DEVELOPMENT FINANCING IN AFRICA: IS GHANA ON THE PATH TO HIPC?

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1. Introduction

Development financing comprises of all financial flows aside funds from the domestic private sector and comes from **internal or external sources**. They can be categorized further into four distinct components[2], namely,

(i) Domestic resources or Government Revenues
(ii) Concessional development assistance; ie, external grants and concessional credits
(iii) Non-concessional loans taken out by (or guaranteed by) developing country governments usually from International Financial Institutions (IFIs) or private sources or commercial loans such as Bonds etc and they are typically used for infrastructure development or other revenue generating projects;
(iv) Private external finance, in the form of Foreign Direct Investment (FDI) and other portfolio flows (remittances etc), mostly targeted to engaging in direct production or provision of services with focus on growth objectives rather than social objectives

Insert Table 1

Table 1 presents a broad scope of development financing to SSA. It is pertinent to note that both the Public and Private sectors of the economy receive development finance but **the focus of this presentation will be on funds to the public sectors in SSA**.

Development finance, especially from external sources is very critical to development given that most countries have huge gaps between savings and investment (Todaro, 2010). Whereas some developing countries have savings well above their investment needs, these countries are not homogenous with SSA having acute financing needs. Also, whilst in other developing countries, government revenues are sufficient to provide basic public services such as health and education; the same cannot be said of all regions where persistently huge public sector deficits are recorded and therefore the need for direct external financing.

Development financing across the continent has undergone a number of transformations over the past two decades with a major shift in recent times from concessional financing especially in middle income countries to non-concessional financing and other new methods of financing growth. It is also important to emphasize that development financing in Africa has certainly changed since the Doha meeting in 2008. For instance, private capital flows, mainly in the form of foreign direct investment, and remittances have now overtaken official development assistance (ODA) while Brazil, Republic of Korea, India, China (BRICs) have increased their presence within the continent. Another notable strategy has been the proposal from the UN High Level Panel on Financing Development chaired a former President of Mexico, to consider innovative sources of finance.

[2] Brookings (2016)

Innovative Development Finance (IDF) as described by the Leading Group on Innovative Financing for Development includes the creation of Long term Assets from SDRs, Imposition of a Tax on Carbon Dioxide Emissions and Tax on International Currency Transactions as well as Billionaire Tax and Air Passenger Levy etc (Atkinson, 2004)

Figure 1: Innovative Sources of Finance

Despite these dynamics in the development finance architecture, there remain significant resource gaps between inflows and public investment requirements within SSA. Investment requirements were in the range of 15% of GDP in 2000 to 20.3% of GDP in 2015, while savings as a percentage of GDP was about 20% in 2000 and by 2015, it had declined to 13.8% of GDP, indicating a gap of about 7% of GDP to be filled in the midst of declining concessional finance.

In lower-middle-income countries, on average, savings as a proportion of GDP has about 27-32% and has consistently been above investment. However, this cannot be said about Ghana, though it is also a low middle-income country. One may then ask, how has Ghana financed its development expenditures in the midst of the changing dynamics within the new financing architecture? Is the new trend gradually driving the country's debt sustainability thresholds to HIPC levels? This forms the focus of the lecture

In this lecture, I review the development finance architecture across SSA and critically analyze the specific case of Ghana drawing on my publications and data from local and international sources. I will particularly examine the savings investment gap and how it has been financed through Taxes, Aid, FDI, and other forms of development finance. I then analyze the trends in debt as a result of the country's reliance on external assistance and domestic borrowing to ascertain whether the country's debt ratios are gradually cruising to HIPC thresholds. Note: Rich vs Poor; Low Income, Middle Income and High Income

2. Development Financing in Africa at a Glance

The need for external assistance dates back to the 1950s when in a UN General Assembly Resolution 400 (v) of November 1950 it was noted that domestic resources of developing countries when combined with private capital flows are insufficient to stimulate the needed growth (Spratt, 2008). Subsequently, in 1952, the General Assembly called on the Economic and Social Council to set up a Capital Fund aimed at providing long term low interest loans and grants to developing countries and further instructed the International Bank for Reconstruction (IBRD) to establish the IFC in 1954.

In 1958, the World Council of Churches also followed this gesture with a proposal that developed countries commit 1% of GDP as aid to developing countries. This proposal was accepted by the UN and subsequently by UNCTAD in 1964 although the rate was reduced to 0.7% of Gross National Income (GNI) with the assumption that the 0.3% will come from private flows[3]. Some donors have continued to exceed the UN ODA target of 0.7% of GNI and these largest donors (by volume) include USA, UK, France, Japan, Denmark, Luxemburg, the

[3] Spratt, S. (2008), Development Finance: Debates, Dogmas and New Directions, Routledge, UK

Netherlands, Norway and Sweden. However, most developed countries have not met the target and this goes to explain the financing gap faced by developing countries.

Figure 2: Domestic Revenue Mobilization in SSA

The limited resources from domestic taxes and other income sources has led to increased dependence of external finance which ranges from concessional finance to debt relief and poverty reduction strategies (see Figure 2). Tax revenues have been low averaging around 15% while revenue excluding grants averages about 22% from 2000 - 2015. **Savings has been declining especially since 2012 and clearly shows that SSA has not been innovative in mobilizing enough resources to finance its critical investment.**

The widening gap and the associated dynamic changes in the development finance architecture has contributed to the increased presence of non-DAC Donors in Africa's development finance architecture.

Figure 3: Savings and Investment in SSA

Despite these developments, the gap between savings and investment requirements continues to widen. From Figures 3 investment has always outsripped savings especially since 2008 with the gap widening over time.

Figure 4: Savings and Investment in Lower Middle Income countries (LMICs)[4]

It is however refreshing to note that lower middle income countries have savings rate far in excess of their public investment requirements between 2000 and 2015 although the same cannot be said of Ghana. Ghana's Savings (% of GDP) is lower than Kenya, Nigeria, Senegal, South Africa and Botswana (Quartey & Prah, 2014)

Borrow vs. Lend

The gap between savings and investment requirements has driven SSA countries to rely on Overseas Development Assistance and other official flows which I will focus on shortly.

2.1 Overseas Development Assistance and Other Official Flows

[4] For the current 2017 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between $1,026 and $4,035; upper middle-income economies are those with a GNI per capita between $4,036 and $12,475; high-income economies are those with a GNI per capita of $12,476 or more (World Bank, 2017)

The philosophy behind ODA was modeled on the success of the Marshal Plan. However, developing economies including Africa has received more Aid and therefore many people have raised concerns about the development effectiveness of these flows and its sustainability particularly in view of recent downturns in donor countries (Hansen and Tarp, 2001; Lensink and White, 2001).

Concerns about the development effectiveness of Aid have been expressed by "Pessimist & Optimist". It has been argued that Africa needs better Aid (Quartey & Afful-Mensah, 2015). Also refer to Easterly (2006), `Whiteman's Burden' and Moyo (2011) on `Dead Aid'. Others have argued that Aid works in a good policy environment (Burnside and Dollar, 2004).

Figure 5: ODA to Africa Since 1970 by Largest Multilaterals Donor (2014 Prices; US$ bn)

Africa receives a significant proportion of total bilateral aid according to OECD (2016). Among the top 10 donor disbursements (2012-2014), the EU institutions are the major contributors and overtook the World Bank (IDA) since 2008 in terms of aid disbursements to Africa thereby accounting for 32% of all multilateral aid disbursements. Also notable is the increased presence of African Development Bank since 2009 while the UNDP and WFP provided less support.

Table 2: Top 10 Bilateral donors by share of aid to Africa

In terms of aid volumes the UK is the largest Bilateral Donor followed by France. Analyzed in terms of total share of Aid to Africa, Portugal ranks highest

Table 3: Top 10 ODA recipients in Africa (*USD million, receipts from all donors, net ODA receipts*

Egypt, Ethiopia and Tanzania were the top 3 recipients of aid accounting for 19% of total disbursements to Africa over the same period (2012-2014).

The total volume of Aid has been declining in recent times and has not been enough to finance investment requirements and other social expenditures; Net ODA to SSA declined from $46.1 billion to $42.8 billion in 2015. Aid per capita was $50.4 in 2013 but declined to $46.9 in 2014 with no signs of improvements in 2016. Thus SSA countries have to rely on other sources of finance including private capital flows which I will turn to shortly.

2.2 Private Capital Flows or International for Profit Flows

Private Capital flows comprises FDI and Portfolio flows. Although the UN (2005) argued that private capital flows will contribute significantly to development, the reality has been less than desired. First, they have not flowed to countries that needed it most and when they have; it has been to the extractive sectors and has also tended to be volatile.

Private capital flows especially private bank flows have witnessed booms and bursts and therefore they have to be strategically sourced in an attempt to use them to stimulate growth. To do this, French-Davis and Reisen cited in Spratt (2008) list five requirements needed for private capital flows to be able to raise savings, increase investment and spur growth. These are:

(i) External flows should be used for investment, rather than consumption purposes;
(ii) The investment should be efficient;
(iii) The inflows should be invested in tradable sectors such that a trade surplus is generated, enabling the foreign currency denominated debt to be paid off
(iv) Domestic savings should be aggressively mobilized
(v) The `virtuous circle' requires those exporting capital (from developed countries) to do so in a stable and predictable manner

Figure 7: Foreign Direct Investment Flows (% of GDP) in Sub-Saharan Africa, 1980-2015

Available data shows that FDI flows to SSA has increased; after 1992, net FDI inflows as a proportion of GDP has outstripped net outflows and the gap continues to widen despite significant volatilities recorded (Figure 7). Africa attracts less than 5% of global FDI flows although flows from emerging markets are increasing (Anyanwu, 2016). This has made SSA countries to begin to access Bonds.

