

PRESS BRIEFING ON USE OF HIPC FUNDS

Introduction

Government took the decision to access the Highly Indebted Poor Country (HIPC) Initiative in March 2001. In February 2002, Ghana reached decision point and in July 2004, reached completion point. The total relief from the HIPC Initiative is US\$3.7 billion, spread over a 20 year period. This amount represents the relief from Ghana's multilateral, bilateral and commercial creditors.

Though the HIPC Initiative was internationally driven, the process has been managed internally and local priorities are what drive the disbursement and use of funds. The use of HIPC funds has been guided by the poverty reduction and growth policies of Ghana's development framework – GPRS 1 and GPRS II, both of which acknowledge that there can be very little poverty reduction without growth.

Guidelines and Formula for Use of HIPC Funds

The guidelines for the disbursement of HIPC specify three main areas of expenditure – (i) using 20% of the relief for interest payments on domestic debt. This was a strategy designed to ease interest payments and thereby free Government discretionary funding for the social sectors, (ii) funding projects developed by sector Ministries, Departments and Agencies (MDAs) for both poverty reduction and growth, and (iii) funding specified projects submitted by Metropolitan, Municipal and District Assemblies (MMDAs).

The formula consistently has 20% for the reduction of domestic debt and the remaining 80% for MDA and MMDA programmes and projects. From 2002, variations to the composition of the 80% of the proportion for MDA and MMDA programmes and projects has been dictated by the annual national priorities with respect to poverty reduction and growth, determined by Cabinet. For 2005 and 2006, the disaggregation of spending by sector has been approved by Parliament.

Procedures for approval and release of HIPC funds

HIPC Debt Relief is projected on an annual basis by MOFEP. The amount of relief for the year is lodged in the HIPC account in the Bank of Ghana.

The procedures for approval and disbursement of HIPC funds are fairly straight forward and are constantly being streamlined for improvement. Allocations for HIPC are based on a formula – 20% for domestic debt and 80% to MDAs and MMDAs for poverty reduction and growth projects. MDA allocations are based on sectoral requests to fund GPRS priorities and gaps in funding in the Annual Budget (Consolidated Fund). MMDA allocations vary from year to year for priority projects in education, health, water and sanitation, and disaster management.

Each year, Cabinet approves expenditures for the use of HIPC funding based on the policies of the GPRS. The Cabinet-approved allocations guide approvals given by the Ministry of Finance and Economic Planning throughout the year. Initially, total HIPC

funds for the year were approved by Parliament as a single budget line in the Annual Budget. Since 2006, HIPC fund allocations have been disaggregated by sector and reflected in the annual budget submitted to Parliament for its approval, alongside other discretionary sectoral allocations for the ensuing year.

Based on approved allocations, MDAs and MMDAs make applications for the release of funds to MOFEP. In the case of MMDAs, they prepare individual proposals for their allocated amounts which are then collated by the Ministry of Local Government which then requests MOFEP for the release of the funds on their behalf. The Minister of Finance and Economic Planning, guided by the approved allocations, approves the requests and authorises the Controller and Accountant-General to make disbursements. The CAG then disburses funds into MDA accounts in BOG and also transfers funds to relevant District Treasuries.

Use of HIPC Funds

HIPC-funded projects have as a result of guidelines developed to direct its functioning, been targeted both at reducing poverty and enhancing growth of the economy. From year 2002 to date, releases of HIPC funding comes to a total of ¢5,568.1 billion with out of which domestic debt payments amounted to ¢966.3 billion. The remainder of the releases from HIPC has been used by MDAs and MMDAs on human development sectors such as education and health, water and sanitation; and on growth sectors, especially areas where the poor participate most, such as agriculture, the informal sector, or areas from which the poor stand to benefit from, such as micro finance.

MDA and MMDA Programmes and Projects for HIPC

MDAs have developed programmes and projects as part of their annual work programmes. These have been implemented at district level with MDAs exercising oversight responsibilities. HIPC funds have mainly been spent on capital projects or provided critical support projects to on-going projects to enable their completion.

