

INTERNATIONAL MONETARY FUND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GHANA

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative – Preliminary Document
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the World Bank¹

June 12, 2001

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I. INTRODUCTION

1. This paper presents a preliminary assessment of Ghana's eligibility for assistance under the enhanced Initiative for Heavily Indebted Poor Countries. The findings are based on two joint missions of IDA and IMF in March and May 2001. Together with the authorities, the missions conducted the debt sustainability analysis (DSA). The preliminary results show that Ghana could qualify for debt relief under both the NPV of external debt to fiscal revenue and the NPV of external debt to export criteria, which would have been 557 percent and 152 percent respectively at the end of 2000 after the application of traditional debt relief mechanisms.

2. An earlier DSA analysis confirmed that Ghana could qualify for assistance under the HIPC Initiative.² However, at that time, the Ghanaian authorities decided that it was not in the country's best interest to pursue debt relief under the Initiative. With the recent change of government in Ghana following presidential elections, the authorities have reassessed their current debt position and their macroeconomic situation. As a result of this reassessment, the authorities are requesting the Bank and the Fund to consider the country's eligibility under the Initiative.

3. Section II of this document provides background information on eligibility, poverty, and the policy track record to date. Section III presents the preliminary debt sustainability analysis, including possible assistance under the enhanced HIPC Initiative. Section IV outlines the proposed timeline for preparation of the decision point paper, linking it to the time needed to address the substantial slippages in macroeconomic policies and put in place adequate expenditure control systems, as well as to the planned timetable for development of the Poverty Reduction Strategy Paper. Section IV also includes proposed key reforms to be achieved by the completion point and a preliminary assessment of how the use of debt service savings after the decision point will be tracked. Section V includes issues for discussion by the Boards of Executive Directors.

II. ELIGIBILITY FOR HIPC INITIATIVE ASSISTANCE

PRGF and IDA Status

4. Ghana is currently a PRGF-eligible and IDA-only country, with a per capita GDP of about US\$270 in 2000.

Poverty and Social Development

5. Ghana's poverty trends were favorable in the 1990s, with the percentage of the population defined as poor falling from 52 percent in 1991-92 to just under 40 percent in 1998-99.³ Such an improvement was made possible by sustained GDP growth at an

² IDA/SecM99-656 and SM/99/273.

³ Ghana Living Standards Survey, Report of the Fourth Round, October 2000; Ghana Statistical Service, October 2000.

average rate of 4.3 percent per year during the 1992-99 period, accompanied by a broad improvement in social indicators. Life expectancy increased from 55 to 58 years; primary school enrollment rose from 75 percent to 79 percent; and the infant mortality rate fell from 85 to 57 per 1,000 live births.

6. For the country as a whole, economic growth was the main factor that lifted households out of poverty. But the reduction in poverty has been uneven geographically, with Accra and the forest ecological zone recording the largest decreases. In some areas, notably the Urban Savannah, poverty actually rose substantially. These differences are due not only to the regional pattern of growth, but also to government policies which have either reinforced or offset the positive effects of growth on poverty.

7. As in other countries, poverty in Ghana has many dimensions. Poor communities are characterized by low income, malnutrition, inadequate access to safe water, illiteracy and endemic disease such as malaria. These long standing aspects of poverty are now interacting with new ones such as the increased prevalence of HIV/AIDS. The challenge facing the government is therefore not only to sustain economic growth through appropriate macroeconomic policies, but also to put in place policies that reduce rather than increase income inequality and regional disparity.

8. An analysis of poverty trends since 1992 was carried out in 2000 and provided the basis for the Interim Poverty Reduction Strategy Paper (I-PRSP) that was reviewed by the Bank and Fund Boards in August 2000. In early 2001, the newly elected government decided to build upon the I-PRSP and prepare a full PRSP (the Ghana Poverty Reduction Strategy, GPRS, as the PSRP is referred to in Ghana) with intensive involvement of civil society. A preliminary document has been prepared outlining the main priorities and strategic focus of Ghana's poverty reduction strategy. The following five areas have been identified as crucial for poverty reduction: (i) restoration of macroeconomic stability; (ii) promotion of employment through sustainable economic growth; (iii) human resource development and basic services; (iv) development and implementation of special poverty reduction projects for the vulnerable and those at extreme risk (nursing mothers, out-of-school children, and persons living with HIV/AIDS); and (v) governance (including anti-corruption).

9. A key element of the new government's approach is the recognition that poverty reduction will require the government to focus resources on the regions where poverty was found to be most severe, and hence that a clear link will be needed between the poverty reduction strategy and the government's annual budget. To achieve this objective, the government has started a broad-based participatory process aimed at: (i) costing the poverty reduction programs so that they are fully funded; (ii) establishing direct links between poverty reduction programs and the annual budget so that the medium-term poverty program can be translated into annual programs, starting with the 2002 budget; and (iii) creating a strong monitoring and evaluation system with the key stakeholders, and especially civil society. Governance is also among the government's priorities, including the effective use of public resources, where current shortcomings in budgetary accounting make it difficult to track the use of funds. To address the expenditure-tracking issue, the government has requested technical assistance from the World Bank and the IMF. The government expects to complete this work and present a final draft of the Ghana Poverty Reduction Strategy (GPRS) in September/October 2001.

Text Table 1: Ghana - Summary Poverty Rates

(in percent)

	<u>Poverty Incidence 1/</u>		<u>Extreme Poverty Rate 2/</u>	
	1991/92	1998/99	1991/92	1998/99
Accra	23.1	3.8	11.3	1.7
Urban Coastal	28.3	24.2	14.2	14.3
Urban Forest	25.8	18.2	12.9	10.9
Urban Savannah	37.8	43.0	27.0	27.1
Rural Coastal	52.5	45.2	32.8	28.2
Rural Forest	61.5	38.0	45.9	21.1
Rural Savannah	73.0	70.0	57.5	59.3
All Ghana	51.7	39.5	36.5	26.8

Source: Ghana Living Standards Survey; October 2000.

1/ Poverty line = 900,000 cedi (US\$363)

2/ Poverty line = 700,000 cedi (US\$283)

Track Record

10. Ghana has made progress on structural and macroeconomic reforms since 1984, sustaining output growth and increasing private sector activity and investment over the last two decades. The major reforms are outlined in Box 1. This economic program has proceeded alongside a political democratization process.⁴ However, progress on growth and poverty reduction has been periodically interrupted by episodes of weak macroeconomic management associated with the electoral cycle.

11. Ghana made initial progress on macroeconomic stabilization and structural reforms under the Economic Recovery Program launched in 1983. By the early 1990s, inflation had fallen to 9.2 percent (from 122 percent in 1983); the trade regime had been largely liberalized, the exchange rate was market-determined (though the market remains segmented and inefficient), and the majority of price and distribution controls had been lifted. These efforts were supported by a series of stand-by arrangements from the Fund and arrangements under the SAF and ESAF in 1987 and 1988, respectively, as well as a sequence of adjustment credits from IDA.

12. In 1992, the reform process was interrupted by political unrest in connection with national elections, and by high government spending in the pre-election period, which worsened macroeconomic balances and rekindled inflation. The Fund suspended financial support between 1992-94. In 1995, however, the government launched an ambitious medium-term fiscal program which was supported by a new ESAF arrangement. At the

⁴ Ghana has had a series of three democratic multi-party elections, and saw an orderly transfer of power in January 2001.

Box 1: Major Macroeconomic and Structural Reforms - 1983-2000

Exchange rate regime: Fully flexible exchange rate introduced (1992); liberalization of the current account and capital inflows (1994).

Trade and investment policies: Tariff regime progressively lowered to current top rate of 20% and simplified to 4 lines; majority of import and price controls relaxed (by 1986); trade in coffee, and domestic marketing of cocoa liberalized (1992); new investment code and free zone program enacted (1995); and cocoa export trade partially opened to private firms (2001).

Privatization and reform of state-owned enterprises: Privatization of 255 SOEs (or parts of SOEs) had been authorized by end-2000; state enterprise law enacted and performance contracting initiated in 1992; accelerated divestiture program launched in 1995 targeting economically significant SOEs including Ghana Ports and Harbours Authority, Ashanti Goldfields.

Fiscal reforms: Civil service reforms (1987, 1995); Value Added Tax introduced and partial implementation of universal Tax Identification Numbers (1999); price subsidies on agricultural inputs removed; independent utilities regulatory commission established (1998); Medium Term Expenditure Framework introduced for budget (1999), though yet to become fully effective.

Financial sector reforms: Private banks authorized to operate (1988); removal of credit controls and liberalization of interest rates and bank charges (1990); sale of government shares in large state-owned banks (1996); modern prudential regulations enacted (1992); privatization of remaining state-owned banks launched (1998); closure of three insolvent banks (2000) and transfer of guaranteed deposits; creation of an apex bank to oversee all rural banks.

