Bank, Uganda became the first country to qualify for the debt initiative for the HIPCs. Uganda formally entered the HIPC debt relief process in

April 1997, and attained completion point in April 1998. At this stage, the country received US\$ 700 million (in nominal terms) of debt relief (World Bank. Uganda: Country Brief). Under the terms of this original HIPC framework, Uganda “was expected to save an average of approximately \$37 million per year in debt service over the next 10 years, an average of \$22 million per year during 2010-2019, and an average of \$3.5 million per year during 2020-2038” (World Bank. Uganda: Country Brief).

However, shortly after this success Uganda’s debt became unsustainable once again, and this raised concern about the effectiveness of the HIPC Initiative and whether the initiative could live up to its expectations. Furthermore, the NPV of external debt at end June 1999 had risen to US\$ 1,806 million against the projected US\$ 1,608 million at the completion point of April 1998. The ratio of NPV of debt to exports increased to 248 per cent at end June 1999 compared with the projected 207 per cent. The share of multilateral debt for the same period had also increased to 81 per cent. In line with the revised sustainability indicators, the World Bank and IMF estimated additional relief necessary to bring Uganda’s ratio of NPV of debt to export to 150 per cent to be about US\$ 714 million (Muwanga-Zake and Ndhaye, 2001: 9-10). Hence, owing to the short-lived success of the initial HIPC Initiative, there was a need for the enhanced version, which would provide deeper and faster relief.

The enhancement of the HIPC included various new elements such as:

- It reduced the time to the completion point to less than three years. The enhanced framework replaced the fixed three-year period between decision and completion

point with a floating completion point. Under pressure from NGOs such as the Jubilee debt forgiveness campaign and other debt relief movement, the process of reaching the decision point was accelerated such that by the end of 2000 some 22 countries had reached the decision point.

- It reduced eligibility standards to allow more countries to access debt relief.
- It provided for greater relief between the decision and completion points, and
- In an effort to make sure that resources arising from debt relief were used for the purpose of reducing poverty, the relief was tied to progress made in preparing Poverty Reduction Strategy Papers (PRSPs) in their own country context. For a country to be eligible for the HIPC Initiative it must have a PRSP in place by the decision point and should have made substantial progress in its implementation by the completion point (Obwona and Ndhaye, 2010: 5).

Having qualified for first HIPC, Uganda had little difficulty meeting the requirements for the enhanced HIPC. Unlike the initial HIPC Initiative, the enhanced version required the governments to provide PRSPs to the World Bank and IMF. The World Bank and IMF Board and the Ugandan Ministers met with the IMF and World Bank in early 1999, and endorsed the Bretton Woods institutions' recommendation to have a closer tie between debt relief and poverty reduction to make progress towards the international development target. Interestingly, the Ugandan government was the first to prepare and implement its development strategy in 1997, which was titled the Poverty Eradication Action Plan (World Bank. Uganda: Country Brief).

This strategy was applied following the country's experience in implementing the Programme for the Alleviation of Poverty and the Social Cost of Adjustment (PAPSCA) project. The aim was to alleviate poverty among the vulnerable groups that were being negatively affected by the structural adjustment programmes (Muwanga-Zake and Ndhaye, 2001: 9-10). Therefore, this document together with the findings of the poverty assessment participatory survey formed the benchmarks for the country's PRSP. This was approved by the donor community involved in the HIPC Initiative (Muwanga-Zake and Ndhaye, 2001: 9-10). Over and above the poverty reduction frameworks, Uganda also established the Poverty Action Fund under the HIPC Initiative, which allowed gross savings from debt disbursement to be channelled into poverty-reduction strategies (Somerville, 2005: 221).

Subsequently, after a series of discussions with the donor community and the other stakeholders, Uganda accessed the enhanced HIPC with effect from May 2000. Of the total debt-service relief under the HIPC of some US\$ 2 billion, the World Bank provided nearly US\$ 1 billion (US\$ 517 million in NPV terms) (World Bank. Uganda: Country Brief). Some scholars recorded that in total, as a result of both initiatives, Uganda was granted debt relief amounting to US\$ 1 billion in NPV terms to be delivered over a period of 20 years (Kuteesa and Nabbumba, 2004: 49). As a consequence, Uganda has received substantial cash savings, averaging US\$ 60 million per annum over the past four years, accounting for almost a quarter of the total budget support over the period (Kuteesa and Nabbumba, 2004: 49). This figure has risen to approximately US\$ 90 million per annum

in debt relief, and is set to rise further in the medium term (Kuteesa and Nabbumba, 2004: 49).

Thus, it seems that Uganda managed to establish some important economic gains through both the HIPC initiatives. Furthermore, the country earned the reputation as the most willing and equipped HIPC to adapt to the IMF and World Bank policy prescriptions because of its economic reform history. However, it would be incorrect to assume that these gains did not come at a cost. Formulating policy to address poverty and appease the donor community is one thing; seeing positive results is another. Furthermore, what becomes increasingly apparent through Uganda's various attempts at reducing its debt over the years is the clearly limited policy autonomy that the country has when it comes to its external debt. Even though the HIPC Initiative appears more inclusive in its approach, in essence Uganda is still engaging with the Initiative on the terms of these multilateral organisations, and the fact that Uganda continues to engage on these terms implies that the country still has a high level of dependence on these organisations and their debt management prescriptions.

The next chapter further critiques the country's HIPC Initiative successes on a number of levels and also emphasises some of the social welfare and political factors as well as the debt sustainability that the country is still grappling with, which have not been extensively discussed thus far.

Chapter 4: The HIPC in Uganda - Success or Failure Debate

The literature concerning the assessment of the outcomes of the HIPC Initiative in Uganda can be divided into two broad categories – there is the optimistic view and the pessimistic view. On the one hand, scholars such as Harpa Elin Haraldsdottir (2006), Kuteesa and Nabbumba (2004), Mijumbi (2001), Mackinnon and Reinikka (2000) and Bigsten and Kayizzi-Mugerwa (1999) take a more optimistic view of the outcome of the HIPC Initiative in the country. Although their work does make mention of some of the shortcomings of the HIPC Initiative and the Ugandan policies that accompanied it, generally they choose to focus on the major gains that were made under the Initiative and support the view that the HIPC Initiative has brought more good than harm to Uganda. For instance, often the optimistic view has the underlying claim that had Uganda not taken part in the HIPC Initiative, the country would be even more indebted and unable to provide basic social welfare resources for the public. Furthermore, these scholars tend to depict Uganda as the HIPC Initiative’s “showcase” and they probe whether the results seen in Uganda are able to be replicated in other countries in need of an effective debt management scheme.

