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The Sustainability of The Heavily Indebted Poor  
Countries Initiative: A Case Study of Guyana

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Julian Hirsch



## **Declaration and statement of authorship**

With this statement, I declare that this academic thesis:

was written entirely by me, without the use of any sources other than those indicated and without the use of any unauthorized resources;

has never been submitted in any form for evaluation as an examination paper in Austria or any other country;

is identical to the version submitted to my advisor for evaluation

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## Abbreviations and Acronyms

AfDB	African Development Bank
AFHP	Amaila Falls Hydropower Plant
BEEP	Building Equity and Economic Participation
BOAD	Bank for West African Development
BOG	Bank of Guyana
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CMCF	CARICOM Multilateral Clearing Facility
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
CSME	Caricom Single Market Economy
DMD	Debt-Management Department
ECF	Extended Credit Facility
EIB	European Investment Bank
EPDS	External Payment Deposit Scheme
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FCC	Forward Commitment Capacity
FDI	Foreign Direct Investment
FSU	Fund for Special Operations
DRC	Democratic Republic of Congo

DSA	Debt Sustainability Analysis
GAB	General Arrangements to Borrow
GEC	Guyana Electricity Corporation
GDP	Gross Domestic Product
GNCB	Guyana National Cooperative Bank
GNP	Gross National Product
GUYSUCO	Guyana Sugar Company
HIPC	Heavily Indebted Poor Countries
IDA	International Development Assistance
IDB	Inter-American Development Bank
IDF	Institutional Development Fund
IFAD	International Fund for Agricultural Development
JSAN	Joint Staff Advisory Note
IMF	International Monetary Fund
LCDS	Low Carbon Development Strategy
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
NAB	New Arrangements to Borrow
NBIC	National Bank of Industry and Commerce
NFPS	Non-Financial Public Sector

NPV	Net Present Value
OIC	Organization Islamic Cooperation
OPEC	Organization of the Petroleum Exporting Countries
PCDR	Post-Catastrophe Debt Relief
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
SDA	Special Disbursement Account
SDF	Special Development Fund
SDR	Special Drawing Right
SIMAP	Social Impact Amelioration Program
VAT	Value Added Tax

# 1. Introduction

## *1.1 Relevance of the topic*

The topic of debt relief and lending isn't a new one. It has a long history and dates back to the ancient Greeks. In more recent history, debt relief has played a major role in foreign politics since World War II and the subsequent independence of former colonies. With independence achieved, a lot of colonies were free but didn't have the know-how and the infrastructure to survive in the world market. The result was that about 40 years later several former colonies had serious debt burdens which they couldn't handle on their own. So the major organizations like the International Monetary Fund (IMF), the World Bank and a group of several countries known as the Paris Club started to relieve the debt of such countries to make sure that the interest which they had to pay didn't paralyze their entire economies. This was the birth of debt relief programs. If we sweep into the present we can say that the era of debt relief has not finished. There is still a lot about the debt burden and (for example) the so called "euro rescue fund" on the news every day. The debt problem is definitely no longer a third world problem only, and is thus a topic with lots of different faces and for which there is no one-size-fits-all solution. This aspect is what makes it so interesting for me and this is the reason why I chose it as the topic for my final thesis.

## *1.2 Research questions*

With the help of the following research questions and hypotheses I will investigate whether debt relief is working or not, and more importantly I will illustrate that the funds which are used to decrease the debt burden are not lost capital for the donors.

This thesis attempts to address two distinct research questions:

- i. Is the HIPC Initiative a sustainable solution for heavily indebted poor countries to get out of the poverty trap?
- ii. Which mechanisms are supported by debt relief to guarantee the sustainability of the relief?

There are also some hypotheses to check my questions:

- i. As a consequence of the PRSP key points, the export quota was increased significantly and is thus one of the major forces behind debt relief.
- ii. Because of debt relief, Guyana was able to strengthen its health and education sectors and reconstruct its infrastructure for a better environment.
- iii. With the reform of the civil service and especially job advertisements, favoritism has been successfully diminished.

## *1.3 Aim of the thesis*

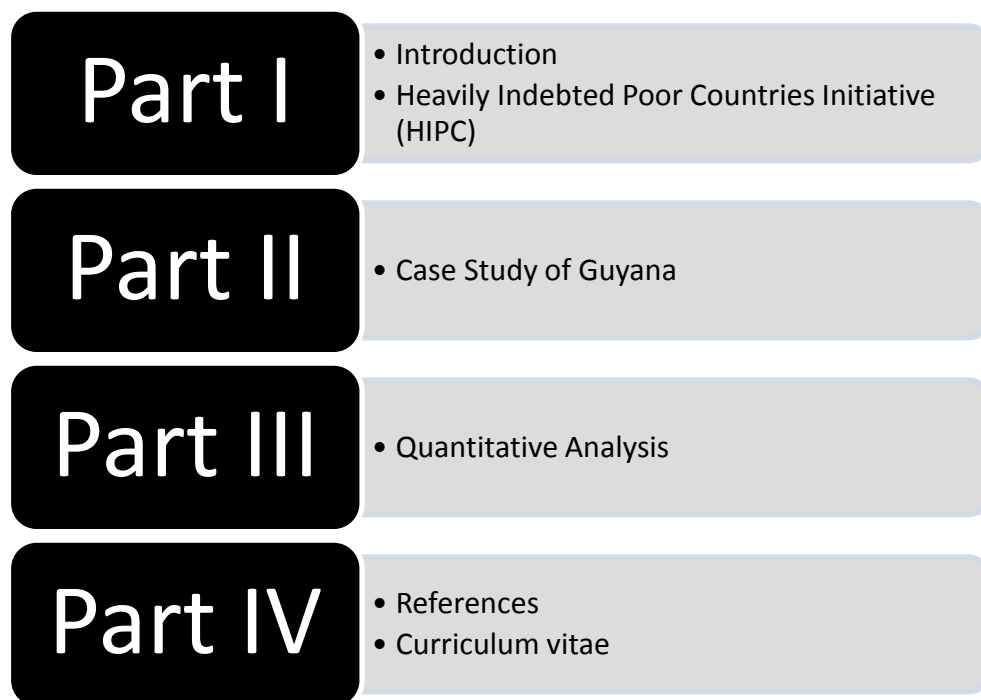
The aim of this thesis is to show how debt relief worked under the HIPC and the enhanced HIPC Initiative. It points out which organizations are involved, and which steps a debtor country has to fulfill to be part of the Initiative. And it shows which steps debt relief involves. Furthermore, the final result of Guyanese debt relief is analyzed. The analysis is carried out by means of the comparison of key indicators which are used to measure poverty and other social indicators like infant mortality.

## *1.4 Methodology*

This final thesis is based on solid literature research and combined with a quantitative analysis of important indicators. Although the thesis is a theoretical one it has a practical touch due to the case study included in it.

## *1.5 Research approach*

The thesis is divided into four parts with eight chapters as illustrated in the figure below:





### **Chapter one: Introduction**

The introduction shows why the author chose this topic and which research questions the thesis is based on.

### **Chapter two: Heavily Indebted Poor Countries Initiative (HIPC)**

The second chapter is divided into several different sections. Each of these deals with a topic of the HIPC Initiative (structure, organizations, debt relief) and together they explain how debt relief under the HIPC is carried out.

### **Chapter three: Case Study Guyana**

In this chapter the HIPC framework is illustrated in a case study. The chapter starts with a short country profile and is followed by what Guyana has to fulfill to get debt relief, with each step explained.

### **Chapter four: problems of debt relief programs**

In this chapter, the problems and outcomes of debt relief in Guyana are monitored and an analysis of the data is carried out.

### **Chapter five: future prospects**

In this chapter the possible future prospects of Guyana after its release from the HIPC Initiative are demonstrated. The IMF and World Bank are now moving out and other multilateral organizations and trading partners are on their way in.

### **Chapter six: Conclusion**

Seeks to consolidate the findings of the diploma thesis and make it a well-balanced and independent thesis.

## PART I

The first part of my final thesis is a theoretical approach to the debt relief measures of the past and gives the reader an overview of background information on the debt relief programs of international organizations, starting in the late 1980s and working up to the present. The debt relief programs which existed before the Heavily Indebted Poor Countries Initiative (HIPC) are mentioned to make clear that there were programs before HIPC which had failed and that debt relief has a long history.

As the HIPC Initiative is the main objective of this present thesis, there is a great deal of information about it coming up:

- i. Starting with short introduction about what makes a country eligible for the Initiative.
- ii. Followed by the structure of the Initiative, explaining which steps are necessary to pass through the program.
- iii. The next point explains where the financial resources come from and who provides them. In this section, the organizations involved are introduced and how they work and where they obtain their financial resources is explained.

## 2. The Heavily Indebted Poor Countries Initiative (HIPC)

### 2.1 *The road to HIPC*

The road to the HIPC was a long one. In the last three decades there were several different programs for debt relief. None of these programs was long-term. The history of debt relief after World War II started in the late 1960s when debt burden repayments had driven some countries into serious trouble. Most of the debt relief turned out to be a never-ending story. The governments of relieved countries started signing new loans and grants as soon as they were creditworthy, and didn't stop until they were heavily indebted again.<sup>1</sup>

For example, the Africa Report (Berg Report) in 1981 noted that Liberia, Sierra Leone, Zaire, Sudan and Zambia had serious debt relief difficulties in the previous ten years and would have them in the future. Just for the record, the countries mentioned above became HIPCs. The Berg Report noted that debt relief has to be over the long term with a combination of debt relief and economic programs instead of debt cancellation only<sup>2</sup>

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<sup>1</sup> Easterly, William (2002) How Did Heavily Indebted Poor Countries Become Heavily Indebted? p. 2

<sup>2</sup> *ibid.* p. 2f.

The necessity of debt relief is clear. And the quantity of programs makes it clear that debt relief isn't a topic with a 'one size fits all' solution. But if we look closer at some of the important debt relief programs of the past in chronological order we can see that the programs were revised nearly every two years.

Debt relief programs since the late 1980s:

- i. Toronto terms (1988)
- ii. Trinidad terms (1990)
- iii. Enhanced Toronto terms (1993)
- iv. Naples terms (1994)
- v. HIPC (1996)
- vi. Enhanced HIPC (1999)<sup>3</sup>
- vii. Multilateral Debt Relief (MDR) (2005)

There were two major thoughts behind the rethinking of debt relief which led to the HIPC Initiative:

- i. First, if the debt burden of a country has passed a specific point the economic development of the country is negatively affected. Not only are foreign investments reduced because of the high risk of bankruptcy, but the investment incentive also decreases because of the likelihood of tax reforms.
- ii. Second, a government which destroys its own economy on purpose should not benefit from debt relief. In this case only the government and the elite of the county would benefit and the rest of the population would suffer.

The HIPC Initiative was intended to prevent political and economic structures which aren't sustainable from being strengthened.<sup>4</sup>

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<sup>3</sup> Easterly, William (2002) How Did Heavily Indebted Poor Countries Become Heavily Indebted? p.3

<sup>4</sup> Michaelowa, Stern (2000): Die politische Ökonomie multilateraler Entschuldungsinitiativen p.2f.

## 2.2 Overview of the HIPC Initiative

*HIPC debt relief is unique since it not only addresses multilateral, bilateral and commercial debt jointly, but is also the first time that multilateral debt is addressed at all.*<sup>5</sup>

In 1996 a new age of debt relief was established by the World Bank and the International Monetary Fund (IMF). The Initiative was a very different path to the previous programs for debt relief.<sup>6</sup> In comparison to the older debt relief programs it introduced several new key markers, like the linkage of external debt relief to poverty reduction and the inclusion of the debt owed to multilateral institutions such as the World Bank, the IMF and regional development banks. Furthermore, the HIPC Initiative allowed poor countries to open negotiations with all co-operative creditors and agree to one deal instead of fixing deals with each of them. The most important modernization was the cancellation of debt not only from the Paris Club<sup>7</sup>, which meant a two-thirds reduction of official debts. In addition, bilateral creditors from the Paris Club confirmed they would cancel up to 90 per cent of their foreign loans.<sup>8</sup>

In June 1999 the HIPC was revised. This revision lowered the threshold for debt relief and more countries became compliant and were included to the program. For the IMF and World Bank the changes were significant, for example the amount of money which could be relieved before the country reaches the completion point was increased. For the countries themselves the most significant change was the so called Poverty Reduction Strategy Paper (PRSP). This paper included, as the name suggests, a promising strategy to reduce poverty in these countries.

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<sup>5</sup> Guder (2009) The Administration of Debt Relief by the International Financial institutions p. 172

<sup>6</sup> *ibid.* p.30

<sup>7</sup> Paris Club = Financial officials of the 19 biggest economies of the world, for more information please view the following chapters in this paper

<sup>8</sup> Vandemoortele, Jahan, Lim, Nebie, Barungi (2003) The HIPC Initiative a Practice Note p.5

In 1999 there were about 40 HIPC countries which owed altogether around 170 billion USD in external public debt. This amount is small compared to the total debt of developing countries, which is more than 2 trillion USD. The average HIPC has debt four times higher than its annual export earnings.<sup>9</sup>

In September 2013, 39 countries were eligible or potentially eligible to obtain debt relief from the HIPC. These countries can be divided into three groups:

**i. 1<sup>st</sup> Post-Completion-Point Countries (35)**

Afghanistan	Cameroon	Togo	Guinea	Liberia	Mozambique	Senegal
Benin	Central Africa Republic	Democratic Republic of Congo	Guinea-Bissau	Madagascar	Sao Tomé &Principe	Sierra Leone
Bolivia	Comoros	Cote d'Ivoire	Guyana	Malawi	Nicaragua	Tanzania
Burkina Faso	Republic of Congo	Ethiopia	Haiti	Mali	Niger	Uganda
Burundi	Chad	Ghana	Honduras	Mauretania	Rwanda	Zambia

**ii. 2<sup>nd</sup> Interim Countries (Between Decision and Completion Point) (1)**

Chad

**iii. 3<sup>rd</sup> Pre-Decision-Point Countries (3)<sup>10</sup>**

Eritrea	Somalia	Sudan
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In order to redesign debt relief, each country which applies for the Initiative has to fulfil several conditions:

- i. The Gross National Product (GNP) per capita of the country is US\$ 695 or less.

