

Towards Debt Sustainability in Highly Indebted Developing Countries: An Appraisal of some attempts

Joyce A. Quartey¹ Jonathan D. Quartey^{2*}

1. Department of Accounting and Finance, Christian Service University College, P.O. Box 3110, Kumasi, Ghana.
2. Department of Economics, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana.

* E-mail of the corresponding author: jdquartey@yahoo.com

Abstract

This paper appraises the efforts of official creditors to help highly indebted developing countries escape the vicious cycle of debt unsustainability. It examines three major models through which highly indebted developing countries were assisted to achieve debt sustainability, namely; the Baker Plan, the Brady Plan and the Highly Indebted Poor Countries Initiative. In spite of the huge monetary costs incurred to run these programmes, debt sustainability continues to be a major challenge for most of the economies that benefitted from debt relief. The example of Ghana, a beneficiary of the Highly Indebted Poor Countries Initiative is highlighted to support the general evidence from literature. Highly indebted developing countries certainly need more than debt relief, and it is probably becoming clearer that money may not be the most important need of developing economies.

Keywords: Baker plan, Brady plan, debt sustainability, developing countries, Highly Indebted Poor Countries Initiative, Ghana.

1. Introduction

Many factors have contributed to the debt crisis of developing countries. Some of these factors were the OPEC price increases in 1974 and 1979, the anti-inflationary fiscal and monetary policies in major industrial countries, resulting in a severe international recession and eventually leading to a decline in developing countries' commodity exports and prices, and the significant decline in capital flows to developing countries (Nunnenkamp, 1986). As a result of these factors, developing countries' debt increased significantly and became a world-wide problem with serious economic implications for both developed and developing countries (Todaro, 2000).

The initial major response from external creditors to this insolvency was to cut off the flow of net lending to highly indebted countries in the early 1980s (Agénor and Montiel, 1996). Since then, numerous proposals for solving the developing country debt crisis have been put forward. This paper critically appraises three different attempts to solve the developing country debt crisis. It begins with a brief introduction and conceptual framework, followed by a focus on three different attempts at solving the debt crisis. In each attempt, a brief background to the solution is provided, followed by a discussion of the features and implementation of the solution. The paper then highlights the experience of Ghana as a beneficiary of the Highly Indebted Poor Countries (HIPC) initiative and concludes with a summary and some policy implications for the way forward.

2. Conceptual Framework

Risk-neutral creditors perceive a public sector as solvent if the present value of its expected future debt service payments, discounted at the safe rate of interest is equal to the face value of its total debt. When this condition is met, the expected returns from lending to government will be equal to the opportunity cost of funds, attracting both new and existing creditors to continue a voluntary provision of funding for public sector use. The solvency condition is presented as:

$$PV (s_t - d_t; p_t - n_t, t) \geq \Delta_t$$

where Δ_t is total public debt, d_t the primary deficit, s_t seignorage revenue, all expressed as ratios to GDP and the effective discount rate is $p_t - n_t$, the difference between the real interest rate and the rate of growth of real GDP at time t . Assuming the ratio of primary surplus and seignorage to GDP as constant, the present value of debt service payments would be infinite whenever the rate of growth of real GDP exceeds the real rate of interest. This is because returns from the issue of new debt will exceed what is needed to service existing debt at the market rate of interest without increasing the debt/GDP ratio, guaranteeing solvency. Failure to attain this condition puts a constraint on the indebted economy to attract new debt since it will have to rely on generating from its own resources, large primary surpluses and the use of seignorage revenue (Agénor and Montiel, 1996).

3. Attempted solutions to the debt crisis of developing countries

The distortionary effects of the debt crisis on the domestic economy and its implications for economic growth in the highly indebted countries resulted in various international measures towards its resolution. This section discusses three main measures put forward to address the debt crisis of developing countries. These measures

are; the Baker Plan, the Brady Plan and HIPC (heavily indebted poor countries) Initiative. The Baker Plan and Brady Plan were measures taken to solve the debt crisis of the heavily indebted middle-income developing countries. The HIPC Initiative on the other hand, was a measure taken to solve the debt crisis of the heavily indebted poor countries.

