GITFiC's Call for a #GlobalDebtInitiative

POSITION PAPER
PUBLIC DOCUMENT

REVISITING THE DEBT BURDEN ON DEVELOPING AND LEAST DEVELOPED ECONOMIES – A CALL FOR A GLOBAL DEBT INITIATIVE BY THE GITFiC

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Abbreviations

GITFiC	**Ghana International Trade and Finance Conference**
GDI	**Global Debt Initiative**
LDCs	**Least-Developed Countries**
HIPC	**Highly-Indebted Poor Countries**
DSSI	**Debt Service Suspension Initiative**
ICM	**International Capital Market**
IMF	**International Monetary Fund**
IDA	**International Development Association**
AfDF	**Africa Development Fund**
CF	**Common Framework**
OCC	**Official Creditor Committee**

REVISITING THE DEBT BURDEN ON DEVELOPING AND LEAST DEVELOPED ECONOMIES[1]

A POSITION PAPER BY THE GITFiC FOR A GLOBAL DEBT INITIATIVE

ABSTRACT

The severe recession which was occasioned by the COVID-19 pandemic, the deepest global economic contraction since 1960, has intensified discussions on the rising debt levels faced by Developing and Least-Developed Countries. For Africa, this recession was unprecedented since 1993, significantly impacting real GDP, has brought to forefront the discussion of rising debt levels faced by Developing and Least-Developed Countries. These debtor countries have fragile economic pillars and have had to rely on huge borrowing to finance needs of critical sectors. The consequence is that some countries face high risk premia and have gone into default and struggling to fulfil debt service obligations.

Evidence has shown that the weight of debt burden is hampering the economic growth of debtor countries, particularly the Developing and LDCs. The various debt treatment strategies such as the Highly-Indebted Poor Countries Initiative (HIPC) and the G20 Common Framework implemented by multilateral institutions such as the IMF and World Bank, have offered some fiscal respite in the form of improving short-term and long-term financial liquidity however, this has had limited impact.

There is an urgent need for a renewed global initiative to holistically address the debt challenges of developing countries and LDCs through the concerted efforts of multilateral agencies, private creditors, non-Paris Club countries and multi-national financial bodies. This is a position which the Ghana International Trade and Finance Conference (GITFiC) believes would improve the economic conditions of debtor countries.

The consensus is that unsustainable levels of debt and the burden of debt servicing at usually high interest rates creates persistent and long-lasting effects on the economies of debtor countries resulting in poverty and reduced welfare.

Invariably, developed countries, although in debt, have built economic buffers which reduces the effects of global shocks, while developing countries on the other hand have their economies structurally and heavily dependent on capital inflows to finance current account deficit.

[1] This include island countries recognized by the international community.

[2] Krugman, 1988

This means that accessing domestic and external loans have become a means of survival for developing and least-developed countries. These countries have also benefited from historically favorable market conditions, such as low interest rates, which were not accessible to developing countries.

In recent years, developing countries have faced multiple crises, including the COVID-19 pandemic and the war in Ukraine. These events have significantly impacted their economic growth trajectories and exacerbated their debt burdens. The COVID-19 pandemic, for example, led to a sharp decline in global trade and investment flows, pushing many developing countries into deeper financial distress. Similarly, the war in Ukraine has disrupted global supply chains and increased commodity prices, further straining the economies of these nations. These compounded with threats of war within the Arab region (Israel – Palestine – Lebanon – Iran – Houthi's) have further exacerbated the global supply chain and logistics in general.

Fiscal space is essentially a government's capacity to absorb drops in public revenue. Its decline in LDCs is evident in key indicators, such as their debt-to-GDP ratio, which grew from 48.5% in 2019 to 55.4% in 2022 (the highest since 2005). See more in the section on debt. Their fiscal space has been squeezed by global crises like the COVID-19 pandemic, the climate emergency, and the war in Ukraine, which triggered food and energy price hikes worldwide. To cushion the blow, LDCs have borrowed and spent more to strengthen social safety nets and economic support, as at least 15 million more people in LDCs have fallen into extreme poverty since the pandemic and continued global geopolitical uncertainties.

The Volcker Recession and the Great Financial Crisis offer valuable lessons for today's global debt challenges. For instance, the aggressive monetary policies during the Volcker era had unintended consequences on developing countries, worsening their debt situations. Similarly, the Great Financial Crisis highlighted the vulnerabilities of global financial systems and the need for robust debt relief mechanisms. These historical insights underscore the importance of tailored and sustainable debt solutions in the current context, particularly considering the recent economic shocks from the COVID-19 pandemic and geopolitical conflicts.

The risk premium significantly contributes to the high interest rates faced by LDCs, further exacerbating their debt burdens. Additionally, poor macroeconomic management, particularly debt monetization, is a crucial driver of the current debt crisis. Understanding these factors is essential for addressing the root causes of the debt challenges faced by these countries.

A comprehensive grasp of the determinants of economic growth is vital for effective debt management. Key determinants include investment in human capital, technological advancements, and institutional quality. Policies aimed at improving these areas can help LDCs achieve sustainable growth and reduce dependency on borrowing.

The primary drivers of LDCs' debt issues are not balance of payment problems but rather excessive spending, borrowing, debt monetization, high inflation, and the resulting high risk premiums. Addressing these internal economic policies is crucial for mitigating the debt crisis in these countries.

It is important to distinguish between debt problems and balance of payment issues. While they can be interconnected, the core challenge for LDCs often lies in unsustainable fiscal practices rather than external imbalances alone. Clear differentiation will aid in formulating targeted solutions for each issue.

The fundamental question that emerges is: "how do such distressed economies get out of the quagmire of debt?" "What framework can be adopted to ensure that countries facing unsustainable levels of debts do not fall into the cycle of default and increased poverty?"