<sup>9</sup>MacArthur, Allan; Van Trotsenburg, Axel (1999): The HIPC Initiative: Delivering Debt Relief to Poor Countries p.2

<sup>10</sup> IMF (2013): Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative p.4

- ii. The debt burden of the country must be unsustainable. Unsustainable means a ratio of the net present value of debt to exports in excess of a country-specific threshold of 200 percent under the original HIPC Initiative from the year 1996 and<sup>11</sup> 150 percent under the enhanced HIPC Initiative from 1999. On the basis of this criterion, 21 countries could join the Initiative so far.<sup>12</sup>
  
- iii. For very open economies, the net present value exceeds 280 percent of the economy's revenue under the original HIPC Initiative<sup>13</sup> and 250 percent under the enhanced Initiative. There are five countries which are eligible for the Initiative because of this criterion. Guyana, which is the main actor in the second part of this thesis, was among these five countries<sup>14</sup>

According to these three conditions, we can summarize that a country is eligible if the country is poor and able to get debt relief from the IMF or World Bank. The country is still heavily indebted, which means the debt burden of the country was so high that the traditional debt relief mechanism couldn't resolve the external debt of the country. The Figure below shows us a comparison between the United States and the HIPC average for some main criteria which are used to show how badly a country is suffering from poverty.

	<i>Infant mortality (per 1000 births)</i>	<i>Life expectancy (years)</i>	<i>GDP per capita (current US\$)</i>	<i>Growth of GDP per capita (1980–2000)</i>
United States	7	77	34,370	2.0
HIPC average	100	51	310	-0.2

15

<sup>11</sup>Arslanalp, Henry (2006) Policy Watch: Debt Relief p. 210f

<sup>12</sup>Vandemoortele, Jahan, Lim, Nebie, Barungi (2003) The HIPC Initiative a Practice Note p.2

<sup>13</sup>Arslanalp, Henry (2006) Policy Watch: Debt Relief p. 210f.

<sup>14</sup>Vandemoortele, Jahan, Lim, Nebie, Barungi (2003) The HIPC Initiative a Practice Note p.2

<sup>15</sup>Arslanalp, Henry (2006) Policy Watch: Debt Relief p. 212

### *2.3 The Structure of the Initiative*

The main object of the Initiative is to reduce the debt burden of a country to a sustainable level at which the country suffers no limitations due to very high debt pay offs. To achieve this goal, the HIPC Initiative involves two stages.

The duration of the first stage is three years. During this period the applicant country works hand in hand with the World Bank and the IMF to create and establish arrangements for economic policies and sustainable poverty reduction. Over the entire term the country will receive debt rescheduling, debt extension and if necessary a reduction in debt service obligations. After this three-year period the World Bank and the IMF decide if the country's debt level is sustainable or not. If the country's debt level is still unsustainable, a package of debt relief by the IMF, the World Bank and other multi- and bilateral creditors is identified. This point of the Initiative is called the Decision Point. From this moment on, the country has qualified for the HIPC Initiative and can benefit from debt relief under the HIPC.

Before debt relief will occur, the country has to pass the second stage, which means another period with no time limit where the planned economic policies and poverty reduction strategies have to be launched. At the end of this period, at the so called Completion Point of the Initiative, the country obtains debt relief provided by all of the country's creditors. The amount of debt relief depends on the economic indicators of the countries and varies from country to country. Furthermore, the debt relief from the HIPC Initiative is limited to the external debt of a country, the so called public debt or debt which is publicly guaranteed. This means that the relief excludes all domestic debt and of course all private liabilities.<sup>16</sup>

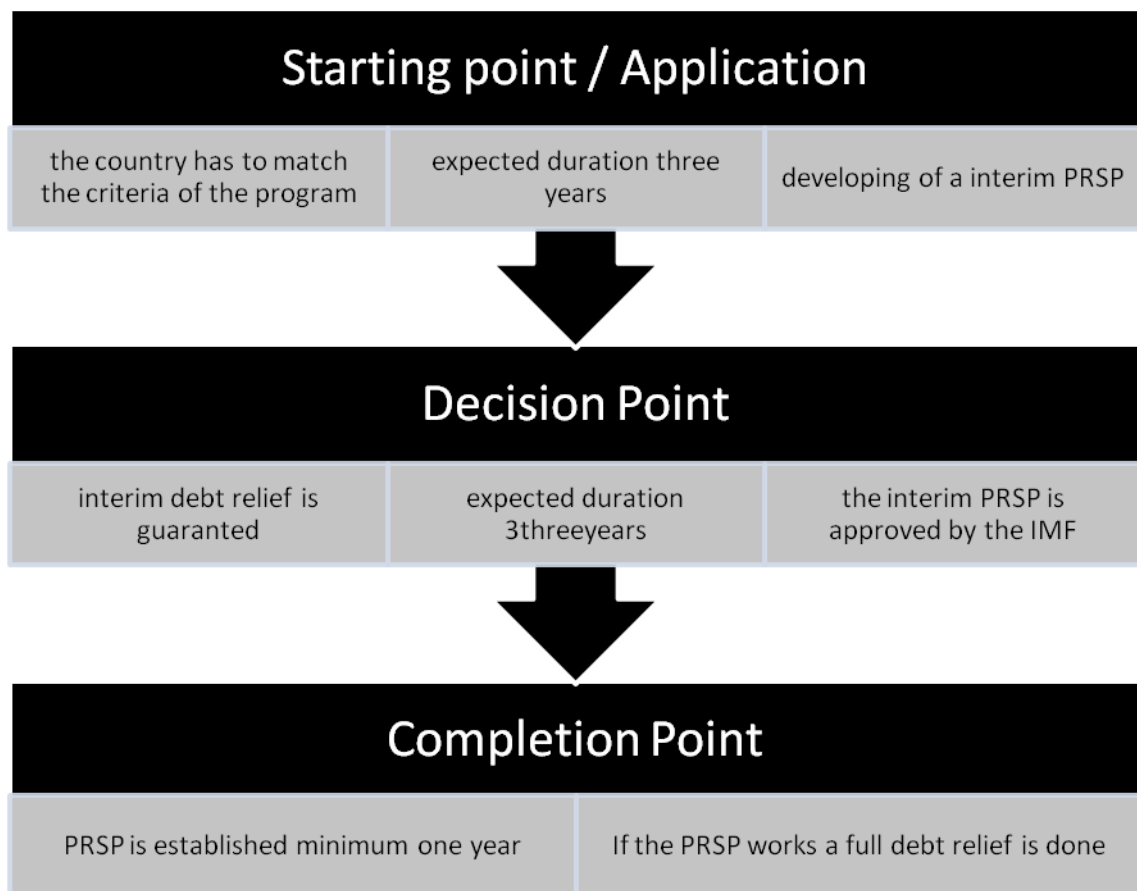
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<sup>16</sup> Guder (2009) *The Administration of Debt Relief by the International Financial institutions* p.31f.



This leads to another modernization in debt relief. For the first time, multinational institutions like the IMF and World Bank are providing debt relief together with bilateral and commercial creditors. This new form of debt relief should create new opportunities for the war against poverty. All creditors, multilateral and bilateral, are aiming for the same goals.

The application for the HICP Initiative is divided into two stages. The first stage extends from the application to the decision point, and the second one till the completion point. Each stage is supervised by the staff of the HIPC Initiative. In addition, the Fund and Bank give a sort of interim debt relief to a country at the initial stage, and full debt relief isn't guaranteed before the country achieves all its commitments.<sup>17</sup>



<sup>17</sup> IMF (2013): Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative p.1

### 2.3.1 Decision Point

The decision point is reached approximately after three years, but there is no time limit for this period. During this period the debtor country has several duties to fulfill. Besides a reduction of its macroeconomic imbalances and the implementation of pro-growth-oriented policies, the countries also have to meet certain criteria to become eligible for the HIPC Initiative.<sup>18</sup>

A country has to fulfill four conditions:

- i. The country has to be eligible to borrow from the World Bank's International Development Agency (IDA) and from the Poverty Reduction and Growth Trust (PRGT) of the IMF. Both institutions provide loans to the poorest countries of the world. The IDA provides their loans and grants interest free. The PRGT provides loans at subsidized rates to low-income countries.
- ii. The country's debt burden has to be astronomically high, and this burden cannot be relieved by the traditional debt relief mechanisms of the World Bank, IMF or the Paris Club.
- iii. The countries have to show their will by establishing a track record of reform through the World Bank and IMF programs.
- iv. The most important criteria is to develop a so called Poverty Reduction Strategy Paper (PRSP). This paper is created by local economists and staff of the World Bank and IMF.<sup>19</sup>

Once a country shows sufficient progress in these four criteria, the IMF and World Bank make a decision on debt relief. After this decision the international community

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<sup>18</sup> Clements, Benedict (2002): Debt relief and public health spending in heavily indebted poor countries p. 151

<sup>19</sup> IMF (2013): Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative p.2

starts by reducing the debt burden of the country to a level which is sustainable. The decision point is also moment when debt relief becomes due.<sup>20</sup>

### *2.3.2 Completion Point*

Before the completion point is reached the country has to exhibit a progress in the implementation of the PRSP.<sup>21</sup> At the completion point, full debt reduction as guaranteed at the decision point is provided if the country has followed three main criteria:

- i. The PRSP which was developed has to be implemented and adopted for a minimum of one year.
- ii. Key reforms which were worked out and determined by the decision point documents have to be implemented
- iii. The loans from the IMF and the World Bank have to support the track record of established programs.<sup>22</sup>

Altogether, 39 countries have been eligible to obtain assistance from the HIPC Initiative. Of these 39 countries, 35 received full debt relief from the IMF and the other creditors after they reached their completion point. There was one country, Chad, which has profited from interim debt relief at the decision point, and there are three more countries which haven't reached their decision points yet.<sup>23</sup>

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<sup>20</sup> IMF (2013): Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative p.2

<sup>21</sup> Clements, Benedict (2002): Debt relief and public health spending in heavily indebted poor countries p. 15

<sup>22</sup> IMF (2013): Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative p.2

<sup>23</sup> *ibid.* p.2

### *2.3.3 Poverty Reduction Strategy Paper (PRSP)*

The Poverty Strategy Paper (PRSP) was established in 1999 by the World Bank and the IMF. It is a country-specific anti-poverty strategy. The two institutions recognized that a poverty reduction strategy must be developed by the country which has to implement it. The PRSP provides a linkage between donor support, national public actions and the outcome to reduce poverty. The sustainable fight against poverty requires country ownership and a broad consent in the country's population.

A PRSP is a strategy which is followed by a country for several years to accelerate economic growth and reduce poverty. It includes detailed analyses of the financial needs of the country and in the best case a financing source. It includes also an assessment of the current poverty rate as well as macroeconomic, structural and social policies.<sup>24</sup>

The PRSP follows five key principles:

- i. Country driven, which means that the strategies are created by national institutions, with a helping hand from World Bank and IMF, and have a huge participation in civil society.
- ii. Result-oriented; this means that 100% of the outcome of the PRSP goes to the poor and to the struggle against poverty.
- iii. Comprehensive; the PRSP records all dimensions of poverty in the country.
- iv. Partnership-orientated; the PRSP plans to include all participating partners like local government, domestic stakeholders and external donors.

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<sup>24</sup> IMF Factsheet(2013): Poverty Reduction Strategy Papers p.1

- v. Long-term perspective; this means that the strategies maintain poverty reduction in the long run.<sup>25</sup>

At present the PRSP is very well established in many countries and is linked to different advantages in poverty reduction such as county ownership and getting poverty reduction into peoples' minds by encouraging them to attend policy debates. Until the end of February 2012 the Fund's Executive Board had received 116 full PRSPs and 57 interim PRSPs.

### *2.3.3.1 Reorganizations of the PRSP*

In 2009 the Fund's low-income country facilities were reformed. The core with country-owned PRSPs as the strong link to the IMF (especially to the Extended Credit Facility (ECF and the Policy Support Instrument (PSI)) is still the basis of the program, but there was some additional flexibility added in the fields of documentation and timing requirements.

To improve the effectiveness of the PRSP in the future, the fund is continuing to give a helping hand to the HIPC. The Fund provides assistance in many different ways, such as:<sup>26</sup>

- i. Taking a look at the papers and making sure that the macroeconomic frameworks are realistic in relation to the national strategies and budget.
- ii. Making sure that the Fund is using the local structures and is working as closely as possible with the debtor to achieve the best outcome.
- iii. The Fund has to keep an eye on public expenditure management to make sure that public spending on poverty reduction is maximized.

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<sup>25</sup> IMF Factsheet(2013): Poverty Reduction Strategy Papers p.1

<sup>26</sup> *ibid.* p.2

- iv. The Fund's duty is to help in the implementation of the PRSP, and to this end it works and helps to coordinate the work of other donors for maximum aid effectiveness.<sup>27</sup>

The IMF and World Bank staff always keeps the debtor countries up to date by means of direct feedback via the Joint Staff Advisory Note (JSAN)

#### 2.4 Sources of financial means and the providing institutions

The sum of all costs to the creditors of the Initiative, for all 41 HIPC's, was about US\$ 67.7 billion by the end of 2006. Around half of this amount went to the 22 post completion point countries. The spare amount was divided as follows: For the nine interim countries, US\$12,1 billion were committed. The ten pre-decision point countries were subsidized with US\$22.7 billion and another US\$ 21.1 billion served as a reserve fund for countries with high debt arrears owed to creditors.<sup>28</sup>

	Post-Completion- Point HIPC's	Interim HIPC's	Total Post-Decision- Point HIPC's	Pre-Decision-Point HIPC's	Total
	(I)	(II)	(III) = (I) + (II)	(IV)	(V) = (III) + (IV)
<b>Multilateral creditors</b>	<b>17.8</b>	<b>4.9</b>	<b>22.7</b>	<b>8.3</b>	<b>31.0</b>
IDA 1/	8.8	2.0	10.8	2.9	13.8
IMF	2.6	0.7	3.3	2.5	5.8
AfDB Group	2.3	1.5	3.8	1.0	4.8
IaDB	1.5	0.1	1.5	0.0	1.5
AsDB	0.0	0.1	0.1	0.3	0.3
Other	2.6	0.6	3.2	1.6	4.8
<b>Bilateral and commercial creditors</b>	<b>15.0</b>	<b>7.2</b>	<b>22.3</b>	<b>14.4</b>	<b>36.7</b>
Paris Club	10.7	5.9	16.6	7.6	24.2
Other Official Bilateral	3.5	0.6	4.1	4.6	8.6
Commercial	0.8	0.8	1.6	2.3	3.9
<b>Total Costs</b>	<b>32.8</b>	<b>12.1</b>	<b>44.9</b>	<b>22.7</b>	<b>67.7</b>
<b>Memorandum Items</b>					
Total Costs from Previous Report 2/	30.6	13.0	43.7	22.9	66.6
<b>Total Change in Costs (percent):</b>	<b>7.2</b>	<b>-7.2</b>	<b>2.9</b>	<b>-0.9</b>	<b>1.6</b>
- due to New Cases and Topping-up 3/	7.4	-7.5	2.9	-2.9	0.9
- due to Data Revisions	-0.2	0.3	0.0	2.0	0.7

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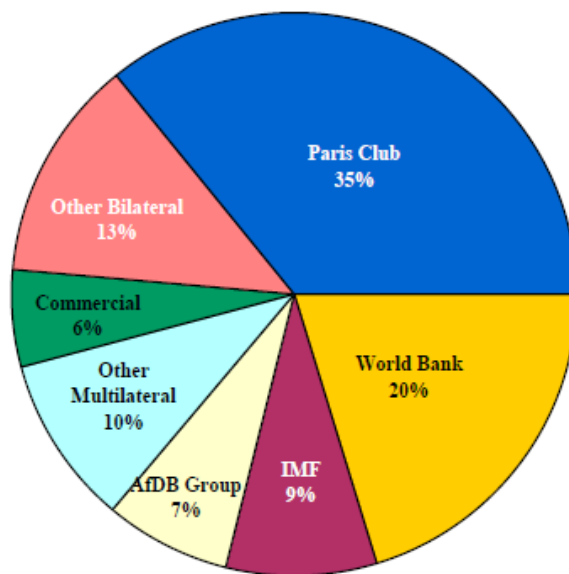
<sup>27</sup> IMF Factsheet(2013): Poverty Reduction Strategy Papers p.2

<sup>28</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation. p. 19

<sup>29</sup>ibid. p. 20

The most important creditors in the HIPC Initiative are:

- i. the Paris Club creditors account for 35 percent,
- ii. the World Bank(IDA) with around 20 percent,
- iii. the African Development Bank(AfDB)<sup>30</sup> with seven percent
- iv. and of course the IMF with nine percent of the total cost.



