The fall and rise of Ghana's debt
How a new debt trap has been set

EXECUTIVE SUMMARY – OCTOBER 2016

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Ghana is in a debt crisis. Despite having had significant amounts of debt cancelled a decade ago, the country is losing around 30% of government revenue in external debt payments each year.[1] Such huge payments are only possible because Ghana has been able to take on more loans from institutions such as the International Monetary Fund (IMF), which are used to pay the interest on debts to previous lenders, whilst the overall size of the debt increases.

Ghana's crisis is the result of a gradual increase in lending and borrowing off the back of the discovery of oil and high commodity prices. More money was then borrowed following the fall in the price of oil and other commodities since 2013, to try to deal with the impact of the commodity price crash, whilst the relative size of the debt also grew because of the fall in the value of the Ghanaian currency, the cedi (GH¢), against the dollar ($).

The underlying causes of the return to a debt crisis are therefore the continued dependence on commodity exports, as well as borrowing and lending not being responsible enough, meaning that new debts do not generate sufficient revenue to enable them to be repaid.

At the moment, all the costs of the crisis are being born by the people of Ghana, and none by the lenders. This is unfair. Lenders should carry their share of the cost of any irresponsible lending, and of the change in circumstance caused by the fall in commodity prices.

Additional action is also needed in order to prevent a repeat of Ghana's crisis, including changes on the part of the government and lenders to ensure that loans are well used, and that more of the revenue generated by the economy is turned into government revenue by taxation.

Commodity dependence

Ghana's dependence on commodities dates back to colonialism. The borders of the country now known as Ghana were established by the British colonists in the late-19th century. The Europeans had first started coming to the 'Gold Coast' in the late-15th century to open up alternative trade routes to the Sahara in order to access the region's gold. The Portuguese, Dutch, British, Germans, Swedes and Danes all built or occupied castles and forts which were used as prisons for the slave trade.

The ending of the slave trade coincided with the industrial revolution, when European powers once again became more interested in Africa's physical commodities – raw materials such as fossil fuels, metals and cash crops – rather than in forcibly shipping its people across the Atlantic. With the 'scramble for Africa' in the 19th century, the British extended their influence further inland, seeking direct control of gold and other resources.

Whilst Ghana was the first colonised country to achieve independence in 1957, almost 60 years on, the country's economy remains dependent on the export of just three primary commodities – gold, cocoa and now oil, which together make up over 80% of Ghana's exports.[2]

Debt crisis and debt cancellation

This dependence on commodities was the central factor underlying a debt crisis which was common to much of the global South in the 1980s and 1990s. Global commodity prices fell at the start of the 1980s, rapidly increasing the size of foreign debt payments which could only be paid out of foreign earnings such as exports. As commodity producers across the world expanded production in order to pay debts, on the advice of the IMF and World Bank, commodity prices stayed low for over 20 years.

From the mid-1990s the global Jubilee movement called for debt cancellation, which led to the creation and enhancement of two debt relief schemes run by the IMF and World Bank, the Heavily Indebted Poor Countries initiative and Multilateral Debt Relief Initiative.

As a result of this debt cancellation, Ghana's government external debt fell from $6.6 billion in 2003 to $2.3 billion in 2006.[3] Significant improvements in education and healthcare followed, due to money being saved and invested, alongside good government policies, enhancing basic service provision. The proportion of children completing primary school was static at around 60–70% from 1980 to 2006, since when it has increased to almost 100%.[4] The proportion of births attended by a skilled health professional only increased from 44% to 47% between 1998 and 2006, but in the following eight years it increased to 74%.[5]

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Commodity and lending boom, and manufacturing decline

However, Ghana's dependence on commodities continued, and as prices rose, this created more willingness for lenders to give loans off the back of a growing economy.

Gold and cocoa prices began to increase from the mid-2000s, as part of a global boom in primary commodity prices heavily influenced by Chinese growth and demand, on top of continued high consumption in rich North American, European and Asian economies. Furthermore, Ghana discovered oil, and began to produce and export it from 2011.