Decentralization: Creation of District Assemblies (local government) in 1988; District Assemblies Common Fund established with statutory contribution of 5% of revenues (1992).

same time, substantial progress was made on the structural front. A number of important state assets were divested, including Social Security Bank, Ashanti Goldfields and a 15 percent stake in Ghana Telecom. The investment code was revised and an Export Duty Free Zone launched. The Government also initiated a series of public sector reforms on financial management, management of state-owned enterprises and civil service personnel and salary structure.

13. In the run up to the 1996 elections, however, large fiscal slippages occurred again. Both IDA and the Fund suspended program support once more. After the elections, the government curtailed domestic budgetary expenditures and succeeded in halving the inflation rate over the subsequent two years. On this basis, and to support Ghana's progress in completing previously delayed reforms – in particular, increased tariffs aimed at restoring financial viability to the public utilities and the passage of the VAT law – IDA approved a one-tranche adjustment credit, the Economic Reform Support Operation (ERSO) in 1998.

Text Table 2: Ghana - Key Macroeconomic Indicators, 1996-2001

	1996	1997	1998	1999	2000 Est.	2001 Proj.
	(Annual percentage change)					
Real GDP at market prices	4.6	4.2	4.7	4.4	3.7	4.0
GDP deflator	39.8	19.5	17.1	13.9	27.2	34.7
Consumer price index (end of period)	32.7	20.8	15.8	13.8	40.5	25.0
	(In percent of GDP, unless otherwise indicated)					
Budget non grant revenue	17.6	17.3	18.4	16.4	17.7	17.4
Domestic credit	4.7	5.5	5.0	5.3	8.8	1.8
Overall fiscal balance (excl. grants and before arrears clearance)	-12.1	-11.6	-10.2	-9.8	-10.0	-13.2
Overall fiscal balance (incl. grants and after arrears clearance)	-9.6	-10.9	-8.7	-8.0	-9.7	-9.6
External current account (excluding official grants)	-6.1	-16.7	-8.8	-13.4	-12.3	-12.0
External current account (including official grants)	-3.1	-14.4	-5.0	-11.5	-9.2	-6.5
Gross official reserves (months of imports of goods and nonfactor services)	2.0	1.8	1.6	1.5	0.8	1.4

Sources: Ghanaian authorities and staff estimates and projections

14. By mid 1999, Ghana had made significant progress in restoring macroeconomic stability – inflation had fallen to below 10 percent and real interest rates were declining from a very high positive level. The VAT had been successfully re-introduced, a number of insolvent banks were closed, the Government had reached a consensus with stakeholders on the strategy for further liberalizing the cocoa sector and progress was being made on the divestiture of the Ghana Commercial Bank. The 1995 ESAF arrangement was succeeded in May 1999 by the current arrangement under the Poverty Reduction and Growth Facility (PRGF), and in July 1999, IDA approved a second Economic Reform Support Operation (ERSO II) credit based on a program of continued reforms in the cocoa, energy and banking sectors.

15. However, during the latter half of the year, Ghana suffered a terms of trade shock, with falling prices for Ghana's two main exports, gold and cocoa, and rising prices for petroleum imports. This shock, together with a delay in adjusting fiscal and monetary policy accordingly, led to a sharp deterioration in macroeconomic performance, including a build-up in external arrears. The exchange rate depreciated rapidly in the latter part of 1999 and inflation increased significantly. These were compounded by delays in the adjustment of domestic petroleum prices and electricity rates, resulting in an accumulation of large debts from state-owned monopoly importer Tema Oil Refinery (TOR) to the banking sector and threatening the financial viability of the utilities.

16. As the terms of trade worsened further, the exchange rate depreciation and rising inflation continued through 2000. The authorities responded in early 2000 by tightening monetary policy, postponing public expenditures and by raising the VAT rate. Based on these and other upfront measures, the second review of the PRGF arrangement was completed in August 2000. IDA also disbursed part of ERSO II in 2000 based on continued progress on the structural front, with the closure of several insolvent banks, further development of the regulatory framework for the electricity sector aimed at

encouraging future private investment, and issuance of regulations permitting the private exports of cocoa beans.⁵

17. Fiscal and monetary discipline faltered once again in the run up to the December 2000 elections. The newly-elected government, which inherited a very difficult economic situation has, however, moved quickly to restore stability. In February 2001, petroleum prices were doubled in order to staunch operating losses at the state-owned refinery, and similar increases in electricity and water tariffs took effect in May to curtail losses at those utilities. An interim budget passed in March 2001 raised taxes and curtailed expenditure appropriations, and a further package of fiscal measures was devised for implementation beginning mid-2001. On the strength of the government's macroeconomic and structural reform program for 2001, Fund staff will propose completion of the third review under the PRGF arrangement, for Board discussion at the end of June. In conjunction, IDA intends to present a one-tranche adjustment operation to the Board in mid July.

18. Despite the periodic lapses in macroeconomic management associated with the electoral cycle, Ghana's reform efforts since 1984 have delivered steady growth averaging 4.5 percent annually through 2000 compared with a sub-Saharan African⁶ annual average of 2.9 percent over the same period. Moreover, the significant progress in reducing poverty over the 1990s demonstrates the rewards of civil order, progressive structural reform, and political openness, against a backdrop of increasing poverty, both in population shares and absolute numbers, elsewhere in the region.

III. SUMMARY DEBT SUSTAINABILITY ANALYSIS AND POSSIBLE HIPC INITIATIVE ASSISTANCE

Procedures and Reconciliation Status

19. The debt sustainability analysis (DSA), which was prepared jointly by the authorities and staffs of the IMF and the World Bank, assesses the possible evolution of Ghana's external debt indicators over the next 20 years. The analysis was done on the stock of external public and publicly guaranteed debt outstanding and disbursed at end-December 2000⁷ and indebtedness is measured in NPV terms.⁸ The computations are

⁵ A negative development on the structural side, however was the introduction of a special import surcharge on a range of products in the 2000 Budget. This protectionist measure was partially reversed in March 2001, but will not be eliminated until the 2002 Budget.

⁶ Including middle income countries like Botswana, Gabon, Mauritius, Mayotte, Seychelles and South Africa.

⁷ It excludes short-term debt, except long outstanding arrears on short-term debt.

⁸ The NPV of debt was calculated using end-2000 exchange rates, and the discount rates are the average currency-specific commercial interest reference rates (CIRRs) for the six-month period ended December 31, 2000 (Table 4).

based on loan-by-loan data provided by the authorities. The reconciliation with creditors' statements has been fully completed for multilateral debt and is pending for Paris Club and other official bilateral debt.⁹ Furthermore, the authorities are in the process of contacting all parastatal enterprises to obtain information on their external debt stock in order to build a comprehensive database. The computed HIPC assistance will be revised if necessary at the decision point in light of any changes in the data on the NPV-of-debt at end-December 2000.

Structure of External Debt

20. At end-2000, the total public external debt stock before the application of traditional debt relief mechanisms was estimated at US\$5.9 billion in nominal terms, including US\$40 million of arrears.¹⁰ Total debt is estimated in NPV terms at US\$3.8 billion, equivalent to about 558 percent of government revenues, about 152 percent of exports of goods and nonfactor services, and about 77 percent of GDP.¹¹ Of the total debt in NPV terms, US\$2.0 billion (52.1 percent) was owed to multilateral creditors, and US\$1.8 billion (47.9 percent) to bilateral and commercial creditors (Table 2). IDA, AfDB and IMF account for 93 percent of multilateral debt.¹² Japan and the United Kingdom are the largest bilateral creditors with respectively 60 and 10 percent of the bilateral outstanding debt. All Paris Club debt and more than 80 percent of non Paris Club debt was contracted after the cut-off date. Commercial debt amounts to US\$360 million, of which claims held by Samsung Corporation of Korea represent 39 percent in NPV terms. All commercial debt is post cut-off date debt. Box 2 provides more details on the commercial debt. Ghana has commercial credits that have never been subject to debt restructuring and that will be eligible for relief under the enhanced HIPC Initiative. It will be necessary to coordinate with the commercial creditors, informing them of the Paris Club rules on comparability of treatment and the burden-sharing approach under the enhanced HIPC Initiative.

⁹ Paris Club debt should be reconciled soon, since the authorities expect to request a flow rescheduling with Ghana's Paris Club creditors.

¹⁰ This figure includes those bilateral arrears still outstanding at the time of the DSA on payments due in 2000, a total of US\$40 million. Of this, US\$9.1 million are still outstanding. Of the outstanding arrears 77 percent is owed to Paris Club creditors (mainly Germany), 17 percent to non Paris Club and the remaining 6 percent to commercial creditors.

¹¹ The NPV of debt-to-exports ratio is measured using the backward-looking three-year average of exports of goods and services. The NPV of debt-to-revenue ratio in the base year is based on a conversion of 2000 government revenue at the end-2000 exchange rate.

¹² The stock of IMF debt at end-2000 includes a PRGF disbursement which Fund management has determined was noncomplying and which Ghana may be asked to repay early.

