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**REFERENCE:**
This paper investigates the effect of HIPC debt relief on external debt repayments and its impact on Ghana’s poverty reduction strategy. The study has revealed that debt relief has really impacted positively on Ghana’s external debt repayments and has therefore reduced the debt-servicing burden that plagued the country over the years. The study further divulged that there has been a marked increase in spending on social services in Ghana after the launch of HIPC Initiative and these pattern of spending turned to be pro-poor.
SECTION ONE

Introduction

In spite of economic reforms pursued since the 1990s Ghana’s economy recorded only modest growth with successive bouts of high inflation and unsustainable balance of payments deficits. Ghana’s experience was similar to many poor Sub-Saharan African countries, which continued to see worsening economic conditions leading to unacceptable levels of poverty and high levels of external debt. The causes of these crises have been attributed to poor domestic policies, deteriorating terms of trade and a high debt burden.

The current Government elected to assume the administration of the country in 2001 decided to opt for the enhanced debt relief under the HIPC Initiative of the World Bank and IMF. At the time, the economy was characterised by rapid exchange rate depreciation, high inflation and very low external reserves. The severe crisis was partly due to high debt service requirements that affected the budget of the government and impacted negatively on the balance of payments.

Even though the decision to join the HIPC was largely upheld by the International Financial Institutions (IFIs) as well as other major development partners, it was also criticised by some stakeholders. The critiques argue that the decision will deter private investments and more so, Ghanaians don’t want to be tagged poor as it will mar their image (Ghana Review International; March to July 2000).

Ghana has had a history of debt servicing problems during which it had a hard time honouring its external debt servicing obligations. This was
evidenced by the facts that Ghana was on several occasions in arrears in servicing its debt. Notwithstanding all the debt relief Ghana’s debt burden and economic circumstances remained fragile.

Ghana pursued a structural adjustment programme (SAP) between mid 80’s and early 90’s. The (SAP) itself was necessitated by the need to resolve a sustained balance of payment (BOP) deficit and its attendant debt problem. It was aimed at enabling Ghana to grow out of its debt and BOP problems through the boosting exports and attracting foreign direct investment. In spite of the adjustments, growth was modest, stagnating or even regressive and the BOP position continued to worsen. The economic and social sectors of the country have depended largely on foreign loans and grants to finance between 60 per cent and 90 per cent of development expenditure, meaning that without these resources, the government can only pay wages and little else. Ghana was consequently caught in a poverty/debt-trap and became extremely aid-dependent.

In the light of the difficulties confronting the management of the economy it is not hard to understand the justification for seeking the HIPC Debt Relief. Under conditions of extremely tight budget and foreign exchange constraints, debt relief improved the chances for enhancing the macroeconomic environment, domestic savings and investments.

The HIPC Initiative aims at reducing the net present value (NPV) of external debt to a maximum of 150 per cent of exports or, for small open economies, to 250 per cent of government revenue at the time of the HIPC completion point. These thresholds have the merit of establishing a methodology for determining debt relief, thereby ensuring equity of treatment among beneficiary countries and equitable burden sharing among creditors (IMF, 2001).
The HIPC Initiative has met with some success. Yet, it has been recognised that bringing a single debt measure down to a critical threshold at a single point in time is no guarantee against future debt problems (IMF, 2001); and that “debt relief under the HIPC Initiative provides a basis, but not a guarantee for long-term debt sustainability in HIPC countries” (IMF, 2002a). While the debt relief granted under the HIPC Initiative will substantially reduce the debt service due on existing debt, maintaining debt sustainability will also crucially depend on future macroeconomic policies, growth performance, and financial assistance from donors.

