



**CENTRE FOR POLICY ANALYSIS**

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# **GHANA**

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**Emerging Near to Medium Term Issues**

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The Centre for Policy Analysis is an independent, non-governmental think-tank, which provides rigorous analysis and perspectives on economic policy issues. Our objective is to: promote a non-partisan informed debate on macroeconomic, growth and poverty alleviation issues which are pertinent to the Ghanaian economy, to enhance the capacities of institutions in Ghana through training and finally to disseminate and publish economic information in order to raise public awareness of economic and developmental issues.

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## EMERGING NEAR TO MEDIUM TERM ISSUES

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### *Introduction*

Ghana's development objectives are stated in the Growth and Poverty Reduction Strategy (GPRS II) which was presented to Parliament in October 2005. It is guided by the over-arching objective of attaining middle-income status by 2015. On current estimates, this entails real GDP growing by at least 6 percent per annum. Achieving this would help ensure the desired improvements in the quality of life for all Ghanaians – specifically, sustainable poverty reduction as embodied in the GPRS II and the Millennium Development Goals (MDGs). In November 2005, a Consultative Group (CG) meeting was held in Accra, to among other things, articulate the targets in the GPRS II. The CG documentation provided input for the finalization of GPRS II. The process was completed in January 2006 and a “country-owned” GPRS II was duly launched.

The launch of GPRS II has brought to light some important near-to-medium term issues that need to be resolved. They lie at the heart of Ghana's relationship with her development partners and the need for the institutionalisation of a credible framework for policy formulation and decision-making that would give concrete expression to the concept of “country ownership”.

Three of these issues form the content of this chapter. They are concerned with:

- Macroeconomic Policy Framework;
- Dutch Disease or the Debt Relief Resource Curse syndrome; and
- Accelerated Growth and External Debt Sustainability.

As Nobel laureate Joseph Stiglitz emphasized in his keynote paper to the ILO Global Employment Forum, there is overriding need for the recognition of some long standing principles:

- that there are trade-offs (between macroeconomic stability and short-run economic

growth rate),

- that there is uncertainty (in the dynamics of any economy and therefore about the consequences of any policy, including exchange rate fluctuations that could result in “overshooting”),
- that different policies affect different groups differently (specifically the dual dimensions of gender and geography - regions and districts within regions),
- that the role of the economic adviser is to inform policymakers of the consequences of different decisions (bringing to the fore the appropriate role of the Bretton Woods Institutions (BWIs)), and
- that it is the role of the political process to make these decisions (represented by credible structures for policymaking involving the Executive, Parliament, independent academia, think tanks, NGOs as well as development partners (BWIs)).

Stiglitz, further notes that the international financial institutions - the IMF and World Bank - have been instrumental in perpetuating the myth that in economic policymaking there is always a single “dominant” policy and which is therefore “optimal”. Another myth is that “economic policy is apolitical”. These institutions are “not supposed to enter into political matters (though they do so regularly and inevitably)”. And as if to rationalise such unwarranted intrusive behaviour, “they refer to the member governments as their shareholders, suggesting that they are more akin to corporations than to political institutions”.

### **Macroeconomic Policy Framework**

The design and formulation of macroeconomic policies presupposes the need for intervention in the functioning of the macro-economy. It implicitly assumes that left to its own devices the economy would not attain a state consistent with the desired level of well-being for the citizenry.

In framing macroeconomic policies, we need to keep our eyes on the ultimate objectives, and not on intermediate variables – i.e. on economic growth, employment, living standards, and not inflation rates, interest rates or exchange rates, which are important only to the extent that they affect the variables of fundamental importance. In what follows, we would consider two ultimate objectives and two intermediate variables, which are particularly, important, given our circumstances and post-independence economic history.

Macroeconomic objectives typically comprise the following:

*1. Economic Growth*

As the GPRS II document makes clear, the case for economic growth – accelerated by historical standards – among the objectives of macroeconomic policy is compelling. Economic growth is the only feasible means of terminating poverty. This arises from the compounding nature of the growth process. In contrast, once and for all welfarist distributional transfers from the relatively rich in society to the poor have had an insignificant, and in our circumstances, unsustainable if not counterproductive effect. Moreover, this is equally true of transfers effected by the tax transfer mechanism within the economy as it is of foreign aid grants to the country.