Box 2: Commercial Debt

Commercial debt amounts to US\$348 million in nominal terms, equivalent to US\$360 million in NPV terms. Samsung Corporation of Korea is the largest creditor with 37 percent of the outstanding commercial debt in nominal terms. This debt was contracted by the Tema Oil Refinery (TOR) and is collateralized against TOR's assets. Other major commercial creditors include Dutch banks holding 23 percent of the commercial claims (of which almost 60 percent is owed to Amro Bank), British banks having 22 percent of the commercial claims (of which 33 percent is owed to the West Merchant Bank) and South African banks holding 10 percent of the outstanding claims. The debt is largely owed by the central government with a share of 58 percent of the outstanding claims, and the remaining 42 percent is owed by two public corporations, TOR with a share of 37 percent and Ghana Telecom with a share of 5 percent. In terms of maturity structure, almost 40 percent of the outstanding debt was contracted after January 1999, of which 79 percent was borrowed on non-concessional terms (i.e., with a grant element below 35 percent). The average grace period is 2.8 years, the average amortization period is 8.9 years and, the average interest rate is 7.5 percent.

Debt Sustainability

21. The macroeconomic projections used in this analysis and agreed upon with the authorities assume continued implementation of sound macroeconomic policies, structural reforms, and further development of human resources, in particular through the implementation of the government's poverty reduction strategy. The main assumptions are summarized in Annex I.

22. The baseline DSA simulates the full application at end-December 2000 of traditional debt relief mechanisms, including a stock-of-debt operation from Paris Club creditors under Naples terms on pre cut-off date debt, providing a NPV reduction of 67 percent, and a flow rescheduling of pre cut-off ODA debt, with comparable treatment from all other official bilateral and commercial creditors. Ghana has never benefited from a concessional rescheduling with the Paris Club and has already repaid all its obligations on pre cut-off date loans.¹³ Regarding other official bilateral debt, only 6 percent of the debt is considered to be eligible for a rescheduling under the existing framework. Therefore, traditional debt relief mechanisms offer limited relief in Ghana's case, reducing the NPV by only 0.2 percent.

23. Ghana's external debt situation would remain unsustainable after full application of traditional debt-relief mechanisms. At end-December 2000, the NPV of debt-to-exports ratio was 152 percent, while the NPV of debt-to-revenue ratio was 557 percent, both above the enhanced HIPC Initiative thresholds of 150 and 250 percent respectively (Table 5). Ghana satisfies the revenue effort and openness criteria, with a three-year

¹³ The cut-off date is January 1, 1983. Since 1983, Ghana has had only one nonconcessional rescheduling, in 1996. The agreement pertained to pre-1983 debts to Brazil, Italy and Norway and provided for a deferral of long outstanding arrears.

average revenue-to-GDP ratio of 17 percent and a three-year average exports-to-GDP ratio of 37 percent at end-2000.¹⁴

Possible HIPC Initiative Assistance

24. Although Ghana qualifies under both criteria with the current cutoff date, it will benefit from more assistance under the fiscal criteria. With a target of 250 percent of NPV of debt-to-revenue ratio, the potential level of debt relief for Ghana is US\$2.1 billion in NPV terms, or equivalent to nominal debt service relief over time amounting to US\$3.2 billion.¹⁵ Based on the composition of debt at end-2000, the share of multilaterals in the delivery of assistance under the HIPC Initiative is 52 percent, while the share of bilaterals and commercials is 48 percent (Table 2). The implied common reduction factor for all creditors would be 55.2 percent of their exposure at end-December 2000 after the full use of traditional debt relief mechanisms.

Impact of HIPC Initiative Assistance

25. Ghana's external debt burden will be reduced significantly with the delivery of assistance under the enhanced HIPC Initiative. Using the current cutoff date, the ratio of debt service-to-revenue after the delivery of enhanced HIPC Initiative assistance would reach 20 percent in 2003 and 12 percent by 2010. The ratio of debt service to exports would decline from 17 percent in 2001 to 11 percent by 2003, and remains stable at 11 percent in the outer years, while the debt-to-revenue ratio would decline from 558 percent in 2001 to 160 percent in 2003 and to an average of about 140 percent over the 2011-2020 period. After HIPC assistance, debt service payments would amount to an average US\$240 million in the first three years (2002-04), which compares with average debt service actually paid of US\$350 million in 1997-00. The staffs estimate that assistance under the HIPC Initiative could translate into an average annual debt service reduction of around US\$170 million over the 2002 to 2020 period, equivalent to around 7 percent of the central government's projected non-interest expenditures for the 2002-20 period. By comparison, the combined spending on health and education amounted to 40 percent of central government's non-interest expenditures in 1999-00. A significant increase in the resources devoted to health and education could thus be realized if they were augmented by an amount equivalent to the level of assistance under the HIPC Initiative over the 2002-2020 period (Tables 6-7).

¹⁴ The required thresholds are 15 percent and 30 percent respectively.

¹⁵ A joint IMF/ World Bank DSA was completed and presented to the Boards on November 17, 1999 (IDA/Sec M99-656 and SM\99\273) and the possible HIPC relief was estimated at US\$1.0 billion based on projected debt and macroeconomic data at end-December 1999. The reason for the twofold increase of the HIPC debt relief between the previous DSA and the current one is due to the depreciation of the cedi by 50 percent in the course of 2000 and therefore a fall of the central government revenues by 76 percent from what was projected for end-1999 and the actual number at end-2000. The NPV-of-debt remained close to its previous estimate, it was projected to be US\$3.8 billion in NPV terms at end-1999.

Sensitivity Analysis

26. Under the baseline scenario, real GDP growth is projected to average 5 percent per year over the 2002-2020 period. If the projected growth rates were reduced by 1 percentage point over the same period, then Ghana's fiscal revenues would drop by around 17 percent by end-2021 compared to the baseline scenario. Under this scenario, and given other assumptions as specified under the baseline, the NPV of debt-to-revenue ratio would increase from an average of 189.3 percent to 202.3 percent by over the 2000-20 period. Ghana would thus still have sustainable debt levels even in the lower growth scenario (Table 8).

IV. DECISION AND FLOATING COMPLETION POINTS

PRSP Process

27. The Interim Poverty Reduction Strategy Paper for the period 2000 to 2002 was prepared in June 2000. On the basis of the Joint IMF-Bank Staff Assessment of the I-PRSP, the Boards of the Bank and the Fund concluded that it provided a sound basis for the formulation of a full participatory PRSP.¹⁶ Preparation of the Ghana Poverty Reduction Strategy (GPRS), building on the I-PRSP began in early 2001 following the election of a new Government. A Task Force comprising representatives from government, the donor community and civil society was established in March 2001. Its conclusions were reviewed and discussed during a two-day National Economic Dialogue in mid-May 2001. Based on the recommendations of the National Economic Dialogue, the government is in the process of preparing the first draft of the GPRS that would cover the 2002-2004 period. This document is to be discussed at the regional level in June 2001. The strategy paper would then be finalized in September/October 2001, when the preparation of the 2002 budget would start. Such a timetable is tight, but it derives from the government's objective that poverty reduction programs be incorporated in the 2002 budget.

Possible Decision Point Timing

28. Assuming policies remain on track during 2001, Ghana could reach its decision point in December 2001. This schedule would allow the newly elected government to decisively address the substantial macroeconomic and structural policy slippages of 2000, based on the measures currently proposed for the third PRGF review and the Bank ERSO III.¹⁷ It would also allow the government time to put in place systems to strengthen monitoring and control of public expenditures, and to track poverty-related spending in particular. In addition, as indicated above, by December 2001 the government expects to

¹⁶ IDA/SecM2000-400 and EBD\00\65.

¹⁷ The third review of the PRGF arrangement is expected to be completed in June 2001. This review will establish a number of performance criteria for end-August, which will be used to monitor the government's track record at the decision point in December and complete the fourth review under the PRGF.

have completed the GPRS. This would provide the basis for determining how the resources released through HIPC interim relief would be used in the context of the 2002 budget.

29. The need for substantial work on the public expenditure management system deserves special emphasis in this context. The current system is in disarray. Cash management and controls over expenditures at the commitment stage are lacking, contributing to major expenditure overruns and extensive domestic budgetary arrears in 2000 (the scale of which is still being determined). Reporting by spending ministries has deteriorated, and no audited aggregate accounts, reconciled with banking data, have been produced since 1999. Implementation problems in modifying the accounting framework for MTEF purposes have aggravated some of these difficulties. The new government has recognized the urgency of restoring effective public expenditure management, not only for reasons of macroeconomic control but also to ensure that expenditures are made in line with its established priorities. The work is being undertaken with technical assistance from Fund and Bank staff, but it will be several months before even the first steps can be completed.

