

# Reforms for Special Drawing Rights (SDRs) Financing in Ghana's Economic Recovery

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# Reforms for Special Drawing Rights (SDRs) Financing in Ghana's Economic Recovery

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## List of abbreviations and acronyms

AMA	Africa Media Agency
BoG	Bank of Ghana
COVID-19	Corona Virus Disease 2019
DDEP	Domestic Debt Exchange Programme
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDR	External Debt Restructuring
ESLA	Energy Sector Levy Act
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GRA	General Resources Account
GSS	Ghana Statistical Service
IMF	International Monetary Fund
MoFEP	Ministry of Finance and Economic Planning
PC-PEG	Post COVID-19 Programme for Economic Growth
PRGT	Poverty Reduction and Growth Trust
PV	Present Value
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RST	Resilience and Sustainability Trust
SAF	Structural Adjustment Facility
SCF	Stand-by Credit Facility
SDRs	Special Drawing Rights
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
WDI	World Development Indicators

# Abstract

On 2 August 2021, the International Monetary Fund announced the largest (in its history) allocation of Special Drawing Rights (SDRs) worth US\$650 billion (€550 billion), which was approved with effect from 23 August 2021. A large proportion of the total allocation went to developed economies because they hold much higher quotas, although the levels of SDR utilisation by these countries have been historically very low, compared to developing countries like Ghana. The important question is: in what ways could Ghana benefit from SDRs beyond its allocation? How can the unused SDRs allocations be rechannelled to support developing countries' public finances and help their recovery from recurrent global multiple shocks? To help address these questions, this case study on Ghana sought to: (1) Comprehensively explore the state of Ghana's public sector finance and how it has been affected by the triple crisis (COVID-19 pandemic, rising external debts, and Russia-Ukraine war); (2) Explore the evolution of Ghana's external balance position and its vulnerabilities in the context of local constraints and external shocks; and (3) Explore the opportunities for using SDR facilities to support public financial management, improve external balance position, and as a vehicle to promote stable economic growth and development in Ghana. The study points to several structural constraints, both local and external, to prudent fiscal management, and underscores the need for reforming SDR regime to provide an alternative and sustainable financing framework for Ghana and similar developing countries. Several recommendations are also provided to address the challenges of public financial management, including low domestic revenue mobilisation and inefficiencies in public spending.

# 1. Introduction

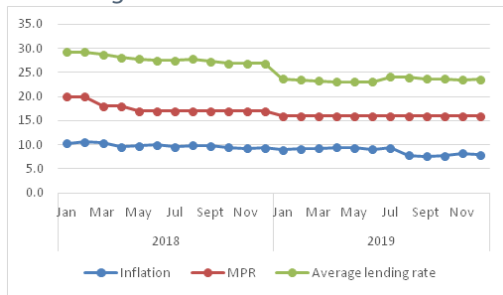
Ghana's pre-pandemic macroeconomic environment was relatively stable, having been under the International Monetary Fund's programme between 2015 and 2019. Inflation rates were largely contained within the Bank of Ghana (BoG)'s medium-term targeted band of  $8\pm 2\%$  (albeit with some minimal variations). With inflation under control, the monetary policy rate, which is the central bank's main tool for price stabilisation was generally low, averaging about 16% between 2018 and 2019. The volatilities in the local currency (Ghana cedi) to the major foreign currencies (i.e., dollar, pound, euro, and yen) were also largely stable, with the cedi appreciating occasionally (see Figure 1 [a-c]). The domestic primary balance recorded surpluses in 2018 and 2019. Unfortunately, these gains were short-lived, as month-on-month analysis of the macroeconomic indicators shows some evidence of fiscal slippages towards the end of 2019. These were aggravated by the repercussions from the COVID-19 pandemic, as both domestic and global economic activities slowed down unprecedentedly.

The structural weaknesses in the country's fiscal management were further exposed, as domestic revenue mobilisation could not match up the excessive government expenditures, compelling the government to resort to intensified borrowing. Between 2020 and 2022, in particular, government's fiscal operations were characterised by high expenditure that far exceeded revenue generation, resulting in rising deficits in the domestic primary balance. The rising deficits during the period were predominantly financed by Eurobond proceeds, IMF's Special Drawing Rights (SDRs) allocation, and domestic borrowing (Bank of Ghana, 2021), leading to rising total public debts. The debt structure shows an increasing share of external debt, which rose from 48.6% (2020) to 55.3% (2022). Specifically, external debt increased from GH¢141,796.83 million (2020) to GH¢271,713.71 million (2022). The economy was subsequently shut to the Eurobond market, which partly contributed to momentous depreciations of the local currency during the last two quarters of 2022. Credit rating agencies such as Fitch and Moody's downgraded Ghana, which meant the Ghanaian economy was judged riskier in terms of doing business. The high and rising public debt necessitated measures that would help the country realise substantial primary surplus to be able to service its debt.

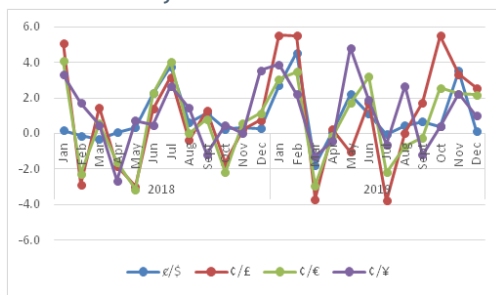
This was corroborated by the Bank of Ghana in its report, which indicated the country's need for some new measures and expenditure rationalisation efforts within the context of the medium-term fiscal framework to enable public debt to return to a sustainable path (Bank of Ghana, 2021). Subsequently, there were calls for the country to seek bilateral or multilateral support such as an IMF bailout. The continual worsening of Ghana's economic conditions, which pointed to a potential crush of the economy, compelled the government to seek assistance from the IMF by requesting for a US\$3 billion three-year extended credit facility. A fundamental condition for securing the IMF's bailout was debt restructuring, of which the domestic component was successfully implemented early 2023.