Our position paper provides an overview of the debt issues faced by least-developed countries (LDCs), including some in Africa and global south. For the purposes of this paper, LDCs are defined according to the criteria set by the United Nations, which includes low income, weak human assets, and economic vulnerability. The Global Debt Initiative (GDI) proposed herein by The Ghana International Trade and Finance Conference – GITFiC is a comprehensive framework aimed at addressing these debt issues through coordinated efforts of multilateral agencies, private creditors, and international financial institutions.

This paper by the Ghana International Trade and Finance Conference – GITFiC, discusses the precarious status of developing and LDCs in global trade, and the adverse effects of global crisis on their debt servicing. A historical overview of the Volcker recession, COVID-19 pandemic impacts on developing and LDCs is given in the ensuing sections. Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, Debt Service Suspension Initiative, Bilateral Creditors and the clarion call for a global debt framework tailored for poverty-eradication, with focus on Ghana and Zambia.

PART II:
RELEVANCE AND EVIDENCE

2.1 Unfavorable terms of trade for LDCs

The African adage that "All hands are not equal" is much typified in the economic theories of absolute and comparative advantage. Notwithstanding those nations across the world are endowed with varied levels of natural resources, technological know-how, among others, and are thereby classified into developed, developing and least developed countries (LDCs).

The terms of trade for developing and LDCs are significantly unfavorable
The terms of trade for developing and LDCs are significantly unfavorable, and this is largely due to their typically smaller size and less diversified economic structure. The IMF estimated that during the period of 1984-93, the fluctuations in world interest rates on their outstanding debts, cyclical changes in industrial country demand for their exports, and declines in primary commodity prices, combined to reduce the average growth rate[3].

Since then, a lot of efforts have been made by multilateral bodies to have a fair and equitable global system. A case in point is the World Trade Organization (WTO) which has set out and developed a special and differential treatment for developing countries, in particular LDCs, with a view to promote industrialization and economic diversification.

In furtherance of the WTO's commitment to ensuring that developing countries and LDCs secure beneficial and meaningful gains from the multilateral system, a Working Group on Trade, Debt and Finance was established in 2001. The Working Group is mandated to contribute to a solution to the challenges faced by developing and least-developed countries having regard to external indebtedness and financial instability[4].

2.2 Global Crises and Debt

In a global world where countries must rely on another for exchange of goods and services, there is always the need to build synergies towards creating a shared prosperity. However, economies of developing countries, particularly those in Africa, have weak productive base and thus make them very vulnerable to exogenous shocks. From the period of 1973, developing countries faced external challenges because of high increases in world energy prices and decreases in price of other primary commodities, leading to significant deterioration in the terms of trade for many countries[5].

Debt in Africa began in the 1980s when public finances of most developing countries plummeted because of two oil shocks. The impacts of the contagion were proportional to the degree of exposure of these economies.

This emphasizes the fact that developing countries face a higher risk of endogenous and exogenous shocks which could deteriorate its growth and finances and result in increased poverty and reduced ability on debt servicing.

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[3] WTO Committee on Trade and Development - WT/COMTD/W/15 - 1996

[4] Doha WTO Ministerial Declaration - WT/MIN(01)/DEC/1 – 2001

[5] Watson & Regling (1992) – History of the Debt Crisis. IMF Publication – Current Legal Issues Affecting Central Banks, Vol. 1

This phenomenon was further exacerbated by the Volcker Recession which occurred in the same period where the United States experienced the worst economic downturn; save for the Great Depression and the 2008 Great Recession.

Volcker[6] aggressively targeted money supply rather than interest rates as a means of counteracting mounting inflation. This approach precipitated a sharp recession of the US economy as the high interest rates put pressure on sectors of the economy reliant on borrowing. The unintended consequence was that this distorted and worsened the terms of trade for developing countries.

Another phase of global economic crisis is that of the 2008-2009 financial crisis which had a heavy toll on individuals and institutions around the globe. This era is widely referred to as the "Great Recession". The genesis of this economic downturn is traceable to the housing market bubble where low interests were sporadically offered on mortgages and home-owning investments. A large percentage of the offered loans went into default, and lending institutions began to face financial difficulties, with a rippling adverse effect on monetary policies across the world. Several banks had to rely on government capital injection and loan guarantees which constricted the funds available at the international capital markets for developing countries.

In 2021, some developing countries[7] presented a joint statement to the WTO on challenges faced by developing countries in the aftermath of the COVID-19 crisis. The Statement highlighted the fact that developing countries and LDCs do not possess the requisite tools to respond, recover and maintain resilience of such global crisis. It can be observed that the absence of a robust fiscal and monetary buffers meant that developing and LDCs were further pushed into the debt trap.

The Volcker recession, Great Depression, and Great Recession each had profound impacts on global debt levels, particularly for developing and least-developed countries (LDCs). These crises underscore the vulnerabilities in global financial systems that can lead to unsustainable debt accumulation. Understanding these historical contexts sets the stage for examining how sovereign credit ratings today impact the ability of these countries to secure necessary funds from international capital markets. While historical crises like the Volcker recession and the Great Depression provide valuable lessons, recent crises such as the COVID-19 pandemic and the Russia-Ukraine conflict are more pertinent to the current global debt situation.

For instance, the African Development Bank (AfDB) reports that the COVID-19 pandemic alone has increased the debt levels of African countries by an average of 10%. Including such statistics underscores the urgency of addressing the economic fallout from these recent events.

Sovereign credit ratings are critical indicators of a country's financial health and directly influence their access to the international capital market. Recent downgrades due to the COVID-19 pandemic have significantly affected 15 countries in sub-Saharan Africa, increasing their borrowing costs and limiting their participation in debt relief programs.