Possible Completion Point Conditions

30. As part of the broad-based participatory process that the government has put in place to prepare the GPRS, the government and civil society have so far identified the following areas as likely to be given priority in the final strategy:

- **Macroeconomic stabilization and equitable growth.** This objective would be attained by reducing the budget deficit, cutting interest payments on government debt by restructuring the domestic and foreign debt of government; and restructuring public enterprises to reduce their losses, including privatization and increased private sector involvement in the provision of infrastructure. In a manner consistent with sustained macroeconomic stabilization, the government would reallocate budgetary expenditures towards the regions where poverty worsened in recent years.
- **Production and gainful employment.** The goal is to reduce the poverty rate from 40 percent to 32 percent. This would be attained by reducing poverty among the food producers by increasing the production of food and export crops; extending land under irrigation; and improving feeder roads, especially in the Northern Region.
- **Human resource development and basic services.** Specific indicators have already been established for health, education, water and sanitation. The objectives are to improve equity in access to services (especially as concerns immunization rates for children and access to ante-natal care) in order to reduce the wide geographical gaps. Specific interventions would be implemented to reduce endemic infections (malaria, guinea worm) and communicable diseases such as HIV/AIDS which have a high impact on poverty. To achieve these objectives, the government intends to increase the role of District Assemblies in the planning and provision of basic social services by transferring additional revenues and responsibilities.

- **Vulnerability and exclusion.** This will involve the expansion of existing and development of new special programs for persons living with HIV/AIDS and their families, orphans and street children, people who cannot afford the cost of basic health care, workers not covered by existing social security schemes, and residents of urban slums.
- **Governance and improved public expenditure management.** The government would aim to improve the effectiveness, transparency and accountability of public expenditure management as well as to establish a sound partnership among the state, private sector and NGOs. Specific targets for 2002-2004 include the completion of the Public Administration and Financial Management Reform Program (PUFMARP), the Civil Service Performance Improvement Program, increased decentralization, and quarterly consultation with civil society at national and community levels. Other measures on public expenditure management, agreed with the government, include the implementation of an integrated cash and commitment system and the establishment of an Economic Policy Coordinating Committee to oversee the management and monitoring of monthly expenditures as concerns cash and commitment transactions. These measures are to be implemented beginning 2001.

31. This agenda provides a framework for the choice of possible completion point triggers outlined in Box 3. For a number of these triggers, more specific indicators would need to be selected prior to the decision point in order to assess implementation.

32. The suggested list of triggers includes the enhancement of the current poverty monitoring system to ensure more frequent monitoring of the outcomes of poverty reduction programs. Such a system would need to address the current shortcomings of non-existent or incomplete data (employment, wages), as well as of insufficient analysis of existing data. With respect to budgetary expenditures, the triggers focus on strengthening control mechanisms, transparency and accountability in the use of public resources. In the education and health sector, the measures singled out would address constraints to reducing regional and income inequalities concerning primary and secondary schooling. Triggers also could include the expansion of specific interventions to address endemic disease (malaria, tuberculosis, guinea-worm) and growing communicable diseases such as HIV/AIDS.

33. Increased community involvement in the management and the monitoring of programs is a cross-cutting objective in both the health and education sectors. This would be achieved over the medium term by increasing the resources allocated to the District Assembly Fund and augmenting the responsibilities of local districts accordingly, as the capacity of the districts to manage these resources is developed. With respect to HIV/AIDS, a new strategy has been adopted by the government, involving an increased role for districts and community-based organizations. Final agreement on these measures could be finalized shortly with the authorities, and explicit targets to monitor progress could be specified in the final decision point document.

34. While HIPC Initiative completion point triggers would focus primarily on selected measures to be taken in the social sectors, the reform agenda proposed in the draft Ghana Poverty Reduction Strategy is much broader and encompasses, alongside targeted poverty reduction and social development measures, a number of critical structural reforms. Progress in the implementation of these reforms will be an integral part of program

review and the policy dialogue with the Fund and IDA. The two key areas of structural reform where the staffs consider that completion point conditions would be appropriate are the cocoa sector and pricing reforms in the energy and public utilities sectors. Improvements in the functioning of the cocoa sector will have a direct bearing on the livelihood of 1 million rural families who work in this sector, and should contribute more broadly to raising export performance and economic growth. As regards the petroleum, electricity, and water industries, the importance of putting in place a rational pricing regime lies in its potential benefits both for macroeconomic stability and for improved supply and service delivery.

Monitoring the Use of the HIPC Initiative Resources

35. The government intends to monitor expenditures made possible by the HIPC initiative within an overall reform program aimed at improving public financial management, reporting and accountability. A monitoring mechanism for tracking poverty-related expenditure is expected to be operational by the decision point. As mentioned above, indicative areas for the budgetary use of these resources would be identified in the GPRS that would be finalized in December 2001, and the specific uses of the interim relief for 2002 would be incorporated into the 2002 Budget. With the support of the staffs, the government intends to closely scrutinize budget execution for items affected by the allocation of these resources.

Box 3: Possible Triggers for the Floating Completion Point

1. Poverty Reduction Strategy

- Prepare a full PRSP through a participatory process and satisfactorily implement it for at least one year as evidenced by the joint staff assessment of the country's annual progress report.
- Enhancement of the current poverty monitoring system (more frequent surveys).

2. Macroeconomic Stability

- Maintain macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program.

3. Public Sector Management

- Strengthen public expenditure management to improve the monitoring of public expenditure (regular, timely and accurate reconciliation of budgetary and accounting information, and publication of data), and control of expenditures at the commitment stage.

4. Social Sectors and Structural Reforms

Education

- Reduce inequalities in access to primary and secondary schooling by reallocating expenditures towards the regions where poverty is high, particularly Northern Ghana.

Health

- Institute/expand interventions to reduce high prevalence of diseases (tuberculosis, malaria, guinea worm, HIV/AIDS including establishment of pilot project to reduce mother to child transmission of HIV).

Structural reforms

- Cocoa: attainment of 70 percent producers' share in cocoa export prices and further liberalization of external marketing.
- Energy and public utilities: implement automatic adjustment mechanisms to provide for, and maintain, full cost recovery in the petroleum, electricity and water sectors.

V. ISSUES FOR DISCUSSION

36. This paper presents a preliminary assessment of Ghana's eligibility for assistance under the Enhanced HIPC Initiative. Executive Directors' views and guidance are sought on the following issues:

Eligibility: Do Directors consider Ghana eligible for assistance under the enhanced HIPC Initiative?

Timing of the decision point: Do Directors agree that Ghana could reach its decision point before the end of 2001, provided that: (i) policy implementation under the program supported by the PRGF and the ERSOIII is satisfactory; (ii) the GPRS is endorsed by the Fund and IDA Boards as a basis for providing HIPC assistance; and (iii) an adequate system for tracking poverty-related spending and use of HIPC resources is put in place?

Floating completion point: What are Directors' views on the proposed triggers and key policy measures (for which satisfactory performance has to be achieved) linked to the floating completion point?

Table 1. Ghana: Selected Economic and Financial Indicators, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
		Actual	Prog.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise specified)							
National income and prices							
Real GDP	4.4	3.7	4.0	5.0	5.0	5.0	5.0
Real GDP per capita	1.8	1.2	1.4	2.4	2.4	2.4	2.4
Nominal GDP	19.0	31.9	40.0	26.5	16.6	11.8	11.8
GDP deflator	13.9	27.2	34.7	20.5	11.0	6.5	6.5
Consumer price index (annual average)	12.4	25.0	33.0	19.0	10.5	5.0	5.0
Consumer price index (end of period)	13.8	40.5	25.0	13.0	8.0	5.0	5.0
External sector							
Exports, f.o.b.	-4.1	-5.4	0.4	8.8	6.2	8.2	7.6
Imports, f.o.b.	11.4	-15.2	-1.2	3.1	5.2	5.7	5.8
Export volume	-2.8	3.5	-1.7	4.2	3.9	2.2	2.6
Import volume	10.4	-24.9	1.5	6.3	3.8	4.0	4.6
Terms of trade	-8.7	-20.3	4.7	7.7	0.7	4.3	3.6
Nominal effective exchange rate (avg.)	-9.4	-45.3	...	...	...	...	...
Real effective exchange rate (avg.)	0.5	-33.3	...	...	...	...	...
Cedis per U.S. dollar (avg.)	2,647	5,456	...	...	...	...	...
Government budget							
Domestic revenue (excluding grants)	6.0	42.9	37.3	42.9	15.6	14.4	12.2
Total expenditure	9.0	39.6	54.5	19.2	9.4	6.4	6.8
Current expenditure	13.1	48.9	46.5	13.0	7.3	3.4	4.8
Capital expenditure and net lending 2/	2.7	24.1	70.8	30.1	12.6	10.8	9.5
Money and credit							
Net domestic assets 3/	31.5	57.0	16.1	3.9	-5.6	-8.2	-3.2
Credit to government 3/	26.7	52.4	10.8	-2.8	-16.4	-20.9	-23.0
Credit to the rest of the economy 3/	28.8	58.8	26.3	13.1	17.0	17.2	24.5
Broad money (including foreign currency deposits)	16.0	39.8	34.1	25.0	15.0	10.0	14.0
Reserve money	12.9	35.8	28.5	22.5	13.5	8.6	12.5
Velocity (GDP/average broad money)	5.0	5.0	5.1	5.0	4.9	4.9	4.9
Treasury bill yield (in percent; end of period)	34.2	42.0	...	...	...	...	...
(In percent of GDP, unless otherwise specified)							
Investment and saving							
Gross investment	21.5	24.0	23.7	24.2	24.8	24.9	25.0
Private	11.7	14.8	12.5	12.7	13.7	13.9	14.2
Public	9.8	9.2	11.2	11.5	11.1	11.0	10.8
Gross national saving	10.0	14.8	17.2	19.9	19.9	20.1	20.5
Private	5.5	10.3	11.5	10.3	9.6	8.4	7.9
Public	4.4	4.5	5.7	9.6	10.3	11.7	12.6
Government budget							
Domestic revenue	16.4	17.7	17.4	19.6	19.5	19.9	20.0
Total grants	1.7	2.1	5.0	4.5	3.8	3.3	3.0
Total expenditure 2/	26.2	27.7	30.6	28.8	27.1	25.7	24.6
Overall balance (cash basis; after arrears clearance)	-8.0	-9.7	-9.6	-5.7	-4.0	-2.8	-1.8
Domestic primary balance	1.4	2.4	4.0	5.3	4.4	3.8	3.4
Divestiture receipts	0.3	1.2	1.0	0.0	0.0	0.0	0.0
External sector 4/							
Current account balance 5/	-11.5	-9.2	-6.5	-4.3	-4.9	-4.9	-4.5
External debt outstanding 6/	75.0	119.0	130.4	126.2	123.4	120.8	116.1
External debt service, including to the Fund 7/	6.7	11.3	10.4	7.6	7.1	7.1	6.7
(in percent of exports of goods and nonfactor services)	21.1	23.3	20.6	15.3	14.5	14.5	14.0
(in percent of government revenue)	37.2	56.8	46.3	31.7	30.5	30.6	29.3
(In millions of U.S. dollars, unless otherwise specified)							
Current account balance 5/	-895	-457	-316	-228	-281	-298	-302
Overall balance of payments	-156	-221	-19	-60	-74	-92	-92
External payments arrears (end of period)	62	89	0	0	0	0	0
Gross international reserves (end of period)	419	224	401	650	831	992	1,140
(in months of imports of goods and services)	1.5	0.8	1.4	2.1	2.6	2.9	3.1
Nominal GDP (in billions of cedis)	20,580	27,153	38,014	48,097	56,057	62,686	70,099