Figure 1: Selected macroeconomic indicators – pre-COVID-19 period (2018-2019)

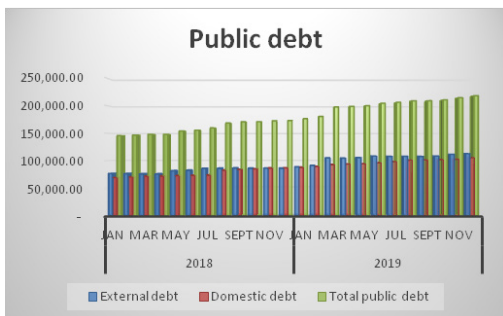
a. Inflation, policy rate and average lending rate



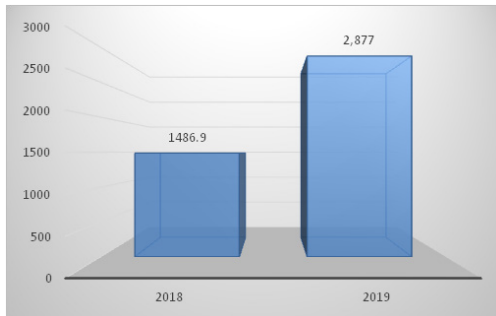
b. Exchange rate changes of the Ghana cedi to major forex



c. Public debt (GH¢ million)



d. Domestic primary balance (GH¢ million)



Source: Compiled from the Ministry of Finance and Economic Planning (MoFEP), Bank of Ghana, and Ghana Statistical Service.

Meanwhile, on 2 August 2021, the International Monetary Fund (IMF) announced the largest (in its history) allocation of SDRs worth US\$650 billion (€550 billion), which was approved with effect from 23 August 2021; of which US\$275 billion (42.3%) was earmarked for emerging markets and developing countries, including low-income nations.<sup>1</sup> This, according to the Fund, was expected to boost global liquidity and assist members of the Fund to address the long-term global need for reserves. Given that SDR allocations are made proportional to member countries' IMF quotas, Ghana

received about SDR 707 million (US\$1 billion) as its share of the allocation (Bank of Ghana, 2021). Although a large proportion of the total allocation went to developed economies because they hold much higher quotas, the levels of SDR utilisation by these countries have been historically very low, compared to developing countries like Ghana. The important question is: in what ways could Ghana benefit from SDRs beyond its allocation? How can the unused SDRs allocations be rechannelled to support developing countries' public finances and help their recovery from recurrent global shocks?

Commissioned by the African Economic Research Consortium (AERC), this case study on Ghana is informed by the question of whether and how SDR could contribute to addressing economic and development challenges in Africa in the face of recurrent global economic shocks. The study is guided by three specific research objectives: (1) To comprehensively explore the state of Ghana's public sector finance and how it has been affected by recurrent shocks, including the recent COVID-19 pandemic and Russia-Ukraine war; (2) To explore the evolution of Ghana's external balance position and its vulnerabilities in the context of local constraints and external shocks; and (3) To explore the opportunities for using SDR facilities to support public financial management, improve external balance position, and as a vehicle to promote stable economic growth and development in Ghana.

In terms of the methodology, the study mainly relies on secondary data. The secondary (time series) data include details on multiples of indicators on Ghana's public finance, external balance, and SDR allocations. A critical review of the secondary data collected is carried out and the analysis is done using descriptive statistical techniques. The major sources of secondary data include: Bank of Ghana, Ghana's Ministry of Finance, Ghana Statistical Service, IMF, and World Bank's World Development Indicators. The research process also involved an initial stakeholder engagement workshop, which was used as a forum to garner insights from diverse participants to shape the objectives of the study, and as an avenue to deepen our understanding of initial impressions from the secondary data.

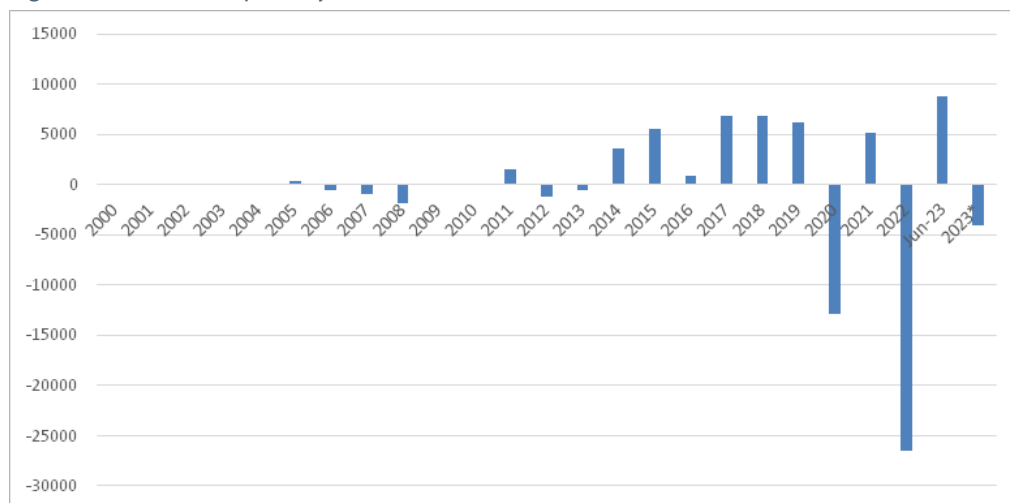
The rest of the study is organised as follows: the next main section provides trend analysis in domestic primary balance, profile and composition of public debts, the burden of debt, and some discussions related to debt-investment-growth nexus, debt reprofiling and sustainability, and recent development on debt management and fiscal discipline. This is followed by a trend analysis and discussions on Ghana's external balance. The subsequent section looks at SDR allocations and other related issues, which guide the policy recommendations made in the final section.