This paper presents an assessment of the effect of HIPC debt relief on external debt repayment and its impact on Ghana’s poverty reduction strategy. Section two reviews Ghana’s debt problem and the issues of debt sustainability. The impact of HIPC debt relief on poverty reduction is reviewed in Section three. Section four presents conclusions of the paper as well as policy issues.
SECTION TWO

2.0 The HIPC Framework

Since the debt crisis of the 1980s the international financial community has been providing assistance to debtor countries to reduce their external debt burden to foster growth and development. Several debt initiatives were proposed including the Toronto, London, Naples, Lyon and Cologne initiatives. In 1996, the World Bank and the IMF jointly launched the initiative for Heavily Indebted Poor Countries (HIPC), which aimed at reducing the external debt burden of qualified and eligible countries. The enhanced HIPC targeted promoting more debt relief for countries pursuing a comprehensive country specific poverty reduction strategy programme.

The eligibility criteria requested that countries that benefited from the facility had per capita GDP below $700, had a good track record of policy performance supported by IMF and World Bank and the amount and timing of the relief would be established by a tripartite Debt Sustainability Analysis.

The HIPC Initiative aims at reducing the net present value (NPV) of external debt to a maximum of 150 per cent of exports or, for small open economies, to 250 per cent of government revenue at the time of the HIPC completion point. These thresholds have the merit of establishing a methodology for determining debt relief, thereby ensuring equity of treatment among beneficiary countries and equitable burden sharing among creditors (IMF, 2001). The main criteria are summarized in the figure below:
The HIPC Initiative aims at creating a debt-servicing situation that allows HIPCs to graduate eventually from concessional financing. The question, however, is whether debt sustainability is attainable in the case of Low Income Countries (LICs), who are heavily dependent on grants as a result of low government revenue, low export earnings and sizeable primary deficits. Or is the case that LICs are trapped to continue to rely on grants and concessional finance in the indefinite future, if they are to sustain expenditure at reasonable levels.

### 2.1 The Impact of Debt Relief on Debt Repayments

In April 1997 the fiscal revenue/openness criteria were established to allow for the possibility that, for countries with high export base, reaching the debt-to-export criteria targets may still leave the country with an unsustainable external debt burden relative to government revenues. In order to qualify for this window, the country must have an export-to-GDP ratio of at least 30 percent and a fiscal revenue-to-GDP ratio of at least 15 per cent, using an average of the last three years of actual data.
On the basis of the macroeconomic assumptions outlined in the decision point document, Ghana’s external debt remained unsustainable even after taking advantage of traditional debt-relief mechanisms. The NPV of debt-to-revenue ratio was estimated at 570.3 percent at end of 2000 and was projected to be above 250 percent until 2008. With an export-to-GDP of 37 percent and a fiscal revenue-to-GDP ratio of 17 percent, Ghana qualified for debt relief under the fiscal revenue/openness criteria, which would provide significantly more relief than using the debt-to-exports ratio (which stood at 157 percent after traditional debt relief).

The total amount of HIPC Initiative assistance required to bring the ratio of the NPV of debt relief-to-revenue ratio to 250 percent would be US$2,186 million. The total nominal debt relief is estimated to amount to US$3,700 million. The assistance under the enhanced HIPC Initiative would entail a common reduction factor of 56.2 percent, based on the estimated NPV of debt outstanding on December 2000. Based on proportional burden sharing, multilateral assistance would amount to US$1,102 million, while official bilateral creditors would provide US$861 million and commercial lenders US$233 million. IDA’s HIPC Initiative assistance would amount to US$781 million in NPV terms, equivalent to a total debt-service savings of US$1,446 million over the next 20 years. The IMF and the AfDB would contribute US$112 million and US$131 million in NPV terms, respectively. Ghana stands to benefit immensely from these initiatives and it serves as a window of opportunity by using freed resources to finance poverty related expenditures, which hitherto was unavailable, because they would have been channeled into debt servicing.
2.2 Evolution of Ghana’s Debt

Ghana’s external debt increased considerably after the implementation of the economic recovery program and structural adjustment programme. During the early parts of 1980, Ghana faced a debt problem with external debt payments hitting as high as US$577 million (114% of GDP) at the end of 1982. This debt crisis was as a result of oil price hikes on the international oil market, sharp rises in international interest rates, recession in the west, against the backdrop of poor economic policies and management of the domestic economy.