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#### *2.4.1 Multilateral Creditors*

Almost all multilateral creditors are involved in debt relief under the HIPC Initiative. 25 out of 32 creditors participate in the Initiative. These creditors are responsible for over 99 percent of all multilateral debt relief for the 31 post-decision point countries. Many

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<sup>30</sup> AfDB is an association of the African Development Bank (AfDB), the African Development Fund (AfDF) and the Nigeria Trust Fund (NTF)

<sup>31</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation. p. 21

of them also provide interim assistance to qualifying countries<sup>32</sup> alongside the HIPC Initiative.

#### *2.4.1.1 International Monetary Fund (IMF)*

The IMF has a broad history which dates back to the end of World War II. It was founded at the Bretton Woods conference in July 1944. The goal of this institution is to establish and provide a framework for economic cooperation and development which should lead to a more sustainable and stable world economy. The IMF promotes monetary cooperation and assistance for countries to build strong economies. Another duty of the IMF is to make loans and help countries to develop policy programs and other structural reforms. The staff of the IMF is mostly economists with an excellent reputation and lots of experience. The loans are short and medium term and are funded mostly by the pool of quota which is provided by its member states.<sup>33</sup>

##### *2.4.1.1.1 Fund-raising*

The quota system operates as follows: each member state is assigned a quota (which is based on the relative size of the country in relation to the world economy). This quota represents the maximum contribution to the IMF. Usually a country splits its payment up into  $\frac{1}{4}$  in the form of a common currency like US dollars, yen, euros or sterling, or Special Drawing Rights (SDRs), while the other  $\frac{3}{4}$  are paid in the countries' own currency.

Beside the quota system, the IMF is the third largest official holder of gold in the world, which means that it has about 90.5 million troy ounces (2.8141 metric tons) of gold. The IMF has strict rules for using the gold. If it wants to use it, an 85 percent (117 countries) majority of the voting power of all member countries is necessary to allow

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<sup>32</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation; October 15,2007; p. 23

<sup>33</sup> The IMF and the World Bank (2013) p. 1



the IMF to sell or accept gold as payment by member countries. The charter of the IMF declares that it isn't allowed to buy gold or engage in any transactions with gold.<sup>34</sup>

A new income function was found in the form of the profits from the SDR. With this extra money the IMF was able to make its financing more sustainable. The Executive Board agreed that some of the SDR which are linked to gold sales would be used to guarantee some lending and boost it as well. In 2012 US\$ 700 million of the SDR profits went to the Poverty Reduction and Growth Trust (PRGT).<sup>35</sup>

#### *2.4.1.1.2 Lending and debt relief*

For lending, the IMF uses its quota funded holdings of the different currencies of its economically strong member countries to lend to weaker economies. The Executive Board selects these currencies every three months. Mostly the selected currencies are from industrial countries, but sometimes they are from countries like India or Botswana as well. The IMF has built up its own usable resources with the holdings of the different currencies and the SDR holdings. The amount which the IMF is allowed to lend is indicated by its forward commitment capacity (FCC). The amount which is lent to countries is determined as follows:

Usable resources<sup>36</sup>  
+ projected loan repayments  
- less the resources that have already been committed  
- less a prudential balance

If the IMF needs more funding it also has the option of borrowing. For this option there are two possible arrangements. First, the expanded New Arrangements to Borrow (NAB) and second the General Arrangements to Borrow (GAB). If the IMF recognizes that its funds could be short, for example in the case of a global financial crisis, it can

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<sup>34</sup> Where the IMF gets its money (2013) p. 1

<sup>35</sup> *ibid.* p. 2

<sup>36</sup> Including amounts under loan which are not in use and amounts which are committed under the multilateral borrowing arrangements.

activate these arrangements. Since the start of the global crises, the IMF has signed a few bilateral loans and arrangements to support and strengthen its quota resources.<sup>37</sup>

The IMF offers two different options of financial assistance.

- i. Low-interest loans under the Poverty Reduction and Growth Trust (PRGT)
  
- ii. Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, Multilateral Debt Relief Initiative (MDRI), and Post-Catastrophe Debt Relief (PCDR)

The resources for this financial assistance come from the members' contributions and the IMF. This lending and relief is administrated by several trust funds in which the IMF acts as a trustee.<sup>38</sup>

i.)

The forerunner of the PRGT was established to allocate lending to selected low-income countries in support of the fixed arrangements. Loan amounts of up to 42 billion were provided by 23 contributors to the PRGT, while several member countries have made subsidy contributions. In 2009 the Executive Board implemented far-reaching reforms of the concessional facilities, in which several trusts were replaced by new ones with better conditions for the debtor countries. With this new subsidization mechanism, the IMF expects an increase of the resources which are available to low-income countries to US\$ 17 billion by 2014. To make sure that these goals can be reached, the IMF has mobilized new financing. This financing will come from the recently concluded gold sales and of course from additional bilateral contributions.<sup>39</sup>

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<sup>37</sup> Where the IMF gets its money (2013) p. 2

<sup>38</sup> *ibid.* p. 3

<sup>39</sup> *ibid.* p. 3

ii)

For debt relief, the HIPC Initiative was subsidized by the PRGT lending. The resources for these two programs come from grants and deposits from over 90 member countries and contributions from the IMF itself. The major part of the IMF contributions comes from off-market gold transactions made in the late 1990s and early 2000s. Since 2006 there have also been the different MDR Trusts, one of which offers debt relief to countries with per capita incomes at or below US\$ 380, while the other one lends to countries with a per capita income over US\$ 380.<sup>40</sup>

In order to be part of this Initiative it is irrelevant whether the countries are already in the HIPC Initiative or not. The financing for this comes from the Special Disbursement Account (SDA) or from the bilateral resources of the SDR. Last but not least, there is the PCDR Trust which was established in 2010 with funding from the SDR and the resources of the IMF. This trust is expected to be financially independent through donations if necessary.<sup>41</sup>

The total cost of the HIPC Initiative provided by the IMF was about US\$ 5.8 billion at the end of 2006. This amount can be divided into US\$ 3.3 billion which was already committed to the 31 post-decision countries and another US\$ 2.6 billion which has been transferred to the country-specific accounts of 22 countries which reached the completion point.<sup>42</sup>

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<sup>40</sup> Where the IMF gets its money (2013) p. 3

<sup>41</sup> *ibid.* p. 4

<sup>42</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation; October 15, 2007; p. 23

Other countries may suffer from inefficiency or other circumstances which make debt relief impossible. Such circumstances and examples are:

- i. Program slippages (Guinea, Democratic Republic of Congo (DRC))
- ii. Interim debt relief has reached its limit: 60 percent of total IMF commitment in non-exceptional circumstances (Chad)
- iii. Insufficient financial assurances by other creditors (Republic of Congo)

The estimate cost for the HIPC Initiative for the 10 pre-decision-point countries is US\$2.5 billion.<sup>43</sup>

#### *2.4.1.2 World Bank*

The World Bank was also founded at the Bretton Woods Conference in July 1944. The World Bank is an institution which provides long-term economic development and promotes poverty reduction. Its methods are similar to the IMF. The goals are to be reached by providing technical and financial support to help countries to reform particular sectors or by the implementation of specific projects. This helping hand extends from building schools to fighting diseases and helping the countries' governments to protect the environment and nature. If a country gets help from the World Bank its duration is mostly a long one and is funded by the contributions of member countries and bond issuance. Most of the employees of the World Bank are specialists in their specific sectors.<sup>44</sup>

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<sup>43</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation; October 15,2007; p. 24

<sup>44</sup> The IMF and the World Bank (2013) p. 1

The financing for the debt relief of the World Bank is provided by the World Bank HIPC Trust Fund, which was established in 1996. This fund is managed by the IDA and gets its contributions from donor countries. These contributions are voluntary and based on the so called Contribution Agreement. This agreement is a document in which the financial support of each country is laid down. This paper is signed by the donor and by the IDA as supervisor for the HIPC Trust Fund. The Fund can be divided into three different types of accounts. The donors and contributors can freely deposit to any or all of the accounts.<sup>45</sup>

This three account types are:

- i. A core, unrestricted component
- ii. A country-specific component
- iii. Multilateral creditor-specific component

First of all, the funding in the country-specific component is used by the IDA; if the amount in this component isn't enough, the IDA can extend the relief by using the core component. This expansion is only possible by means of an earlier decision of the donors which paid in the component. The last option the IDA can take, if HIPC debt relief isn't guaranteed, is to redirect the amounts from the multilateral creditors' component. If this particular case occurs, the IDA consults the donor community for additional financial support.

This three component system allows the supporting countries to control the money they contribute. The donors are thus able to lead the debt relief in a concrete direction in which they have their priorities. Of course, the IDA can overrule the decision and transfer capital from one component to another to guarantee debt relief.<sup>46</sup>

The total amount provided by the World Bank, especially by International Development Assistance (IDA), which is the World Bank's fund for the poorest, was around US\$

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<sup>45</sup> Guder (2009) *The Administration of Debt Relief by the International Financial institutions* p.58

<sup>46</sup> *ibid.* p.59

13.8 billion till the end of 2006. This amount represents the US\$ 10.8 billion which is the cost of the debt relief committed to the 31 post-decision point countries.<sup>47</sup>

#### *2.4.1.2.2 Lending and debt relief*

Payments from the HIPC Trust Fund are based on a decision by the Board of the Bank. Also the amount which is lent varies from case to case and is based on each country's HIPC document. The debt relief which is granted by the World Bank is, simply put, a debt cancellation. It gives the debtor money to pay back the money it owes to multilateral creditors, or the World Bank itself gives the money directly to multilateral creditors and they cancel the outstanding amount of the debtor. The Trust Fund does not simply buy back the debt of a country, it actually gives support to creditors which are overstrained by their guaranteed relief. For example, the Fund provided support to the Bank for West African Development (BOAD) when the eight member countries, which are all HIPCs, were having problems in relieving each other from debt. The debt relief from the IDA starts at the decision point and reaches its maximum level at the interim period.<sup>48</sup>

*"The predominant method of delivering debt relief on IDA debt is through debt service relief. Because the World Bank component of the HIPC Trust Fund does not have sufficient resources to provide full financing of debt relief commitments at the point the commitment is made, IDA, rather than the HIPC Trust Fund, assumes responsibility for providing debt relief at the time of the commitment (i.e., at the Decision Point)"<sup>49</sup>*

Debt relief is provided to all interim countries except those which do not comply with the rules of IDA. The rules countries have to follow to be part of the program for debt reliefs are quite similar to those of the IMF.<sup>50</sup>

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<sup>47</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation; October 15,2007; p. 23

<sup>48</sup> Guder (2009) The Administration of Debt Relief by the International Financial institutions p.60

<sup>49</sup> *ibid.* p.59

<sup>50</sup> IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation; October 15,2007; p. 23

#### *2.4.1.2.2 Cooperation between IMF and World Bank*

Since the foundation of the World Bank and the IMF they have worked together on many different studies and programs. Moreover, the Boards of Governors of the IMF and the World Bank come together once a year for a meeting. At these annual meetings the two institutions exchange their points of view on certain countries and projects. Furthermore, in 1974 the Development Committee was established. At these committee meetings the two organizations deliberate about critical development issues and the financial future of ongoing programs.<sup>51</sup>

For this paper, the most mentionable cooperations between these two organizations are their corporate programs to fight poverty by reducing the debt burden of low-income countries. The goal was to reduce the debt burden for the most highly indebted countries in the world, and for this purpose they created the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). With these two programs low income countries can achieve their goals without creating new external debt. The prospect provided by debt relief is that the involved countries can reduce their foreign debt burdens and achieve sustainable development. For a sustainable and effective reduction of poverty, another instrument to fight poverty has been established: The so called Poverty Reduction Strategy Paper (PRSP). This paper is a country specific plan to connect national goals with the money from debt relief and the plans which are necessary to reduce poverty in the country. These Papers became so successful that the IMF and the World Bank involved them in the HIPC Initiative as a key element for the realization of debt relief.<sup>52</sup>

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<sup>51</sup>The IMF and the World Bank (2013) p. 1

<sup>52</sup> *ibid.* p. 1

Both institutions finance the HIPC Initiative through newly founded funds: the World Bank's HIPC Trust Fund and the IMF's PRGF. These funds are exclusively for the financing of the HIPC Initiative and are separated from the general accounts of both organizations.<sup>53</sup>

The cooperation also extends to supervising projects like the monitoring of the Millennium Development Goals (MDG) or the assessment of the financial stability of countries. If a country has problems with its financial sector, the specialists of the World Bank and IMF staff will deal with the problem and help to develop possible countermeasures to solve the vulnerabilities.<sup>54</sup>

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<sup>53</sup>Guder (2009) The Administration of Debt Relief by the International Financial institutions p.50

<sup>54</sup>The IMF and the World Bank (2013) p. 2



#### 2.4.2 Bilateral Creditors

As a pioneer of bilateral creditors of the HIPC Initiative, the Paris Club and all its member countries have played an important role. The Paris Club divides its relief programs into two different possibilities. First option: each country which reaches the decision point can get interim debt relief. And secondly, countries with the status of completion point can obtain stock-of-debt reductions of their external debt. Most of the member countries of the Paris Club deliver debt relief or debt cancellation beyond the amount of debt which was cancelled for the HIPC Initiative. The debt relief which is provided outside the HIPC Initiative depends in most of the cases on which stage of the Initiative the country is in. The form of relief extends from stock-of-debt reduction to cancellation of their pre-cutoff claims and also post-cutoff claims.<sup>55</sup> The Paris Club and its members are thus the most important bilateral actors of debt relief.