## 2. State of public finance in the face of multiple and recurrent shocks

### Trends in primary balance of government, including projections

Primary balance is a key determinant of changes in the government's level of debt stock. From Figure 2, it can be observed that the government operated with a surplus domestic primary balance for most periods prior to the emergence of the COVID-19 pandemic. Unfortunately, the pandemic ruined the fiscal consolidation efforts made by the government. The rapid increment in government spending against inability to raise enough revenue that characterised the period of the pandemic, and the aftermath, implied a constraint on government to raise sufficient primary surplus to restrain accumulation of debts. The result is a deficit in primary balance as shown in Figure 2. The government planned in 2022 to achieve an annual positive primary balance by the close of 2024 by pursuing revenue-led consolidation and discipline in spending (MoEP, 2023). Yet, the primary balance in 2022 recorded a deficit of GH¢26,510 million (4.3% of GDP) relative to the targeted GH¢16,920 million (2.7% of GDP). In fact, the deficit recorded in 2022 was more than five times the deficit (GH¢ 5,094 million) recorded in 2021.

Figure 2: Domestic primary balance (in GH¢ million)



Note: \*The figure for 2023 is end-period projected value.

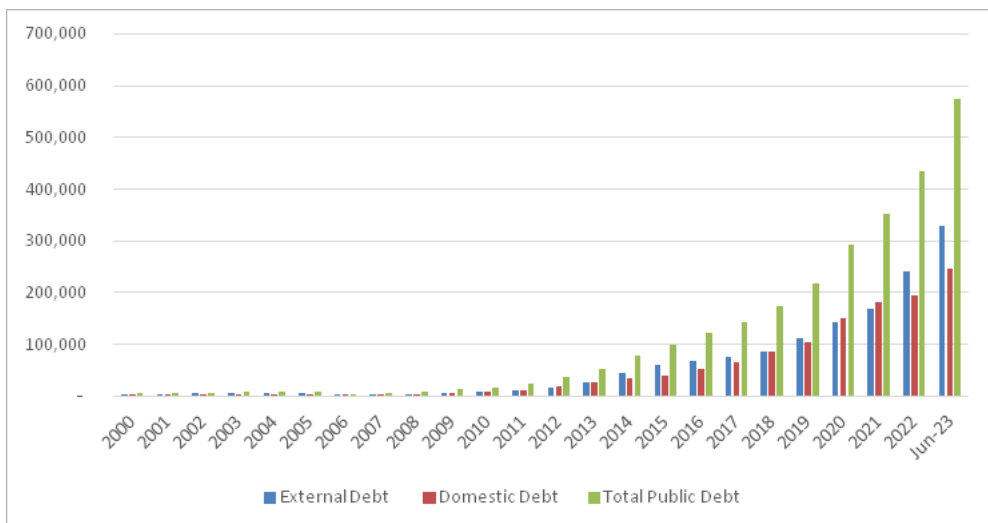
Source: Bank of Ghana.

The provisional data for the first half of 2023 show relatively slower pace in spending by the government, which resulted in a surplus primary balance of GH¢8,842 million (1.1% of GDP). This is more than what was targeted (GH¢310 million, i.e., 0.04% of GDP) at the beginning of the year. Arguably, it was influenced by the government's commitment to the IMF programme as the first review by the Fund approached. A surplus primary balance of GH¢4,085 million (0.5% of GDP) was targeted for 2023 end-period.<sup>2</sup>

## Trends in public and private debt, including projections

Historically, Ghana has relied heavily on debt (both external loans and domestic borrowing) and aid to finance infrastructure and other national programmes targeted at economic development. However, the public debt profile has been on the ascendency, particularly in the last decade, reaching worrying levels (see Figure 3). Between 2012 and 2022, gross public debt has grown by almost 1,500% (from GH¢35,999.65 million (2012) to GH¢435,306.45 million (2022)). Over the period, the share of external debt has been rising with an average share of about 52%, i.e., ranging from 48% (2012) to 60% (2015). Although there was a consistent decline in the share of external debt in 2020 and 2021, it increased quite substantially. Provisional data for the first half of 2023 also show an increased share of external debt (57%). Both external and domestic debts have the potential to destabilise the economy if they rise beyond certain levels. That is, rising domestic debt may crowd out private sector borrowing and hence investment through high interest rate, which affect the economy negatively. On the other hand, rising external debt may destabilise the economy through exchange rate volatilities, and for a relatively small open economy like Ghana which is largely import dependent, exchange rate volatilities may further generate inflationary pressures with repercussions on living standards.