Sovereign Bonds

Another component of private capital flows is bonds. A sovereign bond is a bond or debt security issued by the government. The default risk of a sovereign bond is assessed by international debt markets and represented by the yield it offers. The yield is the interest paid by the government on bonds issued. Sovereign bonds are offered at a discount because of default risk.

Figure 8: Bond Issuance (2011-14)

The 2016 edition of the International Debt Statistics (IDS) shows an increase in the issuance of sovereign bonds in Sub-Saharan Africa especially in countries that benefitted from the HIPC and MDRI (Multilateral Debt Relief Initiative) programs. For these Sub-Sahara African countries, the increase was from a total of $1 billion in 2011 to$6.2 billion in 2014.

Figure 9: Public & Private Guaranteed Bonds by Country (2011-14)

Between 2013 and 2014, a total of 11 countries accessed the bond markets. In 2013, the largest sovereign bond issuance shares were made by Gabon ($1.5 billion), Ghana ($1 billion), and Mozambique ($0.9 billion). In 2014, the largest issuances were made by Kenya ($2 billion), Ethiopia, Ghana, and Zambia – all three at $1 billion each. The issuance of sovereign bonds as a percentage of gross national income (GNI) was moderately low, below 5% for most of these countries, with the exception of Gabon where it represented 10%. **However, it must be emphasized that these bonds come with costs; high interest rates, pressure on exchange rate, and risk of capital flight.**

Remittances

Remittances are another important component of private flows to SSA. In 2015, global remittance flows are estimated to have exceeded $601 billion of which developing countries are estimated to receive about $441 billion. It is pertinent to mention that true size of remittances, including unrecorded flows through formal and informal channels, is believed to be significantly larger. The top recipient countries of recorded remittances as of 2015 were India, China, the Philippines, Mexico, and France. **Remittances flows to Sub-Saharan Africa are expected to decline by 0.5 percent in 2016. For 2017 remittances are expected to grow at 2.5 percent, underpinned by flat remittances in Nigeria which account for two-thirds of remittance flows into the region (World Bank, 2016).**

3. Development Financing in Ghana

Typical of many developing countries in SSA, Ghana has continually relied on internal sources of finance despite the huge funding gap between revenue and investment requirements.

3.1 Domestic Resources

Domestic resources include fiscal revenue from taxes, savings, investments and remittances by firms, governments and households. The need for domestic resources became more apparent during the structural adjustment era when aid came with severe conditionalities. This was further worsened by the global financial crisis (Quartey et al, 2014).

In Ghana, domestic revenue accruing to Government comes principally from tax revenue (income and property, domestic goods and services, international trade and VAT) as well as non-tax sources, divestiture receipts and grants. Tax revenue in Ghana has been low often below the LMIC average although it has increased over time.

Ghana has relied on tax revenue which **accounted for 55% of total revenue in 2002 and increasing to 70% in 2009 and 77% in 2016**. Non-tax revenues have also increased from 2.0% in 2002 to 10.0% in 2009 and 18.0% in 2016. **Less broadening of the tax base and the same units are increasingly taxed.**

Meanwhile, grants as a proportion of total revenue rose from 7.0% in 2002 to 22.0% in 2006 and has declined consistently reaching a record low of 4.0% in 2016. The decline in grants especially IDA is due to Ghana becoming a middle income country in 2007 after rebasing its GDP which explains the country's resort to the commercial markets to finance its development.

Related to the issue of revenue are government expenditure patterns and the associated financing gap which called for external support. The funding gap over the past two decades had ensured low government spending on its development priorities (see for instance Osei and Quartey, 2001). The challenge had always been with the public wage bill which accounts for a sizeable proportion of total government expenditure, with spending on the military being the lowest (Osei and Quartey, 2001).

Between 2012 and 2015, the relative importance of interest payments increased significantly (by about 11 percentage points), while that of capital, education and health decreased marginally. Similarly, between 2006 and 2007, spending on capital expenditure decreased significantly, picked up in 2009 reaching 28.2% of total expenditure.

However, this was short-lived as capital expenditure declined consistently to 16.8% and 15.0% of total expenditure in 2015 and 2016 respectively. This is projected to decline to 12.3% of total expenditure in 2017 (GoG Budget Statement, 2017: 43). This clearly explains Ghana's over reliance on external finance and its associated implications on its fiscal space.

3.2 Overseas Development Assistance to Ghana

External sources of development finance to Ghana include Aid, FDI, Remittances and Private Capital including Sovereign bonds. One topic that has attracted significant discourse in the development literature is aid and its influence on growth particularly in the case of Africa. While some authors have stressed the importance of aid in boosting growth, given that poverty levels in most aid recipient countries (particularly SSA) have continued to worsen in the presence of increasing aid, others have questioned the relevance of aid in enhancing growth.

Harrigan and Younger (2000) states that:

> ***'The early logic of foreign aid was straightforward: poor countries lack capital, so if wealthy countries transfer capital to them, they should grow out of poverty' pp. 185***

There is the "optimists" who believe in the positive association between foreign aid and growth and this usually stems from the Harrod-Domar growth model and the overlapping generations model. On the other hand, there are the "pessimists'" views that assert that aid does not necessarily induce economic growth. Generally, findings in support of this view assert that there are negative returns when the aid inflow reaches between 15% and 45% of GDP indicating limited aid absorptive capacities, with recipient governments being limited in terms of the amounts of aid they can use effectively (Clemens and Radelet, 2003; cited in McGillivray, 2004; pp.6).

Figure 10: Aid to Ghana & Top 10 Donors

Aid to Ghana has been provided by its development partners; bilateral and multilateral donors. However, some further `informal' classification exist, namely, traditional donors and non-traditional donors. The former currently comprise of the 23 multilateral and 24 bilateral donors. An analysis of net ODA received by Ghana shows that aid inflows has increased consistently from US$ 598.2 million in 2000 to US$ 1800.2 million in 2011 but started to decline in 2012 after the post elections budget slippages and by 2014 it had reduced to $1126.4 million with 2015 witnessing a rise to $1768.3 million but declined in 2016 amounting to $1,141 million (28% below budgeted figure).

How were these funds invested? ODA accounted for 50% of Gross Capital Formation (Investment) in 2000, 56.3% in 2004 but started to decline and by 2014, it had fallen to 10.7% clearly indicating the country's resort to the capital market to finance its public sector investments. The funds were disbursed across the key sectors of the economy with Health and Population accounting for 19%, infrastructure (13%), Education (9%) and Production (20%). Aid well targeted at the key sectors will lead to improved human development. Asiama and Quartey (2008) found that disaggregated aid affects Human Development Indicators positively and therefore the need to scale up aid to priority areas.

3.3 Foreign Direct Investment (FDI)

Generally, the inflow of FDI in the Ghanaian economy has been rising over the recent years.

Figure 11: Foreign Direct Investment (USD millions) in Ghana, 1990-2015: SL27

Table 4: Sectorial composition of Investment ($ Million), 2006-2016

Over the last decade, Building and construction sector of the Ghanaian economy received much more investment projects in values terms relative to other sectors of the economy. The highest investment into the sector occurred in 2011 with a value of 6.1billion USD. The services sector comprising Mining, Oil and Gas services has also experienced some significant investment inflows followed by General Trading and Manufacturing sector respectively.

3.4 Sovereign Bonds

Ghana issued its first 10-year Bond in 2007 and realized US$750 million with a coupon rate of 8.5% and later issued a similar amount in 2013 with a coupon rate of 7.88%. The subsequent two years (2014 and 2015) saw additional Bonds of US$ 1 billion (10 Year Bond) and US$ 1

billion (15 year Bond) issued with coupon rates of 8.13% and 10.75% respectively. In 2017, a 2-year Bond was issued at a coupon rate of 6.0%.

Table 5: Bond Issuance

3.5 Other Financing Mechanisms

(i) Contingent Liabilities – On-lending and Guarantees to SOEs

Table 6: Contingent Liabilities

Ghana's new debt strategy (`smart borrowing') is to offload SOE debts off government books. The rationale is for viable SOEs to be able to borrow to finance investments which otherwise would not have had the capacity to do so. Example is the Kotoka International Airport expansion project. The caution is that if this is left unregulated especially by Parliament, it can bring about enormous contingent liability which government eventually has to take responsibility.

In the USA, State and Local Governments issue bonds when they want to spend more than revenue generated. However, this has gone beyond control to the extent that some are even borrowing to cover operational expenses.

"Since 2000, total outstanding state and municipal bond debt (adjusted for inflation) increased from $1.5 trillion to $2.8 trillion". (www.reasons.com)

(ii) Promissory Notes & Letters of Credit

Promissory Notes to VRA for Crude Oil Purchase and Letters of Credit to other state institutions feature in Ghana's development finance architecture

Table 7&8: Promissory Notes & Letters of Credit

3.6 Remittances

Migrant remittances play important roles in the Ghanaian economy; it is used to smooth consumption, especially in times of economic shocks (see Quartey and Blankson, 2004), to finance investments including migrant businesses, education, health funerals, etc. Some countries have even benefited from Diaspora Bonds (see Quartey, 2006).

Figure 12: Sources of Remittances sent by Individuals

Remittances (from individuals and NGOs) accounted for $2.5 billion outstripping net ODA of about $1.85 billion in 2015. USA, Canada, UK and EU Countries are the major sources of remittances. Remittances from ECOWAS have also become very prominent and the sources are close to receipts from EU countries. Although they are useful sources of development finance, they are mostly sent for altruistic motives. It is also pertinent to note that informal remittance channels have thrived and has taken new forms; shoe sellers and pharmacy shops engage in remittance transfers (see Quartey, 2011).