Ghana’s public and publicly guaranteed debt reached US$6.0 billion in nominal terms at the end of 2000, including an arrears of US$81 million. Ghana’s external debt in net present value terms reached US$3.9 billion, representing about 571 per cent of fiscal revenue, about 157 per cent of exports of goods and non-factor services and about 78 percent of GDP.

At the end of 2000, multilateral creditors accounted for 65.6 percent of the overall nominal value of external debt before full use of traditional debt-relief mechanisms, with IDA accounting for 51.9 percent, the AfDB accounting for 5.9 percent, IMF accounting for 4.3 percent and IFAD accounting for 1.1 percent accordingly. Bilateral creditors represented 27.9 percent of the total external debt in nominal terms, Paris Club creditors represent 26.5 percent of the total debt outstanding, other official bilateral creditors accounted for 1.4 percent and commercial creditors represent 6.4 percent of the outstanding debt in the ensuing year (see figure 1).
The nature of Ghana’s external debt is very crucial in terms of future debt repayments. In 2000, out of the US$6,062.00 million external debt. The long-term component of the external debt stock represented 87.8 percent, 4.7 percent short-term debt and 7.5 percent accounts for medium-term debt (see Figure 2). This has implications for Ghana’s debt sustainability. The rational behind the HIPC debt relief is to provide adequate financial resources for the beneficiary country to service its external debts on a sustainable basis and spend the freed resources on priority areas as identified in the Ghana Poverty Reduction Strategy (GPRS) document. The high component of the long-term debt out of the total external debt indicated that Ghana stood the risk of having accumulated debt, which may be unsustainable in the near future. This trend if not checked may lead the country into future debt crisis, which may render the country credit unworthiness status.
Ghana’s stock of medium and long term external debt in nominal terms before debt relief increased to US$7.5 billion (i.e. US$5.5 billion in NPV terms) based on the reconciled data from IMF, IDA and Ghanaian authorities as at the end of 2003 as against US$6 billion at end-2000. The new external borrowing amounts to US$1.5 billion after the decision point and is concessional in nature with most granted by multilateral creditors.

Multilateral creditors accounted for US$3,277 million in NPV terms (i.e. representing about 59 percent of the external debt stock), US$1,869.6 million from Paris Club (amounting to 34 percent of outstanding debt), US$97.8 million from Non-Paris Club, and US$297.2 million from commercial creditors (Non-Paris Club and commercial creditors represent 2 percent and 5 percent of the external debt stock respectively) at end-2003 (see Figure 3). The structure of the external debt stock as at December 2003 indicates an increase over the 2000 figure in the share of the multilateral debt of about 10 percent, showing the predominance of multilateral creditors in new borrowing figures.
2.3 Debt Servicing Before and After HIPC

Debt servicing has been a major contributing factor inhibiting economic growth in virtually all developing countries, and the impact of debt servicing has been more severe on African countries in particular. Ghana spent around US$409.7 million on debt servicing in 1994, this represent 29.6 percent of exports of goods and non-factor services. In 1995, the country spent US$635 million on debt service, this amount equaled about 40.2 percent of total export earnings.

The trend observed in Ghana’s debt servicing has been increasing over the years. Ghana continued to utilize a sizeable proportion of her export earnings and generated income (GDP) on external debt servicing. Ghana paid US$640 million in 1998, US$584.9 in 1999 and US$544 in 2000, representing 25.3
percent, 23.7 percent, and 22 percent of hard foreign exchange earnings respectively (see figure 4 and figure 5).

After the adoption of HIPC Initiative, the level of debt servicing has exhibited a declining trend. The amount of debt service payments dropped sharply from US$544.8 million in 2000 to US$306.6 million in 2001, indicating a significant reduction of debt servicing of about 43.7 percent. The figure is well below the average of US$458.72 million of debt paid during the period.
1994-2003. The value of debt service paid in 2002 further reduced to US$204 million, which is also far below the average figure of US$458.72 million. Ghana enjoyed a significant reduction in debt servicing in 2003, with a reduction in debt servicing of about 38.1 percent to US$126.2 million in 2003 as against the previous year’s figure in nominal terms (see Table 1A).