The total cost for the Paris Club members was about US\$ 27.4 billion for the post-decision point and post-completion point countries till the end of 2006. Another amount, about US\$ 7.6 billion, was granted to ten pre-decision-point countries.<sup>56</sup>

In spite of the ideal way the debt relief from the bilateral creditors of the Paris Club members works, the relief from other bilateral creditors functions very poorly. From 50 countries which promised debt relief, only six delivered their full expected amount to the HICP Initiative. Another 23 creditors are responsible for about 66 percent of their promised amount, and deliver a part of debt relief. About 34 percent of the guaranteed debt relief by 21 creditors had not been delivered by the end of 2007.

The leading institutions of debt relief are encouraging creditors which haven't delivered the full amount to do so, because full participation in the Initiative is essential to maximize the intended debt relief and of course to share the burden among all participants in debt relief.<sup>57</sup>

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<sup>55</sup>Cutoff date is a reference date for Paris Club debt treatments. Loans provided after the cutoff are not involved in future rescheduling. Post-cutoff could be granted to guarantee debt sustainability.

<sup>56</sup>IMF; World Bank (2007): Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation. p. 27f.

<sup>57</sup>ibid. p. 28

#### *2.4.2.1 Paris Club*

The History of the Paris Club (Club de Paris) dates back to the year 1956, when Argentina had major problems with its liability to pay back its debt to creditors. France made an offer to all involved countries to meet in Paris for a few days and negotiate new terms for paying back the debt. The meeting took place from 14-16 May 1956. At that meeting the involved countries agreed to reduce Argentina's debt. Since this agreement was signed, a lot of time has passed and the Paris Club has become one of the major organizations of debt relief.<sup>58</sup>

##### *2.4.2.1.1 Debt relief history and members*

The Paris Club established one of the first frameworks for rescheduling the debt of developing countries. Since 1980, the creditors of the Paris Club have been involved in many rescheduling projects. It became clear that sustainable debt relief is only possible if the relief includes a reduction of the debt level and not only a temporary cut in debt servicing. As a result of that, the Paris Club members modified their debt rescheduling and installed a much more successful way of dealing with debt reduction. It is statistically proven that the level of debt relief increased from 33.33% under the Toronto terms to 90% and even more under the Cologne terms. The major problem of the Paris Club debt relief in the past was that the rescheduling only reduced bilateral and officially guaranteed commercial debts. The debt of developing countries was multilateral, so the rescheduling had a limited impact on the relief. This is why the HIPC Initiative links debt relief from multilateral institutions with debt rescheduling from bilateral creditors like the Paris Club.<sup>59</sup>

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<sup>58</sup> <http://www.clubdeparis.org/sections/composition/historique-50-ans>

<sup>59</sup> Guder (2009) *The Administration of Debt Relief by the International Financial institutions* p.172f.

The permanent 19 members are countries with an effective economic system and good political links to many countries worldwide. The following countries, in alphabetical order, are permanent members:

Australia	Austria	Belgium	Canada	Denmark
Finland	France	Germany	Ireland	Italy
Japan	Netherlands	Norway	Russian Federation	Spain
Sweden	Switzerland	United Kingdom	United States of America	

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The permanent Members meet on a monthly basis (except February and August) in Paris. These meetings are prepared by the General Secretariat which is managed by senior officials from the French Treasury. Usually the debtor country is represented by a delegation of officials from the Central Bank and the Ministry of Finance. The Chief of this delegation is usually the Minister of Finance.<sup>61</sup>

As well as the permanent Members, the Paris Club has associated members and international institutions with observer status. The associated members are also invited to participate actively in meetings, while institutions with observer status are not involved in the negotiations, nor do they have to sign the agreement. There are three categories of observers:

- i. Representatives of international institutions (IMF, World Bank, OECD, AfDB, IDB)
- ii. Representatives of permanent members which have no claim according to the debt agreement but want to join in the negotiations.
- iii. Representatives of non-permanent members which have claims but aren't in a position to get involved directly. This group of observers has to ask for permission to attend the negotiations from the permanent members and the debtor country.<sup>62</sup>

<sup>60</sup> <http://www.clubdeparis.org/sections/composition/membres-permanents-et/membres-permanents>

<sup>61</sup> <http://www.clubdeparis.org/sections/composition/fonctionnement-du-club/reunions>

<sup>62</sup> <http://www.clubdeparis.org/sections/composition/membres-permanents-et/observateurs>

#### 2.4.1.2 Paris club working principles

Even if the Paris Club is an informal institution, all members act under strict rules of goodwill and sustainability. All members have to follow these rules, which are compulsory for all creditor countries.<sup>63</sup>

The main key principles of the Paris Club members are:

**i. case by case**

The decision made by the Paris Club is suited to each debtor's needs. So there are no results according to the book. Each decision is checked and worked out for a special situation. This principle is an outcome of the Evian Approach.

**ii. consensus**

The most important factor for decision making is that the participating creditors must sign the agreement

**iii. conditionality**

Debt restructuring with the support of the Paris Club is only possible when the debtor country has already been in an official debt relief program from an international institution (IMF, World Bank). The amount which is necessary to be relieved is based on the program of the international institution.

**iv. solidarity**

The Paris Club members agree to solve all of the debtor countries' problems as a group and protect the debtor and other member countries from limitation of their financial means.

**v. comparability of treatment**

All treatments from the Paris Club signed by a debtor country should be prior to their debt relief. Other treatments signed with non-Paris Club countries with weaker conditions should be neglected.<sup>64</sup>

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<sup>63</sup> <http://www.clubdeparis.org/sections/composition/principes>

## PART II

The second part of my final thesis is a detailed debt relief case study based on Guyana. It will start with a short profile of the country to give an overview of where Guyana is exactly on the globe, who represents the Government, the population and of course how the economy works. It also details the sectors in which Guyana has deficits and those in which it wishes to expand in order to increase social expenditure. Furthermore, the key points of the following country-specific documents are machined:

- i. Final Document on the Initiative for Heavily Indebted Poor Countries (1997)
- ii. Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative (2000)
- iii. The Guyana Poverty Reduction Strategy Paper (2000)
- iv. The Guyana Poverty Reduction Strategy Paper Progress Report (2005)
- v. Completion Point Document on the Enhanced Initiative for Heavily Indebted Poor Countries

After comparison of these documents and the checking of the reforms which are to be carried out and those which have actually been carried out, there will be a link to Part III in which the analysis of the data will occur.

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<sup>64</sup> <http://www.clubdeparis.org/sections/composition/principes/cinq-grands-principes>

### 3. Case Study Guyana



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Guyana is the only English-speaking country in South America. It became independent from Britain on May 26, 1966. Since independence the state has been mostly ruled by socialist-orientated governments. Guyana is the third smallest country of South America, as well as the third poorest country of Latin America and the Caribbean area.

The country's economy is a very stable one compared to the performance of other Latin American countries during the crisis years, with an average growth of 4%. Since the crisis economic growth has suffered and is forecasted to expand for the first time since 2010 to 5.5% in 2013. This boost will occur because of an increase in rice and gold production as well as the implementation of major infrastructure reforms in mining and agriculture, and of course because of the Guyana-Venezuela Rice Trade Agreement.<sup>66</sup>

The country is situated in northern South America between Suriname and Venezuela. It is divided into ten regions. Since December 2011, Donald Ramotar has been the President of Guyana. The head of the government is Prime Minister Samuel Hinds.<sup>67</sup>

The most mentionable export products of Guyana are: sugar, gold, bauxite, alumina, rice, shrimps, rum, timber and molasses. The most urgently needed import products are: machinery, petroleum, food and manufactured goods.<sup>68</sup>

<sup>65</sup> <https://www.cia.gov/library/publications/the-world-factbook/graphics/maps/gy-map.gif>

<sup>66</sup> <http://www.worldbank.org/en/country/guyana/overview>

<sup>67</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

<sup>68</sup> *ibid.*

### 3.1 Country Profile Guyana



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#### 3.1.1 Introduction:

country full name:	Cooperative Republic of Guyana (Guyana)
Former:	British Guyana
Independence since:	26 May 1966
Capital city:	Georgetown
Government type:	Republic
Chief of State:	President Donald Ramotar
Head of government:	Prime Minister Samuel Hinds
Border countries:	Brazil, Venezuela, Suriname
Country area:	214,969 km <sup>2</sup>
Population:	739,903 (July 2013 est.)
Languages:	English, Amerindian dialects, Creole <sup>70</sup>

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<sup>69</sup> <https://www.cia.gov/library/publications/the-world-factbook/graphics/flags/large/gy-lgflag.gif>

<sup>70</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

### 3.1.2 Population

The population of Guyana shares cultural and historical bonds with the Anglophone Caribbean. The two largest ethnic groups in Guyana, which represents more than three quarters of Guyana's population, are:

- i. Afro-Guyanese, descendents of African slaves,
- ii. Indo-Guyanese, descendents of Indian laborers.

Periodically there are conflicts between these two groups, as both support their ethnically political parties and vote along ethnic lines. Of course these fights between the two major ethnic groups have an influence on politics. In Guyana more than one third of the population lives below the poverty line.<sup>71</sup>

The literacy rate is reported to be one of the best at 98.4%.<sup>72</sup> Practically it's somewhat lower because of poor quality education and infrastructure, and weak teacher training. All these factors are being addressed in the Country Assistance Strategy of the World Bank and should be solved in the near future. By means of this program the quality of education is to be increased to a higher level due to teacher training reforms and better service delivery.<sup>73</sup>

Guyana has one of the highest emigration rates in the world. More than 55% of its citizens live abroad. This fact makes Guyana one of the largest recipients of remittances compared to GDP in the Latin American region. More than 80% of Guyanese citizens with tertiary education have emigrated. The emigration has had a heavy impact on daily life in Guyana. For example, the health sector suffers badly from the emigration of professional employees. With the concentration of medical resources on Georgetown, the rural regions of the country suffer from rudimentary medical support. The HIV prevalence rates in Guyana are the highest in the region, and without international support Guyana isn't able to lower this rate.

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<sup>71</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

<sup>72</sup> <http://www.amerika-auf-einen-blick.de/guyana/wirtschaft.php>

<sup>73</sup> <http://www.worldbank.org/en/country/guyana/overview>



### 3.1.3 Economy

The economy of Guyana is based mainly on extractive industries (bauxite, alumina and gold) and agriculture (sugar, rum, shrimps, rice and timber). The economy is dependent on the export quota of the following six commodities: gold, bauxite, timber, sugar, rice and shrimps. These six commodities represent about 60 percent of Guyana's GDP. The production of these goods, especially rice, shrimps and sugar is enmeshed with the weather conditions. With its entry into the CARICOM Single Market and Economy (CSME) in early 2006, the country broadened its export market, especially for its raw materials. The economy of Guyana has had moderate but stable growth during the last few years. The stock of debt has been reduced significantly – not only because of the debt relief – and is now less than half of its size from the early 1990s. With the help of the HIPC Initiative and its donors, Guyana has managed to reduce its debt-to-GDP ratio from 183 percent in 2006 to 120 percent in 2007. Economic growth decreased in 2009 as a result of the worldwide recession, but recovered in the period from 2010 to 2012 before decreasing again in 2012 as a result of a second recession. The positive effect of the slowdown on the domestic economy along with the lower import costs has helped to reduce the country's current account deficit. The major problem of Guyana's economy is the permanent shortage of skilled workers in nearly every sector and the lack of infrastructure.<sup>74</sup>

Inflation has been under control in recent years. In 2012, inflation was about 2.4 percent, which is slightly lower than the inflation in Austria.<sup>75</sup>

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<sup>74</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

<sup>75</sup> <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

### *3.1.3.1 Exports*

The amount of exports was about US\$1.129 billion in 2011 and US\$ 1.398 billion in 2012. The most-exported commodities are sugar, gold, bauxite, alumina, rice, shrimps, molasses, rum and timber. The most important trading partners are the US with 30.8%, Canada with 28.9% and the UK with 6.2%.<sup>76</sup>

### *3.1.3.2 Imports*

The amount of imports was US\$ 1.771 billion in 2011, which also increased to about US\$ 1.978 billion in 2012. The most-imported commodities are machinery, petroleum, food and manufactured goods. The most important trading partners are the US with 22.2%, Trinidad and Tobago with 21.9%, China with 12.3%, Cuba with 6.1% and Suriname with 4%.<sup>77</sup>

Guyana had a deficit in its current account balance of about US\$ 372.3 million in 2011 and about US\$ 394.8 million in 2012.<sup>78</sup>

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<sup>76</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

<sup>77</sup> *ibid.*

<sup>78</sup> *ibid.*

### 3.2 HIPC Progress in Guyana

Guyana became a participant in the HIPC Initiative in 1996 and was one of the first countries which reached the completion point. On the road to the completion point it passed the eligible point in 1996, the decision point in May 1999 and the completion point conditions in the fall of 2003.<sup>79</sup>

As we know from the previous chapter, a country is eligible for the HIPC if it fulfills several criteria. Guyana's debt burden was so high that it had been rescheduled by the IMF and the World Bank in the past. In addition, its net present value of debt to government revenues in 1996 was 469 percent. Moreover, IDA and Fund Executive Board Directors agreed that Guyana was eligible under HIPC because of the country's history with its strong adjustment record and its receipt of Paris Club relief under the Naples terms, its highly open economy (exports to GDP ratio over 40%) and regardless of this its heavy fiscal burden (revenue to GDP ratio over 20%). Altogether the directors of both institutions assumed that a decision point could be reached by November 1997.<sup>80</sup> Furthermore, some experts were really confident about debt relief for Guyana.

*“Guyana’s savings from debt relief can be expected to average 9% of GDP per year over the next few years.”<sup>81</sup>*

So let us have a look at how Guyana became a member of the Initiative, and especially under which conditions the Board of IMF and World Bank agreed to the application.

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<sup>79</sup>De Ferranti(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.4

<sup>80</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.4

<sup>81</sup>Clements(2002): Debt relief and public health spending in heavily indebted poor countries p.152

### 3.2.1 Guyana's way into HIPC

Because it would be too much for one thesis I will skip the debt problems of Guyana in the 1970s and 1980s and start with the application for the HIPC Initiative. It is notable that in these two decades Guyana had negative growth and declining investment. Corollary to this, the Government of Guyana started implementing some macroeconomic programs and structural adjustment in 1988. Key targets were the reduction of inflation and sustained economic growth which would lead to poverty reduction. There has been some progress with these reforms, but the prospects for sustainable growth over a long period remain arguable. A deepening of structural reforms was necessary for an higher level of efficiency of the economy and economic diversification. Furthermore, the strengthening of the social sector has to be accelerated to reach significant results in poverty reduction and in the development of human capital.<sup>82</sup>

Guyana thus had a track record and a history of debt relief and/or rescheduling under traditional debt relief programs of the World Bank, IMF and Paris Club, which, as we know from a previous chapter, are both criteria for getting into the Initiative.