Informal Remittances

4. Debt Sustainability and HIPC Thresholds

Debt issues were not very prominent in the 1960s until the 1970s. Ghana, like many developing countries faced liquidity crisis especially after the 1979 oil price hikes, balance of payments crisis, the decline in concessional finance and the abundance of "Petrodollar funds" on the international capital markets. Consequently, concerns for debt sustainability became increasing prominent. By the end of 1982 Ghana's accumulated external payments had reached US$ 577m; and debt to GDP ratio was 30.2% by 1983.

Debt Issues

The substantial rise in Ghana's debt size began shortly after the institution of the ERP I whose objective was to restore international creditworthiness and draw in foreign capital for investments in infrastructure. The country's low credit rating at the time made it difficult to secure long-term finances; thus it relied on short-term loans from the IMF. Debt-servicing of these short-term loans was challenging, causing total debt servicing to hit a record level of 56.57% of the country's exports of goods and services by 1988 (WDI Data,1999).

To overcome this crisis the IMF made concessionary provisions under ERP II. These included the Extended Fund Facility (EFF), the Structural Adjustment Facility (SAF) and a more favorable Enhanced Structural Adjustment Facility (ESAF). **These facilities were used for refinancing the outstanding debt rather than for investment and consumption, making imminent the occurrence of the 'Ponzi' game which arises from the perpetual use of loans for debt service**. The Ponzi game situation was temporarily averted in the late 1980s through debt restructuring that created a wider gap between net aid flows and debt servicing. However, in the 1990s the Ponzi game was gradually evident, with debt servicing exceeding net aid in 1997.

One grave implication of the country's overreliance on foreign aid was the constraint on the government's fiscal budget due to the debt size and the high interest paid on public debt

constituting 17.8% (in 1993) of total government expenditure. External debt per capita increased from an average of US$ 98 pre-ERP to US$ 312 over the 1990s while GDP per capita increased from US$ 315 to US$ 388. This indicates that per capita debt-to-income ratio increased from about 31% to 80% during the pre and post ERP period. By 2000, Debt GDP was about 180% and declined to 140% at the time Ghana was declared a HIPC in 2001.

The HIPC and Multilateral Debt Relief Initiatives (MDRIs) helped the country to reduce its debt to sustainable levels and by 2006, the Debt GDP ratio was around 30%. In 2007, Ghana's GDP was rebased and therefore became a Low Middle Income Country (with a per capita income of over $1300). It therefore became apparent that the country no longer qualifies for concessional facilities such as the World Bank IDA and had to turn to the commercial market for loans. Consequently, the first Eurobond of $750 million was raised in 2007.

Both domestic and external borrowing continued to surge and the production of oil in commercial quantities in 2011 could not reverse this trend. It must be mentioned that the last four years also saw dramatic increases in debt above HIPC Thresholds.

Figure 13: Ghana: External Debt (By Type of Donor)

The main external creditor sources are: multilateral, bilateral, export credit and the commercial markets. Since 2012, commercial sources have outstripped bilateral sources and export credit. Domestic debt has also increased and they are owned mainly by Domestic Money Banks and the Bank of Ghana thereby crowding out Private Investors.

Figure 14: Ghana: Domestic Debt (By Type of Creditor)

Is Ghana's Debt on the Path to HIPC Levels?

World Bank (2001) cited in Osei and Quartey (2000) notes that various indicators have been used in debt capacity analysis. These indicators include: the debt to GDP and the debt service to GDP ratios which compares the debt burden to the ability of the economy as a whole to generate income. The thresholds for debt sustainability under the original HIPC initiative were defined as NPV of debt-to-exports ratio in the range of 200-250 per cent, and a debt service to GDP ratio ranging from 20 to 25 per cent.

The sustainability thresholds under the enhanced HIPC framework are 150 per cent NPV of debt-to-exports and a debt service ratio to GDP of 15-20 per cent. The fiscal threshold was reduced to 250 per cent NPV of debt-to-revenues, with qualifying criteria lowered to 15 per cent of revenues-to-GDP and 30 per cent of exports-to-GDP ratio (World Bank, 2001)[5].

[5] Hjertholm, (1997) approached the issue of debt capacity in three ways. First, is the output growth rate sufficient to meet debt-servicing obligations? In other words, is the output growth rate adequate to meet interest on debt? This

Ghana qualified for HIPC relief in 2001 when its debts were at levels deemed unsustainable. This together with the Multilateral Debt Relief Initiative (MDRI) enabled the country to free up resources which normally would have been used to service debts. According to Easterly (2006):

> "HIPC Debt Forgiveness was supposed to be a once-and-for-all solution that would solve the debt problem. The IMF and the World Bank often had optimistic forecasts for GDP growth in the HIPCs. This hoped-for growth would have allowed the HIPCs to keep the ratio of debt to GDP from surging again. But the debt relief did not spur growth." (Easterly, 2006:230)

It is important to mention that the computation of debt capacity analysis has been criticized and therefore to overcome this, the **sustainability thresholds were modified in April 2005, when the World Bank and the IMF introduced a Debt Sustainability Framework (DSF)** to guide countries and donors in their quest to mobilize development finance while reducing the risk of building up excessive debt. The Debt Sustainability Analysis (DSA) uses the residency criterion in defining external debt to better capture domestic debt held by non-residents. Also, non-government external debt contracted by SOEs is incorporated. The Debt Sustainability Analysis relies heavily on the World Bank's Country Policy and Institutional Assessment (CPIA) which assess a country's in terms of the quality of policy and institutions. The CPIA has debt sustainability thresholds for low, medium or strong performers.

Under the joint IMF-World Bank debt sustainability framework, the corresponding indicative debt burden thresholds for **high performers** are: 40 percent for the NPV of debt-to-GDP ratio, 150 percent for the NPV of debt-to-exports ratio, 20 percent for the debt-service-to-exports ratio and 20 percent for the debt-service-to-revenue ratio. In the case of **medium performers**, the thresholds are: 50 percent for the NPV of debt-to-GDP ratio, 200 percent for the NPV of debt-to-exports ratio, 25 percent for the debt-service-to-exports ratio and 25 percent for the debt-service-to-revenue ratio.

Figure 15: Ghana: Debt GDP Ratios

Ghana qualified for HIPC relief in 2001 and its **debt GDP ratio reduced from 141.82% in 2001 to 26.2% in 2006 but this trend started to reverse in 2007 when the country's Debt-GDP ratio started to accelerate to 72.45% in 2016.**

Interest Payments have exceeded Sustainable Thresholds Increased astronomically from 11.34% in 2013 to 23.34% of total expenditure in 2014; it was 19.77% of Total Expenditure at pre-HIPC and currently about 23.85%

condition has rarely been met in developing countries in recent decades. Second, since interest on debt has to be paid in foreign exchange, it is export growth and not output growth that matters. Hence, is the rate of growth of export earnings at least equal to the interest rate? The poor export performance in developing countries is an indication that this condition has not been met (Hjertholm, 1997). The third condition is whether the rate of expansion of the tax base (or government revenue) is equal to the interest rate?

Figure 16: Trends Debt Service Ratios

Also, Ghana's debt service to exports ratio is above the eHIPC Thresholds (15-20%) and close to 2001 (HIPC Levels). Debt Service to Revenue ratio is above eHIPC Thresholds and about half of 2001 level (HIPC Level)

Table 9: Debt Service to Revenue Ratios

Extracts from IMF Reviews also collaborates the point that Ghana is at risk of a high debt distress[6] compared to countries like Uganda, Kenya, and Nigeria.

Table 10: IMF Review (Ghana, Kenya, Uganda, Nigeria)

5. Conclusion

Many Sub-Saharan Africa countries have not been innovative in generating domestic revenue with revenue GDP ratios remaining constant and declining in some instances. They have therefore continued to rely on external sources of finance which tends to be expensive.

Development financing across SSA has undergone several changes over the past two decades. There have been reductions in concessional finance to commercial sources especially in Low Middle Income countries. Non-DAC Donors such as the BRICs have also increased their presence while DAC Donors have also shifted from traditional methods of aid delivery especially from tied aid and conditionalities to new forms such as Multi-donor budgetary support and funding of medium term development strategies.

The lack of innovative ways of raising domestic resources has increased Ghana's dependence on borrowing to finance its investment needs. It has resorted to Bonds and other non-concessional loans thereby driving up its debt ratios towards pre-HIPC Levels. It is borrowing to pay debts thereby engaging in a `Ponzi Game'. A Debt GDP ratio of above 70% is unsustainable and points to a high debt distress economy. The Bane of the Ghanaian Economy is not the lack of resources but lack of judicious use of resources or value for money.

Based on the key issues discussed on Ghana's poor debt performance compared to its counterparts, I recommend the following: First, there should be a clear commitment by Government to reduce the debt ratio from its present level to 60% or below in the next 4years.

[6] The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a medium performer in terms of the quality of policy and institutions (the average CPIA in 2012–14 is 3.61). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 40 percent; (ii) PV of debt-to-exports ratio: 150 percent; (iii) PV of debt-to-revenue ratio: 250 percent; (iv) debt service-to-exports ratio: 20 percent: and (v) debt service-to revenue ratio: 20 percent

Any attempt to increase the country's debt burden should be resisted by civil society. Secondly, it is important that the Minister in charge of Monitoring and Evaluation sets up the mechanism to ensure that project evaluation and completion reports are prepared for all capital expenditure projects including donor funded projects and this is made public and possibly verified by a competent audit firm.

The Office of Special Prosecution should be set up and independently managed to ensure value for money; project cost escalations should be an exception than the norm.

The low domestic revenue mobilization can be blamed on leakages at the revenue collection agencies as well as the lack of proper mechanisms to broaden the tax base. It is suggested that revenue collection should be streamlined to minimize discretion at the various collection points. Also, the proposed National Identification System if implemented can help rope in the informal sector.

In addition, Ghana should continue to seek for better forms of external funds and ensure that they are invested in productive rather than in unproductive activities which cannot generate the needed revenue to service the debts. Finally, debt restructuring measures whereby lower interest and longer term loans are used to repay expensive and short term facilities should be vigorously pursued.