In 2002, Ghana received debt relief amounting to US$275.2 million, out of which US$109.0 was credited to the HIPC account at Bank of Ghana. In 2003, the country enjoyed debt relief of US$290.8 million, US$318.3 million as at November 2004, out of which US$109 and US$167.1(see Figure 5) were credited to the HIPC account respectively. After Ghana has reached the flexible completion point in July 2004, her external debt was expected to remain below the NPV of debt-to-government revenue threshold of 250 per cent established under the HIPC Initiative. The NPV of expected external debt would be US$2.9 billion. After completion point, the country is expected to benefit from additional debt relief as indicated by bilateral creditors, this would further reduce the external debt stock to US$2.4 billion.

The adoption of the Enhanced HIPC Initiative has also led to a drastic reduction in the debt service-to-revenue ratio from 79.8 per cent in 2000 to
32.5 per cent in 2001. This further reduced to 19.4 per cent in 2002 and 7.6 in 2003 (see figure 6). From the discussions, it is crystal clear that the debt relief has really impacted positively on Ghana’s external debt repayments and has therefore reduced the debt-servicing burden that plagued the country over the years. If this trend continuous, it would make Ghana’s future debt repayments more sustainable and bearable.

Figure 6: Debt Service-to-Revenue & Social Expenditure-to-GDP: 2001 - 2003

![Graph showing debt service-to-revenue and social expenditure-to-GDP from 2001 to 2003.]

2.4 Debt Sustainability Issues

The sustainability analysis from the completion point document shows that Ghana’s external debt will remain sustainable during the projection period 2004-2023. The trajectory of the NPV of the external debt-to-exports ratio shows a steep decline from levels above 200 percent before the completion point, to fairly stable levels below 125 percent after the completion point. Over the same period, the NPV of external debt-to-government revenue is projected to decline steadily from 350 percent to 118 percent. Although nominal debt will gradually build up, it is expected that these new loans will be on concessional terms (see completion point document, Table 10).
In line with the significant stock of debt decline, debt service after HIPC relief is expected to average 4.7 percent of exports and 6.2 percent of revenue over the period 2004-2023, both with stable profiles. These compare favorably with the 10-year average pre-HIPC debt service levels (on commitment basis) of 21 and 30 per cent (refer to the completion point document). External debt-to-government revenue ratio would be expected to decrease over the foreseeable future to acceptable levels based on the realistic projections. Total debt-to-government revenue ratio is projected to be 145.5 percent in 2004, 171.7 percent in 2010 and 191.4 percent in 2020 beyond enhanced HIPC debt relief (see Figure 7). Hence, Ghana’s external debt will remain sustainable after the debt relief and cancellations.

![Figure 7: Net Present Values of total debt to government-budget revenue ratios](image.png)

### 2.5 Grant Allocation To Help Debt Sustainability

The international community has, in recent years moved large amounts of development financing by multilateral organisations, from highly concessional loans to grants, for low-income countries, notably HIPCs. Under IDA13 (2003-05), the concessionality of resources to the poorest and most vulnerable countries has been increased by expanding grants to 18 percent-
21 percent of total IDA resources. For the ADF, grants account for 19.5 percent of resources for 2002-04.

At present the eligibility criteria for IDA and ADF grants are as follows:
  - per capita income of not more than US$360/year,
  - debt vulnerable with expected long-term PV of debt/exports ratio of 150% or above, after all possible debt relief options,
  - post-conflict countries.

Grants are also available to fund HIV/AIDS programmes, and reconstruction after natural disasters.

In the latest replenishments of multilateral organization funding by bilateral donors, given continuing concern over HIPC’s high debt to multilateral institutions, there has been pressure to reallocate multilateral grants. The financing pattern over the next three years will be critical for HIPC to meet the MDGs by 2015, as most development projects take six to nine years to implement and become fully productive. So the international community has been discussing a framework for allocating future grants, which makes debt sustainability the key criterion. The idea is that IDA and ADF will establish *a priori* the level of grant each country requires to reduce its risk of debt distress: the most debt distressed will receive 100 per cent grants, and the least 100 per cent loans.

