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# DEBT RELIEF AS AN INSTRUMENT FOR PROMOTING GREEN GROWTH – THE CASE OF GHANA

BY

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# 1. INTRODUCTION

Developing countries must be pulled out of a situation characterised by high debt levels, poverty, and low sustainable development spending. In 2019, 25 developing countries spent more on debt service than on social spending on education, health and social protection combined (UNICEF Office of Research – Innocenti, 2021); in 2021, lower-income countries spent over five times more on external debt payments than on climate resilience (Jubilee Debt Campaign, 2021). These figures were only worsened by the protraction of the Covid-19 pandemic and the eruption of the war in Ukraine. Today, the international community should focus on providing immediate relief through debt restructuring. Developed governments and International Financial Institutions (IFIs) need to explore innovations that increase the overall supply of finance. And they need to reform the international financial and debt restructuring architecture to promote sustainable development everywhere in the world.

Excessive public indebtedness is a problem both in economic terms, as it can lead to default and the subsequent loss of market access and economic slowdown, and in developmental ones, as it does not leave room for countries to invest in growth. Moreover, high public debt can create a vicious circle in which greater climate vulnerability increases debt even more, diminishing the fiscal space for investments in climate resilience and hence making the impacts of climate change even worse. Developing countries such as Ghana, with high debt, high poverty, and high vulnerability to climate change, are today at significant risk of falling into this vicious circle. This is why a Debt Relief Initiative (DRI) is needed, and is needed now. Today, the Covid-19 pandemic and the recently erupted war in Ukraine are causing the deterioration of developing countries' already fragile fiscal and developmental situations. The international community has recognised the need to act in this sense; the way to do so appears still to be defined.

This final dissertation addresses such an issue, by designing a Debt Relief Initiative targeted at one of the developing countries that today find itself more in need to benefit from restructuring: Ghana. For achieving this goal, (i) traditional literature and academic papers on debt restructuring and (ii) practical policy proposals and articles assessing the present economic and developmental conditions of Ghana were used. A targeted interview complemented these sources. The thesis aims to understand how debt relief can promote green growth, mainly through establishing conditionality clauses. Although

DRIs have already been implemented in the past, and the need to take further action through debt relief has recently been recognised, no comprehensive international restructuring process, able to solve the fiscal issues of developing nations, has been carried out or proposed so far. An innovative approach to debt relief is developed in the present dissertation, that (i) targets one country only and (ii) puts together lessons learnt and best practices from past DRIs and present policy proposals. In doing so, gaps in the existing literature (related to the lack of tailored approaches to debt relief) and practical initiatives (concerned with the weaknesses of DRIs implemented in the past and proposed today) are filled.

Overall, the aim of what follows is to design a DRI targeted at Ghana, effectively solving its debt issues and fostering sustainable development. The main features of the DRI proposed are highlighted in general terms and in their relation to the Ghanaian situation, aiming to make the proposal designed applicable, with appropriate tailoring, to other developing nations.

The thesis is developed as follows. The second section provides an overview of the existing literature on debt relief, highlighting the principal works and sources of data used to design the proposal for a DRI. The following part explains the methodology adopted for carrying out the study. The fourth section gives an overview of the issue of public debt, to clarify why excessive indebtedness is an issue worth to be tackled through an international initiative. Section five describes the present situation of the country object of the case study, Ghana, under those most relevant aspects to understand why the nation needs debt relief. The following part, the core of the thesis, assesses the main features of the DRI proposed, highlighting their purpose and potential efficacy. The seventh section calls for action now, proving the need to do so. Section eight exposes the study's limitations, offering suggestions for future research. Finally, section nine concludes.

## 2. LITERATURE REVIEW

For developing the present dissertation, and the proposal for a Debt Relief Initiative which is at the centre of it, contributions from several sources were relied on. The works which have been most helpful in drafting the present thesis can be grouped within six categories: firstly, part of the extensive literature dealing with different debt reduction schemes, and their respective benefits and drawbacks; secondly, academic papers and studies dealing with debt relief, and with the potential conditionality clauses attached to it; thirdly, practical policy proposals, developing concrete DRI plans; fourthly, several journal articles, from sources including *The Guardian*, *The Africa Report*, and *Bloomberg*, dealing both with debt-related issues in general and with the debt condition of Ghana in particular; fifthly, documents produced by international institutions, among others the World Bank (WB), the International Monetary Fund (IMF), and the Jubilee Debt Campaign, and addressing specifically the present situation (under many different points of view) of Ghana; sixthly and finally, one interview conducted with a representative from the Italian Ministry of Foreign Affairs, which has centred around the proposal for a DRI the Italian Delegation has pushed forward at Glasgow's 26th Conference of the Parties (COP26), and in general on the outcome of the Conference per se.

### 2.1. Literature on Debt Reduction Schemes

As for the "purely academic" literature used to establish the work's theoretical foundation, five different publications are worth mentioning. Firstly, a book by Carmen M. Reinhart and Kenneth S. Rogoff, published by the Princeton University Press in 2011, where the authors offer a comprehensive assessment of international financial crises, analysing their recurrence in both developing and developed nations (Reinhart and Rogoff, 2011). Secondly, some theoretical notions were also taken from a working paper published by Dani Rodrik in 1988, analysing the process of servicing foreign debt, especially concerning phenomena of real depreciation and trade policy (Rodrik, 1988). Another contribution from Dani Rodrik, this time from 1996, has served as a third source of theoretical notions; the 1996 paper deals with the economic reforms implemented after the global debt crisis, and the lessons that can be learned from them (Rodrik, 1996). Fourthly, a fundamental theoretical contribution to the development of the present study has been given by a paper realised by Michel-Henry Bouchet and Bertrand Groslambert in 2006. The work investigates the relationship between corruption and capital flight in developing countries, both in theory and by empirically testing the assumption that the higher the level of corruption, the less conducive the national environment for private investment, and the greater the capital leakages (Groslambert and Bouchet, 2006). Fifthly and finally, some precious theoretical foundations were also extracted from a working paper realised by the Centre for Economic Studies & Ifo Institute, that analyses, both empirically and through a quantitative sovereign debt model, the differences between pre-emptive and post-default restructurings, highlighting how the former tend to (i) be frequent, (ii) have lower haircuts, (iii) be quicker to negotiate, and (iv) see lower output losses, both in terms of Gross Domestic Product (GDP) and of access to international capital markets (Asonuma and Trebesch, 2015).

### 2.2. Academic Papers

For what concerns the most "academic" and formal literature used to develop the dissertation, Professor Michel-Henry Bouchet has provided a significant contribution. In particular, Bouchet's publications were used to understand the link between public (international) debt, governance, and green growth. Some valuable insights were taken from Professor Bouchet's book "The Political Economy of International Debt: What, Who, How Much, and Why?" of 1987; the publication provides a comprehensive and detailed overview of various debt-related issues, as well as solutions to solve them. Moreover, two papers published by Professor Bouchet in January 2022, "Pandemic crisis and risks of state failure in EU' aid recipients: An opportunity for promoting governance-linked development policy" and "Protracted Pandemic Crisis = Risk of Great Collapse for weak states? An opportunity for reassessing EU's development aid to promote good governance", have also been used to dig into the various interconnections between debt restructuring, good governance, and state failure, especially in the present post-pandemic context. Finally, a fascinating article drafted by Professor Bouchet in November 2020, and published in the journal *jeuneafrique*, has given another fundamental contribution to the complete understanding of debt restructuring initiatives, mainly related to the importance of linking DRIs to good governance clauses.

To complement Professor Bouchet's texts, theoretical contributions from high-level international financial institutions, such as the European Central Bank (ECB) and the IMF, were exploited. For what concerns the former, reference was mostly made to (i) a paper of 2021, assessing the functioning of international processes of sovereign debt restructuring, in particular as related to the role the IMF plays (and should play) in them (International Relations Committee (IRC) Task Force on IMF and Global Financial Governance Issues – European Central Bank, 2021); and (ii) a publication of 2019 centred around the conditionality clauses often characterising IMF lending, and their effectiveness (International Relations Committee (IRC) Task Force on IMF and Global Financial Governance Issues – European Central Bank, 2019). As related instead to the theoretical papers published by the IMF used, it is worth mentioning (i) an article of 2020, assessing what is debt sustainability (Hakura, 2020); (ii) a paper again of 2020, analysing the international architecture standing behind sovereign debt restructurings, in particular in light of its recent evolution, as well as the potential gaps still characterising the system and possible solutions to them (International Monetary Fund, 2020); and (iii) a policy paper of 2021, assessing recent evolutions in public debt vulnerabilities of low-income countries (International Monetary Fund – Strategy, Policy, & Review Department and World Bank, 2020).

### 2.3. Policy Proposals

Moving to the practical policy proposals exploited to devise the proposal for a Debt Relief Initiative developed in section 6, these have mainly taken the form of policy papers. In particular, three contributions have been particularly critical to help the understanding of what a DRI looks like. The first one is titled "New approaches to debt relief and debt sustainability in LDCs", and it was published in 2004. The paper focuses mainly on the Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996 by the WB and the IMF to solve the debt crisis of Least Developed Countries (LDCs)[1]. It emphasises the usefulness of debt relief as a form of development assistance. The second proposal that inspired the development of the DRI proposed was published in 2021. It is titled "Debt Relief for a Green and Inclusive Recovery – Securing Private-Sector Participation and Creating Policy Space for Sustainable Development". The proposal is structured as follows: firstly, an analysis of the debt crisis countries in the Global South are facing is made, also as related to the impact of climate change on public debt; secondly, DRIs

[1] The HIPC Initiative was set up by the IMF and the WB to ensure that no developing country faces an excessive debt burden. To date, debt reduction packages under the Initiative have been implemented for 37 countries, 31 in Africa, providing $76 billion in debt-service relief over time.

implemented during the past years, and their weaknesses, are assessed; thirdly and finally, proposals for a more effective DRI are put forward, especially concerning the link to be established between restructurings and green growth. The third and final policy proposal that inspired the present dissertation is "Promoting debt sustainability to facilitate financing sustainable development in selected Caribbean countries". The Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean published it in 2020. In the publication, proposals for implementing an initiative (pursued by the ECLAC itself) designed to reduce the debt burden and advance the sustainable development of Caribbean economies are made.

The gap the thesis aims to fill is to be found precisely in the literature described in the present subsection. The dissertation proposes a new way of implementing DRIs: it does so for a specific country, Ghana, but with a potential expansion of the Initiative to other nations experiencing similar debt and climate difficulties in mind. In doing so, the goal is to promote a case-by-case approach to debt relief, while at the same time offering common principles and a common framework for international restructurings. Such an ad-hoc perspective is currently missing in the literature. The elements characterising the DRI developed in section 6 make it a unique proposal in the field of international debt restructurings, offering an alternative and potentially more efficient way to carry out such processes. This is true for what concerns proposals for DRIs of the kind analysed in the present subsection and for the DRIs implemented by the international community so far. In fact, in practical terms, the international debt restructurings for developing countries the international community has carried out since the 1990s have been marked by several structural weaknesses (see sections 6.1, pages 33-34, and 7.1, pages 53-54), that the present proposal acknowledges and tries to overcome.

### 2.4. Journal Articles

For what concerns the newspapers' articles which contributed to the development of the proposal for a DRI, it is worth emphasising two publications of *The Africa Report*, of 2021 and 2022, focussing on the debt situation of Ghana. The 2021 article assesses the worsening of debt market access Ghana has suffered from during the last year, and its possible consequences (Whitehouse, 2021); the 2022 publication looks instead at the vulnerabilities of the country's public debt (Davis Jr., 2022). Moreover, information was also taken from (i) *The Guardian*, which published in August 2020 an article warning about the possibility of a global debt crisis erupting soon, as a consequence of the Covid-19 pandemic (Stiglitz and Rashid, 2020); (ii) *Foreign Policy*, again highlighting the possibility for the world, and especially for the Global South, to precipitate into a debt crisis, and also offering some recommendations to prevent this to happen (Malloch-Brown, 2022); (iii) *Bloomberg*, that in January 2022 analysed the worsening of Ghana's debt conditions and macroeconomic indicators (mainly spread) (Gokoluk, 2022); and (iv) *The Conversation*, that again touched the issue of the Ghanaian debt, also emphasising how debt is preventing the country from pursuing effective development strategies (Sarkodie, 2022).

### 2.5. Documents from International Institutions

Given the topic chosen as the focus of the present dissertation, a considerable volume of the contributions exploited for drafting it has come from financial and non-financial international institutions.

Regarding the first category (i.e., publications from IFIs), most of the works used for factual information were drafted either by the IMF or the WB, or both. Of these, it is worth mentioning here: (i) an assessment made by the IMF at the end of January 2022, classifying low-income countries' fiscal conditions as either "in debt distress", "at high risk of debt distress", "at moderate risk of debt distress", and "at low risk of debt distress" (Ghana was included in the second category, i.e., "at high risk of debt distress") (International Monetary Fund, 2022) (ii) a Joint Debt Sustainability Assessment of Ghana's public debt, realised by the IMF and the WB in 2019, which allowed to better understand the country's specific debt vulnerabilities (International Development Association and International Monetary Fund, 2019); (iii) a report by the WB, assessing Ghana's climate risk, as related in particular to its main weaknesses to climate change (Dove, 2021); (iv) the dataset of the Worldwide Governance Indicators (WGI) project, that provides governance indicators for more than 200 countries and territories over the period 1996-2020, and that enabled to analyse in detail the governance records of Ghana; and (v) the "World Development Report 2022", realised again by the WB, that highlighted as one of the worst economic consequences of the Covid-19 pandemic a surge in public debt levels, recommending the swift implementation of debt restructuring initiatives.

