October 2016

The fall and rise of Ghana's debt

How a new debt trap has been set

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How a new debt trap has been set

By Tim Jones

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Glossary

Bond

A ‘bond’ is one of the means by which governments borrow. A government can borrow money in return for issuing a contract saying that it will repay the money in full in a certain number of years (eg, 10 years) as well as interest every year until then (eg, 3%). This contract is known as a ‘bond’. The bond is then tradable. Whoever initially lent the money usually sells the bond on. Such bonds are bought and sold every day on financial markets. The current owner of a bond is called a ‘bondholder’.

Bonds attract the most attention from the media because they are traded on financial markets so they are the most visible (though it can be very difficult to know who owns bonds at a particular time). However, they are only part of the debt of most governments.

Debt service

Debt service is the amount spent on paying debt principal and the interest over a particular period of time, usually one year.

Default

Default is missing a debt payment when it is due. Often contracts allow for a ‘grace period’ after a payment is missed before a default is officially declared – often around one month. A default can be a full default – on all payments coming due – or a partial default – on just some of the debts, usually depending on who the creditor is.

Financing gap

The financing gap for a government is the difference between how much money it plans to spend, including on debt principal and interest payments, and how much income it expects to receive from tax and grants. It is therefore the amount of money which needs to be borrowed to cover any difference.

Government deficit

The deficit is the difference between the amount a government receives in tax and grant income and how much it spends, including on debt interest payments (but not debt principal payments). If a government has a deficit it normally means it has to borrow to fund the difference, which means its total debt increases.

A government’s primary surplus / deficit is the difference between how much it receives in tax and grant income, and how much it spends, not including interest payments. Therefore, a government can have a primary surplus but an overall deficit where it is earning more than it is spending, not including debt and interest, but has to borrow more to cover interest payments.

International Monetary Fund (IMF)

The International Monetary Fund is an international organisation which was created by the US and UK at the end of the Second World War. Its original purpose was to give loans to countries suffering from short-term economic crisis, in the expectation that they would quickly recover, and the loans would be able to be repaid.

Overtime, and particularly since the Third World Debt Crisis began in the 1980s, the IMF has shifted to lending to countries in longer-term economic crisis that are unable to pay their debts. These IMF loans repay the original lenders, whilst the debt remains with the country. In return for such loans, the IMF usually insists on changes to government policy such as cuts in government spending, increases in regressive taxes such as VAT, privatisation of state owned companies and removal of regulations on businesses.

The IMF is run by its member governments according to a voting formula designed to ensure the US and Europe control the institution. The US has 17% of votes at the IMF, therefore having an effective veto on major changes, as these require an 85% majority. European countries have 32% of the votes. Ghana has 0.18% of the votes. The head of the IMF has always been a European, following a deal agreed between the US and Europe, and the head of the World Bank has always been American.

Principal

Debt principal is the amount that was originally lent, minus any of it which has been repaid.

Reserves or foreign exchange reserves

Reserves, or foreign exchange reserves, are money held by a government (usually through its central bank) in foreign currencies which can be used to buy imports and pay debts. Foreign exchange reserves are most often dollars but can also include other currencies such as euros, yen, yuan and pounds. If these reserves were held as physical cash they would not earn any interest. They are therefore held by owning secure but easily sellable assets denominated in the currency concerned, usually government debt of the country whose currency it is (eg, US government debt for dollars, German government debt for euros).

World Bank

The World Bank is an international organisation, setup by the US and UK at the end of World War Two, to lend money to governments for investment projects. It has subsequently become five separate institutions. One branch, the International Development Association (IDA) gives grants or lends to the governments of a set of low- and lower-middle income countries, including Ghana.

Executive summary

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]

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.

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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 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]

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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.

Other governments should:

- Agree to the creation of a UN tax body to coordinate global tax rules, as proposed by developing countries

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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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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
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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).

Debt cancellation but continued commodity dependence

"Schools were rehabilitated over the last decade, more classrooms were added. Other than that, there have been no other developments in the area. The sugar factory shut down more than 20 years ago, and the textiles factory 15 years ago. Since then they've not been replaced by any other industry. Most people are reliant on farming, whilst the youth all move to Accra to do donkey work."

MADAM MAATYO DEDO AZU, SOMANYA, EASTERN REGION

Throughout this report there are quotes from community members from Somanya, Peki and Accra who participated in meetings on Ghana's economy in May 2016.

The history of commodity dependence

Ghana's dependence on commodities is a major vulnerability for the Ghanaian economy and contributor to the current debt crisis. This dependence 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 than the Sahara 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 end of the slave trade coincided with the industrial revolution, when European powers once again became more interested in the physical commodities of Africa 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 the gold and other resources.

Whilst Ghana was the first colonised country to achieve independence in 1957, almost 60 years on, the country's income from the rest of the world remains dependent on just three primary commodities – gold, cocoa and now oil, which together make up over 80% of Ghana's exports.[19]

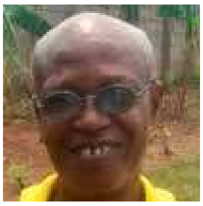
This dependence on commodities was the central factor underlying a debt crisis which was common to much of the global South in the 1980s and 1990s. Globally commodity prices fell at the start of the 1980s, rapidly increasing the size of foreign debt payments which could only be paid out of foreign earnings 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.

Debt cancellation under the Heavily Indebted Poor Countries initiative

The debt crisis of the 1980s and 1990s finally came to an end a decade ago after significant amounts of Ghana's debt were cancelled. This debt cancellation helped improve social outcomes, particularly in health and education.

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

HIPC was created by the IMF and World Bank in 1996. Initially the aim was to cancel enough of an indebted country's multilateral and bilateral debts so that the total debt would fall to an arbitrary level viewed by the IMF and World Bank as 'sustainable'. In 2005 the MDRI was added to it. This scheme cancelled all debts from loans made before the end of 2004 by the IMF, and before the end of 2003 by the World Bank and African Development Bank. In addition, many governments went beyond the amount of debt they needed to cancel based on HIPC calculations. Private-sector creditors were asked to take part in HIPC cancellation, but it was voluntary.

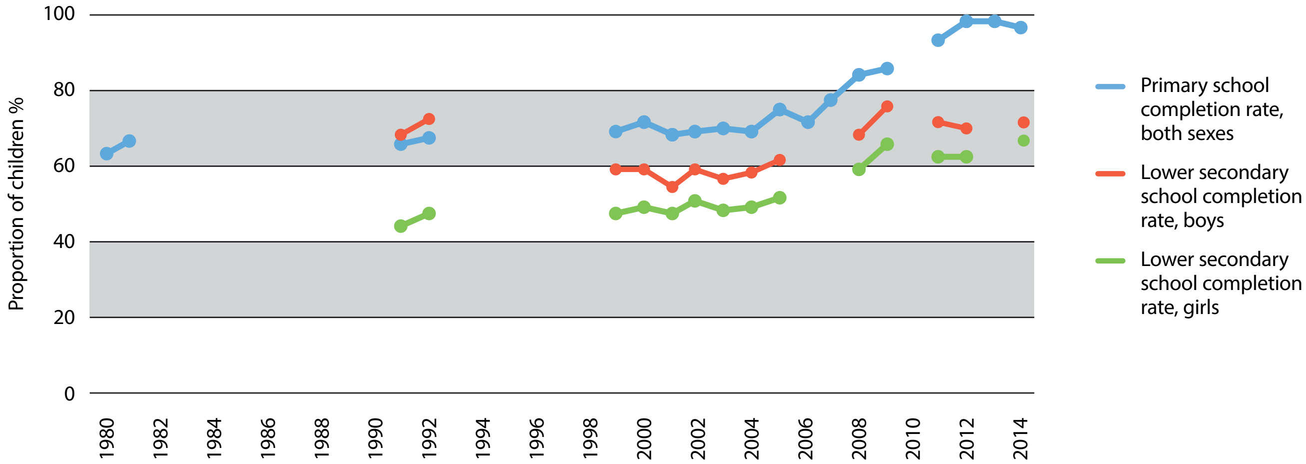


"The World Bank and the other donor countries make economic prescriptions which we religiously adhere to but yet when they fail, we are blamed. They take advantage of us simply because we are poor."

MR OPANIN KWAME DEDE AKUAMOAH, GREATER ACCRA REGION

References for section one are on page 12

Graph 1: School completion rates, 1980–2014[20]



Ghana entered the HIPC initiative in February 2002, completed HIPC in May 2004, and then qualified for MDRI after it was created in 2005. Through HIPC and MDRI, Ghana's external government debt fell from $6.6 billion in 2003 to $2.3 billion in 2006. The main falls were due to cancellation of debt owed to multilateral institutions and other governments.

External government debt payments as a proportion of revenue fell from over 20% in the late-1990s to under 10% after HIPC began, and around 5% after MDRI. The money saved contributed to significant improvements in education and healthcare, which was accompanied by good governance policies to enhance basic service provision.[21] For example, the proportion of children completing primary school was static at around 60–70% from 1980 to 2006. Since debt cancellation it has increased to almost 100%.

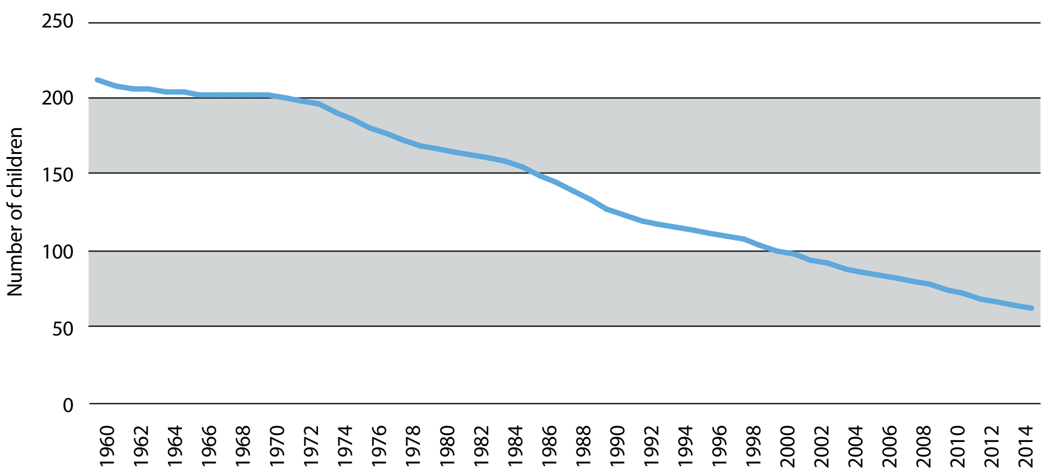
For lower secondary schooling, the completion rate was lower in the early 2000s than it had been in the early 1990s, at less than 60%. Immediately after 2006 it increased to a high of 71%. However, progress now seems to have stalled, and the completion rate for girls is 5 percentage points lower than for boys (See Graph 1 above).[22]

Under-5s mortality has continued to fall (see Graph 2 below), though is still high at 62 deaths per 1,000 children (compared to 4 in the UK).[23] One indicator which shows an expansion in health coverage since debt cancellation is the number of births attended by a skilled health professional. In the eight years from 1998 to 2006 this only increased from 44% of births to 47%. In the eight years since, up to 2014, it increased to 74%.