3.1 The Baker Plan

Developing countries' debt stock grew from \$68.4 billion to over \$1.76 trillion, an increase of more than 2500 percent in the period 1970- 1997 (Todaro, 2000). It is relevant to note that a great deal of the debt was concentrated in those countries identified as the heavily indebted middle income countries. The debts of these countries were seen to be most vulnerable to default because of the very large share owned to commercial creditors at variable interest rates (Todaro, 2000). Perceiving that the crisis was a liquidity problem, the initial response of US was to increase liquidity in order to enable developing countries to grow out of their debt problems (Thirlwall, 1999). In view of this, James Baker, then Secretary of the United States Treasury, in October 1985 called for increased bank and official lending to fifteen heavily indebted middle-income countries in return for commitments from them to adjust their economies in growth oriented directions (Bowe and Dean, 1997). The then Secretary thus, suggested in this initiative that, the World Bank and other multilateral development financial institutions should reallocate existing funds and be given increased financial resources to stimulate market-oriented economic reforms (Conway, 1987). It is worthy of note that the official strategy of the Baker Plan was to restore the principal troubled debtors to creditworthiness without resort to debt relief (Cline, 1995, quoted in Bowe and Dean, 1997).

According to the Baker Plan, the commercial banks were to extend an additional \$20 billion and multilateral development financial institutions, additional \$9 billion in credit to developing countries over the period 1986- 88 (Conway, 1987). The additional lending was to be contingent on the implementation of market liberalisation economic reforms such as, trade liberalisation, financial liberalisation, removal of subsidies and privatisation of public-sector enterprises. Furthermore, other reforms normally linked with IMF programmes such as decreased budget deficits, reduced money supply growth and devaluation of over-valued exchange rates were also possible under the plan (Conway, 1987). The increased lending was to come from both increased total funding and a shift from the World Bank's traditional project lending (Conway, 1987).

3.1.1 Implementation of the Baker Plan

So far as the implementation of the Baker Plan is concerned, there was an increase in both private and official lending, although they fell somewhat short of the Baker targets. From 1986 to 1988 almost \$16 billion came from official lenders (both multilateral and bilateral) and \$13 billion came from the banks (Bowe and Dean, 1997). Bowe and Dean (1997) argue that the banks' reluctance to meet their target was in part due to a growing divergence in interests. They noted that the regional US banks had eliminated their exposures and had no further 'defensive' motive for new lending. On the other hand, European and Japanese banks were reluctant to lend anew because they lacked the tax and reserve advantages available to American banks.

It is also worth mentioning that the free rider problem also contributed to the failure of the banks to meet their target. In other words, although the collectivity of banks might gain from more relief, an individual bank may not have the incentive to grant relief due to the fact that a large part of the benefits from such relief would spill over to other banks (Corden, 1991). What is more, official lenders also did less than expected (although they gave more new money than the banks). This was because debtor countries had failed to meet IMF adjustment criteria (Bowe and Dean, 1997). Even where new money was given under the Baker Plan, it was argued that, there was the danger of multilateral lenders providing short-term finance and forsaking more productive, project-related areas of long-term lending (Conway, 1987).

Furthermore, the Baker Plan focused too strictly on countries with large debt-service burdens. This meant there was the possibility that other countries deserving official finance were overlooked (Conway, 1987). By 1989, it was realised that new money tied to structural adjustment was not working (Bowe and Dean, 1997). The weaknesses associated with the Baker Plan far outweighed any benefit it had. The Baker Plan thus, failed to have a meaningful impact on the debtor countries.