The proposed framework will link the risk of debt distress and eligibility to the quality of a country’s policies and institutions, as measured by IDA and ADF Country Policy and International Associations (CPIA) scores, on the basis that better performing countries are able to bear a higher debt burden and therefore need less grants. This principal has been agreed, the latest proposal for IDA threshold are presented in figure 2. The framework is still being finalized and it looks as though thresholds will be reduced, ranges
narrowed and domestic debt taken more fully into account (See the newsletter of the HIPC CBP and the FPC CBP: Issue 21, 4th Quarter 2004 for detailed discussion of the framework).

<table>
<thead>
<tr>
<th>Debt Sustainability Indicator</th>
<th>Country Policy and International Assessment Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strong (CPIA ≥ 3.6)</td>
</tr>
<tr>
<td>PV of debt/GDP</td>
<td>60</td>
</tr>
<tr>
<td>PV of debt/exports</td>
<td>300</td>
</tr>
<tr>
<td>PV of debt/revenue</td>
<td>250</td>
</tr>
<tr>
<td>Debt service/exports</td>
<td>35</td>
</tr>
<tr>
<td>Debt service/revenue</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: The newsletter of the HIPC CBP and the FPC CBP: Issue 21, 4th Quarter 2004
3.0 Impact of HIPC on Poverty reduction

While Ghana has improved her growth rate mainly as a result of economic reforms, the impact of the reforms on poverty reduction has been limited essentially due to two factors. Firstly, the sectors that underpinned the growth of the economy (Mining and Tourism) have weak linkages with the other sectors with some participation of the poor. Secondly, the institutional structures designed for delivering social services were weak, and they are characterized by inertia and leakages, and hampered by inadequate resources for non-salary recurrent expenditure. One of the main features of the current government’s budgetary operations relief under the Enhanced HIPC Initiative was its positive impact on poverty reduction. In this section therefore, we seek to assess the impact of the debt relief under the HIPC Initiative on poverty reduction in Ghana.

To attain the international development targets of halving poverty by the year 2015, Ghana will have to increase its social sector spending especially in the rural areas where poverty is widespread. Debt relief is one way by which more resources can be made available for spending in key social sectors such as health and education. As explicitly stated, in the context of finalizing the GPRS, the government intended to utilize 80 percent of the debt relief provided under the Enhanced HIPC Initiative for additional poverty-related expenditures, and 20 percent to reduce domestic debt. The set of poverty-related expenditures has been defined to include basic education, primary health care, women’s affairs, water and sanitation, rural infrastructure, agriculture, natural resource management, manpower training, local governments and HIV/AIDS prevention.
Implementation of the GPRS was broadly satisfactory during 2003 as described in the Annual Progress Report (APR). Using a wide set of financial, economic and social indicators, the conclusions are that good progress was made on several fronts. There has been marked improvement in macroeconomic performance and increased alignment of the GPRS with the budgetary framework.

3.1 Pattern of Government Expenditure

An epigrammatic look at the structure of government’s expenditure indicates that public wage bill accounts for a sizeable proportion, it averaged about 27 per cent of total expenditure in pre-reform era, reaching about 34 percent in 1992. In 2002, personal emoluments as a percentage of total government expenditure was 27.17 percent, the figure reduced to 25.7 percent in 2003 and 2004 budget estimates put it at 26.6 percent. Although the share of wages in the total expenditure has declined in more recent years, it is still higher than the pre-reform average. Government expenditure ratios increased over the post reform period.

Interest payments were an important element of government expenditure particularly in the 1990s reaching as high as 34 percent in 1997. However, the percentage change in the interest payments reduced drastically after the adoption of the HIPC Initiative in 2000. The HIPC relief reduced interest payments. In 2003, interest payments (debt servicing) reduced by 38.13 percent, it is expected that, the decreasing trend in interest payments will continue in 2004 and beyond now that Ghana has reached HIPC completion point.