Sources: Ghanaian authorities; and staff estimates and projections.

1/ Based 2000 Program in EBS/00/160

2/ Including capital outlays financed through external project aid and transfers to the local authorities.

3/ In percent of broad money at the beginning of the period.

4/ The large depreciation of the cedi in 2000 reduced the dollar value of GDP and created a sharp jump in foreign currency based items when expressed as a share of GDP.

5/ Including official grants.

6/ The projections for debt outstanding assumes no debt relief.

7/ External debt service on the basis of committed balances, which is higher than debt service on disbursed balances as shown in Table 7. Historical debt service refer to debt service due.

Table 2. Ghana: Nominal Stocks and Net Present Value of Debt at end-2000 by Creditor Groups

	Nominal Debt Stock		NPV of Debt		NPV of Debt After Traditional Debt Relief 1/	
	US\$ million	Percent of total	US\$ million	Percent of total	US\$ million	Percent of total
Total	5917.7	100.0	3810.2	100.0	3802.5	100.0
Multilateral	3987.5	67.4	1985.7	52.1	1985.7	52.2
World Bank	3131.2	52.9	1392.1	36.5	1392.1	36.6
AfDB	354.3	6.0	233.1	6.1	233.1	6.1
IMF	292.5	4.9	222.3	5.8	222.3	5.8
European Investment Bank	54.5	0.9	48.0	1.3	48.0	1.3
European Union	37.0	0.6	25.5	0.7	25.5	0.7
IFAD	66.4	1.1	31.4	0.8	31.4	0.8
BADEA	16.0	0.3	13.3	0.3	13.3	0.4
OPEC Fund	12.2	0.2	10.4	0.3	10.4	0.3
Nordic Development Fund	23.3	0.4	9.6	0.3	9.6	0.3
Bilateral	1581.9	26.7	1464.1	38.4	1456.4	38.3
Paris Club:	1499.7	25.3	1400.6	36.8	1400.6	36.8
Post-cutoff date	1499.7	25.3	1400.6	36.8	1400.6	36.8
ODA	907.8	15.3	829.7	21.8	829.7	21.8
Non-ODA	591.9	10.0	571.0	15.0	571.0	15.0
Pre-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0
ODA	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0
Austria	27.5	0.5	16.8	0.4	16.8	0.4
Belgium	2.0	0.0	1.6	0.0	1.6	0.0
Canada	19.6	0.3	19.4	0.5	19.4	0.5
Finland	7.8	0.1	7.2	0.2	7.2	0.2
France	70.2	1.2	61.8	1.6	61.8	1.6
Germany	189.0	3.2	101.3	2.7	101.3	2.7
Italy	34.7	0.6	29.1	0.8	29.1	0.8
Japan	844.7	14.3	884.1	23.2	884.1	23.3
Netherlands	33.9	0.6	28.8	0.8	28.8	0.8
Norway	7.4	0.1	7.2	0.2	7.2	0.2
Spain	54.4	0.9	37.2	1.0	37.2	1.0
Sweden	30.3	0.5	26.2	0.7	26.2	0.7
United Kingdom	144.7	2.4	146.7	3.9	146.7	3.9
United States	33.5	0.6	33.1	0.9	33.1	0.9
Other Official Bilateral:	82.2	1.4	63.4	1.7	55.7	1.5
Post-cutoff date	65.4	1.1	52.4	1.4	52.4	1.4
ODA	58.6	1.0	46.4	1.2	46.4	1.2
Non-ODA	6.8	0.1	6.0	0.2	6.0	0.2
Pre-cutoff date	16.8	0.3	11.0	0.3	3.4	0.1
ODA	12.5	0.2	7.3	0.2	1.9	0.1
Non-ODA	4.4	0.1	3.8	0.1	1.4	0.0
China	30.4	0.5	19.3	0.5	11.6	0.3
India	1.7	0.0	1.8	0.0	1.8	0.0
Korea	10.3	0.2	8.8	0.2	8.8	0.2
Kuwait	22.8	0.4	20.1	0.5	20.1	0.5
Saudi Arabia	16.9	0.3	13.5	0.4	13.5	0.4
Commercial	348.3	5.9	360.5	9.5	360.5	9.5
Post-cutoff date	348.3	5.9	360.5	9.5	360.5	9.5
Pre-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0
France	10.7	0.2	10.7	0.3	10.7	0.3
Japan	3.0	0.1	3.0	0.1	3.0	0.1
Korea	129.3	2.2	141.0	3.7	141.0	3.7
Netherlands	79.8	1.3	80.9	2.1	80.9	2.1
South Africa	35.9	0.6	35.0	0.9	35.0	0.9
Switzerland	1.0	0.0	0.8	0.0	0.8	0.0
United Kingdom	74.1	1.3	73.6	1.9	73.6	1.9
United States	14.5	0.2	15.4	0.4	15.4	0.4

Sources: Ghanaian authorities; and Fund and World Bank staff estimates.

1/ Includes a stock-of-debt operation on Naples terms at end 2000; and at least comparable action by other official bilatera and commercial creditors on eligible debt (pre-cutoff and non-ODA).

Table 3. Ghana: HIPC Initiative-- Assistance Under a Proportional Burden-Sharing Approach 1/ 2/

(In millions of U.S. dollars, unless otherwise indicated)

NPV of debt- to-revenues-target (in percent)	Total	Bilateral 3/ (In NPV terms at end 2000)	Multilateral	Common Reduction Factor 4/ (Percent)
250	2,096	1,002	1,095	55.1
Memorandum items:				
NPV of debt 5/	3,803	1,817	1,986	
Paris Club Creditors	1,401			
Non-Paris Club Creditors	56			
Commercial Creditors	360			
Central government revenues 6/	683			
NPV of debt-to-revenue ratio (Percent)	557			

Sources: Ghanaian authorities and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).

2/ Includes a hypothetical stock-of-debt operation on Naples terms (December 2000) and comparable treatment by other official bilateral creditors.

3/ Includes official bilateral creditors and commercial debt.

4/ Each creditor's NPV reduction in percent of its exposure at the decision point.

5/ Based on end-2000 data after full application of traditional debt relief mechanisms.

6/ Excludes grants.

Table 4. Ghana: Discount and Exchange Rate Assumptions

Currency Name	2000 Discount Rate 1/ (In percent)	2000 Exchange Rate 2/
Austrian Schilling	6.25	14.8
Belgian Franc	6.25	43.4
Canadian Dollar	7.00	1.5
Chinese Yuan	6.09	8.3
Chinese Yuan	6.09	8.3
Danish Kroner	6.73	8.0
Deutsche Mark	6.25	2.1
Euro	6.25	1.1
Indian Rupee	6.09	46.8
Finnish Markaa	6.25	6.4
French Franc	6.25	7.0
Great Britain Sterling	6.73	0.7
Irish Pounds	6.25	0.8
Italian Lira	6.25	2080.9
Japanese Yen	2.03	114.9
Korean Won	6.09	1264.5
Kuwaiti Dinar	6.09	0.3
Luxemburg Franc	6.25	43.4
Netherland Guilder	6.25	2.4
Norwegian Kroner	8.02	8.8
Portugese Escudo	6.25	215.5
Saudi Arabian Riyal	6.09	3.7
South African Rand	6.09	7.6
Spanish Peseta	6.25	178.8
Special Drawing Rights	6.09	0.8
Swedish Kronor	6.20	9.5
Swiss Franc	5.33	1.6
United States Dollar	7.19	1.0

Memorandum item:

Paris Club cutoff date

January 1, 1983

Sources: OECD and IMF, International Financial Statistics.