[6] Paul Volcker was the Chairman of the US Federal Reserve from 1980 -

[7] Pakistan, Egypt, Tunisia, South Africa, Sri Lanka, and Uganda presented a joint submission to the WTO (JOB/GC/278/Rev.1) entitled 'WTO response in light of the pandemic: trade rules that support resilience building, response and recovery to face domestic and global crises'.

According to the African Development Bank (AfDB), the economic impacts of recent crises are stark. For instance, the pandemic caused a contraction of 2.1% in Africa's GDP in 2020, with debt levels rising by 10% across the continent. These figures highlight the urgent need for a comprehensive global debt initiative to address the mounting economic challenges.

2.3 Sovereign Credit Rating & International Capital Market

The International Capital Market has emerged as a key source of liquidity and financial cushioning to governments across the world. The ICM is a system where investors, governments with an excess of funds transfer those funds to companies, individuals, and government with shortage of funds[8]. The rationale for this trading regime is based on the neoclassical economic view that capital will be "reallocated from developed countries, where it is relatively abundant and its return is lower, to developing countries, where capital is scarcer and its return higher."[9] This system promotes efficiency as it provides the opportunity for borrowing countries to readily channel received funds into productive enterprises.
It is important to highlight that sovereign credit ratings are indices which show the severity of debt distress and has the potential to influence accessibility to private capital and international financial markets.

There are concerns that credit rating institutions have been unfairly biased against some countries. At least 15 countries in sub-Saharan Africa have suffered negative rating actions[10] since the Covid-19 pandemic began, which could raise the cost of financing their health and economic recoveries from the crisis and affect their participation of debt treatment programmes.

Several developing countries have raised concerns about perceived biases in sovereign credit ratings assigned by major rating agencies. Studies suggest that these ratings may not fully account for the economic realities and unique challenges faced by these nations, potentially leading to higher borrowing costs and reduced investment opportunities. For instance, the 2014 study by the European Corporate Governance Institute titled "The Effectiveness of Credit Rating Agencies: Evidence from the European Sovereign Debt Crisis" highlights specific cases where ratings were questioned. A notable example is the downgrade of Greece's sovereign debt rating by Standard & Poor's in April 2010. The 2011 study "The Role of Credit Rating Agencies in the Financial System: Evidence from Africa" published in the African Development Review highlights the case of Mozambique. The study points out that credit ratings assigned to Mozambique by major credit rating agencies were questioned due to discrepancies between the ratings and the country's economic fundamentals.

Credit ratings given to some of the problematic countries, based on data from reputable rating agencies like Moody's, Standard & Poor's (S&P), and Fitch Ratings.

COUNTRIES	MOODY RATING	S&P RATING	FITCH RATING	YEAR
Angola	Caa1	CCC+	CCC	2023
Ghana	Ca	CCC-	CC	2023
Mozambique	Caa2	CCC+	CCC	2023
Zambia	Caa3			2023

[8] International Business Publication, 2017
[9] (Cline, 1995, 141) as reported in Lipumba, 2001
[10] https://www.undp.org/africa/events/sovereign-credit-ratings-africa-two-decades-have-they-helped-or-hindered-development

Nigeria	B2	B-	B	2023
South Africa	Ba2	BB-	BB-	2023
Tunisia	Caa1	B-	CCC+	2023
Ethiopia	Caa1	CCC+	CCC	2023
Kenya	B2	B	B+	2023
Egypt	B3	B	B+	2023
Cameroon	B2	B-	B	2023
Ivory Coast	Ba3	BB+	BB	2023
Senegal	Ba3	B+	B+	2023
Malawi	Caa2	CCC	CCC	2023
Chad	Caa1	CCC+	CCC	2023
Republic of Congo	Caa2	CCC+	CCC	2023
Madagascar	B3	B	B	2023
Mali	B3	B-	B-	2023
Mauritania	B3	B-	B-	2023
Sierra Leone	Caa2	CCC+	CCC	2023
Guinea	B3	B-	B-	2023
Central African Republic	Caa2	CCC+	CCC	2023

Notes:

Moody's Ratings: Ratings range from Aaa (highest) to C (lowest), with intermediate ratings indicated by a numeric modifier (1, 2, 3).

S&P Ratings: Ratings range from AAA (highest) to D (default), with intermediate ratings indicated by a "+" or "-".

Fitch Ratings: Similar to S&P, ranging from AAA to D, with intermediate ratings indicated by a "+" or "-".

2.4 CHINA'S BELT AND ROAD INITIATIVE

While discussing the debt burdens faced by LDCs, it is important to consider the role of all major creditors, including China. It is crucial for China to participate actively in the global debt relief initiatives. Collaborative efforts from all stakeholders are essential to develop sustainable solutions. According to a 2021 report by the International Monetary Fund (IMF), China's lending practices have been a significant factor, and their involvement is necessary for comprehensive debt restructuring negotiations. The report highlights that China's substantial lending to developing countries has made it a key player in global debt markets, and effective debt relief efforts cannot be achieved without active participation from Chinese financial institutions. Only few countries in the world can match up the influence of China in global social and economic affairs. With a population of over 1.3 billion, China is now regarded as the second largest economy in terms of volume of trade.

In 2013, China launched the Belt and Road Initiative (BRI) as a key strategy to bolster its influence in the sphere of economic and political co-operation. The BRI was created with about $1 trillion of available funding for a 10-year period. Its thematic areas are:

- **Policy coordination.**
- **Facilities connectivity.**
- **Unimpeded trade.**
- **Financial integration.**

people-to-people bonds.