The share of public spending on education in total expenditure decreased from 19 percent during the pre-reform period (i.e. before 1983) to about 15 percent in 1997. Public expenditure on health was also too low relative to
the total expenditures. The ratio decreased from an average of about 9 percent over the period 1984-1991 to 17 percent in 1997. The pattern of public expenditure did change when the economic reforms were launched in 1983, but, it did not appear to be pro-poor as compared with recent expenditure figures (see Table 1C).

With the implementation of GPRS Medium-Term Priority Programme and Projects, more resources have been committed to such priority areas and this has made government spending more pro-poor than it was before the adoption of the HIPC Initiative. Ghana has made progress in poverty reduction since the adoption of the Enhanced HIPC Initiative as more funds have been moved to the development of pro-poor priority areas of the economy. The total poverty related expenditure constitutes 29.24 per cent of total expenditure in 2003. About 60 percent of the total education expenditure was spent on basic education alone in 2003.

3.2 Social Expenditure before and after HIPC

Poverty-related expenditures in Ghana have increased significantly since the GPRS was initiated (see Table 1C). Such spending in 2003 was 2 percent of GDP higher than in 2001, exceeding the annual amount of HIPC relief. Spending for basic education and health care expanded the most rapidly, confirming the strategy’s emphasis on social service delivery in deprived regions and among vulnerable groups (Figure 7). As a result, Ghana appears poised to meet many of its Millennium Development Goals (MDGs).
The national primary school gross enrolment rate improved from 79.5 percent in 2002 to 81.1 percent in 2003. The primary school gross enrolment rate for girls also witnessed a significant change, the rate increased from 72 per cent in 2000 to 77 percent in 2002, 77.7 percent in 2003, and dropped to 74 percent in 2004. In the 2002/2003 academic year alone, the primary gross enrolment rate for girls reached almost 78 percent. Also, the percentage of households in the rural areas with access to safe drinking water has increased from 40 percent in 2000 to 46 percent in 2004.

**Table 1C: Poverty-Related Expenditures, 2001-2004 (In percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total poverty-related</td>
<td>4.5</td>
<td>4.8</td>
<td>6.5</td>
<td>6.9</td>
</tr>
<tr>
<td>expenditures (As</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>percentage of Government Expenditure)</td>
<td>13.9</td>
<td>18.3</td>
<td>22.3</td>
<td>24.5</td>
</tr>
<tr>
<td>Basic Education</td>
<td>2.8</td>
<td>2.8</td>
<td>3.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Primary health care</td>
<td>0.7</td>
<td>0.6</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Agriculture,</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>poverty-focused</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural water</td>
<td>0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Feeder roads</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Rural electrification</td>
<td>0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Other poverty-related</td>
<td>0.6</td>
<td>0.7</td>
<td>1.2</td>
<td>1</td>
</tr>
<tr>
<td>expenditure (excluding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20% allocated to domestic debt reduction)</td>
<td>0</td>
<td>1.2</td>
<td>1.4</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: HIPC Completion Point Document, July 2004
Rural coverage in terms of provision of portable drinking water was estimated to be 46.4 percent in 2003. Recent recurrent health expenditures at district and lower level governments rose from 42 percent of the total recurrent health budget in 2000 to 45 percent in 2004. Estimated share of recurrent health expenditures at district and lower levels reached 49.6 percent in 2003.

Poverty reducing expenditure by sub-sectors reveals that, total poverty reduction expenditures have increased dramatically following the debt relief. This stood at $4,464.16 billion in 2003 and $5,158.45 in 2004, representing about 29.24 percent and 27.29 percent of total government expenditures respectively. Health sector expenditure has also increased spectacularly in comparative terms, the expenditure on the health sector increased from $1,072.02 billion in 2003 to $1,358.2 billion in 2004. The share of primary health care in total expenditure on the entire health sector was $835.19 billion (77.91%) in 2003 and $1,146.82 billion (84.44%) in 2004. The trend in these elements of expenditure, which witnessed significant improvements over the previous years, reflects the impact of the freed resources made possible through the HIPC debt relief to the country.