Questions

1. Why have we resorted to more borrowing despite the inflow of oil revenue while our counterparts with similar external conditions face less debt distress?
2. Have the funds borrowed been invested in productive activities to stimulate growth? Do we have project completion reports to show as evidence?
3. Why is the 2017 budget showing a decline in Capital Expenditure (15% in 2016 to 12.3% of total expenditure in 2017)? Is this a short term measure? Has the `One District One Factory Policy' been factored in this figure?
4. How soon can Ghana's debt return to sustainable debt levels comparable to its low middle income counterparts?

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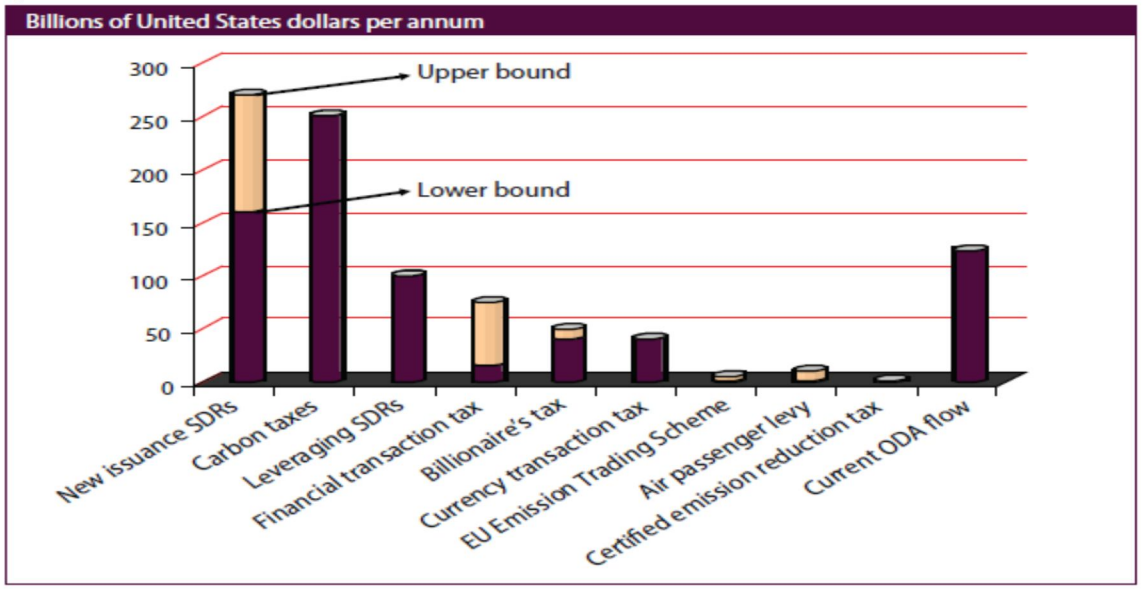
APPENDIX: TABLES & FIGURES

Table 1: Sources of Development Finance to the Public & Private Sectors

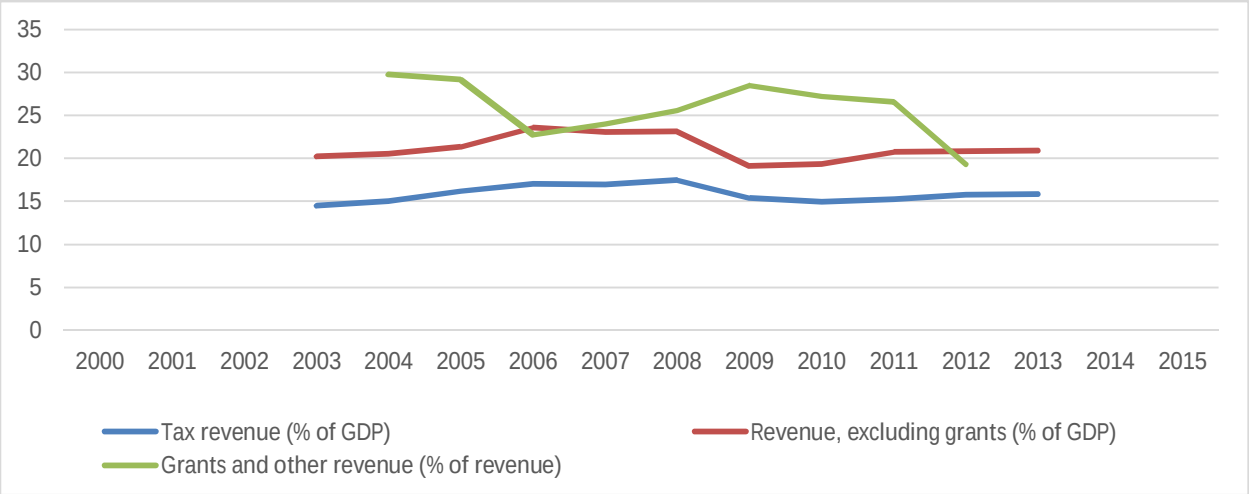
Public Sector	Private Sector
• **Government Revenue** • **Aid (ODA)** • **Other Official Flows (OOF)** • **International for-profit flows** ➢ Foreign Direct Investment (FDI) ➢ Portfolio Equity • **International not-for-profit flows** ➢ Charitable flows (Philanthropy) ➢ Remittances • **Debt Creating Flows** ➢ Long-term foreign borrowing (public & private) ➢ Short-term foreign borrowing (public & private)	• **Domestic Sources** • **Bilateral DFIs (**OPIC, CDC, KFW etc**)** • **Multilateral DFIs** ➢ **Debt** ➢ **Equity** ➢ **Loans** ➢ **Bonds** ➢ **Supplier Credit** ➢ **Venture Capital**

Figure 1: Innovative Sources of Finance



Source: UN/DESA.

Figure 2: Domestic Revenue Mobilization in SSA



Source: WDI, 2016

Figure 3: Savings and Investment in SSA

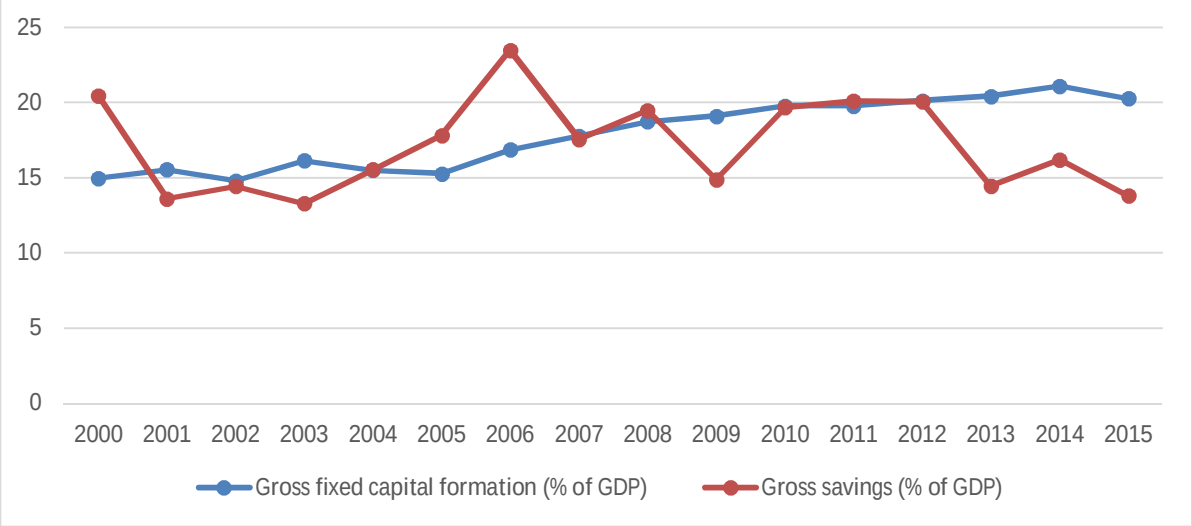
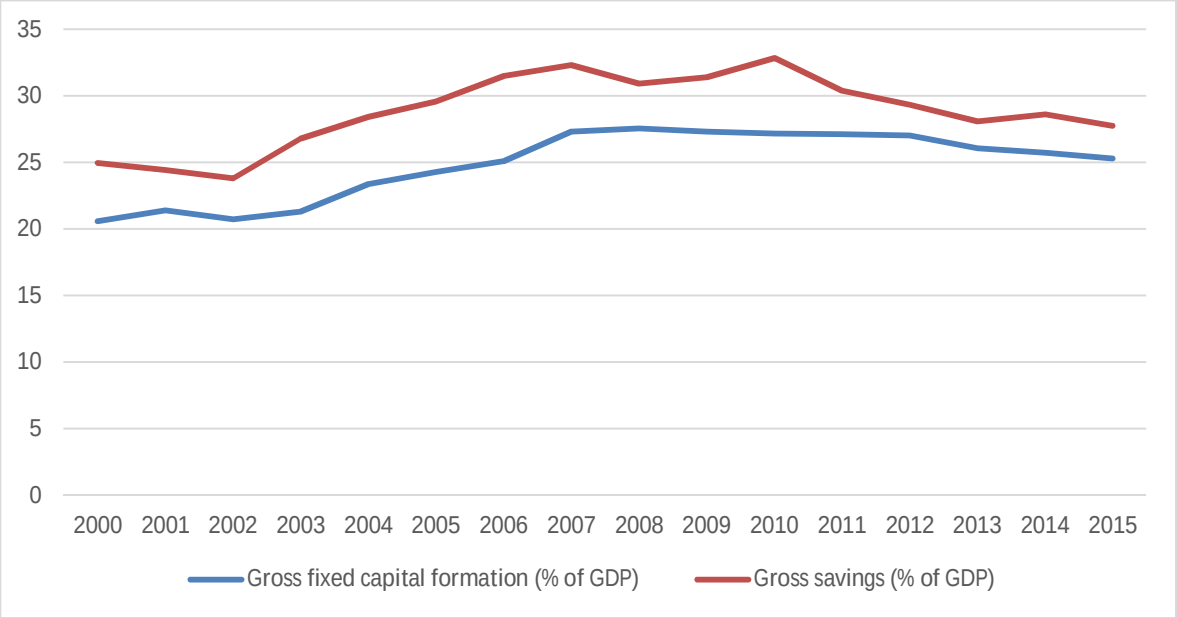
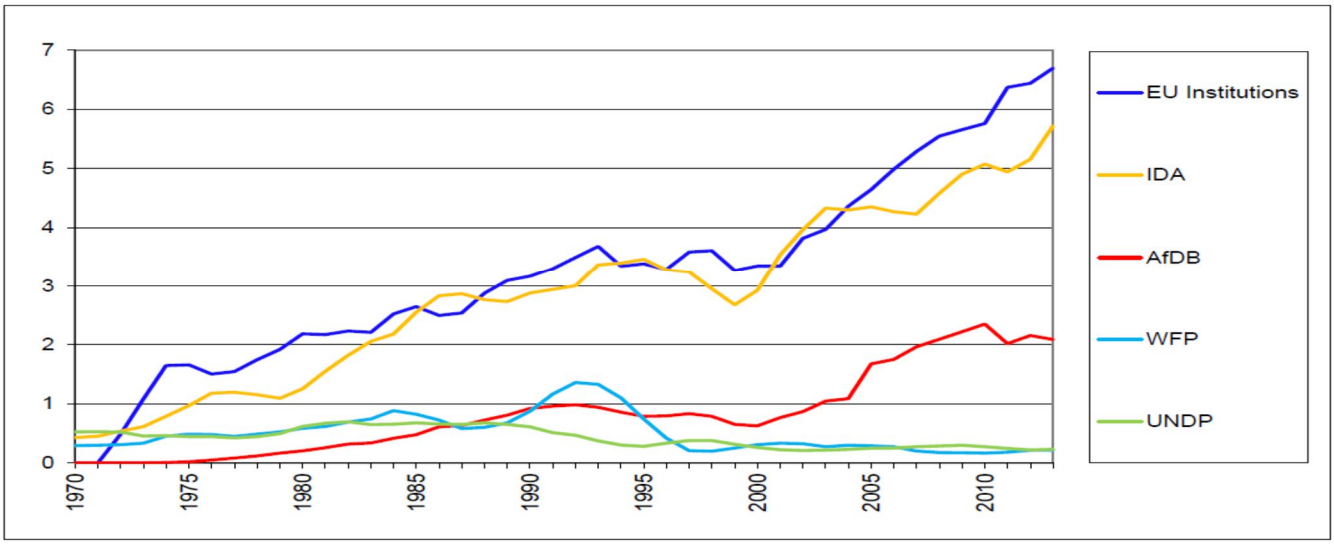