Figure 3: Trend and composition of public debt stock (GH¢ million)



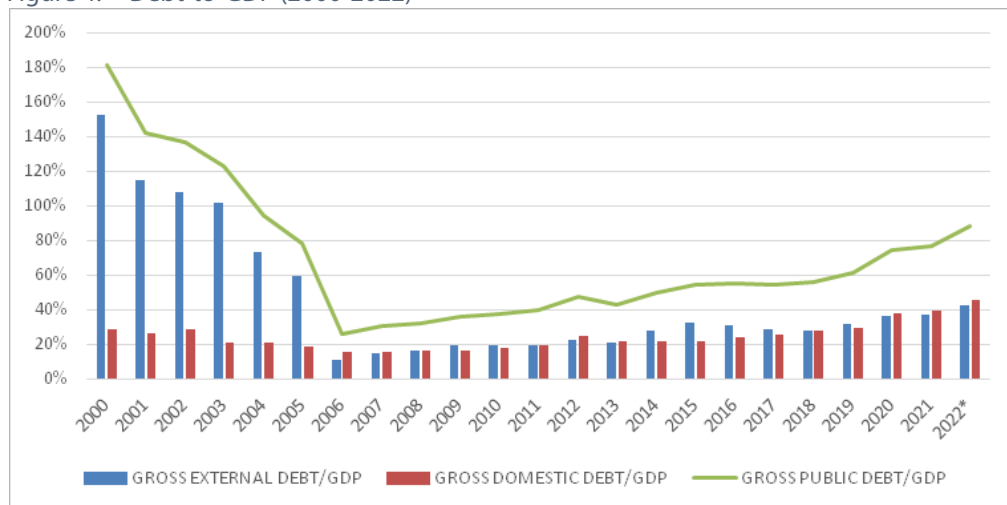
Source: Compiled from MoFEP.

Debt repayment arguably comes with some constraints on a debtor country's growth potentials, given that resources must be transferred to other countries. The burden of debt is measured using varying indicators such as ratio of total debt service-to-exports of goods and services; interest payments-to-exports of goods and services; debt outstanding and disbursed-to-GNP; total debt service-to-GNP; interest payments-to-GNP; total external debt-to-exports of goods and services; and total external debt-to-GNP (Osei, 1995; Quartey, 2005). Basically, the higher the value of any of these indicators, the greater is the debt burden. In this study, we use four of the measures, i.e., debt-to-GDP, debt-to-revenue, debt-to-exports, and debt service-to-exports.

### Debt-to-GDP ratio

In Figure 4, we present the burden of debt, which is measured by the total debt-to-GDP ratio. In general, this has been rising since 2006, in the quest to bridge gaps in development financing to, among other things, achieve the sustainable development goals set for 2030. In 2019 when Ghana exited the 17th IMF programme, the debt-to-GDP was about 61%. Although about five percentage points higher relative to the preceding year's figure, it was within the prudential upper limit of 65% of GDP. However, the last three years have seen massive increments in the debt burden, which, undoubtedly, have been partly driven by the repercussions from the COVID-19 pandemic and Russia-Ukraine war. The fact is that the trend in Ghana's debt burden prior to the peak of the pandemic in 2020 shows that although the economy was affected by these exogenous shocks, the shocks only exposed the country's structural weaknesses, particularly in the fiscal policy domain, which is characterised by excessive spending.

Figure 4: Debt-to-GDP (2000-2022)



Note: \*The figures for 2022 are estimated values.  
 Source: Compiled from MoFEP debt database.

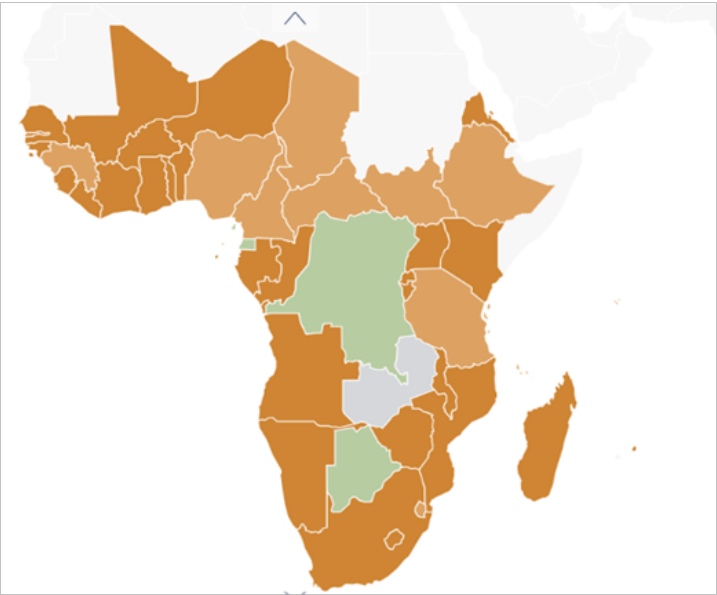
By 2021, Ghana's debt burden had risen beyond the prudential upper limit to about 77% of GDP, which was also higher than the IMF's recommended maximum debt-to-GDP ratio of 70%. This figure indeed represented the highest in the last decade. In 2022, even though the debt burden declined, this was only marginal. The provisional data for the first half of 2023 indicates an increase to 71.8%. In sub-Saharan Africa (SSA), Ghana is one of the countries with very high debt burden (Figure 5a), and compared with the other case study countries (i.e., Ethiopia, Kenya, and Senegal), Ghana's debt burden is projected to be higher (see Figure 5b).