Passing to the second category of contributions from international institutions used to develop the thesis (i.e., works by international non-financial institutions), data from three sources were mainly exploited. Firstly, the United Nations Development Programme (UNDP), that regularly produces country-specific profiles assessing national climate exposures and development levels in general. Moreover, UNDP Human Development Index (HDI)[2] assessments were also used, to classify Ghana's poverty level. Secondly, works realised by the Jubilee Debt Campaign, a charity coalition of national organisations and local groups based in the United Kingdom (UK), were heavily relied on. The Campaign has drafted several reports on the debt conditions of developing countries over the years, and it regularly publishes articles on the matter. Of great significance for developing the dissertation has been a report by the Jubilee Debt Campaign published in 2021, and that had a broad resonance internationally, especially during the months immediately preceding COP26. The Report is titled "Lower-income countries spend five times more on debt payments than dealing with climate change". It has been realised by the charity to demonstrate the potential for debt reduction as a means to promote sustainable development. The Jubilee Debt Campaign computed, using various sources, the approximate spending on climate change adaptation of 34 low-income countries (including Ghana). It then compared the amount obtained for each nation to single countries' spending for external debt payments. The third and final international non-financial institution relied on to get fundamental data for the development of the thesis is the United Nations International Children's Emergency Fund (UNICEF). UNICEF realised in April 2021 a research highlighting how the Covid-19 pandemic has led to a wave of debt crises in low- and middle-income countries (UNICEF Office of Research - Innocenti, 2021). The information provided by the study has been fundamental to analysing the characteristics of the present historical moment, mainly in terms of poorer countries' debt conditions, and to emphasise why this specific period may be the right one to push a proposal for an effective DRI forward.

[2] The Human Development Index is a composite index of life expectancy; education, in terms of mean years of schooling completed and expected; and per capita income indicators.

## 2.6. Interview

Finally, the Italian Ministry of Foreign Affairs was contacted to give a more practical underpinning to the dissertation. The issue of debt cancellation for the poorest countries has always been important for Italy. In 2021, the nation held both the G20[3] Presidency and co-hosted the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC)[4] together with the United Kingdom. The country exploited its position to push forward its international agenda, primarily related to climate change and climate finance.

The interview conducted (on March 17, 2022) was with one representative from the Directorate General for Global Affairs of the Italian Ministry of Foreign Affairs, and mainly centred around the general preparation and outcomes of COP26, whom the Directorate oversaw in 2021. The talk has been beneficial for developing the present work, especially for what concerns the main discussions, as related to the role developing countries such as Ghana should play in overcoming the climate crisis, that took place in Glasgow. Such information, received from the inside of the Italian Ministry, has been crucial to understanding why the present moment is the right one to push the proposal for a comprehensive DRI forward, as emphasised in Chapter 7.

The way the literature just described was analysed and exploited for drafting the present thesis is assessed in the next section.

[3] The G20 is a multilateral platform involving the world's major developed and emerging economies. G20 members' economies combined represent more than 80% of world GDP, 75% of international trade, and 60% of the world population (G20 Presidency of Indonesia, 2022). The G20 started in 1999 as a meeting for finance ministers and central bank governors. Over the years, it has evolved into a yearly summit involving Heads of State or Government.

[4] The COP is the main decision-making body of the UNFCCC. All States Parties to the Convention are represented at the COP, where they review its implementation. Moreover, at COPs, other legal instruments can be adopted and decisions necessary to promote the effective implementation of the Convention taken. The COP meets every year unless the Parties decide otherwise. The first COP meeting was held in Berlin, Germany, in March 1995, while the last took place in Glasgow, United Kingdom, in November 2021.

# 3. METHODOLOGY

As mentioned above, the present section briefly describes the methodology followed to develop the dissertation. Firstly, the methodological approach adopted is explained; secondly, the data collection and analysis methods are assessed; in conclusion, a structured justification of the methodological choices is provided.

As for the methodological approach followed, the starting point was defining the research question and related sub-questions. The present thesis aims to investigate the link between debt relief and sustainable development, targeting such investigation on one country, i.e., Ghana. What the dissertation should elaborate on is how Ghana can promote green growth while at the same time reducing its debt burden. Two subordinate research questions follow the leading one. Firstly: why is debt relief needed to allow Ghana to improve its sustainable development spending? And secondly: how can conditionality linked to debt relief be used to promote green growth?

To investigate such mechanisms, qualitative data were mainly used, in the form of the literature described in section 2. In exploring such literature, the aim was twofold. On the one hand, understanding the functioning of international debt reduction processes; on the other hand, putting together best practices and suggestions from both previous Debt Relief Initiatives and present policy proposals. Moreover, as already mentioned, data were complemented by an interview with one representative from the Directorate General for Global Affairs of the Italian Ministry of Foreign Affairs.

The sources used were chosen according to their relevance for digging into three topics. Firstly, the functioning of international debt cancellation and reduction processes. Secondly, the present situation of Ghana (fiscally, environmentally, and from a governance point of view). And thirdly, the implementation of DRIs similar to the one developed in section 6. All literature data relied on were collected through desk research.

Regarding the interview, the Italian Ministry of Foreign Affairs was contacted because the issue of debt cancellation for the poorest countries has always been important for Italy (see sections 2.6 and 7.4, pages 57-58). As already mentioned, the country pushed in favour of it at COP26 negotiations in Glasgow. A contact was established with the Directorate General for Global Affairs, because this Directorate has been the one that oversaw COP26 preparation and development. A face-to-face (online) talk took place with a representative from that specific Directorate General on March 17, 2022; the interview was unstructured, during which note was taken of the relevant information the interviewee could provide.

Once all necessary data were at disposal, they were analysed following the twofold objective previously mentioned, i.e., understanding how international processes of debt cancellation work and drawing best practices. The literature analysis was mainly a thematic one, aimed at identifying standard practices and trends. It was carried out through an inductive approach, where the data analysed shaped the proposal for a DRI from the beginning.

The chosen methodology was the most appropriate to develop the present thesis for two main reasons. On the one hand, the analysis of theoretical works dealing with debt cancellation processes, the ways of implementing them (including discussions on various types of conditionality clauses), and their benefits and drawbacks, enables the proposal for a DRI to be grounded in established theories and economic knowledge. On the other hand, the assessment of how debt cancellation has been carried out in the past, and how various actors suggest putting it into practice now, allows the work to group a set of lessons learned and best practices to feed the design of the DRI. Moreover, it is worth mentioning that the methodological steps followed recall the standard approach adopted in developing DRIs. This is shown by the practical policy proposals analysed (see section 2.3).

A limitation of the chosen methodology rests in the lack of quantitative assessments (see section 8.2, page 61). Although data on the economic effects of debt cancellation exist, it was beyond the scope of the present thesis to estimate econometrically the consequences of implementing a DRI on the Ghanaian debt. Instead, the approach has focused on the results obtained by existing econometrical studies, which were used as empirical evidence supporting the work, without replicating the estimations. All in all, this was, in the end, the most suited approach for the present investigation, which aims to put together a set of considerations belonging to very diverse fields (including, among others, economics, development, and governance) and to relate them to a real-case situation.

As for the interview conducted with the Italian Ministry of Foreign Affairs, its inclusion gives the thesis a more real-life and actual background (complementing the concreteness already provided by the practical policy proposals analysed), and it enriches it with a valuable internal opinion. The decision to interview in an unstructured manner was driven by the understanding that unstructured interviews usually provide a more in-depth assessment of perceptions, motivations, and emotions, which was sought, as related to the role of the Italian Delegation in COP26 (especially in the promotion of a DRI), through the talk.

# 4. PUBLIC DEBT

The DRI at the centre of the present dissertation aims, as a first goal, to lower the public debt of Ghana, in order to build resilience to climate change and foster sustainable growth. The question of why Ghana needs to lower its debt is addressed in the present section, which analyses the issue of public indebtedness. Firstly, the section assesses at what level public debt is considered "excessive"; secondly, the impact of high public debt on climate change, and vice versa, is discussed; thirdly, an overview of the benefits of using debt relief as a form of development aid concludes.

## 4.1. How Much Debt is Too Much?

A "debt instrument" is "a financial claim that requires payment of interest, principal, or both by the debtor to the creditor at a future date" (Hakura, 2020). Typically, countries' creditors include private bondholders, banks, other countries, their official lending institutions, and multilateral lenders. Many factors must be assessed to understand how much debt an economy can carry. Although borrowing can be crucial for a government to finance development programmes and projects, when debt becomes too much, it can overwhelm countries' finances and, at worst, lead them to default.

Theoretically, a country's public debt is sustainable "if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default" (ibid.). In practice, to properly assess a country's debt sustainability, it is crucial to cover all types of debt that pose a risk to a country's public finances: in advanced economies and emerging markets, debt sustainability analysis frequently focuses on the general government (including the central budgetary government, state and local governments, extrabudgetary units, and social security funds); in low-income countries, instead, nearly-complete coverage of both public and publicly guaranteed debt is used. The holders of public debt also matter: "standard" assessments of debt sustainability (i.e., those conducted by the International Monetary Fund and the World Bank) typically cover both domestic and external public sector debt; sovereign credit rating agencies that focus on the risk of debt distress, instead, often concentrate on market-based external public sector debt.

Unsustainable debt can lead to debt distress, a situation where a country cannot fulfil its financial obligations, and debt restructuring is required. Defaults can cause borrowing countries to lose market access and suffer high borrowing costs, harming growth and investment. Several factors determine how much debt a country can carry before the burden becomes too much (defined as a country's "debt-carrying capacity"), including the quality of institutions and debt management capacities. The International Monetary Fund assesses debt sustainability in low-income countries and countries with access to capital markets by considering individual countries' debt-carrying capacity. These assessments are calibrated on previous episodes of debt distress for groups of countries with similar economic characteristics. These calibrations, in turn, lead to debt sustainability analysis thresholds for key public debt indicators, which signal higher risk if indicators exceed (or are expected to exceed) their thresholds.

In practical terms, financial markets and IFIs typically focus mostly on such debt thresholds. In particular, the Joint World Bank-IMF Debt Sustainability Framework (DSF) for Low-Income Countries (LICs) (one of the most reliable international assessments of debt sustainability) analyses both external and public sector debt, focusing on the present value (PV) of debt obligations. The DSF classifies countries into one among three debt-carrying capacity categories (strong, medium, and weak). This is done through a composite indicator, based on the country's past performances and expectations for remittance inflows, real growth, the state of the global environment, international reserves coverage, and the World Bank's Country Policy and Institutional Assessment (CPIA) index[5] (International Monetary Fund, 2021(d)). Different thresholds for debt burdens are used, depending on what is judged to be the country's debt-carrying capacity. Thresholds corresponding to strong performers are highest, as countries with sound macroeconomic performance and policies can generally handle greater debt accumulation (ibid.). The debt burden thresholds and benchmarks used by the International Monetary Fund and the World Bank in their DSF are shown in Table I.

[5] The World Bank's Country Policy and Institutional Assessment index assesses "the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth, and the effective use of development assistance" (Independent Evaluation Group, 2010).

| | PV of external debt in percent of | | External Debt service in percent of | | PV of total public debt in percent of |
|---|---|---|---|---|---|
| | GDP | Exports | Export | Revenue | GDP |
| Weak | 30 | 140 | 10 | 14 | 35 |
| Medium | 40 | 180 | 15 | 18 | 55 |
| Strong | 50 | 240 | 21 | 23 | 70 |

*Table I: Debt Burden Thresholds and Benchmarks Under the DSF. Source: International Monetary Fund, 2021(d).*

Having established a debt threshold, the debt sustainability assessment is then conducted according to risk signals and judgement. Risk signals are derived by comparing debt burden indicators with the indicative thresholds over a projection period. There are four ratings for the risk of external public debt distress:

A. Low risk, if none of the debt burden indicators breaches their thresholds under the baseline and stress tests.
B. Moderate risk, if none of the debt burden indicators breaches their thresholds under the baseline scenario, but at least one breaches its threshold under the stress tests.
C. High risk, if any of the external debt burden indicators breaches its threshold under the baseline scenario, but the country is not facing any repayment difficulties.
D. In debt distress, when the country is already experiencing difficulties servicing its debt.

In addition to the risk ratings signalled by the framework, experts' judgment is also used to arrive at a final risk rating (for instance, to assess the gravity of threshold breaches and consider country-specific factors). The framework also signals the overall risk of public debt distress. Such an approach to understanding whether a country's public debt is sustainable is also followed throughout the dissertation, particularly for assessing Ghana's present debt situation (see sections 5.1 and 6.1, page 35).

It is worth emphasising here that, since the global financial crisis, low interest rates have increased countries' capacity to borrow, especially for developing countries (including Ghana). However, this does not necessarily translate into an ability to handle higher debt service: even if interest rates are low and the availability of financing is ample, there are limits to countries' debt-carrying capacity. The debt problem is still an integral part of the poverty trap that many of the poorest countries are caught in, which concretises in a vicious circle of low levels of private investment, high vulnerability, low growth, and high debt ratios. A related vicious circle can also emerge between public debt and climate change, especially for vulnerable developing countries: on the one hand, climate change and its growing effects can exacerbate the issue of excessive public debt; on the other hand, a high debt burden often prevents countries from investing in climate resilience, making negative environmental consequences even worse. This is what the following subsection investigates.

### 4.2. The Relationship Between Climate Change and Public Debt

The interaction between public debt and climate change, as already briefly emphasised, is bi-directional.

On the one side, debt accumulation can result from fiscal imprudence and the repeated destruction caused by climate change. Climate-related disasters (to which developing countries, including Ghana, are particularly exposed to, as further emphasised in section 5.3) can dismantle physical and social infrastructures and productive capacity, requiring additional funds to be re-built. If these additional funds are unavailable to governments from their revenue sources, they borrow from financial markets, increasing their public debt. Moreover, increased risk from vulnerability to climate change tends to increase the cost of capital. It is projected to cause an additional $168 billion of debt payments among the V20 countries[6] by 2028 (United Nations Framework Convention on Climate Change Website, 2018).

On the other side, climate change and its impacts require huge and growing public investments: developing countries urgently (and quickly) need to scale up funding for development and climate resilience. Otherwise, they will face an ever-worsening spiral of climate vulnerability and unsustainable debt burdens (Volz *et al.*, 2020). However, high debt service levels crowd out the room for investments in climate resilience (as

[6] The Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum is a cooperative initiative developed between economies systemically vulnerable to climate change, including Ghana.

emphasised with specific reference to Ghana in section 5.4); in turn, insufficient spending on climate adaptation and resilience will undermine growth and public finances.

Vulnerable developing countries risk entering a vicious circle in which greater climate vulnerability raises the cost of debt and diminishes the fiscal space for investment in climate resilience. As financial markets increasingly price climate risks and global warming accelerates, the risk premia of these countries, which are already high, are likely to increase further.

Countries that fail to climate-proof their economies and public finances will face an ever-worsening spiral of climate vulnerability and unsustainable debt burdens. At the same time, the high spending on debt services does not allow countries particularly vulnerable to climate change to invest in climate resilience. For this reason, sustainable debt reduction cannot be divorced from a long-term adaptation strategy (and an accompanying mechanism for its financing) in countries such as Ghana. In this sense, debt relief can be an effective way to provide development aid, as the following section highlights.