Increased real income per capita permits the increased consumption of all goods including leisure and hence an increase in economic welfare as commonly understood. In addition, with ‘natural’ population and labour force growth combined with a tendency for economic activity to become increasingly capital intensive, economic growth becomes a necessary prerequisite for the maintenance of high level of employment and for the elimination of the social tensions which accompany unemployment and underemployment.

There have been some concerns raised especially by environmentalists about costs associated with economic growth including pollution, environmental degradation and the destruction of habitats and the ecosystem. Other costs of economic growth concern congestion, the tensions associated with living in a highly complex and urbanized society and the speeding up of structural change which generates displacement effects and regional decline. Many economists have also drawn attention to the impact of economic growth upon the depletion of natural resources, many of which are in ‘finite’ supply, in addition to the environmental and ecological damage that could be inflicted by “uncontrolled” growth.

Analysis by staff of the BWIs suggest that with current growth rates of around 6 percent per annum, Ghana should achieve the MDG of halving income poverty, before the stipulated 2015 date. Nonetheless, slow improvement, and even deterioration, in some key indicators – in particular, the under-five and infant mortality rate – is an ongoing concern (IMF Country Report June 2006 para 15). On the basis of these and other assessments, the government has revised its

approach in the updated poverty reduction strategy (GPRS II). In the view of the government, the rate of economic growth is not sufficient for the attainment of the objectives of GPRS II. A minimum GDP growth of 8 percent is estimated to be needed by 2009, and this requires that the resource envelope underlying the current medium-term framework and the Multilateral Debt Relief Initiative (MDRI) will need to be scaled up to provide for investments in strategic areas like energy, roads, railways, information, communications and technology.

Accordingly, the government has signalled its intention to “develop a structured public investment framework – informed by the GPRS II – for the essential undertakings for which we cannot obtain concessional financing” (Letter of Intent to the Managing Director of IMF, May 25, 2006, para 14). The task is how to ensure that the additional growth actually materializes: and, no less importantly, that additional resources are procured on such favourable terms as to ensure maintenance of Ghana’s external debt sustainability.

## 2. *Employment*

*“With excessively high unemployment rates, social cohesion could deteriorate, with a multitude of social manifestations, from urban violence to riots and civil strife, which create an environment which is unattractive for investment and job creation”.*

Raising the level of employment is a key objective of GPRS II. Two of the common approaches are briefly considered here - the Keynesian and the “monetarist”:

- In the first approach, the involuntary unemployed are grouped into two categories – those who could be effectively employed by macroeconomic policies raising the level of aggregate demand and those that could not. The latter group consists of the structurally unemployed, the seasonally unemployed, the frictionally unemployed and the chronically unemployable. The more unemployment is on account of this latter group, the less scope there is for macroeconomic demand management policies to prove effective in reducing unemployment.
- The second or monetarist approach views unemployment as essentially determined by microeconomic factors such as geographical or occupational immobility of labour. Consequently, in the long-run, unemployment is not viewed as amenable to macroeconomic policy measures. The long-run or “natural” rate of unemployment can

best be reduced by government policy measures directed at the microeconomic causes. The approach, however, concedes that, in the short run, the actual level of employment could depart from that of the long-run – rising above it at the cost of increasing inflation, and falling below it to achieve a reduction in inflation.

### 3. Inflation

Inflation – strictly speaking is an important intermediate target “of concern only to the extent that it leads to worse real outcomes of lower growth, more poverty, and greater inequality”.

Inflation imposes major costs on society while conferring few benefits. Moreover, many of the costs could be avoided if the rate of inflation is correctly anticipated. And it is easier to anticipate the rate when it is relatively stable. A low rate is also to be preferred because the international historical experience shows that beyond a threshold (of about 40 percent a year), inflation has had a tendency to spiral out of hand into hyperinflation with serious costs to the economy and society in terms of economic growth.