3.2 The Brady Plan

By mid-1988, it was obvious that the strategy of Baker Plan was not helping most heavily indebted countries to grow out of their problems and therefore the critical ratios of creditworthiness were not generally improving (Faber, 1990). Moreover, the stock of debt continued to grow as there were repeated rescheduling of principal and consolidations of interest (Clark and Kalter, 1992). It was against this background that the Brady Plan was announced by the then US Treasury Secretary, Brady, in March 1989. The thrust of the initiative was to shift official strategy from co-ordinated lending to debt reduction (Bowe and Dean, 1997). This is because it was realised during this time that the debt problem was more of a solvency problem than a liquidity problem. The Brady Plan therefore, proposed that the IMF and the World Bank allocate resources to encourage the reduction

of debt burdens and interest payments by debtor countries (Unal *et al.* 1993). Consequently, funds obtained from these institutions would be used to enhance the creditworthiness of securities to be exchanged for commercial banks' existing loans (Unal *et al.* 1993).

Furthermore, the new strategy was to do away with mandatory write-downs in favour of a voluntary, market based approach (Bowe and Dean, 1997). The main condition for the Brady Plan was that the indebted country should be implementing a strong set of adjustment and reform policies, which together with debt operations would make it possible for these countries to achieve substantial progress toward external viability (Clark and Kalter, 1992). This new initiative involved a menu of market-based debt and debt service reduction options for the commercial banks. These options included:

- The provision of new money over four years, equivalent to 25 percent of their existing exposure, net of loans exchanged with the exit instrument
- The reduction of the stock of debt by swapping of existing loans for new 30 years Brady bonds with 35 percent discounted face value
- The reduction of the cost of debt by swapping of loans for new 30 year Brady bonds at par value but at lower interest rate of 6.25 percent (Thirlwall, 1999; Clark and Kalter, 1992; Unal *et al.* 1993).

The menu approach was a concerted market based debt reduction in the sense that all bank creditors were in effect forced to participate either by providing debt relief or by providing new money (Bowe and Dean, 1997). In addition, the approach acknowledges creditor heterogeneity, and makes available financing packages that meet the country's financing requirements while still allowing some banks to reduce their exposure (Unal *et al.* 1993). Cost of debt relief is thus lowered by allowing banks to select options that best suit their particular tax, regulatory and accounting situations as well as their views on the future path of interest rates and the country's prospects (Clark and Kalter, 1987). The Brady Plan was intended for thirty-nine heavily indebted middle income countries that in 1989 owed a total of \$279 billion to foreign banks, the bulk of it long-term debt and therefore eligible for forgiveness (Sachs, 1989b, quoted in Bowe and Dean, 1997).

3.2.1 Implementation of the Brady Plan

It is relevant to note that by May 1994, Brady deals had been negotiated for eighteen countries, accounting for \$191 billion in eligible debt, and deals were in process for other six small countries, which also accounted for \$20 billion in debt (Bowe and Dean, 1997). About two-thirds of 'target' countries had therefore received agreements covering almost 90 percent of eligible debt. About \$70 billion debt was originally mentioned so far as forgiveness was concerned. Of this amount, \$60 billion or 86 percent was agreed to by May 1994 (Bowe and Dean, 1997). It is reasonable to say from the ongoing discussion that the Brady Plan more or less met its initial targets.

Furthermore, Cline (1995, quoted in Bowe and Dean, 1997), argues that secondary-market prices for representative Brady countries went up dramatically by the fourth quarter of 1993, relative to the fourth quarter of 1989. For instance, the secondary-market prices went up by 109 percent for Argentina and Brazil, 370 percent for Costa Rica, 128 percent for Mexico and 65 percent for the Philippines. This implies that the deal had attained some success. Debt reduction under the Brady Plan also raised confidence in the capital market. This was due partly to the voluntary and market-oriented nature of the Brady settlements and secondly to the psychological and political boost debt reduction gave to countries' willingness to pay (Bowe and Dean, 1997).

Another area where the Brady deal was successful was its impact on growth. Average GDP growth for three large and relatively early Brady countries, Argentina, Mexico and Venezuela, was 5.3 percent by 1991 to 1993, contrary to -0.7 percent in 1988 to 1989 (Bowe and Dean, 1997).