#### **Guyana's track record**

Guyana had established a strong track record with the support of the IMF and IDA since 1998. In detail, the government of Guyana had successfully implemented programs with the target of economic stabilization via far-reaching structural reforms which promote economic growth and which would reduce the widespread poverty. Furthermore, the programs focused on the strengthening of the social and physical infrastructure as well as increasing the power of key institutions. Guyana was supported with technical assistance at the beginning of the implementation and for the duration of a year until 1990 with financial assistance based on a special arrangement followed by a long-term ESAF arrangement until 1998. It was not only the World Bank and the IMF

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<sup>82</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.47

which supported Guyana during this period. Also the Caribbean Development Bank (CDB), the European Union (EU) and bilateral donors provided financial and technical support.<sup>83</sup>

For 1997, the government's medium term economic strategy provided conditions for sustained growth and higher employment. In detail the program planned to:

- i. raise real GDP growth by about 7 percent
- ii. reduce inflation by 4 percent
- iii. increase the primary current balance of the public sector to 24 percent of GDP

To guarantee these objectives, the program accelerated the strengthening of the public sector via the implementation of measures to improve tax administration and reforms in key public enterprises as well as the financial sector.

The programs for poverty reduction and the way out of the debt trap are planned for the long term. They consist of a combination of macroeconomic policies, profound structural reforms, ambitious social development in the area of education and health (these sectors are weakest in Guyana) and a plan for a well-considered use of Guyana's natural resources.<sup>84</sup>

The following structural reforms and social expenditures are excerpts from a letter by the Minister of Finance of Guyana to the World Bank and the IMF which dates back to

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<sup>83</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.8

<sup>84</sup> *ibid.* p.4

December 1997. In this letter the Minister confirms that Guyana wants to strengthen reform measures and is willing to sign a new three year arrangement under the Enhanced Structural Adjustment Facility (ESAF).<sup>85</sup> The Government assumes that the planned reforms of the memorandum will accelerate the existing policies and structural reforms. So these reforms are priority number one and the Minister promised that the measures would be implemented by the end of 1998. Furthermore, the Minister made a commitment that in the meantime the government would continue with sustainable economic and financial policies to establish macroeconomic stability which would lead to economic growth and poverty reduction.<sup>86</sup>

In the last point of the letter, before the structural adjustment programs were explained in more detail, the Minister of Finance addresses his request directly to the Fund and IDA Boards:

*"In light of Guyana's heavy fiscal burden of external debt and given its strong revenue efforts, highly open economy, firm commitment to accelerating structural and social sector reforms; the government would like to request the Fund and IDA Boards to decide favorably on Guyana's eligibility for assistance under the HIPC Initiative with a completion point in late 1998"*<sup>87</sup>

Guyana fulfilled two criteria and was eligible for debt relief under the HIPC Initiative. The key reforms of the HIPC Initiative for Guyana assume a discharge of fiscal resources which would support social expenditure in the critical sectors of Guyana like education, health and poverty reduction.<sup>88</sup>

The following key reforms are from the memorandum which was attached to the letter from the Minister of Finance written in 1997 to the IMF and World Bank and were planned to be realized as soon as possible. Of course each of these key reforms had to be established to reduce poverty on a permanent basis to make sure the program would work successfully.<sup>89</sup>

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<sup>85</sup>PRGF is the former ESAF and was replaced by the PRGF in 1999, for more details see: IMF (1999): The IMF's Enhanced Structural Adjustment Facility (ESAF): Is It Working

<sup>86</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.45

<sup>87</sup> ibid. p.46

<sup>88</sup> ibid. p.3

<sup>89</sup> ibid. p.52

### 3.2.1.1 Civil service reform

The major problem during the period between 1993 and 1996 was the decrease of skilled staff in the government, of about 900, and of unskilled staff, of about 4,800, which represents about one third each. This drop, compared with unfilled positions, resulted in an increase in vacancies at all levels in the civil service to about 45 percent. The reason for this decrease of staff is located in the unattractiveness of civil service salaries. The government established a new 14-band salary structure based on job evaluation. Supported by the World Bank and the UK ODA, salary increases have been realized across the board to raise the attractiveness of working in the civil service. Furthermore, a three-year scheme, from 1997 to 1999, was implemented to boost the salaries of around 1,800 key and critical positions in the sector. In spite of this reform, the civil service, especially the salaries, represent the weak link in the government's ability to recruit highly skilled staff.<sup>90</sup> To bring the salary structure for key and critical positions to a level that would attract highly skilled personnel, the government developed a new wage structure for managerial, professional and technical employees by setting wages comparable to similar positions in the private sector. The goal is to bring the wages in the civil sector gradually to within 10 percent compared to the median rates in the private sector. Until this process is completed, Guyana's ability to implement significant economic and financial policies will be impaired. However, the government intends to deepen and accelerate the reforms in these areas.<sup>91</sup>

	Actuals					Est. 1997	Projection Targets				
	1992	1993	1994	1995	1996		1998	1999	2000	2001	2002
Education 1/	3.1	3.2	3.5	3.4	4.0	4.6	4.9	5.3	5.6	5.9	6.2
Health 1/	3.5	3.6	3.6	4.0	3.0	2.9	3.2	3.5	3.8	4.1	4.5
Poverty alleviation 2/	0.1	0.2	0.6	0.8	1.3	0.7	0.9	1.2	1.5	1.7	2.0
Total social sector 3/	6.7	7.0	7.6	8.2	8.4	8.2	9.0	10.0	10.9	11.7	12.7

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<sup>90</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.47

<sup>91</sup> *ibid.* p.48

<sup>92</sup> *ibid.* p.22

### 3.2.1.2 Economic reforms

To go into detail, in order to escape from the poverty trap the government has to know where the problems of the economy are in order to solve them. So the PRSP of Guyana is therefore an important source to identify the sectors which are ‘troublemakers’. For this purpose the Government developed a poverty map of the country to target local problems and help where help is needed.<sup>93</sup> Furthermore, the government realized that the business environment must be strengthened. In order to increase participation in economic activity, the government started with a wide-ranging framework:

- i. establishment of a framework for the insurance industry
- ii. modernization and strengthening of the deeds registry
- iii. start a nationwide land reform

The most difficult reform was to be the land reform because of the ongoing troubles and disputes about land title and ownership documents. Supplementary to those reforms, the government has started several actions like the liberalization of trade and exchange systems, consumption and corporate tax reforms as well as new financial and central bank legislation and companies' tax legislation to boost the economy<sup>94</sup>

	Actuals					Est. 1997	Projection Targets				
	1992	1993	1994	1995	1996		1998	1999	2000	2001	2002
<b>Poverty alleviation programs 2/</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Education	18.9	35.9	30.2	37.4	38.4	42.8	39.6	36.8	36.7	36.4	37.6
Health	26.8	37.4	42.0	23.3	20.8	21.0	22.9	27.6	27.5	28.0	29.3
Water supply	...	3.4	10.9	5.0	11.0	16.6	17.6	17.2	22.9	21.8	20.0
Infrastructure 5/	54.3	23.2	16.9	34.4	29.8	19.6	19.9	18.5	12.9	13.8	13.1

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<sup>93</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.53

<sup>94</sup> ibid. p.16

<sup>95</sup> ibid. p.22



### 3.2.1.2.1 Financial sector reforms

The reorganization of the Ministry of Finance (MOF) includes administrative programs to evaluate the effectiveness of management and decision-making processes as well as unclear lines of authority and unusual staff development policies. As a result of the reform, the management information system has been upgraded, operations are being computerized and most importantly the establishment of program budgeting has started.<sup>96</sup>

In the last few years, Guyana worked hard on putting the financial sector on a sound footing. The necessary framework was strengthened by a special Financial Institutions Act in 1996 as well as a sale of government ownership of entities in the financial sector in the years 1995 to 1997. Furthermore, two state owned banks were merged and the Bank of Guyana (BOG) was established. This strengthened the competitiveness of the financial sector and increased the nationwide branch network. For the near future, the government intends to conclude the following programs:

- i. Recapitalization of the Bank of Guyana
- ii. A revision of liquid asset ratios
- iii. Restructuring of the Guyana National Cooperative Bank (GNCB), whereby the management and the credit controlling in particular will be reorganized.<sup>97</sup>

These three steps are essential to increase the competitiveness of the financial sector and could yield gains in efficiency and help to reduce the large spread between deposits and lending interest rates. Meanwhile, the World Bank staff is supporting the local

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<sup>96</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.48

<sup>97</sup> *ibid.* p.15

authorities to reduce nonperforming loans in the banking system of the GNCB to a sustainable level to be eligible for an IDA supported adjustment loan.<sup>98</sup>

### *3.2.1.2.2 Public sector reforms*

As a part of poverty alleviation and economic restructuring reforms, the government decided to privatize companies in sectors which could be more efficient in the private sector. The aim was that, supported by a macroeconomic framework, the private sector should take the economic lead.<sup>99</sup>The Government identified around 20 public enterprises for privatization. However, there were different unexpected factors which occurred during the sale process, including a lack of interest by investors as well as disputes over land title ownerships. Against all odds, the government managed to privatize enterprises which account for about 60% of total net assets owned by the public sector.<sup>100</sup>

In 1997 the National Bank of Industry and Commerce (NBIC) and the Guyana Electricity Corporation (GEC) were privatized. This privatization had a significant impact on the whole economy. With the privatization of the NBIC the government sold its 47 percent share of the National Insurance Scheme to the Republic Bank of Trinidad and Tobago. This sale was completed in August 1997 under the third annual ESAF arrangement. In the case of GEC the government sold 50 percent of the company's shares in November 1997 and adopted a regulatory framework for the energy sector.

The Government also discussed the privatization of two bauxite companies (LINMINE and BERMINE), although the negotiations with two foreign investors were aborted and the companies were reformed. At the end of 1998 the asset value of nonfinancial public enterprises sold by the public sector was about 72 percent of the amount originally owed by the public sector.<sup>101</sup>

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<sup>98</sup>Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.15f.

<sup>99</sup> Ibid. p.15

<sup>100</sup> Ibid. p.50

<sup>101</sup> Ibid. p.50

### 3.2.1.2.2.1 Guyana Sugar Company (GUYSUCO)

Guyana was unable to reach its sugar export quota to the EU in the late 1980s, so GUYSUCO suffered a financial shortfall. As a result of this financial shortfall the government tried to sell the company, but these attempts failed so the government initialized a reorganization of the company to prepare it for an ongoing privatization in late 1993. Since this point the company has recovered really fast and the annual results are better than in the years before as a result of the favorable market conditions and help from a foreign management team. This team has increased production by reducing unit costs. As a result of the financial resources generated the government and IDA decided that there is no urgent need to privatize GUYSUCO. Considering the declining sugar prices and the possibility that access to the EU market could cease by the year 2002, the government, IMF and World Bank decided to establish a strategy for the company for each possibility.<sup>102</sup>

The strategy of IDA and government contains several steps like:

- i. Reducing full-time employees by 7,500 and implementing mechanized field operations. This raised agricultural yields from 2.46 to 2.62 tons per acre in the period from 1992 to 1996. Furthermore, productivity was raised during the same time period from 2.5 tons to 4 tons per working day.
- ii. Wise investment in loading facilities and the increased size of ocean freighters lowered unit costs. Furthermore, the sugar extraction rate was increased from 76.42 to 79.67 in the period from 1992 to 1996.
- iii. Moreover, the framework included some reductions in the management and supervisory structure, the shutdown of inefficient engineering workshops and equipment departments as well as the outsourcing of services like the transportation of sugar or the purchase of chemicals and the manufacturing of

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<sup>102</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.51

tools for daily use. With these measures, GUYSUCO will save about US\$ 3 million or US\$0.005 per pound sugar a year.<sup>103</sup>

iv. One of the last steps for GUYSUCO is to pay the same corporate tax as all the other companies in Guyana, which is 35 percent. In addition, the next management contract has to be signed to start the semiannual cost-reduction benchmarks.

v.

In early 1998, GUYSUCO implemented a new five-year strategic plan which promised an increase in the sugar production from 275,000 to 300,000 tons a year. This increase is possible by expanding field cultivation as well as merging factory operations and combining the administration of contiguous estates.<sup>104</sup>

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<sup>103</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.52

<sup>104</sup> Ibid. p.52

### 3.2.1.3 Education sector reforms

The Ministry of Education (MOE) was to be reorganized by the end of 1998. The intention of the Government was to increase the effectiveness and efficiency of expenditure and service delivery in early childhood which means to support primary and secondary school levels. For the realization of this program, the government raised expenditure in this sector year by year. Expenditure increased from 4 % of GDP in 1996 to 5% of GDP in 1998 to 5.5% in 2000. The focus of this program was to expand teacher trainings programs and make it easier for children in rural areas to get access to basic education. Furthermore, the Government wanted to support families with the recurrent cost items of typical school materials such as textbooks etc. The reform plan for the tertiary education level provided for the establishment of a higher participation level of the private sector, especially in the financing of technical and vocational education.<sup>105</sup>

	Actuals					Est. 1997	Projection Targets				
	1992	1993	1994	1995	1996		1998	1999	2000	2001	2002
<b>Education 1/</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Current expenditure	80.6	86.0	76.9	79.4	71.4	66.6	66.6	66.6	66.6	66.6	66.6
Teaching supplies	2.3	2.7	2.7	3.0	2.7	2.7	7.0	9.7	12.3	12.3	12.3
Maintenance	1.8	4.1	3.5	4.0	3.9	3.3	10.0	11.0	12.0	12.0	12.0
Capital expenditure 4/	19.4	14.0	23.1	20.6	28.6	33.4	33.4	33.4	33.4	33.4	33.4

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<sup>105</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.53

<sup>106</sup> Ibid. p.22

### 3.2.1.4 Health sector reforms

Expenditure in the health sector has increased in the last few years. For the future the government set a new direction.<sup>107</sup> To make the health sector more effective, the Ministry of Health (MOH) was to be reorganized by the end of 1998. After the reorganization the government's major targets till the year 2000 were:

- i. Improve the population's access to basic medical care
- ii. Increase the quality of basic medical care

To make sure that these new targets are realizable the Government increased the budget from 3% of GDP in 1996 to 3.25% in 1998 and to 4% in 2000. Major investments are planned in disease control programs, awareness campaigns and an increase in the nutrition status. A special key marker is the education and recruiting of skilled staff for the health sector. A huge problem in terms of medical services in Guyana is the centralized health system. Outside of the capital city Georgetown, there is a lack of health care. So another goal of the program is to improve the access to and delivery of health services to the other regions of the country. With the main focus on the health needs of children, adolescents and pregnant women.<sup>108</sup>