On the other hand, scholars who support a more pessimistic view of Uganda’s experience under the HIPC Initiative, such as Mwaba (2001), Nyamugasira and Rowden (2002), Somerville (2005), Mwenda (2006), Easterly (2006) and others, are generally more critical of the outcomes of the programme. Although these scholars may criticise different aspects of the Initiative, they generally put forward the idea that neither Uganda

nor the Initiative are without serious and often fundamental flaws. This section of the mini dissertation critiques the arguments brought forward from both sides. The areas of critique encompass the disputes around the economic, political and social aspects of Uganda's performance under the HIPC Initiative. The HIPC Initiative was ideally intended to make improvements in all three of these spheres and according to its supporters Uganda is an example of this. However, this chapter argues that there are many problems with the HIPC Initiative within itself, as well as within Uganda and its leadership, which the HIPC Initiative has not managed to overcome. Thus, this study also argues that although the improvements made under the HIPC Initiative should be acknowledged there is a limited extent to which the HIPC Initiative has been effective.

Furthermore, this mini dissertation argues that although the PRSP aspect of the HIPC Initiative supposedly offers Uganda the chance to have more policy ownership and has allowed civil society to participate in constructing policies that alleviate poverty in addition to alleviating debt, there are still barriers to this. The dissertation argues that when it comes to policy ownership the HIPC Initiative created a false expectation that this would genuinely happen through the PRSP. Although there are indications that NGOs and civil society were dissatisfied with the PRSP process, in a sense one can query how NGOs and civil society can expect Uganda or any HIPC to really gain policy ownership if, at the end of the day, they owe (and would like to continue to gain access to) such large sums of money from major international financial institutions. Moreover, what has been lacking in many of the analyses of the topic is that Uganda has been a single-party state since 1986 and whether this has had an impact, positive or negative, on

the manner in which economic reforms and poverty-alleviation strategies have been able to take place.

One of the key goals of the HIPC Initiative, particularly the Enhanced HIPC Initiative, was to bring external debt to a sustainable level so that HIPCs would be able to run their economies effectively and also have enough funds to target poverty reduction projects that they previously could not afford successfully. Despite Uganda receiving praise from HIPC Initiative supporters and the many indications that Uganda has made progress in the sphere of social welfare development, poverty and poverty-related issues continue to be a major problem in the country. Interestingly, Nannyonjo (2001) and Lindner (2003) explain that some social indicators, especially those for education and health, were relatively favourable in the 1960s; however, in the 1970s and the 1980s they were poor. For instance, Uganda's healthcare delivery system was considered one of the best in Africa and it was also easily accessible and free of charge at government health facilities, which were well attended. However, it deteriorated in the 1970s and for the most part of the 1980s (Nannyonjo, 2001: 14). Necessarily, this was also a consequence of the political instability and civil war that plagued the country over the decades. Nonetheless, once stability was established, additional funding was needed in order to address these social development problems and alleviate poverty. Hence, the HIPC Initiative, which promised to relieve the country's debt burden and poverty levels simultaneously, was welcomed by the government.

However, some argue that the Ugandan government's involvement in the provision of social services had been fairly extensive since independence. In the 1960s, education and primary healthcare were given considerable emphasis; they were seen as instruments that would help reduce poverty and diseases, and raise the low levels of education, thereby giving a boost to overall economic development (Nannyonjo, 2001: 9). In contrast, Uganda became one of the poorest countries in the world owing to the economic and social crises of the 1970s and early 1980s which constrained the amount and quality of social services (Mijumbi, 2001: 505). Over and above these crises, there was an overriding problem of the inability of the central and local governments to provide adequate resources for training, regulation and research. Furthermore, financial constraints reduced the levels of remuneration in the service sector to intolerable levels (Bigsten and Kayizzi-Mugerwa, 1999: 106). Thus, there were diminishing incentives for civil servants to work effectively in light of these fundamental institutional problems, and reviving the public sector was a major task for policy makers.

With the arrival of Museveni as president, the Ugandan government began to embark on policies to address the many social issues that it faced and to overcome some of the institutional weaknesses in the public sector. Moreover, according to many scholars, including Lindner (2003: 55), Mijumbi (2001: 507), and Bigsten and Kayizzi-Mugerwa (1999: 55), Uganda has a longer history than most HIPC's of incorporating poverty reduction with economic reforms. In 1989 Uganda implemented the PAPSCA, which was a scheme put in place as a means of protecting poor and vulnerable segments of society against the effects of structural adjustment (Mijumbi, 2001: 507). As stated earlier, the

World Bank also had a large role in assisting with Uganda's social development and the Bank played an integral role in the formulation of PAPSCA. However, PAPSCA had a limited impact on poverty reduction, even with World Bank assistance, and there were more efforts needed subsequent to PAPSCA to ensure that social development programmes are successful.

Many studies on the HIPC Initiative and Uganda's debt also emphasise the social consequences of the debt problem and the impacts of the efforts to resolve the economic crisis. Very often, economic reforms, such as structural adjustments, and other debt relief programmes, such as the HIPC Initiative, are criticised for worsening the social conditions of HIPC countries. Thus, over the course of the 1990s Uganda made more attempts to grapple with its social issues while at the same time making economic reforms. However, these efforts often failed owing to financial and resource constraints and thus Uganda largely had to sacrifice poverty alleviation plans for economic needs.

Before the institution of the HIPC Initiative and the PRSP, Uganda had already put in place a national strategy for poverty eradication called the Poverty Eradication Action Plan (PEAP). The function of the PEAP was essentially to guide policy formulation and public spending over the medium term. In addition to the PEAP, the government formed the Poverty Action Fund (PAF) as a way of protecting funds going specifically to poverty eradication programmes from budgetary cuts. The PAF works as a virtual fund within the budget that is funded by HIPC savings, "earmarked" donor funds, and government revenues (Kuteesa and Nabbumba, 2004: 50).

Therefore, This meant that the resources saved from HIPC debt relief that were purposively channelled to the PAF allowed Uganda to increase the budget for the most critical areas such as primary education, primary healthcare, rural roads, safe water and sanitation, and agriculture (Kuteesa and Nabbumba, 2004: 51).