However, it has been argued that the value of the Brady deal has been overstated. For example, although \$49 billion of debt relief was stated in the case of Mexico, it has been calculated that the actual value of the debt relief was only \$12 - \$13 billion (Healey, 1995).

What's more, Sachs (1989, quoted in Vasquez, 1996) notes that the Brady Plan did not provide enough forgiveness. According to him the debt forgiveness would have been more effective with 40 percent and not the 30 - 35 percent provided under the deal. Furthermore, Vasquez (1996) argues that although some countries had their average GDP growth rate increased with the Brady deal, other countries like Nigeria and Brazil did not have that impact. To him, there was no correlation between the Brady Plan and positive economic indicators.

Additionally, it was obvious that other heavily indebted countries were excluded from the Brady deal because they did not meet the conditions of the Brady deal. Despite these shortcomings, the Brady Plan made it possible for some indebted countries to be relieved of some of their debt. The Plan's most significant potential contribution may have been the reduction, through the policy conditionality associated with resources provided by the international financial institutions, of the secondary burden associated with the internal transfer of resources to the public sector (Agénor and Montiel, 1996).

3.3 The HIPC Initiative

The Joint IMF-World Bank's comprehensive approach to debt reduction is designed to ensure that no poor

country faces a debt burden it cannot manage. To date, debt reduction packages under the Heavily Indebted Poor Countries (HIPC) Initiative have been approved for 36 countries, 30 of them in Africa, providing US\$75 billion in debt-service relief over time. Three additional countries are eligible for HIPC Initiative assistance (IMF, 2014).

The debt initiative for heavily indebted poor countries (HIPC) was launched in September 1996 when it was realised that despite considerable efforts by countries and creditors, many of the poorest developing economies still faced unsustainable debt burdens (World Bank, 1998). It was the first comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries and represented an important step forward in placing debt relief within an overall framework of poverty reduction (World Bank, 2002). This initiative could enable low-income countries to get out of the vicious circle of poverty. Forty-one countries were classified as heavily indebted poor countries. Most of these countries were in Africa and they accounted for 12 per cent of the debt of developing countries (World Bank, 1998). Almost all the debt of the HIPCs was owned to official creditors, bilateral and multilateral (UNCTAD, 1997).

Although the HIPC Initiative yielded a significant early progress there was a major review of the Initiative in 1999. This resulted in a significant enhancement of the original framework. The new initiative was often referred to as the "Enhanced HIPC Initiative" (World Bank, 2002) or "HIPC II" (Killick, 2000). Countries that qualified for this offer were the poorest countries that were only eligible for highly concessional assistance from the International Development Association (IDA), and from the IMF's Poverty Reduction and Growth Facility (previously the Enhance Structural Adjustment Facility) (World Bank, 2002). Furthermore, such countries must have established a track record of macroeconomic adjustment and reform supported by the IMF and the World Bank. Also, these countries must have been facing an unsustainable debt situation even after the full application of existing debt relief mechanisms (World Bank, 2002). In addition, Governments of these countries were expected to prepare a comprehensive Poverty Reduction Strategy Paper (PRSP). The PRSP had to be consultative in nature and should be acceptable to the Boards of both the IMF and World Bank (Killick, 2000).

The Enhanced HIPC Initiative had two stages of implementation. At the Decision Point (which will typically be reached after three years of sound performance of IMF and World Bank supported adjustment programmes), governments will be expected to present a document indicating key macroeconomic, structural and social reforms, with benchmark indicators, which it planned to pursue before reaching Completion Point (IMF, 2014). Subsequently, governments were expected to have established satisfactory implementation of the PRSP for at least 12 months at the Completion Point. This had no fixed timetable. But was determined depending on the speed with which the government implemented the measures above. At this point debt relief was provided with no further conditionality (IMF, 2014).