	Actuals					Est. 1997	Projection Targets				
	1992	1993	1994	1995	1996		1998	1999	2000	2001	2002
<b>Health 1/</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Current expenditure	58.5	57.9	58.3	46.0	74.6	85.9	88.3	89.1	88.7	89.7	90.6
Drugs, materials, and supplies	22.6	30.0	29.8	28.6	26.2	26.3	27.3	28.9	30.5	30.5	30.5
Maintenance	1.4	2.8	2.9	3.9	4.4	3.6	10.0	11.0	12.0	12.0	12.0
Capital expenditure 5/	41.5	41.8	41.5	49.9	29.5	14.3	11.7	10.9	11.3	10.3	9.4

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<sup>107</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.52

<sup>108</sup> Ibid. p.53

<sup>109</sup> Ibid. p.22

### 3.2.1.5 Possible assistance under the HIPC Initiative:

The IDA and IMF staff called a meeting with all the multilateral and bilateral creditors of Guyana to evaluate what these creditors would take under the HIPC Initiative. At the meeting, all of Guyana's multilateral creditors were present. Paris Club creditors agreed to provide additional assistance under a fair burden sharing between the multilateral and bilateral creditors of Guyana. They are waiting for the confirmation of Trinidad and Tobago to sign the treatment.<sup>110</sup>

For a detail report of possible assistance under the HIPC:

	1999	2000	2001	2002	2003	Beyond	Total
<b>Total</b>	<b>29.6</b>	<b>27.5</b>	<b>26.9</b>	<b>26.9</b>	<b>27.2</b>	<b>304.3</b>	<b>442.4</b>
Interest	12.7	12.3	12.0	11.6	11.2	103.8	163.6
Principal	16.9	15.1	15.0	15.3	16.1	200.5	278.9
<b>Paris Club Creditors 2/</b>	<b>7.8</b>	<b>7.8</b>	<b>7.8</b>	<b>8.0</b>	<b>8.3</b>	<b>106.3</b>	<b>145.9</b>
Trinidad and Tobago	5.6	5.6	5.6	5.6	5.6	61.3	89.3
Interest	5.6	5.6	5.6	5.6	5.6	61.3	89.3
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.2	2.2	2.2	2.4	2.7	45.0	56.7
Interest	2.2	2.2	2.2	2.2	2.1	16.0	26.9
Principal	0.0	0.0	0.0	0.2	0.6	29.0	29.8
<b>Multilateral</b>	<b>21.8</b>	<b>19.7</b>	<b>19.2</b>	<b>18.9</b>	<b>18.9</b>	<b>198.0</b>	<b>296.5</b>
Interest	4.9	4.6	4.2	3.8	3.5	26.4	47.4
Principal	16.9	15.1	15.0	15.0	15.5	171.6	249.1
IDA 3/	1.3	1.5	1.9	1.9	1.9	61.7	70.1
Interest	0.5	0.5	0.4	0.4	0.4	6.0	8.2
Principal	0.9	1.1	1.4	1.4	1.5	55.6	61.9
IMF 4/	8.1	5.9	5.4	5.3	5.2	14.7	44.6
Interest	0.3	0.2	0.2	0.2	0.2	0.3	1.3
Principal	7.8	5.7	5.2	5.1	5.0	14.4	43.3
Others 5/	12.4	12.3	11.9	11.7	11.9	121.7	181.7
Interest	4.2	3.9	3.5	3.2	2.9	20.2	37.9
Principal	8.2	8.4	8.3	8.5	9.0	101.5	143.9
<b>Memorandum items:</b>							
Debt-service scheduled	106.2	110.4	98.6	96.8	105.0	...	...
In percent of revenue	32.8	31.7	26.5	25.0	25.6	...	...
In percent of exports	12.1	11.8	9.9	9.3	9.8	...	...
Debt service after HIPC assistance	76.6	82.9	71.7	69.9	77.7	...	...
In percent of revenue	23.7	23.8	19.3	18.0	19.0	...	...
In percent of exports	8.8	8.9	7.2	6.7	7.2	...	...
Possible assistance in percent of GDP	3.0	2.6	2.4	2.3	2.2	...	...
In percent of revenue	9.2	7.9	7.2	6.9	6.7	...	...
In percent of exports	3.4	2.9	2.7	2.6	2.5	...	...

111

<sup>110</sup> Isenman (1997): Guyana: Final Document on the Initiative for Heavily Indebted Poor Countries p.26f.

<sup>111</sup> Ibid. p.33

### 3.3 Decision Point

Based on the programs of the PRGF, the staff of the World Bank and the IMF believes that Guyana has fulfilled the demands for successfully reaching the decision point. For continuing assistance under the HIPC Initiative, Guyana has to implement the agreed macroeconomic policies and structural reforms.<sup>112</sup>

Guyana had different struggles with several political and economic difficulties since late 1997. These struggles had a bad influence on the economic performance of the country. So not all of the agreed policies and reforms could be implemented on time, the reason for the delays dated back to several circumstances like:<sup>113</sup>

- i. Domestic political troubles (a strike by civil servants about wages, and other political troubles following the elections of late 1997 which lasted till mid-1998)
- ii. A decrease in export revenues, based on the fall of the world market prices of the major export products of Guyana like: rice, gold, sugar and timber
- iii. Cost increases caused by the weather, like the drought caused by El Nino in 1997-1998 and a flood in early 2000

All these circumstances led to a delay in the approval of the budgets in the years 1998 and 1999. Furthermore, this slowed down the implementation of structural reforms and blocked the development of public finances. The following figure shows the planned measures and their status of implementation:

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<sup>112</sup> De Ferranti, David (2000): Guyana: Decision Point Document for the Enhanced Heavily Indebted Poor Countries p. 19f.

<sup>113</sup> *ibid.* p. 3



<i>Policy Measures</i>	<i>Target Dates</i>	<i>Status</i>
<b>Financial reforms</b>		
		<b>GNCB</b>
Install new international management team	February 1999	<input checked="" type="checkbox"/>
Complete report on restructuring, including the planned measures to enhance GNCB's finances	May 1999	<input checked="" type="checkbox"/>
Complete the report on GNCB'S future by December 1999	December 1999	<input checked="" type="checkbox"/>
<b>Central bank operations</b>		
Reduce commercial banks reserve requirement from 15 percent to 12 percent	February 1999	<input checked="" type="checkbox"/>
Install sanctions under FIA against financial institutions not in compliance with the necessary minimum of paid up capital		<input checked="" type="checkbox"/>
<b>Business environment</b>		
Appoint securities council	April 1999	<input checked="" type="checkbox"/>
Table legislation on bankable property rights	December 1999	<input checked="" type="checkbox"/>
Pass legislation making the Deeds Registry an autonomous agency	February 1999	<input checked="" type="checkbox"/>
<b>Public sector reform</b>		
Privatization of Guyana Electricity Company	October 1999	<input checked="" type="checkbox"/>
<b>Civil service reform</b>		
Start to downsize the civil service	December 1999	<input checked="" type="checkbox"/>
Develop remuneration structure for key positions in the civil service	December 1999	<input checked="" type="checkbox"/>
Begin to implement the new remuneration structure	December 1999	<input checked="" type="checkbox"/>
<b>Public finance</b>		
Complete a tax reform study	December 1999	<input checked="" type="checkbox"/>
Make Revenue Authority fully operational	May 1999	<input checked="" type="checkbox"/> <sup>114</sup>
<input checked="" type="checkbox"/> = done	<input checked="" type="checkbox"/> = Civil service wage awards have shifted the emphasis and timing of the civil service reform	

<sup>114</sup> De Ferranti, David (2000): Guyana: Decision Point Document for the Enhanced Heavily Indebted Poor Countries p. 24f.

### *3.3.1 Civil service progress*

With the support of the World Bank and the IDB, the Guyana authorities updated the public sector remuneration structure on the basis of a private sector remuneration survey. The wage awards to civil servants in the period of 1998-2000 slowed down the implementation of a new wage structure. However, the authorities managed to finish the reorganization of the Ministry of Finance (MOF) and started the reorganization of the ministries of education and health. The planned reducing of the civil service is more complicated than expected because of the protest of the unions. As a result the government is thinking about the outsourcing of about 1000 security guards from the core civil service to private organizations.

Moreover, the IDB supports the authorities in the implementation of a long-term public sector modernization program.<sup>115</sup>

### *3.3.2 Economic and finance reform progress*

The macroeconomic development of Guyana can be measured by the GDP of Guyana. GDP rose about 6 percent in 1997, stagnated in 1998 because of the drought and was boosted by 3 percent in 1999 as a result of the weather conditions. The weather conditions had also a significant impact on the fruit and vegetable prices after the flood in early 2000. The authorities retained their tight monetary policy to counter inflationary pressures. The deficit in the external current account is based on the two month civil servants' strike, lower imports and the subsidization of public finances. During the early 2000s, the current account deficit grew substantially because of a rise in imports compared with oil prices and an increase in direct investment.<sup>116</sup>

In the financial sector the progress was substantial. With the assistance from the Fund and the World Bank, the Bank of Guyana (BOG) strengthened its supervision of the

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<sup>115</sup> De Ferranti, David (2000): Guyana: Decision Point Document for the Enhanced Heavily Indebted Poor Countries p. 6

<sup>116</sup> *ibid.* p. 4

national financial system and has implemented a legal framework for securities trading. Furthermore, a team of foreign experts managed to arrange the sale of the GNCB in mid-2001 with a restructuring program. These actions had a positive impact on the whole finance system.<sup>117</sup>

### *3.3.3 Public sector progress*

In 1999 the government privatized Guyana Airways, the Guyana Electricity Company (GEC) and a huge pharmaceutical enterprise. Additionally the authorities liquidated numerous small enterprises. The government planned the privatization of all state owned companies except for three major enterprises in these sectors:

- i. Shipping
  
- ii. Sugar (GUYSUCO)
  
- iii. Oil companies

GUYSUCO, the state-owned sugar company, ran a modernization plan under the supervision of a private management which is reviewed technically and financially by a World Bank-led team.<sup>118</sup>

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<sup>117</sup> De Ferranti, David (2000): Guyana: Decision Point Document for the Enhanced Heavily Indebted Poor Countries p. 5

<sup>118</sup> *ibid.* p. 5

### *3.3.4 Education sector progress*

The performance of Guyana in the education sector has been very strong in the last few years. First, the Ministry of Education was strengthened by reorganization and an increase in human capital. Human capital was strengthened with 500 newly trained teachers each year. With these increases the authorities want to counteract the emigration of skilled teachers to other countries in the CARICOM or Africa. The supplementation of the education sector with 500 new trained teachers per year is to take place over the medium term. Furthermore, the government accelerated the construction and renovation of schools, especially primary and secondary schools. The planned capital expenditure couldn't be achieved because of procurement bottlenecks. The major targets for the next three year period on the part of the authorities are better access to secondary education and increasing resources in the hinterland.<sup>119</sup>

### *3.3.5 Health sector progress*

Compared to the education sector the health sector dragged behind. Thus the authorities managed to increase spending on the health sector with a little help from the IDB. The reorganization of the Ministry of Health has ended and the sector was strengthened by a removal of supply shortages. Furthermore, Georgetown General Hospital started a cost recovery program from patients who can afford to pay for services. The main objective for the next period is to merge all health centers, posts and district hospitals into autonomous health authorities.<sup>120</sup>

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<sup>119</sup> De Ferranti, David (2000): Guyana: Decision Point Document for the Enhanced Heavily Indebted Poor Countries p. 7

<sup>120</sup> *ibid.* p. 8

### *3.4 Poverty Reduction Strategy Paper (PRSP)*

To be eligible for the enhanced HIPC Initiative Guyana had to develop a PRSP. The PRSP is a broad based strategy that ensures the country is willing to take a reorientation of its economic and social policies towards the aims of this paper. To form this PRSP program the appropriate authorities involved representatives of the civil society as well as the donor community.<sup>121</sup>

The main objectives of the PRSP are strengthening the national economy by reducing corruption and inefficient economic decisions and increasing sustainable growth and poverty reduction by improving the support to the social sector.

The collected data from the previous years show that a significant economic growth is an opportunity for sustainable poverty reduction. For example Guyana has had over the period of the last seven years an increase in GDP of 37 percent and in the meantime the extreme poverty has decreased by 34 percent. This leads to two suggestions: first, there is a correlation between GDP growth and poverty reduction. Second, with the appropriate macroeconomic framework reducing the poverty by half could be possible in less than 10 years. To reach these high aims the PRSP of Guyana mainly targets three objectives.

- i. Sustainable economic growth within a broader democracy.
- ii. Provide easier access to social services like health, education and water.
- iii. Strengthening and expansion of the social safety nets.<sup>122</sup>

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<sup>121</sup> Bedi, Arjun S (2011): Guyana's Poverty Reduction Strategy and Social Expenditure, European Journal of Development Research p. 229 ff.

<sup>122</sup> IMF, World Bank, Guyana authorities (2002): Guyana Poverty Reduction Strategy Paper p.26

To implement these three goals Guyana adopted a PRSP which is based on the following seven main objectives:

- i. Broad based economic growth, which will lead to an increase in notified vacancies.
- ii. Environmental protection
- iii. Good governance (strengthening of the institutions for better governance)
- iv. Increase the investment of human capital, with the focus on basic education and primary health.
- v. Increase in the investment of physical capital, with the key focus on providing a better infrastructure for clean water, sanitation service and farm to market roads.
- vi. Improved safety nets.
- vii. Special intervention programs to fight local poverty pockets.