Commodity boom and manufacturing decline

From the mid-2000s the prices of commodity exports increased, contributing to high economic growth in Ghana until 2013. However, this has been followed by a slowdown since prices began to fall, particularly that of oil in 2014. Moreover, the share of manufacturing in

Graph 2: Under 5 mortality rate (per 1,000) 1960–2015[24]



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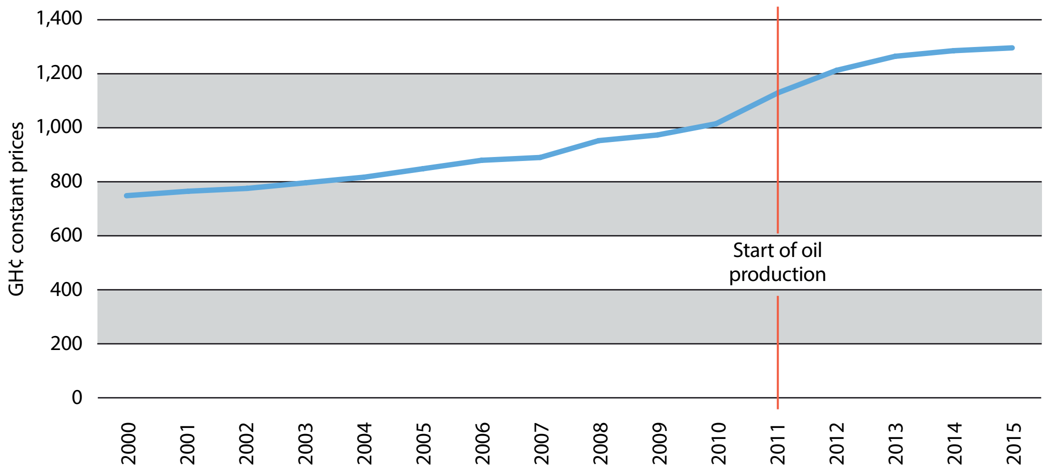
Graph 3: Size of Ghana's economy, constant Ghanaian cedis per person[26]



Ghana's GDP has been declining, increasing dependence on commodities.

The increase in price for Ghana's two main commodity exports – gold and cocoa – was accompanied by the discovery of oil. Ghana's GDP per person grew at an average rate of 4.3% between 2005 and 2015, measured in constant GH¢s.[25] However, this was mainly due to a boom between 2010 and 2013, with growth slowing down since (see Graph 3 above).

The significant growth in Ghana's economy from 2011–2013 is correlated with the beginning of oil production. Ghana discovered significant oil fields in 2007, with production beginning in 2011. This led to total exports (oil and non-oil) increasing from $8 billion in 2010 to $12.8 billion in 2011 and $13.5 billion in 2012 (see Graph 4 below).

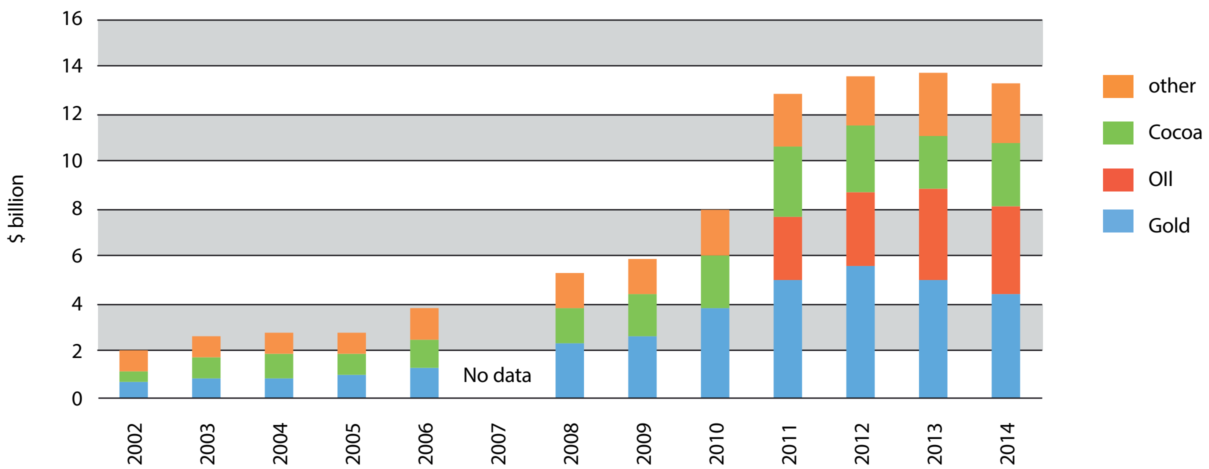
Since the middle of 2014, the price of oil has fallen significantly due to increased supply in the US, Saudi Arabia maintaining production, and demand being lower than expected with a slowdown in industrial production in China. This Chinese slowdown has also impacted on demand for, and therefore the price of, other commodities. For Ghana this means exports fell in value in 2014, and the latest IMF data is that they fell more dramatically to $10.6 billion in 2015, and will only increase to $11.3 billion in 2016.[27]

The discovery of oil means Ghana's export income is now dependent on three commodities rather than two – gold, oil and cocoa. In 2014, these three commodities made up 81% of Ghana's exports. Other exports include other commodities such as timber, tourism and other services, and manufacturing.

Commodity dependence tends to make economies more vulnerable and unequal because they are subject to wild swings in price, but create few jobs, allowing proceeds to be captured by elites and multinational companies, for example through tax avoidance and evasion.

Manufacturing's share of the economy, whether for exports or domestic use, has been falling since 2006 (see Graph 6 below). Even just in per-person terms, rather than as a percentage of GDP, Ghana's manufacturing production has been falling (see Graph 7 below). From

Graph 4: Ghana's exports, US$ billion, 2002–2014[28]



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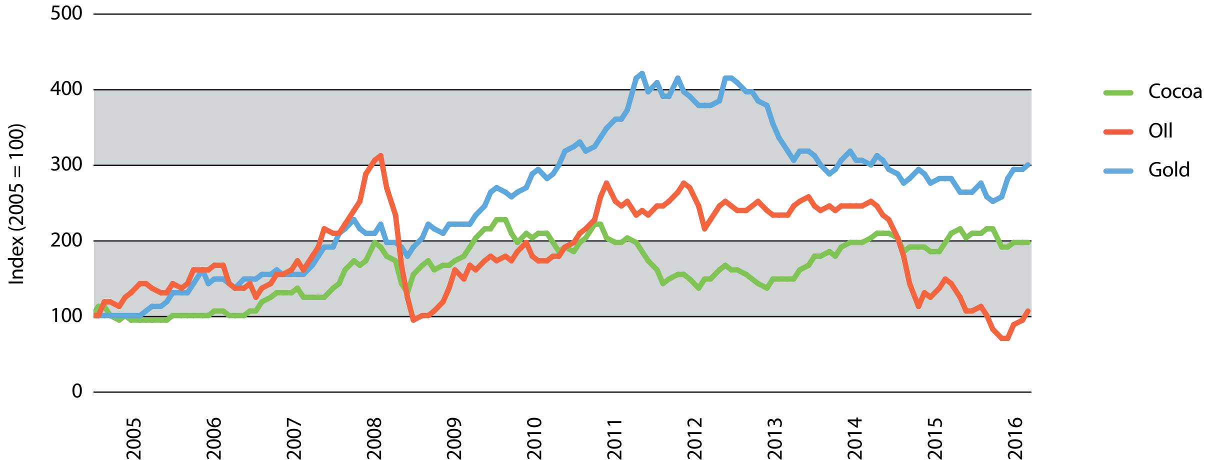
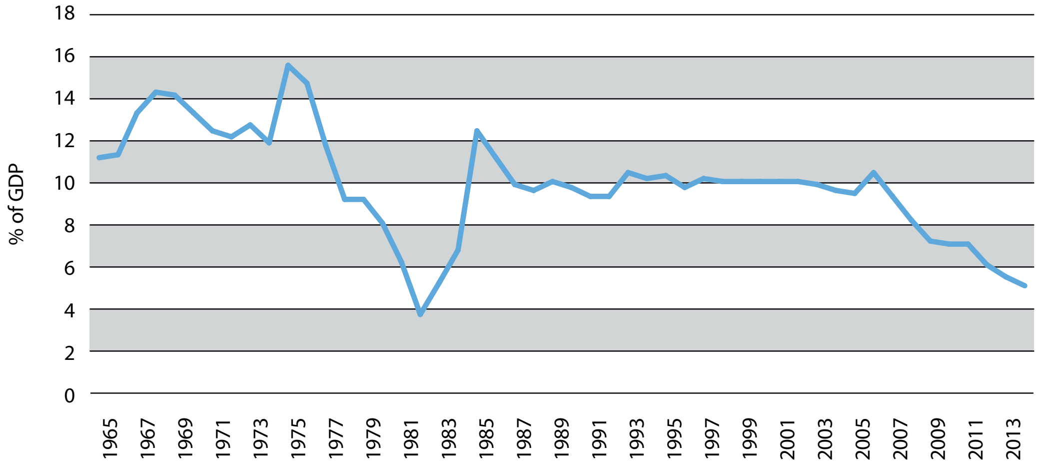
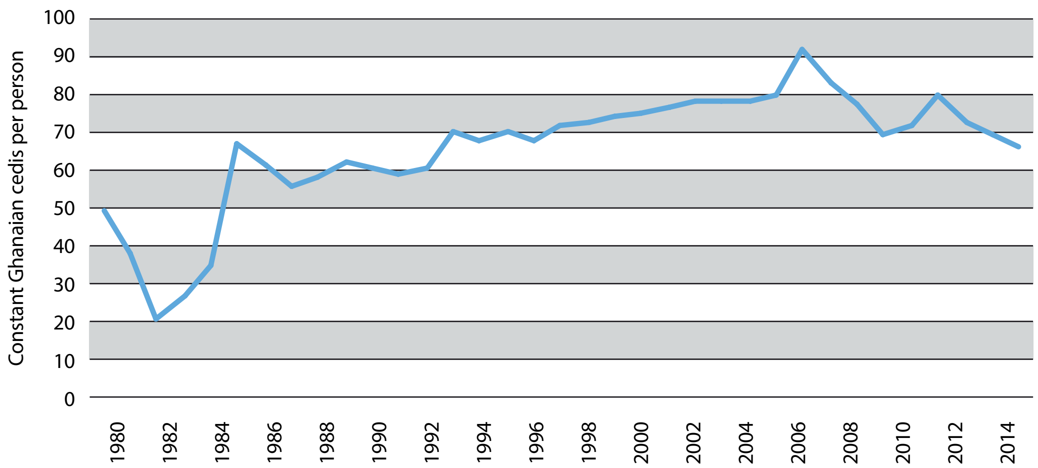
Graph 5: Index of prices for cocoa, gold and oil (2005 = 100)[29]



Graph 6: Ghana manufacturing, % GDP, 1965–2014[30]



Graph 7: Manufacturing production per person, constant Ghanaian cedis, 1980–2014[31]



the mid-1980s, the value of manufacturing production rose from GH¢60 per person to over GH¢90 by 2006, but has now fallen back to GH¢66, a lower level than in the early 1990s.

Slowing progress in reducing poverty and increased inequality

During the 'boom' up until 2013, progress in reducing poverty slowed down, and inequality increased.

The most recent data on poverty and inequality in Ghana comes from the Ghana Living Standards Survey in 2013. This shows that the number of people living in poverty fell from 7 million in 2006 to 6.3 million in 2013. The proportion of people living in poverty fell from 31.9% to 24.2%. Poverty is defined as not having enough income to meet all basic food and non-food needs, and was set at GH¢1,314 per adult per year for 2013 ($1,460 a year in Purchasing Power Parity terms,[32] or $4 a day). According to a report for Unicef, this means the average annual rate of poverty reduction slowed to 1.1 percentage points a year from 2006 to 2013, down from 1.8 percentage points in the 1990s.[33]

In total, the number of people living in poverty fell by 10% between 2006 and 2013.[34] In contrast, over the same time period GDP per person grew by 44%. In the previous seven-year period from 1999 to 2006, the number of people living in poverty fell by 14% whilst the economy only grew by 18%. There has been an increasing divergence between the pace of economic growth and the pace of poverty reduction.

This divergence is because more of the financial benefits of growth have been going to richer people. Average adult consumption for Ghana's richest 10% increased by GH¢1,246 between 2006 and 2013, almost ten times more than the increase of GH¢135 for the poorest 10%. The 'richest' 10% is still a relative term however – the average income of the richest 10% in 2013 of GH¢5,789 a year was equivalent to $6,500 in Purchasing Power Parity terms. Within the richest 10% there are still huge disparities in income and wealth. Overall, inequality has been increasing on almost all measures[35] (see Table 1 below).