In the Ghanaian context, inflation may be defined as a persistent tendency for the aggregate price level - measured by the consumer price index (CPI) computed by the Ghana Statistical Service (GSS) - to rise. The current primary goal of the Bank of Ghana (BOG) is the achievement of single-digit inflation rate trending over the medium-term towards that of the country’s major trading partners – 5 percent or below.

In pursuit of the inflation objective, the BOG has taken measures “to ensure availability and access to low-cost credit to finance activities in key sectors including agriculture” (IMF Country Report June 2006 para 37). Financial Intermediation, however, is “still relatively low”. In pursuit of the objective of increased credit to the private sector, the secondary reserve requirement of commercial banks was lowered by 20 percentage points – from 35 percent of deposit liabilities to 15 percent – in mid-2005 and finally abolished, effective August 2006. Looking ahead, the BOG believes that, the “provision of comprehensive information on the creditworthiness of borrowers through the establishment of a credit bureau” (ibid) would be an important element in this quest to provide enhanced access to low-cost credit.

Regarding the effort to lower the cost of credit, the prime rate of the BOG was reduced by 200

basis points in May 2005. It was subsequently maintained over the seven months to July 2006 even in the face of the heightened inflationary expectations and rise in inflation unleashed by the three petroleum products price increases in that period. In spite of this policy stance on the prime rate, however, average lending rates have remained stubbornly high – significantly positive in the real terms.

Beyond the various monetary measures a critical complementary role has been assigned to fiscal policy. With the domestic debt-to-GDP ratio as fiscal anchor, targets for net domestic financing of the budget – a performance criterion in the programme with the IMF – have called for significant net repayments of budgetary resources into the banking system. This is aimed at “crowding-in” the private sector. Treasury bill rates have declined as expected but there is evidence of significant proxy borrowing by government through key state institutions – a contributory factor to the persistently high average bank lending rates.

#### *4. Balance of Payments*

The balance of payments objective is defined as the desire for long-term equality between international payments and receipts. It arises from the awareness that there are costs associated with any imbalance between payments and receipts. The nature of these costs, however, depends on the nature of the exchange rate system.

Ghana’s current exchange rate regime is described as a managed float, with no pre-announced path for the exchange rate. Under this regime, intervention in the foreign exchange market by the Bank of Ghana is limited to short-term smoothing subject to the achievement of an international reserves target. The Bank of Ghana is committed not to undertake any action that would inhibit changes to the exchange rate as determined by the fundamentals of market forces.

Fluctuating exchange rates may generate uncertainty which may be intensified by a tendency of exchange rates to ‘overshoot’ – i.e. go beyond a range that would appear to be justified solely by reference to purchasing power parity. Temporarily, high exchange rates could create competitive problems for both exporters and domestic import-competing producers alike. There appears to be evidence of this happening in the current situation in Ghana on account of the strong inflows of both official and private foreign exchange inflows. On the other hand – as past experience in

Ghana with devaluation episodes show – depreciated exchange rates raise import prices with discriminating effects throughout the economy.

In conclusion of this discussion of the macroeconomic framework for policy formulation and decision-making, we return to Stiglitz:

*The role of government (and the international economic institutions) in determining the economic framework..... means that one cannot separate out politics from economics. The two are intimately intertwined.... In more advanced industrial countries, we have developed a variety of institutions (including strong independent academia, think tanks and NGOs) which give voice to broader national concerns..... This is not so in many developing countries. What is at stake for these countries is not just a matter of economic efficiency, but the kind of society into which they will evolve, and the creation, or survival of meaningful political democracy. Income distribution and the creation of institutions which give effective voice (to the broader national concerns) matter, not just for economic efficiency but for the dynamics of political and economic change. Development is more than the accumulation of capital and the enhanced efficiency of resource allocation; it is transformation of society.*