Figure 4: Savings and Investment in Lower Middle Income countries (LMICs)



Source: WDI, 2016

Figure 5: ODA to Africa Since 1970 by Largest Multilaterals Donor (2014 Prices; US$ bn)



Source: OECD Statistics, 2016

Table 2: Top 10 multilateral donors to Africa *USD million, net disbursements*

		2012	2013	2014	3-year average	% of all multilaterals
1	EU institutions	141	5 931	6 737	6 603	32%
2	IDA	4 712	6 072	6 386	5 723	28%
3	Global Fund	2 173	2 523	1 957	2 218	11%
4	African Development Fund	1 902	2 324	2 042	2 089	10%
5	GAVI	596	860	844	766	4%
6	IMF (Concessional Funds)	837	512	243	531	3%
7	UNICEF	407	472	525	468	2%
8	IFAD	287	280	209	259	1%
9	Arab Fund (AFESD)	293	271	158	241	1%
10	UNDP	224	217	239	227	1%
	Other multilaterals	1 155	1 351	1 221	1 243	6%
	Total Multilaterals	**19 727**	**20 813**	**20 562**	**20 367**	**100%**

Table 3: Top 10 Bilateral donors by share of aid to Africa

		2012	2013	2014	3-year average	Africa as % of each donor's aid
1	Portugal	343	247	197	262	88%
2	Ireland	352	354	341	349	84%
3	Belgium	775	583	535	631	80%
4	Iceland	10	15	15	12	70%
5	Spain	305	418	146	290	65%
6	Netherlands	744	858	761	787	64%
7	France	4 128	3 168	2 929	3 408	57%
8	Finland	323	325	400	349	56%
9	Denmark	805	713	636	718	56%
10	United Kingdom	3 445	3 922	4 346	3 905	54%
	Other DAC countries	19 040	19 464	18 969	19 158	40%
	Total DAC Countries	**30 270**	**30 068**	**29 274**	**29 871**	**45%**

Table 4: Top 10 ODA recipients in Africa (*USD million, receipts from all donors, net ODA receipts)*

		2012	2013	20214	3-year average	% of all recipients
1	Egypt	1 807	5 508	3 532	3 616	7%
2	Ethiopia	3 221	3 885	3 585	3 564	7%
3	Tanzania	2 823	3 431	2 648	2 967	5%
4	Kenya	2 653	3 312	2 665	2 877	5%
5	D.R Congo	2 847	2 583	2 398	2 610	5%
6	Nigeria	1 912	2 515	2 476	2 301	4%
7	Mozambique	2 074	2 315	2 103	2 164	4%
8	Morocco	1 465	2 004	2 247	1 906	4%
9	Uganda	1 642	1 701	1 633	1 658	3%
10	Cote d'Ivoire	2 635	1 272	922	1 610	3%
	Other recipients	28 053	28 190	29 983	28 742	53%
	Total ODA recipients	**51 132**	**56 715**	**54 193**	**54 014**	**100%**

Figure 6: FDI Flows to Developing Countries

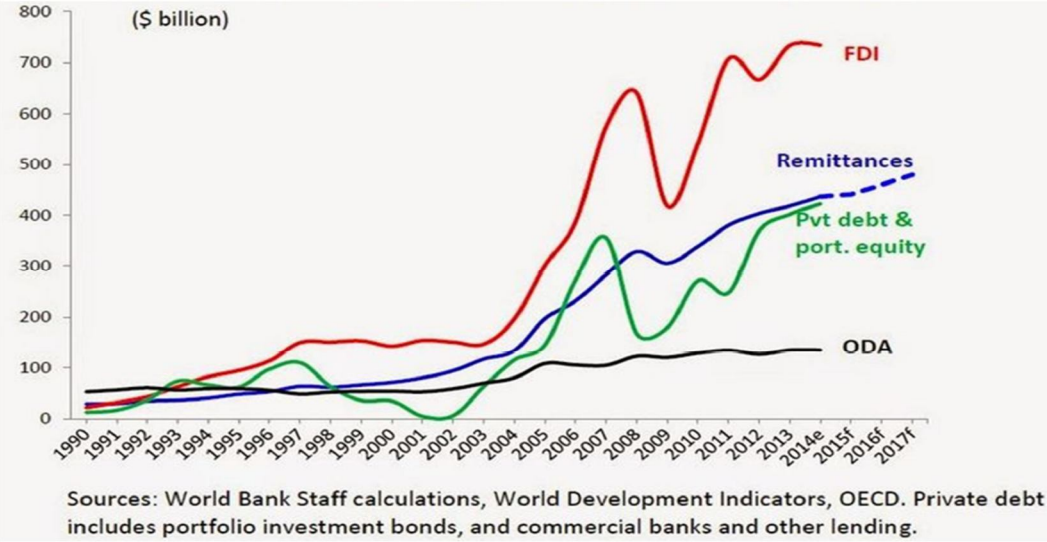
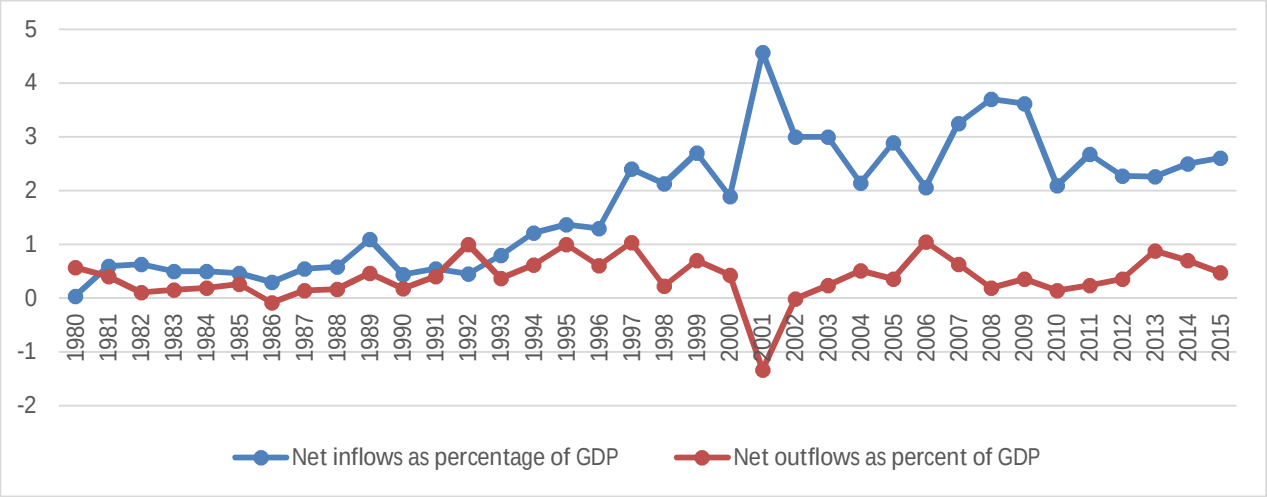