The total cost of providing assistance to the 39 countries that have been found eligible or potentially eligible for debt relief under the enhanced HIPC Initiative is estimated to be about \$74 billion in end-2012 net present value terms (IMF, 2014). The cost rose from roughly \$12.5 billion in present value terms under the original framework to potentially more than \$29.3 billion, before reaching its current level. Resources available in the trust are currently insufficient to finance the cost of debt relief to all countries that meet the initial conditions for debt relief and reach the decision point. The original financing plan did not include the cost of debt relief to Sudan and Somalia, as well as to other countries that entered the Initiative after 2006. Should these countries progress to the decision point, there would be an urgent need to mobilize resources (IMF, 2014). Social expenditures such as education and health spending were expected to absorb about two-thirds of the total relief.

3.3.1 Implementation of the HIPC Initiative

According to World Bank (2002), twenty-four countries had reached their decision point under the enhanced HIPC Initiative and four countries reached its completion point under the original HIPC Initiative by 2002. These twenty-four countries received relief, which was to amount to about \$36 billion over time. Their debt stock was thus reduced by nearly 50 percent. HIPC trust fund had also been established and had obtained \$2.5 billion in bilateral contributions and pledges from about twenty countries. Currently, the challenge is to ensure that eligible countries get full debt relief from all their creditors. Although the largest creditors (the World Bank, the African Development Bank, the IMF, the Inter-American Development Bank, and all Paris Club creditors) have provided their full share of debt relief under the HIPC Initiative, and even beyond, others are lagging behind. Smaller multilateral institutions, non-Paris Club official bilateral creditors, and commercial creditors, which together account for about 26 percent of total HIPC Initiative costs, have only delivered a small share of their expected relief so far (IMF, 2014).

Debt relief under the enhanced HIPC Initiative, made it possible for many heavily indebted countries to increase social spending, especially in the areas of education and healthcare. For example, Uganda doubled primary school enrolment with their debt saving, Honduras offered three additional years of free schooling. Other countries were able to increase their spending on HIV/AIDS prevention and treatment, etc (Jubilee, 2000). For the 36 countries receiving debt relief, debt service paid, had declined by about one and a half percentage

points of GDP between 2001 and 2012 (IMF, 2014).

One important aspect of the Enhanced HIPC Initiative was that, it went beyond just making more money available. As a result of the linkage of the Enhanced HIPC Initiative to poverty reduction and insistence on a participatory approach to the development of anti-poverty strategies, the profile of the poverty reduction goal was raised (Killick, 2000). This, Killick (2000) notes may have improved the relationships between debtor governments and their civil societies and may consequently have had a multiplying effect on the allocation of resources to poverty reduction.

However, although there has been progress on relief for the world's poorest countries, the relief offered so far under both the HIPC Initiative and the Enhanced HIPC Initiative is not enough, considering the fact that these countries still spend more (about \$1.3 billion per year) in repaying debt. Jubilee (2000) notes that some countries (for example, Niger and Zambia) faced increased debt service payments after HIPC than before. The danger here is that, many of the world's most heavily indebted countries in the long run may see their overall level of debt and debt service burdens rise, potentially erasing the gains they have made in the social sector. This means there is the need for a deeper and broader debt relief (Jubilee, 2000). Furthermore, there is the danger of excessive reliance on conditionality under the HIPC Initiatives, especially with HIPC II. This, it has been argued, often undermines ownership, and does not effectively promote sustained policy change nor safeguard against morale hazard. What is more, it is not a substitute for greater selectivity in the allocation of aid (which includes debt relief) across countries (Killick, 2000).

Another area of much concern is the new linkage of debt relief to poverty reduction. There is the danger that this linkage will divert attention from the fundamental task of raising domestic saving and the productivity of investment within debtor countries. This is very crucial, since without it there will be little lasting progress against poverty. Additionally, there is the danger of switching aid to HIPC II countries at the expense of other poor countries, which do not have large debt problems, for example, Bangladesh (Killick, 2000).