The **BRI** is regarded as one of the major contributory factors to the rising debt levels of developing countries. To date, 152 countries signed a co-operation agreement with China under the BRI Framework. Developing countries are attracted to the BRI Framework as it is deemed as a more flexible financing arrangement when compared to those offered by western institutions which demand strict conditionalities. This has resulted in China expanding its trade with Africa from the about $1 billion in 1980 to $128 billion in 2016[11]. UNCTAD data shows that trade between Africa and China has now reached 230 billion US dollars (in 2022), or 17% of Africa's global trade compared to only 2% in 1995. Trade between China and Africa has therefore increased by more than 80% in 7 years.

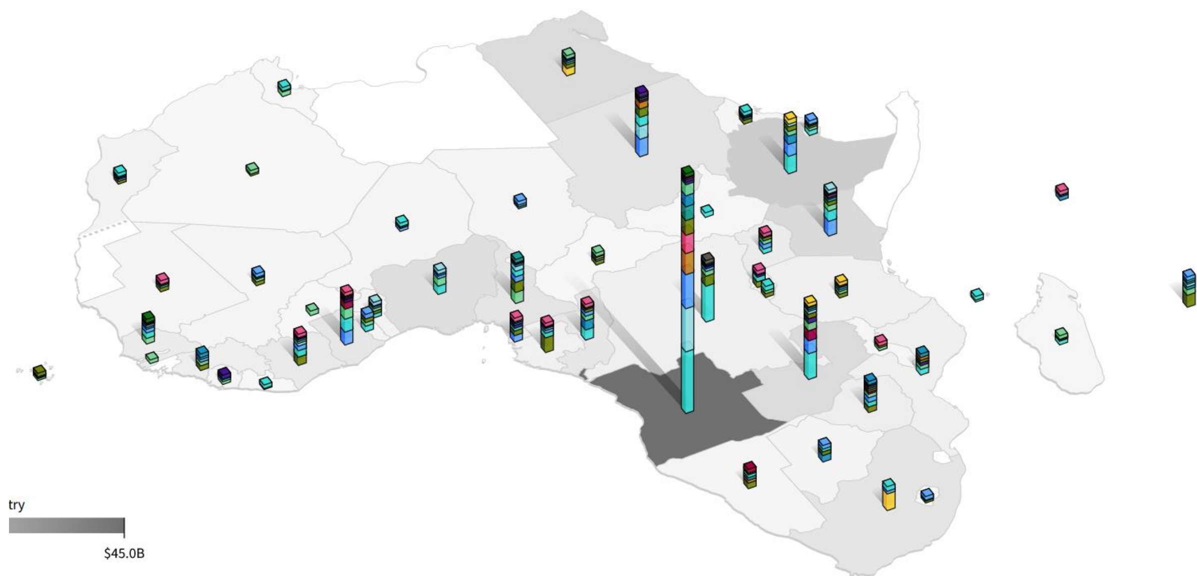
China, through the offer of aids, loans, grants, infrastructure projects, has broaden its impact in developing countries, although concerns have been raised about the loan arrangements offered which sometimes include collateralizing the assets of recipient countries.

Reference can be made to Zambia, Djibouti and Ethiopia. In this instance, China provided about $1.4 billion loan arrangement to finance Djibouti's major investment projects, at a level equivalent to about 75 percent of its GDP. Although it may appear that the BRI is a perfect incubator towards bridging the infrastructure gap and needs of developing countries, particularly in Africa, it has been discovered that China is invariable benefiting from its investments than the host countries. This is evidenced by the fact that skilled labour for the BRI projects is mostly imported from China, while locals are left with low-end jobs.

Eswatini is the only African country that has resisted any of China's investment and pushing back the overtures of China.

It is worth repeating that the insatiable appetite for borrowing has resulted in huge debts for many African countries and the global south. This is despite warnings by the IMF and other global institutions about the inherent dangers of collateralizing government assets with Chinese loans.

[11] Venkateswaran L. 2020 – China's Belt and Road Initiative; Implications in Africa.



2.5 GHANA: The Weight of Rising Debts

One of the developing countries reeling under the burden of unstainable debt levels is Ghana, a major exporter of cocoa and gold, compounded with crude oil. Since its independence from colonialism in 1957, Ghana's economy has remained heavily dependent on these primary commodities to shore up its financial liquidities. The discovery of oil in Ghana in the late 2008, has done little to turn around the fortunes of the economy, as commodity prices have stayed high for over 20 years.[12]

It is a sad paradox that in 2019, Ghana recorded the fastest growing economy in the world, and managed to have a single-digit inflation rate while budget deficit was less than 5 percent of GDP in the said period[13].

In 2007, Ghana made its first entry into the Eurobond market, issuing $750 million value of bonds to investors at a maturity period of 10 years (Table 2 below). Prior to this, other developing countries such as Seychelles and South Africa had already sought financing from the international capital market.
It must be pointed out that a Eurobond does not have to be about Europe or the Euro. It is just an international aspect of the bond and the involvement of foreign currency. The major trading currency for Ghana is the US dollars and the issuance of the Eurobond meant that financial liquidity was injected into and to shore up the economy. The Bank of Ghana has been the primary issuer of the Eurobonds on behalf of the Government of Ghana.

Since 2020, Ghana's economic situation has faced several challenges. The COVID-19 pandemic severely impacted the global economy, including Ghana's, leading to disruptions in trade, tourism, and other key sectors. In 2020, Ghana's GDP growth rate plummeted to 0.4%, a stark contrast to the 6.5% growth recorded in 2019. The budget deficit increased significantly, reaching 11.7% of GDP in 2020 due to increased government spending to mitigate the pandemic's effects.

[12] Debt Justice, 2021 – Ghana: A Debt Crisis rooted in colonialism
[13] Mensah K, 2022 – Aljazeera Report: How Ghana, Africa's rising star ended up in economic turmoil.