Figure 7: Foreign Direct Investment Flows (% of GDP) in Sub-Saharan Africa, 1980-2015



Source: World Bank, 2017

Figure 8: Bond Issuance (2011-14)

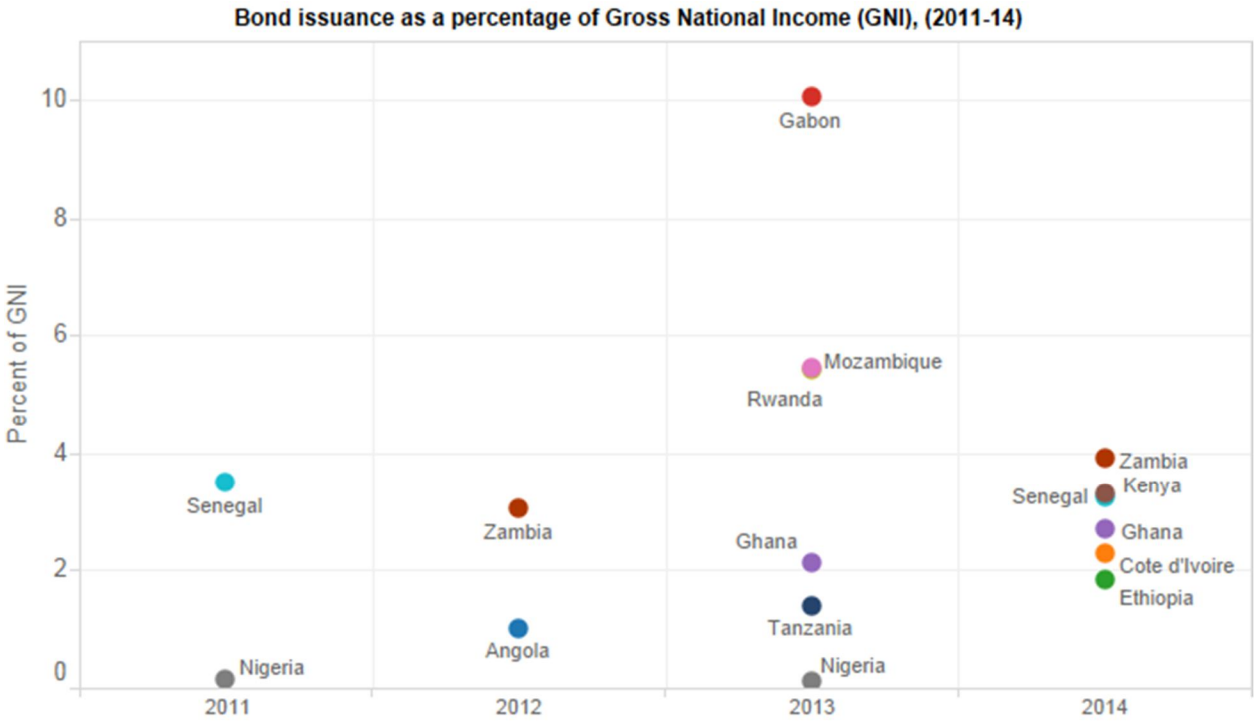


Figure 9: Public Guaranteed Bonds

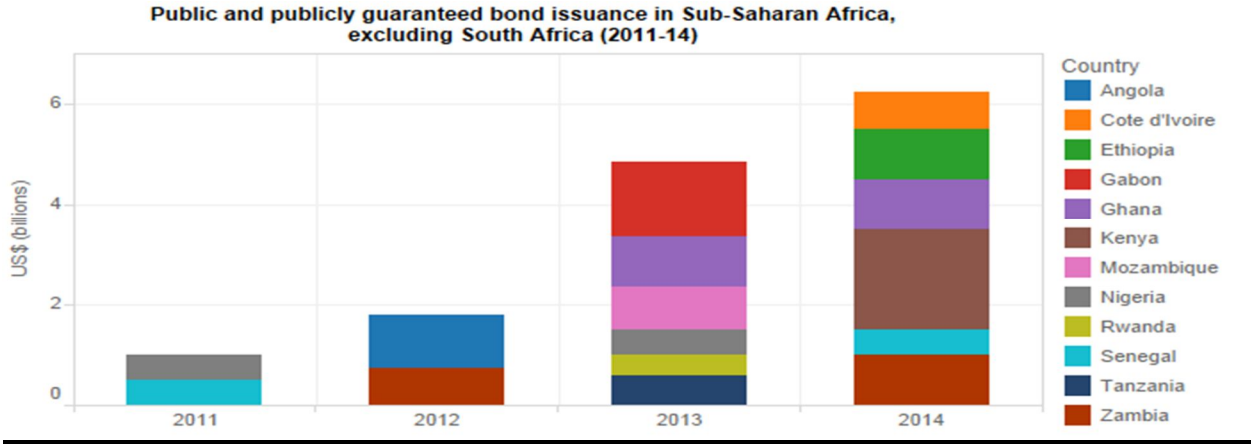


Figure 10: ODA Receipts (Ghana)

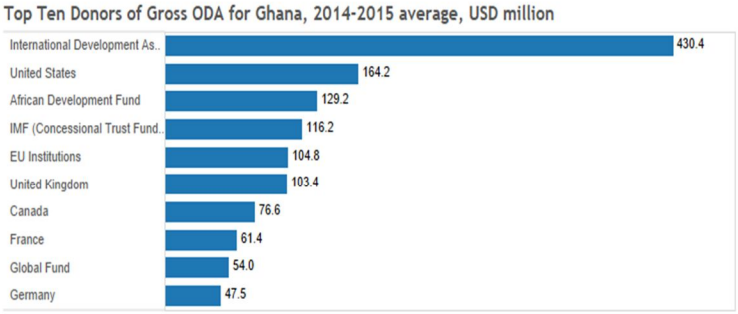
Recipient country
Ghana

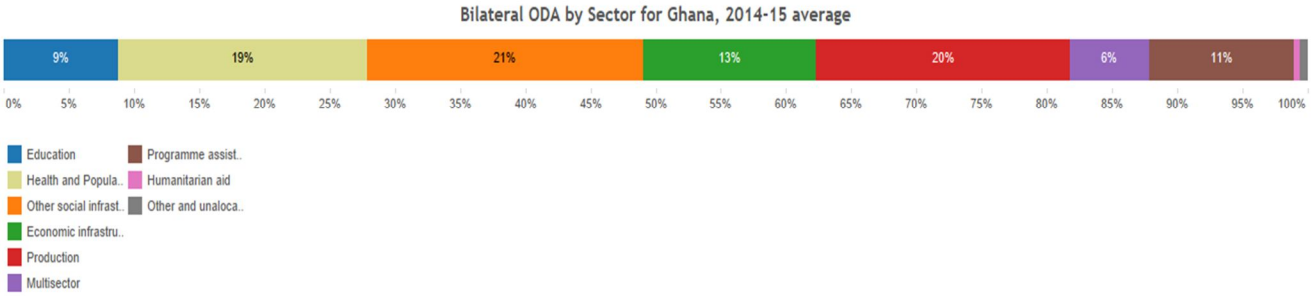
Receipts for Ghana

	2013	2014	2015
Net ODA (USD million)	1,328.6	1,123.7	1,768.3
Net ODA/GNI (%)	2.9	3.0	4.8
Gross ODA (USD million)	1,420.0	1,202.3	1,881.6
Bilateral share (gross ODA) (%)	54.2	52.1	34.4
Net Private flows (USD million)	1,836.6	1,698.6	1,124.3
Total net receipts (USD million)	3,358.2	2,943.0	3,020.9

For reference

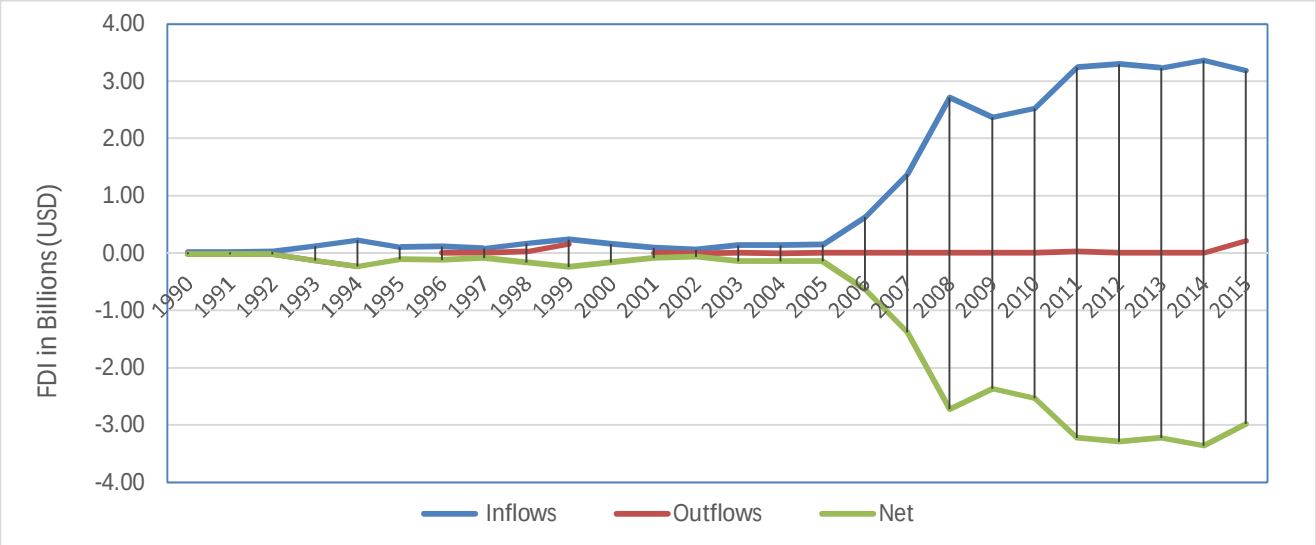
	2013	2014	2015
Population (million)	26	27	27
GNI per capita (Atlas USD)	1,740	1,590	1,480