### 4.3. The Benefits of Debt Relief as a Form of Development Aid

There are various reasons why debt relief can be an efficient and effective form of resource transfer to developing countries.

First, debt relief minimises the unpredictability of aid flows. Bilateral aid programmes often show low stability, low predictability (empirical analysis reveals that aid flows tend to be more volatile than fiscal revenue or output), and high pro-cyclicality (contributing to aggravate economic cycles). Debt relief, on the contrary, is highly predictable, stable, and counter-cyclical. (Bjerkholt, 2004).

Second, debt relief facilitates a closer integration of budget management systems and improves coordination between capital and recurrent expenditures. Aid, on the contrary, can negatively modify the relationship between recurrent and capital spending (ibid.). This can happen, for instance, when donors prefer to spend on tangible capital projects instead of meeting recurrent budgetary costs, leaving recipient governments cash-poor and projects-rich.

The third reason why debt relief can be used as an effective form of development aid is that reducing public debt can spur economic growth by reversing the mechanism that makes the debt overhang hamper it. High levels of indebtedness often lead governments to increase borrowing from domestic credit sources, causing higher interest rates and crowding out access to affordable credit for local investors (ibid.). As a consequence, given good governance (which plays a fundamental role, as further emphasised in section 6.3.1), debt relief can positively affect domestic private savings, investment, and the attraction of foreign investment. Debt write-offs[7] can reduce pressure on domestic borrowing, increasing the availability, and reducing the cost, of domestic credit, hence pushing economic growth. For what concerns aid flows, there is little evidence of positive interaction between them and domestic savings.

Fourth, debt relief is beneficial compared to traditional development aid because it cuts down on transaction costs. Traditional aid flows can tie up recipient governments' administrative staff (usually limited, especially in developing countries) in endless negotiations, report writing and separate auditing procedures with several official donors. Debt relief, instead, can be implemented as a comprehensive initiative involving many different creditors simultaneously, that negotiate among themselves before discussing with the recipient government. This allows for shorter and more comprehensive creditors-debtor negotiations (ibid.).

All in all, debt relief can be an innovative way to grant development aid to developing countries. It presents significant benefits compared to traditional aid flows, and it can be an effective tool to exploit to promote green growth in nations such as Ghana.

Having established why excessive indebtedness is a problem worth solving through debt relief, the following sections assess how to do so in the most efficient way. Before presenting the proposal for a DRI, it is worth describing in depth the situation of the country chosen to benefit from it, i.e., Ghana. Section 5 does so.

[7] A write-off is "an accounting action that reduces the value of an asset while simultaneously debiting a liabilities account" (Kenton, 2021). In the context of public debt, write-offs refer to those processes by which a country's creditors decide to renounce to their credits (or a portion of them), hence eliminating part of the country's public debt.

# 5. GHANA

As already emphasised, the present dissertation is developed as a case study centred around the nation of Ghana. Ghana has been chosen as the focus of the thesis in light of several elements characterising the country and making it the perfect starting point to design a Debt Reduction Initiative.

Among the characteristics which make Ghana an ideal case study to focus on to devise the present proposal for a DRI, it is worth emphasising five. In the present section, Ghana is analysed under these five aspects.

## 5.1. Excessive Indebtedness

In a Joint World Bank-International Monetary Fund Debt Sustainability Analysis (DSA)[8], Ghana's external and overall debts were indicated to be at high risk of distress already back in December 2019 (International Development Association and the International Monetary Fund, 2019). Moreover, total public debt was not expected to fall below 55% of GDP (the threshold level for the country, as identified in the DSA) until 2026 (ibid.). It must be taken into account that the 2019 Analysis was based on pre-pandemic growth, financing, and revenues assumptions; since then, projections have generally seen a sharp deterioration. In 2020, Ghana's debt-to-GDP ratio amounted to 78% of GDP (reaching an all-time high for the country), compared to 63.9% in 2019; moreover, the government deficit was estimated at 13.8% of GDP, compared to 4.8% in 2019 (Trading Economics, 2020). In 2022, general government interest expenses are expected to account for almost 47% of revenue, with the country spending twice as much on debt service as on capital expenditure. Moreover, Ghana had the highest external debt servicing cost as a portion of exports of goods, services, and primary income in 2020 (Whitehouse, 2021).

The Covid-19 pandemic has further exacerbated the already fiscally unstable situation of the country. Ghana was hit hard by the virus. The government response helped to face the pandemic and support the economy, but at the cost of a record fiscal deficit. Moreover,

[8] The DSA is a framework introduced by the IMF in 2002 to examine the sustainability of public and external debt in order to "better detect, prevent, and resolve potential crises" (International Monetary Fund, 2017). The IMF has developed two DSA frameworks: one for market-access countries and one for low-income countries. The World Bank Group works with the IMF in the context of the analyses conducted for the second group of nations.

the pandemic severely impacted economic activity: growth slowed to 0.4% in 2020 from 6.5% in 2019, food prices spiked, and poverty increased (International Monetary Fund, 2021(c)). As already emphasised, the fiscal deficit and the debt-to-GDP ratio surged. Moreover, Ghana's external financing situation worsened throughout the pandemic, reaching only two months of import coverage, as Table II shows.

| | 2019 Act. | 2020 Prel. | 2021 Proj. | 2022 Proj. |
|---|---|---|---|---|
| **External sector** | | | | |
| Current account balance (percent of GDP) | -2.7 | -3.1 | -2.2 | -3.5 |
| Gross international reserves (US$ millions) | 6,607 | 6,962 | 7,494 | 7,435 |
| *in months of prospective imports* | 3.4 | 3.2 | 3.2 | 3.0 |
| Net international reserves (US$ millions)[4] | 5,247 | 4,559 | 5,212 | 5,285 |
| *in months of prospective imports* | 2.7 | 2.1 | 2.2 | 2.1 |

*Table II: Ghana's external financing situation, 2019-2022. Source: International Monetary Fund, 2021(c).*

In light of these data, a more recent assessment conducted by the IMF at the end of January 2022 classified Ghana's debt as having a "high" risk of distress (International Monetary Fund, 2022). The analysis divides countries into four categories according to their fiscal situation (see section 4.1, page 20): (i) already in debt distress (8 countries), (ii) at high risk of distress (30 countries, including Ghana), (iii) at moderate risk of distress (24 countries) and (iv) at low risk of distress (7 countries).

To address the debt challenge the country has found itself in, the central bank and fiscal authorities have recently adopted various measures such as increasing the interest rate and reducing salaries for government officials. However, Tellimer's sovereign debt sustainability index[9] revealed in May 2022 that Ghana is still one of the most vulnerable emerging markets at risk of debt distress, and that it would "need to do more to dig itself out of its current predicament" (Omole and Ogunkoya, 2022).

[9] Tellimer is the platform typically used by institutional investors, industry professionals and policymakers to access world-class investment insights and data on emerging markets. As updated in May 2022, their debt sustainability index covers 46 emerging and frontier markets to flag countries with a high risk of distress.

Considering all the above, it is clear how the debt situation of Ghana appears unsustainable in the long run. An intervention is needed to enable Ghana to pay back its creditors and avoid default. Ghana's debt level, particularly when considering interest service payments and comparing them to revenue levels, would benefit enormously from a targeted DRI. This is even more true considering that an excessive debt burden is not the only obstacle standing in Ghana's way to development.

### 5.2. Low Level of Human Development

Besides suffering from excessive debt, the country also repeatedly records deficient levels of human development. Ghana's Human Development Index was estimated in 2020 at 0.611 out of 1 (and the pandemic has done nothing but deteriorate it) (United Nations Development Programme, 2020(a)). This score makes Ghana rank 138th out of 189 nations (United Nations Development Programme, 2020(b)).

The underdevelopment the Ghanaian population witnesses is further emphasised by its life expectancy at birth: 64.1 years (as of 2020) (United Nations Development Programme, 2020(a)). Just think that (in the same year) in the European Union (EU) regions with the lowest life expectancy at birth, North-West and North-Central Bulgaria, the measure was estimated at 72.1 and 72.8 years, respectively (Eurostat – Statistics Explained, 2022).

Ghana needs to invest in development. The Ghanaian population must be lifted out of poverty. Developed nations and multilateral institutions, particularly those standing as creditors to the Ghanaian government, have the duty to help the country channel money to sustainable growth. Such action is even more urgent considering that the poverty the Ghanaian population lives into could be further exacerbated, very soon, by climate change, as the next section highlights.

### 5.3. High Vulnerability to Climate Change

The negative impacts of climate change on Ghana are immense. The country is particularly vulnerable to the effects of the climate crisis due to a lack of capacity to carry out adaptive measures to address climate change's environmental and socio-economic problems. Among these social and environmental adverse effects Ghana seems particularly exposed to, it is worth mentioning (i) health problems, (ii) climate-induced disruption of agricultural systems, (iii) flooding of coastal areas, and (iv) low operating water levels of the only hydro-generating dam in the country (which produces 80% of national electricity supply) because of reduced levels of precipitation (since the 1960s, a reduction in cumulative rainfall of 2.4% every ten years was observed (Dove, 2021)), that in turn can result in frequent power outages (United Nations Development Programme Climate Change Adaptation, n.d.).

Ghana's diverse ecological zones generate a wide range of livelihoods, agricultural practices, and commodities, each uniquely impacted by climate change and shocks. Rising sea levels threaten rapidly urbanising coastal areas (where ¼ of the population lives (Dove, 2021)), increasing the vulnerability to flooding and waterborne diseases. Combined with rising temperatures (that have increased by approximately 1°C since the 1960s (see Figure 1), with the number of sweltering days and nights growing by over 13% and 20% per year, respectively (ibid.)), these factors also hinder agricultural production and fishing, which affect human health and nutrition (Climatelinks, n.d.).

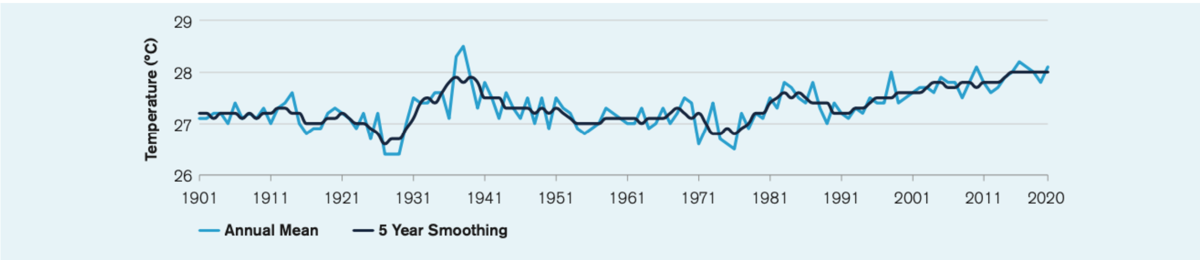


*Figure 1: Observed temperatures for Ghana, 1901-2020. Source: Dove, 2021.*

Ghana is also at a high risk of natural disasters. The country is exposed to risks from several weather-related hazards, primarily those due to floods (between 1991 and 2011, the country experienced seven significant floods; in 2007, floods caused damage to infrastructure and livelihoods over $130 million and affected more than 265,000 people (Dove, 2021)) and droughts. There are also risks related to coastal resources, such as coastal erosion, landslides, storm surges, earthquakes, pest infestations, and wildfires.

All in all, due to social, political, and geographic factors, Ghana is recognised as vulnerable to climate change impacts, which "pose a threat to future growth and development" (ibid.).

As for the future, Ghana will probably continue to get warmer. Mean temperatures are projected to increase by 1.0°C to 3.0°C by mid-century and by 2.3°C to 5.3°C by the end of the century (ibid.). Rising temperatures will significantly affect human and animal health, agriculture, water resources, and ecosystems. As temperatures rise and the impacts of climate change worsen, this will (i) alter the quality of available water, (ii) exacerbate existing tensions between agricultural and human population needs, and (iii) further increase the pressure on urban zones. Moreover, more erratic and intense rainfall during the wet season is expected, along with lower precipitation levels during the dry season (ibid.); extreme rainfall events are likely to result in flooding, flash floods, and riverbank erosion. Current development dynamics and demographic changes in Ghana (related to rural poverty, rapid urbanisation, and environmental degradation) also compound the risk of climate disasters, fostering water scarcity and droughts across the country. The complexity and frequency of some of these disaster events are also increasing. Finally, higher temperatures and increased aridity may also lead to livestock stress and reduced crop yields, resulting in economic losses, damages to agricultural lands and critical infrastructures, and human casualties.

In light of such data, it appears evident that Ghana urgently needs to invest today to insure itself against the negative impacts of climate change it will witness tomorrow. Climate change impacts the lives of all Ghanaian people, with the highest-burden beard by small farmers and rural populations. Dramatic climatic trends will be further exacerbated very shortly. Ghana needs to direct financial resources to climate resilience and sustainable development. However, the country's ability to do so in the short-term appears limited, as the following subsection emphasises.

### 5.4. Constrained Sustainable Development Spending

A report produced by the Jubilee Debt Campaign in October 2021, relying on a study conducted on 34 developing nations, showed that lower-income countries are spending over five times more on external debt payments than on projects aimed at protecting people from the impacts of climate change. $5.4 billion a year is spent on adjusting to the impacts of climate change, compared to $29.4 billion on debt payments. Moreover, the Report also revealed that, by 2025, the 34 countries covered in the research will spend seven times more on debt than on limiting the impacts of climate change (Jubilee Debt Campaign, 2021).

To estimate climate change spending, the study investigated Nationally Determined Contributions (NDC)[10] submitted to the UNFCCC by individual countries. NDCs set out what a country plans to invest in climate change adaptation, representing what it would like to invest if it received international funding and what it will invest from its domestic resources. This was added to each country's international funding for adaptation from the Climate Funds.

Ghana is among the 34 countries the analysis was conducted on. The Jubilee Debt Campaign estimated that the country is spending approximately $82 million a year in total for combating climate change: Ghana's NDC[11] says that in over ten years, $1.4 billion will be spent from the domestic budget on mitigation and adaptation, with $22.6 billion targeted from all funding sources (of this, 45% is for mitigation and 55% adaptation); in addition, Climate Funds Update says that Ghana had $23 million approved for adaptation by then end 2020, an amount that, over five years, implies $5 million a year. Regarding public debt, in 2021, Ghana spent $4,827 million on external debt service, which is estimated to rise to $6,450 million in 2025 (ibid.).