Much as debt relief could be helpful to highly indebted nations, it could create a dependency problem where a decline in the ability of donors to supply credit can hamper growth in developing countries. The case of possible donor fatigue may also be relevant here. The IMF has noted that it may be very difficult to raise additional funding for HIPC (IMF, 2014), implying that debtor developing countries may eventually have to rely on high interest private credit, which may not even be forthcoming in good time. This raises the question of whether highly indebted developing countries should even put their hopes in debt relief. This dilemma will have to be addressed boldly by all development minded stakeholders, particularly when it is evident that donors also need these resources to maintain their economies.

On the other hand, corruption has been a hindrance to solvency in many developing countries as well as mismanagement and inefficient use of public funds. These serve as drains on the public purse and so sometimes debt relief provides opportunity for corrupt public officials to fill their pockets. This denies public sector the opportunity to create the necessary multiplier effect of debt relief, for growth to yield dividends for debt servicing and development. It will thus be crucial for donors to develop active interest in corruption and its eradication as one measure to improve solvency in highly indebted developing countries, not just to frown on it, as the case has been. Denying corrupt and inefficient governments debt relief is a prudent way to ensure efficient allocation of scarce debt relief.

4. Ghana's debt sustainability example

Total public debt continues to grow in Ghana even though Ghana enjoyed significant debt cancellation from 2005 after satisfying the HIPC completion point requirements. Under the HIPC programme, Ghana's total debt stock rose from GHS 4,088 million in 2000 to GHS 8,323 million in 2003 and then to GHS7,418 million in 2004 and GHS7,491million in 2005. After attaining the HIPC completion point in 2005, there was a significant decline in debt stock to about GHS4,889 million in 2006.

Table 1: Ghana's total public debt (in million Ghana Cedis (GHS)) and Debt-GDP ratio, 2002-2012 (US\$1.00 = GHS3.10)

Item/Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total public debt	6909	8323	7418	7941	4889	7066	9013	13158	17036	23315	34917
Debt-GDP Ratio	135.3	125.8	93.2	82.4	26.1	30.5	29.9	36.0	45.7	42.5	50.2

Sources: ISSER (2013), IMF (2013)

Thus the effect of HIPC seemed to have materialized for Ghana in 2006. Since 2006 however, Ghana's debt stock has been on the increase from GHS7066 million in 2007 to GHS23,315 million in 2011 and then GHS34,917million in 2012. The debt build up had been attributed to inflows of non-concessionary debt for infrastructure development as well as long-term financial instruments. Table 1 shows Ghana's total public debt and Debt-GDP ratio from 2002 to 2012. The IMF (2013) observed that Government debt in Ghana exceeded its

pre-HIPC levels. The trend of Ghana's increasing total public debt from 2002 to 2012 is shown in Figure 1.