*If we, as an international community, are to promote equitable, sustainable, and democratic development – development that promotes societal well-being and conforms to basic principles of social justice – we must reform the international economic architecture. At the very least, we must point out the trade-offs, we must insist on democratic processes for determining how economic decisions are made (Joseph Stiglitz “Employment, Social Justice, and Societal Well-being” November 2001, emphasis added).*

### **Dutch Disease or the Debt Relief Resource Curse Syndrome?**

An important potential source of economic instability is the performance of the exchange rate, particularly when it is influenced by financial forces distinct from the basic balance of trade. Economic doctrine with respect to international trade has centred on the principle of comparative advantage. The essential proposition is that all countries will achieve an optimum national product, individually and together, by working towards the most efficient international division of labour. That requires, as the ultimate aim, a relatively free movement of goods and services across national frontiers, at prices reflecting the factor costs within each country – costs determined by resource availability and productivity. And while the literature is replete with several qualifications relating to the details of this process, the elements of free and open trade

have been broadly accepted as the aim towards which market-oriented economies should be directed.

This doctrine has also had a place for capital movements. They were fitted into trade theory in the form of shifts in the geographic location of various kinds of physical capital. Capital was expected to move in response to changing opportunities among countries for real investment in economic sectors – agriculture, industry or services. It was expected to shift into uses which promised those cost or productivity advantages that would yield the most attractive return. In this sense, capital movements could be viewed as simply performing the function of allocating financial resources and savings among real producing assets anywhere; exchange rates would be merely accommodating residuals determined by the aggregate flows of all forms of trade, including physical capital.

The problem arises because large proportions of flows to sovereign borrowers – particularly foreign aid flows – reflect financial decisions that are not directly tied to nor necessarily lead to physical capital formation. All too often, they end up being devoted to consumption.

Ghana accepted the obligations under Article VIII of the Articles of Agreement of the International Monetary Fund (IMF) on February 2, 1994. Accordingly, Ghana maintains a flexible exchange rate regime: de facto classified as a managed float, using the US dollar as the intervention currency, that is free of restrictions for current international transactions. It is a managed float, with no pre-announced path for the exchange rate. Bank of Ghana (BOG) interventions in the foreign exchange market are “limited to short-term smoothing and achievement of international reserves objective”. (IMF Country Report, pg 16)

In the Press Release following the completion of the Fourth and Fifth Reviews of Ghana’s Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF, the Deputy Managing Director and Acting Chair stated that:

*The managed floating exchange rate has served Ghana well as a buffer against external shocks. Allowing greater flexibility of the exchange rate in the face of strong foreign exchange inflows, however, would support further disinflation, while competitiveness should be addressed through measures to enhance productivity (emphasis added).*

The above reflects the view of the staff of the IMF in their assessment of what they see as the “relative stability of the nominal exchange rate vis-à-vis the US dollar over a long period.” They contend that “in the face of strong inflows some nominal appreciation would have been expected which could have supported the process of disinflation” (IMF Country Report No 06/228 June 2006 pg 17, emphasis added). Indeed they complain that the stability of the nominal exchange rate against the US dollar (even over a period in which it was depreciating against the euro and the yen) – in the face of strong inflows – raises questions about how to interpret the policy, even though the authorities describe the regime as a managed float. In the staff’s view, nominal changes in response to market fundamentals would provide support to further disinflation (IMF Country Report, June 2006 pg 21/2).

In all this pressure from the IMF for nominal appreciation of the cedi, it is worth noting that achieving single digit inflation has become the overriding macroeconomic concern of the Fund. As emphasised in the IMF Country Report, the achievement of single-digit inflation is the primary goal of the Bank of Ghana. On its part, government expressed concern about the possible impact on competitiveness of the real exchange rate appreciation under such a scenario. It did agree however, that in the context of relative macroeconomic stability, reliance should be on gains in productivity to maintain and improve competitiveness.

The issue being raised here concerns appropriate spending and absorption of the foreign exchange inflows from the debt relief (under the HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI), the Millennium Challenge Account (MCA) grants, as well as large flows of private remittances. Specifically, absorption of the foreign exchange inflows would result in real exchange rate appreciation. The post Completion Point fundamentals, ceteris paribus, point to an appreciation in the equilibrium real exchange rate - a Dutch Disease Syndrome.