As a result, annual expenditures on education increased by 9 per cent, and yearly health expenditure growth was recorded at 20 per cent. What's more, there were also substantial increases in spending on water, rural roads, gender, HIV/AIDS, justice, law and order, and on environmental spending (Kuteesa and Nabbumba, 2004: 51). However, the most contentious areas regarding the progress made under the HIPC Initiative and the PRSP include: education; health; and HIV/AIDS.

Unlike many other scholars who critique Uganda's poverty reduction attempts under the HIPC initiatives, Kuteesa and Nabbumba (2004: 52) discuss Uganda's poverty reduction progress in terms of the UN Millennium Development Goals (MDGs). The areas that this thesis focuses on are education, health and HIV/AIDS, which are some of the most contentious issues in the country to be highlighted in the country's PRSP. In particular, the authors argue that Uganda's achievements in the social welfare development sphere are simultaneously in line with the fulfilment of the MDGs since there is a substantial overlap between the PEAP, PRSP and MDG targets:

- *Education*: Uganda's Universal Primary Education (UPE) policy, initiated in 1997, led to an upsurge in gross primary enrolment from 2.6 million to 7.3 million pupils in 2002. Kuteesa and Nabbumba (2004: 52) also note that the gender gap at the primary

level was closed through this policy. Somerville (2005: 222) recalls that there were increases in education expenditure alone from 1.5 per cent to 2.5 per cent of the Ugandan budget from 1996/1997 following the implementation of the UPE. However, it is also necessary to mention that pupil retention, the quality of education and increased access to post-primary schooling still needed to be improved (Kuteesa and Nabbumba, 2004: 52). Therefore, the quality over the quantity argument raised earlier is a relevant and common criticism of the PRSP and its accompanying policies. Nannyongo (2001: 11) mentions a number of examples that relate to this criticism; for instance, although access to education has increased, the ratio of pupils per classroom is still far from the targets included in the PRSP. This points out the critical dilemma concerning Uganda's education system. Necessarily, Nannyongo (2001: 11) mentions that there are further concerns related to where to focus the meagre resources: whether to provide a cheap or even free basic education to the broad masses or to concentrate more on the higher levels of education in order to improve capacity in government and the private sector. Thus, although Uganda may be able to boast impressive educational expenditure and enrolment figures, there are still many issues that the funds from the HIPC Initiative and the PRSP perhaps did not foresee.

- *HIV/AIDS*: Uganda is often recognised for its proactive approach towards HIV/AIDS. Since the launch of the HIPC Initiative the prevalence rates have fallen considerably, from 14 per cent in the mid-1990s to 6.5 per cent during 2001 to 2002 (Kuteesa and Nabbumba, 2004: 53). Generally, Uganda's ability to reduce the prevalence of HIV/AIDS rates is praised in the literature almost as much as their

education programme and the country has been one of the most successful nations on the African continent in responding to the HIV/AIDS crisis. However, the disease has caused an enormous strain on the health sector. Particularly, the healthcare system continues to suffer from shortages in staff, medication and preventative primary healthcare (AfDB/OECD, 2006: 517). What's more, the impact of AIDS itself has rapidly extended beyond the healthcare system. For instance, young and well-educated adults are mainly affected by AIDS, causing the size and quantity of labour input to fall, with negative impact on productivity. Also, some farms are being abandoned or restricted to subsistence farms owing to the reduced labour supply. Children have often either had to leave school at an early age to support families, or have become orphans and sometimes have even had to fend for themselves as a result of the AIDS deaths in families (Bigsten and Kayizzi-Mugerwa, 1999: 126).

- *Roads*: The share of the rural road network being maintained regularly has increased, from 20 per cent in 1997-98 to 60 per cent in 2000 (Kuteesa and Nabbumba, 2004: 53).

- *Water and Sanitation*: Access to water has improved nationally, from 40 per cent in 1997 to 52 per cent in 2001. Sanitation, however, remains a problematic area (Kuteesa and Nabbumba, 2004: 53).

- *Health*: Improving the health status of the Ugandan population remains a major challenge. There is still too little progress in reducing infant, child and maternal mortality rates and increasing immunisation rates (Kuteesa and Nabbumba, 2004: 53).

As with the education dilemma, while the government has emphasised the importance of primary healthcare, in reality the bulk of health expenditures go to urban hospitals

while the majority of the population actually lives in the rural areas (Nyamugasira and Rowden, 2002: 34).

Despite some of the important progress made in terms of the MDGs, Mwaba (2001: 21) argues that Uganda is still ranked lower than any of its neighbours on the UN HDI. More generally, Haraldsdottir (2006: 59) and Okidi, Ssewanyana, Bategeka, Muhumuza (2004) also raise the quantity over quality critique of the HIPC Initiative on the grounds that there is strong evidence to show that the service quality of education and health has been sacrificed for an increase in quantity. Necessarily, this has resulted in the non-availability of drugs, absence of qualified health staff, lack of preventive primary healthcare, and prevalence of poor sanitation diseases and HIV/AIDS (DAC, 2005; Haraldsdottir, 2006: 59). Thus, the quality of key public services remains a challenge for Uganda despite the perceived gains of the HIPC Initiative (Haraldsdottir, 2006: 59).

Moreover, the problem of low quality public services is that they can dramatically reduce the effectiveness of public spending, and, as a result, necessarily fail to improve the living standards of the poor and increase their human capital (Haraldsdottir, 2006: 59). In addition to this, Haraldsdottir (2006: 59) argues that the consequence of this poor service is that people who can afford to pay for education and health services prefer private or NGO-run facilities over public ones. Therefore, although the supporters of the HIPC Initiative may mention the important impact that debt relief and the PRSP has had on public spending on social services and poverty reduction, they have not effectively taken

into account these new issues that the country has to face regarding the quality of new available services.

Haraldsdottir (2006: 60) highlights that another important reason for the decline in poverty reduction is that agriculture, which provide income for the bulk of the population, has grown slowly (at a rate much lower than the overall growth rate of the economy). She points out that after the economic boom in the mid-1990s, the main agricultural tradable, coffee, suffered significant price falls, prompting systematic efforts to increase the export shares of other commodities such as fish and flowers (Haraldsdottir, 2006: 60-61). Therefore, she argues, although the effort has paid off, the remaining problem is that the poverty effects are limited given that they engage only a small segment of the population, unlike the coffee sector. Furthermore, although the proportion of donor assistance going into the general budget support is increasing, the share of agriculture in the total budget has been, and is projected to be, below 4 per cent (Haraldsdottir, 2006: 61).

