

HIPC BENEFITS

Promoting growth, reducing poverty.

1. In March 2001, the government of Ghana decided to access the HIPC (Highly Indebted Poor Country) Initiative. At the time, criticisms were loudly expressed questioning the wisdom of that decision. Five years on, the benefits have become evident; the government decision has been vindicated, and the critics proved wrong. But new and similar criticisms have emerged, questioning government's management of HIPC benefits. Again, these criticisms have no basis.
2. To begin with, the HIPC Initiative is an arrangement in which a country with a high debt burden engages in a joint project with its major international creditors to reduce the debt burden and to tackle poverty. How does this happen?
3. A country with a high debt burden spends a large part of its annual revenue to service debts. The consequence is that very little is left for investment into social services, so poverty in the country gets worse. In the HIPC Initiative, the international creditors agree to erase the debts of the HIPC country over time so that the huge resources that would have gone into debt servicing are channelled into poverty reduction. It is these resources that are referred to as HIPC Savings or HIPC Funds.
4. What is required of the debtor country in the HIPC Initiative is that it draws up a poverty reduction strategy and uses the HIPC Funds to finance it. Of course, once a country signs up to the Initiative, it is discouraged from taking international loans that do not have significant grant element (currently 35% for many of the countries). The broader rule is that the country takes steps to keep its debt at sustainable levels.
5. Why did Ghana have to go HIPC? In the year 2000, our total debt obligation (TDO) exceeded the amount of goods and services we produced that year (TDO/GDP ratio hit 103%). In that year, a third of the country's expenditure went into debt servicing. The result was that investments into social services reduced progressively. Clearly, our debt burden had become unsustainable. We were heading for doom.
6. The wisdom to go HIPC was inspired from this stark reality. So, how much is the country benefiting from the HIPC Initiative? In total, Ghana will save about 34 trillion cedis over a twenty year period. So far, almost 6 trillion cedis has been disbursed for various poverty reduction projects.
7. Every year, the Ministry of Finance and Economic Planning calculates the expected accruals from the country's HIPC Savings and puts the money in the HIPC Account at the Bank of Ghana. The Ministry then puts this amount and the intended use in the annual budget for parliamentary debate and approval. Please

refer to 513 to 526 of the 2002 Budget Statement, paragraphs 503 to 525 of the 2003 Budget Statement, paragraphs 718 to 741 of the 2004 Budget Statement, paragraphs 916 to 934 of the 2005 Budget Statement and paragraphs 1061 to 1079 of the 2006 Budget Statement.

8. These paragraphs also contain accounts of how the funds were disbursed in the preceding financial year. The entire contents of these budget statements were duly debated by Parliament and given parliamentary approval in accordance with the Constitution. Suggestions that the expenditure of HIPC funds have not been backed by the approval of Parliament are therefore irresponsible.
9. The Growth and Poverty Reduction Strategy (GPRS) provides the policy framework within which relief flowing from the Initiative are allocated. Each year, Cabinet considers submitted project proposals and gives approvals. The proposals are made by the District, Municipal and Metropolitan Assemblies, and also, government Ministries, Departments and Agencies. The coordination of the applications is done by the Ministry of Local Government and Rural Development. The Ministry of Finance and Economic Planning, guided by the Cabinet approvals, authorises the Controller and Accountant General to make disbursement for the approved programmes and projects.
10. The application of HIPC funds to HIPC designated projects is done in harmony with the allocation of resources to other growth and poverty reduction programmes. And these happen within the overall management of resources from all sources. The discussion of HIPC funds as though it were the only and stand-alone resource intended for the total achievement of our poverty reduction objectives is unhelpful.
11. Monitoring and auditing of HIPC expenditures have been taken seriously. HIPC disbursements are captured separately and alongside other discretionary expenditures under the National Expenditure Tracking System (NETS). By this system, the Controller & Accountant General's Department assigns codes that facilitate classification of all expenditures. These are reported in monthly and annual reports on financial statements on the Consolidated Fund.

Additionally, government has allocated resources to civil society groups to help build their capacity for carrying out independent monitoring of the management of HIPC funds.

12. While the public is advised to take interest in the management of all public funds, the public is also cautioned that misleading and inaccurate commentaries on the management of HIPC funds could undermine the programme and deny the country of further benefits.