It appears evident that Ghana is suffering from a heavy debt burden, preventing it from implementing the climate action projects it needs to face the adverse effects of climate change it will soon suffer from. The disparity between debt and sustainable spending is stark and far from manageable by the country alone. Heidi Chow, Executive Director of Jubilee Debt Campaign, said that "urgent action on the debt crisis" is needed to address the climate emergency. "Lower-income countries are handing over billions of dollars in debt repayments to rich countries, banks and international financial institutions at a time when resources are desperately needed to fight the climate crisis", she added (Debt Justice, 2021). It is clear how much Ghana would benefit from channelling resources from

[10] The 2015 Paris Agreement, a legally binding international treaty on climate change adopted by 196 Parties at COP 21 in Paris, requests each country to outline and communicate their post-2020 climate actions, known as Nationally Determined Contributions. NDCs are submitted every five years to the UNFCCC Secretariat. To enhance national ambitions over time, the Paris Agreement requires that successive NDCs represent a progression compared to previous ones and reflect a country's highest possible climate aspirations.

[11] Ghana's first NDC was submitted in 2016 and updated, as required by the Paris Agreement, five years later, in 2021.

debt repayment to sustainable spending. Furthermore, it is also clear how it is the duty of developed countries to provide the country with the right instrument to undertake such channelling. One factor that should encourage wealthier nations to do so is the good governance performance of Ghana.

5.5. Good Governance Records

The main risk of debt relief is that resources moved away from debt repayment get wasted in corruption and mismanagement. However, the present subsection shows why this risk is way lower for Ghana than similar nations in Sub-Saharan Africa (SSA).

According to the Ibrahim Index of African Governance (IIAG), a tool that measures and monitors governance performance in African countries, Ghana had in 2019 (the last year covered by the Index) an overall governance score of 64.3 out of 100, ranking 8th out of 54 countries in the region (Mo Ibrahim Foundation, 2019(b)). This classifies the country as above average within the Sub-Saharan region for recorded governance levels (the average overall governance score for Sub-Saharan Africa was in 2019 of 48.4 out of 100). Table III shows the overall governance score of Ghana, compared to the average Sub-Saharan African one, for the period 2010-2019.

| LOCATION | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | AT '10-'19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Ghana | 64.2 | 64.0 | 64.1 | 64.6 | 64.3 | 64.4 | 65.1 | 65.6 | 64.7 | 64.3 | +0.1 |
| Sub-Saharan Africa | 47.3 | 47.2 | 47.4 | 47.7 | 47.8 | 48.3 | 48.3 | 48.4 | 48.6 | 48.4 | +1.1 |

*Table III: Ibrahim Index of African Governance, 2010-2019; Ghana compared to Sub-Saharan African average. Source: Mo Ibrahim Foundation, 2019(b) .*

Ghana's good governance performance hold looking individually at the four indicators covered by the IIAG:

A. In security and the rule of law, Ghana got 66 out of 100, while the average for SSA was 49.7.
B. In participation, rights and inclusion, Ghana got 69.7, while the average for SSA was 46.6.
C. In foundations for economic opportunity, Ghana got 60.9, while the average for SSA was 46.9.
D. In human development, Ghana got 60.7, while the average for SSA was 50.6 (ibid.).

Looking at other international governance indicators, the Worldwide Governance Indicators, the same picture emerges. The Indicators report governance measures for six dimensions of governance, namely (i) voice and accountability, (ii) political stability and absence of violence/terrorism, (iii) government effectiveness, (iv) regulatory quality, (v) the rule of law, and (vi) control of corruption. These indexes combine the views of several enterprises, citizens, and experts survey respondents in industrial and developing countries (World Bank, 2020(a)). As shown in Table IV, Ghana has consistently ranked above the average for the Sub-Saharan region under all Indicators throughout the period covered (2010-2020).

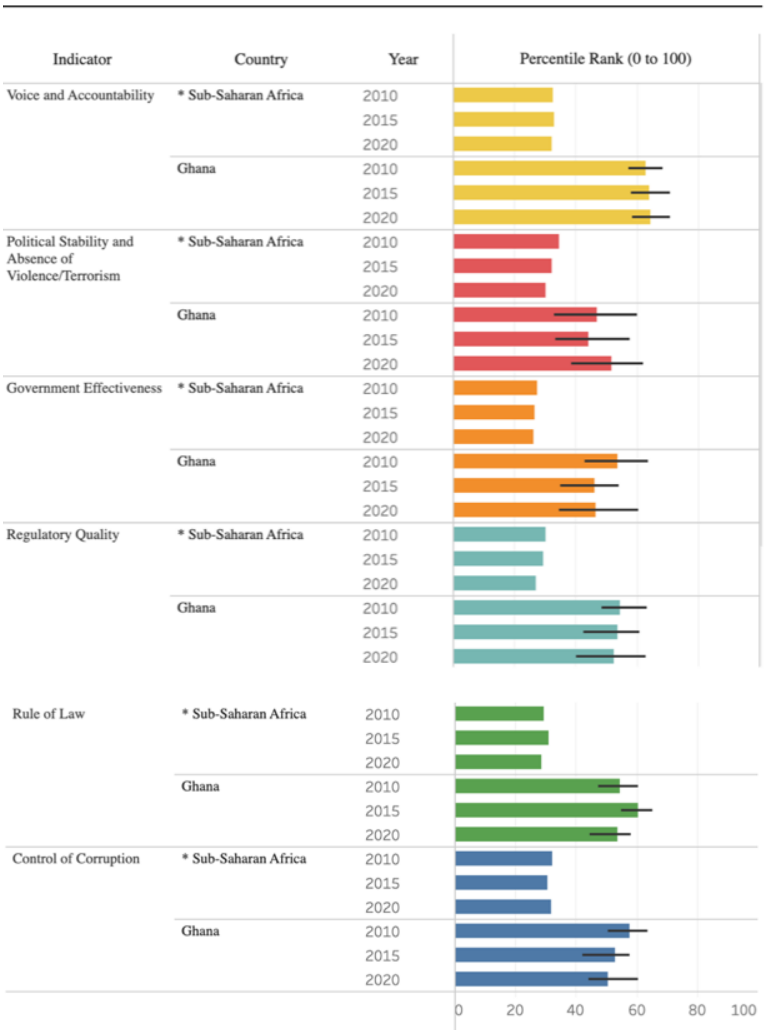


*Table IV: Worldwide Governance Indicators, 2010-2020; Ghana compared to Sub-Saharan African average. Source: World Bank. 2020(b).*

A good governance record makes Ghana a good candidate for benefitting from the envisaged DRI. Good governance can boost the effectiveness of the saving (and subsequent re-channelling) of funds promoted by the Initiative. Moreover, good governance (coupled with institutional strength) is widely accepted as the cornerstone of resilience (Bouchet, 2022(b)), a concept central to any sustainable development strategy. It is widely known that bad governance, and the corruption associated with it, often prevent transforming economic growth into sustainable and inclusive development (ibid.).

In light of the above, it is hence clear why Ghana has the potential to be a good starting point for devising a DRI, which is not only helpful in theory but also effective in practice. The good governance record exhibited by the country can be an instrument for reassuring creditors involved in the envisaged Initiative that the additional money channelled towards development would not be wasted, but instead used to promote a resilient and future-proof growth.

The next step in devising a DRI for Ghana, after having determined why the country deserves to benefit from it, is defining the key characteristics of the Initiative. The following section does so.

# 6. A DEBT RELIEF INITIATIVE FOR GHANA

As already anticipated, the focus of the present final dissertation is a proposal for a Debt Relief Initiative targeted at the situation of Ghana, which was just assessed in the precedent section. Although tailored to the specific characteristics of the country concerned, the proposal developed in the thesis has the potential to be extended, with the appropriate adjustments, to other countries showing issues and potentials similar to the Ghanaian ones. The factors that led Ghana to be the object of the case study, emphasised in section 5, make it the perfect country to benefit from a targeted DRI. However, this does not imply that countries with characteristics similar to Ghana's cannot be the object of such Initiatives.

A concrete proposal for a DRI is presented in the present chapter. This proposal, an *ex-ante* intervention on Ghanaian debt (as emphasised in the following subsection), is characterised by five main elements: (i) a Debt Sustainability Analysis taking climate risks and financing needs into account, (ii) conditionality clauses, both as good governance clauses and through the development of a Green Growth Strategy by Ghana's government, (iii) external official debt restructuring, (iv) a Resilience Fund, and (v) a Monitoring, Reporting, and Verification (MRV) system. These elements have been extracted from the main proposals for debt relief analysed in drafting the thesis, listed in section 2.3, based on the methodology described in section 3.

## 6.1. Ghana's Debt Relief as an *Ex-Ante* Intervention

Debt relief, if implemented when fiscal situations are already on the verge of collapse, is not necessarily an effective way to grant assistance. Past debt relief initiatives reveal that such restructuring forms risk leading debt to be recycled abroad or poorly invested for corruption-related issues (Bouchet, 2020). Moreover, cutting public debt when fiscal situations are already near to default, although it may work as a short-term solution, typically brings the nations concerned back to their starting point in a few years. When countries are already in deep fiscal distress, there is less room to implement the fiscal, governance, and development adjustments that should come with restructuring. This is not the case for interventions implemented at earlier stages, when fiscal fundamentals leave space to tackle what led to the accumulation of debt in the first place. A clear example of the inefficiency of later-stage debt relief is given by the 1996 Heavily Indebted Poor Countries Initiative (see section 2.3, page 10), which targeted those countries with the highest debt-to-GDP ratio, many of which were in fiscal distress even before the intervention[12]. The debt-to-GDP ratio of the countries concerned rose to almost 70% in 2020 (going back to 1985 levels), compared to only 51% in 2010. The same holds for their debt-service-to-GDP ratio, whose levels today approach 1993 ones. Moreover, the HIPC Initiative did not even encourage the improvement of development trajectories for the 37 countries that benefitted from it, which are among the most corrupt and poorest in the world (ibid.). As far as Ghana is concerned, the country subscribed to the HIPC Initiative, and much of the country's external debt of over $4 billion was written off by creditors. When the Initiative ended in 2006, Ghana's public debt amounted to $780 million (25% of GDP). However, Ghana's debt stock has risen by 7000% to $54 billion (78% of GDP) since then (Sarkodie, 2022). Experience shows no advantage to postponing sovereign debt restructurings. The more time passes, the more irreparable the situation becomes for creditor countries, and the less likely creditors will recover their investment.

Pre-emptive restructurings may offer an alternative to such a negative path. Pre-emptive restructurings are those which are implemented prior to a unilateral payment default. A study realised in 2015 by the Centre for Economic Studies & Ifo Institute, considering all cases of restructuring from 1978 to 2015, revealed that pre-emptive relief shows four main advantages compared to haircuts[13] implemented when the situation is already precipitating (i.e., ex-post) (Asonuma and Trebesch, 2015). Firstly, pre-emptive debt restructurings have much lower haircuts, with an average haircut of just 18% for the period considered. Creditor losses are higher in post-default cases: the mean haircut is 48%, more than twice as high. Secondly, pre-emptive debt restructurings have a much shorter duration, taking on average one year to be completed. This compares to an average duration of 60 months for post-default cases. Thirdly, pre-emptive debt restructurings are associated with significantly lower output losses. Although real GDP per capita tends to decline more markedly in the run-up to pre-emptive debt crisis cases, the output starts to recover right after pre-emptive renegotiations and quickly reaches its pre-crisis level. This

[12] One of the eligibility criteria for countries to receive special assistance under the HIPC is to "face an unsustainable debt burden, even after full use of traditional debt-relief mechanisms" (Paris Club, n.d. (a)).

[13] Specific to debt restructuring, a haircut is "the reduction of outstanding interest payments or a portion of a bond payable that will not be repaid. This condition may arise when a company considers restructuring its debt and negotiates new terms with existing bondholders" (Mitchell, 2022).

contrasts with post-default cases, where output drops significantly at the onset of default and in the two subsequent years, and where the cumulative decline in real output is significantly higher. Fourthly and finally, pre-emptive debt restructurings are associated with shorter periods of market exclusion. Sovereigns lose market access in any ongoing debt crisis, whether pre-emptive or post-default; hence, longer negotiation delays also translate into more prolonged periods of market exclusion. Since pre-emptive restructurings tend to be quicker to negotiate, they also lead to shorter periods of market exclusion. Moreover, re-access to financial markets tends to be more likely after pre-emptive deals (ibid.). These four advantages of pre-emptive restructurings are particularly relevant for developing countries, especially for what concerns the impact of debt relief on GDP growth and market access.

Given Ghana's present debt level, the country could today be eligible for a pre-emptive DRI. As already emphasised in section 5.1, Ghana's debt situation is worrying. However, the country is not expected to default in 2022, as it has enough foreign-exchange reserves (Gokoluk, 2022) and thanks to its good governance records, which make the fiscal consolidation reforms recently implemented by the government[14] considerably credible. In fact, in the 2022 IMF assessment referred to in section 5.1 (see page 25), Ghana's debt was classified as at a "high" risk of distress but not as already "in" debt distress (meaning that the country is not yet facing any repayment difficulties). However, medium- to longer-term, Ghana's debt level might become an issue, as the country has too much debt for the size of its economy (ibid.). Moreover, though Ghana is not on the verge of default, growth is shrinking, and development prospects are meagre. In the long-term, a predictable, rules-based debt restructuring mechanism is needed for Ghana not to default and see its development prospects precipitate. And pre-emptive and voluntary DRIs offer such a mechanism.

In its 2022 World Development Report, titled "Finance For An Equitable Recovery", the World Bank identifies the delayed responses to resolving distressed loans as one of the main issues affecting developing countries today. In the WB's opinion, this risks leading to so-called "zombie firms" that receive funds that will be wasted, when a more effective

[14] Ghana implemented fiscal consolidation measures to address the debt challenge it is currently facing, starting in 2022 (see page 25).

debt resolution system could avoid the need for government support. Such delayed action reduces access to credit, discourages entrepreneurship, and turns private debt into public (World Bank, 2022(e)). The amount of sovereign debt in developing countries adds to this risk of delayed action, especially after the pandemic has made debt levels surge, as subsection 7.1 further emphasises. The absence of a predictable and orderly process for sovereign debt restructuring is economically and socially costly. This is why the World Bank report mentioned above urges policymakers in the relevant countries to swiftly take action to prevent the debt crisis from exacerbating an already tricky post-pandemic recovery. Initiatives such as the DRI developed in the following subsections can be the perfect tools to carry out such preventive and orderly interventions. And Ghana, given its present fiscal stance, can be the perfect country to restructure its public debt pre-emptively through such instruments. The first step in doing so would be to conduct an enhanced DSA.