There are also huge disparities between regions. In Greater Accra, 6% of the population were surveyed as living in poverty in 2013, in Ashanti the proportion was 15%. In Brong-Ahafo the rate rises to 28%, and in Volta 34%, with the highest levels in Northern (50%) and Upper West (71%) provinces.

Table 1: Average adult annual consumption[36]

	Poorest 10%	Poorest 20%	Median	Richest 20%	Richest 10%
Average adult annual consumption 2006 (GH¢ 2013 prices)	715	1,002	1,846	3,337	4,543
Average adult annual consumption 2013 (GH¢ 2013 prices)	850	1,182	2,167	4,124	5,789
Increase in GH¢	135	180	321	787	1,246
Percentage increase	19%	18%	17%	24%	27%

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21 See http://www.developmentprogress.org/sites/developmentprogress.org/files/case-study-report/ghana_full_report_final_web.pdf
22 World Bank. World Development Indicators database.
23 World Bank. World Development Indicators database.
24 World Bank. World Development Indicators database.
25 'Constant' figures for a currency takes account of inflation, so show the real change which has occurred, not just that GDP has increased because prices have increased.
26 IMF. World Economic Outlook database. The IMF database does not say in what year the constant prices are priced in, but the relative changes remain the same regardless.
27 http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf
28 Government of Ghana, various bond issue prospectuses. None of these gave data for 2007 so this year is missing, but presumably values were in between those of 2006 and 2008.
29 IMF. Commodity Price Index database.
30 World Bank. World Development Indicators database.
31 Calculated from World Bank. World Development Indicators database. And IMF. World Economic Outlook database.
32 Purchasing Power Parity is a way of changing income figures to account for the fact the same goods and services can cost different amounts in different countries, in order to make income figures across countries more comparable.
33 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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The lending and borrowing boom

"We just hear on the media that the government has borrowed the money, but we don't know what for."

MR ROWLAND DANKU, PEKI, VOLTA REGION

The growth in Ghana's external debt

Debt cancellation under the Heavily Indebted Poor Countries initiative increased the willingness of lenders to lend to the government, because the government's debt payments were now lower. The discovery of oil and high commodity prices increased this willingness further, as Ghana was seen as one of Africa's, and the world's, booming economies.

From 2008 to 2011 there was a gradual increase in lending each year, followed by big increases in 2013, 2014 and 2015 with $1 billion of bonds denominated in dollars being issued each year. As well as these bonds, there was also significant direct lending by external commercial and other external private lenders (see Graph 8 below).

One significant bilateral loan was an agreement in 2012 for China to lend up-to $3 billion in two tranches, with an interest rate of around 3.4%.[37] By 2014 only $600 million had been lent, and the second tranche of $1.5 billion was cancelled. However, from the signing of the agreement Ghana had been paying a commitment fee of 1% on the undrawn balance, costing more than $50 million.

Loans from multilateral institutions increased to $745 million in 2011. After falling back in 2012 and 2013, multilateral lending reached a new high of $1.3 billion in 2015.

Not all these loans will have been used for spending in Ghana as some will have effectively been spent on making debt principal and interest payments. In total between 2007 and 2015, there were $18.2 billion of external loans, and $8.7 billion of external debt service, a difference of $9.5 billion. This means that external loans between 2007 and 2015 were a net source of $9.5 billion for the Ghanaian government to spend in Ghana.

"Servicing debts with a 10% interest rate is very expensive. Most borrowing is for recurrent expenditure rather than investment. Debts fell through HIPC then increased gradually from 2008 and rapidly since 2013."

MR ISAAC WEBADUA, GREATER ACCRA REGION

These figures also suggest that of the $8.7 billion of external debt service, only $1.7 billion was spent on repaying principal amounts, with the remainder, $7.3 billion, spent on interest (see Table 2 on page 14). Therefore, of debt payments from 2004 to 2015, 80% were interest, while only 20% repaid original loans.

Graph 8: External loans to Ghanaian government, 2004–2015, $ billion[38]

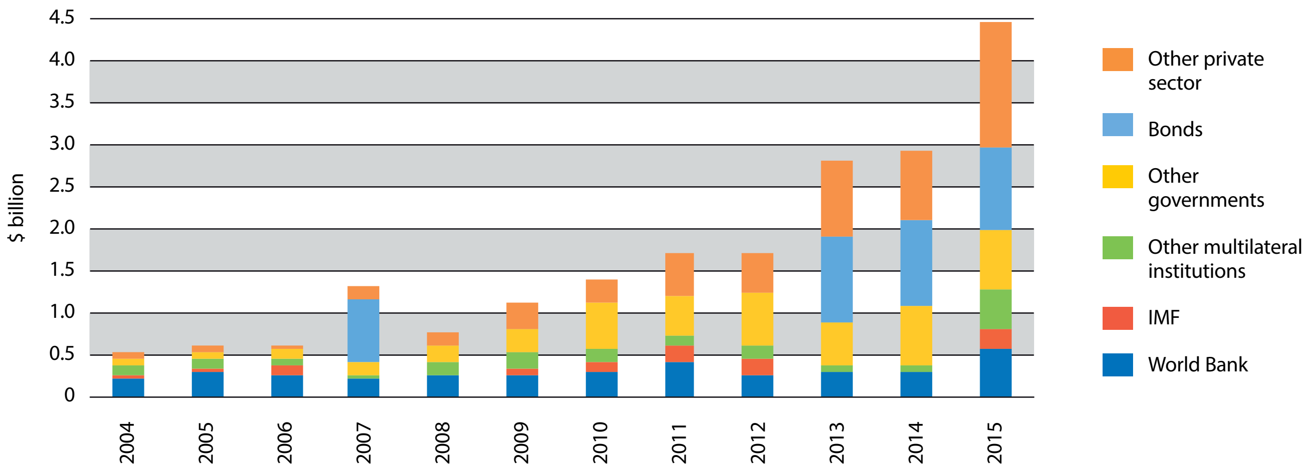

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Table 2: Calculation of interest and principal payments, 2007–2015

	Amount
Debt owed at end-2006	$2.3 billion[39]
Loans from 2007–2015	$18.2 billion[40]
Debt + loans	$20.5 billion ($2.3 billion + $18.2 billion)
Debt at end-2015	$18.8 billion[41]
Debt principal paid 2007–2015	$1.7 billion ($20.5 billion – $18.8 billion)
Debt service (principal and interest) 2007–2015	$8.7 billion[42]
Debt interest paid	$7 billion ($8.7 billion – $1.7 billion)
Proportion of debt service which was interest	80% ($7 billion / $8.7 billion)

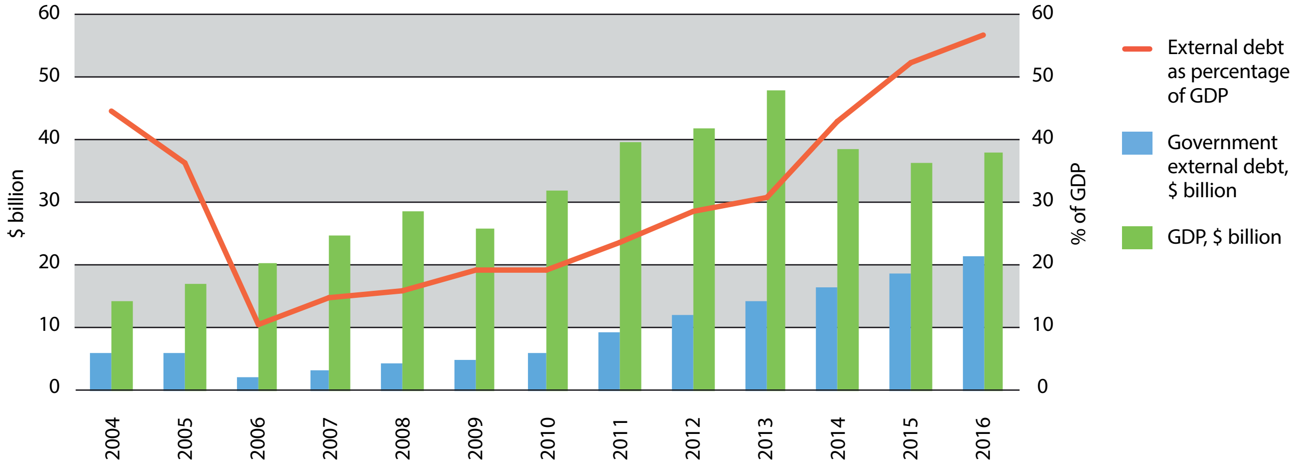
Between 2006 and 2013, the external debt grew at a faster rate than the economy, growing from 10% of GDP in 2006 to 30% by 2013. If this rate of increase had continued, it would have taken until 2020 for the external debt to reach 50% of GDP. However, the collapse in the value of the cedi against the dollar from 2014, following the fall in the prices of gold and then oil, caused the situation to worsen quickly and dramatically. External debt is owed in dollars and other foreign currencies, so the fall in the value of the cedi has dramatically increased the real size of the debt. Government external debt is now expected to reach 56% of GDP in 2016 (see Graph 9 below).

Domestic debt

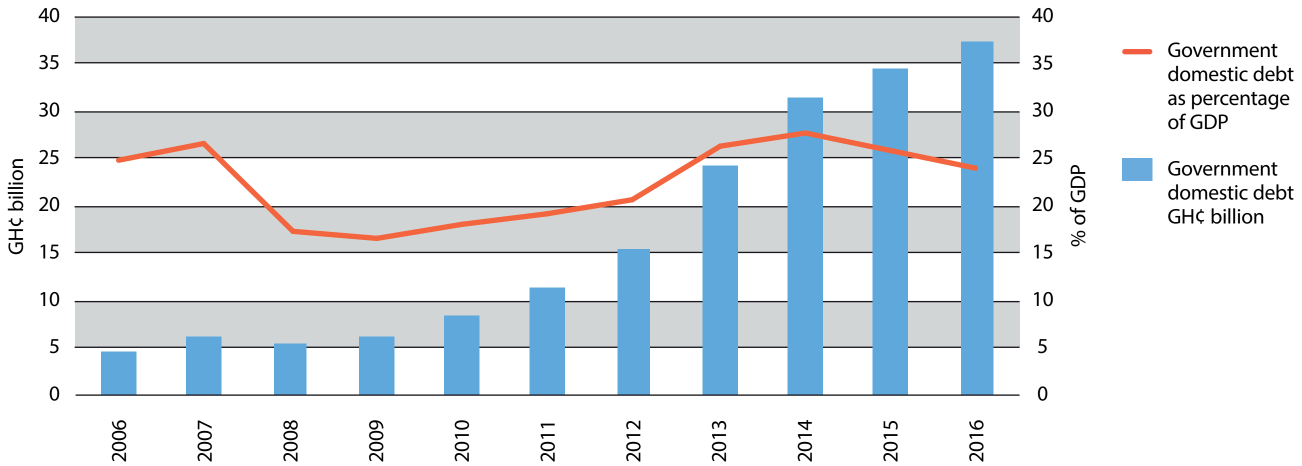
Domestic debt is debt owed to people and institutions within Ghana rather than externally. It tends to be owed in cedis rather than foreign currencies, which means its relative size does not increase when the cedi falls in value.

According to IMF and World Bank Debt Sustainability Analyses (DSAs),[43] domestic debt has fluctuated either

Graph 9: Ghana's GDP and external debt, 2004–2016 ($ billion and percentage of GDP)[44]



Graph 10: Ghanaian government domestic debt (percentage of GDP and cedi billions), 2006–2016[45]



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side of 20% of GDP, with no clear trend. As of end 2015, domestic debt stood at 24.1% of GDP, GH¢37.2 billion ($8.9 billion as at April 2016 exchange rates). In absolute terms the debt has been rising every year, but this is offset by inflation and economic growth, which means domestic debt as a percentage of GDP has not been increasing (see Graph 10 on page 14).

Nominal interest rates on domestic debt currently average around 17%. However, this high rate is primarily due to high inflation, though the real interest rate after inflation has been increasing. The IMF and World Bank DSAs say the average real interest rate was less than 5% until 2014, since when it has increased, to a predicted 7% in 2016 and is expected to be 9% in 2017.

