



## RETHINKING SOVEREIGN DEBT MANAGEMENT IN A POST COVID-19 ECONOMY

### CARITAS GHANA CONCEPT PAPER

#### Problem Analysis

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. 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 on the back of the discovery of oil and high commodity prices. Following the fall in the price of oil and other commodities since 2013, more money was borrowed to try to deal with the ensuing impacts, whilst the relative size of the debt also grew because of the fall in the value of the Ghanaian currency, the cedi (GHC), 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. Ghana has gone through different phases of economic restructuring programmes such as Enhanced Structural Adjustment Facility (ESAF) in 1995 to deal with inflation, economic recovery program (ERP) in 1983 aimed at reversing a protracted period of serious economic decline characterized by lax financial management. 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. Significant improvements in education and healthcare followed, due to money being saved and invested, alongside good governance policies, enhancing basic service provision.

In the wake of the coronavirus pandemic, economic activities have come to a standstill as governments of poor countries struggle to fight the virus, provide healthcare and basic needs for their people. Africa's economy is expected to experience this year a contraction of 1.6 %, the worst on record. In the aftermath of the pandemic, disastrous effects will push millions into hunger and poverty and the destabilized economies are expected to need years of recovery. It will not be easy to manage competing commitments as well as servicing an expensive debt.

If the goal of a significant debt relief is to be met, more people need to become involved in campaigning and lobbying. The purpose of this concept note is to explore how to design and implement initiatives in this area. Debt cancellation can be used to fortify economies and business of poor countries to give them a fair fighting chance to overcome the COVID-19 disease and rebuild. Instead of debt servicing, governments of the poorest can use the money to provide the people with food, clean water, housing, healthcare and education as a matter of human right. The purpose of

debt forgiveness is to give debtor countries new opportunities to make social investments that improve basic human development. Funds made available through debt relief must be used to improve the living conditions of the poor and the most vulnerable. We support debt forgiveness, not to adjust old accounts but to combat poverty.

### **Scale of debt crisis worldwide**

Since February 2020, the global economy has been severely hit by threat emanating from COVID-19 and the resulting breakdown of health systems, lockdowns and slowing economic activities. But by January 2020 the debt of forty four per cent of low-income developing countries was already at high risk or in distress, effects that the pandemic will seriously compound. Middle-income countries, home to 75% of the world's population and 62% of the world's poor, are also highly vulnerable to a debt crisis. For instance, Argentina, Ecuador and Lebanon are already embarked in tough negotiations with their creditors to reach a deal on restructuring and avoid default. Dozens of developing countries, absent actions to reduce their debt burdens, are likely to default in the coming months. "Without debt relief and emergency aid, too many countries do not have the ability to feed their people, strengthen health services or help their people survive the economic impacts of the coronavirus," stated Eric LeCompte, a UN finance expert, who leads the religious development group, Jubilee USA Network.

Last March, African Finance Ministers called for a waiver of USD 44 bn in bilateral, multilateral and private debt payments due this year, and an extension of such waiver to 24 or 36 months. Last April, the Group of 20 agreed to freeze bilateral payment for up to 76 poor countries until the end of the year, provided they meet certain conditions. At about the same time, the IMF revamped terms of a debt service-cancelling facility that so far allowed 28 countries to forego debt service payments to the institution for six months.

United Nations Secretary General António Guterres called for expanded debt relief and aid for a broader groups of developing countries to confront the coronavirus pandemic. Guterres spoke to the virtual meetings of the UN Financing for Development Forum and he specifically noted the plight of middle-income countries. The UN Conference on Trade and Development also released a template for a new process, the International Developing Country Debt Authority, to create a mechanism to negotiate the debt of countries facing crisis.

"While the IMF is using just about every tool at its disposal to deal with the crisis, the aid and relief so far is not enough," said LeCompte. "To confront the crisis, the G20 needs to move forward broader debt relief and debt restructuring processes that include the private sector. The IMF and World Bank need to cancel debts."

### **Scale of the debt crisis in Ghana**

The impact of COVID-19 on Ghana's economy is massive given that, as in many developing countries, it is an economy largely driven by the informal sector. Ghana's informal sector contributes about 28% to the Gross Domestic Product (GDP). Ghana's external debt currently stands at about GHc218

billion cedis (\$40 billion) as at the end of 2019 which represents 59.28% of GDP. About 51.2% of government revenue goes into debt servicing making Ghana's economy very vulnerable to external shocks.