### 6.2. A Debt Sustainability Analysis Taking Climate Risks and Financing Needs into Account

To determine Ghana's (and other countries', in a potential extension of the Initiative beyond the scope analysed here) eligibility for debt relief, an enhanced Debt Sustainability Analysis needs to be conducted by the IMF and the WB, in close cooperation with the recipient government. Eligibility for debt relief should depend on debt sustainability, based on realistic assumptions while also accounting for climate risks and spending needs to scale-up investment in climate resilience, the transition to a green economy, and Agenda 2030[15]. Current DSAs will prove unable to perform this multi-faceted analysis. To date, DSAs have not included climate risks nor accounted for investment needs for adaptation or achieving the Sustainable Development Goals (SDGs) (Volz and Ahmed, 2020).

It is worth considering in the present context that assessing debt sustainability, as presented in section 4.1, is a very complex task: projections of public debt are highly sensitive to assumptions about growth, budget outcomes, and interest rates, making it

[15] The 2030 Agenda for Sustainable Development is an action programme signed in September 2015 by the governments of the 193 United Nations members. It incorporates 17 Sustainable Development Goals. Countries are committed to achieving the SDGs by 2030.

very difficult to determine *ex-ante* whether debt levels are sustainable. Integrating climate risks and spending needs for adaptation and achieving the SDGs into public finances would add further complexity (Volz *et al.*, 2021). However, the alternative (i.e., ignoring factors likely to become significant drivers of sovereign risk) is not an option. As emphasised in section 4.2, climate change has already increased the cost of sovereign debt for vulnerable countries such as Ghana. These adverse effects are likely to grow further.

The enhanced DSA proposed will not only add considerations on climate risks and financing needs. Sustainability changes in the country's leading business models must also be considered. Fossil fuel producing countries will face significant stranded assets and sovereign risks, especially if they continue to invest in expanding fossil fuel facilities (ibid.). Ghana is a (small) oil and natural gas producer, with both kinds of production expected to increase within the next five years. While Ghana exports crude oil to international markets, its natural gas production is used to fuel its domestic power plants (Independent Statistics & Analysis – U.S. Energy Information Administration (EIA), 2018). DSAs need to account for stranded asset risks such as those faced by Ghana and the new investment needed to implement development strategies that are less dependent on income from fossil fuel exports.

Such an expansion in the scope of DSAs would align with the WB-IMF Debt Sustainability Framework's goals. Indeed, the objective of the Framework is "to support efforts by Low-Income Countries to achieve their development goals while minimising the risk that they experience debt distress" (International Monetary Fund – Strategy, Policy, and Review Department and World Bank - Macroeconomic and Fiscal Management Global Practice, 2017). The institutions have already identified the way to achieve this goal. In 2017 the IMF published a "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries". In the Note, the IMF states that long-term macroeconomic projections and financing assumptions "should take account of spending pressures associated with making progress towards a country's development goals (for example, the SDGs)" (ibid.).

Moreover, the 2021 "Review of the debt sustainability framework for market access countries" recommended "to incorporate long-term macroeconomic implications of climate change" for countries "with existential or high vulnerability to climate change per exposure, susceptibility and adaptive capacity", such as Ghana (International Monetary Fund, 2021(e)). The review maintains that DSAs should include projections for growth impacts and additional climate change spending and their impact on debt ratios over 30 years. However, in practice, climate considerations have not sufficiently been incorporated in DSAs to date, if at all (Volz *et al.*, 2021).

The DSA at the basis of the DRI targeted on Ghana described in the present section should implement the IMF-WB recommendations in practice by accounting for both physical and transition risks. This can be done by exploiting three main instruments. Firstly, stress tests for Ghana's public finances and balance of payments should be conducted under different climatic scenarios, including 1.5°C, 2°, and 3° global warming. Secondly, for what concerns the estimation of the financing needed to achieve the SDGs and improve climate resilience, a double strategy should be adopted. As a starting point, Ghana's National Sustainable Development Strategy (NSDS)[16] and Nationally Determined Contribution (see footnote 11, page 29) should be assessed to have an idea of the country's projected financing needs, sources (whether national or international), and terms (whether grants or loans). To complement such information, the DSA process should then conduct critical analysis, considering that national plans tend to integrate also political considerations beside developmental and climatic ones. The third and final tools the enhanced DSA should exploit are the estimations reported by the IMF in its Staff Discussion Note No. 19/03, titled "Fiscal policy and development: Human, social, and physical investments for the SDGs" (or comparable ones). Such estimations should be used to complement fiscal spending projections. In particular, the IMF Staff Discussion Note assesses the spending requirements for meaningful progress on the SDGs in five key development areas: (i) education, (ii) health, (iii) roads, (iv) electricity, and (v) water and sanitation. This is done for 155 countries, 49 LICs (including Ghana), 72 emerging market economies, and 34 advanced economies. The spending estimates realised for Ghana in the context of the study should directly feed into the enhanced DSA.

[16] The concept of the National Sustainable Development Strategy was proposed in 1992, when countries were called upon to integrate economic, social, and environmental objectives into one blueprint for action at the national level.

As mentioned, climate pathways that drive adaptation and mitigation needs are highly uncertain; hence, cost estimates vary greatly depending on the assumptions adopted. However, despite these complexities, accounting for climate risks and SDG spending needs is key to ensuring that DSAs reflect the fiscal realities of developing and emerging economies, such as Ghana. Moreover, the improved DSF proposed is crucial for ensuring that restructuring is not guided by creditor governments' political will and economic interest. A comprehensive economic analysis of the entire debt relief required for Ghana to achieve the SDGs and face the climate crisis must be considered. The enhanced DSA proposed should provide the basis for deciding eligibility for debt restructuring for Ghana in the first place and potentially for other countries. However, such eligibility should also be conditioned on the respect of some criteria, as the following section describes.

### 6.3. Conditionality Clauses

In order to benefit from debt relief, the government of Ghana should agree to respect two sets of conditionality clauses. Firstly, Ghana must accept to monitor and improve its governance levels. Secondly, the country must commit to investing the money saved through debt relief in sustainable development by drafting a Green Growth Strategy.

#### 6.3.1. Good Governance Clauses

The first pre-condition for Ghana to access the DRI proposed is a sufficient level of governance. Without such conditionality in place, the funds saved (by Ghana), and transformed from debt to a form of development aid (by creditors), would risk getting wasted in mismanagement or recycled through corruption, hence not generating any benefit for the Ghanaian population. Past debt relief programmes such as the HIPC Initiative (see sections 2.3, page 10, and 6.1, pages 33-34) have been undermined by the incidence of debt poorly invested or "recycled" in tax havens by corrupt elites. Such a process deprives the economy of sources of financing for development and benefits neither domestic investment nor economic growth (Bouchet, 2020). In the end, institutional strength and the quality of governance are the cornerstones of resilience (Bouchet, 2022(b)), including climate resilience; without them, money-saving through debt relief becomes pointless.

This is why access to the DRI proposed here should depend on robust and monitored improvements in governance. Ghana should commit to enhancing or at least maintaining (given its good starting point in governance, highlighted in section 5.5) its governance performances, especially in terms of debt transparency, public debt management capacity, borrowing practices, and domestic resource mobilisation. Clear targets and performance metrics, including Key Performance Indicators (KPIs), should be set up to measure progress on such dimensions, to be integrated into the MRV described in section 6.6.

In practical terms, debt relief must be conditioned on long-term institutional strengthening and capacity building commitments. Five main concrete mechanisms can condition debt relief on positive governance levels:

A. Debt cancellation could be directly linked to good governance, the fight against corruption and the channelling of debt payment flows towards social and sustainable development programmes. The present proposal aims to do this through the Resilience Fund described in section 6.5.
B. The IMF, the WB and the Paris Club[17] must refuse that a public creditor such as China maintains opacity on debt data and relief measures, while holding a substantial portion of several African countries' debt, including the Ghanaian one (see page 45).
C. The interest rate on and repayment profile of restructured debt could be linked to the country's financial results or export earnings, stimulating growth and sustainable development.
D. Public creditors could be convinced to accept the gradual and conditional conversion of debts into very long-term loans at zero interest rates. This could be then transformed into grants at regular intervals, when corruption indicators move towards lasting improvements or in the event of exogenous shocks (Bouchet, 2020).
E. Debt relief could be provided in conditional tranches to fund domestic investments in high-priority social sectors, as identified in the Green Growth Strategy described in the following subsection.

[17] The Paris Club is the primary institutional framework for restructuring external bilateral sovereign debt. The Club is an informal group of creditors and an ad-hoc negotiation forum, having neither legal status nor statutory rules of procedure. The Paris Club members are the governments of 22 of the largest world economies. Other governments are invited to participate in the negotiations case-by-case, depending on whether they have relevant claims on the debtor in question.

Establishing good governance conditionality clauses would benefit Ghana and the creditors involved in the proposed DRI. Governance-driven aid, given in the form of debt relief, would, on the one hand, help Ghana transform such assistance into actual economic and social development. On the other hand, it would also help creditors, especially bilateral ones, to be better accountable to their citizens, who make solidarity initiatives materially possible. It is fundamental that Ghana, first, and potentially all other countries to which debt relief is offered, then, commit to enhancing their governance levels. Only by working on governance will Ghana then be able to transform growth into sustainable and inclusive development. And only through good governance will the goals set out in the Green Growth strategy, described in the following subsection, be achieved.

#### 6.3.2. Ghana's Green Growth Strategy

The logic behind the conditioning of debt relief on developing a Green Growth Strategy is straightforward: the proposed DRI aims not only to provide temporary breathing space but also to empower governments to lay the foundations for sustainable growth by investing in strategic areas of development.

The agreement on debt restructuring concluded by Ghana with creditors should require the debtor country to commit to reforms that align its policies and budget with Agenda 2030 and the Paris Agreement. The country's government (in particular, the President's Cabinet) would design Ghana's commitments, with the involvement of the Parliament and the District Assemblies governing the 16 regions composing the nation[18]. Relevant private and public stakeholders should also be consulted. The draft Strategy would undergo a public and transparent consultation process facilitated by an independent mediator (whose figure is described in section 6.6), involving all relevant national and international stakeholders, including the creditors participating in the DRI. Such scrutiny is needed to ensure that the Ghanaian plan reflects and achieves the development needs and aspirations of the country, that the latest scientific knowledge informs it, and that it provides sufficient guarantees to the creditors involved. The Ghanaian government would then be asked to revise its Green Growth Strategy based on the feedback from this

[18] Ghana is divided into 16 regions, which are further subdivided into districts. The 1992 constitution established elected District Assemblies, adding government-appointed members and an appointed District Chief Executive (Amano Boateng and Maier, n.d).

consultation process. Finally, the plan will form the basis for a debt restructuring on which the debtor government and creditors can find an agreement.

The Green Growth Strategy should reflect the needs and priorities of the country. In doing so, it must map out a set of actions that Ghana will undertake with the money saved through debt relief to advance its development and climate goals. With the aim not to overload the bureaucratic staff of the country, the Strategy should be drafted as a short document highlighting the government's policy priorities for sustainable development, along with a set of KPIs for measuring progress toward the goals it seeks to achieve. KPIs should then feed into setting up an MRV system, described in section 6.6.

To avoid overlaps and exploit synergies, Ghana's Green Growth Strategy should build on the country's 40-year development plan[19], NDC and NDC update (see footnote 11, page 29), National Adaptation Plan (NAP)[20], and National Biodiversity Strategy and Action Plan[21]. The Strategy should also include a spending plan and policy reforms and address the vulnerabilities identified in the DSA, to enhance the resilience of the society and economy, and hence also of public finances.

The envisaged spending under the Green Growth Strategy would be sourced from a newly created Ghanaian Resilience Fund, described in section 6.5. The government will freely decide how to spend the money from this Fund, as long as it aligns with the goals set out in the Strategy. To direct resources to the Fund, Ghana's debt should be restructured, as described in the following subsection.

[19] The 40-year development plan, adopted in 2018 and going to 2057, is Ghana's long-term development programme. It addresses structural development challenges and presents an opportunity for the country to have a comprehensive strategy that provides sufficient space for global development commitments, such as the SDGs (SDG Philanthropy Platform, n.d.).

[20] The Government of Ghana developed a NAP in July 2020, to build national resilience to climate change impacts. The Plan is the first in Ghana to use future climate projections to plan over large timescales, up to 2080 (United Nations Environment Programme, 2020).

[21] Ghana published its National Biodiversity Strategy and Action Plan in November 2016. National Biodiversity Strategies and Action Plans are the primary vehicles for the national implementation of the 1992 Convention on Biological Diversity.

### 6.4. The Restructuring of Official External Debt

The enhanced DSA realised as the starting point of the debt relief process should also reveal the amount of haircut needed. The restructuring shall provide the country with the fiscal space required to achieve a sustainable development trajectory in line with the Paris Agreement and Agenda 2030.

The present proposal considers a debt restructuring scenario targeting external public debt[22]. In particular, the DRI aims to restructure official external debt, i.e., debt contracted by Ghana towards other countries and multilateral institutions. This choice stems from three related considerations. Firstly, external debt represents a sizeable portion of Ghana's total public debt. In 2022, the share of external debt in Ghana's debt portfolio is expected to be 44.8%, accounting for almost half of the country's total public debt. Moreover, this share is projected to progressively grow, reaching 46.1% in 2025 (International Monetary Fund, 2021(c)). The current level and expected evolution of Ghana's domestic and external debt are shown in Table V.