Since the start of 2015, the IMF and World Bank DSAs have been classifying debt owed in cedis to non-residents as external debt. This is an overdue change. The definition of external debt is debt owed by people and institutions not resident in the country, regardless of the currency. Although local-currency debt owned by non-residents does not have the same risk of its relative value rapidly changing as the cedi falls against foreign currencies, it still leads to outflows of resources from the country, which ultimately have to be paid for out of earnings or loans from abroad. As the IMF and World Bank March 2015 DSA says: "Holdings of domestic debt instruments by non-residents present roll-over and foreign exchange risks caused by accompanying capital outflows."[46]

Ghana allowed non-residents to begin owning domestic debt of more than three years maturity in 2006. The IMF and World Bank now say that around 20% of such local currency debt is held by non-residents. This percentage could be increasing. Over 60% of a GH¢811 million bond issued in June 2016 was reported to have been bought by international speculators,[47] but the lack of transparency around government bond ownership means we do not know who they are.

The domestic debt figures above are from the IMF and World Bank DSA, so do not include this cedi-denominated debt owed externally (instead it is included as an external debt). If, as stated by the IMF and World Bank, 20% of local-currency debt is owed externally, then this amounts to GH¢9.3 billion ($2.2 billion at April 2016 exchange rates).

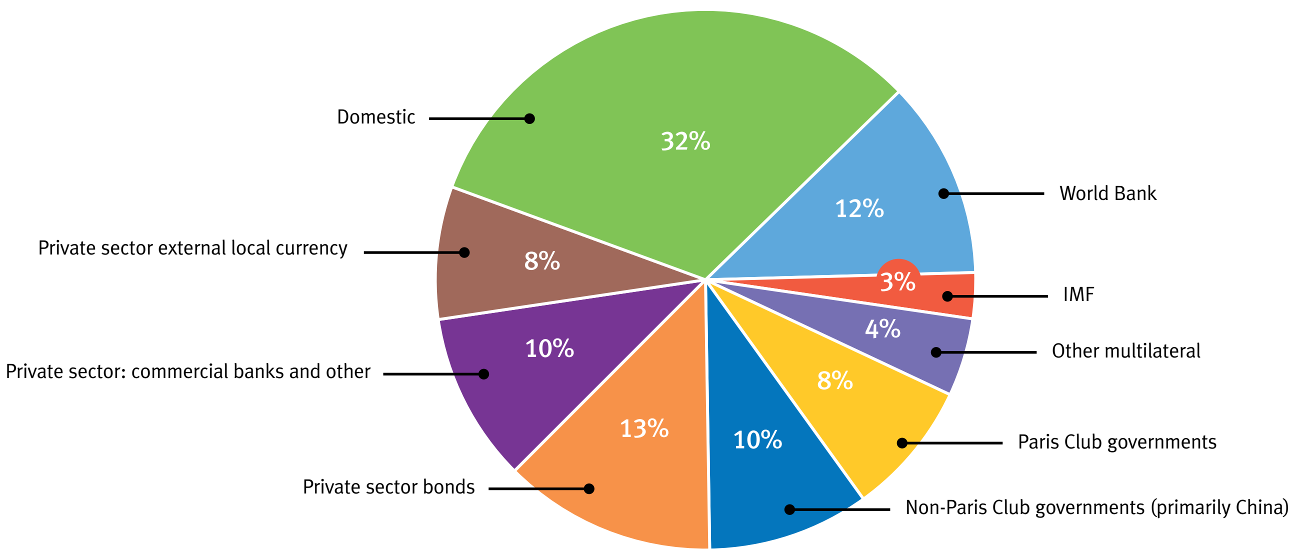
Who the lenders are

There are various sources of data on the size of the Ghanaian government's debt and who it is owed to. Below we use these to estimate the amounts currently owed by type of creditor. A full list of these estimates is in the Appendix.

The IMF and World Bank December 2015 DSA says that as of the end of 2015, Ghana's government owed 52% of GDP in external debt, which equates to $18.8 billion.[48] In addition to this is GH¢37.2 billion in domestic debt ($8.9 billion at April 2016 exchange rates). This makes the total debt around $27.7 billion at April 2016 exchange rates, 78% of GDP.

Based on various sources of information (see the detailed list in the Appendix), we have been able to estimate who this debt is owed to (see Graph 11 below). Around 32% is owed domestically and in cedis. A further 30% is owed to the external private sector, which will have the highest interest rates of the external debt. 20% is owed to multilateral institutions, over half of which is owed to the World Bank. Most of this is paying very low interest rates, but its relative size has still increased

Graph 11: Who Ghana's government debt is owed to, end-2015[49]



due to the depreciation of the cedi. For example, Jubilee Debt Campaign has calculated that the depreciation of the cedi against the dollar means the effective interest rate being paid by Ghana on loans given by the World Bank between 2004 and 2013 is now 9% (whereas the effective interest rate would be 0.5% if there had not been any devaluation).[50]

The final 18% of debt is owed to other governments, the largest being China ($2.3 billion, 8%), US ($560 million, 2%), Belgium ($373 million, 1%), and the Netherlands ($333 million, 1%). (A full list is in the Appendix). Whilst we do not know the specific interest rates for many of these debts, based on the interest rates on other debts, and the stated average interest rate on foreign currency debt, we can estimate that the average interest rate on debts to other governments is around 4.5%. Again, this average interest rate does not take account of the effective rate now being paid following cedi devaluation against the dollar.

What were the loans for?

Lenders are jointly responsible with borrowers for ensuring loans are well used. Investigating how loans have been used is vital in evaluating whether or not they have been successful, and to ensure they are used well in the future.

However, many lenders and governments around the world are very opaque about what loans are used for and even the terms on which they are made, and this is true of Ghana. Of the main external debts owed by Ghana, we have not been able to find the interest rates or terms of the non-bond private sector loans, nor for many of the loans from other governments. The dollar-denominated bond loans are public so the interest rates and dates of disbursements and payments are known, but the money went into general government funds, so there is no way of knowing ultimately what it was spent on.

Multilateral institutions are more transparent, though only after loans have been agreed, which means there is

The World Bank and the 2015 bond issue

The World Bank broke its own rules to enable a high-interest private loan to the Ghanaian government, which speculators can make profit from even if the government never repays *any* of the principal.

In October 2015 the Ghanaian government borrowed $1 billion through a 15-year dollar-denominated bond, at an interest rate of 10.75%. The World Bank has guaranteed $400 million of the repayments, so if Ghana misses any principal or interest payments, the World Bank will make them instead, up-to $400 million. This is the World Bank's first such guarantee for 15 years.[51] Total interest payments over the course of the bond are $1.504 billion, so payments total $2.504 billion between 2015 and 2030.[52]

The IMF, in its January 2016 review, said that the terms of the bond "were worse than expected under the programme".[53] An interest rate of 10.75% with a guarantee by the World Bank does seem exceptionally high.

For example, $400 million of the bond effectively has the same risk as lending to the World Bank as it is guaranteed by them. The World Bank can currently borrow in dollars for ten-years at a 2.5% interest rate.[54] This means that the $600 million that is not guaranteed by the World Bank effectively pays an interest rate of 16.25%.[55] The implication of this is that the Ghanaian government would have been charged 16.25% interest without the World Bank guarantee.

The interest rate on US government 15-year bonds is around 2%, so there is a difference of 14.25 percentage points between lending to the US government and lending to the Ghanaian. If the Ghanaian government paid the interest every year until 2024, then defaulted on all other payments from 2025, including all the principal repayments (which only come due from 2028–2030), the bond speculators would still have made $90 million more than if they'd lent to the US government.[56] The effective expectation of 'the market' was that Ghana would on average default in full on the bonds in 2025 and never pay a penny more. The deal facilitated by the World Bank is outrageously bad for Ghana, unless it defaults before 2025.

The World Bank guarantee was given under the Policy Based Guarantee programme. Under this, guarantees are supposedly only available to countries rated as at low or moderate risk of debt distress.[57] In April 2014 Ghana was assessed as at moderate risk of debt distress but "approaching high-risk levels". At the next review in March 2015 this changed to being confirmed as at "high risk of debt distress".[58] Yet, seven months later in October 2015 the World Bank broke its own rules based on its own assessment by giving a guarantee for (high-cost) bonds for a country rated as at high risk of debt distress.

Whilst 10.75% is the interest rate paid to speculators, the World Bank is also charging Ghana a fee of 0.75% on the $400 million guarantee,[59] so $3 million a year. This means the actual annual cost is $110.5 million, and so the actual interest cost to Ghana 11.05%.

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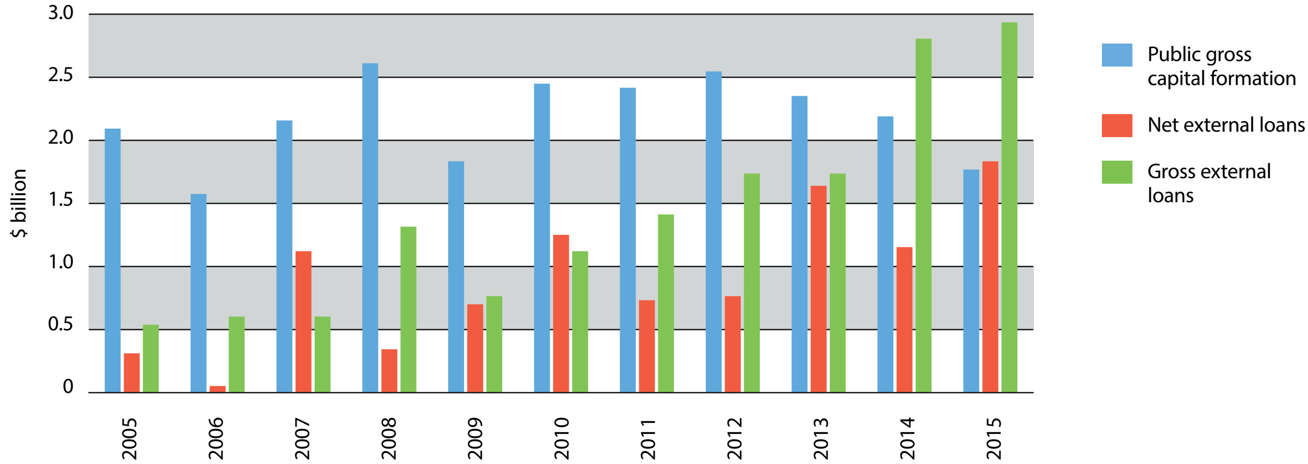
Graph 12: Public investment and external loan disbursements ($ billion)[60]

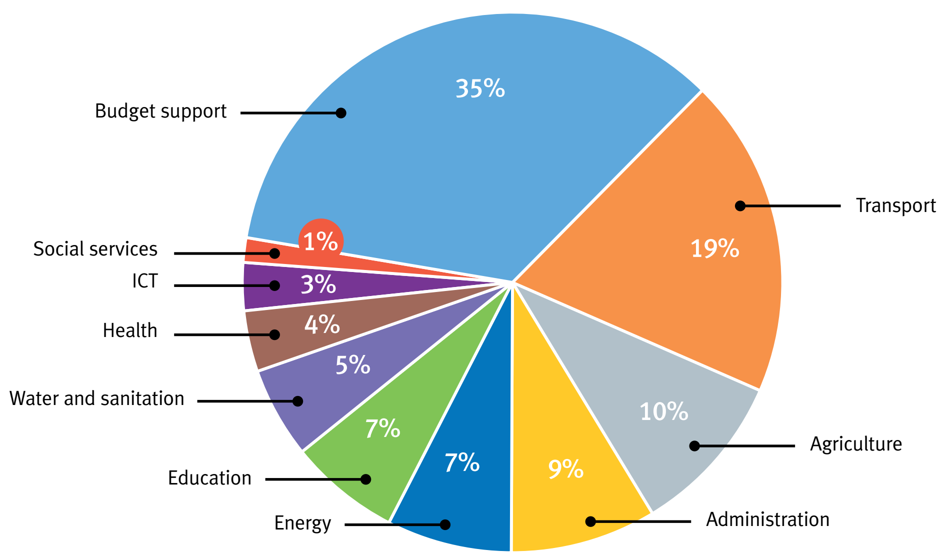


often not the scrutiny of such loans by parliamentarians, civil society and the media in the borrowing countries before contracts are signed.