Public debt also surged, climbing from 62.4% of GDP in 2019 to 76.1% in 2020. Inflation rates have fluctuated, with the annual inflation rate reaching 10.4% in December 2020, driven by supply chain disruptions and increased food prices. These figures underscore the substantial economic challenges Ghana has faced and the ongoing need for effective debt management and economic diversification to ensure long-term resilience and recovery.

Based on the World Bank's International Debt Statistics, 64% of Ghana's scheduled foreign currency external debt service, which includes principal and interest amounts, between 2023 and 2029 is to private lenders. 20% of the debt is to multilateral institutions and 6% to other governments. Notably, while mainstream reporting on Ghana's debt scenario tends to emphasize China as the country's "biggest bilateral creditor," only 10% of Ghana's external debt service is owed to China.

Year	Amount/Loan ($)	Maturity Period
2007	750 million	10 years
2012	1 billion	12 years
2014	1 billion	12 years
2015	1 billion	15 years
2016	750 million	5 years
2018	1 billion	10 years
2018	1 billion	30 years

Table 2: **Ghana's Eurobond History**
Source: GITFiC's Compilation based on Bank of Ghana's publications

Key Economic Figures for Ghana (2020-2023)

Ghana's economic trajectory over the past few years has been marked by significant challenges and gradual recovery. In 2020, the GDP growth rate plummeted to 0.4% due to the COVID-19 pandemic, a stark contrast to the robust 6.5% growth in 2019. However, by 2021, the economy began to rebound, with a 5.4% growth driven by the mining, agriculture, and services sectors.

Growth continued moderately at 3.6% in 2022, with projections for 2023 estimating a further rise to 4.2%, reflecting ongoing recovery efforts and economic reforms. Inflation, which spiked to 10.4% in 2020 due to supply chain disruptions and increased public spending, remained elevated in the following years, reaching 12.6% in 2022 before an expected moderation to 11% in 2023 as stabilization policies took effect.

The fiscal deficit widened to 11.7% of GDP in 2020 due to increased health and social protection spending, but efforts to consolidate public finances saw it reduced to 9.4% in 2021 and further to an estimated 7.6% in 2023. Public debt also surged, rising from 62.4% of GDP in 2019 to 76.1% in 2020, and reaching 85.5% in 2022, with projections suggesting stabilization around 84% in 2023, contingent on continued economic recovery and fiscal reforms.

2.5. 1. Debt Woes

Ghana's public debt stood at over 467 billion cedis ($46.7 billion) by the end of September, 2022, of which 42% was domestic debt. In December, Finance Minister Ken Ofori-Atta announced that interest payments on debt were taking up between 70 to 100% of the government's revenue, and that the ratio of the country's public debt to its GDP had exceeded 100%.

Ghana's debt includes principal and interest amounts to private lenders (64%), multilateral institutions (20%), governments (6%) and China (10%), the country's biggest bilateral creditor. The Eurobond debt are largely held by management corporations such as Amundi (UK) Ltd, Black Rock, Abrdn.

2.6 Zambia: The Weight of Rising Debts

Zambia became the first African country to default on its debt obligations[14], when it lamented that the effects of COVID-19 had distorted its fiscal mechanisms and led to a deterioration of net asset position. Particularly, unencumbered foreign exchange reserves shrank to US$970 million by the end of October, 2020, against debt service of around US$1.4 billion on contracted foreign currency denominated loans[15]. The story of Zambia is not too different from other developing countries which are reeling under the weight of unsustainable debt levels. Zambia faced a debt crisis in the late 1980s and early 1990s but the crisis was brought under control when it enjoyed debt reliefs under the HIPC Initiatives. However, excessive borrowing and limited efforts towards economic diversification have plunged the country into a public debt stock.

In Zambia, excessive borrowing and limited efforts towards economic diversification have plunged the country into a public debt stock of $32.8 billion, out of which $18.6 billion is owed to external lenders at the end of June 2022 per the Zambia Ministry of Finance reports.

The consequences of the rising debt levels have been dire. In a Ministerial Statement[16] to the Zambian Parliament, the struggles of its economy were brought to the fore. Debt service payments was just about 9 per cent of domestic revenues in 2011; this translated into 9n for each Kwacha[17] of revenue collected. However, by 2020, the amount for debt servicing ballooned to 51.7n for every Kwacha of domestic revenue.

The Zambian government is financially constrained to invest in critical infrastructure/sectors such as education and healthcare. This is compounded by a dip in revenues due to fluctuations in global prices of copper, the highest income earner for the country.

Zambia approached the IMF under the Extended Credit Facility arrangement for financing and support in debt restructuring.

[14] Reuters Africa – March 2023.

[15] Zambia Ministerial Statement On The Debt Restructuring Agreement With Official Bilateral Creditors

[16]

[17] Kwacha is the currency of Zambia

PART III:
DEBT TREATMENT

Preamble: As countries face the reality of a debt overhang, they have often resorted to measures to gain financial injection to address balance of payment issues. The World Bank and the IMF even with limits on its lending capacity have offered various forms of debt reliefs and treatments to such distressed countries.

3.1 Debt Relief/Debt Treatments – An Overview

There are many possible means of providing relief through the alteration of the terms of existing debt: the writing-off of loans;

- **The writing-down of amortization obligations**
- **The rescheduling (deferral of amortization obligations)**
- **The lowering of interest payment obligations**
- **The rescheduling (deferral) of interest payment obligations**
- **The shift of repayment obligations to a system which renders them conditional e.g., on some measure of economic performance, e.g., exports, GNP, income terms of trade.**
- **The simplification of debt arrangements through their consolidation.**

The case for writing off or writing down the official debts of these countries' rests on the proposition that immediate debt relief will increase the net transfer of resources to these countries and will improve the quality of assistance. The critics argue that debt relief across board on official debts of low-income developing countries may not necessarily lead to an increase in the overall transfer of resources and may, in fact, result in an unfavourable distribution of assistance among recipient countries.