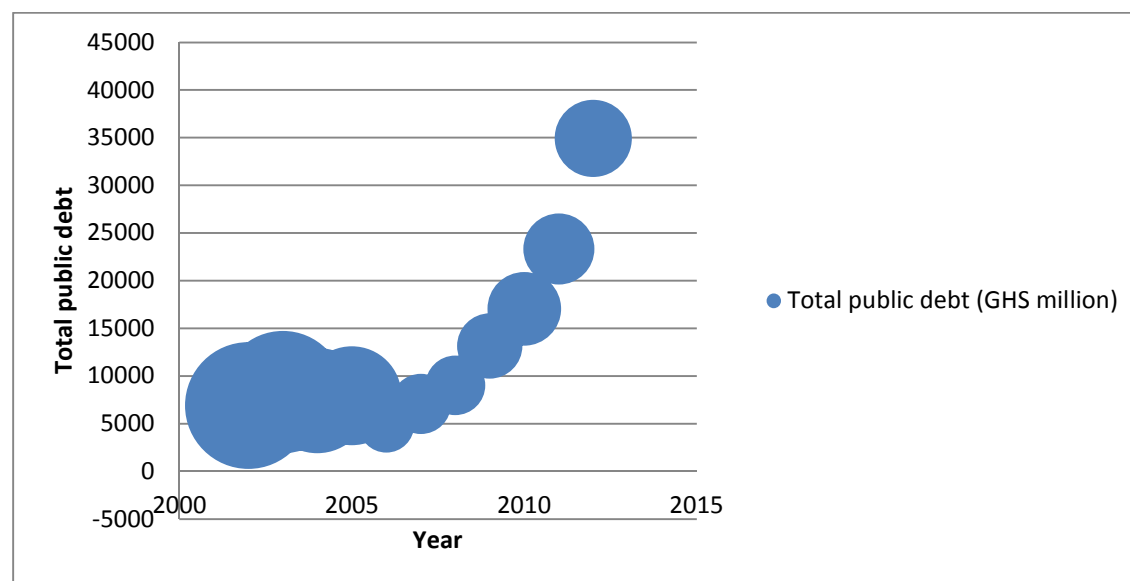


Figure 1: Ghana's mounting total public debt (in million GHS) from 2002 to 2012

Source: Based on Table 1.

As at 2010, Ghana's National Development Planning Commission (NDPC) had observed that, in spite of the substantial debt write-off under the HIPC and Gleneagles Debt Initiatives within the past decade, Ghana's debt stock, over 60% of GDP, was approaching unsustainable levels again (NDPC, 2010). The main concern was about the dwindling sustainability of Ghana's debt stock. With a deteriorating Debt-to-GDP ratio from 26.1% in 2006 to 50.2% in 2012, Ghana needs to learn from the example of many developed economies, who, just before their credit crunch, were rated to have debt sustainability (ISSER, 2013). As a solution to debt unsustainability, the implementations of the HIPC initiative run into significant difficulties, as shown in Ghana's situation.

An IMF (2013) debt sustainability analysis found Ghana's risk of debt distress to have risen but could remain moderate, provided fiscal adjustment continued beyond the medium term. This would stabilise the debt-GDP ratio at its relatively high current level of about 50 percent of GDP (baseline). If further medium-term adjustment is not carried out, the debt-GDP ratio would continue to rise (passive scenario). A more front-loaded adjustment, with additional savings of 3 percent of GDP by 2015, would set the debt-GDP ratio on a much more benign trend (active scenario). Total public debt is projected to stabilise at approximately 52 percent of GDP in the long run, with debt service absorbing more than 40 percent of government revenue (IMF, 2013). Table 2 shows the structure of the long run projection of Ghana's public sector debt based on IMF (2013) computations.

Table 2: Public sector debt in Ghana; 2013-2033 projections (in percentage of GDP)

Item/Year	2013	2014	2015	2016	2017	2018	2023	2033
Public sector debt	51.4	52.5	52.5	52.9	54.9	54.8	56.3	52.1
Revenue and grants	20.5	21.0	21.3	21.4	21.6	22.3	21.7	21.6
Debt relief (HIPC and other)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0

Source: IMF (2013)

Figure 2 shows that there exists a tendency for Ghana to remain above the 50 percent debt-GDP ratio if government does not implement measures consistent with the active scenario solution. Any business-as-usual approach to Ghana's debt sustainability situation will make economic conditions worse than before. It appears donor conditionality will be needed to get Ghana onto the active scenario pathway; verbal and documented commitments to addressing fiscal imbalances seem to have always not yielded the right results. The explanation for Ghana's performance might lie in the fact that the HIPC initiative was probably inappropriate for the economy or that not much was done to sustain the initial gains, after reaching the completion point, due to complacency.

