International Finance / Volume 4, Issue 3 / pp. 363-380

The HIPC Initiative: True and False Promises

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First published: 17 February 2003
https://doi.org/10.1111/1468-2362.00078

Abstract

The paper develops the view that understanding of the HIPC initiative is distorted by a lack of perspective on the 'market value' of the debt which is written down. The appropriate 'market value' takes account of the risk of non-payment: arrears, rescheduling and 'constrained' refinancing of various sorts. Building on econometric evidence that relies on middle income debtors in the 1980s, the paper argues that the initiative is about ten times less generous than face value accounting would suggest.