There does not appear to be any relationship between the volume of external loans and overall amount of public investment. The IMF have figures for government investment[61] varying between $1.5 billion and $2.5 billion from 2005 to 2015, with it showing a fall since 2013, and generally following a downward trend from 2005. The amounts are unrelated to both gross external loans (the green bars in Graph 12 above) and net external loans (loans minus debt payments, the red lines above). This suggests that whilst some external loans could have been used for investment, the increase in lending, in particular the boom from 2013, was to meet ongoing costs and other measures such as defending the value of the currency (eg, using external borrowing to make domestic debt payments, thereby effectively buying cedis with dollars) and trying to increase foreign currency reserves (see page 27 for more on foreign currency reserves).

The World Bank does publish detailed information on loans once they have been agreed. By analysing this data,[62] we have found that of the $3.45 billion of debt owed to the World Bank as of June 2016, 35% is from loans for direct budget support which are not tied to particular projects. These loans, currently called Poverty Reduction Support Credits were first invented during the structural adjustment of the 1980s and 1990s when the money was used to pay off previous lenders. They

Graph 13: Debt outstanding to World Bank by sector loan was given for[63]



continued post HIPC debt relief, and so during the period of low debt payments have effectively been a source of foreign exchange that the government is free to spend on what it wants. However, the World Bank does require a set of policies to be introduced in return for the loans.

Transport projects are responsible for $658 million of outstanding World Bank debt, 19% of the total. The next largest sectors are agriculture ($336 million, 10%), government administration ($301 million, 9%) and energy ($258 million, 7%) (see Graph 13 on page 17).

The World Bank also conducts its own assessments of each project, including rating the overall project throughout its implementation. Once it has concluded rating the overall project, it also evaluates the performance of the borrowing government, and the performance of the World Bank itself. The Bank also has an 'Independent Evaluation Group' (IEG) which evaluates each project after completion. The IEG is part of the Bank but staff are separate from those working on implementing projects.

Based on these evaluations by the IEG, we have calculated that 25% of debts Ghana is still repaying, where there is a rating, are for projects where the World Bank's performance was judged to have been moderately unsatisfactory or unsatisfactory. For 32% of outstanding debt, the World Bank's performance was moderately satisfactory, 42% satisfactory and just 0.5% highly satisfactory.

These ratings are only available for $2.15 billion of the $3.45 billion of outstanding debt because ongoing projects where loans are still being disbursed have not yet received a rating for the World Bank's performance. However, if the pattern continues for the projects which have not been rated yet, then $862 million of Ghana's debt to the World Bank is for projects where the World Bank has judged, or will judge, that its own performance was less than satisfactory.

Public-Private Partnerships

The debts mentioned so far are not the only financial risks to the Ghanaian government. Public-Private Partnerships (PPPs) are a means to fund public projects such as services and infrastructure which can impose

Examples of World Bank project lending to Ghana

One project where the World Bank evaluated itself as moderately unsatisfactory was an education project which began in 2004. The loans were given for direct budget support to districts deprived of pre-tertiary education. Over the first five years of the project, the evaluation says funds were poorly spent, leading to the project being restructured in 2009. The evaluation criticises the World Bank for a lack of project preparation and lack of robust monitoring and evaluation, which helped lead to poor project outcomes. In total $74 million was lent and $8 million has been repaid so far, which leaves $66 million outstanding. In addition, $9 million in interest has been paid so far, and interest is currently costing $500,000 a year.

The non-budget support project with the most debt still owed on it is a road sector project which ran from 2002 to 2008. The project in total was meant to cost $1,191 million, but in its final evaluation the World Bank said it actually cost $2,076 million.[64] Nowhere does the World Bank evaluation give any indication or comment on why there was a 74% cost overrun.

Of funds for the project, $1,098 million came from external bodies, primarily as loans, though in several cases we don't know whether the money was loans or grants. The largest lenders were the World Bank ($267 million) and African Development Bank ($191 million). The European Commission gave $173 million but we don't know if this was a loan or grant. Other potential loan givers were Japan (almost certainly loans), Germany (definitely loans), Denmark (possibly grants), France, China, and the Netherlands.

The Ghanaian government spent $978 million of its own money on the project. This would have come out of general revenue, and so could have come from other loans taken from the private sector, either external or domestic, at the time.

In its 2008 evaluation of the project the World Bank said that:

- The targets for improving road quality were missed. By the end of the project 59% of roads were meant to be good, 27% fair and 12% poor. The evaluation stated that in reality 39% were good, 29% fair and 32% poor (compared to the baseline of 29%, 27% and 44% at start of the project).
- But the target for increasing the number of feeder roads was reached, albeit behind schedule. There was meant to be an increase from 11,500km to 16,220km. At the end of the project there were 18,000km.
- The accident fatality rate fell by 20% during the project.

The World Bank does not mention the huge cost overruns, and despite this and the failure to meet quality targets above, the Bank gave itself a satisfactory rating for the project.

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World Bank breaking its own rules

The World Bank broke its own rules by lending more to Ghana than it should have done based on its own risk rating.

The World Bank says that "Recipients [of funding from IDA] with a high risk of debt distress receive 100 percent of their financial assistance in the form of grants and those with a medium [moderate] risk of debt distress receive 50 percent in the form of grants."[65]

Ghana has continued to be a full recipient of finance from IDA rather than the higher interest IBRD part of the World Bank.[66] Between May 2007 and February 2015 it was assessed as being at moderate risk of debt distress. Since March 2015 it has been at high risk of debt distress.

However, on projects agreed by the World Bank Board between May 2007 and February 2015, $2.267 billion has been disbursed as loans, whilst only $160 million as grants.[67] This means 93% of IDA funding to Ghana has been in the form of loans, during a period when only 50% was meant to be. The four grants which were given in this time all date from between January 2012 and June 2013.

IDA has agreed five projects with Ghana since it became at high risk of debt distress. Two of these are guarantees – the $400 million for the bond guarantee and $500 million for the Sankofa Gas Project. In addition, there have been three loans directly to the government of $150 million, $60 million and $45 million. In total that is $1,155 million of loans or loan guarantees, and no grants, since IDA was meant under its own rules to only give grants to Ghana.

large costs on governments, but which keep these costs hidden from view and out of the debt figures.

In recent years, multilateral institutions and donors have heavily promoted PPPs as a way to invest in public infrastructure and services. The World Bank says PPPs are responsible for 15–20% of infrastructure investment in developing countries.[68] As well as being heavily pushed by donors through both the aid they give and the conditions attached to grants, loans and debt relief, they have become popular because they enable debt payments to be hidden from the public view.

One form of PPP, such as the UK's Private Finance Initiative, involves the private sector undertaking the investment in a project, but with the government guaranteeing payments for its use. These forms of PPP therefore have the same fiscal impact as a government borrowing directly, but the payment obligations are not included in debt figures. In fact, the cost to the government is usually higher than if it had borrowed and invested itself, because private-sector borrowing costs more, private contractors demand a significant profit, and negotiations are normally weighted in the private sector's favour.

Research suggests that PPPs are the most expensive way for governments to invest in infrastructure, ultimately costing twice as much as if the investment had been financed with bank loans or bonds.[69]

According to the IMF Fiscal Affairs Department, the fiscal risks of PPPs are "potentially large" because they can be used to "move spending off budget and bypass spending controls" and "move debt off balance sheet and create contingent and future liabilities".[70] They also warn that PPPs "reduce budget flexibility in the long term".[71]

A recent study by the World Bank's Independent Evaluation Group found that of 442 PPPs supported by the World Bank, assessments of their impact on poverty were conducted for just nine of them (2%), and of their fiscal impact for just 12 (3%).[72]

There is a significant risk of PPPs becoming a major way to invest in Ghana, which could create large hidden payment obligations. Ghana is at the time of writing passing a new PPP law. In April 2016 the government tendered for an advisor to help develop the PPP framework.[73]

In 2013 the IFC said it was advising Ghana on a hospital PPP.[74] In August 2014 the Ghanaian government said the plan was for a PPP at the Korle-Bu Teaching Hospital to design, construct, operate and finance laboratory and imaging services. It was expected that construction would take two years with 13 years of operation, after which ownership would be transferred to the Ghanaian government. The capital cost was estimated at $24.5 million.[75] Deputy Finance Minister Mona Quartey mentioned it as a possible project in a speech in September 2015.[76]

President Mahama has also said the government is looking at using PPPs in the waste sector.[77] A sports minister has said a PPP will be used to redevelop Accra Sports Stadium.[78]

Ghana has previously undertaken PPPs in the power sector. In the late 1990s, the Takoradi 2 Oil Power Plant was built in Ghana by US company Consumer Michigan Services, and subsequently sold to TAQA, an Abu Dhabi-controlled company. This power plant has a 25-year agreement under which the government has guaranteed to pay a minimum amount, which increases as fuel costs rise. This guaranteed payment is also denominated

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in dollars, rather than in cedis. This was estimated at the start of the contract at an annual 20% return on the company's investment, but it could turn out to be higher. Meanwhile the government bears all the risk of depreciation of the cedi against the dollar.[79]

Because payments are guaranteed in dollars, currency devaluation over the contract's first ten years rapidly increased the cost of electricity from the plant, with the Ghanaian government protecting consumers to some extent by providing subsidies so the full cost of these increases was not passed on to them. The IMF has now demanded that fuel subsidies are cut, which means that electricity tariffs have increased substantially. But government expenditure on the subsidies may continue to increase anyway because of the PPP agreement, since the escalating costs that the government is contracted to pay cannot be covered purely by tariff increases.

References – Section two

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39 World Bank. World Development Indicators database.
40 World Bank. World Development Indicators database.
41 IMF and World Bank Debt Sustainability Analysis December 2015. http://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr1616.pdf
42 Most recent IMF and World Bank Debt Sustainability Analysis for the year in question.
43 These are estimates of the debt situation in a range of low- and lower-middle income countries. They produce a rating of whether a country is at low, moderate or high risk of not being able to pay its debts. For more information on DSAs see: http://jubileedebt.org.uk/news/global-call-for-hidden-debts-to-be-brought-into-the-light
44 Most recent IMF and World Bank Debt Sustainability Analysis for the year in question.
45 Most recent IMF and World Bank Debt Sustainability Analysis for the year in question.
46 IMF and World Bank. (2015). Ghana: Request for a three-year arrangement under the Extended Credit Facility – Debt Sustainability Analysis. 20/03/15. http://www.imf.org/external/pubs/ft/dsa/pdf/2015/dsacr15103.pdf
47 http://www.reuters.com/article/ghana-bonds-idUSL8N19F41F
48 http://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr1616.pdf
49 Calculated from various sources: Government of Ghana bond issue prospectuses, World Bank World Development Indicators database, World Bank website on debt owed directly to the World Bank, IMF website on debt owed directly to the IMF, IMF and World Bank Debt Sustainability Analyses.
50 http://jubileedebt.org.uk/blog/commodity-price-crash-causes-debt-payments-to-soar
51 http://www.worldbank.org/en/news/feature/2015/11/18/new-world-bank-guarantee-helps-ghana-secure-us1billion-15-year-bond
52 The bond principal is paid in three instalments in the final three years. Interest is therefore $107.5 million a year for 13 years, $71 million in the penultimate year, and $35.5 million in the final year
53 IMF. (2016). Ghana: Second review under the Extended Credit Facility Arrangement. http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf
54 http://treasury.worldbank.org/cmd/pdf/11264.pdf
55 $400 million paying interest rate of 2.5% would be $10 million a year. Of the $107.5 million of interest being paid, this leaves $97.5 million. 97.5 / 600 = 0.1625 or 16.25%.
56 $107.5 million interest every year from 2016 to 2024 plus the $400 million World Bank guarantee is $1,367 million. The total amount lenders to the US would get between 2016 and 2030 on a similarly structured 2% bond is $1,280 million. The benefit to speculators is even higher than suggested above as they would get $1,367 million by 2025, whereas for the hypothetical US government loan it would be 2030.
57 http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9398.pdf and conversations with officials at UK Department for International Development.
58 http://www.imf.org/external/pubs/ft/dsa/pdf/2015/dsacr15103.pdf
59 http://www.worldbank.org/en/programs/guarantees-program#5
60 IMF and World Bank Debt Sustainability Analyses. And World Bank. World Development Indicators database.
61 Specifically Gross Capital Formation
62 IDA statement of Credit and Grants, https://finances.worldbank.org/Loan-and-Credit-Administration/IDA-Statement-of-Credits-and-Grants-EDS13/286v-kur8
63 Calculated from IDA statement of Credit and Grants, https://finances.worldbank.org/Loan-and-Credit-Administration/IDA-Statement-of-Credits-and-Grants-EDS13/286v-kur8
64 http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/02/22/000333038_20090222223050/Rendered/PDF/ICR8060Ghana0P1isclosed0Feb01902009.pdf
65 http://ida.worldbank.org/financing/ida-financing
66 Ghana recently graduated to 'blend' status with the IDA because its GNI per capita had been above the lower middle income threshold for more than two consecutive years. This means that on loans agreed by the IDA Board since October 2013, an interest rate of 2% is being charged on disbursements rather than the previous 0.75%. https://www.worldbank.org/ida/articles-agreement/IDA-terms-FY12.pdf
67 Calculated from IDA statement of credits and grants
68 http://ieg.worldbank.org/evaluations/world-bank-group-support-ppp
69 Griffiths et al (2014). *Financing for development post* 2015*: Improving the contribution of private finance*, Jesse Griffiths, Matthew Martin, Javier Pereira and Tim Strawson, requested by the European Parliament's Committee on Development and published by Directorate-General for External Policies of the Union, 9 April 2014
70 Contingent liabilities are payments required from the government in certain circumstances. Many PPP contracts will have guarantees for the private company. For example, if the domestic currency falls in value, the government commits to pay the private company an extra amount.
71 Queyranne, M. (2014). *Managing Fiscal Risks from Public-Private Partnerships. Presentation in Yaounde,* March 2014.
72 IEG. (Undated). *World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries*, fy02–1202–12. Page 67.
73 http://www.partnershipsbulletin.com/news/view/99289
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The new debt trap