Collectively these changes led to a booming economy. Between 2006 and 2013 Ghana's GDP per person grew by 44%.[6] However, over the same time period the number of people living below the national poverty line only fell by 10%, a slower rate than in the previous seven years when growth had been far lower.[7] The reason was that much of the proceeds of growth went to those with the highest incomes. For every GH¢1 increase in income for the poorest 10%, the incomes of the richest 10% increased by more than GH¢9.

This rapid economic growth led to an increased willingness and desire of various institutions to lend to Ghana, with a corresponding willingness to borrow. Loans increased steadily from 2008 to 2011. In total, between 2007 and 2015 there were $18.2 billion of external loans and $8.7 billion of debt payments, leaving $9.5 billion of the additional borrowing to be spent within Ghana.

There is little transparency on what the loans were used for, from both the government and lenders. The IMF figures on public capital formation show no relationship with the increase in lending, suggesting that whilst some loans could have been used for investment, the increase in lending did not lead to an increase in investment.

One of the more transparent lenders is the World Bank. Whilst they provide little information before loans are agreed – preventing civil society, media and politicians from holding the government and the World Bank to account – they do publish details during and after projects. Our analysis of these reports shows that 25% of outstanding debt from Ghana to the World Bank is for projects where the World Bank judged its own performance to be less than satisfactory.

Moreover, between May 2007 and February 2015 Ghana was assessed by the IMF and World Bank to be at moderate risk of debt distress, and since March 2015 of high risk. The World Bank is only meant to give half its support to moderate-risk countries as loans, and the other half as grants; to high-risk countries it is only meant to make grants. Yet between May 2007 and February 2015, 93% of World Bank funding to Ghana was in the form of loans. And since March 2015 when the World Bank was meant to stop giving Ghana loans, it has agreed $1.16 billion of new loans or loan guarantees.[8]

With high commodity prices and the beginning of oil production, export revenues increased rapidly from 2008 to 2012. Yet there is evidence that manufacturing was crowded out. As a share of GDP, manufacturing production halved from over 10% in 2006 to 5% by 2014.[9]

Commodity price crash and the new debt trap

A combination of the recent fall in the price of commodities and the loans not being used well enough to ensure they could be repaid has now pushed Ghana back into debt crisis.

In early 2013 the price of gold fell significantly, as did the price of oil from the start of 2014. Since the start of 2013 the value of the cedi against the dollar has fallen by 50%. This has caused the dollar-denominated size of Ghana's economy to fall from $47.8 billion in 2013 to $36 billion in 2015.[10] Because external debts are owed in dollars or other foreign currencies, this has in turn increased the relative size of the debt and debt payments. External debt has grown from $14.7 billion in 2013 to $21.1 billion in 2016 (an increase of 44%), yet because of the depreciation external debt has gone up from 30% of GDP in 2013 to an expected 56% in 2016 (an increase of 87%).[11]

One response to these economic shocks has been for the government to borrow more money, most visibly through $1 billion of bond issues each in 2013, 2014 and 2015, all under English law. This money has mainly been used to make external and domestic debt interest and principal payments, and to fund ongoing government costs, plugging the gap created by dollar revenue being lower than expected. Less visibly, there has also been significant borrowing directly from external financial institutions.

The interest rates on the new debts are high, rising from 7.9% for the 2013 bond issue to 10.75% for the October 2015 one. For the October 2015 bond issue, the World Bank once again broke its own rules by guaranteeing $400 million of payments if the Ghanaian government fails to make them. The World Bank is not meant to give such guarantees for governments assessed as at high risk of debt distress, which Ghana had been for the previous seven months. The high interest rate and guarantee mean that if the Ghanaian government were to pay the interest every year until 2024, then default on all other payments from 2025, including the principal, the bond speculators would still have made $90 million more than if they had lent to the US government. *This means that the speculators lent to Ghana believing that there was a high chance they would not be fully repaid.*

However, for the moment those speculators are being paid, in part because since April 2015 the IMF has been lending more money which is being used to meet debt payments, effectively bailing out previous lenders. In return, the Ghanaian government has to cut government spending and increase taxes, a process which is expected to intensify further after the December 2016 elections. Under current plans, government spending per person (adjusted to account for inflation) will fall by 20% between 2012 and 2017.[12]