In 2002, releases for HIPC amounted to ¢273.17 billion. Of this, ¢81.4 billion was spent on payment of interest on domestic debt and the remainder on both poverty reduction and growth enhancing projects including education, health, water and sanitation, energy and micro credit.

Year 2002 HIPC Releases

Priority Area	Amount (¢bn)	Proportion %
Domestic debt	81.4	29.80
Human Development Services Education, Health, Safe Water, Sanitation	120.84	44.24
Private Sector Development Agriculture, Energy, Micro credit, Trade & Industry, Small scale mining, Employment,	63.34	23.19
Governance Information, Police, Fire Service	7.6	2.78
Total	273.17	100

For year 2003, releases from HIPC amounted to ¢732.02 billion of which ¢144.0 billion was used in paying down domestic debt. The ¢588.02 billion was used for programmes and projects for the medium term priority areas of the GPRS, particularly in areas perceived to have a greater impact on the poor. These expenditures were on education, water and sanitation, feeder roads, health, energy, micro credit, agriculture, public safety and development of the private sector.

Year 2003 Releases

Priority Area	Amount (¢bn)	Proportion %
Domestic debt	144.0	29.80
Human Development Services Education, Health, Safe Water, Sanitation	396.68	54.19
Private Sector Development Agriculture, Energy, Micro credit, Trade & Industry, Small scale mining, Employment,	175.11	23.92
Governance Information, Police, Fire Service	16.23	2.22
Total	732.02	100

Resources released in 2004 for HIPC relief totalled ¢1,868.4 billion. Of this, ¢301.4 billion was used for domestic debt payment while the remainder of ¢1,567 billion was spent on programmes and projects drawn from the priorities of the GPRS. Enhanced Social Services covering education, health, water and sanitation had about 45% of the total,

Releases for private sector development totalled about 28% comprising expenditures for infrastructure (Self Help Electrification (SHEP), feeder roads, drainage and communications); modernised agriculture (agriculture and forestry), and tourism, employment, trade/industry, mines, and women's capacity building programmes. Programmes for good governance received about 11%.

Year 2004 HIPC Releases

Priority Area	Amount (¢bn)	Proportion %
Domestic debt	301.4	16.13
Human Development Services Education, Health, Safe Water, Sanitation	837.52	44.83
Private Sector Development Agriculture, Energy, Drainage, PSI, Feeder Roads, Mass Transport, Salt mining, Employment, Forest Plantation, Tourism, Women's Capacity Building	520.59	27.87
Governance National Security, Parliamentary/Presidential Elections, Economic Governance, Information, Public Safety, Monitoring, Small Arms Comm., Human Rights & Justice	208.62	11.17
Total	1868.13	100

In 2005, releases for HIPC totalled ₺1899.7 billion out of which ₺398.6 billion was used for repayment of domestic debt. The remainder of ₺1,501.1 billion was disbursed to MDAs and MMDAs. On human development services, the total amount disbursed was 27.8%, for private sector development, 42.3% was disbursed and for Good Governance, almost 9% was disbursed.

Year 2005 HIPC Releases

Priority Area	Amount (₺bn)	Proportion %
Domestic debt	398.6	20.98
Human Development Services Education, Health, Safe Water, Sanitation	528.54	27.82
Private Sector Development Agriculture, Energy, Drainage, PSI, Feeder Roads, Mass Transport, Salt mining, Employment, Forest Plantation, Tourism, Women's Capacity Building	802.98	42.26
Governance National Security, Parliamentary/Presidential Elections, Economic Governance, Information, Public Safety, Monitoring, Small Arms Comm., Human Rights & Justice	169.77	8.94
Total	1899.9	100

HIPC releases from the beginning of January to end June 2006 amounts to ₺778.3 billion of which ₺48.9 billion has been released for domestic debt payments and ₺729.35 billion for MDAs and DAs.