"Women are suffering the most. Most children are living with their mothers. But income is no longer enough to see them through education. Children are therefore being taken out of school, mainly girls."

MISS HAPPY NANI, PEKI, VOLTA REGION

Ghana is now at risk of entering an extended debt trap in which government spending continues to fall with negative impacts on poverty, inequality and economic growth, while debt stays high. Meanwhile, high interest rates on private loans mean speculators continue to take large profits out of the country.

The fall in oil prices from the middle of 2014 led to significant falls in expectations of government revenue collection in Ghana, on the part of the government, foreign speculators and the IMF. This in turn led to sharp falls in the value of the cedi against the dollar, thus increasing the relative size of debt payments.

Meanwhile, external debt payments began to increase from 2012 as interest payments needed to be made on the recently taken out private external debt, whilst interest and principal payments on the multilateral and bilateral loans increased because of the increase in such debts, and because grace periods[80] on loans given after HIPC and MDRI came to an end (see Graph 14 below).

Initially these increased debt payments were met by more borrowing of both external and domestic debt. In addition, in April 2015, an agreement was reached with the IMF for $930 million of loans from 2015 to 2018, all of which are effectively being used to help meet debt payments, including the interest to private speculators. These have been added to by other similar loans from the World Bank and African Development Bank.

Projections for 2016 and 2017

The plan under the current IMF programme is to borrow more money to make interest payments, increasing the size of the debt.

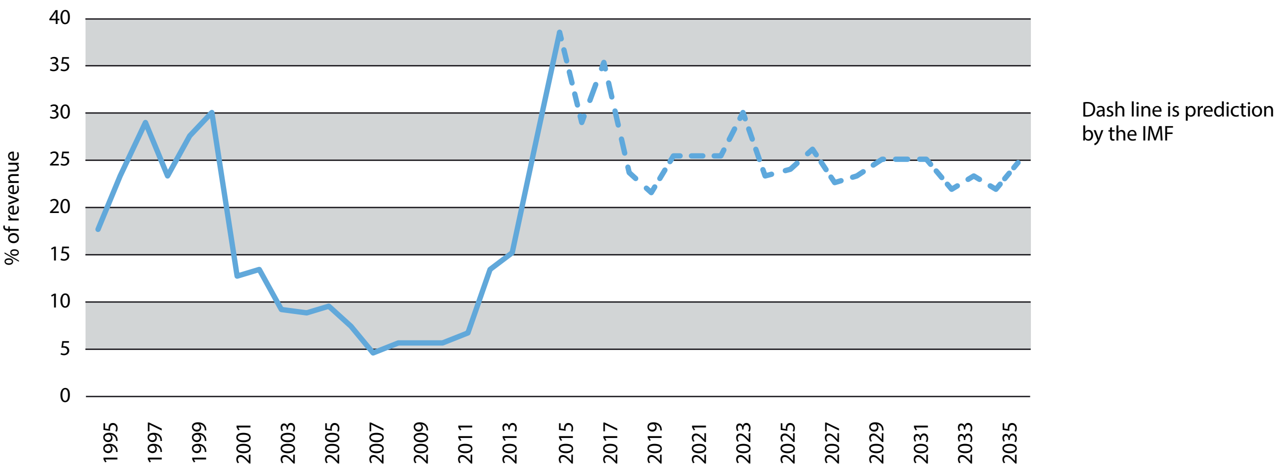
In 2016, under the IMF programme, government expenditure not including debt interest and principal payments is projected to be 19.9% of GDP, $7.88 billion. Government revenue is hoped to be 21.4% of GDP, $8.48 billion, including 1% of GDP from grants, $0.4 million.[82] Under this scenario, the Ghanaian government will therefore be earning more than it is spending, before debt and interest payments are taken into account, otherwise known as a primary surplus.

"The economy is very bad, it is very difficult to make ends meet. I haven't been paid my civil servant salary for two months. This means I haven't been able to send my children to school for two weeks as I can't pay the fees. We are dying slowly."

MADAM MAATYO DEDO AZU, SOMANYA, EASTERN REGION

Total expenditure on external debt service is projected to be $2.34 billion. Based on the average nominal interest rate on external debt being 5.1%, and external public debt of $21.5 billion,[83] this would mean $1.1 billion of external debt service is interest, and $1.24 billion

Graph 14: Ghana government external debt service as proportion of revenue, 1995–2035[81]



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principal payments. We know that interest payments on the dollar denominated bonds in 2016 will be $311 million, and estimate interest on other private external debt will be $290 million. This leaves $500 million of interest on bilateral and multilateral debt.

The IMF and World Bank December 2015 DSA states that total debt service in 2016 will be 66.6% of revenue. Taking away the 29% which is external debt service, this leaves 37.6% of domestic debt service, $3.04 billion. Elsewhere, the IMF programme document says domestic interest will be 5.2% of GDP in 2016, $2.06 billion.[84] This leaves $0.98 billion to be spent on domestic principal repayments.

Total government expenditure including debt interest and principal payments in 2016 is therefore projected to be $13.26 billion, 33% of GDP. This leaves a financing gap – the amount of new loans which need to be taken out – of $4.78 billion, 12.1% of GDP, if the debt payments are to be made.

In January 2016 the IMF said sources for this new borrowing would be as listed in the Table on the right.

Of the final four sources, the IMF says $976 million will be spent on projects (so government expenditure), and $961 million on budget financing (likely to be debt payments). In total this comes to $5.5 billion, so even more new lending than is needed to cover the financing gap of $4.78 billion. There could be double counting – the 'commercial' loans might include some of the dollar denominated bonds for instance.[86] More likely is that this extra borrowing beyond what is needed to fund the financing gap is to increase foreign currency reserves, which the IMF is targeting will increase by $1.5 billion in 2016.[87]

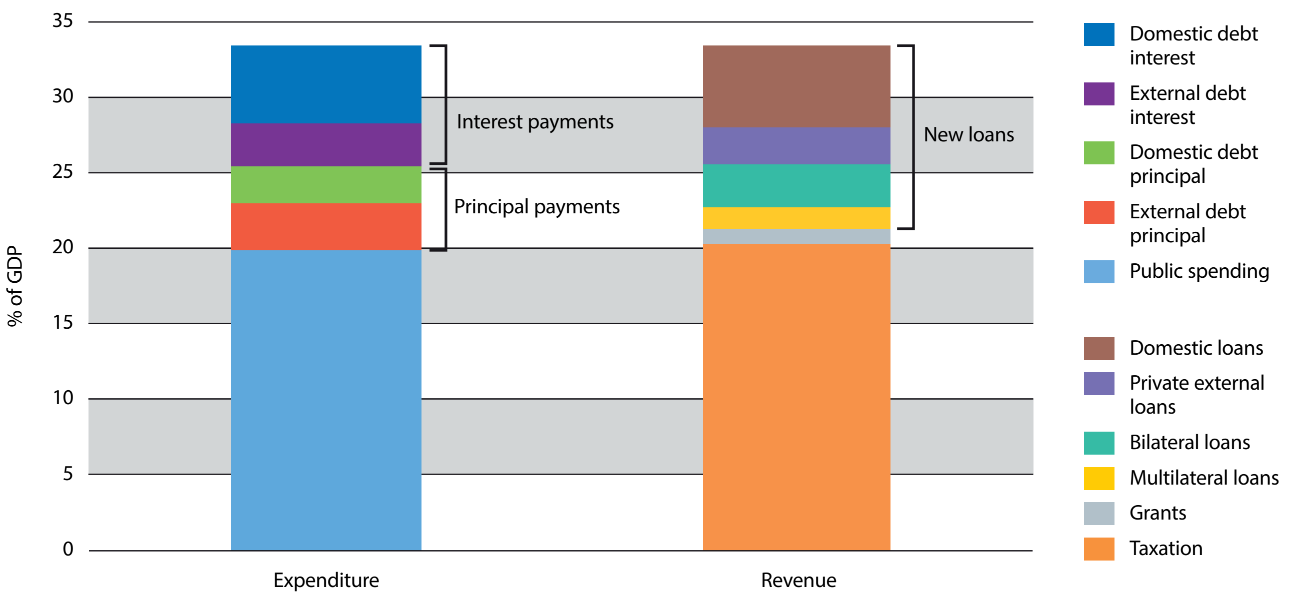
In September 2016, the Ghanaian government said it had borrowed $750 million through a bond, at 9.25%

Source of funding	Amount
IMF	$350 million
Dollar-denominated bond	$1 billion ($750 million was borrowed in September 2016)
Domestic debt	$2.1 billion (equivalent amount in cedis)
World Bank non-concessional	$150 million
Multilateral concessional	$50 million
Bilateral concessional	$343 million
'Semi concessional'[85]	$780 million
Commercial	$765 million

interest rate. This bond comes due to be paid in stages between 2020 and 2022, so has a shorter maturity than previous dollar-denominated bonds. The shorter the maturity of a bond, the lower the interest rate normally is because there is less time for a government to default. This bond is therefore more expensive than the 2007, 2013 and 2014 bonds, though, given the World Bank guarantee, not as expensive as the 2015 one (see Graph 15 below).

Therefore, from 2016 to 2017, the external public debt will grow by $1.4 billion. However, the IMF and World Bank DSA says that external public debt will fall as a percentage of GDP, from 54.2% to 51.9%. This is based on the economy growing in dollar terms by 9.8% in 2016, reaching $43.1 billion, but it also seems to be because they expect external debt to be $0.5 billion

Graph 15: Ghana government revenue and spending, 2016, including all loans and debt payments[88]



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less than the calculations above, based on their figures elsewhere, suggest.

However, the more recent IMF World Economic Outlook April 2016 now forecasts Ghanaian GDP of $40.9 billion in 2017, which would make external debt 56% of GDP, and so still increasing.