Poverty focused agricultural expenditure, which stood at $124.85 billion in 2003, accounted for 98.88 percent of the overall agriculture expenditure. In 2004, the poverty focused expenditure stood at $146.91 billion, representing about 90.31 percent of the total agriculture expenditure. Rural electricity expenditure as a proportion of the total energy sector expenditure was 92.51 percent and 80.28 percent accordingly. An amount of $3,436 billion was utilized out of the HIPC funds to expand pre-school access to all basic schools in 2003. Also, $62,797 billion was spent on the provision of model health centers in every district and health education programmes in the same year. The expenditure on the provision of model health centers
increased largely in 2004 to ₦103,800 billion. The rise in the expenditure was met, which hitherto was unavailable. The government spent ₦118,717 out of the HIPC relief for the provision of safe drinking water in 2003 aimed at improving access to potable water by the vulnerable and the excluded in the deprived areas (see Table 1Da and 1Db). The expositions so far have showed that the availability of the HIPC debt relief has significantly improved government expenditure on social services than it was before the HIPC debt relief.

Table 1Da: Summary of Indicators on Access to Safe Water in Rural Areas

<table>
<thead>
<tr>
<th>Facility</th>
<th>2002 Achievements</th>
<th>2003 Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>New boreholes constructed</td>
<td>622</td>
<td>1290</td>
</tr>
<tr>
<td>Boreholes rehabilitated</td>
<td>407</td>
<td>115</td>
</tr>
<tr>
<td>New Hand-dug wells</td>
<td>65</td>
<td>61</td>
</tr>
<tr>
<td>Hand-dug well rehabilitated</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Small community pipe systems completed</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Small town pipe system completed</td>
<td>25</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total Projects</strong></td>
<td><strong>1125</strong></td>
<td><strong>1537</strong></td>
</tr>
</tbody>
</table>

Source: Community Water and Sanitation (2003 Annual Report)

Table 1Db: Achievements in Water Facility Delivery (2002-2003)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1998</th>
<th>Indicator Status 2003</th>
<th>Target 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of rural population with access to safe water sources</td>
<td>40%</td>
<td>46.40%</td>
<td>46%</td>
</tr>
<tr>
<td>Percentage of rural population with access to adequate sanitation</td>
<td>45.80%</td>
<td>55.00%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: GSS-1997/2003 CWIQ reports

As a result of the HIPC relief funds, development projects in all districts have increased. In all, a total of 1516 projects have been executed nationwide (cumulative for 2002 and 2003) with HIPC funds. These HIPC projects consist of 609 education projects, 194 health projects, 563 sanitation projects, and 141 water projects. Under production and employment generation, all regions received HIPC funds as micro credit funds for farmers and women trader groups. All projects fall within the stipulated areas of education, health, water and sanitation and also, the area of greater employment. Expenditures of this nature are all poverty-related and they
turn to have much impact on poverty reduction than otherwise would have been.

**Figure 8: Cumulative Distribution of HIPC Resources by Sector (2002-2003)**

A cumulative amount of $1,111 billion of the HIPC resources was transferred to Ministries, Departments and Agencies (MDAs) during the period 2002 and 2003. The largest proportion of this fund, representing 21 per cent was allocated to MLGRD to be spent on projects in the selected GPRS priority areas of education, health, and water and sanitation. The educational sector utilized about 17 per cent out of the cumulative HIPC relief funds, health sector received 6.47 per cent, roads and transport utilized 7.87 per cent, and water and sanitation also received 10 per cent (see Figure 7).
SECTION FOUR

4.0 Summary and Conclusion

A debt sustainability analysis done at the end of 2000 indicated clearly that Ghana’s external debt was unsustainable (IMF 2000). The ratio of present value of external debt to domestic revenue was 571 per cent and it was far above 250 percent threshold considered as a sustainable debt level. Ghana’s actual external debt servicing has decreased sharply from an annual average payment of US$392.0 million between 1998-2000 to US$149.0 million between 2001-2003. HIPC Debt relief for 2004 alone was estimated at US$346 million and over the next five years will amount to about US$1.5 billion. These represent huge savings and further reduced pressure on the country’s hard earned foreign currency reserves. The HIPC relief has also led to remarkable improvements in the country’s balance of payments position over the period 2001-2003, with gross reserves of about US$1.4 billion (amounting to four months import cover).