1/ The discount rates used are the average commercial interest reference rates over the six month period prior to end-December 2000, i.e., the end of the period for which actual debt and export data are available.

2/ The exchange rates are expressed as national currency per US dollar at end-December 2000.

Table 5. Ghana: Net Present Value of External Debt After Full Use of Traditional Debt Relief Mechanisms, 2000-2020 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Averages	
												2000-2010	2011-2020
NPV of total debt 2/	3,802.5	4,118.3	4,414.9	4,747.4	5,093.6	5,456.1	5,832.5	6,212.1	6,644.9	7,088.9	7,538.0	5,540.8	10,023.0
NPV of old debt	3,802.5	3,598.7	3,429.3	3,264.3	3,084.5	2,905.3	2,746.7	2,601.8	2,469.5	2,364.9	2,270.8	2,958.0	1,745.2
Official bilateral and commercial	1,816.8	1,632.5	1,469.0	1,318.7	1,176.1	1,048.6	943.6	852.0	775.4	706.5	639.1	1,125.3	347.6
Paris Club	1400.6	1284.9	1179.2	1077.7	983.2	901.3	830.4	761.4	700.8	647.0	593.9	941.9	328.5
post-cutoff date	1400.6	1284.9	1179.2	1077.7	983.2	901.3	830.4	761.4	700.8	647.0	593.9	941.9	328.5
of which: ODA	829.7	797.4	760.6	722.8	681.6	640.7	600.7	560.9	522.4	485.2	446.5	640.8	251.2
pre-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
of which: ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Other official bilateral	55.7	50.9	46.2	41.5	36.6	32.7	29.4	26.5	23.7	20.8	17.8	34.7	8.9
post-cutoff date	52.4	47.4	42.5	37.7	32.8	28.6	25.2	22.1	19.2	16.1	13.0	30.6	3.1
of which: ODA	46.4	42.4	38.3	33.9	29.3	25.6	22.4	19.6	16.9	14.2	11.3	27.3	2.7
pre-cutoff date	3.4	3.5	3.6	3.7	3.9	4.0	4.2	4.3	4.5	4.7	4.9	4.1	5.8
of which: ODA	1.9	2.0	2.2	2.3	2.4	2.6	2.8	2.9	3.1	3.3	3.5	2.6	4.7
Commercial	360.5	296.6	243.7	199.5	156.2	114.6	83.8	64.1	51.0	38.7	27.4	148.7	10.2
post-cutoff date	360.5	296.6	243.7	199.5	156.2	114.6	83.8	64.1	51.0	38.7	27.4	148.7	10.2
Multilateral	1,985.7	1,966.2	1,960.3	1,945.5	1,908.4	1,856.7	1,803.2	1,749.8	1,694.1	1,658.4	1,631.6	1,832.7	1,397.5
World Bank	1,392.1	1,419.9	1,443.2	1,463.3	1,478.9	1,489.2	1,496.0	1,498.3	1,495.1	1,485.5	1,470.8	1,466.6	1,265.4
AfDF	233.1	216.8	201.0	185.2	169.5	154.5	139.9	128.0	115.8	107.8	105.9	159.8	90.8
IMF	222.3	202.3	199.1	190.4	162.3	124.1	87.6	52.6	21.0	6.6	-	115.3	-
Others	64.7	61.3	59.1	57.3	55.4	53.5	51.5	49.4	47.1	44.9	42.9	53.4	35.6
NPV of new debt 3/	-	519.5	985.7	1,483.1	2,009.1	2,550.7	3,085.8	3,610.3	4,175.4	4,724.0	5,267.3	2,582.8	8,277.9
NPV of debt-to-exports ratio 4/	151.9	166.5	174.6	180.7	181.1	181.8	181.8	181.4	181.7	181.3	180.5	176.7	166.1
NPV of debt-to-revenue ratio 5/	557.1	439.4	329.6	306.6	287.5	274.4	263.4	253.0	245.5	238.1	230.1	311.3	179.5
Memorandum items:													
Exports of goods and nonfactor services 6/	2,499.6	2,441.9	2,643.2	2,795.4	3,000.6	3,206.2	3,416.1	3,651.3	3,903.3	4,174.0	4,453.3	3,289.5	6,510.7
Three-year export average	2,503.7	2,473.8	2,528.2	2,626.8	2,813.1	3,000.7	3,207.6	3,424.5	3,656.9	3,909.5	4,176.8	3,120.2	6,099.8
Government revenues 7/	682.6	937.2	1,339.5	1,548.6	1,771.9	1,988.2	2,214.0	2,455.1	2,706.2	2,977.6	3,276.2	1,990.6	5,817.3
GDP	4,977.0	4,858.6	5,305.8	5,714.3	6,121.7	6,647.6	7,500.7	8,187.0	8,187.0	12,439.4	14,117.8	7,641.5	30,228.1

Sources: Ghanaian authorities and staff estimates and projections.

1/ Refers to public and

percent NPV reduction) at end-2000, and at least comparable action by other official bilateral and commercial creditors. This is before any debt relief under the HIPC Initiative.

2/ Discounted on the basis of the average Commercial Interest Reference Rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available, i.e. currency-specific NPVs U.S. dollars occurs for all years at the end 2000 exchange rate.

3/ Reflects the borrowing needed to close the gap.

4/ NPV of debt in percent of three-year average of exports of goods and nonfactor services.

5/ NPV of debt in percent of central government revenues, excluding grants.

6/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993.

7/ Revenues are defined as central government revenues, excluding grants.