All these key criteria depend on each other and have to be fulfilled for sustainable economic growth. If all these criteria were implemented the business environment would be more attractive to foreign investment which would increase the purchasing power of the whole economy. Furthermore all sectors of the economy would profit from the modernization and new infrastructure.<sup>123</sup>

These main key points of the PRSP target the improvement of the accountability of the government and the public sector as well as enlarging the access to and of course the quality of primary and secondary education and primary health care.<sup>124</sup>

Guyana has always been addicted to exports at the world market, as it is the only source of foreign exchange it has got. Unfortunately the exporting sectors are working in a non-competitive way compared to the world market. As a result the PRSP has planned

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<sup>123</sup> IMF, World Bank, Guyana authorities (2002): Guyana Poverty Reduction Strategy Paper p.27

<sup>124</sup> De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.7

to reduce the production cost per unit and develop new product lines. Furthermore the Government will redouble its efforts to support the reorganization of traditional export sectors. This reorganization affects the state owned sugar company GUYSUCO as well as the mining sector and the agricultural sector. With regard to all these reorganization efforts and the rebuilding of infrastructure, the PRSP has mentioned another important factor: the protection of the environment. <sup>125</sup>

Guyana suffers from an extremely fragile ecosystem. The most populated areas of the country lies below the sea level and are likely to be flooded. As a result, the Government has decided to ensure sustainable use of natural resources for economic growth. The Government also has aimed at using the unique landscape for eco tourism in the tropical rainforests. To promote Guyana as a tourist destination, the Ministry of Tourism has developed an eco-tourism strategy to establish Guyana on the world travel market. <sup>126</sup>

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<sup>125</sup> Ibid..31

<sup>126</sup> IMF, World Bank, Guyana authorities (2002): Guyana Poverty Reduction Strategy Paper p.32

### *3.5 Completion Point*

Guyana reached its completion point on December 17-18 2003.<sup>127</sup> Full debt relief is guaranteed for Guyana. To reach the decision point Guyana had to fulfil several conditions. For example, it is important that the PRSP of Guyana is established and several indicators of it have to be working for a specific period of time. To make sure that the PRSP is on time, the authorities envisage implementing some reforms under the Poverty reduction support credit scheme (PRSC).<sup>128</sup>

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<sup>127</sup>Paris Club (2004): The Paris Club agrees to reduce Guyana's debt p.1

<sup>128</sup> De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.7



Key reforms and Objectives to be carried out before Completion Point	Status of Implementation	Status
<b>Poverty Reduction Strategy Paper (PRSP)</b>		
Complete a broad-based fully participatory PRSP	The Joint Staff has confirmed that the PRSP was completed in November 2001 was found to be broadly satisfactory by the Guyanese population. Overall progress has been made in implementing the PRSP and in poverty reduction. This is done by reforms in several sectors: in the social sectors, the poverty monitoring and evaluation system, the water sector, and by a reform of the tax system.	<input checked="" type="checkbox"/>
<b>Macroeconomic stability</b>		
Keeping stable macroeconomic conditions with good performance under the PRGF.	The first PRGF review was completed on September 5, 2003. The program provided good performance and a satisfactory track record on implementation.	<input checked="" type="checkbox"/>
<b>Governance</b>		
Strengthen the coordination of capital and recurrent budgets with the objective of full costs of the main program in the budget.	Guyana improved the process of finding the right investment projects with the help of the IDB. Moreover, an ongoing project which is financially supported by the Canadian CIDA helps with the implementation of the budgeting program on the recurrent budget side.	<input checked="" type="checkbox"/>
Proceeding to track the spending of the HIPC resources in the budget	The expenditure of the government is tracked to examine its effect on poverty reduction	<input checked="" type="checkbox"/>

= done

129

<sup>129</sup>De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.5

Key reforms and objectives to be done before Completion Point	Status of Implementation	Status
<b>Social sectors and structural reforms</b>		
Developing a plan for the population census in 2002 which should serve as an update for the poverty map	The census plan was finished in early 2002. Under the new plan more than 90 percent of the population is enumerated.	<input checked="" type="checkbox"/>
<b>Advanced progress in the civil service reforms</b>		
To separate 1,000 security guards from the core of the civil service	In November 2000, the authorities outsourced 1,359 security guards.	<input checked="" type="checkbox"/>
Finishing the computerization of public service payrolls and pensions.	Done.	<input checked="" type="checkbox"/>
Establish an restructuring plan for the state owned GUYSUOCO on the basis of an economic viability study and under the PRGF plan for Guyana	The agreement for modernization between the GUYSUOCO and the Government is based on technical support from the World Bank and was signed in 2003. With the modernization, employment was downsized by 760 workers by 2002. In mid-2003 negotiations between GUYSUOCO and the private management company started to replace production incentives with profit incentives. The plan to extend the sugar project beyond the original plan could happen if the World Bank signs the plan and the financing is consistent with debt sustainability.	<input checked="" type="checkbox"/>
Bring the Guyana National Commercial Bank (GNCB) to market and sell it.	The GNCB was sold in March 2003	<input checked="" type="checkbox"/>

= done

130

<sup>130</sup> De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.5f.

### 3.5.1 Civil service

Consistent with the macroeconomic framework, the authorities have assumed a wage increase of 6 percent, in line with inflation, according to the Board's considerations made at the completion point. They are also thinking about enacting an organic budget law.<sup>131</sup>

Moreover, the civil service sector has been reformed by downsizing. The downsizing process outside of the civil service in the public sector (sugar, mining and banking sectors) has compensated for the delay by the reduction of staff by the civil service. So the modernization of the public sector is an additional point in the reform plan for the civil service.

Furthermore, the modernization of the civil service is proceeding very well and is following several key points which were established in 2002:

- i. The governments payroll and pensions database was computerized
- ii. A payroll audit was carried out
- iii. Vacant positions have been eliminated and the authorities have established special rules for the creation of new positions<sup>132</sup>

These objectives were completed in 2003.

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<sup>131</sup> Ferranti, David (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 10

<sup>132</sup> *ibid.* p. 15f.

### 3.5.2 Economic and finance reform progress

The financial sector was strengthened through several measures. For example, the state-owned commercial bank (GNCB), with the helping hand of international financial institutions, was successfully sold to a domestic commercial bank in early 2003. Furthermore, a satisfactory plan was introduced in which nonperforming loans will be recovered. In the reform plan to recover the top 100 loans; 50 of them have already been assessed. Not only the GNCB received a new outfit, the entire Financial Institutions Act will be overhauled. The main objective is to strengthen the BOG's ability to deal with weak institutions.<sup>133</sup>

Alongside the reform of the banking sector, the government started a massive reform of the tax system in 2003 to improve revenue collection. The reform broadens the tax base, and increases the efficiency of the tax system by reducing the individual scope of discretion. Furthermore, the implementation of a value added tax (VAT) is planned after the national elections in 2006. A short overview of the key reforms of the 2003 tax reform:

- i. Implementation of an income tax on the self-employed
- ii. Raise the annual license fees for businesses
- iii. Extending the consumption tax to services provided by hotels
- iv. Limiting the power of the government to grant more tax exemptions
- v. Income tax holidays will be introduced for new firms which create employment in depressed areas. Tax holidays are limited to five years and are not renewable<sup>134</sup>

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<sup>133</sup> De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.14

<sup>134</sup> De Ferranti (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p.15

### 3.5.3 Public sector progress

One of the main objectives for poverty reduction and for reaching the enhanced HIPC Initiative completion point was the reorganization of public enterprises. The aim is to diminish the vulnerability of the economy. The driving force for economic independence is the sugar sector. Since 1997, production has risen annually by 2.5 percent and costs have declined by 6 percent.<sup>135</sup>

#### 3.5.3.1 Guyana Sugar Company (GUYSUCO)

With the technical support of the IDA, GUYSUCO started to develop and establish a framework for restructuring the sugar sector. The aims of the framework are broadly based, but the main objective is to lower the production costs to US\$ 0.13 per pound. To achieve this aim the framework encourages more efficient processing in plants. Furthermore, the remuneration for the workers and management staff is linked to the profitability of the enterprise instead of production. In the meantime, productivity gains are being achieved by downsizing the permanent staff. In the period of 2000 to 2002 around 4 percent of the staff were made redundant and by the end of 2003 another 700 will be laid off.<sup>136</sup>

Besides the sugar sector, the bauxite sector is also being reorganized. The state-owned companies are being reorganized to promote external viability. With the savings from the reduced budgetary transfer payments, the government has more funding left to support poverty reduction programs. In 2002 two major bauxite companies (BERMINE and AROIAMA), which were both loss-making, were reorganized and merged into one new cash neutral company which doesn't need financing from the government. Also the loss making company LINMINE is undergoing reorganization. The reorganization programs plan an upgrade of the mining and transportation operations as well as an improvement in the system stability of electrical power. The programs also planned to

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<sup>135</sup> Ferranti, David(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 14

<sup>136</sup> *ibid.* 14f.

privatize the management and downsize the permanent staff from 1,250 in 2002 to 250 in September 2003.<sup>137</sup>

### 3.5.4 Progress in the education sector

The progress in the education sector is noticeable, but given the emigration of many skilled teachers achievement levels could still be improved. The report declares that 43 percent of secondary teachers were classified as untrained by the year 2000. Since then the share has fallen by 12 percentage points. The government started negotiations with the teachers' union about the reorganization of teachers' wages. This discussion ended up in arbitration and with the authorities trying to solve the problem independently with the teachers' union.<sup>138</sup>

Needless to say that the recruiting and training of teachers is priority number one, followed by facility management and the provision of school books. Indeed, these measures increased enrollment rates at primary and secondary schools, but poorly qualified teachers and chronic absenteeism contribute to very poor results. Guyana's results remain substantially below the average of the Caribbean countries, despite increases in the recent years.<sup>139</sup>

	1999	2000	2001	2002	Est. 2003
Primary teachers	3951	4457	4808	5048	5275
<i>Of which</i>					
Trained (percent)	50	54	57	60	59
Secondary teachers	3371	2298	2412	2532	2659
<i>Of which</i>					
Trained (percent)	58	56	64	69	68
Total of newly trained teachers	320	509	576	472	n.a.
Student drop outs (primary)	2209	2100	2005	1992	n.a.
Student drop outs (secondary)	2500	2326	2275	2198	n.a.
Health care workers	3057	3460	3475	3502	n.a.

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<sup>137</sup>Ferranti, David (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 14

<sup>138</sup> *ibid.* p. 10

<sup>139</sup> *ibid.* p. 11

<sup>140</sup> *ibid.* p. 12

### *3.5.5 Health sector progress*

In the year 2000 about 40 percent of the jobs in the Ministry of Health were vacant. During the period to 2002 the number of workers in this sector increased by 5 percent annually. As a side effect of the rise in staff numbers, infant mortality rates have decreased. Moreover, in its National Health Plan the government prioritized the consolidation of facilities as well as management and service delivery. Furthermore, the authorities will further increase training programs to recruit and train skilled staff. Most of the health sector reforms focus especially on the distribution of health services in the hinterland. With the increase of funding in the health sector the authorities have the resources to elaborate a National Strategic Plan to fight HIV/AIDS. Moreover, with the help of the IDB the health sector has received another strengthening program which fosters the institutional capacity of the system and human resource development.<sup>141</sup>

### *3.6 Stakeholders of debt relief*

Guyana's public debt was estimated at about US\$ 1,324 million in face value at the end of 2002.<sup>142</sup> The debt which Guyana owes to different creditors is spread over the globe. Most of the outstanding debt is held by multilateral organizations like the IMF and World Bank and bilateral creditors like the Paris Club and other debtor countries. The debt relief for Guyana concentrates mainly on the World Bank and IMF and the Paris Club members.

The amount of debt relief is different from country to country. The relief is sometimes very large in comparison with the gross domestic product (GDP). The debt relief package for Guyana represents about 30 percent of GDP.<sup>143</sup>

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<sup>141</sup>Ferranti, David(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 11

<sup>142</sup> Paris Club (2004): The Paris Club agrees to reduce Guyana's debt p.2

<sup>143</sup>Mac Arthur (1999): The HIPC Initiative: Delivering Debt Relief to Poor Countries p. 4

Guyana's external debt burden has been reduced significantly by fiscal consolidation and debt relief during the last few years. Public sector debt declined continuously in the years after the debt relief. In 2006 the public sector debt was 93.1 percent of GDP, but by 2009 it had decreased to 60.5 percent.<sup>144</sup>

### *3.6.1 Multilateral creditors*

The IMF and World Bank are the most important debtor organizations for Guyana. Not only because the two organizations together are responsible for the largest amount of debt cancellation, they are also the founders of the HIPC Initiative and responsible for the smooth running of the programs.

The debt relief agreements have to be divided into relief under the original and the enhanced HIPC Initiative.

Debt relief under the original HIPC Initiative is provided by multilateral creditors in the amount of US\$ 165 million or 64 percent of total assistance. Under the enhanced HIPC Initiative an additional amount of US\$ 202.3 million was released. In detail and divided up into each single creditor, this means:<sup>145</sup>

- i. The IDB is the largest creditor with an amount of US\$ 65.1 million in NPV. The IDB provided interim debt relief since 2002 of about US\$ 16.4 million. With the enhanced HIPC Initiative, the IDB reduced loans provided under the Funds for Special Operations (FSO) till 2008, and after 2008 the IDB canceled principal payments on FSO loans.
  
- ii. The IMF canceled about US\$ 40 million in NPV, including an additional US\$ 0.5 million due to the revision. The Fund has provided interim debt relief since 2000 via the SDR with an amount of 15,4 in nominal terms. The relief under the enhanced HIPC Initiative will be delivered until 2008 in the form of debt service grants from the PRGF-HIPC Trust.

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<sup>144</sup> Braga, Carlos (2011): Guyana: Joint IMF/World Bank Debt Sustainability Analysis p.1

<sup>145</sup> Ferranti, David (2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 17



- iii. The IDA debt relief amount is about US\$41.2 million in NPV including another US\$ 0.5 million in assistance due to the revision. The period of debt reduction delivery is from December 2000 till March 2021. The IDA provided interim debt relief from 2000 to 2003 with an amount of US\$ 6.5 million in nominal terms, which represents a debt service reduction of 58.6 percent. Under the enhanced HIPC Initiative the IDA will provide debt relief till March 2021.
  
- iv. The CARICOM Multilateral Clearing Facility (CMCF) delivered debt relief under the original HIPC Initiative with an amount of US\$ 29.2 million in NPV. The CMCF's debt relief represented around 9 percent measured in terms of the whole relief. The CMCF will have problems to participate with full debt relief under the enhanced HIPC Initiative, as one of its member countries has financial difficulties. The staff of the IMF and the World Bank is looking for solutions to provide full debt relief for Guyana.
  
- v. The Caribbean Development Bank's (CDB) assistance for the debt relief of Guyana is about US\$ 9.9 million. The CDB plans to contribute about US\$ 5.5 million out of the accumulated net income of the Special Development Fund (SDF).
  
- vi. The European Union and the European Investment Bank (EIB) participated with about US\$ 10.6 million in NPV. The relief was given in 2002 and was provided by the reorganization and modernization of EU grants.
  
- vii. There was also debt relief from the OPEC Fund with an amount of US\$ 5.4 million in NPV. The relief will be delivered at the decision point and is a combination of refinancing and the extension of a new loan which serves existing loans. There was also debt relief from the International Fund for

Agricultural Development (IFAD) with an amount of US\$ 1 million in NPV. The debt relief will be provided at the completion point.<sup>146</sup>

### *3.6.2 Bilateral creditors*

Guyana not only benefits from debt relief from the Paris Club members. It became the ninth country to complete the Paris Club process of debt relief under the HIPC Initiative. The countries before Guyana were Uganda, Bolivia, Mozambique, Tanzania, Burkina Faso, Mauritania, Benin and Mali.<sup>147</sup>

#### *3.6.2.1 Non-Paris Club bilateral and commercial creditors*

These are creditor countries which are not part of the Paris Club, but which agreed to deliver debt relief under similar conditions to those of the Paris Club. China, India and Libya have proclaimed that they will participate and relieve Guyana's debt within the context of the enhanced HIPC Initiative. China, for example, has already started to support Guyana with the cancellation of several loans. India followed China in 2003 with the relief of all Guyana's debt.