From 2016 to 2017, domestic debt is expected to increase by GH¢4.5 billion. This would increase domestic debt from GH¢37.7 billion to GH¢42.2 billion. However, on the IMF World Economic Outlook April 2016 forecasts, domestic debt would fall as a percentage of GDP, from 24.1% to 23.3%. This is because of expected 16.4% growth in nominal cedi GDP, 4.5 percentage points due to actual growth, and the rest because of inflation. Over the coming year, despite the high interest payments, domestic debt is therefore projected to decline as a percentage of GDP, whilst external debt continues to increase.

Projections beyond 2017

The IMF is only able to predict that Ghana will be able to keep paying its debt by making very optimistic predictions about the future.

The IMF and World Bank DSA projects that external debt service will continue to stay high for many years, still being almost one-quarter of government revenue in 2035. However, it also projects that overall external debt and total public debt will gradually fall as a percentage of GDP. This assumes that growth in GDP measured in dollars is high, averaging over 8% in nominal terms.[89] It also assumes there is a primary surplus every year, from a height of 2.3% of GDP in 2017 to 0.9% by 2025 and 0.1% in 2035.

However, the predictions for dollar-GDP growth in the DSA have already proven over-optimistic compared to the more recent April IMF World Economic Outlook for 2016 and 2017, which, as noted above, indicates that external debt will continue to rise.

The only way the IMF can predict Ghana's debt will keep being paid is by assuming:

- high growth in dollar GDP, averaging 8.2% a year
- the government collecting around 19–21% of GDP in revenue every year, ie, revenue growing in line with GDP
- a fall in the average interest rate paid on external debt from 5.1% to 4.1% over the medium term
- a large primary surplus by 2017 of 2.3%, and continual surpluses after, albeit at a falling proportion of GDP

Any significant failure in these assumptions could cause debt to increase further out of control, ultimately costing the people of Ghana more if it continues to be paid. Yet all of these assumptions are either optimistic or require significant sacrifices:

- **Growth in $ GDP of 8.2% a year:** Between 2008 and 2015, Ghana's GDP grew from $28.5 billion to $36 billion,[90] which is the equivalent of less than 4% annual growth – less than half the rate assumed by the IMF.
- **Growth in government revenue in line with GDP, collecting 19–21% of GDP each year:** According to the IMF World Economic Outlook, Ghana has only once collected 19% of GDP as government revenue in a year, in 2011. Between 2008 and 2014, the most recent year with confirmed figures, government revenue was on average 17.4% of GDP. Of low- and middle-income countries that grew at 8.2% or more a year in dollar terms between 2008 and 2014, 45% saw their government revenue as a percentage of GDP fall over the same time. For 32% it remained roughly level, and in 22% it increased.[91] Maintaining or increasing government revenue during periods of high economic growth is possible, but it is by no means given.
- **Interest rates:** It will be difficult for the interest rate on external debt to fall given that the rate paid on bonds has been increasing, the US$ interest rates are increasing, and that Ghana's debt has increased so dramatically that private lenders are now less willing to lend than a few years ago.
- **Primary surplus:** Since its bailout and structural adjustment programme began in April 2015 the IMF has continually been revising down projections for the size of GDP measured in dollars. In April 2015, the IMF predicted that GDP would be $42.5 billion in 2016 and $47.2 billion in 2017. These amounts have fallen in every review, and the latest prediction in the April 2016 World Economic Outlook is that GDP will be $38.2 billion (down 10%) in 2016 and $40.9 billion (down 13%) in 2017. These falls mean that by 2017, government revenue is now predicted to be $8.3 billion rather than $9.2 billion.

  This could either be because IMF projections were just wrong, or because the cuts and tax increases introduced as part of the programme have reduced dollar growth. Either way, if more cuts and tax increases are introduced in response to targets being missed, it is likely that this will further reduce the growth rate, a classic debt trap where austerity leads to less growth, which increases the relative size of the debt, which leads to more austerity and less growth, and so on.

  There is an expectation and fear that the spending cuts and tax rises will intensify after the December 2016 elections, including job losses, which the government has not wanted to introduce before the vote. As one Ghanaian academic told us at a meeting in May 2016, "only after the elections will the true austerity programme begin".

References for section three are on page 25

The IMF structural adjustment programme

The amount of money the Ghanaian government spends per person has been falling, and is expected to continue to fall. In this context, it will be difficult for the rate of improvements in social services such as in health and education, and therefore in social outcomes, to be maintained.

In return for its loans to meet debt payments, and for its stamp of approval, the IMF requires the Ghanaian government to introduce various policies. Conditions of the current IMF programme, which runs from 2015 to 2018, include:[92]

- Reducing the cash fiscal deficit to 3.5% of GDP by 2017, from 12.4% in 2014 (which is a primary surplus of 2.9%)[93]
- A Special Petroleum Tax of 17.5%
- Extending to 2017 an import levy of 1–2% on some goods
- Extending to 2017 a levy of 5% of profit before tax on banking, insurance, financial services, communication and brewery sectors
- Public sector wage increases of only 13% in 2015 on 2013 levels (inflation over this time was 35%, which means it was a 16% cut in real terms)
- A net freeze on employment in all public services except education and health
- Eliminating subsidies for utility tariffs and fuel prices
- Expanding targeted social safety nets (no further details are given)
- Increasing foreign currency reserves to the equivalent of four months of imports by 2017

Overall under the programme, as of the January 2016 review, government expenditure (not including interest and debt payments) is projected to be GH¢31.8 billion in 2016 and GH¢35 billion in 2017. However, taking account of inflation, these are actually falls in expenditure in real terms. In cedi 2012 terms, expenditure will be GH¢18.2 billion in 2016, down from GH¢19.6 billion in 2014 and GH¢20.2 billion in 2012.

Moreover, Ghana's population is growing, so the amount spent per person in real terms is falling even faster, from GH¢810 (2012 prices) in 2012 to GH¢748 (2012 prices) in 2014 and GH¢650 (2012 prices) expected in 2017. This means that the amount the government spends per person will fall by 20% between 2012 and 2017 in real terms. At the same time the IMF projects GDP per person will grow by 15% in real terms (see Graph 16 below).

This is one way of measuring the impact of the debt and austerity. Even with reasonable economic growth per person, government expenditure per person will be falling in order to make interest payments and try to reduce dependence on debt.

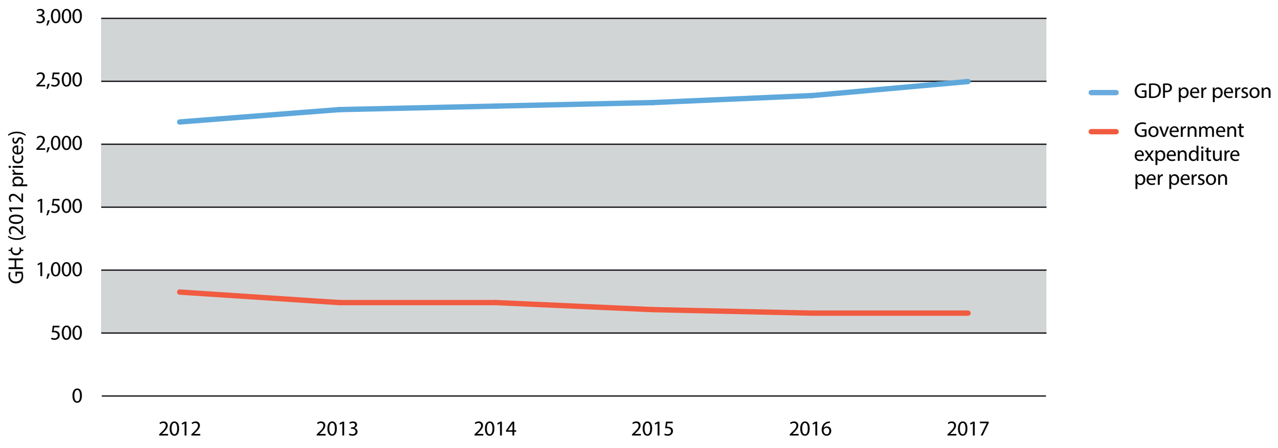
The oil funds and other reserves

At the same time as borrowing foreign exchange at high interest rates, the Ghanaian government has been lending foreign exchange at low interest rates to western governments. This is particularly seen through the operation of the oil funds set up following the start of oil production.

As of September 2015, Ghana's two oil funds held $502 million. The funds made just $3.7 million of income from investments – presumably mainly in western government debt such as US, German and UK government bonds (ie, loans to the governments concerned).[95] In total it appears that the funds were earning just 0.7% in interest, which is exceptionally low, even given low interest rates on most western government debt.

The idea of a sovereign oil fund is potentially a good one, to spread one-off wealth received from resource extraction over many years, and to help prevent the

Graph 16: Ghana government expenditure and GDP per person (2012 prices)[94]



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'Dutch disease' where oil revenue inflows push up the exchange rate and make other economic activity uncompetitive. However, these aims are undermined by external borrowing, which spreads costs over many years, and adds to the Dutch disease by pushing up the exchange rate at the time the loan is taken out.

Ghana has been earning very little income on its oil fund at the same time as paying high interest rates on external government debt. If the Ghanaian government had borrowed $500 million less from external private lenders, and used the oil fund money instead, it would be paying around $45 million less in interest every year, whilst receiving $3.7 million less in income – a net saving of over $40 million a year.

The oil fund is just a part of what are thought to be $4.66 billion of foreign currency reserves held by the government at the end of 2015.[96] Between 2011 and 2014, reserves fell from $5.38 billion to $4.35 billion, as they helped fund the government budget deficit. Under the IMF programme, reserves are projected to increase to $5.83 billion in 2016 and $6.88 billion in 2017.[97] It is obviously better to have more reserves than not, but under current plans the only way reserves will increase by $1.5 billion in 2016 and $1 billion in 2017 is by additional borrowing of private external debt (see page 21), at interest rates of 9% and above.

References – Section three

80 Periods of time, often five years, in which principal payments do not have to be made.

81 IMF and World Bank Debt Sustainability Analyses, and for years before 2004, World Bank World Development Indicators database. References – Section four

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83 IMF. (2016). Ghana: Second review under the Extended Credit Facility. January 2016. http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

84 IMF. (2016). Ghana: Second review under the Extended Credit Facility. January 2016. http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

85 Doesn't say who from, presumably other governments at higher interest rates than multilateral institutions but lower than private markets, eg. 4.5%

86 The IMF figures come from different places in the same document, and do not appear to be fully consistent with each other.

87 http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

88 IMF. (2016). Second review under the extended credit facility arrangement. January 2016.

89 GDP growth in dollars is very different to GDP growth in cedis if the exchange rate changes (beyond any changes brought about by differences in inflation in dollars and cedi). A fall in the value of the cedi against the dollar lowers GDP growth in dollars and can make it negative. But it is GDP growth in dollars which matters when determining the foreign exchange available to repay debts denominated in dollars.

90 IMF. *World Economic Outlook April* 2016.

91 Calculated by Jubilee Debt Campaign from IMF World Economic Outlook database

92 http://www.imf.org/external/pubs/ft/scr/2015/cr15103.pdf

93 The fiscal deficit is how much greater government expenditure is than taxation and grant income, including debt interest (though not principal) payments. The primary surplus is how much more government taxation and grant income is than expenditure, not including any interest or other debt payments.

94 Calculated from IMF and World Bank. Various Debt Sustainability Analyses.

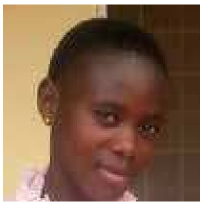
95 http://www.mofep.gov.gh/sites/default/files/reports/petroleum/2015%20Annual%20Report%20on%20the%20Petroleum %20Funds.pdf

96 http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

97 http://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

Escapes from the debt trap

"It keeps getting worse. They are always making us pay for new things at school which are meant to be provided by the government."



MISS DAVI XOLANYO BRIDGET GBAFA, GREATER ACCRA REGION

Urgent action is needed to ensure Ghana does not fall into a debt trap in which government spending continues to fall with negative impacts for poverty, inequality and economic growth, while debt stays high.