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| | Act. | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (annual percentage change, unless otherwise indicated) | | | | | | |
| Central government debt (gross, in percent of GDP) | 62.9 | 78.9 | 83.5 | 84.9 | 86.4 | 87.4 | 87.0 |
| Domestic debt | 23.9 | 34.2 | 39.3 | 40.1 | 41.0 | 40.7 | 40.9 |
| External debt | 39.0 | 44.7 | 44.2 | 44.8 | 45.4 | 46.8 | 46.1 |

*Table V: Ghana's central government debt, 2019-2025. Source: International Monetary Fund, 2021(c).*

[22] External debt gets generated when a country borrows money from other countries (or foreigners). External debt has typically to be paid back in the currency in which it is borrowed. Internal debt, instead, is created when a government borrows money from its citizens by selling bonds or long-term credit instruments (Economics Discussion, n.d).

An overview of the creditor classification shows that multilateral external debt[23] accounted for 12.4% of GDP at the end of 2020, while bilateral debt[24] represented 7.6% of GDP, instead (ibid.) (see Table VI).

| | USD billion | Percent of GDP |
|---|---|---|
| **Public debt** | **52.5** | **78.9** |
| **External** | **29.8** | **44.7** |
| Multilateral | 8.3 | 12.4 |
| o/w IMF | 2.1 | 3.2 |
| Bilateral | 5.0 | 7.6 |
| Paris Club | 2.4 | 3.6 |
| Non-Paris Club | 2.7 | 4.0 |
| o/w China | 1.9 | 2.8 |

*Table VI: Ghana's external public debt composition, end-2020. Source: International Monetary Fund, 2021(c).*

Secondly, official external debt restructuring was chosen because cutting external debt presents several advantages compared to internal debt relief. First and foremost, such advantages stem from the fact that domestic debt is often held predominantly by domestic creditors, who hence suffer losses in the case of domestic debt restructuring. Through this channel, sovereign debt distress can quickly spread to domestic banks, pension funds, households, and other parts of the domestic economy, adding to the economic difficulties that made the debt restructuring necessary in the first place (Breuer, Ilyina, and Pham, 2021). External debt is, on the contrary, held by creditors outside Ghana, whose losses, although present, would not contribute to exacerbating the country's already precarious social and fiscal situation. In the second place, given that multilateral institutions and foreign governments hold a considerable share of external debt, coordination among creditors in the restructuring process may prove easier compared to the situation in which thousands of different domestic creditors have to agree on the terms of debt renegotiation.

[23] Multilateral debt is "the share of a country's external debt burden owed to International Financial Institutions such as the International Monetary Fund and the World Bank" (Ambrose, 1999). For several developing countries, multilateral debt is more significant than other debts because of the IFIs' status as "preferred creditors," implying that their payments must be prioritised over private and bilateral debt.

[24] Bilateral external debt is the debt owed bilaterally to creditors in wealthier countries, such as private banks, export credit agencies and governments.

Finally, official (bilateral and multilateral) external debt restructuring is also preferred over commercial external debt restructuring. This is mainly because of the possible adverse effect of the latter on a country's credit rating, which can limit Ghana's ability to borrow from international financial markets. Moreover, official claims can be more easily swapped for sustainable development commitments from the debtor government (as proposed in the following subsection), as the decision to swap the debt is ultimately taken by creditors generally interested in supporting such development (Lazard, 2021).

In targeting official external debt, negotiations on debt relief should be conducted in the context of the Paris Club and directly with the multilateral institutions holding the country's debt. As for the first category, Ghana's external bilateral debt was held, at the end of 2020, for a portion equal to 3.6% of GDP by Paris Club members and 4% of GDP by non-Paris Club members. China, in particular, held the 2.8% of GDP of Ghana's debt[25] (International Monetary Fund, 2021(c)). For what concerns instead external multilateral debt, the most recent data available (from end-2015) reveal that the main creditors to Ghana were the World Bank (holding 11.7% of Ghana's total debt), the African Development Bank (3.4%), and the IMF (2.7%) (Jones, 2016). Although these specific figures may have changed since 2015 with the rise of the general level of debt, the central institutions involved are likely to have remained the same. Ghana's main creditors and their respective debt shares are shown in Table VII.

| **Bilateral external debt (end-2020)** | | **Percentage of GDP** |
|---|---|---|
| | **Paris Club** | 3.6% |
| | **Non-Paris Club** | 4% |
| **Multilateral external debt (end-2015)** | | **Percentage of total debt** |
| | **World Bank** | 11.7% |
| | **African Development Bank** | 3.4% |
| | **International Monetary Fund** | 2.7% |

*Table VII: Ghana's main external creditors, end-2020 and end-2015. Source: own production with data from the International Monetary Fund, 2021(c) and Jones, 2016.*

[25] Holding such a large share of Ghana's external bilateral debt, the country's endorsement of the proposed DRI would be crucial. Being a member of both the IMF and the WB, involved in the Initiative as Ghana's creditors, an efficient way to ensure China's participation would be to leverage the power of such multilateral institutions.

It is worth mentioning here that nothing in the present proposal suggests that exclusively targeting official external debt would be enough to solve the fiscal difficulties Ghana is experiencing. The choice to focus on this specific portion of Ghana's debt stems from the considerations highlighted above and from the aim to keep the present proposal as realistic and concrete as possible. However, restructuring official external debt could be complemented by renegotiating the terms of external commercial debt (held by foreign commercial actors, mainly banks) and domestic debt. The analysis of such processes goes beyond the scope of the present thesis (see section 8.3).

Concerning the amount of restructuring required, as already mentioned, this should be decided based on the enhanced DSA. The magnitude of the proposed debt reduction should be sufficiently large to ensure that the Initiative has a sizable impact on debt sustainability and economic growth, on the one hand. However, it should not be too large to exceed the likely financial contribution that can be offered by the international funding agencies and foreign countries, on the other. Starting from the enhanced DSA, econometric techniques should be used to estimate the amount of relief needed to achieve a minimum target increase in long-term growth from the Initiative, in line with the Green Growth Strategy presented by the Ghanaian government, discussed in subsection 6.3.2. For instance, a minimum target increase in growth of 1% point can be set, as done in the proposal for debt relief drafted by the ECLAC (McLean *et al.*, 2020). The minimum amount of total debt reduction to achieve the growth target should then be computed according to econometric models, developed starting from existing empirical evidence on the long-run relationship between public debt and economic growth in SSA (among others, as reported in Manasseh *et al.*, 2022 and Koffi, 2019).

Different relief scenarios should then be analysed according to the required amount of debt, in particular (i) one where only external-multilateral debt is reduced, (ii) another in which external-multilateral and -bilateral debts are reduced by equal percentages, and (iii) a final one where external-multilateral and -bilateral debts are reduced by different percentages. The scenario to be implemented in practice should be determined by the negotiations between Ghana's government and the creditors involved in the DRI, as well as by the amount of relief deemed necessary. The money saved by Ghana through the restructuring should then be channelled to a Resilience Fund, described in the next section.

### 6.5. The Ghanaian Resilience Fund

Once the needed restructuring has been determined and Ghana has designed its Green Growth Strategy, creditors must be offered a guarantee on restructured debt, and the country must be given funds to implement the projects proposed in the Strategy. Both aims are pursued by creating a Ghanaian Resilience Fund, a defining feature of the present proposal. The Fund presented here is modelled on the Caribbean Resilience Facility (CRF) envisaged by the Economic Commission for Latin America and the Caribbean in its proposal for debt relief for Caribbean countries (McLean *et al.*, 2020).

The Fund should become the primary regional development funding vehicle for financing the climate adaptation and mitigation projects included in the Green Growth Strategy. The Fund should be conceived as a vehicle to attract large-scale funding to enhance Ghana's resilience through implementing initiatives decided by Ghana itself. In order to perform this task, the Fund should act as a mechanism of donor coordination, consolidating access to climate resilience finance and incentivising the financing of large-scale projects.

The Ghanaian Resilience Fund's sources could vary considerably:

A. The Fund could collect financial resources from donors and other International Development Partners (IDPs) interested in investing in Ghana's resilience. These donors and Partners should be allowed to specify whether their funds are to be used for specific types of projects or on any project that can be justified on resilience grounds and has a rate of return.
B. Official bilateral and multilateral creditors, the main target of the DRI, may also contribute to the Fund's capitalisation. Official creditors, as already emphasised, may be interested in helping to reduce Ghana's debt and fostering the country's resilience. They could be allowed to do so through debt write-offs (see footnote 7, page 23), agreed to for resilience building.
C. External official creditors may direct resources to the Fund also by agreeing on a partial write-off of Ghana's debt, with the country having to continue to repay the remaining part of it entirely but on different (negotiated) terms. The repayment of the discounted debt could be funnelled through the Fund for annual project financing aimed at resilience building.

D. IFIs may contribute to the Ghanaian Resilience Fund's capitalisation by endorsing bond guarantees to raise financing for resilience building.
E. Fifthly and finally, debt swap instruments could also be used to complement the resources of the Ghanaian Resilience Fund. In the present context, debt swaps are to be understood as "agreements between a creditor and a debtor, wherein the existing debt is replaced by a new instrument or commitment, entailing some financial relief for the debtor and a reallocation of cash flows towards targeted objectives" (Lazard, 2021). Debt swaps, and for the proposed DRI in particular debt-for-nature swaps[26], can be valuable tools to complement debt restructurings. They can provide additional funding to existing multilateral and bilateral development projects and encourage national efforts toward more sustainable development (ibid.).

Overall, the Ghanaian Resilience Fund can be a very effective mechanism to encourage creditors' participation in and endorsement of the proposed DRI, on the one hand; and to provide the resources Ghana needs to invest in sustainable development, on the other. The projects the Fund's money is spent on should be monitored, by setting up an MRV system in the way described in the following section.

### 6.6. A Monitoring, Reporting, and Verification System

A transparent Monitoring, Reporting, and Verification mechanism should be set up to ensure that governance and climate policy commitments are being implemented and the debtor government spends the money from the Resilience Fund according to the Green Growth Strategy. The details of the MRV system should be defined at the first stages of the restructuring process, and the control mechanism should be in place before the first relief actions are carried out. Moreover, KPIs measuring progress in good governance and the implementation of the Green Growth Strategy should be defined together with drafting conditionality clauses or the Strategy themselves.

The responsibility for MRV must rest with a committee involving relevant national and international stakeholders in equal proportions, as proposed by Volz *et al*. in "Debt Relief

[26] Debt-for-nature swaps are "financial mechanisms that allow portions of a developing country's foreign debt to be forgiven, in exchange for commitments to invest in biodiversity conservation and environmental policy measures" (Bove, 2021).

for a Green and Inclusive Recovery: Securing Private-Sector Participation and Creating Policy Space for Sustainable Development". Moreover, again on the model of this proposal, an independent and impartial mediator should be selected, possibly through an agreement between Ghana's government and official creditors involved in the DRI. Such a figure should be chosen at the first stages of the debt relief process. The mediator should be allowed to familiarise him or herself with the details of the restructuring and coordinate operations from the beginning. The mediator should help reach balanced outcomes and act as a conjunction point between creditors and Ghana's government. In doing so, the selected person for the role would chair stakeholders' hearings regarding the first draft of the Green Growth Strategy, moderate the conversations on the Strategy between Ghana and creditors, and chair the steering committee in charge of monitoring. In case of Ghana's deliberate and significant violation of the commitments in the Green Growth Strategy or good governance clauses, the steering committee could decide that the government loses some or all of the haircut.

The Debt Relief Initiative presented aims to leave fiscal room for Ghana to implement the investments it needs to prepare itself for the negative consequences of climate change it will shortly be exposed to. The proposed DRI aims to do so while encouraging good governance and the direct involvement of the recipient government. Guarantees are offered to creditors through setting up a Resilience Fund and establishing an MRV system. The critical steps of the DRI described in the present section are summarised in the flowchart below (Figure 2).

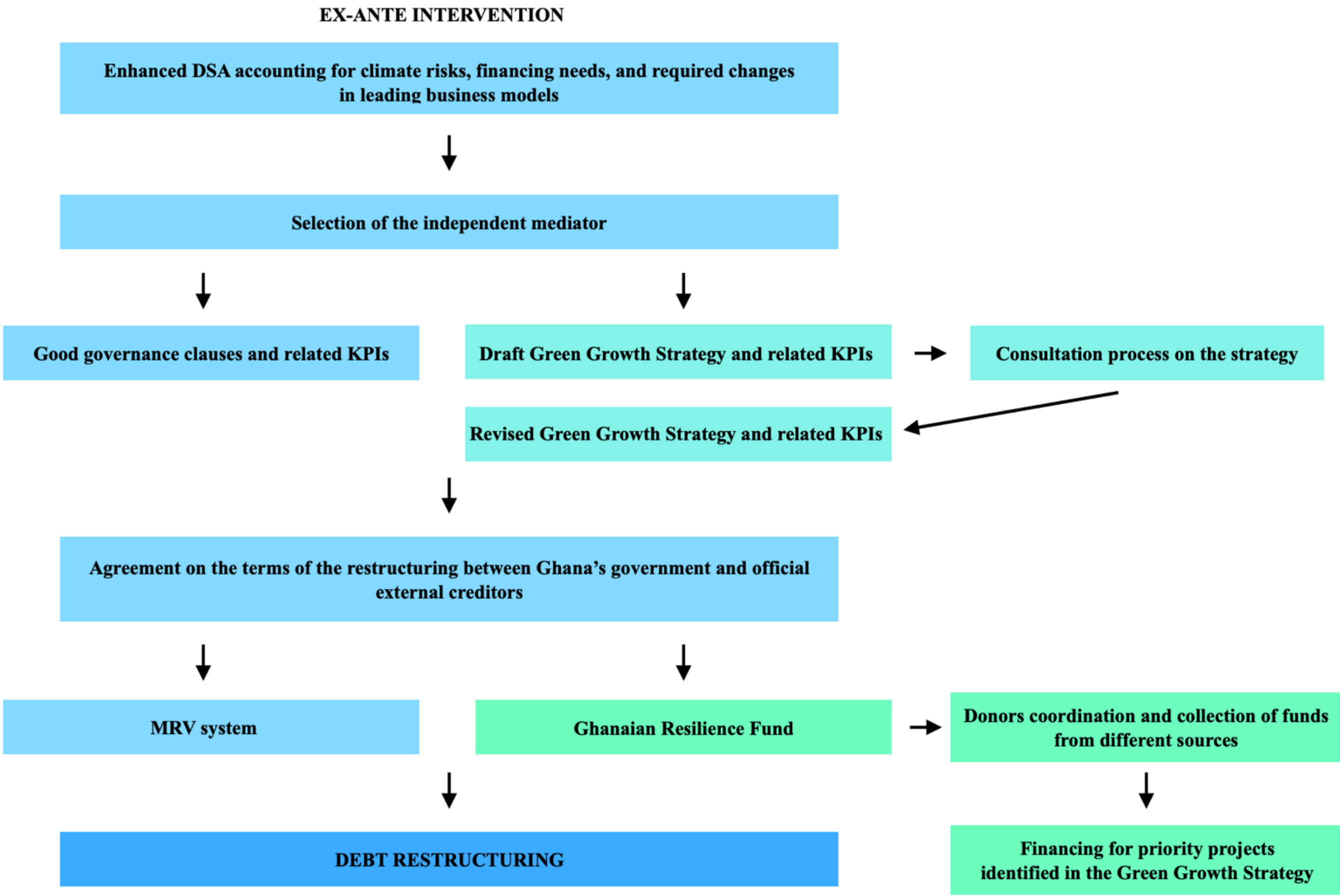


*Figure 2: Flowchart of the proposed DRI. Source: own production.*

The Initiative proposed is worth implementing not only because it can be an effective way to promote sustainable development in Ghana, but also in light of a set of elements characterising the present moment, economically and diplomatically. Section 7 describes these elements.