## Debt-to-revenue ratio

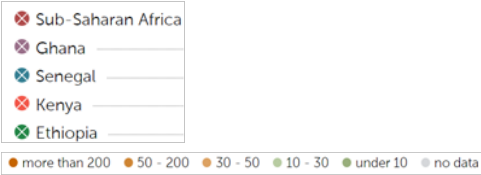
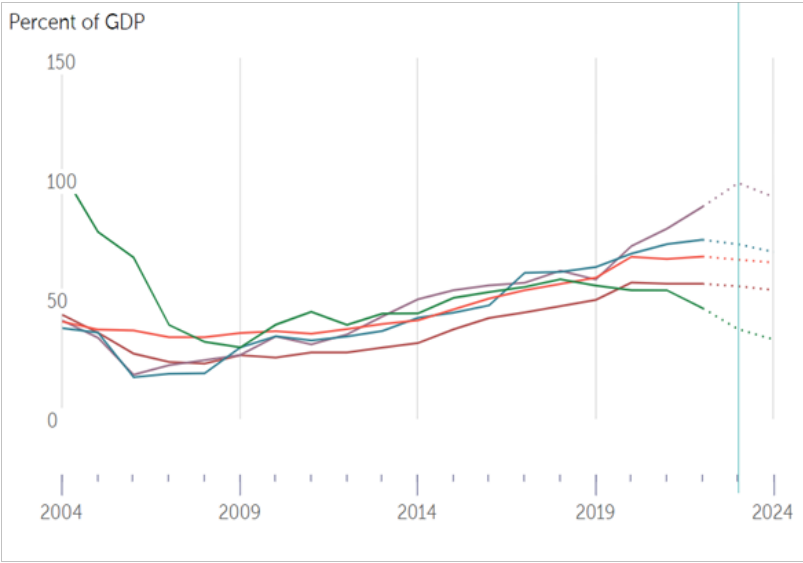
The burden of debt is fully appreciated when related to the revenue position of the debtor. Therefore, in Figure 6, we present the liquidity position for public debt, measured by debt-to-revenue ratio. Revenue here is total revenue, which includes grants. Generally, the Ghanaian economy has been characterised by weakening liquidity position as the debt-to-revenue ratio has been rising since 2006, growing by about 11% yearly (between 2006 and June 2023). In fact, the average debt-to-revenue indicates total debts to be nearly four times total revenue. Another noticeable trend is the rapid growth in the debt-to-revenue ratio in the period prior to 2015 and between 2019 and 2020. Unlike the period prior to 2015, the COVID-19 pandemic support expenditure programmes by the government, together with revenue compression resulting from the pandemic-related restrictions that led to a decline in economic activities, partly explain the sharp rise in the debt-to-revenue ratio in 2020. Unsurprisingly, the year 2020 recorded the highest growth (29.4%) in the debt-to-revenue ratio, but this has been followed by consistent declines in 2021 and 2022. However, the country's strong liquidity position was between 2015 and 2019; where it was under the IMF programme (see Figure 6).

Figure 5: Trends in key debt indicators in Ghana and SSA

a. Debt-to-GDP (%) in SSA

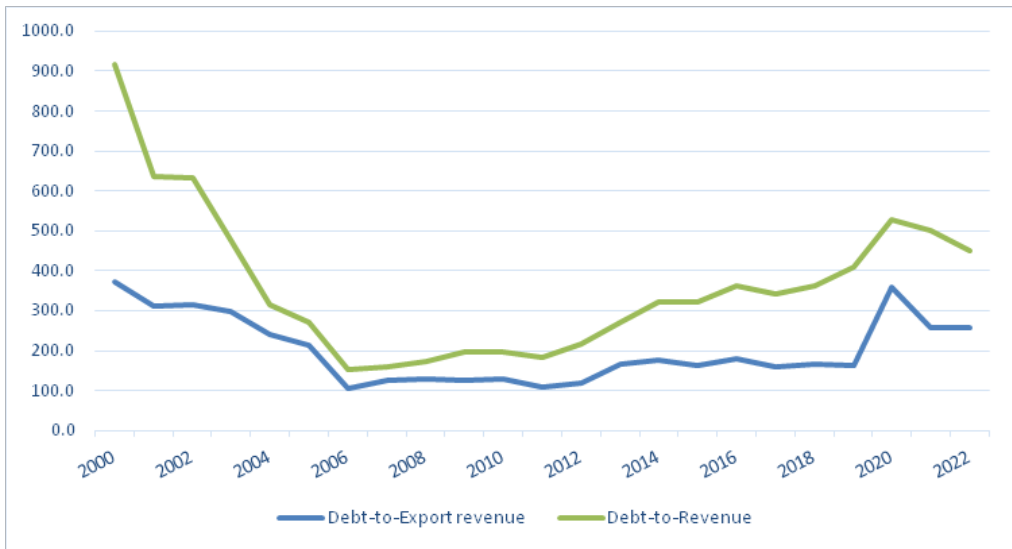


b. Comparison in trends in Debt-to-GDP (%) in selected African countries



Source: IMF [https://www.imf.org/external/datamapper/GGXWDG\\_GDP@AFRREO/SSA/GHA/SEN/KEN/ETH](https://www.imf.org/external/datamapper/GGXWDG_GDP@AFRREO/SSA/GHA/SEN/KEN/ETH) Accessed on 18 August 2023.

Figure 6: Liquidity and solvency position (2000-2022)



Source: Compiled from the Ministry of Finance and Economic Planning, Bank of Ghana, and World Development Indicators (WDI). Export revenues were sourced from WDI, total debt values were from MoFEP, and total revenues (including grants) were from the Bank of Ghana.