With this said, there have been notable changes to the state of poverty and social development since the launch of the HIPC Initiative which should be acknowledged. Furthermore, it could be argued that surely Uganda's problems will take years to overcome. Therefore, the achievements that have been made should be seen in light of the fact that effective change is a long process. Thus, in a sense, initiatives that have been implemented to assist the HIPC Initiative, such as the PEAP/PRSP, the PAF and the UPE, have significantly improved social service delivery and its impact. However, it is also

necessary to note how and where the government has made mistakes and poverty reduction has failed under the HIPC Initiative. For example, less investment has gone to the productive sectors, particularly agriculture, from which the majority of the poor derive their livelihood, and hence there is an observed rise in poverty (Kuteesa and Nabbumba, 2004: 53). Furthermore, inequalities between socioeconomic groups and regions persist (Kuteesa and Nabbumba, 2004: 53). In addition, it is often argued that the provision of social services in Uganda is plagued by an urban bias, with services concentrated in the confines of the major urban centres; and by a shortage of both resources and personnel to modernise and adapt the institutions to the needs of the expanding population (Nyamugasira and Rowden, 2002: 34). Thus, there are numerous issues that have arisen as a result of the poverty reduction efforts, which policy makers may not have predicted beforehand.

To further illustrate the rural urban economic disparity, the AfDB and OECD documented that, between 1999 and 2003, the absolute number of poor people increased more in rural areas than in urban areas (AfDB/OECD, 2006: 517). Moreover, they noted that the rise in poverty has been particularly marked in households where agriculture is the main occupation, with crop farmers worse off than those involved in other agricultural activities. In addition to this, Uganda's income inequality increased by 23 per cent between 1997 and 2003, with urban areas experiencing higher income inequality growth – of - 37.5 per cent – than rural areas, where income inequality increased by only 9.5 per cent during the same period (AfDB/OECD, 2006: 517). Since these years coincide with Uganda's years of HIPC Initiative successes, it seems that in addressing

poverty the government was also faced with a growing income gap between rich and the poor. This has implications for the success of the initiative and the country's own ability to build its human capital effectively.

As mentioned in the introduction to this chapter, there are numerous scholars that favourably view the HIPC Initiative in Uganda and prefer to highlight the positive aspects of the debt management programme. Kuteesa and Nabbumba (2004: 49) describe Uganda's experience with the HIPC Initiative as being broadly positive. Their most obvious justification for this is the fact that Uganda was the first country to qualify for debt relief under both the first HIPC and the Enhanced HIPC Initiative in April 1998 and April 2000, respectively, and this naturally indicates the country's determination to succeed under the programme (Kuteesa and Nabbumba, 2004: 49). Furthermore, the speed with which Uganda qualified for debt relief was significant. HIPCs typically have to engage in a standard six-year qualifying period, but Uganda qualified within months and this was a reflection of the country's exemplary record of macroeconomic reform and a proven commitment to poverty reduction (Kuteesa and Nabbumba, 2004: 49). With these results in mind, Uganda is often viewed as the HIPC Initiative's "showcase" or "success story" by the supporters of the programme, and occasionally scholars also attempt to predict whether other HIPCs will be able to replicate Uganda's progress.

The combined debt relief given to Uganda under HIPC I and II was supposed to enable Uganda to remain on a sustainable debt path for the foreseeable future, as measured by a continuing NPV debt-to-exports ratio of below 150 per cent, thus delivering total exit

from debt rescheduling (Kuteesa and Nabbumba, 2004: 53). However, results of two debt sustainability analyses (DSA) conducted in 2002 indicated a rise in Uganda's debt-to-exports ratio over the 18 months since the Enhanced HIPC completion point to almost 200 per cent (Kuteesa and Nabbumba, 2004: 53-54). Over and above this, calculations made by the Ministry of Finance, Planning and Economic Development at the end of 2003 suggested that this ratio had risen, to 307 per cent as at end of June 2003. This is also 15 per cent higher than Uganda's NPV debt-to-exports level prior to accessing HIPC I (Kuteesa and Nabbumba, 2004: 54). Thus, despite receiving the HIPC assistance, Uganda's debt increased, and in 2004 was declared unsustainable again by the IMF and World Bank (Mwenda, 2006: 6).

After such promising initial results from both the original HIPC and Enhanced HIPC Initiative, it is concerning that Uganda fell into the debt trap once again. This rise in unsustainable debt could have meant that Uganda had clearly not managed to control its debt levels after receiving its debt relief, or that the HIPC Initiative itself was deeply flawed, its results unreliable and that adequate support systems were not in place for avoiding a digression into further debt. This begs the question: 'what caused this regression? Is the HIPC Initiative flawed?' 'Were there elements of the international political economy that prevented the sustained success of the initiative?' 'What kind of problems was the Ugandan government facing?'

In response to this, optimistic scholars insist that the rapid rise in the unsustainable levels of the debt was not a result of poor macroeconomic management, as inflation remained low and stable at an average level of 5 per cent at the time, the government was pursuing a fiscal strategy of deficit reduction to enhance private sector development and emphasis was on efficiency rather than volume of public spending (Kuteesa and Nabbumba, 2004: 54). The scholars, instead, provide four primary reasons they feel explain the rise in Uganda's debt-to-exports ratio. First, they argue, the terms of trade deteriorated for Uganda's major exports owing to the fall in global commodity prices (Kuteesa and Nabbumba, 2004: 54). For example, at the Enhanced HIPC decision point, the three-year average value of Uganda's export earnings for the year ending 2002-2003 was projected at US\$ 1,007 million. However, the actual value turned out to be US\$ 726 million, reflecting a fall of 28 per cent (Kuteesa and Nabbumba, 2004: 54).

Secondly, they argue that at the Enhanced HIPC decision point estimates for new financing in the macroeconomic framework and balance of payments were not fully incorporated in the DSA (Kuteesa and Nabbumba, 2004: 54). Uganda had borrowed US\$ 1 billion since reaching the HIPC completion point, and although these new borrowings, which were primarily from the multilateral development institutions, had been on highly concessional terms, they led the nominal debt stock to increase from US\$ 3.2 billion at the time of the Enhanced HIPC to US\$ 4.2 billion as at end of June 2003 (Kuteesa and Nabbumba, 2004: 54).

Thirdly, not all creditors were willing to deliver debt relief under the HIPC Initiative, as was assumed. In particular, commercial creditors who refused the 1992 debt buyback and non-OECD bilateral creditors were unwilling to extend relief, leading to arrears accumulation, which contributed to the rise in the debt stock (Kuteesa and Nabbumba, 2004: 54). In addition to this, Uganda's debt sustainability was affected by the fact that not all creditors were willing to participate in equal burden-sharing, and some have even rejected participation in the HIPC initiative outright (Kuteesa and Nabbumba, 2004: 55).