The IMF estimates the Ghanaian government's external debt payments in 2016 will be 29% of revenue, well

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above the 18–22% it normally regards as the upper limit of sustainability. Payments are expected to stay well above 20% of revenue until at least 2035.[13] This is only considered possible due to a combination of very optimistic expectations and requirements for large spending cuts and tax increases, the very things the IMF has been criticising the European Union for in the case of Greece.[14]

The IMF predicts:

- **Dollar GDP growth averaging 8.2% a year from now until 2035.** Yet, from 2008 to 2015 Ghana's economy grew at less than half this rate despite the discovery of oil.[15]
- **Growth in government revenue in line with GDP, collecting 19–21% a year.** Yet, Ghana has only once collected 19% of GDP in government revenue in a year (in 2011) since IMF records began in 1980. Of low- and middle-income countries that grew at 8.2% a year or more between 2008 and 2014, only one in five managed to increase government revenue as a proportion of GDP over the same period.[16]
- **A fall in the average interest rate paid on external debt from 5.1% to 4.1%.** Yet, interest rates on external private and multilateral debt have been increasing, and dollar interest rates are expected to increase as and when the US Federal Reserve continues to raise rates.
- **A large primary budget surplus by 2017, and continuing surpluses from then on.** Yet, this will mean continuing government spending cuts and tax increases, and will take demand out of the economy, thereby reducing growth and risking a classic debt trap where austerity leads to less growth, which in turn increases the relative size of the debt, which leads to more austerity and less growth, and so on.

Escapes from the trap

Debt is already placing a significant burden on Ghana's economy and society, and the country is at risk of falling back into an extended debt trap, with an economic stagnation and possible increases in poverty rates and failure to implement the Sustainable Development Goals. Today's crisis has resulted from a multitude of factors: failure to diversify away from commodities, the government and lenders failing to ensure loans were used productively enough, falling global commodity prices, particularly gold and oil, and the opportunism of speculators lending at high interest rates seeking large profits.

The people of Ghana should not have to bear all the suffering of a crisis caused by government policy, irresponsible lenders, and global economic shocks, especially when speculators continue to extract large profits from the country.

Below are a range of measures we believe would help Ghana avoid a protracted and damaging debt crisis, whilst also helping to prevent a repeat of the cycle of debt and crisis.

1) Conduct a debt audit

The Ghanaian government should:

- Publicly reveal how much debt there is, who loans were given by, what they were for (including whether for projects or general budget support) and on what terms.
- Establish an independent debt audit commission made up of domestic and international experts and give it access to all the information needed. As well as analysing all the terms of loans and their costs and benefits, a debt audit commission could propose new accountability mechanisms on government and lenders to ensure that where loans are given they are well used.

Lenders should:

- Publicly reveal all the loans they have given, what they were for and on what terms.
- Commit to working with an independent debt audit commission should one be established.

2) Make lending and borrowing more productive and accountable

The Ghanaian government should:

- Fully implement the Public Financial Management Act 2016.
- Publicly release all documents concerning new loans and any projects they are funding before contracts are signed so that they can be scrutinised by the media, parliamentarians and civil society organisations.
- Ensure parliament has scrutinised and approved new loans and/or projects before contracts are signed.
- Ensure projects are independently evaluated before, during and after their duration.
- Consult on and publish a debt strategy which fits with the national development plan.

Lenders should:

- Require all of the points above to be implemented before agreeing a loan.

The UK and other major jurisdictions under which debt is issued should:

- Pass a law that requires all loans issued under their jurisdiction to governments or with government guarantees to be publicly disclosed at the time the loan is given, otherwise the debt will be unenforceable under that jurisdiction's law.

3) Make adjustment fair

The Ghanaian government should:

- Protect all vital public spending, such as on healthcare and education, social services and welfare protections, and key economic infrastructure.
- Increase tax revenues from large companies and rich individuals, including by ceasing to grant tax waivers, including for public-private partnership projects, and increasing the capacity of tax collection authorities to ensure existing laws relating to issues such as transfer mispricing are implemented.