Year 2006 HIPC Releases*

Priority Area	Amount (₺bn)	Proportion %
Domestic debt	48.96	6.30
Human Development Services Education, Health, Safe Water, Sanitation	344.75	44.29
Private Sector Development Micro Credit, Agriculture, Rural Electrification, Non-Traditional Exports, Feeder Roads, Employment, Forest Plantation, Volta Lake Transportation	335.60	43.11
Governance Information, Monitoring, Economic Governance, Public Security, Public Awareness Programme	49.00	6.30
Total	778.31	100

*Up to end June 2006

In general, it is obvious that the human development and growth enhancing sectors have benefited from allocations of HIPC funds. For the social sectors, especially for the education sector, HIPC funds are being used to address the existing inequities between

urban and rural deprived areas. HIPC funds have gone into provision of basic school infrastructure and into the introduction of capitation grants to ensure access to public basic schools and address the gender inequities as well. Government subsidised the cost of Basic Education Certificate Examination (BECE) fees for pupils at the basic level. HIPC funds have been used to upgrade Senior Secondary Schools. In addition, the first phase of the Ghana NEPAD School Feeding Programme was also funded from HIPC.

In the health sector, HIPC has supported the establishment of District Mutual Health Schemes as a means of ensuring health care coverage for the poor. Exemptions for maternal deliveries have also been funded from HIPC since 2003. HIPC funds have been used to fund training of community health nurses to augment the limited numbers of nurses.

Infrastructure provision has benefited from HIPC funding over the period. For energy, especially rural electrification, HIPC funds have gone to support the supply of electric poles, electromechanical meters and other electric materials. The bulk of 2005 releases for energy was for Ghana's Equity Contribution to the West Africa Gas Pipeline project. Other areas such as storm water drainage, construction of culverts, desilting of drains, sewerage works and road construction have also benefited.

HIPC funds are also provided to District Assemblies to increase access to quality education, health and sanitation to supplement the efforts of what Districts regularly plan and budget for using the District Assemblies Common Fund (DACF) and districts own generated revenues. Disaster management has been funded from HIPC resources

Government has exercised fiduciary responsibility in the use of HIPC funds. Funds have been spent in monitoring of HIPC programmes and projects and in the audit of the use of HIPC funds for implementation of projects at the Regional Coordinating Council (RCC), Metropolitan, Municipal and District Assembly levels.

Spending on micro finance programmes has been consistent throughout the period. Funds have been spent through women's groups, farmers' groups and the Emergency Social Relief Fund.

Monitoring, and Tracking Auditing of HIPC Expenditures

HIPC expenditures are captured separately and alongside other discretionary expenditures under the National Expenditure Tracking System (NETS) by which CAGD assigns codes that facilitate classification of all expenditures. These are reported in monthly and annual Reports on Financial Statements on the Consolidated Fund of the Republic of Ghana.

These expenditures (HIPC and other Discretionary) are audited by the Auditor-General of Ghana and reported to Parliament. [insert information on audit undertaken].

Conclusion

Four years on, we can positively say that the nation has made gains, part of which would not have been possible without recourse to funds from HIPC. In many of the HIPC-funded projects, the expected outcome is an improvement in the standard of living and a reduction in poverty levels of the communities. Employment has been generated, infrastructure has been provided; all of these contributing to growth and reducing poverty. The results of all these interventions will be verified when the results of the Ghana Living Standards Survey (GLSS5) are published.

To conclude, we wish to stress that the allocation and disbursement of HIPC funds has been made according to clearly laid down guidelines and procedures. The allocations are reflected in the Annual Budget and approved by Cabinet and Parliament. Modalities have been put in place for proper monitoring and auditing of the use of these funds. Government is continually streamlining the procedures to ensure transparency and effective use of the funds. Government has said consistently since the beginning of its term of office, that there can be only limited poverty reduction without growth. Government is therefore committed to ensuring that the benefits of the HIPC Initiative are channelled to both poverty related and growth enhancing projects. HIPC funds have been gained at a price and we intend to ensure its proper use.