Interestingly, these scholars also note that a number of creditors have taken Uganda to court, suing for the payment of their debts in full, plus compensation, which compounds the country's debt problem (Kuteesa and Nabbumba, 2004: 55). The authors noted that by 2004, there were four cases that have been successful, although one is currently on appeal, and Uganda has been forced to pay over US\$ 20 million in recompense so far, which drained a large amount of the country's HIPC relief savings (Kuteesa and Nabbumba, 2004: 55). Lastly, low global interest rates have increased the present value of Uganda's debt and reduced the concessionality of IDA lending terms (Kuteesa and Nabbumba, 2004: 55).

UNCTAD (2004a: 43) has also noted problems with the concept of debt sustainability, which is a forward-looking approach and takes into account many variables that cannot be predicted with much certainty. This is precisely how, for example, a country that was judged to have sustainable debt could subsequently be ravished by famine and thus fall back into debt (Millet and Toussaint, 2004: 93). Therefore, essentially, sustained debt

control is not realistically possible and is subject to shocks. Uganda was deemed to have reached a sustainable debt level under both HIPC initiatives, even after qualifying and receiving assistance, but shortly after its debt became unsustainable again. Debt relief can be seen as temporary since the country that receives it often has its savings spread out over a number of years and must continue to borrow; however, in addition to this its debt will continue to increase again (Mutume, 2001: 26). Therefore, Uganda and many HIPCs that qualify and receive assistance expose a critical problem with the concept of debt sustainability. They indicate that the concept fails to include new debt which these countries and continues to incur in order to pay charges on their remaining old debts and run their economies. Thus, Uganda and many other countries continue to face unsustainable levels of debt even after receiving HIPC relief (Mutume, 2001: 26).

In response to this critique on debt sustainability, the IMF admits that the HIPCs' medium- and long-term debt sustainability are still not assured since these countries remain vulnerable to shocks, particularly those affecting exports and their payment capacity, which is highly sensitive to the terms of new financing (Vallée and Vallée, 2005: 190). However, optimistically, they see this as an opportunity for countries to reduce their debt vulnerabilities independently and decisively. Particularly, the MFIs believe that the HIPCs need to source additional aid flows, pursue cautious borrowing policies and strengthen their public debt management capacities (Vallée and Vallée, 2005: 190). With these ideas in mind, the HIPC Initiative notion of debt sustainability implied that any further economic complications, before or after sustainability had been achieved, were not taken into account. Nonetheless, many HIPCs remain vulnerable and

ill-equipped to handle the limits to the MFIs' debt sustainability and the medium- to long-term possibilities. Therefore, it can be argued that additional resources should be made available to countries that make genuine attempts at overcoming the challenges of sustaining lower debt.

Whether it is up to the HIPC Initiative or the HIPCs themselves to deal with their digressing into debt unsustainability is also being debated among scholars. Perhaps the country is learning from its past mistakes under the Initiative, and is essentially being proactive about managing its debt levels again. For example, Uganda has adopted a three-pronged strategy for maintaining debt sustainability in the future: ensuring all new borrowings continue to be highly concessional; reducing the country's fiscal deficit in the medium term; and implementing growth-enhancing policy reforms that expand and diversify export production, thus minimising shocks to the economy (Kuteesa and Nabbumba, 2004: 55).

Necessarily, Kuteesa and Nabbumba (2004: 53) note that both the Medium-Term and Long-Term Expenditure frameworks are being re-orientated to address these new challenges so as to enhance the poverty focus of public spending. The government is committed to increase the share of the budget spent on PAF, which rose from 18 per cent in 1997-1998 to 35 per cent in 2001-2002 (Kuteesa and Nabbumba, 2004: 53).

Nevertheless, scholars argue that the international community needs to do more to help Uganda achieve and maintain debt sustainability in the future, and they provide a number

of reasons for this (Kuteesa and Nabbumba, 2004: 55). Firstly, Uganda has been unduly penalised by virtue of the fact that it was the first country to access the HIPC debt relief initiative (Kuteesa and Nabbumba, 2004: 55). They declare that Uganda has been penalised in the sense that errors made in the calculation of HIPC debt relief to Uganda have been corrected for subsequent countries (Kuteesa and Nabbumba, 2004: 55). Moreover, subsequent countries accessing the Initiative have had their exports valued at the prevailing lower global commodity prices, which means they have been given relatively more relief to enable them to arrive at the same present value debt-to-exports ratio. Therefore, there is a strong case for additional relief to be extended to Uganda to rectify these inequalities and to help improve its debt sustainability indicators (Kuteesa and Nabbumba, 2004: 55).

Secondly, since Uganda has not received all the relief it expected, as a result of the non-participation of a number of creditors, further international debt relief would also help to ease the financial impact on Uganda of this unforeseen non-participation (Kuteesa and Nabbumba, 2004: 55). This problem is not unique to Uganda, and is a clear indication of how the HIPC Initiative, and particularly donors, have disappointed the HIPCs. Although the largest creditors (the World Bank, the AfDB, the IMF, the Inter-American Development Bank, and all Paris Club creditors) provide debt relief in line with their commitments under the HIPC Initiative, others are lagging behind. Smaller multilateral institutions, non-Paris Club official bilateral creditors, and commercial creditors, which together account for about 25 per cent of total HIPC Initiative costs, have delivered only a small share of their expected relief so far (Gilman and Mitchell, 2004: 88). Non-Paris

Club bilateral creditors as a whole have delivered approximately 40 per cent of their share of HIPC Initiative debt relief. However, close to half of these creditors have not delivered any relief at all. The delivery of HIPC Initiative relief by commercial creditors, although still low at an estimated 33 per cent, has increased markedly in recent years through a few large operations. A number of commercial creditors have initiated litigations against HIPCs, raising significant legal challenges to burden sharing in the context of the Initiative (Gilman and Mitchell, 2004: 88).

Furthermore, given the voluntary nature of creditor participation in the HIPC Initiative, the IMF and the World Bank have only been able to use moral suasion to encourage creditors to participate in the Initiative, and to deliver fully their share of HIPC Initiative debt relief and to consult with both debtors and creditors (Gilman and Mitchell, 2004: 88). However, it is obvious moral suasion is not sufficient and that more should be done by the MFIs to put additional authoritative pressure on other creditors, who are reluctant to participate fairly in the HIPC Initiative.