# 7. WHY THE PRESENT MOMENT IS THE RIGHT ONE TO ACT

The Debt Relief Initiative described in the precedent section needs to be implemented as soon as possible. Postponing inevitable sovereign debt restructurings will cause prolonged underinvestment in climate resilience and poverty eradication, resulting in lost decades for development, with increased costs for the Ghanaian population. Besides the urgency for Ghana to prevent a debt default and, at the same time, invest in climate resilience and sustainable development, four main factors make the present moment the right one to act through a debt restructuring of the kind proposed in the present thesis. These four factors are analysed in the following subsections.

## 7.1. Looming Debt Crises

The Covid-19 pandemic, which erupted at the end of 2019 and still affects several nations, has triggered an emerging global economic crisis with severe and long-lasting impacts. Among those impacts is the risk for many developing countries, including Ghana, of seeing the pandemic become a protracted debt crisis. Sub-Saharan African countries, of which Ghana is part, are witnessing rising debt servicing costs, with external debt-to-GDP ratios returning to their 1990 level. Even worse, SSA nations' ratio of external debt to export revenues is also similar to its level in the early 1990s, around 225% on average, erasing three decades of debt relief (Bouchet, 2022(b)). Rising debt levels are not only a problem per se but also negatively affect social and climate spending (see section 5.4). In fact, because of the pandemic, in 2019, 25 developing countries spent more on debt service than on social spending on education, health, and social protection combined. Ghana, in particular, spent 2.3 times more on debt service than on total social spending (UNICEF Office of Research – Innocenti, 2021).

Two parallel trends caused the rise in public debt during the Covid-19 pandemic. On the one hand, the pandemic generated a sharp decline in trade, tourism, capital, and foreign investment flows. The Covid-19 shock emerged amid a long-term trend of declining growth, significant indebtedness, and weak investments (Bouchet, 2022(b)), negatively affecting countries' economic performances. To exacerbate these negative international trends, the crisis reintroduced territories and borders, as well as protectionism and nationalism. On the other hand, the public spending needed to respond to the pandemic emergency, in terms of concrete health and social measures, aggravated already tight public budgets. Although weak countries have benefited from central banks' quantitative easing in response to the Covid-19 pandemic, they have also launched hard-currency bond issues that they need to amortise in 2022-25, at a time of depreciating local currencies and heavier debt service (ibid.). This increased spending for healthcare and social protection was made worse by the decline in economic activity caused by the lockdowns imposed in several countries to stop the spread of the virus.

Several vulnerable countries, including Ghana, risk sinking into sovereign bankruptcy due to risk aversion in capital markets, higher rates of interest, and volatile export receipts (ibid.). In many African countries, debt service obstructed decisive crisis responses and worsened development prospects. Instead of being able to support their people to weather the crisis and invest in a sustainable recovery, governments were required to repay their creditors.

Ghana was hit especially hard by the Covid-19 pandemic. The government response helped contain the pandemic and support the economy, but at the cost of a record fiscal deficit. Overall, the economic restrictions imposed by the government resulted in a fall in revenue of $2 billion. In comparison, Covid-19 expenditures increased total government expenditures by $1.7 billion, for a total fiscal impact of almost $4 billion in 2020 (Sarkodie, 2022). First and foremost, as already emphasised in section 5.1, the crisis had a severe impact on Ghana's economic activity, as shown by five fiscal indicators: (i) growth decreased from 6.5% in 2019 to 0.4% in 2020; (ii) the fiscal deficit, including energy and financial sector costs, worsened to 15.2% of GDP, with a further 2.1% of GDP in additional spending financed through the accumulation of domestic arrears; (iii) public debt rose to 78% of GDP; (iv) external and domestic financing conditions tightened considerably (International Monetary Fund, 2021(c)); and (v) Foreign Direct Investment dropped, from $3.88 billion in 2019 to $2.65 billion in 2020 (Davis Jr., 2022).

Nevertheless, Ghana was the first Sub-Saharan African sovereign to issue a Eurobond[27] in United States (US) dollars since the Covid-19 pandemic. It was also the first African

[27] A Eurobond is a "debt instrument denominated in a currency other than the home currency of the country or market" where it is issued. Eurobonds are essential because they help raise capital while having the flexibility to issue them in another currency (Chen, 2020).

government to issue a zero-coupon Eurobond[28]. Such a structure helps the Treasury push debt service costs into the future, as no interest is due until maturity in 2025. This, although widely commented upon in favourable terms as an innovation, can be a sign that the country's debt-service capabilities will be somewhat impaired over the coming years (Volz *et al.*, 2021). Such uncertainty regarding the future fiscal sustainability of the country's situation has been signalled by the jump that Ghana's spread level experienced at the beginning of 2022. The extra premium demanded on the country's sovereign dollar debt increased to an average of 1,105 basis points in January 2022, from 683 basis points in September 2021 (Gokoluk, 2022). Investors are starting to question whether Ghana can sustain its debt levels if a surge in borrowing costs shuts it out of international markets.

Worsening debt prospects will continue to loom in 2022-23. With extensive domestic and external deficits, developing countries have taken advantage of low-interest rates and available global liquidity to increase domestic and external indebtedness. Now, however, tighter monetary policy in several central banks and rising risk aversion place severe strains on debt sustainability in many countries. The soaring cost of debt threatens to overwhelm already hard-hit countries: during the pandemic, several governments turned to expensive loans from the International Monetary Fund, China, or private lenders. It is now payback time, and many developing countries find themselves in a significantly worse position than before (Malloch-Brown, 2022). Protracted recoveries due to insufficient fiscal stimulus and slow progress in vaccinations will negatively affect developing countries' fiscal and social situations for years to come.

Recognising such deteriorating debt conditions in emerging economies, with the onset of Covid-19, the G20 nations agreed on the Debt Service Suspension Initiative (DSSI), covering April 2020 to June 2021. Seventy-three countries are eligible for a suspension of debt service payments for debt held by official bilateral creditors. As of May 2022, forty-eight countries have requested to participate. From May 2020 to December 2021, $12.9 billion in debt-service payments has been suspended (World Bank, 2022(a)). However, not all countries in debt distress or at high risk of debt distress are either eligible

[28] A zero-coupon bond is a "debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full face value" (Chen, 2021(b)). A zero-coupon Eurobond is a debt instrument denominated in foreign currency that does not pay interest.

or have chosen to take part in the Initiative, including Ghana. Such reluctance of eligible countries to sign up for the DSSI must be investigated and addressed. Initial reports suggest that there are concerns about participation affecting credit ratings and future ability to access global financial markets. Moreover, potential reluctance on the part of national governments to sign up to the IMF monitoring requirements included in the Initiative is also observed[29] (Ruikang, 2020 and Michaelson, 2020). Another problem with the DSSI is that current criteria for participation exclude *a priori* many middle-income countries, where poverty issues often remain a serious concern. Although the DSSI has given the forty-eight countries concerned breathing space by allowing them to postpone payments to public creditors, it did not change the net present value of those countries' debt levels. Thus, in November 2020, the DSSI was complemented by the Common Framework for Debt Treatments Beyond the DSSI, which allows the seventy-three LICs eligible for the DSSI to request debt restructuring. However, the Common Framework proved unable to guarantee a green recovery from the Covid-19 crisis and to re-start the mobilisation of resources needed to meet the globally agreed climate and development goals. Although 30 sovereigns in Sub-Saharan Africa (or 80% of all eligible countries in the region) have participated in the G20's DSSI framework for the debt owed to official creditors, almost none have requested a debt "treatment" (i.e., a restructuring) under the Common Framework (Volz *et al.*, 2021).

In light of the above, it is clear how much the pandemic exacerbated the already worrying fiscal situation of many developing countries, including Ghana. It is also clear how the international community's response to such deteriorating conditions, in the form of the DSSI and the Common Framework for Debt Treatments Beyond the DSSI, has been insufficient to address the fiscal challenges developing countries are called to face. But the pandemic did not negatively impact public debt levels only, as the next section highlights.

### 7.2. The Impact of the Pandemic Crisis on Institutional Weaknesses

Covid-19 also affected the already fragile institutional situations of many developing countries. The pandemic crisis created a precipitation of accumulated institutional and

[29] The IMF asks for a commitment from DSSI borrowers that they will use freed-up resources to increase social or economic spending in response to the crisis.

structural weaknesses, with many of the pre-existing vulnerabilities of developing countries being further exacerbated. Such a deterioration in governance and institutional levels risks leading many states to become unable (or unwilling) to provide public goods because of governance weaknesses. Common goods are, however, precisely crucial to transforming economic growth into equal development opportunities (Bouchet, 2022(b)).

This is one of the reasons why fiscal space should be created in developing countries by promoting DRIs of the kind proposed in the present dissertation and mandatorily conditioning them on good governance results, as the present proposal aims to do. Even for countries that have historically performed positively in terms of governance, such as Ghana, it is fundamental not to let the pandemic crisis undermine such good results: it is precisely if and when tight fiscal conditions, coupled with the devastating economic effects of an external shock such as Covid-19, undermine development prospects that governance drawbacks can emerge, cancelling decades of progress. It is essential to promote an efficient and targeted DRI now, to avoid the risk of a potential deterioration in Ghana's governance levels. This is even more relevant in light of the recently erupted war in Ukraine, tackled by the following subsection.

### 7.3. The War in Ukraine and Uncertain Global Forecasts

Russia's invasion of Ukraine in February 2022 has severely set back global economic prospects, with a new crisis unfolding even as the global economy has not yet fully recovered from the pandemic. The impact of the war on the global economy has been disruptive through three main channels. Firstly, through confidence, with the war injecting uncertainty into global markets. This uncertainty is not favourable for fiscally fragile countries such as Ghana, for which it is causing a deterioration in the conditions from which it can borrow from international financial markets, as already emphasised (see page 53). Secondly, the war in Ukraine has vast effects on supply chains, with several nations facing actual or expected shortages. Africa, in particular, is highly exposed to shortages of wheat. Between 2018 and 2020, Africa imported $3.7 billion in wheat from Russia (32% of the continent's total wheat imports) and another $1.4 billion from Ukraine (12% of the continent's wheat imports). Wheat is vastly consumed across the African continent: just in SSA, wheat consumption increased at a rate of 0.35kg per year between 2000 and 2009, outpacing maise and rice (Bagwandeen and Vutula, 2022). As far as

Ghana is concerned, wheat is the main product the country imports from Russia (Observatory of Economic Complexity (OEC), 2020); the war and the disruption in supply chains it causes will hence significantly impact the country's food system. Finally, Ukraine's war negatively impacted demand by stoking inflation, with price increases in developing economies likely to accelerate shortly. Such rises in prices may significantly increase the prospect of social unrest in poorer countries such as Ghana.

All in all, at least 107 developing economies, home to 1.7 billion people, are severely exposed to at least one of the global transmission channels of the war crisis. 69 of them, or 1.2 billion people, are severely exposed to all of them (United Nations Global Crisis Response Group, 2022).

Global growth is expected to decelerate markedly during this and the following year, passing from 5.5% in 2021, to 4.1% in 2022, and 3.2% in 2023 (The World Bank, 2022a); in Sub-Saharan Africa, it might remain lower than 4% both in 2022 and 2023 (The World Bank, 2022(d)). It is clear that measures to help countries face the negative consequences of the instability generated by the Ukrainian conflict need to be taken as quickly as possible. Debt relief, especially pre-emptive debt relief of the kind proposed in the present thesis, can be a very effective way to moderate the effects of global economic turmoil. It can offer a mechanism for countries facing increasing economic difficulties, exacerbated by the war, to free resources that can be invested in sustainable development. Investments in sustainable development, in turn, can help countries deal with the consequences of the conflict on food prices and supplies by fostering resilience and addressing poverty.

The reasons why the moment to act is now are not only negative ones. Positive factors also make today the right time to implement the proposed DRI. One of them is the sentiment toward debt relief of the international community, which is analysed in the following subsection.

### 7.4. COP26 and Increased International Commitments

From a diplomatic point of view, the present moment is characterised by an increasingly widespread consensus on the need to act to stop climate change, on the one hand; and to help developing countries finally get out of the pandemic emergency and its consequences, on the other. To promote both aims, debt relief is establishing itself as an efficient tool to be exploited.