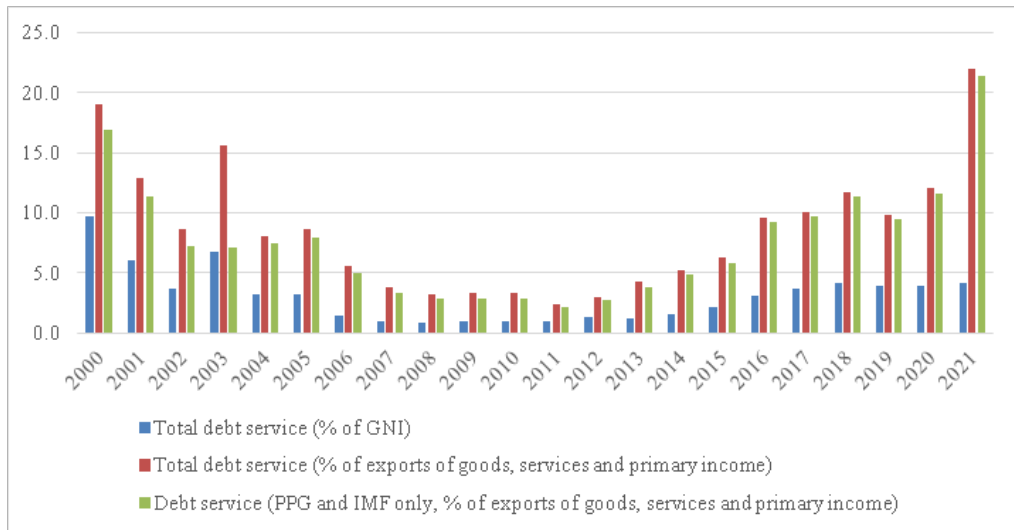
## Debt-to-export ratio

Unlike the liquidity position, the trend in Ghana's solvency position for external public debt, measured by debt-to-export revenue ratio, was largely stable prior to 2020, albeit with some marginal rise and fall intermittently. From Figure 6, the major shock characterised by a sharp rise was in 2020, where the debt-to-export revenue ratio more than doubled (from 163.4 (2019) to 256.2 (2020)). Again, this was largely a repercussion of the COVID-19 pandemic as the restrictions affected export of goods and services.

## Debt service-to-exports ratio and Debt service-to-GDP

The trend in debt service-to-exports and debt service-to-GDP are crucial in assessing the debt burden. An increase in the accumulation of debts implies rising amount of resources required to service the debts, and this has been the general picture for Ghana (since 2011), where there has been a steady increase in the share of debt service relative to exports and GDP. Spending an increasing share of the economy's revenues, whether from exports or national income, on servicing debt, means declining shares available for spending or even for investment purposes, which may further induce governments to borrow more. Such an economy risks experiencing debt overhang where the future debt may outweigh the country's repayment ability. Not surprising, Figure 7 shows consistent increase (except 2019) in the debt-service ratio (relative to exports and gross national income (GNI)). What is even more disturbing is the massive increase in 2021, where total debt service-to-exports nearly doubled.

Figure 7: Debt servicing (%) from 2000-2021



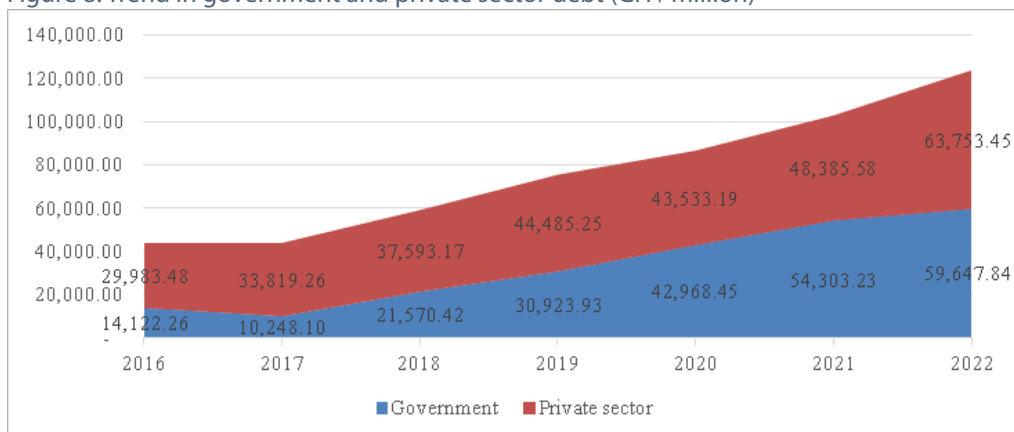
Source: WDI.

## Composition of debt

### Public versus private

Government's domestic borrowing has implication on private sector investment, given that it restricts the amount of resources available to be lent to the private sector. Comparing deposit money banks' claims on government to that of the private sector between 2016 and 2022 reveals a steady rise in claims on government since 2017. Although private sector debt (or claims on the private sector) has generally been rising too, the rate of increase has been at a rather slower pace relative to that of government (Figure 8).