Countering the adverse consequences of this on the accelerated growth strategy would depend crucially on the pattern and composition of spending. It is therefore important that the government’s “ambitious investment plan” for accelerated growth and poverty reduction focuses on the removal of structural bottlenecks and infrastructural weaknesses to enhance productivity

and competitiveness. It must seek to lower costs, realise productivity gains and to diversify the economy, so as to maintain competitiveness in international trade. As shown in Annex 1, this is what the Supplementary Budget of July 13, 2006 of the GOG seeks to achieve. Succeeding in this quest, however, would depend crucially in the first place on the quality of the diagnostics in terms of productivity enhancing potential, as well as on the effectiveness of the identified spending. Clearly, the way forward would be as much art as science.

### **Accelerated Growth and External Debt Sustainability**

There appears to be some tension between the government and the development partners over what is perceived to be a desire by government to borrow from the international capital market.

In the view of the government, the focus of the poverty reduction strategy should now be shifted from achieving macroeconomic stability to accelerating growth. In particular, it would like to achieve real GDP growth of 6-7 percent per annum in the immediate years and, subsequently, to accelerate growth to 8-8.5 percent per annum (while maintaining the inflation and international reserves targets).

As the Annex II shows, the medium-term outlook supported by the development partners envisages, and hopefully on concessional terms, annual gross external financing requirements averaging 12.3 percent of GDP. The sources of funding for which, appear to have been identified.

This first scenario supported by the development partners, however, is itself not without risk. For example, according to the IMF:

*Results from the illustrative debt sustainability analysis suggest that Ghana's external debt would be just under the sustainable thresholds over the medium to long term in the above scenario. However, stress tests indicate that the situation would worsen severely if the projected higher growth rates, compared with the historical averages, are not achieved or – more importantly – if the donor assistance as a source of financing is not sufficiently concessional. (IMF paragraph 18 emphasis added)*

A second scenario based on the scaled-up investment plan of the government calls for additional external resources of about 4 percent of GDP annually over the medium-term. The tension

appears to centre on the contracting of the additional loans of about \$1.8 billion over the four-year period from 2007-2010. This is seen by the IMF as unlikely to be obtainable on concessional terms. In this view therefore, such borrowing could pose potentially serious consequences for external debt sustainability. According to the Technical Memorandum of Understanding sent to the IMF (paragraph 6):

*The focus of GPRS I was to establish macroeconomic stability, make some in-roads to reducing poverty by increasing spending in social areas..... taking account of the lessons, experience and outcomes during the past several years, we have now shifted the focus of the strategy – now embodied in the Growth and Poverty Reduction Strategy (GPRS II), which covers the period 2006-09 – to laying the foundation for accelerated growth.... We have prepared preliminary costing of GPRS II which indicate an additional requirement of US\$ 1.8 billion over the 2007-09 period (emphasis added).*

A third scenario could be based on the UN Millennium Project needs – assessment for Ghana. This envisages an even larger external financing requirement for capital expenditure. According to IMF staff, an estimated amount of about US\$2.5 billion equivalent to 22 percent of GDP would be needed annually.

“A possible unsustainable external commercial borrowing” is, in the view of IMF staff, one of two main risks to Ghana’s current programme. “This may quickly deplete the fiscal space created by the debt relief under the enhanced HIPC Initiative and MDRI”. [IMF Country Report June 2006, para 41 pg 20].

This view was echoed by the IMF Executive Board in the Press Release following the completion of the Fourth and Fifth Reviews of the current PRGF programme:

*Debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) has led to a substantial improvement in Ghana’s debt service indicators..... As the government’s economic strategy is now focused on accelerating growth through the preparation and implementation of an ambitious investment plan, it will be critical not to jeopardize Ghana’s debt sustainability.*

*Accordingly, Ghana should continue to rely on concessional development financing.*  
(Press Release No. 06/126 of June 12, 2006, emphasis added)

In turn, the government stressed its determination not to put the country's debt sustainability in any jeopardy over the medium to long term.

