Africa Centre for Energy Policy

The Debt Tracker

May 17, 2023 – March 31, 2024

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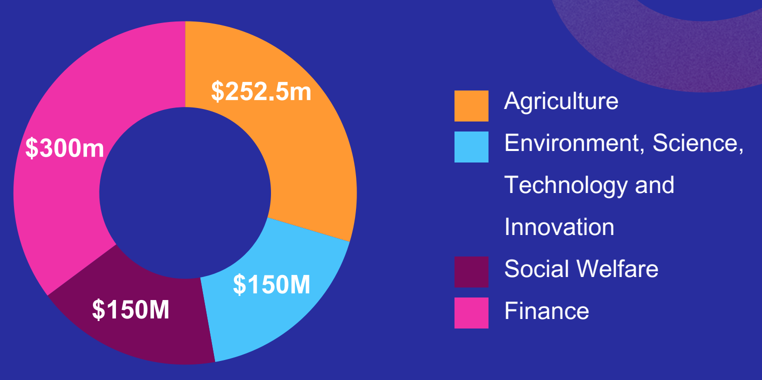
Debt acquired - **US$ 852.5 million**

Newly Approved Loans to Ghana between May 17, 2023 and March 31, 2024

Date Approved	Amount	Purpose	Lender
3-Aug-23	US$52.5m	Promoting Rural Opportunities, Sustainable Profits and Environmental Resilience (PROSPER) Project	International Fund for Agricultural Development (IFAD)
8-Dec-23	US$150m	West Africa Coastal Areas Resilence Investment Project 2	International Development Association (IDA) of the World Bank Group
8-Dec-23	US$200m	Ghana Tree Crop Diversification Project (TCDP)	International Development Association (IDA) of the World Bank Group
8-Dec-23	US$150m	Ghana Productive Safety Net Program (GPSNP) II	International Development Association (IDA) of the World Bank Group
8-Mar-24	US$300m	First Resilient Recovery Development Policy Financing	International Development Association (IDA) of the World Bank Group

Classification of Loans by Sector



Energy Sector Debt (Under-recoveries)

August 2023 - March 2024

US$ 724.68 million

Data for the Debt Tracker is primarily sourced from parliamentary records, relevant government contracting documents and the official website of the Public Utilities Regulatory Commission (PURC).

Tracking Ghana's Path to Debt Sustainability

Introduction

Ghana's debt has surged to unsustainable levels, reaching about 86.1% of GDP at the end of 2023, down from 93.3% in 2022. According to the IMF's Debt Sustainability Analysis conducted before Ghana's 17th programme with the Fund, the nation was in debt distress with a medium debt-carrying capacity. Despite external challenges like the COVID-19 pandemic and the Russia-Ukraine War affecting many nations, Ghana's significant debt burden is primarily attributed to governance and institutional inefficiencies, with the energy sector being a key contributor. Before the IMF programme, servicing of energy sector debt was consistently extra-budgetary, although it constituted contingent liabilities in a real sense.

Public resources were recurrently sacrificed outside the budget to sustain the inefficiencies in the energy sector at the expense of social spending, undermining optimum development outcomes for the populace (rising poverty and deepening inequality). Reforming the energy sector is a critical component of the IMF programme.

The government is expected to resume commercial borrowing following the completion of debt restructuring with external creditors, as the country achieves fiscal and macroeconomic stability. Without addressing the significant debt accumulation in the energy sector, there is a risk of falling back into debt distress. This debt tracker aims to monitor the relationship between the debt sustainability of the country and the accumulation of under-recoveries in the energy sector.

Newly Approved Debt

The accumulation of debt continued while negotiations with official bilateral creditors for debt treatment under the G20 Common Framework progressed. Between May 17, 2023, and March 31, 2024, the Parliament of Ghana approved five new loans totalling US$852.5 million from multilateral sources. Incurring debt is not inherently imprudent and can facilitate sustained development. However, creating an environment supported by sound fiscal policies is essential to ensure effective debt utilization.

Historically, a major part of government's spending has gone towards recurrent expenditure, with limited investment in capital projects. In 2023, recurrent expenditure made up about 86.2% of the total revenue and loans obtained that year. If this trend continues with the new loans, the country's debt will increase without enough focus on creating value to repay the growing debt. This could lead the country back to a situation of unsustainable debt.

Energy Sector Debt

The energy sector plays a crucial role in Ghana's ability to manage its debt. For several years, the government has been settling the sector's debts and losses, totalling around $1.5 billion annually, due to pervasive inefficiencies in power distribution. The settlement of these inefficiencies deprives Ghanaians of social spending that reduces inequality, and improves welfare, as the government's diversion of funds from essential social interventions exacerbates these problems.

In response to the International Monetary Fund's (IMF) program requiring tariffs to reflect the true costs of electricity, tariffs have risen by approximately 74% from September 2022 to April 2024. However, revenue collection has not kept pace. Between August 2023 and March 2024, the Electricity Company of Ghana (ECG) collected only US$598.76 million from tariffs, falling well short of the expected US$1.33 billion. This shortfall of US$724.68 million amounts to 54.76% of projected revenue based on power purchases, adding to the energy sector's existing debt.

From August 2023 to March 2024, the under-recovery in the energy sector amounted to US$724.68 million (excluding interests accrued, drawdowns on letters of credit and judgement debt), adding to the existing debt of US$852.5 million approved by parliament from May 17, 2023 to March 31, 2024. This means that the under-recovery creates an additional debt that is approximately 85% of the official borrowings. Efforts to address the energy sector's debt issues over the past few decades have been hindered by governance inefficiencies, stemming from a lack of political will to implement effective reforms.

Conclusion

The government is expected to prioritize capital projects when allocating the newly approved loans. By doing so, they aim to create a clear path for generating returns that would offset the acquired debt. This strategic approach is intended to ensure that the loans contribute to sustainable development and do not worsen the debt burden.

The IMF's Extended Credit Facility (ECF) provides temporary relief but achieving lasting debt sustainability requires addressing the root causes of debt accumulation—governance inefficiencies. Urgent long-term solutions are needed, including reforms and policies that rectify systemic inefficiencies, particularly within the energy sector.

To tackle the accumulation of debt in the energy sector, a complete transformation of the power distribution sector is necessary to achieve technical and managerial efficiency. This transformation would lead to a more financially stable sector, enabling more investments in retooling the power infrastructure for efficient power supply. As a result, this would free up budgetary resources currently used to settle inefficiencies, allowing for increased public spending on social programs.