Source: OECD - DAC : http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm

Figure 11: Foreign Direct Investment (USD millions) in Ghana, 1990-2015



Source: World Bank, 2017

Table 4: Sectorial composition of Investment Projects (USD Million), 2006-2016

Year	Manufacturing	Service[1]	Tourism	Building and Construction	Export Trade	Agriculture	General Trading	Liaison
2006	2,172.78	61.07	15.01	67.29	9.30	6.45	35.94	-
2007	4,826.34	54.60	8.49	38.30	2.05	36.09	57.25	-
2008	236.41	292.96	3.94	2,097.34	6.17	259.95	836.20	-
2009	98.06	210.7	60.55	118.64	1.33	103.77	35.10	-
2010	108.89	609.17	6.00	123.06	19.41	344.94	56.57	10.61
2011	358.45	608.73	5.00	6,067.01	8.49	512.59	98.53	26.80
2012	2,000.81	541.01	36.10	2,699.16	20.31	13.88	165.73	153.70
2013	520.93	1,058.87	64.72	1,497.63	10.71	154.44	307.89	646.06
2014	1,391.35	1,281.59	32.98	21.90	14.47	22.95	101.35	257.86
2015	169.62	1,134.55	601.09	589.63	28.39	16.48	1,977.88	9.34
2016*	327.79	1,303.65	0.92	231.69	1.00	9.68	43.11	23.04

Source: Ghana Investment Promotion Centre (GIPC) Quarterly Reports

* Figures at 3rd quarter. [1]Includes areas such as Mining & Oil & Gas services, ICT & Financial services

Table 5: Bonds Issued (2007-2016)

Date of Issue	Issuer	Ratings (Moody's, S&P, Fitch)	Tenor	Maturity Date	Issue Size (US$' Million)	Coupon	Mid Yield	Mid Spread (bps)
2007	Ghana	B3 / B- / B	10	Oct-17	750.00	8.50	3.29	521
2013	Ghana	B3 / B- / B	10	Aug-23	1,000.00	7.88	8.08	(21)
2014	Ghana	B3 / B- / B	10	Jan-26	1,000.00	8.13	8.32	(19)
2015	Ghana	B3 / B- / B	15	Sep-22	1,000.00	10.75	7.35	190
2016	Ghana	B1 / N.A / BB-	5	Oct-30	750.00	9.25	8.53	222
2016	Ghana	N.A	2	Oct-18	94.64	6.00	5.08	92
	Total				4,594.64			

Source: Ministry of Finance (2017), Annual Debt Management Report, page 22

Table 6: Contingent Liabilities – On-lending and Guarantees to SOEs

No.	Project Description	Curr	Amount
1	Kumasi Central Market Development	US$	172,512,500.00
2	Tamale Airport Phase I	US$	100,000,000.00
3	Acquisition of 200 MRT Huanghai Buses, Spare parts and Ancilllary serves for MMTL	US$	40,030,463.00
4	AMA sanitation and water project	SDR	33,000,000.00
5	Kotokuraba Market redevelopment Project	RMB	200,000,000.00
6	GRIDCo: Kpando-Kajebi substation project	EUR	11,933,885.00
7	VTB Capital	US$	272,000,000.00
8	GWCL: Kpong water project	US$	270,000,000.00
9	STC: Supply of 290 Scania Buses	US$	16,305,719.90
10	Bui Power Authority - Bui Hydroelectric power proj.	US$	343,853,060.70
11	Environmental Monitoring Laboratory for UMAT	EUR	7,840,723.00
12	Prepayment meters and accessories for ECG	US$	80,000,000.00

Source: Ministry of Finance

Table 7: Promissory to VRA

Table 16: Promissory Notes issued behalf of VRA for Crude Oil Purchase

Date issued	Amount Issued (US$)	Outstanding Amount (US$)	Maturity Date	Remarks
16-Mar-16	29,000,000.00	-	18-Jun-16	PAID
23-Jun-16	51,560,000.00	7,000,000.00	22-Sep-16	DUE
27-Sep-16	21,600,000.00	21,600,000.00	28-Dec-16	DUE
9-Nov.-2016	24,300,000.00	24,300,000.00	03-Feb.-17	DUE
TOTAL	**126,460,000.00**	**52,900,000.00**		

Source: Ministry of Finance

Table 8: Letter of Credit

S/N	DATE OF ISSUE	SECTOR	PROJECT TITLE	CURR	AMOUNT	AMOUNT (GHS)
1	15/4/2015	Power	250 MW Power Project	USD	51,000,000.00	213,343,200.00
2	N/A	Defence	Equipment	EUR	19,995,075.60	88,766,138.62
3	13/7/2016	Education	Upgrading of 100 science resource centres in SHS	GBP	7,260,578.07	37,756,458.08
4	23/3/2016	Power	Provision of fast track 370MW	USD	75,000,000.00	313,740,000.00
5	30/5/2016	Works & Housing	Sea Defense wall	USD	24,935,286.00	104,309,288.40
6	30/5/2016	Railways	Redevelopment of Takoradi-Kojokrom Railway	USD	25,058,448.00	104,824,499.67
7	11/3/2016	Power	Supply of pole top accessories	GHS	50,200,095.16	50,200,095.16
TOTAL				GHS		912,939,679.93

Source: Ministry of Finance

Figure 12: Sources of Remittances

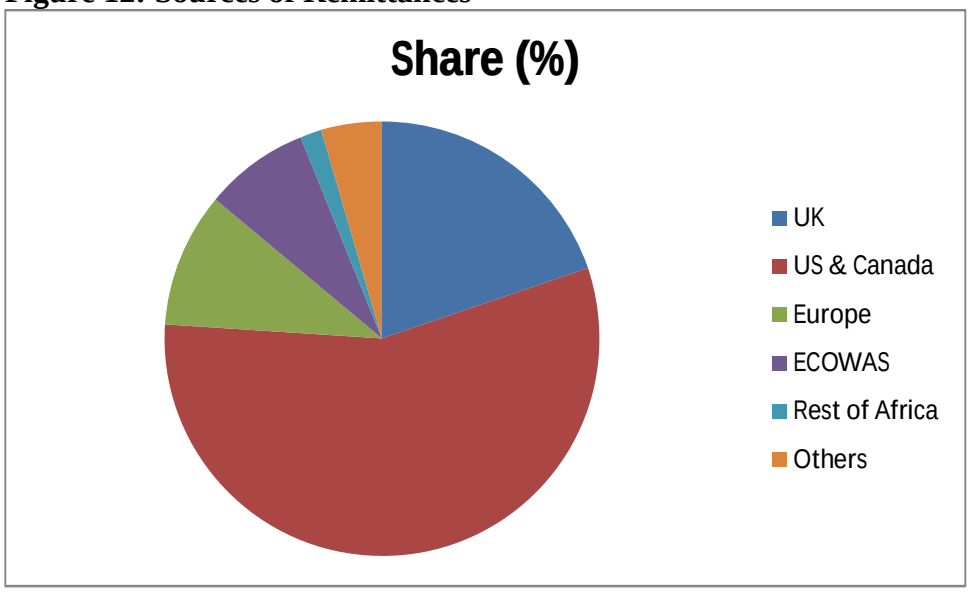


Figure 13: Ghana: External Debt (By Type of Donor)

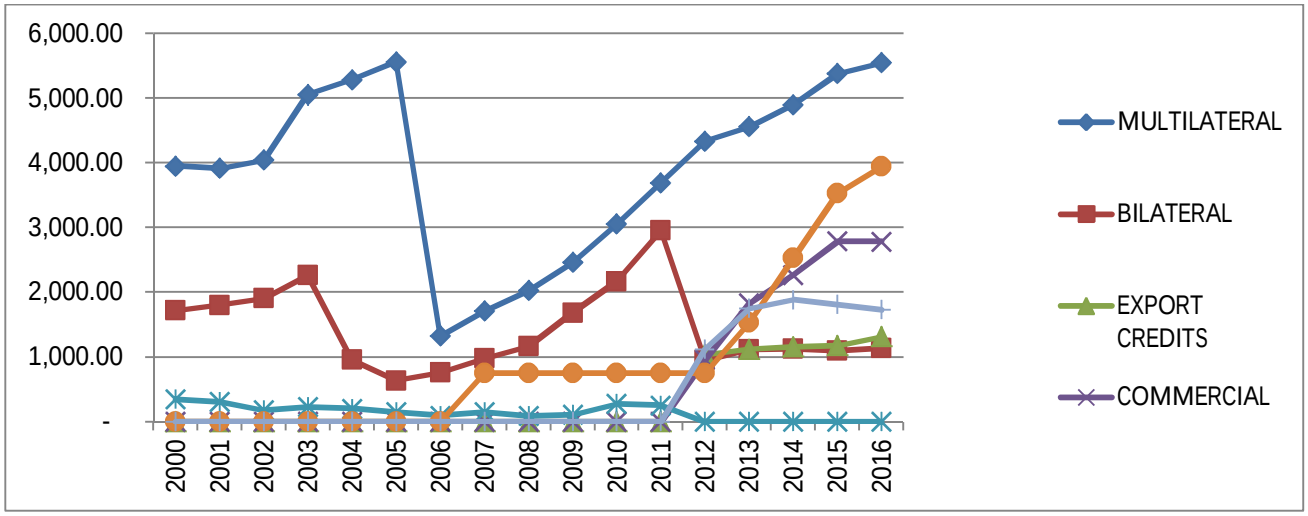


Figure 14: Ghana: Domestic Debt (By Type of Creditor)