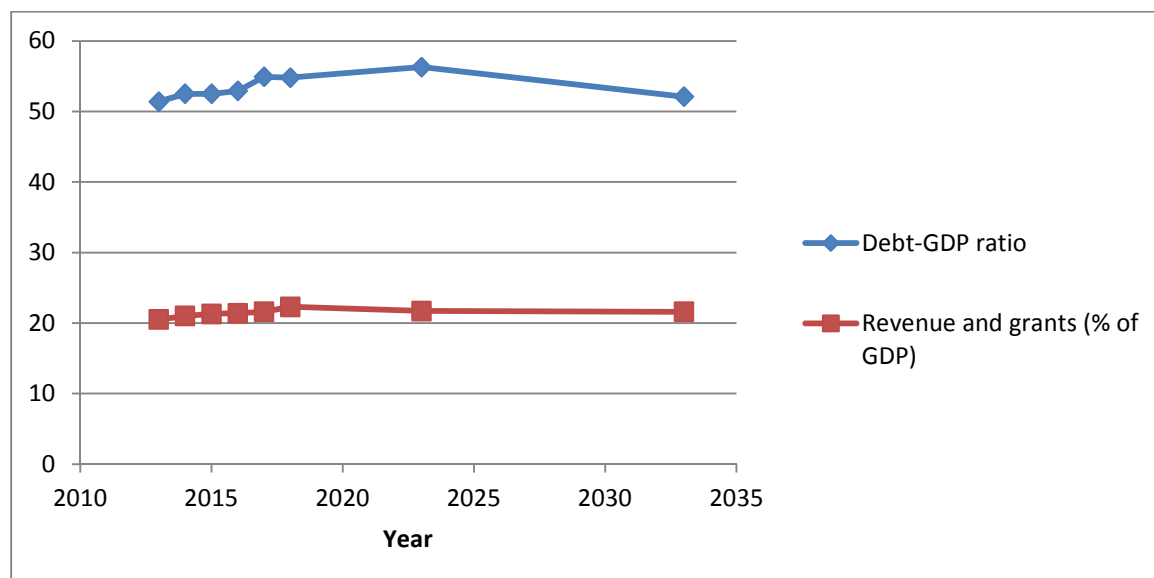


Figure 2: Long run Debt-GDP ratio with Revenue and grants (as percentage of GDP) in Ghana

Source: Based on Table 2.

The NDPC's solution is worth considering; addressing existing fiscal imbalances in the Ghanaian economy through a series of structural policy measures, while Government maintains fiscal discipline in the management of revenues and expenditures. The implementation and not only declaration of these measures in policy documents is critical to avert an imminent return to Ghana's pre-HIPC days.

5. Conclusion and policy implications

The Baker Plan, which was launched in 1985, was to help resuscitate growth in heavily indebted middle income countries. It however, failed to deliver these countries from the debt crisis (Culpeper, 1993). The Brady Plan was proposed in 1989 (after the failure of the Baker Plan) with the aim of shifting from the strategy of co-ordinated lending to debt reduction, when it was realised that the debt crisis was not just a liquidity problem but a solvency problem (Vasquez, 1996). The Brady Plan, even though met some targets only partially fulfilled its vision. The HIPC Initiative and later Enhanced HIPC Initiative were launched in 1996 and 1999 respectively. These initiatives aim at reducing the heavily indebted poor countries' debt burden to levels that can be serviced without the need for further rescheduling in the context of sound growth and development programmes (World Bank, 1998).

Although there has been progress on debt relief for the world's poorest countries, the relief so far offered under these initiatives is not enough to get the poorest countries out of the vicious circle of poverty (Jubilee 2000). There is therefore, the need for a deeper and broader debt relief. This should be accompanied by unambiguous policy guidelines against corruption and economic mismanagement with effective sanctions against defaulters, for the entire period of indebtedness from official creditors. The earlier the loose ends of debt sustainability solutions are tightened, the better it will be for both developed and developing economies. Also, countries approaching debt unsustainability need to plan to stay away from excessive credit in their own interest, particularly because of the macroeconomic effects of debt overhang on developing economies. From the current state of affairs, it appears some developing countries have grown so used to debt relief that official creditors will have to find an effective way to wean them off debt relief. Such relief was meant to be the exception rather than the rule.

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