Finally, optimists often suggest that the international community can help reduce Uganda's future debt burden by giving more aid in the form of grants, rather than loans, thus reducing Uganda's future borrowings from multilateral development institutions (Kuteesa and Nabbumba, 2004: 55). However, since the international community in many respects has failed Uganda and many of the HIPCs one might be justified in querying whether this optimistic suggestion is sufficient and reliable. Moreover, continual grants from the international community often lead to increased grant or aid

dependence. Therefore, one could ask: what should Ugandan leadership do to reduce its apparent dependence on the international community?

By contrast, Mwenda (2006: 6), a more pessimistic scholar, argues that debt relief served as a licence for the Ugandan government to borrow even more. He illustrates how, in the six years before the HIPC Initiative, foreign aid to Uganda averaged US\$ 593 million per year, whereas in the six years after HIPC, it averaged US\$ 783 million per year. This indicated an increase in foreign aid inflows of 32 per cent (Mwenda, 2006: 6). Furthermore, although there has been a movement by donors away from loans and towards grants, there is still a significant amount of foreign aid that comes from the multilateral donors, such as the IMF and World Bank, in the form of highly concessionary loans (Mwenda, 2006: 6). In the five years following the HIPC debt relief of US\$ 2 billion, the debt rose to US\$ 4.9 billion (Mwenda, 2006: 6).

Mwenda (2006: 6) claims that government corruption and the government's misuse of funds were key reasons for the re-emergence of debt unsustainability in Uganda. He states that immediately after Uganda's debts were forgiven under the HIPC Initiative, the government indulged the political elite and the military (Mwenda, 2006: 5). The country incurred expenses such as a new private jet for the president, which cost US\$ 35 million; military exploits in neighbouring Sudan and Congo, which increased military spending from US\$ 110 million in 2000 to US\$ 200 million in 2005; increased military corruption, particularly during times of civil unrest in the northern part of Uganda; and political patronage, which increased in cost by 16 per cent per annum from 1998 onwards,

according to the Ministry of Finance Public Expenditure Review of 2002 (Mwenda, 2006: 5-6).

William Easterly (2006: 200) is another scholar who highlights the problematic levels of corruption and how corruption, is an immense contributor to the debt problem. Easterly believes that “in reality there are few clear-cut political breaks with a corrupt past” (Easterly, 2006: 200). By this he implies that the political factors that make governments corrupt often persist over time, and questions how ‘clean’ the new government must be to represent a complete departure from the mismanagement of the previous regime (Easterly, 2006: 200). In considering the case of Uganda, he compares the Amin administration to the leadership of the Museveni regime. He argues that the Museveni government, like Amin, continued to spend money on questionable military adventures in the Democratic Republic of the Congo (DRC) (Easterly, 2006: 200).

Thus, Mwenda (2006: 6) believes that the argument put forward that more debt relief is needed in Uganda is weak, because even though Uganda may have one of the best policy environments in sub-Saharan Africa it still faces key challenges in its political leadership. These issues hamper the country’s ability to sustain its economic successes and channel resources to the poor. He continues that there is no evidence of a positive relationship between increasing aid and debt forgiveness on the one hand and poverty reduction on the other (Mwenda, 2006: 6). Poverty in Uganda had been steadily declining between

1992 and 1999. However, since the debt relief in 1998 and the increase in foreign aid, poverty has begun to increase again (Mwenda, 2006: 6).

Furthermore, there is also debate about whether the claim is valid that Uganda has managed to develop and implement debt management and poverty alleviation policies through consultative and inclusive means. According to the leading NGO in the country, the Ugandan Debt Network (UDN), the following local and international NGOs, CSOs (Civil Society Organisations) and research institutions were part of the PRSP discussion process: Oxfam (UK); Action Aid (UK); VECO Uganda (Belgium); SNV (Netherlands); MS Uganda (Denmark); Action For Development in Uganda (ACFODE); the Uganda Women's Network (UWONET); the Centre for Basic Research and Makerere Institute of Social Research (MISR); the Uganda chapter of the Forum for Women Educationalists (FAWE); World Vision International and the Catholic Medical Bureau (Gariyo, 2002: 25). From this it seems that the NGO and CSO community that participated in the consultations regarding the PRSP covered a broad spectrum of concerns that needed to be considered in the debate and policy making process. Hence, Uganda is often praised for its successful inclusion of the NGO and CSO community when the country was formulating its debt management and poverty-reduction strategy.

Nevertheless, despite the presence of these NGOs and CSOs, Somerville (2005: 220) still notes that there was actually much controversy regarding the economic policies developed to accelerate growth and the level of public consultation. Necessarily, Ugandan NGOs and CSOs claim that they were invited to provide input on the

development of the poverty-reduction goals, but the specific nature of the policies to achieve the goals of the PRSP were not negotiable (Somerville, 2005: 220). As a result, the NGOs and CSOs felt that there was a distinct neo-liberal policy framework, similar to the structural adjustment policies, which had been dictated by donors and the government but which they did not agree with (Somerville, 2005: 220).

In light of the above, Somerville (2005: 220) argues that firstly, it is evident that there is a clear divergence of opinion between the NGO/CSO and creditor community concerning the HIPC Initiative, which has not been appreciated. Secondly, he argues that there is also a resource dependency relationship whereby donors can leverage their policies into enforcement. Finally, in light of the previous points, he believes that the legitimacy of the policy framework and the integrity of the World Bank and IMF are suspicious.

According to the Ugandan Debt Network (UDN), CSOs indeed felt left out of the later stages of the policy making process, when they were excluded from the discussions that turned the Uganda PEAP into the PRSP (that was presented to the IMF/World Bank Executive Boards) (Gariyo, 2002: 25). The UDN report makes the following further claims about the PRSP process:

Although, there were numerous contacts with government officials at all stages in the preparation of the PEAP, there were fewer contacts with donors and more specifically the IMF and the World Bank missions in the preparation of the IMF version of the PRSP document. The few meetings that took place between the missions and CSOs were almost like verification meetings to find out the level of civil society participation and the quality of inputs. Members of the Task Force met with various World Bank missions and a mission from the US State Department, but these discussions were more general. (Gariyo, 2002: 25-26)

Thus, the claims made by Somerville (2005) and the UDN (2002) are critical of the depth and relevance of the PRSP process and whether there was an authentic improvement in policy making around debt, since the top-down approach of previous programmes like the structural adjustments of the 1980s and the original HIPC Initiative. Although, the inclusion of the CSOs and NGOs is a progressive step towards considering, mobilising and organising the grassroots movements around the debt problem and its numerous impacts, it is argued that there seems to be a limit to which the government and the international financial institutions are willing to engage with social movements and alternative thinkers.