In 1999, Guyana took the opportunity for a buyback operation. This buyback was financed by the External Payment Deposit Scheme (EPDS).<sup>148</sup>

*“Concerning the other official bilateral creditors, the Guyanese authorities are continuing their efforts to obtain full HIPC debt relief, in accordance with the principles of the HIPC Initiative.”*<sup>149</sup>

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<sup>146</sup>Ferranti, David(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 18

<sup>147</sup> Paris Club(2004): The Paris Club agrees to reduce Guyana's debt p.1f.

<sup>148</sup>Ferranti, David(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 19

<sup>149</sup> ibid. p. 19

### 3.6.2.2 Paris Club

The debt owed to Paris Club creditors is estimated at US\$ 292 million in face value. As negotiated in the Paris Club agreement, the delegation of Guyana indicated its willingness to meet all non-Paris Club creditors and commercial creditors to negotiate the terms of a future treatment. The meeting where the relief of Guyana's debt was discussed took place on January 14, 2004. Alongside the Paris Club members, Trinidad and Tobago was also present to decide on the reduction of debt relief granted to Guyana. The debtor countries decided in favour of the relief because of the rigorous implementation of economic and structural reforms and the tough realization of a broadly based economic program which is a solid foundation for sustainable growth and a poverty reduction strategy.

The debt relief of the Paris Club members amounts to about US\$ 95 million in net present value, which represents the guaranteed relief of the Paris Club under the HIPC Initiative. Furthermore, most of the creditors committed themselves on a bilateral basis to additional debt relief which reduces the debt by a further US\$ 33 million in net present value terms.

Altogether since 1996, the debt which has been owed by Guyana to Paris Club creditors has been reduced by 90%, and the amount relieved is more than US\$ 930 million. Furthermore, the annual debt service amount has been reduced by US\$ 56 million from US\$ 60 million to US\$ 4 million.

Because of the well-established programs under the HIPC Initiative, the creditors agreed to include a debt swap clause in the negotiations on debt relief. In this clause Guyana received permission to devote available resources to priority areas identified by the country's poverty strategy.<sup>150</sup>

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<sup>150</sup>Paris Club (2004): The Paris Club agrees to reduce Guyana's debt p.1f.

### 3.7 End evaluation of the Case Study

*“At end 2003, after enhanced HIPC relief, the ratio of the NPV of debt to central government revenues is estimated at 213 percent, 37 percent lower than the fiscal threshold. While the ratio rises in the short run associated with the large investment in the sugar sector, it levels out at about 150 percent in 2022.”<sup>151</sup>*

Guyana remained at moderate risk of debt distress at a slightly lower level in 2008 than the years before. Guyana is on the way to structural transformation, which is being promoted by the Government with the so called Low Carbon Development Strategy (LCDS). This LCDS includes comprehensive measures to guarantee development. Such measures are:

- i. Enhancing human capital
- ii. Increasing the quality of the business environment
- iii. The development of a high potential low-carbon sector
- iv. Investments in the private sector. especially in the gas, oil and gold sectors
- v. The construction of a hydroelectric power plant<sup>152</sup>

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<sup>151</sup> Ferranti, David(2003): Guyana: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document p. 1

<sup>152</sup> Braga, Carlos; (2011): Guyana: Joint IMF/World Bank Debt Sustainability Analysis p. 5

## **PART III**

The third part of my final exam deals with the end result of the debt relief in Guyana and the changes in the economy, politics and infrastructure which are results of the successful implementation of the HIPC Initiative.

In the following chapter the key objectives of the PRSP like Education, Health and the privatization of state owned enterprises will be focused on. For the preparation of the stats and figures following sources were used:

- i. The Poverty Reduction Strategy Paper (2002)
- ii. The Poverty Reduction Strategy Progress Report (2005)
- iii. The annual Report of the Bank of Guyana (2007)
- iv. The annual Report of the Bank of Guyana (2012)
- v. The website of the World Bank, and the website of the IMF

## 4. Quantitative analysis

### 4.2 Education sector changes

Following the PRSP education is Guyana's priority and one of the major components of poverty reduction. The strategic plan for education from the Government allots to reduce illiteracy repetition and dropout rates, meanwhile the secondary school enrolment should increase and as well as improving the quality and relevance of education.<sup>153</sup>

The below-mentioned table shows a sustainable increase in the highest level of education. The increase in the Tertiary education is occasionally because of the increase in teacher and nurses vacancies and because of the easier access to the university. Also the increase in secondary education is a big step forward in the right direction.<sup>154</sup>

#### Highest Level of Education

<i>Primary</i>		<i>Secondary</i>		<i>University / Tertiary</i>	
<b>1990</b>	<b>2002</b>	<b>1990</b>	<b>2002</b>	<b>1990</b>	<b>2002</b>
268161	263524	169243	310897	6217	22967 <sup>155</sup>

The enrolment ratio of Guyana exceeds 100%. This is likely because some children who enroll are not in the required age (between 6 and 11). They start primary school at a younger age or enroll when they are older and remain in school when they are older than 11.<sup>156</sup>

#### Enrolment ratio: Primary Education

<b>1980</b>	<b>1991</b>	<b>2002</b>
102,3	105,3	103,4

<sup>153</sup> IMF, World Bank, Guyana authorities (2005): Guyana: Poverty Reduction Strategy Paper Progress Report 2005 p. 34

<sup>154</sup> *ibid.* p. 9f

<sup>155</sup> *ibid.* p. 10

<sup>156</sup> *ibid.* p. 10

The whole county registered increased enrollment over the last 20 years. While the enrollment ratio for the primary education can't be higher, the enrollment for secondary school registered an increase of 12.9 percent since 1980.

### **Enrolment ratio Secondary Education**

1980	1991	2002
52,1	54,5	65,0 <sup>157</sup>

### *4.3 Health sector changes*

The table below gives information about the development of the main indicators of the Guyanese health sector.

<b>Key Health Indicators</b>			
	<b>1980</b>	<b>1991</b>	<b>2002</b>
Infant Mortality Rate (per1,000)	41	43	29
Maternal Mortality Rate (per 1,000)	NA	140.1	134.7
Crude Birth Rate(per 1,000)	29.84	25.19	23.29
Crude Death Rate(per 1,000)	7.34	7.16	7.22
Doctor / patient ratio (per 10,000)	1.6	3.3	4.6
Beds / patient ratio (per 10,000)	50	28.8	42.4
Nurse / patient ratio (per 10,000)	14.3	5.9	10.5

Infant and maternal mortality rates declined from 1980 to 2002. Especially the significant drop in infant mortality between 1991 and 2002 wasn't because of a declining birth rate, but rather a result of improved quality care for pregnant women and babies. The crude birth rate represents the total number of live births per 1.00. This indicator is linked to the age structure of the society and the amount of women in the childbearing age. This could be a explanation for the decline of the rate from 1991 to 2002.<sup>158</sup>

<sup>157</sup> IMF, World Bank, Guyana authorities (2005): Guyana: Poverty Reduction Strategy Paper Progress Report 2005 p. 10

<sup>158</sup> *ibid.* p. 11

Another interesting point is the continuous rise in the doctor / patient ratio since 1980. At the end of 2004, there were 190 registered Doctors. Another boost of Doctors is likely because of the establishment of the medical school at the University of Guyana.<sup>159</sup>

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<sup>159</sup> *ibid.* p 39



## 6. Conclusion

To finalize my thesis I would like to answer the research questions, which I mentioned in chapter one. The first question I raised dealt with the sustainability of the Initiative and if it helped the HIPC's to get out of the poverty trap. The answer is quite difficult because for some countries the Initiative worked out very well and for other countries it didn't as they are still burdened with debt.

As the stats and figures in chapter four show, it worked out very well for Guyana and since the Initiative was finished in the year 2006 Guyana has discarded the HIPC status and become a developing country. Certainly there is a long way ahead for Guyana to be a strong economy on the world market but because of the authorities of Guyana the country is on the right way. My second research question deals with the mechanisms that guarantee the debt relief's success.

To guarantee the relief's sustainability the debt relief is linked to modernization programs in the different sectors. As specified in part two and the aim especially for Guyana was the strengthening of the weak education and health sector. To achieve these goals the local authorities had to develop a plan to reduce the weak spots. In addition to this plan, the authorities started to train nurses and teachers. Furthermore to reduce the emigration of skilled teachers and nurses, the government increased the wage program. All these points show that the debt relief, especially the HIPC Initiative, isn't a once for all solution. In fact each country has different needs and expectations and has to focus on these needs to be sustainable.

## PART IV

### 7. References

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### 7.3 Online resources

#### 7.3.1 Organizations:

Paris Club: <http://www.clubdeparis.org/> (Last attempt 02.10.2013)

International Monetary Fund: <http://www.imf.org/external/index.htm> (Last attempt: 15.12.2013)

World Bank: <http://www.worldbank.org/> (Last attempt: 22.12.2013)

#### 7.3.2 Development Research:

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<http://www.imf.org/external/NP/SEC/PR/1997/pr9764.htm> (Last attempt: 03.09.2013)

Paris Club (2004): The Paris Club agrees to reduce Guyana's debt by US\$ 95 million in net present value terms under the enhanced HIPC Initiative  
<http://www.clubdeparis.org/en/> (Last attempt: 03.01.2014)

World Bank Guyana: <http://www.worldbank.org/en/country/guyana> (Last attempt: 05.06.2013)

Human Development Index: <http://hdrstats.undp.org/en/countries/profiles/GUY.html>  
(Last attempt: 28.05.2013)

World economic forum: <http://www.weforum.org/> (Last attempt: 10.06.2013)

ETH Zürich: <http://globalization.kof.ethz.ch/> (Last attempt: 10.06.2013)

Amerika auf einen Blick: <http://www.amerika-auf-einen-blick.de/guyana/wirtschaft.php>  
(Last attempt: 15.06.2013)

World Bank Guyana: <http://www.worldbank.org/en/country/guyana/overview> (Last attempt 02.02.2013)

### *7.3.3 Newspaper:*

Guyana chronicles online: <http://www.guyanachronicleonline.com/>

Guyana Times: <http://www.guyanatimesgy.com/>

### *7.3.4 Facts, figures, statistics and data*

World economic forum: <http://www.weforum.org/> (Last attempt: 10.09.2013)

Amerika auf einen Blick: <http://www.amerika-auf-einen-blick.de/guyana/wirtschaft.php>  
(Last attempt: 15.12.2013)

Bureau of statistics: <http://www.statisticsguyana.gov.gy/> (Last attempt: 25.12.2013)

IMF Data: <http://www.imf.org/external/data.htm> (Last attempt: 26.12.2013)

World Bank: Global Development Network Growth Database:

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## 8. Executive Summary

### *8.1 English*

This thesis deals with the Heavily Indebted Poor Countries (HIPC) Initiative launched by the International Monetary Fund and World Bank in 1996. In the first part of the thesis a theoretical overview of the Initiative is given. The reader learns about the different steps of the Initiative such as the decision point and completion point, and about which conditions a debtor country has to fulfill to reach the next step and ultimately obtain relief of its debt. Moreover, the organizations involved and their duties in the Initiative are explained. Not only multilateral creditors are introduced, but also bilateral creditors like the Paris Club members, and their role in debt relief is illustrated.

In the second part the theoretical approach from the first part is examined using a practical example. Guyana, a small country in South America, was part of the Initiative, successfully passed each step and received debt relief under the HIPC Initiative. This part shows in several chapters how the influence of the HIPC Initiative transformed the country in different ways. For example, its infrastructure changed due to reforms in several economic sectors of the country. Exports increased thanks to broadly based economic reform. In this reform the civil service was reorganized, the weak state-owned enterprises were sold to private investors or placed under private management. At the end of the chapter the debt relief provided by the different creditors is shown.

In the third part the facts and data of the debt relief are analyzed and compared. Most important here are the indicators which show purchasing power or how the level of education has changed and how health standards have been influenced by measures which were strengthened during the HIPC Initiative. This quantitative approach shows in which sector significant changes were possible and which sectors still need reforms.

Die vorliegende Diplomarbeit behandelt das Thema der Heavily Indebted Poor Countries (HIPC) Initiative, welche vom Internationalen Währungsfond und der Weltbank im Jahr 1996 gegründet wurde. Im ersten Abschnitt der Arbeit bekommt der Leser einen theoretischen Überblick über die Eckpfeiler der Initiative. Es werden sämtliche Schritte der Initiative wie der „decision point“ oder auch der „completion point“ näher erläutert. Des Weiteren wird natürlich darauf eingegangen, wie ein Land innerhalb der Initiative von einem Schritt zum nächsten gelangt, bevor das Schuldnerland mit dem Abschließen des letzten Schrittes endgültig entschuldet wird. Natürlich werden auch die involvierten Organisationen und deren Aufgaben innerhalb des Entschuldungsprozesses näher erläutert. Nicht nur multinationale Kreditoren werden vorgestellt, sondern auch die bilateralen, wie die Mitglieder des sogenannten Pariser Clubs werden samt deren Aufgaben erläutert.

Im zweiten Abschnitt handle ich die theoretischen Inhalte des ersten Abschnittes anhand des praktischen Beispiels Guyana ab. Guyana ist ein kleines Land in Südamerika, welches nicht nur Teil der Initiative war, sondern auch erfolgreich alle verschiedenen Schritte durchlaufen und abschließen konnte. Dieser Abschnitt zeigt wie die Reformen der Initiative das Land veränderten und es formten. Die Veränderungen kamen in verschiedenen Sektoren im Land, wie z.B. der Bildung, der Gesundheit oder dem privatwirtschaftlichen Sektor zum Tragen. Es war Guyana dadurch möglich aufgrund von breiten Reformen die Exportquote nachhaltig und stetig zu heben. Des Weiteren wurde eine Lohnreform für Beamte durchgeführt, um die Abwanderung von Fachkräften in die Nachbarstaaten zu unterbinden. Außerdem wurden staatliche Unternehmen, welche nicht profitabel genug wirtschafteten, privatisiert oder unter privates Management gestellt. Den Abschluss dieses Abschnitts bildet eine detaillierte Auflistung über die zur Verfügung gestellten Mittel der verschiedenen Kreditoren.

Im dritten Abschnitt werden erhobene Daten und Fakten miteinander verglichen und gegenübergestellt. Außerdem zeige ich auf, wie die Entschuldung die verschiedenen Sektoren positiv beeinflusst hat und in welchen Sektoren noch Nachholbedarf gegeben ist.



## 9. Curriculum Vitae

### Personal Details:

First names: Julian David  
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### Education:

Sep. 1992 – Jul.1996 primary school: Volksschule Ampflwang  
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Sep. 2000 – May 2005 VET College: Höhere Lehranstalt für Tourismus Bad Ischl  
Oct. 2006 – Jan.2008 Vienna University of Economics and Business: Wirtschaftsrecht  
Mar. 2008 – 2014 University of Vienna: Internationale Entwicklung

### Extracurricular Activities:

Sep. 2005 – May. 2006 Military service honourably discharged at Panzerbatallion 14, Hessenkaserne, Wels