Since the first case of COVID-19 was recorded in Ghana and the weekly surge in the number of positive cases, the President of Ghana announced a three-week lockdown aimed at containing the spread of the virus and also facilitate testing and tracing of contacts. It is estimated that the government of Ghana spent an average of GHC 2 million on a daily basis in the provision of hot meals for vulnerable populations alone. Beyond this, the government of Ghana has announced a number of social interventions such as risk allowance for frontline health workers, cancellation of taxes of health workers, free water for all citizens for three months and rebates on electricity bills.

Beyond the social interventions, the Government of Ghana has spent heavily on quarantine, contact tracing and testing of suspected individuals. All the social interventions and clinical services introduced by government which were aimed at cushioning the vulnerable have dire implications on Ghana's already fragile economy. Currently, Ghana's GDP figures have been revised from 7.5% to 1.5% due to the slowdown in economic activities and government spending on non-productive social interventions. The global rating agency Moodys has downgraded Ghana's economic outlook from B positive to B negative, this drop in ratings has negative implications on foreign investment and interest on external borrowing.

The finance Minister of Ghana Ken Ofori-Atta is quoted to have forecast in his daily diary entry headlined 'What does an African finance minister do now?' a gloomy picture of what is to come. Africa's external debt stock is more than \$700billion, Africa needs to pay \$44bn to service our debt this year. Riddled with the obligation to service the countries debt portfolio, coupled with loss of revenue as domestic taxes shrink with the economy at a standstill, he projects an economy 'U-shaped recovery, but ours will likely be a steep drop, then a two- to three-year downward slide before a recovery; a trapezoid-shaped recovery!' 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.

### **What are the monies used for?**

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 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 World Bank does publish detailed information on loans once they have been agreed. 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. Public-Private Partnerships (PPPs) are 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.

### **Ghana Government intervention**

In the face of the Covid-19 pandemic, the president announced in his public speech that the finance minister should make available an equivalent of \$100m to combat the spread of the virus, only for the minister to appear in parliament to say that the money was not available. One response to these economic shocks has been for the Government to borrow more money, most visibly through \$100 Rapid Credit Facility to help the country address the economic impact of the COVID-19 pandemic. The IMF has since announced a \$ 1 billion-dollar grant to Ghana through its rapid-disbursement emergency financing facilities for low income and emerging market countries. The Government of Ghana plans to utilize the \$1 billion-dollar grant on COVID-19 Alleviation Programmes (CAP). So far the Bretton Woods institutions have announced a moratorium on interest payments on loans for COVID-19 affected countries including Ghana, under the Debt Standstill Agreement.

### **The Catholic Church is concerned about the debt situation**

The United States Conference of Catholic Bishops' (USCCB) recently wrote to President Donald Trump advocating for a process that can evaluate debt sustainability and vulnerabilities and, if warranted, trigger a process to restructure debt to eliminate vulnerabilities, ensure sustainability, and reduce poverty. They especially called on the leadership of the United States to lead in the effort in ameliorating global debts and also paid homage for their intervention with the Somalia. The Symposium of Episcopal Conferences for Africa and Madagascar (SECAM), the Continental Body of the Catholic Church, recently raised the issue of sovereign debt management for poor countries.

The Ghana Catholic Bishops' Conference has expressed concern about the debt burden of poor nations and unfair terms of trade and called for total cancellation of debts of Third World countries on humanitarian grounds. It also called on rich nations to review trade terms in order to ease the sufferings of the peoples of poor countries who produce the bulk of the raw materials for industrial development. "This gesture of debt cancellation, and the review of terms of trade, would be concrete gestures of solidarity of the international community with the poorer nations," it said.

"We urge government that in line with its commitment to poverty alleviation, it should use the benefits of debt cancellation to enhance the quality of life of the urban and rural poor by providing basic amenities, especially educational and health facilities throughout the country. It said "emphasis should be placed on the needs of the youth and women to enable the largest number of people to escape the agony of self-perpetuating poverty." The communiqué noted that the disparity between the rich and the poor is ever-increasing: "The nation's quest for social justice, as embodied in our constitution, demands that the Government act decisively and firmly to address the poverty situation to enable Ghanaians to live in dignity." It said the Church would continue to make "a radical and preferred option for the poor" and assist the people in the fight against poverty, hunger, diseases and ignorance.