Table 6. Ghana: External Debt Service, 2001–2020 1/
(in millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Averages	
											2001-2010	2011-20
Before traditional debt relief												
Total	416.3	374.2	374.4	394.5	398.6	391.8	459.2	519.3	566.9	635.2	453.1	1,075.5
Existing debt	401.2	346.1	332.8	339.0	329.4	309.6	288.0	268.1	234.1	219.0	306.7	198.1
Multilateral	138.7	124.2	132.9	154.7	167.3	166.2	163.0	162.3	139.0	128.1	147.6	137.2
World Bank	57.8	64.0	68.5	74.3	80.5	84.6	89.5	95.1	101.2	105.8	82.1	124.1
IMF	33.5	15.5	20.8	39.6	48.1	44.1	40.3	34.8	15.7	7.0	30.0	-
AfDF	27.4	26.2	25.7	25.0	23.7	22.6	19.5	19.2	14.5	8.1	21.2	8.1
Others	19.9	18.4	17.9	15.8	15.0	14.9	13.7	13.2	7.6	7.2	14.4	5.0
Official bilateral	175.4	151.8	142.0	130.0	112.1	104.5	99.3	88.1	79.2	76.8	115.9	58.1
Paris Club	166.0	143.0	133.5	121.7	105.0	98.2	93.5	82.7	73.9	71.6	108.9	55.9
Non Paris Club	9.4	8.9	8.5	8.3	7.2	6.3	5.7	5.4	5.3	5.2	7.0	2.1
Commercial	87.1	70.0	57.9	54.3	49.9	38.8	25.7	17.7	15.9	14.1	43.2	2.8
New debt 2/	15.1	28.1	41.6	55.5	69.3	82.3	171.2	251.1	332.9	416.2	146.3	877.4
Debt service to exports ratio	17.0	14.2	13.4	13.1	12.4	11.5	12.6	13.3	13.6	14.3	13.5	16.5
Debt service to revenue ratio	61.0	39.9	28.0	25.5	22.5	19.7	20.7	21.1	20.9	21.3	28.1	20.8
After traditional debt relief 3/												
Total	417.2	384.9	384.6	404.2	407.8	390.8	458.2	518.3	566.0	634.3	456.6	1,075.0
Existing debt	402.1	356.8	343.0	348.7	338.6	308.5	287.0	267.1	233.1	218.1	310.3	197.6
Multilateral	138.7	124.2	132.9	154.7	167.3	166.2	163.0	162.3	139.0	128.1	147.6	137.2
World Bank	57.8	64.0	68.5	74.3	80.5	84.6	89.5	95.1	101.2	105.8	82.1	124.1
IMF	33.5	15.5	20.8	39.6	48.1	44.1	40.3	34.8	15.7	7.0	30.0	-
AfDF	27.4	26.2	25.7	25.0	23.7	22.6	19.5	19.2	14.5	8.1	21.2	8.1
Others	19.9	18.4	17.9	15.8	15.0	14.9	13.7	13.2	7.6	7.2	14.4	5.0
Official bilateral	175.7	159.6	149.4	137.1	118.9	103.5	98.3	87.1	78.2	75.8	118.4	57.6
Paris Club	167.4	151.7	141.8	129.7	112.6	98.2	93.5	82.7	73.9	71.6	112.3	55.9
Non Paris Club	8.3	7.9	7.6	7.4	6.3	5.3	4.7	4.5	4.4	4.3	6.1	1.7
Commercial	87.7	72.9	60.6	56.9	52.4	38.8	25.7	17.7	15.9	14.1	44.3	2.8
New debt 2/	15.1	28.1	41.6	55.5	69.3	82.3	171.2	251.1	332.9	416.2	146.3	877.4
Debt service to exports ratio	17.1	14.6	13.8	13.5	12.7	11.4	12.5	13.3	13.6	14.2	13.7	16.5
Debt service to revenue ratio	61.1	41.1	28.7	26.1	23.0	19.7	20.7	21.1	20.9	21.3	28.4	20.8
After HIPC assistance 4/												
Total	418.3	316.2	307.4	96.0	105.9	113.8	199.5	271.6	343.9	387.7	256.0	734.7
Existing debt	403.3	289.2	268.2	48.7	50.4	50.5	52.0	54.1	54.5	46.9	131.8	50.8
Multilateral	138.7	56.8	58.2	43.6	45.3	45.3	46.8	49.0	49.4	41.8	57.5	46.0
World Bank	57.8	21.1	22.5	24.3	26.2	26.3	27.8	29.6	31.5	32.9	30.0	38.6
IMF	33.5	11.9	13.3	13.6	13.8	14.0	14.7	15.2	14.7	7.0	15.2	-
AfDF	27.4	5.3	5.2	5.0	4.7	4.5	3.9	3.8	2.9	1.6	6.5	5.9
Others	86.9	42.2	43.8	27.9	28.1	28.5	29.9	30.7	29.8	14.2	36.2	1.5
Official bilateral	176.9	159.5	149.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2	52.2	17.8
Paris Club	167.4	151.7	141.8	5.2	5.2	5.2	5.2	5.2	5.2	5.2	49.7	5.4
Non Paris Club	9.5	7.8	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	-
Commercial	87.7	72.9	60.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.1	-
New debt 3/	15.1	27.0	39.2	47.2	55.4	63.3	147.5	217.5	289.4	340.8	124.2	683.9
Debt service to exports ratio after HIPC assistance	17.1	12.0	11.0	3.2	3.3	3.3	5.5	7.0	8.2	8.7	7.9	11.1
Debt service to revenue ratio after HIPC assistance	61.3	33.7	22.9	6.2	6.0	5.7	9.0	11.1	12.7	13.0	18.2	14.0
Reduction in debt service as a result of												
traditional debt relief mechanisms 5/	-0.9	-10.7	-10.2	-9.7	-9.2	1.0	1.0	1.0	1.0	0.9	(3.6)	0.5
HIPC Initiative assistance 6/	...	68.7	77.2	308.2	301.9	277.0	258.7	246.6	222.1	246.6	223.0	340.3
Memorandum items:												
Exports of goods and nonfactor services 7/	2,441.9	2,643.2	2,795.4	3,000.6	3,206.2	3,416.1	3,651.3	3,903.3	4,174.0	4,453.3	3,368.5	6,510.7
Government revenues 8/	682.6	937.2	1,339.5	1,548.6	1,771.9	1,988.2	2,214.0	2,455.1	2,706.2	2,977.6	1,862.1	5,277.2

Sources: Ghanaian authorities; and staff estimates.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.

2/ Reflects the borrowing needed to close the gap.

3/ Assumes a hypothetical stock of debt operation on Naples terms and comparable treatment from other bilateral creditors.

4/ Assumes the repayment of arrears accumulated at end-December 2000 over five years with market interest rates. Paris Club and commercial creditors are assumed to deliver their share of relief as of the completion point (December 2003). Non Paris Club creditors are assumed to provide a Cologne flow rescheduling on eligible debt and the remaining of the required HIPC assistance is to be delivered at the completion point through a stock of debt operation. Multilateral creditors are also assumed to provide HIPC debt relief as of the completion point, except for the IMF, the World Bank and the AfDB, for which the delivery would start as of the decision point (December 2001).

5/ The negative relief for the 5 first years is due to the repayment of outstanding arrears at end-December 2000 (US\$40 million).

6/ The reduction is measured as the difference between the projected debt service after full use of traditional debt relief and after the application of traditional debt relief mechanisms.

7/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993. Refers to current year exports.

8/ Revenues are defined as central government revenues, excluding grants.

Table 7. Ghana: Net Present Value of External Debt After HIPC Assistance, 2000-2020
(in millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Averages	
												2000-2010	2011-2020
I. After traditional debt-relief 1/													
NPV of total debt	3802.5	4118.3	4414.9	4747.4	5093.6	5456.1	5832.5	6212.1	6644.9	7088.9	7538.0	5540.8	10023.0
NPV of outstanding debt	3802.5	3598.7	3429.3	3264.3	3084.5	2905.3	2746.7	2601.8	2469.5	2364.9	2270.8	2958.0	1745.2
Official bilateral and commercial	1816.8	1632.5	1469.0	1318.7	1176.1	1048.6	943.6	852.0	775.4	706.5	639.1	1125.3	347.6
Paris Club	1400.6	1284.9	1179.2	1077.7	983.2	901.3	830.4	761.4	700.8	647.0	593.9	941.9	328.5
Other official bilateral	55.7	50.9	46.2	41.5	36.6	32.7	29.4	26.5	23.7	20.8	17.8	34.7	8.9
Commercial	360.5	296.6	243.7	199.5	156.2	114.6	83.8	64.1	51.0	38.7	27.4	148.7	10.2
Multilateral	1985.7	1966.2	1960.3	1945.5	1908.4	1856.7	1803.2	1749.8	1694.1	1658.4	1631.6	1832.7	1397.5
NPV of new borrowing 2/	-	519.5	985.7	1,483.1	2,009.1	2,550.7	3,085.8	3,610.3	4,175.4	4,724.0	5,267.3	2582.8	8277.9
Memorandum items:													
NPV of debt-to-exports ratio (percent) 3/													
Total debt	151.9	166.5	174.6	180.7	181.1	181.8	181.8	181.4	181.7	181.3	180.5	176.7	166.1
Outstanding debt	151.9	145.5	135.6	124.3	109.6	96.8	85.6	76.0	67.5	60.5	54.4	100.7	30.6
NPV of debt-to-revenue ratio (percent)													
Total debt	557.1	439.4	329.6	306.6	287.5	274.4	263.4	253.0	245.5	238.1	230.1	311.3	179.5
Outstanding debt	557.1	384.0	256.0	210.8	174.1	146.1	124.1	106.0	91.3	79.4	69.3	199.8	33.9
II. After enhanced HIPC assistance 4/ 5/													
NPV of total debt	3810.2	3996.9	4316.9	2472.1	2804.1	3151.8	3500.4	3846.6	4246.1	4652.8	5090.4	3808.0	8043.4
NPV of outstanding debt	3810.2	3477.4	3370.5	1074.0	1082.8	1090.4	1098.5	1105.5	1110.9	1116.2	1129.5	1769.6	1215.1
Official bilateral and commercial	1824.5	1639.7	1477.9	208.4	208.3	208.3	208.2	208.2	208.3	208.3	208.4	600.8	209.5
Paris Club	1400.6	1284.9	1179.2	207.9	207.8	207.8	207.7	207.7	207.7	207.7	207.8	502.4	208.6
Other official bilateral	63.4	57.9	52.5	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	16.2	0.9
Commercial	360.5	296.8	246.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	82.1	0.0
Multilateral	1985.7	1837.7	1892.6	865.7	874.5	882.2	890.2	897.3	902.6	907.9	921.1	1168.9	1005.6
NPV of new borrowing 2/	-	519.5	946.5	1,398.1	1,721.3	2,061.4	2,401.9	2,741.1	3,135.1	3,536.6	3,960.9	2,038.4	6,828.3
Memorandum items:													
NPV of debt-to-exports ratio (percent) 3/													
Total debt	152.2	161.6	170.7	94.1	99.7	105.0	109.1	112.3	116.1	119.0	121.9	123.8	131.3
Outstanding debt	152.2	140.6	133.3	40.9	38.5	36.3	34.2	32.3	30.4	28.6	27.0	63.1	20.5
NPV of debt-to-revenue ratio (percent)													
Total debt	558.2	426.5	322.3	159.6	158.3	158.5	158.1	156.7	156.9	156.3	155.4	233.3	140.9
Outstanding debt	558.2	371.0	251.6	69.4	61.1	54.8	49.6	45.0	41.1	37.5	34.5	143.1	22.4
III. After enhanced HIPC assistance assumed committed unconditionally 6/													
NPV of total debt	1706.4	2015.2	2619.4	2472.1	2804.1	3151.8	3500.4	3846.6	4246.1	4652.8	5090.4	3,282.3	8,043.4
NPV of outstanding debt	1706.4	1495.6	1672.9	1074.0	1082.8	1090.4	1098.5	1105.5	1110.9	1116.2	1129.5	1,243.9	1,215.1
Official bilateral and commercial	815.3	613.0	1254.7	208.4	208.3	208.3	208.2	208.2	208.3	208.3	208.4	395.4	209.5
Paris Club	628.5	488.3	418.2	207.9	207.8	207.8	207.7	207.7	207.7	207.7	207.8	290.7	208.6
Other official bilateral	25.0	16.8	418.2	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	42.2	0.9
Commercial	161.8	107.8	418.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	62.5	-
Multilateral	891.1	882.6	418.2	865.7	874.5	882.2	890.2	897.3	902.6	907.9	921.1	848.5	1,005.6
NPV of new borrowing	-	519.5	946.5	1398.1	1721.3	2061.4	2401.9	2741.1	3135.1	3536.6	3960.9	2,038.4	6,828.3
Memorandum items:													
NPV of debt-to-exports ratio (percent) 3/													
Total debt	68.2	81.5	103.6	94.1	99.7	105.0	109.1	112.3	116.1	119.0	121.9	102.8	131.3
Outstanding debt	68.2	60.5	66.2	40.9	38.5	36.3	34.2	32.3	30.4	28.6	27.0	42.1	20.5
NPV of debt-to-revenue ratio (percent)													
Total debt	250.0	215.0	195.6	159.6	158.3	158.5	158.1	156.7	156.9	156.3	155.4	174.6	140.9
Outstanding debt	250.0	159.6	124.9	69.4	61.1	54.8	49.6	45.0	41.1	37.5	34.5	84.3	22.4