Of the different types of arrangement (cancellations, moratorium, refinancing and repayment rescheduling), the last one has been most frequently used; it is the easiest for creditors to implement, although its benefits to the debtors are less than some of the other options. Refinancing involves new resources to cover the previously acquired debt. Normally this creates difficulties of an administrative and/or legislative nature in industrial countries, which explain why this method has been so little used[18].

3.2. Intervention by Global Agencies

3.2.1 Heavily Indebted Poor Countries (HIPC)

The rising debt burden and falling aid levels rendered a vast majority of developing countries into stagnation and economic decline. The launch of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 was lauded as a timely intervention for reducing external debt burdens of poor countries to a sustainable level.

The IMF and World Bank modified the initiative into an Enhanced HIPC, in 1999, to provide relief to an increased number of countries. The G8 countries later supported the Enhanced HIPC Initiative with an offer of 100 percent debt cancellation for all HIPC countries. Several countries enjoyed debt reliefs under the HIPC intervention. Ghana opted for the HIPC programme in March 2001, and reached completion point in 2004 during which it received a total of GHS221.10 million.[19].

[18] Miguel et al, 1978

[19] Osei-Fosu A.K. (2008) – The Heavily Indebted Poor Countries Initiative, Fund Micro-Credit and Poverty Reduction in Ghana: A panacea or a mirage?

The Multilateral Debt Relief Initiative (MDRI was adopted by the IMF in 2005 to give debt cancellation on claims of the IMF, International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF).

The Paris Club countries played a crucial role in the support of the HIPC Initiative. The relief provided a 67% reduction in the net present value of commercial debt (See Figure 3). The Paris Club adopted the model known as the 'Common Reduction Factor' where beneficiary HIPC countries are required to engage all their creditors for a comparable treatment. The fear was that the debt relief provided by the Paris Club would not be effective if other creditors refuse to offer similar debt treatments.

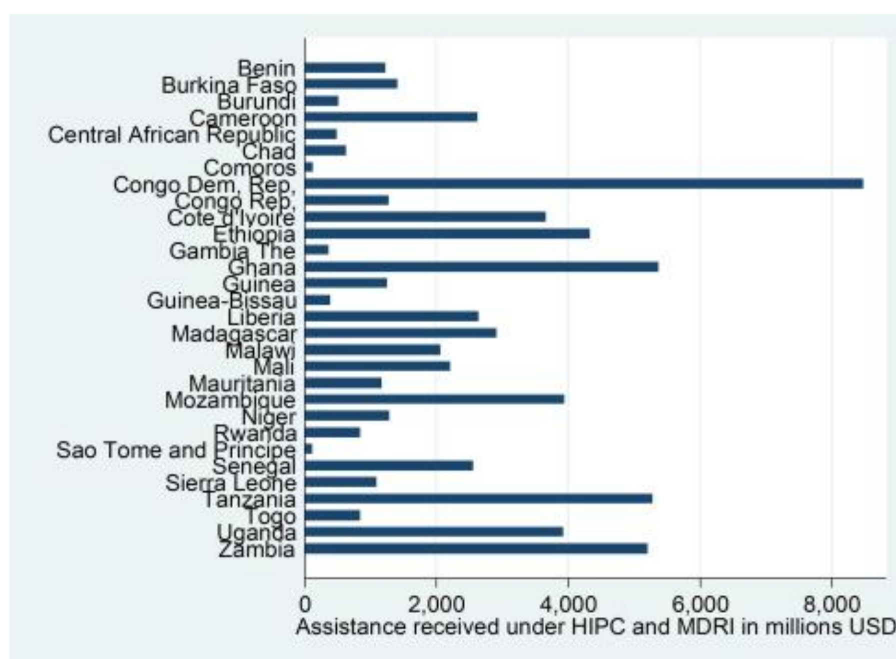


Fig. 3: Sub-Saharan countries received debt reliefs under HIPC and MDRI
Source: Djimeu W.E. (2018)

3.2.2 Debt Service Suspension Initiative

The group of 20 major economies widely known as the G20 took a crucial step towards alleviation of the rising and unsustainable levels of debts of developing countries when it launched the Debt Service Suspension Initiative (DSSI) in May, 2020. The DSSI was created as a response to the ravaging effects of the COVID-19 pandemic whereby countries had to partially and fully lockdown their economic activities for several months. The DSSI delivered $6 billion of relief during 2020 and a further $6.9 billion in 2021, for the 48 countries which signed up. The DSSI implemented and monitored by the IMF and World Bank.

There is a general consensus in the body of literature that the DSSI, notwithstanding its operational challenges, was a timely intervention which provided huge relief to several developing countries. (See Table 4 below). The DSSI was criticized as merely a suspension of debt service for distressed economies, and not a lasting solution to the debt problem.

Countries benefited from DSSI (2022)

Country	Level of external debt distress	Estimated deferred debt ($ millions)
Angola	--	513.8
Cameroon	High	210.3
Central African Republic	High	0.0
Burkina Faso	Moderate	14.0
Chad	High	1.1
Congo DR	Moderate	25.5
Congo	In distress	78.8
Comoros	High	3.1
Cote d'Ivoire	Moderate	131.6
Djibouti	High	0.6
Ethiopia	High	110.6
The Gambia	High	9.7
Guinea	Moderate	38.9
Guinea-Bissau	High	0.0
Kenya	High	0.0
Lesotho	Moderate	2.8
Liberia	Moderate	0.0
Madagascar	Moderate	1.9
Malawi	In distress	0.0
Mali	Moderate	12.6
Mauritania	Moderate	121.3
Mozambique	In distress	22.3
Niger	Moderate	14.2
Papua New Guinea	High	6.7
Senegal	Moderate	45.6
Serra Leone	High	4.1
Tanzania	Moderate	15.4
Togo	High	22.0
Uganda	Moderate	0.0
Zambia	In distress	168.4
Samoa	High	8.7
Tonga	High	3.0

Source: World Bank Debtor Reporting System (2022). Table 4

It is worth emphasizing that the deferred debt servicing enjoyed by countries under the DSSI provided a fiscal space and a temporary easing to redirect funds into programmes to offset the solvency and liquidity challenges occasioned by the COVID – 19 pandemic.