Figure 8: Trend in government and private sector debt (GH¢ million)



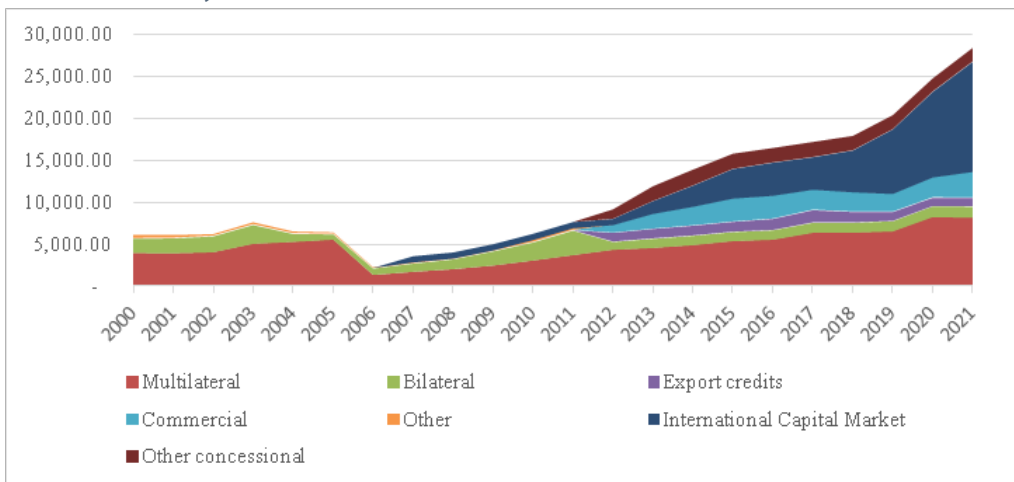
Source: Compiled from BoG Statistical Bulletins.

## Concessional versus commercial

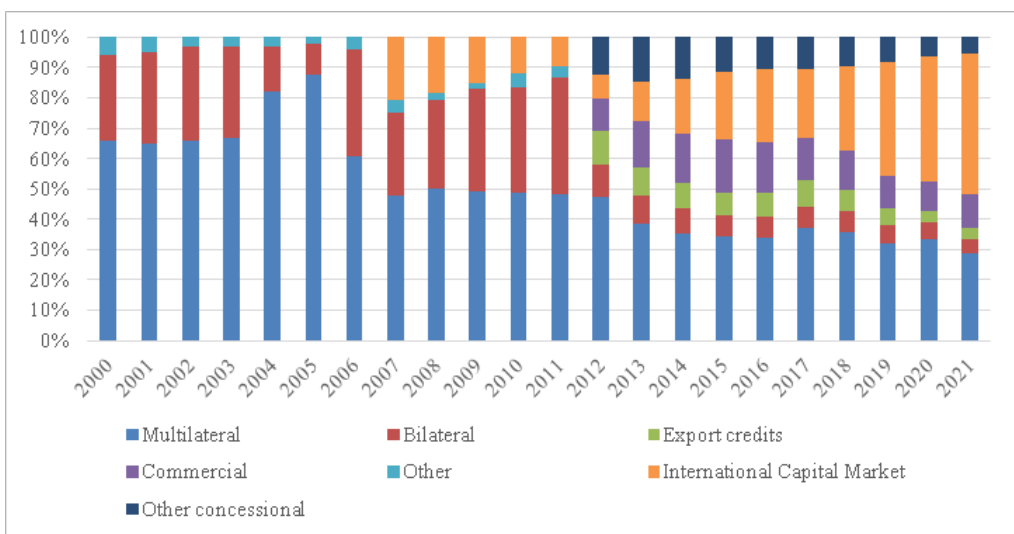
A look at the source of Ghana's external debt indicates that since 2006, there has been an increasing reliance on multilateral organisations, and especially the international capital markets, to raise funds, hence being the major contributors to the rising external debt (Figure 9a). In terms of shares of external debt, the international capital market has recorded a consistent rise since 2012, while the trend in the others (i.e., bilateral, multilateral, commercial, and exports credits) has generally been declining (except in 2017 and 2020) (see Figure 9b).

Figure 9: Source of and trends in external debt

### a. External debt by sources (US\$ million)



### b. Trend in the shares of external debt



Source: Generated from MoFEP debt database.

## Risk rating of sovereign debt

The state of Ghana's public finances has particularly been a major concern post-COVID-19, following the unprecedented increases in the country's debt stock. This has resulted in downgrading by credit rating agencies such as Moody's, Fitch, Standard & Poors, and Analyst, thereby sending negative signals to international investors. In Table 1, we compile Ghana's credit ratings by Moody's, Fitch, and Standard & Poors from January 2020 to February 2023. From Table 1, Ghana's long-term credit rating was largely judged as speculative and high credit risk between 2020 and 2021. Unfortunately, in 2022, the country's credit worthiness deteriorated consistently rendering Ghana's long-term credit being rated as poor quality and very high credit risk, with a possibility of being in default. The most recent debt sustainability analysis by the IMF classified Ghana to be in debt distress.<sup>3</sup>

Table 1: Risk ratings of debt (2020-February 2023)

Agency	Rating	Date
Fitch	RD	Feb 21, 2023
Fitch	C	Dec 21, 2022
Standard & Poors	SD	Dec 20, 2022
Standard & Poors	CC	Dec 06, 2022
Moody's	Ca	Nov 29, 2022
Moody's	Caa2	Sep 30, 2022
Fitch	CC	Sep 23, 2022
Fitch	CCC	Aug 10, 2022
Standard & Poors	CCC+	Aug 05, 2022
Moody's	Caa1	Feb 04, 2022
Fitch	B-	Jan 14, 2022
Fitch	B-	Jun 22, 2021
Standard & Poors	B-	Sep 11, 2020
Standard & Poors	B	Apr 30, 2020
Moody's	B3	Apr 17, 2020
Moody's	B3	Jan 24, 2020

Source: <https://tradingeconomics.com/ghana/rating> Accessed on 18 August 2023.