## **Proposed Response**

### **Objectives:**

#### **Long term objectives:**

- i. A human rights-based approach to debt sustainability; a binding set of standards to define and ensure responsible lending and borrowing; an independent and fair procedure for debt resolution and cancellation of unsustainable and unjust debts.
- ii. Promote transparency and accountability in the management of public finances
- iii. Creative new models of investments, especially social impact investing that addresses integral human development – Environment, Economy and Social

#### **Short term objectives:**

- i. Raise awareness and government action, individually and with other countries, to reduce debt burden
- ii. Advocate measures to increase budget transparency and use of funds, including those released through debt suspension/ relief efforts, to support access by the poorest and most vulnerable to essential services (healthcare, education) and social protection
- iii. Generate knowledge and debate on investment models and the most suitable approaches in the country and the continent

#### **Actions Taken So Far:**

- i. A webinar on debt cancellation themed 'Building an inclusive economy in Ghana and across Africa during COVID-19 times' was organised 5<sup>th</sup> November 2020. The webinar had HE. Peter Appiah Cardinal Turkson, prefect of the Dicastery for Promoting Integral Human Development (DPHID) giving the keynote address. Ghana's Minister of Finance gave an analysis on the situation in Ghana and across Africa. A senior economist and a lecturer at the University of Ghana, Dr. Agyapomaa Gyaeke-Darko, steered the delivery on the impacts of debts on everyday lives especially with COVID-19.

Senior Director of Policy and Campaigns at Jubilees USA, Aldo Caliari, addressed the need to cancel debts to help sustain economies globally especially in the wake of COVID-19. Further discussions were on raising awareness about the debt situation, impacts, leveraging resources, prospects, and potential avenues to address it at the national and international levels.

→ Further engagements with regional and international partners are underway to develop and pursue the agenda for debt relief. The **Ecclesial Debt Network Africa (EDNA)** is an alliance of

determined Ecclesial networks, poised to collaborate and coordinate efforts networks in debt relief campaign. The Networks include:

- **Jesuits and Ecology Network of Africa (JENA)**– works with and through 9 Provinces in 35 countries.
- **Caritas Africa** – works with 46 National Caritas Members in 46 Countries in sub-Saharan Africa region
- **SECAM** – works with Catholic Bishops Conferences in the entire continent of Africa. Has observer status at the African Union

The intended target is to coordinate all efforts through the Bishops’ Conference in various countries: Association of Central African Bishops’ Conferences

- **ACERAC**- Association of Bishops Conferences of the Central African Region
- **AMECEA**- Association of Members of the Bishops’ Conference of East Africa
- **CEDOIM**- Episcopal Conferences of the Islands of the Indian Ocean and Madagascar
- **IMBISA**- Inter-Regional Meeting of the Bishops of South Africa
- **RECOWA-CERA**- Bishops Conference of the West African Region

- ii. Efforts are being made to collect the debt profile African countries including of all the countries initiated to aid developing the position paper and preparing policy recommendations to enhance the policy and advocacy dialogue. Countries include:

Zambia	Congo Brazzaville
Zimbabwe	DR Congo
Ghana	Cameroon
Liberia	Gabon
Kenya	Senegal
South Sudan	Niger
Uganda	Comoros
Nigeria	Madagascar

- iii. Further strategy is to Liaise with resource people in think tanks, foundations, universities, private across the region and translate policy papers into French and Portuguese.

#### **Proposed Actions for the Next 12 months**

- i. Coordinate local efforts to raise resources and awareness on the debt situation, impacts and prospects, and potential avenues to address it at the national and international levels. The first webinar will take place late August/early September including Cardinal Peter Turkson. Webinars will be aimed at civil society, religious constituencies and general citizenry.
- ii. Build a civil society /religious community platform to identify and pursue strategies to reduce the debt burden that can carry broad support among Ghanaian groups and in coalition with external allies. Strategies to be considered will be: legislation on responsible lending, research on impacts of debt, calling for an audit, advocacy with government and private creditors, etc. Caritas Ghana will lead this effort and seek to involve other key stakeholders.
- iii. Engage in regional and international efforts to achieve debt relief, sovereign debt restructuring forums and other solutions, where relevant to the debt situation in Ghana.
- iv. Develop feasible proposals to improve budget and debt contracts transparency and accountability. Efforts will include the promotion of integrity education as a sustainable way to combat corruption, building on Caritas Ghana's interfaith I-SHAME Corruption project.
- v. Liaise with resource people in think tanks, foundations, universities, private sector and other entities to gather a list of models of investment that address integral human development applicable and feasible in Ghana. Initiate discussion on them with potential implementing partners.