3.2.3. G20 Common Framework

The G20, at its Extraordinary Meeting of Finance Ministers and Central Bank Governors, in November 2020, undertook a review of the DSSI programme. The Meeting realized that short-term measures were not effective enough to address rising debts, and consequently established the Common Framework for Debt Treatment (beyond the DSSI). This programme was endorsed by the Paris Club.

More importantly, the Common Framework (CF) identified that debt vulnerabilities will require a case-by-case approach with broad participation of private lenders and bilateral creditors. Under the CF, a debtor country signs an MOU with participating creditors and will be required to request similar debt treatment from other bilateral creditors as the one agreed in the MOU. The MOU will be a legally non-binding document and creditors will work closely on information sharing and enhancing implementation[20].

In other words, enrollment on the CF is not automatic. A country facing debt issues would need to establish co-operation with all its primary creditors and stakeholders, in order to initiate the process of restructuring of debt or debt treatment. This approach engenders trust and reduces suspicion of some creditors settling for more lucrative terms at the blind side of another.

[20] G20 Saudi Arabia Summit, Extraordinary Meeting of Finance Ministers and Central Bank Governors

PART IV:

POSITION STATEMENT –

A Global Debt Initiative

Official Creditor Committee

The G20 Common Framework requires that all official bilateral creditors, G20 and Paris Club creditors with claims on the debtor country, would need to enter engagement and jointly finalize the key parameters for a debt treatment. Hence, this has seen the creation of what is known as "Official Creditor Committee" (OCC) as part of efforts for a fair burden sharing among all official bilateral creditors, and debt treatment by private creditors at least as favourable as that provided by official bilateral creditors.

The Ghana International Trade and Finance Conference - GITFiC observes that debtor countries have had to hold several meetings and technical workshops to constitute the OCC. This has dragged the debt treatment which ought to be dispensed urgently to financially distressed countries. The IMF and World Bank would need to develop a framework for negotiating within definitive timelines to give predictability to the debtor countries and their negotiating partners.

Private Creditors, Non-Paris Club Countries

The Ghana International Trade and Finance Conference - GITFiC appreciates the levels of negotiations between OECD countries and countries facing balance of payment challenges in the 1950s and 1960s which culminated in the creation of the Paris Club[21]. Over the years, the Paris Club has offered huge financing to developing countries facing liquidity challenges and has been complementing the role played by the IMF as a quasi-lender of last resort.

Financial watchers have pointed to the fact that non-Paris Club countries such as China and private creditors have emerged as the biggest lenders to developing countries (especially in Sub-Saharan Africa). The Ghana International Trade and Finance Conference - GITFiC welcomes the ongoing enhanced engagements between representatives of Paris Club.

Green Loans and Bonds

The reality of climatic change is on us all. The UN Sustainable Development Goals (SDGs) have been strategically geared towards counteracting the effects of climate, welfare etc for a shared prosperity for the world. There are climate advocacy groups which have floated the vision of attaining economic transformation through a decarbonization of the transport and industrial sectors by the use of green, renewable and highly efficient technologies and systems. The World Bank[22] reports that countries can access the green bond and green loan schemes on the International Capital Market. The conditions specify that such facility should be wholly used for green eligible activities. It further highlights that as of 2021, developing countries accounted for just $1.6billion of the about $33 billion in outstanding green loans. In other words, this means that there is a low participation rate of developing countries in accessing green loans.

The Ghana International Trade and Finance Conference - GITFiC proposes that a framework be developed to have more developing countries and LDCs enrolled onto the scheme of green loans and bonds. This call synchronizes with the Nairobi Declaration of 2023 made by African Heads of State and Government at African Climate Summit from the 4th to 6th September 2023. The Nairobi Declaration saw

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[21] Benu Schneider -

[22] World Bank, 2021 Featured Story: What you need to know about Green Loans; https://www.worldbank.org/en/news/feature/2021/10/04/what-you-need-to-know-about-green-loans

the participation of intergovernmental organizations, private sector, civil society organizations, and brought to fore the proportional relationship between climate change risks and rising debt of African countries. African Leaders identified climate change as the single greatest challenge facing humanity, while lamenting that African economies are not historically responsible for global warming, and yet bears the greater brunt of its adverse effects.

The Nairobi Declaration[23] in effect proposed, inter alia:
Measures to improve debt management, including:
a) the inclusion of 'debt pause clauses', and
b) the proposed expert review of the Common Framework and the Debt Sustainability Analysis
c) New debt relief interventions and instruments to pre-empt debt default – with the ability to extend sovereign debt tenor and include a 10-year grace period.

Diagnostic Report on Governance and Corruption

The overarching objective of the IMF Framework on Enhanced Fund Management on Governance adopted in 2018, is to help member countries address issues of corruption and governance. Consequently, in accessing various debt treatment facilities, the IMF prepares a Diagnostic Report on Governance and Corruption as a means of identifying areas of weak expenditure controls and financial malfeasance which may contribute to rising debt levels.