The 26th United Nations (UN) Conference of the Parties on Climate Change revealed a critical opportunity to take a radical step forward in channelling capital to climate mitigation and adaptation (Malloch-Brown, 2022). Nations recognised at COP26 the need to act to adapt and mitigate climate change during the present decade, increasingly identified as the crucial one to prevent irreversible damages to the environment and reach the EU's 2050 climate neutrality objective[30]. In promoting such action, the particular attention to be dedicated to developing countries, especially in financial terms, was widely acknowledged. Debt relief was one of the instruments proposed at the Conference to help developing countries financially in the fight against climate change (Directorate General for Global Affairs of the Italian Ministry of Foreign Affairs, personal communication, 2022). The momentum for acting on international restructurings was high at COP26. Sonam P Wangdi, chair of the Least Developed Countries group at the UN climate talks[31], said around 70% of the money emerging countries receive to tackle climate change is in the form of loans they "cannot afford". He said this mechanism is sending many into "debt traps". He argued this on the same day negotiators discussed funding for adaptation and loss and damage, intending to drive discussions toward the issue of the excessive indebtedness of developing nations (Seabrook, 2021). Following the same wave, in a statement released during COP26, 243 Civil Society Organisations (CSOs) called for debt cancellation in recognition of the considerable "climate debt" owed by the Global North to the Global South (Bretton Woods Project, 2021). This was echoed by a letter written by 43 UK Parliament Members from Labour, the Greens, the SNP, Sinn Fein, Plaid Cymru and the Liberal Democrats and addressed to Foreign Secretary Liz Truss during the final days of COP26. "We write to you during COP26 to demand the UK supports efforts to write off debt for countries in the global South and allow them to prioritise their response to climate breakdown", the text starts (Debt Relief for Green and Inclusive Recovery – News, 2021). Complementing such movements, Italy, which held COP-26 co-Presidency with the UK, pushed at the Conference for a DRI targeting developing nations. Debt relief has always been for the Italian Delegation a core

[30] In 2019, European Union's leaders endorsed achieving a climate-neutral Union by 2050. This followed the commitments the EU and its member states made upon signing the Paris Agreement in 2015.

[31] The LDC Group at the UN climate talks coordinates the climate efforts of LDCS, allowing them to work together at negotiation tables.

instrument to insist on (Franza, 2020). The country exploited its parallel co-Presidency of COP26 and Presidency of the G20[32] to push for it (Directorate General for Global Affairs of the Italian Ministry of Foreign Affairs, personal communication, 2022).

But momentum to promote DRIs and act to help developing countries face the pandemic has built up not only at Glasgow's COP26 but also outside it, accelerating dramatically in response to the Covid-19 pandemic. The IMF has reported at the beginning of 2020 that donors, such as the UK, Japan, and China, have come forward with contributions to replenish the Catastrophe Containment and Relief Trust (CCRT)[33], the instrument the IMF used to provide debt relief to developing nations during the pandemic (Fitch Ratings, 2020). Building on this, as already mentioned, the G20 group of countries established in May 2020 the DSSI to help countries concentrate their resources on fighting the pandemic and supporting the most vulnerable (see pages 53-54). However, as highlighted in subsection 7.1, the DSSI was marked by several weaknesses, that limited its effectiveness in tackling developing countries' debt issues. A few months later, in November 2020, the Common Framework for debt treatment beyond the DSSI was endorsed by the G20, together with the Paris Club, to support, in a structural manner, LICs with unsustainable debt. As already highlighted, this renewed version of the DSSI was also characterised by several limitations (see page 54).

Notwithstanding the structural issues that have constrained the effectiveness of the DSSI and the Common Framework, the two initiatives are nonetheless a step in the right direction. The unsustainable debt burden of many developing countries has been recognised. Their need to invest in climate change has been acknowledged. And the responsibility of developed nations to act to improve the situation has been realised. What is still missing is an understanding of how to make DRIs more effective, which is what the present proposal aims to shed light on. Building on the momentum for debt relief, in

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[32] Italy held the Presidency of the G20 from December 2020 to December 2021, when Indonesia replaced it. In November 2021, the country also co-hosted COP26 together with the UK.

[33] The Catastrophe Containment and Relief Trust was established in 2015. It allows the IMF to provide grants for debt relief for poor and vulnerable countries when they are hit by catastrophic natural disasters or public health disasters. The relief on debt service payments frees up additional resources to meet the exceptional balance of payments needs created by disasters, containment, and recovery. The Trust was modified in March 2020 in response to the Covid-19 pandemic.

April 2021, IMF chief Kristalina Georgieva said green debt swaps have the potential to push action on climate change in developing countries. She pledged to work with the World Bank to "advance that option" (Shalal, 2021). However, as of May 2022, such a call seems unheard.

The momentum for acting with an efficient DRI, designed case-by-case, is reinforcing. The international community cannot afford to let this opportunity go to waste. It is essential to provide support to developing nations through debt relief now, when several countries and IFIs have shown a favourable attitude toward implementing it. Acting now through a DRI will secure the endorsement of some of the most relevant creditors for countries such as Ghana, significantly increasing the likelihood of success of the Initiative.

Overall, the present moment can be crucial to influencing the growth prospects of developing nations such as Ghana for years to come. On the one hand, the conditions many emerging countries live in have significantly deteriorated in the last two years, first because of the Covid-19 pandemic and then the war in Ukraine. On the other hand, momentum for DRIs has recently been growing within the international community, hence offering a window of opportunity for promoting restructurings such as the one proposed in the present thesis.

# 8. LIMITATIONS

As with most studies, the present dissertation is subject to limitations. The following section addresses the most significant of them. The main constraints of the thesis can be grouped within three main categories: (i) literature constraints and general lack of data, (ii) study design and scope of discussions, and (iii) specific choices on the kind of debt tackled and creditors involved in the DRI proposed. These are analysed individually.

## 8.1. Literature Constraints and General Lack of Data

As far as the existing literature is concerned, a limitation to the development of the dissertation has been the general lack of sources on DRIs targeted at specific countries, as the present proposal. Generally speaking, there is little prior research on the design and the effects of ad-hoc debt relief, especially for what concerns Sub-Saharan African countries. The approach to restructuring that most resembles the one followed in the present dissertation is adopted in the already mentioned paper by the ECLAC (McLean *et al.*, 2020). The ECLAC paper focuses on the group of Caribbean countries (highlighting the specific cases of three nations: Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines) and not on one of them in particular, hence being broader in scope than the present proposal. Furthermore, the use of the findings reported in the ECLAC report has been considerably limited by the differences between the Caribbean and Sub-Saharan African economies.

Throughout the thesis, the literature constraint emphasised above was overcome by comparing several DRI proposals, targeted on various territories and characterised by different elements. Those best practices (selected through the lenses of the academic literature on debt restructuring processes referred to in sections 2.1 and 2.2) that seem more suited to be applied to the Ghanaian situation were drawn from them. As far as future research is concerned, filling this gap in the literature, as the thesis does for the Ghanaian case, can be a promising avenue for investigation.

Another significant data constraint that flawed the dissertation was the lack of updated information on critical indicators regarding Ghana's fiscal situation. Not much can be found on Sub-Saharan countries' debt composition and main creditors. This forced to use data preceding 2022 and even 2021 to develop several parts of the thesis, particularly section 6.4. However, thanks to a significant amount of desk research and triangulating data from different sources, the overall picture of Ghana's fiscal situation obtained is, in the end, sufficiently satisfactory and likely to correspond to the country's actual one.

### 8.2. Study Design and Scope of Discussions

As highlighted in section 3, the study mainly relied on qualitative data. The quantitative results mentioned in some dissertation sections, such as the benefits of pre-emptive debt relief compared to post-default restructurings (see pages 34-35), were taken from existing research and reported in the present thesis. Given the nature of the topic touched, this represents a significant constraint to the work. This is true, especially, concerning results' replicability, objectivity, and generalisability. However, as already highlighted in section 3, the use of econometric models and the estimation of the effects of debt relief on specific fiscal and development indicators was beyond the scope of the present thesis. The drawing of best practices and using of existing quantitative data was identified as the most suited approach for putting economic, development, and governance considerations together in a single DRI proposal. A quantitative assessment of the effects that a DRI such as the one proposed in the present dissertation can have on growth levels and development spending can be an exciting direction for future research.

Furthermore, the scope of the discussion was constrained by (i) length and time limits and (ii) the related decision to narrow the focus of the thesis to one country only. As for length and time constraints, these influenced the depth of the analysis, primarily related to assessing past DRIs and delineating Ghana's present situation. In light of these constraints, the choice was made to focus on those most relevant elements for highlighting the need to change the international approach to debt relief, on the one hand; and for devising the DRI and supporting its potential effectiveness, on the other. For what concerns, instead, the decision to structure the thesis as a case study centred on Ghana, narrowing down its scope, this was driven by these same length and time constraints. Acknowledging them, instead of conducting broader but less detailed research, the decision was taken to circumscribe the scope of the study to one country only. The chosen nation is at high risk of debt distress, a candidate for debt reduction, and has relatively good governance credentials (as emphasised in section 5). In making this choice, the aim was to make the proposed DRI as realistic and exhaustive as possible. Moreover, focusing on one single country prevents the risk of falling into the criticism of structurally different countries. The negative side of this choice is that it makes the proposal developed throughout the dissertation specific to the Ghanaian situation, limiting the generalisability of results. Nonetheless, with appropriate tailoring, primarily as related (i) to the setting up of good governance clauses (touched in section 6.3.1), being Ghanaian governance performance an outlier compared to the average of SSA (see section 5.5), and (ii) the amount of restructuring needed (touched in section 6.4), the present proposal has the potential to be extended to other African economies, as well. It may be fascinating for other researchers to take the proposal developed in the present dissertation and tailor it to the situation of other countries in need.

### 8.3. Specific Choices on the Kind of Debt Tackled and Creditors Involved in the Debt Relief Initiative

For what concerns the DRI proposed in section 6, the main limitation to it is driven by the decision to focus on official external debt only. Targeting exclusively debt owed by other countries and multilateral institutions implies that only a portion (less than a half) of Ghana's indebtedness would be affected by the proposal's potential implementation. Although literature exists on the need and the ways to involve private creditors in international debt restructuring processes, the inclusion of domestic and external private creditors was (as emphasised in section 6.4) beyond the scope of the present dissertation. The decision was taken to focus on the share of Ghana's public debt that was easier to negotiate in a potential restructuring process while representing a sizeable portion of the country's outstanding obligations. Moreover, targeting private debt would have required a much deeper discussion on the tools to be exploited to encourage private sector participation and the modalities of negotiating the restructuring. For the length and time limits highlighted in the previous subsection, such discussions fell outside the study's boundaries. Moreover, it is worth emphasising that promoting initiatives such as the DRI proposed in the present dissertation, focusing on external official creditors only, may in turn encourage private creditors to participate in the restructuring process (Malloch-Brown, 2022). Analysing the effect of official external debt restructuring on the potential stimulation of private (domestic and external) creditors' participation can be an exciting field to dig into in the future. Following the same wave, extending the proposed DRI to private creditors may be an insightful avenue for forthcoming studies.

# 9. CONCLUSIONS

What was developed in the present final dissertation is a proposal for debt relief centred around the nation of Ghana. The thesis addressed the research question: how can Ghana promote green growth while reducing its debt burden? The answer was found in the DRI designed in section 6.

After a discussion of the relevant literature on the topic and the methodology adopted, the issue of public debt was analysed to understand why excessive indebtedness is a problem, and hence why debt relief can be an excellent way to provide development aid. The focus was then narrowed down to the country selected to benefit from the proposed DRI, i.e., Ghana. The most salient aspects of Ghana's situation, and the most functional one to understand why the country needs debt relief, were highlighted. The subsequent section, the core of the thesis, provided all the main features of the DRI proposed, an *ex-ante* (and hence arguably more effective) intervention. These features include:

A. An enhanced Debt Sustainability Analysis accounting for the climate risks and related spending needs Ghana is facing and will increasingly face;
B. Good governance and sustainability conditionality clauses, aimed at ensuring that the money saved through debt relief does not get wasted on bad governance-associated issues, on the one hand, and that they are used to foster green growth, on the other;
C. The restructuring of the portion of Ghana's debt owed by external bilateral (i.e., other governments) and multilateral (i.e., international institutions) creditors;
D. A Resilience Fund, collecting money from different sources and putting them at Ghana's government's disposal to finance green projects; and
E. A Monitoring, Reporting, and Verification system, holding Ghana accountable for making the restructuring process proceed as smoothly as possible and for spending the money saved through debt relief in line with its sustainable development plans.

After determining the design of the DRI proposed, the reasons why such an initiative needs to be carried out now were highlighted, both as related to Ghana's (and in general developing countries') situation and the international diplomatic environment. As a final step, the limitations of the whole study, and related exciting avenues for future research, were highlighted.

The present project challenges the past design and current conception of debt relief processes. It does so by focussing on one single country, to ensure a complete understanding of its debt issues and to devise ad-hoc solutions for them, in the first place. And by putting together what emerged as best practices in past DRIs and present restructuring proposals, mainly related to setting up specific conditionality clauses, in the second place.

In all its dimensions, the recently erupted war in Ukraine is producing alarming cascading effects on a world economy already weakened by the pandemic and climate change, with particularly dramatic impacts on developing countries. The world's most vulnerable people cannot become collateral damage. An innovative way out must be found to preserve development achievements built over decades and get developing countries like Ghana back on track to recover and continue their journey to sustainable development. In 2021, lower-income countries spent over five times more on external debt payments than on projects to protect people from the impacts of climate; Ghana spent $82 million in total for climate adaptation, compared to $4,827 million on external debt service change (Jubilee Debt Campaign, 2021). These figures speak by themselves. Without urgent action, the trade-off between debt and resilience investments will only exacerbate, undermining prospects for attaining a more inclusive, less poor, and more equitable world. This is why the Debt Relief Initiative proposed in the thesis needs to be implemented now.

## GLOSSARY OF ACRONYMS

| | |
|---|---|
| DRI | Debt Relief Initiative |
| CCRT | Catastrophe Containment and Relief Trust |
| ECB | European Central Bank |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| CRF | Caribbean Resilience Facility |
| COP | Conference of the Parties |
| CPIA | Country Policy and Institutional Assessment |
| CSOs | Civil Society Organisations |
| DSA | Debt Sustainability Analysis |
| DSF | Debt Sustainability Framework |
| DSSI | Debt Service Suspension Initiative |
| EU | European Union |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| HIPC | Heavily Indebted Poor Countries |
| IDPs | International Development Partners |
| IFIs | International Financial Institutions |
| IIAG | Ibrahim Index of African Governance |
| IMF | International Monetary Fund |
| KPIs | Key Performance Indicators |
| LDCs | Least Developed Countries |
| LICs | Low-Income Countries |
| NAP | National Adaptation Plan |

| | |
|---|---|
| NDC | Nationally Determined Contributions |
| NSDS | National Sustainable Development Strategy |
| MRV | Monitoring, Reporting, and Verification |
| PV | Present value |
| SDGs | Sustainable Development Goals |
| SSA | Sub-Saharan African |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNFCCC | United Nations Framework Convention on Climate Change |
| UK | United Kingdom |
| UNICEF | United Nations International Children's Emergency Fund |
| US | United States |
| WB | World Bank |
| WGI | Worldwide Governance Indicators |

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