Under the current PRGF– supported programme with the IMF, there are two performance criteria on external debt – one in respect of short-term and the other one, medium and long-term external debt.

Excluded from these performance criteria are loans with a grant element of 35 percent or more. Loans provided by a private entity are not considered to be concessional unless accompanied by a grant or grant element provided by a foreign official entity equal to at least 35 percent of the combined loan.

The performance criterion on short-term external debt refers to the outstanding stock of external debt with an original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the Bank of Ghana. Specifically, it stipulates a ceiling of \$100 million on the contracting or guaranteeing of new non-concessional external short-term debt by the government or the Bank of Ghana.

The performance criterion on non-concessional medium and long term external debt refers to the contracting or guaranteeing external debt with an original maturity of more than one year by the government or Bank of Ghana. The Aid and Debt Management Unit (ADMU) of the Ministry of Finance and Economic Planning – the only entity authorised to contract and guarantee external debt, and all leases with a total value above \$100,000 - is required to report on all new medium and long-term debt and its concessionality (measured in US dollars at current exchange rate) to the IMF on monthly basis (within four weeks of the end of each quarter).

The performance criterion stipulates that there shall be no contracting or guaranteeing of new non-concessional external medium– and long-term debt by the government or Bank of Ghana. And as expressed in paragraph 14 of the Technical Memorandum attached to the Letter of Intent to the Managing Director of the IMF: the medium-term framework, that underpins the 2006 budget, does not envisage any non-concessional external borrowing.

The Government of Ghana is keenly aware of the need to preserve debt sustainability. In this context, the stated priority is to exhaust all avenues for concessional borrowing and to refrain from accessing international capital to finance the 2006 budget. However, the government has signalled its intention to prepare the ground for eventual access to such markets to find the resource requirements needed to reach important development goals as envisaged in GPRS II and with respect to the MDGs. As such the government will:

- continue to strengthen debt-management capacity, particularly to design and assess loan proposals;
- develop a structured public investment framework, consistent with the GPRS II, for specific projects for which concessional financing could not be obtained. This is critical to ensure that resources are used efficiently, and that they guarantee adequate returns to repay debt; and
- maintain a track record of good economic performance that would lead to favourable financing terms in international capital markets.

Against this backdrop attention has been drawn by the staff of the IMF to three “important aspects of the scaled-up investment plan” namely:

- there is a need for a robust estimate of the envisaged supply response to the policy initiatives being pursued. In particular, the realism of the assumption of higher growth flowing from the additional outlays, needs to be assessed;
- the rapid pace of reverting to relevant debt burden thresholds over the 2007-2010 period should be a source of concern. This is because such a development could substantially increase Ghana’s vulnerability to external shocks in the medium term; and
- there is a major risk to this “ambitious plan.” Ghana may not be able to mobilise the required additional resources at sufficiently concessional terms and that could compromise external debt sustainability. It is the view of the IMF staff to which “the authorities concurred” that it may be too optimistic to expect additional financing from

multilateral and other highly concessional sources.

“In the circumstances, Ghana should reduce the risks to debt sustainability by curtailing its investment plan and the associated borrowing.” Developments elsewhere indicate that this is not a position that can be easily dismissed. [IMF Country Report, June 2006 para 21]

According to the Report from the Executive Directors of the International Development Association to the Board of Governors “on the Fourteenth Replenishment of IDA (IDA 14)”, debt sustainability will be the basis for the allocation of grants to IDA – only countries in IDA 14. Under its grant allocation system, the share of grants in total IDA funding will emerge from a country-by-country analysis of the risk of debt distress.

The Joint Bank-Fund debt sustainability framework (DSF) would constitute the analytical underpinning for the link between debt sustainability and grant eligibility. “The DSF links the risk of debt distress to the quality of policies and institutions in low-income countries..... (with) the two broad pillars of the DSF..... directly relevant to the allocation of IDA grants by:

- (i) providing a set of indicative thresholds of external debt-burden indicators which take into account countries’ policies and institutions as well as their vulnerability to exogenous shocks; and
- (ii) analysing the actual and projected behaviour of debt-burden indicators and other key macroeconomic variables as indicated, e.g. in Debt Sustainability Analysis (DSAs) both under baseline and plausible shock scenarios.