Sources: Ghanaian authorities; and World Bank and Fund staff estimates and projections.

1/ Shows the external debt situation after the full use of traditional debt-relief mechanisms, and assuming at least comparable treatment from official bilateral creditors.

3/ In terms of simple historical three-year average of exports of goods and nonfactor services.

4/ For the assumptions, see footnote 4 of table 6.

5/ Assumes interim relief under the enhanced Initiative in December 2001-December 2003 and full delivery of assistance from January 2004.

6/ NPV of debt shows the results of the (hypothetical) unconditional commitment and delivery of enhanced HIPC assistance at end 2001.

Table 8. Ghana: Sensitivity Analysis After HIPC Assistance, 2000-2020 1/
(in millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Averages	
												2000-2010	2011-2020
NPV of total debt	3810.2	3996.9	4316.9	2472.1	2804.1	3151.8	3500.4	3846.6	4246.1	4652.8	5090.4	3,808.0	8,043.4
NPV of existing debt	3810.2	3477.4	3370.5	1074.0	1082.8	1090.4	1098.5	1105.5	1110.9	1116.2	1129.5	1,769.6	1,215.1
NPV of new debt	...	519.5	946.5	1,398.1	1,721.3	2,061.4	2,401.9	2,741.1	3,135.1	3,536.6	3,960.9	2,242.2	6,828.3
Debt service of total debt	...	418.3	316.2	307.4	96.0	105.9	113.8	199.5	271.6	343.9	387.7	256.0	734.7
Debt service of existing debt	...	403.3	289.2	268.2	48.7	50.4	50.5	52.0	54.1	54.5	46.9	131.8	50.8
Debt service of new debt	...	15.1	27.0	39.2	47.2	55.4	63.3	147.5	217.5	289.4	340.8	124.2	683.9
NPV of total debt-to-exports ratio (percent) 2/	152.18	161.57	171.08	95.01	101.78	108.71	114.27	119.13	124.67	129.39	133.95	128.3	151.5
NPV of total debt-to-revenue ratio (percent)	558.22	426.49	325.47	162.75	162.86	164.75	165.85	165.87	167.57	168.44	169.05	239.8	161.1
Debt service to exports ratio 3/	...	17.13	12.03	11.24	3.31	3.46	3.53	5.87	7.56	9.05	9.67	8.3	13.0
Debt service to revenue ratio	...	44.64	23.84	20.23	5.57	5.53	5.39	8.60	10.72	12.45	12.87	15.0	14.5
Memorandum items:													
Exports of goods and nonfactor services 4/	2,499.6	2,441.9	2,628.8	2,735.2	2,901.0	3,061.5	3,227.6	3,397.5	3,591.9	3,798.2	4,010.7	3,117.6	5,572.0
Three-year export average	2,503.7	2,473.8	2,523.4	2,601.9	2,755.0	2,899.2	3,063.4	3,228.9	3,405.7	3,595.9	3,800.3	2,986.5	5,267.7
Government revenues 5/	682.6	937.2	1,326.4	1,519.0	1,721.8	1,913.1	2,110.6	2,319.1	2,533.8	2,762.2	3,011.2	1,894.3	5,044.0

Sources: Ghanaian authorities; and World Bank and Fund staff estimates and projections.

1/ The completion point is assumed to be reached by December 2003; HIPC assistance is assumed to be committed and delivered unconditionally thereafter. The NPV of debt for 2001 and 2002 shows only the effect of interim assistance. For more details, see footnote 4 of Table 6.

2/ NPV of debt in percent of three-year average of exports of goods and nonfactor services.

3/ Debt service ratio is in percent of current year exports.

4/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993.

5/ Revenues are defined as central government revenues, excluding grants.

Annex 1: Ghana - Main Assumptions for the Debt Sustainability Analysis (DSA)

The following macroeconomic assumptions are used for the 20-year baseline DSA projections:

- Real GDP growth is assumed to be 5 percent on average in the period 2002-20.
- The terms of trade are projected to remain stable through the period, after improving by 17 percent between 2002 and 2005.
- Export volume is projected to increase at a rate of about 5 percent per year, in line with real GDP.
- Gross domestic investment is expected to remain unchanged over the projection period at about 24 percent of GDP per year. Government investment is projected to remain stable at about 10.5 percent of GDP, with foreign financed investment (excl. HIPC assistance) declining from 9.4 percent of GDP in 2000 to 6.8 percent of GDP in 2005 and remaining stable at this level after that. The externally financed investment program would be funded 30 percent by grants, and for the remainder by concessional loans all on IDA terms.
- Foreign direct investment is projected to remain stable at 1.3 percent of GDP over the projection period.
- Official budgetary grants and balance of payments support loans (excl. HIPC assistance, but including IMF loans) are expected to reach a peak of 9.4 percent of GDP in 2001 after which they gradually decline to about 3.8 percent of GDP in 2005 and remains broadly stable in the following years.
- The external current account deficit, excluding grants, is projected to decline from 12.3 percent of GDP in 2000 to 8.0 percent in 2005, and further to 7.7 percent in 2010 at which level it remains broadly stable. Gross international reserves would increase gradually to the equivalent of 3.1 months of imports of goods and services in 2005, up from 0.8 months at the end of 2000.

Annex 2: Ghana - Selected Poverty and Social Development Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1994-99	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (millions)	9.8	12.6	18.8	642.3	2,417.0
Growth rate (percent annual average)	2.6	3.2	2.5	2.4	1.9
Urban population (percent of population)	30.1	32.3	37.9	33.9	31.4
Total fertility rate (births per woman)	6.6	6.4	4.3	5.4	3.8
POVERTY					
<i>(percent of population)</i>					
Urban population	..	..	19.4	..	..
Rural population	..	..	49.5	..	..
INCOME					
GNI per capita (US\$)	310	360	400	490	420
Consumer price index (1995=100)	..	8	241	131	138
Food price index (1995=100)	..	8	199	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	39.6	..	..
Lowest quintile (% of income or consumption )	..	..	5.9	..	..
Highest quintile (% of income or consumption)	..	..	45.9	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (percent of GDP)	..	..	1.8	1.7	1.2
Education (percent of GNI)	5.9	2.6	4.2	4.1	3.3
Social security and welfare (percent of GDP)	..	..	..	..	..
Gross primary school enrollment rate					
<i>(percent of age group)</i>					
Total	62	75	79	78	96
Male	82	85	84	85	102
Female	63	66	74	71	86
Access to an improved water source					
<i>(percent of population)</i>					
Total	35	..	64	55	76
Urban	86	57	87	82	88
Rural	14	40	49	41	70
Immunization rate					
<i>(percent under 12 months)</i>					
Measles	..	21	73	57	64
DPT	..	19	72	59	70
Child malnutrition (percent under 5 years)	..	27	25	..	..
Life expectancy at birth					
<i>(years)</i>					
Total	51	55	58	47	59
Male	50	54	57	46	58
Female	53	57	59	48	60
Mortality					
Infant (per thousand live births)	103	85	57	92	77
Under 5 (per thousand live births)	186	157	109	161	116
Adult (15-59)					
Male (per 1,000 population)	459	400	316	499	288
Female (per 1,000 population)	377	334	272	453	258
Maternal (per 100,000 live births)	..	1,000	210	..	..
Births attended by skilled health staff (%)	..	47	44	..	..

Latest year for access to improved safe water source data is 2000.

* 1987 percentage

Source: World Bank, 2001 World Development Indicators, and regional Database.