To avoid this trap debt payments need to be cut. At the moment, all the costs from irresponsible lending and borrowing, and the decline in oil and other commodity prices, are falling on the people of Ghana, and none of them on the lenders. Below we make recommendations on how the debt trap can be avoided through lenders sharing in the burden of failed lending and the external economic shock of falling commodity prices.

In addition, to prevent this trap being created again, there needs to be greater transparency and accountability in relation to debt on the part of the government of Ghana and lenders, tax justice to ensure that more of the revenue generated in Ghana stays in the country and is available for social spending and public investment, and a reorientation of the Ghanaian economy away from reliance on primary commodities.

Below are proposals which we believe the government, political parties and lenders should discuss with civil society both before and after the elections in December 2016.

Conduct a debt audit

In this report we have attempted to identify how much debt there is, who the loans were given by, what they were for and on what terms. However, the lack of transparency with many loans means this is difficult to do and much information is not publicly available.

Both the government and all lenders should release details of how much is owed, to whom, on what terms, and what the money was meant to be used for (if specified). This could be done through establishing an independent debt audit commission.

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.

"Let's go and audit the debt. How much has been borrowed, what was it for? How much was genuinely spent on projects? Then where the debt has not been used well we can suggest not paying. We can decide to tell the world this is not a good loan. Let's have a conference with our creditors to see what can be done to reduce interest rates on debt so we can repay without putting too much strain on us."

MR RICHARD ANANGA, PEKI, VOLTA REGION

Make lending and borrowing more productive and accountable

Ghana's debt has increased rapidly without it being clear what the loans were for, and how projects they were funding were being monitored and evaluated.

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.

Make adjustment fair

Any reduction in debt payments from measures below will help prevent Ghana getting further stuck in a debt trap. But government finances will still need to be improved to ensure sustainable finances which allow poverty and inequality to be reduced and the Sustainable Development Goals to be met.

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.

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.

Hold a debt conference

The change in oil price means that Ghana cannot make debt payments without significant cuts in vital government expenditure, high economic growth and continued high borrowing. It is unfair for the suffering caused by the change in global economic conditions to be born entirely by the people of Ghana and none by the lenders.

The Ghanaian government could call a conference of all its creditors to negotiate the debt down to a level consistent with meeting the Sustainable Development Goals. A UN body such as UNCTAD could be contracted to advise on what a sustainable level of debt would be. Negotiations have been held between the government and local banks and some power sector debts,[98] but a much more comprehensive approach is now needed across external debt. Such a conference was held for Germany in 1953, which led to half the country's debt being cancelled, and payments on the other half linked to earning a trade surplus from the rest of the world.[99]

Other countries also face similar issues of having borrowed at high interest rates during the commodity price boom, and now face much lower revenues than expected due to commodity price falls. The Ghanaian government could discuss with other countries in a similar situation whether joint approaches and negotiations would be helpful.

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.

Default or threaten to default on some of the debt

The Ghanaian government could stop paying some or all of the debt. For most if not all creditors, it is the threat (or reality) of not paying which will incentivise them to renegotiate the terms of the debt. For instance, if some lenders did not respond to requests for a debt conference, threatening to default or defaulting could make them more willing to do so. Defaults on different types of debt come with different implications which we discuss below.

Domestic debt

Defaulting on domestic debt would cause financial problems for those in Ghana who lent the money, and create problems within the domestic banking system. It is likely to cause significant economic turbulence and loss of confidence.

The Ghanaian government should:

- Make a clear commitment to paying domestic debt, including ahead of other debts.

References for section eight are on page 29

Some cedi-issued debt has been bought up by external creditors, since a rule preventing this from happening was abolished in 2006. Getting external lenders to lend in cedis rather than foreign currencies is useful as it protects from the exchange rate risk which has been so dramatic recently with external debt. However, it would also be useful to be able to differentiate between cedi-debt owed domestically, and cedi-debt owed externally.

The Ghanaian government should:

- 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.

Private external debt

The high interest rates on the private external debt show that the original lenders thought it was quite likely Ghana would default at some point before the interest and debt was due to be fully repaid. In lending to Ghana, they effectively bet on the oil and other commodity prices Ghana was dependent on for paying the debt. Those bets have not come off, so the speculators should not be paid their huge profits in full.

Legally, if Ghana defaulted on these debts, the owner of the debt could sue Ghana in the country under whose law the debt is owed. For the dollar-denominated bonds this is the UK; for other private external debts we do not know, but it is possibly the UK.

Ghana could negotiate with external creditors either after defaulting, or prior to doing so. The 2007, 2013 and 2014 dollar-denominated bonds have collective action clauses which mean that Ghana would need to get 66%-75% of owners of that particular issue of the bonds to agree to a change in the terms to enforce it across all creditors.

However, vulture funds could choose to buy up bonds then block a restructuring in a particular bond issue, then sue, even if other creditors accepted the restructuring. In 2012, vulture funds bought up particular bond issues by Greece and then blocked the restructuring for those particular issues. Unfortunately, Greece continued to pay the vulture funds in full, which meant the speculators made huge profits on what they paid for the debt.

Ghana's 2015 dollar-denominated bond is complicated by the World Bank guarantee. This guarantee means the World Bank will make any missed payment up to a total of $400 million. It is therefore more difficult to negotiate to restructure the terms of the bond because its holders know that the next $400 million of payments will be made whatever Ghana does.

Any threat to default or default on this debt would mean it would probably become impossible to borrow more from private external lenders (though after debt has been reduced private lenders tend to be willing to lend again surprisingly quickly). Moreover, it is already difficult for Ghana to borrow more from private external lenders, with the 4–7 year bond issued in September 2016 paying an expensive 9.25% interest rate. Speculators were probably only willing to lend because the IMF keeps lending more money to ensure debt payments can be met. The Ghanaian government should not be borrowing at such high interest rates, and soon it may not be able to anyway.

The bigger question is whether defaulting or threatening to default on external private debt would affect the decisions of multilateral institutions and other governments. This would ultimately be a political decision for them. The IMF is meant to require restructuring of external private debts where it judges that a country has unsustainable debt. Government's which have recently continued to receive loans from the IMF after they have defaulted on private debts include Ukraine and Grenada.

Other (western) governments and the World Bank are likely to continue to be willing to lend if the IMF continues to do so. However, both the World Bank and other western governments are not meant to be lending any more money to Ghana under their own rules, set through the OECD, because the IMF and World Bank have now assessed Ghana to be at high risk of debt distress. They can and should give grants.

The Ghanaian government should:

- 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

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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).[100]

Cancel unjust debts

The details of many loans are unknown, so no assessment can yet be made of how well the money was spent and how responsibly the lenders acted to ensure it was invested well. However, this report has uncovered that the World Bank broke its own rules by disbursing 93% of its money to Ghana as loans when it should have been giving half grants and half loans. Furthermore, at least $540 million of debt owed to the World Bank is for projects where the World Bank itself has said its performance was less than satisfactory (25% of debt where there is an assessment).

The release of information through a debt audit (see page 26) would reveal further details on whether lenders acted responsibly, including whether lenders ensured loans were well used, and whether they complied with their own rules over lending to Ghana when it was assessed as at moderate risk of debt distress (May 2007 – February 2015) and high risk of debt distress (March 2015 – present).

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[101] – thereby turning the money into the grants they should have been originally – 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 countries with a Debt Sustainability Analysis.

References – Section four

98 http://www.ghanaweb.com/GhanaHomePage/business/Follow-roadmap-to-clear-legacy-debt-IMF-to-govt-467829

99 http://jubileedebt.org.uk/reports-briefings/briefing/europe-cancelled-germanys-debt-1953

100 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

101 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 have been given as grants, which is 46% of the loans (43 / 93 = 0.46). 102 Calculated from various sources: Government of Ghana bond issue prospectuses, World Bank World Development Indicators database, World Bank website on debt owed directly to the World Bank, IMF website on debt owed directly to the IMF, IMF and World Bank Debt Sustainability Analyses.

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Who Ghana's debt is owed to, end-2015[102]

		Creditor	Amount			Interest rate	Percentage of debt owed		
Private		Domestic	GH¢37.2 billion ($8.9 billion at April 2016 exchange rate)	$17.4 billion		7% (average real interest rate)	32.1%		62.9%
Private		External but local currency	GH¢9.3 billion ($2.2 billion at April 2016 exchange rate)			7% (average real interest rate)	7.9%		
Private		External dollar-denominated bonds	$3.53 billion			7.9%–10.75%	12.7%		
Private		Other private external (mainly commercial banks)	$2.812 billion			8%–11%? (estimate based on interest rate on bonds)	10.2%		
Multilateral		World Bank	$3.44 billion	$5.495 billion		0.75%–2%	11.7%		19.3%
Multilateral		African Development Bank	$949 million			1.25%	3.4%		
Multilateral		IMF	$760 million			0% (is expected to rise to 0.25% in 2018)	2.7%		
Multilateral		IFAD	$122 million			0.67%	0.4%		
Multilateral		Other	$224 million			1%?	0.8%		
Bilateral	Paris Club	US	$560 million	$2.236 billion	$4.92 billion	4.5%?[103]	2%	8.1%	17.8%
Bilateral	Paris Club	Belgium	$373 million				1.3%		
Bilateral	Paris Club	Netherlands	$333 million				1.2%		
Bilateral	Paris Club	France	$275 million				1%		
Bilateral	Paris Club	Canada	$249 million				0.9%		
Bilateral	Paris Club	Germany	$209 million				0.8%		
Bilateral	Paris Club	Austria	$120 million				0.4%		
Bilateral	Paris Club	Spain	$66 million				0.2%		
Bilateral	Paris Club	Other Paris Club	$51 million				0.2%		
Bilateral	Non-Paris Club	China	$2.256 billion	$2.684 billion			8.1%	9.7%	
Bilateral	Non-Paris Club	Israel	$278 million				1%		
Bilateral	Non-Paris Club	India	$105 million				0.4%		
Bilateral	Non-Paris Club	North Korea	$22 million				0.1%		
Bilateral	Non-Paris Club	Kuwait	$17 million				0.1%		
Bilateral	Non-Paris Club	Saudi Arabia	$6 million				0%		
			Total amount $27.700 billion				100%		

References – Appendix

102 Calculated from various sources: Government of Ghana bond issue prospectuses, World Bank World Development Indicators database, World Bank website on debt owed directly to the World Bank, IMF website on debt owed directly to the IMF, IMF and World Bank Debt Sustainability Analyses.

103 This has been estimated using the known interest rates for private and multilateral debt, and the IMF and World Bank DSA figure that the average interest rate on foreign exchange debt is 5.1%

Integrated Social Development Centre (ISODEC), Ghana, is an indigenous non-governmental organization committed to the promotion of human rights (especially social and economic rights) and social justice for all, especially those suffering marginalisation, injustice and powerlessness.

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The **VAZOBA** Afrika and Friends Networking Open Forum networks all those interested in citizenship education in West Afrika with those all over the World through Action Learning forms of popular education and mutually beneficial grassroots community self-empowering exchange programmes of Global Citizenship in the perspective of Pan-Afrikanist Internationalism

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The **Kilombo** Centre for Citizens Rights and Conflict Resolution, Ghana, is an education and research project which provides capacity for grassroots and pro-people forces to develop an alternative to the unfair social and economic arrangement globally and secure a just relationship between Africa and Africans with the rest of the world.

www.kilomboeducation.org

JUBILEE DEBT CAMPAIGN

Jubilee Debt Campaign, UK, is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system that puts people first.

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The **All-Afrikan Networking Community Link for International Development (AANCLID)** seeks to rally together Afrikan Heritage Community interest groups in and beyond Europe into principled unity networking for the harmonious promotion of MAATUBUNTUMANDLA Pan-Afrikan Community Regenerative Self-Empowerment, Decolonising Education for Liberation in all relevant spheres of Intersectionality, Sustainability and Pluriversality, as well as in the International Developmental furtherance of Global Justice for all.

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Abibimman Foundation, Ghana, promotes a culture of sustainable livelihoods, peace and development based on knowledge of cultural, civic, human right, environmental, climate change and health issues.

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