One conclusion that can be drawn so far is that debt relief has really impacted positively on Ghana’s external debt repayments and has therefore reduced the debt-servicing burden that plagued the country over the years. It has the potential of putting the economy on a development track. If this trend continuous, it would make Ghana’s future debt repayments more sustainable and bearable. Also predictability in debt service, reduced rollover risks that triggers sudden cessation in donor inflows and BOP support.

It is, however, essential that government expenditures are more strictly controlled in addition, since there is no guarantee that aid flows will remain at their current levels in the future. The adherence to fiscal discipline on the part of government is therefore necessary to complement HIPC debt relief in Ghana so that the full benefits can be derived thereof.
Since the adoption of the Enhanced HIPC Initiative in March 2001, an amount of €1,117.63 billion has been disbursed out of a total relief of €2,210.97 billion credited to the HIPC account at Bank of Ghana to support poverty-related expenditures by the MDAs, Metropolitan, Municipal and Districts Assemblies. As at 2004 (June) alone, an amount of €734.43 billion have been spent on poverty-related projects. These amounts were used to improve upon the social sector services, particularly education, health, rural electrification, rural agriculture, feeder roads, rural water and sanitation.

The study has therefore revealed that, there has been a tremendous increase in spending on social services in Ghana after the launch of HIPC Initiative. Increased expenditure on social services is very crucial if the country is to make major inroads into meeting the international targets of halving poverty by 2015. Relief under the HIPC initiative is one channel through which more resources could be made available for spending in the GPRS priority areas. To put premium on the provision of both quantity and quality of basic education and primary health care, the policy should aim at equally increasing the number of teachers, nurses, doctors and other health personnel.

**Policy Challenges**

While the debt relief granted under the HIPC Initiative will substantially reduce the debt service due on existing debt, maintaining debt sustainability will also crucially depend on future macroeconomic policies, growth performance, and financial assistance from donors. The recent global economic uncertainty and the fall in commodity prices have also added a new dimension to achieving debt sustainability in many HIPC.
Macroeconomic policies can contribute directly to poverty reduction by delivering stability and growth. However, in the short-term there is a trade-off between strong growth in the budget expenditure funded by donor aid and macroeconomic stability. This is because large donor-funded expenditures have a macroeconomic impact, which needs to be neutralized by a stronger exchange rate or higher interest rates to enable inflation to remain under control. A higher exchange rate hurts export production, while high interest rates discourage private sector investment. This trade-off can be partially avoided by integrating donor projects into the budget so as to allow sectors to shift from projects to budget support, in a coordinated medium term fiscal and monetary framework, increasing the efficiency of budget allocations and expenditures.

A pro-poor debt relief strategy like the GPRS must be reviewed and it must address the issue of ownership, lack of dialogue with civil society, proper participation. To access the real benefits of debt relief for poverty reduction, a medium-term financial framework must support the GPRS.

The impetus towards debt relief has been sustained by a public concern to see that the resources freed are invested in poverty reduction. This poses a difficult challenge because any development assistance, whether it is provided as aid or debt relief, is fungible. There are no easy answers to the fungibility problem, but if the political momentum behind debt relief is to be sustained, debtors and creditors need to show that it is generating benefits in terms of poverty reduction and human development.

Finally, converting debt relief liabilities into investment in primary health care, basic education, water and sanitation measures would act as a catalyst for accelerated progress towards the 2015 targets. This should be established as such as the core purpose of the HIPC initiative and one explicit objective of public expenditure policy.
Reference


Ghana Poverty Reduction Strategy (GPRS): Annual Progress Report (2003), prepared by NDPC.