The Ghana International Trade and Finance Conference - GITFIC believes that the targets of reducing corruption, money-laundering, would be more effectively addressed when such activities are brought into the limelight of transparency. Thus, such Diagnostic Reports on economies of developing countries and LDCs, particularly those with weak institutional structures, should be widely circulated and discussed with civil societies, private agencies, anti-corruption bodies who would act as watchdogs on government financial activities.

The Diagnostic Report should be widely circularized and discussed with civil society, private agencies, corruption watchdogs, to ensure transparency on government activities and reduce reckless borrowing which often leads to unsustainable debt levels.

Enhanced Monitoring on Social Impact

Although mindful of the fact that the World Bank/IMF cannot act outside the underlying provisions for which it was created. Nonetheless, as global bodies with clout in the financial ecosystem, it is incumbent that debt treatments are not limited to financial considerations, but ought to put a spotlight on social welfare.

The Ghana International Trade and Finance Conference - GITFIC posits that a grant of a debt treatment should be strictly tailored to have a debtor country demonstrate plans on expanding its social safety net to cushion persons who have fallen below national poverty line. This approach would boost efforts for addressing the real income decline of vulnerable households in developing and least-developing countries.

[23] The African Leaders Nairobi Declaration On Climate Change And Call To Action; https://www.afdb.org/sites/default/files/2023/09/08/the_african_leaders_nairobi_declaration_on_climate_change-rev-eng.pdf

Standstill clauses & Collective Treatment

Debt reliefs granted under the aegis of the G20 Common Framework emphasize that each debtor country seek comparable treatment from other creditors. The Ghana International Trade and Finance Conference - GITFIC is of the view that such requirement is challenging. It is proposed that developing countries and LDCs who face similar challenges of debt distress are given collective treatment in negotiations as they usually have common economic characteristics and challenges. At the multilateral level of trading at the WTO, treatments are offered to African, Caribbean and Pacific countries, concurrently.

Furthermore, it is proposed that the IMF and multilateral creditors consider the adoption of standstill clauses in debt agreements. These standstill clauses could clearly define the parameters for which a debtor could trigger a request for 'suspension of payment' within the standstill framework.

Recommendations

Share of Developing Countries and LDCs in World Trade

As of 2022, developing countries accounted for approximately 45% of global merchandise exports and about 42% of global merchandise imports, showing significant growth from around 32% in 2000. Least Developed Countries (LDCs) held a much smaller share, contributing about 1.1% to global merchandise exports and around 1.4% to global imports in 2022. This represents a modest increase from approximately 0.6% in 2000, indicating some progress in integrating these economies into global trade.

Dynamics of the Terms of Trade

The terms of trade (ToT) for developing countries have experienced volatility, especially between 2010 and 2020, due to commodity price cycles and global economic shifts. Recently, from 2021 to 2022, countries dependent on energy exports benefited from higher oil prices, while those reliant on imported energy faced worsening terms of trade. For LDCs, the ToT generally deteriorated over the past decades due to heavy reliance on primary commodities with volatile prices. Increased prices for essential imports like food and fuel further strained their terms of trade in the recent period.

Implications for Trade and Economic Development

Addressing the dynamics of the terms of trade is crucial for achieving sustainable economic growth and development. Developing countries and LDCs are focusing on diversifying their export bases to reduce vulnerability to commodity price fluctuations. Enhanced market access through trade agreements and participation in global value chains are also vital strategies. Improving the terms of trade aligns with the Sustainable Development Goals (SDGs), particularly those related to economic growth, industry innovation, and reducing inequalities, highlighting the importance of integrated global efforts to support these economies.

Conclusion

Our position paper clearly shows with evidence that our call is justifiable, doable, and achievable to say the least. In critical and crucial global economic downturns like such period we find ourselves now, our call for a Global Debt Initiative is in the right direction.

Luckily, there are practical solutions of how the Volcker Recession, the Great Depression and Great Recession was controlled and resolved. The Debt Service Suspension Initiative (DSSI) by the G20 economies, though brought some reliefs, it came as short-term measure hence was un-impactful.

Distressed economies especially in Africa, faces eminent total economic shutdown largely as a result of the Covid-19 pandemic, the Russia-Ukraine war and currently, the ongoing Israel-Hamas war in the middle east. The fear of Arab nations cutting down on oil production in solidarity for Palestine is a likely occurrence.

By calling for a **Global Debt Initiative**, we are asking creditors to resort to the era of the Enhanced HIPC, the approach used in the era of the Volcker Recession, Great Depression, Great Recession and wipe the sheet clean for debtor nations. This is the fastest respite of relieving the debt suffocation of governments, especially Africa and the global south. The consequences of refusing to wipe the sheet clean for debtors now, will deepen the woes of least-developed countries and will create far reaching global catastrophic implications and chaos. Creditor nations, organizations and institutions will not be spared should this get out of hand. It is in the world's collective interest that, global sustainable measures be outlined and implemented immediately to avoid the looming catastrophe. We call on Africa and the world to adopt our call for a **GLOBAL DEBT INITIATIVE** and open discussions to achieve a total debt cancellation to bring long term relief to economies of least developed and developing nations.

The Ghana International Trade and Finance Conference – GITFiC, will constitute a team to approach creditors both bilateral and multilateral, private and government to make clear them the need for our call and seek their understanding and compliance. We will then offer debtor nations in Africa and the global south a voluntary opportunity to sign on to our Global Debt Initiative and will be treated on case by case. Debtor nations on our Global Debt Initiative will be show amongst other things, their willingness to open up, provide a clear roadmap for debt management, sustainability, prospects for economic growth and sign an MOU laying down a pragmatic program of not going back to debt of such magnitude. We believe that creditors appreciate the dying consequences of such debt situations and will therefore not hesitate to listen, accept, and comply with our position aimed at shared global prosperity with strict focus on Africa and the global south.