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Other governments should:

- Agree to the creation of a UN tax body to coordinate global tax rules, as proposed by developing countries at the UN, in order to ensure such rules reflect the needs of developing countries.
- Agree to renegotiate bilateral tax treaties with Ghana to ensure the Ghanaian government is receiving a fair level of tax.

4) Hold a debt conference

The Ghanaian government should:

- Request support from UNCTAD with the organisation of a debt conference.
- Call a debt conference with all creditors with the aim of agreeing burden sharing to get debt payments down to a sustainable level.
- Discuss with other governments in similar situations whether a joint conference or coordinated actions would be useful.

Lenders should:

- Commit to taking part in a debt conference to agree debt restructuring to get debts down to a level assessed as consistent with meeting the Sustainable Development Goals by an independent expert such as UNCTAD.

Some private creditors may refuse to abide by the outcome of any conference. All the dollar denominated bonds are owed under English law, and we suspect other private commercial debt is too. **Therefore the UK government should:**

- Commit to passing legislation to ensure that the agreed outcomes of any conference are enforced on private creditors who refuse to comply.

5) Default or threaten to default on some of the debt

The Ghanaian government should:

- Make a clear commitment to paying domestic debt, including ahead of other debts.
- Investigate whether it can reintroduce the rule preventing cedi-denominated domestic debt being bought by external actors, thereby maintaining a clear distinction between domestic and external debt.
- For any external debt which is issued in the future, try to denominate it in cedis to prevent exchange rate risk.
- Consider defaulting on the private debt which speculators lent irresponsibly and are not expecting to be repaid, and on which significant interest has already been paid. Or at the very least threaten to default on these private external debts so as to motivate creditors to come to the table and agree to better terms or to take part in a debt conference to negotiate a comprehensive debt restructuring.

The IMF should:

- Accept that its expectations of Ghana's economy are over-optimistic and place all the burden on the people of Ghana and none on the lenders.
- State that it will continue to lend if Ghana defaults on the private external debt.
- Require a restructuring of all of Ghana's external debt before a certain date, ideally through a comprehensive debt conference, in order to incentivise private and other creditors to negotiate.

The UK government should:

- Pass legislation to make it easier for debts owed under English law to be restructured. This could include introducing a collective action clause across all private external debt owed under English law (both bonds and non-bonds) and/or, restricting how much can be claimed in a UK court to the amount a creditor paid for the debt (as the Belgian Vulture Fund law of 2015 does).[17]

6) Cancel unjust debts

The World Bank should:

- Cancel at least 46% ($1.4 billion) of the debt it is owed by Ghana on the basis that these loans should never have been made under its own rules,[18] and that 25% of the debt is owed on projects where the World Bank rated its own performance as less than satisfactory.
- Comply with its own policy and only give grants to Ghana whilst it is at high risk of debt distress.
- Review whether it is complying with its own policy for all other countries with a Debt Sustainability Analysis.

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6 All figures for growth in this report take account of the rebasing of GDP figures in 2010. Source for this statistic is IMF. World Economic Outlook Database.
7 Cooke, E., Hague, S., and McKay, A. (2016). *The Ghana poverty and inequality report using the 6th Ghana Living Standards Survey*. March 2016.
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12 Calculated using data from IMF and World Bank Debt Sustainability Analysis, December 2015. http://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr1616.pdf
13 IMF and World Bank Debt Sustainability Analysis, December 2015. http://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr1616.pdf
14 Since the summer of 2015, unlike European institutions, the IMF has refused to lend more money to Greece because it does not regard the debt as payable. The IMF has argued that the EU's projections for the Greek economy are overoptimistic, and that the debt cannot be sustainable unless there is significant debt relief.
15 IMF. World Economic Outlook Database.
16 Calculated from IMF. World Economic Outlook Database.
17 http://www.eurodad.org/Entries/view/1546406/2015/05/12/New-anti-vulture-fund-legislation-in-Belgium-an-example-for-Europe-and-rest-of-the-world
18 As set out above, 50% of the World Bank's finance for Ghana should have been grants, 50% loans, but it gave 93% as loans. So 43% of the finance that was loans should not have been given, which is 46% of the loans (43 / 93 = 0.46).