However, in contrast, some scholars hold a more optimistic view concerning the extent of the involvement of NGOs and CSOs. Particularly, since the Enhanced HIPC Initiative insists that one of the central features of the PRSP is civil society participation, Uganda is often viewed as having achieved this and as being very active in engaging in dialogue with the various groups (Haraldsdottir, 2006: 64). According to Haraldsdottir (2006: 64-65) this is because the formulation of Uganda's PRSP seemed to match with the desire of the government to revise the PEAP and convert it into the country's PRSP. Furthermore, the PEAP was first developed in 1997 following an 18-month-long consultation involving stakeholders that included central and local governments, NGOs, (CSOs), donors, and academia (Mackinnon and Reinikka, 2000: 47). Thus, Uganda represents a positive example of the PEAP and PRSP process and planning being influenced by CSOs, and a wide range of critical thinkers and stakeholders.

To more optimistic scholars, including Haraldsdottir (2006) and Mackinnon and Reinikka (2000), they argue that Uganda's experience of civil society participation in the preparation of its PRSP demonstrates the ability and need for CSOs to influence policies effectively. With this said, these scholars believe that there should also be a conducive policy environment and a government commitment to these robust dialogues and criticisms. In particular, Uganda presents an impressive model because despite the fact that there are strict guidelines for civil society participation in the PRSP process, most governments in Africa are still sceptical about engaging CSOs in policy planning at this level (Haraldsdottir, 2006: 65). They argue that the Government of Uganda did well to ensure that CSOs were given enough space in the PEAP/PRSP process by organising independent consultations and incorporating as much of their input into the documents as possible. Furthermore, these organisations were given a platform from which to critique public spending and hold government accountable (Mackinnon and Reinikka, 2000: 51). Hence, civil society organisations have, since 1999, earned themselves an open space to participate regularly in the Consultative Group (CG) meetings that are held annually in the country.

However, one might expect that there would be concerns that the creditors and the NGOs and CSOs would differ in noteworthy ways, especially since creditors are more prone to follow a neo-liberal paradigm, whereas NGOs and CSOs tend to be more radical. In reality this must have caused some tension when Uganda was negotiating policies with these competing groups. This thesis argues that it seems that in the process of trying to improve the HIPC Initiative and make it a more broadly encompassing policy, the HIPC

Initiative has made Uganda accountable to many institutions, and because of this the country has a limited scope of policy ownership. Secondly, this paper argues that it is likely that there may have been clashes of interest and that the Ugandan leadership would ultimately favour a policy that impresses their international creditors, whom they are in fact more dependent on, rather than one that favours their NGOs and CSOs. Thus, in this aspect, the principles of the HIPC Initiative are not necessarily far from previous debt management policies that have been dictated with a top-down approach, which is characteristic of MFI policies towards poor developing countries.

Furthermore, Easterley (2006) believes that the fiscal discipline required and the complex policy advice suggested by the HIPC Initiative and the MFIs would be difficult for even the most skilled policy makers in advanced economies to meet. Therefore, a government in a poor country, suffering from a scarcity of qualified managers, is not likely to succeed at achieving the unrealistic goals of the initiative (Easterley, 2006: 202).

Nonetheless, some optimists believe that the HIPC Initiative is an important step in the right direction to foster sustainable growth in low-income countries, and to integrate debt relief into a global poverty-reduction strategy. However, it is also vital to emphasise that as Uganda and the HIPC countries face unmanageable debt and deep structural processes, the Initiative is not a panacea for broader economic development problems and scholars should not make the mistake of overcharging the Initiative with exaggerated expectations of success (Haraldsdottir, 2006: 68). Therefore, it can be argued that the HIPC Initiative

needs to be understood more holistically as only a step in the process of improving the country's economy and alleviating debt and debt effects on poor countries. On this optimistic note, although Uganda was not able to eliminate its debt and poverty, there were many lessons learnt under the HIPC Initiative and it can also be questioned whether some of the improvements, including the short lived improvements, achieved by the country would have happened without the HIPC Initiative.

However, although the optimists may be correct in arguing that the HIPC Initiative should not be seen as a panacea for the debt problem, as there are many unpredictable events that could alter the outcomes, the HIPC Initiative should also not be the cause of debt being compounded. This is a clear indication that the policy is a failure. Furthermore, perhaps the Initiative should have defined its objectives more carefully in order to discourage unrealistic expectations of it.

Concerning policy ownership, Haraldsdottir (2006) holds a similar view to Somerville (2005) and admits that:

Commitment to reforms does not, however, necessarily mean ownership of reforms. The Ugandan government did not fully design its liberalisation strategy but largely followed donor, especially World Bank, advice and conditionality. Interest in stronger government ownership of the reform programme was, however, manifested in a number of areas. The president displayed active commitment to various reform initiatives. Decisions to embark on more challenging structural reforms were often initiated in the absence of donor support or conditionality but attracted financial assistance once commitment was evident in the preparatory and design work. (Haraldsdottir, 2006: 63-64)

Thus, the desire for more reform ownership in Uganda, and the claims that policy ownership is increasing in the more recent debt management schemes such as the HIPC Initiative are unrealistic. As was already mentioned in the introduction to this chapter, it

is debatable how much ownership over these policies Uganda can expect to claim if, ultimately, the country needs to choose policies that will lead to favourable relations with its creditors and/or its NGOs and CSOs. Furthermore, even if reform ownership is possible, how would it be implemented?

A further point concerning policy making, is that a significant amount of the literature on Uganda's HIPC Initiative performance does not give an account of the impact of Uganda's single-party state, and its impact on debt management and policy making. The fact that President Museveni had been in power for over 20 years must have made an impact, good and/or bad, on his ability to pioneer policy decisions. However, this remains a relatively unacknowledged area of discussion in the literature on Uganda's experience of the HIPC Initiative, in particular, and debt management in general. Thus, there remains the question of whether Uganda's successes or failures under the HIPC Initiative can be attributed to its single-party state. Furthermore, do some scholars prefer not to make a linkage between the absence of democracy in a poor country and its ability to pursue economic reforms?