Grant eligibility in IDA 14 would follow additional principles “in order to reduce risks related to the “free-rider” issue. Key among these principles is that grants would be limited to IDA-only countries. Eligibility for IDA assistance would be primarily based on relative poverty, defined as Gross National Income (GNI) per person below an established threshold – which was US\$895 per year as of July 2004 – and lack of creditworthiness to borrow on market terms. (IDA 14 fn 9, pg 5) Moreover, a mechanism will be devised whereby a country could “cease to be eligible for grants if its government or other public sector entities – in particular, the Central Bank (in our case, the BOG) contract or guarantee new loans from alternative sources of financing which threaten to defeat the debt sustainability objective that IDA grants are intended to help achieve”.

Close “co-operation among leaders would be needed to ensure that grant-making by IDA does indeed help reduce countries’ risk of debt distress”.

Countries would be ranked into debt-distress risk categories – high, moderate, low – on the basis of selected debt burden indicators against which countries’ debt levels are compared. The appropriate mix of credit and grants would be determined according to the category into which the country is classified.

## ANNEX I

GPRS II PILLAR	Details	Amount (€ billion)
<ul style="list-style-type: none"> <li>• <i>GOOD GOVERNANCE AND CIVIC RESPONSIBILITY</i></li> </ul>	<ul style="list-style-type: none"> <li>○ construction of new markets</li> <li>○ potential impact of micro small and medium scale enterprises.</li> <li>○ support the new micro-credit programme.</li> <li>○ to promote the rule of law, transparency, and speedy administration of justice in Ghana.</li> <li>○ renovations and repair of the electronic system in the chamber and an office block for parliamentarians.</li> <li>○ purchase of various items including communications equipment, vehicles and other logistics for the Police Service.</li> <li>○ funds will be used to support the construction of City Hotel project in Kumasi.</li> <li>○ to support the training of state attorneys as well as the payment of compensation owed to certain individuals who testified at the National Reconciliation Commission (NRC).</li> <li>○ commitment to various infrastructural projects in road and railway transport, energy distribution and generation, water distribution, tourism infrastructure, as well as modernization of agriculture.</li> </ul>	<p style="text-align: right;"><b>1,783.5</b></p>
<ul style="list-style-type: none"> <li>• <i>PRIVATE SECTOR DEVELOPMENT</i></li> </ul>	<ul style="list-style-type: none"> <li>○ support the rehabilitation of railway infrastructure.</li> <li>○ government is committed to the energy sector for the construction of a third BSP in Accra, the acquisition of pre-paid meters for the ECG, and the rehabilitation of generation equipment for VRA.</li> </ul>	<p style="text-align: right;"><b>2,149.3</b></p>



## ANNEX 2

## Gross External Financing of Capital Expenditure

	<i>Scenario</i>	<i>Percent of GDP</i>
1.	Baseline scenario (including additional resources from MDRI debt relief as well as identified additional donor resources of about 3 percent of GDP per annum. This is deemed adequate to achieve annual growth rates of 6 to 6.5 percent over the 2007 – 2010 period, enough for Ghana to achieve the MDG goal of reducing the income poverty rate by half before 2015 by the BWIs.	12.3
2.	An alternative scenario based on the perception of the government of the need to shift the focus of the poverty reduction strategy from achieving macroeconomic stability to accelerating growth. In particular, to target growth at 6 – 7 percent per annum in the immediate years, and subsequently, to accelerate growth to 8.5 percent per annum.	16.3
3.	UN Millennium Development Project (needs – assessment) by the UNDP (additional amount of US\$2.5 billion annually over the next 10 years of public investment and outlays in critical areas, such as health, education, and infrastructure – see IMF Country Report June 9, 2005 footnote 5 page 12)	22.0