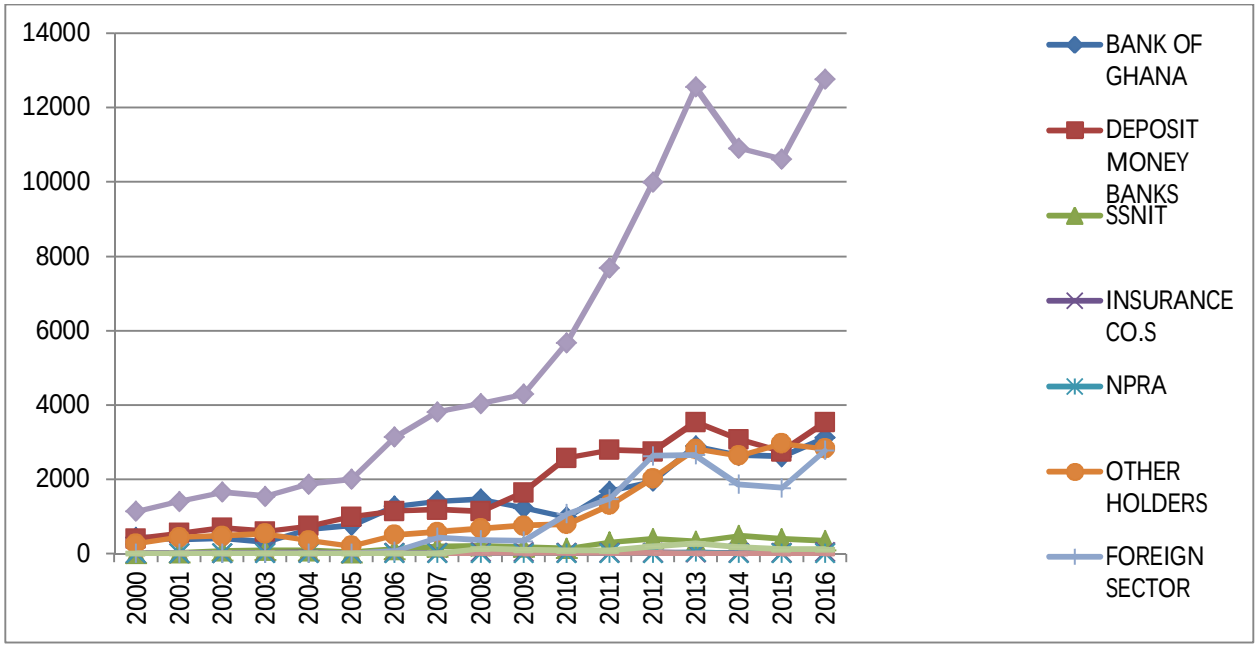


Figure 15: Ghana: Debt GDP

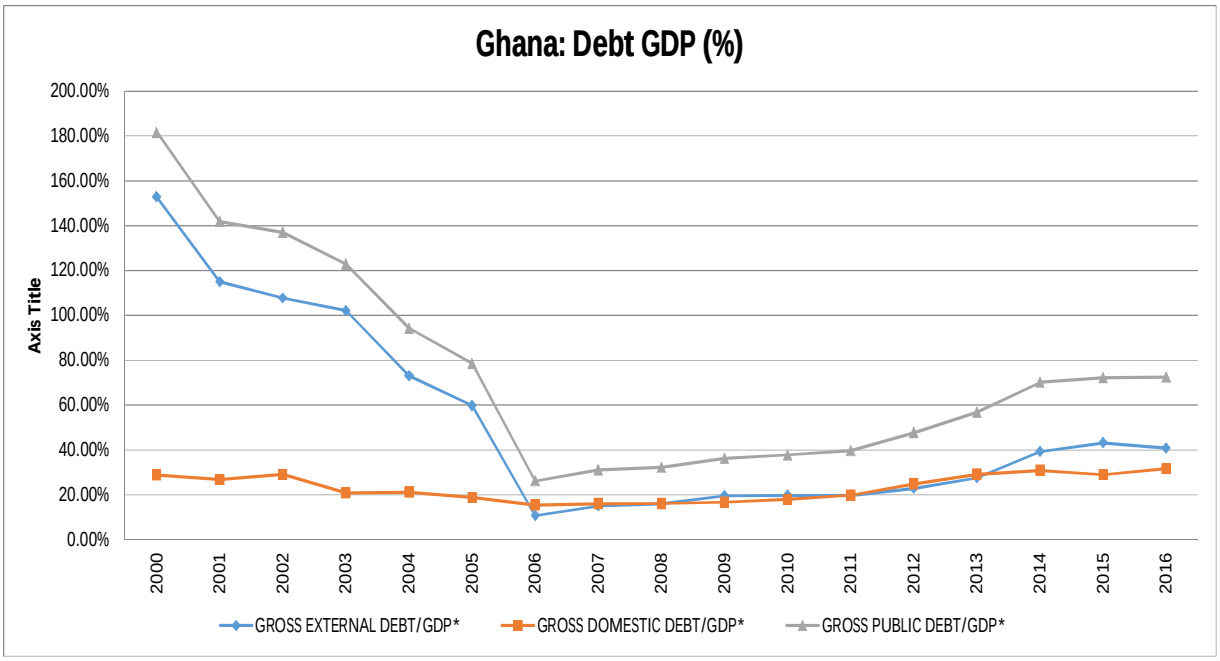


Figure 16: Debt Service

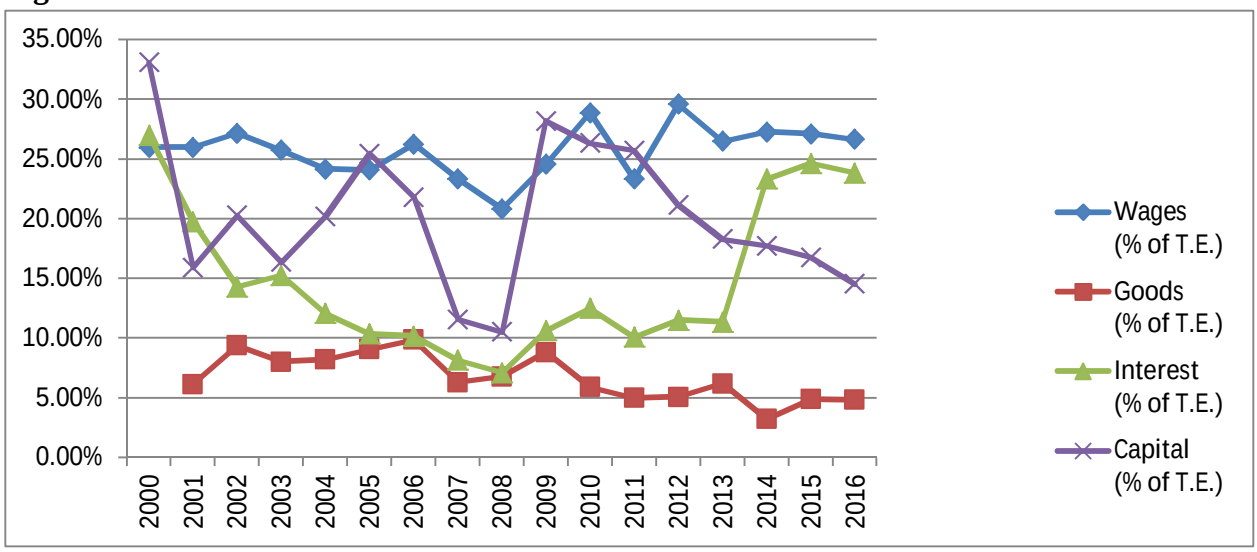


Table 9: Debt Ratios and HIPC Thresholds

Year	Debt Service-Exports	Debt Service-Revenue
2001	24.3	60.5
2002	24.6	33.2
2003	23.0	24.9
2004	17.2	28.4
2005	15.9	24.4
2006	13.3	24.6
2007	13.4	20.8
2008	15.6	23.9
2009	13.8	23.9
2010	9.7	17.1
2011	7.6	15.9
2012	7.2	14.2
2013	13.9	22.7
2014	17.6	31.7
2015	15.4	32.8
2016	23.2	29.7

Table 11: IMF Reviews

Ghana (Sept. 2016)	**Nigeria** (Feb. 2015)	**Kenya** (Dec. 2016)	**Uganda** (Dec. 2016)
"Ghana continues to face a high risk of external debt distress based on updated borrowing assumptions and macroeconomic projections. The assessment of high risk is reinforced by vulnerabilities arising from refinancing risk of domestic debt"	"Nigeria remains at a low risk of public external debt distress under both the baseline macroeconomic assumptions and in stress scenarios"	"Kenya's risk of external debt distress remains low, while overall public sector debt dynamics continue to be sustainable. However, margins have generally narrowed and standardized stress tests suggest that the vulnerability to export shocks has increased.	"The Debt Sustainability Analysis (DSA) update indicates that Uganda remains at low risk of debt distress. The Ugandan authorities are in a phase of scaling up public investment in infrastructure to support high and sustainable growth over the medium- and long-term"

Table x: IMF Debt Sustainability Analysis

	Ghana (2016)*	**Nigeria** (2016)*	**Kenya** (2016)*	**Uganda** (2015)*	**eHIPC Sustainability Thresholds**	**IMF-World Bank DSA Threshold**
PV of Debt-to-GDP	70.4	15.2	55.1	31.1	50%	HP: 50% MP: 40% LP: 30%
Debt-Servicing-to-Exports	17.1	0.7	8.0	15.8	15-20%	HP: 20% MP: 25% LP: 15%

Note: HP – High Performers, MP – Medium Performers. Based on Estimates from IMF Country Reviews and Debt Sustainability Analysis