In sum, this chapter has discussed some of the strengths and weaknesses of the HIPC Initiative through surveying the literature on Uganda's experience of the programme. Although Uganda's debt levels have not managed to improve over a sustained period to prove that the HIPC Initiative can work and has worked for the country, there have still been a number of important improvements in its social welfare development. The fact that NGOs and CSOs feel somewhat constrained could be an indication that Uganda has not included them sufficiently in the policy making around poverty alleviation. With this

said, it has been argued that it is also clear to see why Ugandan leadership would aim to appease creditors, over NGOs and CSOs, as the country has become increasingly aid dependent. However, the claims that Uganda can make about having increased policy ownership, even under the Enhanced HIPC Initiative, are still limited. Nevertheless, in the process of attempting to strike a balance between economic reforms and public policy reform there have also been some notable setbacks, in both the country's economy and social development and these have been due to a number of different factors. Although the optimists still claim that the HIPC Initiative was a step in the right direction, it is difficult to see how this was so.

Firstly, Uganda's sustainable debt levels were short lived, and, although this is due to both internal factors and external factors, it exposed that the HIPC Initiative did not have or aim to develop effective support structures to avoid this. Secondly, with Uganda's debt levels rapidly on the rise, the country would have had to make sacrifices on its spending on public services, which is counter to what the HIPC Initiative intended to create. Thirdly, although some public services managed to expand because of the Initiative, these services did not necessarily reach Ugandans in the rural areas and, furthermore, these services did not necessarily offer good quality in order to be effective and make a difference regarding poverty alleviation. Thus, this study argues that the HIPC was in fact a failure in Uganda, as the success experienced in Uganda was not sustained enough to make effective changes in the country. However, even though the initiative was a disappointment, there is still the opportunity for Uganda and the HIPCs to view the initiative as an important learning curve, and possibly even envision how debt

management could improve. The next chapter concludes this mini dissertation and offers some closing comments on the gaps in the literature.

Chapter 5: Conclusion

This dissertation has assessed the Ugandan experience with the HIPC Initiative, and surveyed the literature that has argued for and against the success of the Initiative. This study has demonstrated that, in sum, the HIPC Initiative has failed, on a number of levels, to provide Uganda with the debt relief it promised. Scholars who are optimistic about the HIPC Initiative could respond to this judgement with the question: ‘would Uganda be worse off had the HIPC Initiative not been implemented?’ However, this thesis argues that this question has little relevance, as it is evident that the Initiative did not relieve Uganda of its debt burden, which is what the programme intended to do. Furthermore, even the positive gains that Uganda made under the programme were short lived, and actually resulted in even more problems in the country, which included compounding Kampala’s debt crisis. Therefore, although the optimistic scholars offer insights concerning the amount of relief the country received, Uganda’s conscious efforts towards social welfare development, and the economic growth that occurred under the programme, the pessimists also reveal the depth of the fundamental flaws of the HIPC initiatives.

Since the Enhanced HIPC Initiative there have been attempts by Uganda and the MFIs to improve the initiative further, and to address some of the issues that emerged as a result of the programme. There have even been subsequent debt relief programmes such as the Multilateral Debt Relief Initiative, which have aimed to reduce the debt burden of countries similar to Uganda and continue to redirect their spending towards poverty

reduction. However, external debt in poor countries will remain an ongoing challenge for both MFIs and HIPC to grapple with. Furthermore, it can be argued that some aspects of debt relief should not be expected to change in the years to come. And perhaps this is one of the key lessons that the HIPC initiatives have taught many poor countries, and many critical scholars.

For example, the dependence of Uganda and countries in a similar situation on the donor community will continue to occur because these countries are not given sufficient flexibility to manage their own policies and simply do not have the funds to act independently of the donor community. Therefore, countries like Uganda will develop their policies around the opinions of the donor community in order to continue positive relations with the donor institutions. This is more relevant given they view Uganda favourably as the success story of most donor initiatives. Furthermore, these institutions continue to insist on neo-liberal policies that are intended to encourage countries to grow their way out of debt, but inevitably end up compounding their debt problem.

Also, although the Enhanced HIPC Initiative has insisted on allowing more opportunities for more representation of other stakeholders such as NGOs and CSOs, this could also result in leadership having less policy ownership. Hence, while allowing NGOs and CSOs to participate in Uganda's debt relief process improved the credibility of the programme and the accountability of the government, and contributed a more radical presence within the debates concerning the Initiative. It also introduced another influential group (of both local and international NGOs and CSOs) with the potential to

undermine the authority of the government's decision making, possibly as much as the donor community. Furthermore, having these two opposing forces (the international financial institutions and the CSOs) would cause an added strain on policy making within government.

Moreover, in light of the inclusion of additional stakeholders in the debt relief system, it is still evident that the donor community has the overriding influence over the policies that countries develop and implement. This, in turn, undermines the presence of the NGOs and CSOs. Therefore, the ability of these groups to play a more meaningful role in the process will continue to be limited as the interests of the donor community are often given more priority by the HIPC governments, than the interests of the NGOs and CSOs. Thus, the premise that the Enhanced HIPC Initiative has improved by including the presence of civil society is not a realistic one.

Finally, the more than 20-year relationship that Museveni has had with the donor community has yet to be sufficiently explored in the literature on Uganda's debt. The fact that Museveni regime's has been in power for over two decades possibly means that it has been easier to create a sense of policy continuity, which in turn has allowed Uganda to build special relations with the donor community, unlike other countries. This is a relevant area of discussion, as Uganda is often praised for its consistency and commitment to economic reform policies. However, this must surely also be a result of the fact that the country has had the same president ever since the debt problem first became an area of concern. Furthermore, the experience that Museveni and his policy

makers have gained over the years under various initiatives implies that they would have acquired extensive insight into the needs of the Ugandan economy and people. Thus, it is alarming that the literature does not draw enough attention to the relationship between the length of President Museveni's regime and the successes or failures of Uganda's debt management over the years.

Thus, the HIPC Initiative and similar debt management schemes have fundamental problems that will continue to persist. A further problem with these schemes is that they have a generic approach to reforms, when each country is unique and will inevitably grow at its own pace. Thus, celebrating Uganda as the "showcase" or "success story" of the HIPC Initiative and questioning whether the outcomes of Uganda are able to be replicated in other countries, can create problematic comparisons as each country needs to have its own experience and successes of the HIPC Initiative. Finally, Uganda's consistent and close relationship with the donor community could provide another reason for why it is argued to be a success story, despite the numerous problems that the country continues to encounter.

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