## Debt, economic growth and investment relationship

The relationship between debt and economic growth is mostly argued using the debt overhang theory, which suggests that debt accumulation beyond a certain threshold can impede economic growth (Krugman, 1988). However, empirical evidence on the relationship between debt and economic growth seems inconclusive. For example, earlier studies by Iyoha (1999) and Fosu (1996) revealed that, in SSA, the accumulation

of external debt adversely affect investment; and on the other hand, the reduction in the amount of debt accumulated enhances investment decisions, and hence the growth of the economy. Also, more recent studies such as Vanlaer et al. (2021) and Guo and McDermott (2020) found the relationship to be negative. However, a positive relationship has been found in other studies (see for example: Rolf, 2005; Diego et al., 2009 [cited in Matuka & Asafo, 2018]; Siddique et al., 2015), while a study by Mabula and Mutasa (2019), which looked at domestic debt and private investment in Tanzania, rather found no statistically significant relationship in both the long run and the short run.

Studies on Ghana have disproportionately focused on external debt, and the findings have also been mixed, with some studies showing a positive relationship while others reveal an inverse relationship. For example, studies such as Mawutor et al. (2019) and Ahinsah-Wobil (2022) found a negative relationship between debt (total, external or domestic) and economic growth in Ghana. The study by Mawutor et al. (2019) specifically found that a percentage increase in government debt reduces investment by 0.65%. On the other hand, economic growth in Ghana has been found to be influenced positively by external debt (e.g., Matuka & Asafo, 2018; Frimpong & Oteng-Abayie, 2006). It is worth noting that, although in Frimpong and Oteng-Abayie (2006) the relationship between debt and economic growth was found to be positive, debt servicing had a negative effect on economic growth, thereby indicating a crowding out effect. Also, a study by Asravor et al. (2023) looked at domestic debt and economic growth using the period 1994–2018 and found that increases in Ghana's domestic debt were growth-enhancing.

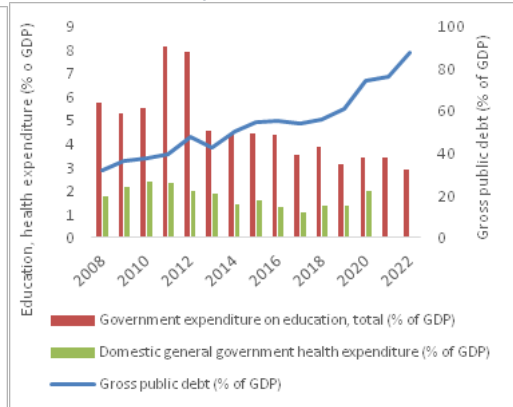
The inconclusive results from the existing literature on the relationship between public debt and economic growth indicate the relationship may be more complex and that many factors may influence it. However, a simple scatter plot between capital expenditure-to-GDP and debt-to-GDP for 2008-2010 period (see Figure 10a) shows a negative relationship, suggesting that an increase in public debt is associated with a decline in capital expenditure. Also, government expenditures on the provision of social services (education and health) or investment in human capital as percentages of GDP have been on a declining trend in a period where debt-to-GDP ratio has risen sharply (see Figure 10b). The most likely reason for these negative relationships is that Ghana's high debt servicing cost, which is a consequence of the unsustainably high and growing public debt, especially with loans from international commercial markets, has restricted the fiscal space for capital expenditure as well as expenditure on education and health service provision. This does not only affect economic growth but has direct implications on welfare and livelihood conditions in Ghana. Indeed, although Ghana has recorded high poverty reduction in the three decades, the rate of poverty reduction has declined substantially in recent years (Ghana Statistical Service [GSS], 2018; Atta-Ankomah & Osei, 2021; Osei et al., 2022; Danso-Mensah et al., 2022; Atta-Ankomah et al., 2023); and this has been made worse by multiple shocks including, climate change, COVID-19 pandemic, and the Russia-Ukraine war (Dumenu & Obeng, 2016; Adzawla et al., 2020; Adu-Ababio et al., 2021; Issahaku & Abu, 2020; Arndt et al., 2022). The current state of affairs highlights the need for less costly alternative sources of financing budget deficits and the need to maximise efficiency in public spending by controlling corruption and reducing waste.

Figure 10: Relationship between capital expenditure and public debt (2008–2022)

a. Scatter plot of capital expenditure and public debt



b. Trends in public debt, health & education expenditure (% of GDP)



Source of data: Ministry of Finance; Bank of Ghana.

Source of data: WDI, Ministry of Finance.

## Reprofiling and/or structuring debts for sustainable debt management – Recent developments in Ghana

Being in debt crisis has both economic and social consequences, with the later manifesting in rising poverty and inequality levels, as overindebted governments have limited fiscal space to provide social goods and services. This means that countries must manage debt in a sustainable manner. Debt reprofiling and debt restructuring are two common approaches for debt management and economic recovery. With debt restructuring, the indebted country initiates a negotiation intended to reduce the overall amount it owes (through haircut on the principal and/or interest) and may include extending the length of the loan/debt. Debt reprofiling is a special type of debt restructuring but involves extending the time for repayment through refinancing or renegotiation with creditors without necessarily affecting the value of the debt. It is worth noting that once a country is in debt crisis, it has limited options available for dealing with the challenge, and in most cases, debt restructuring becomes an obvious alternative.

In Ghana's case, as part of measures to restore the economy to a sustained growth path, the government prepared a post- COVID-19 Programme for Economic Growth (PC-PEG), and the main objectives of the programme were to, inter alia, restore fiscal and debt sustainability, improve the country's credit ratings, and restore investor confidence. In line with steps to achieve these objectives, the Government of Ghana initiated a negotiation with the IMF for a US\$3 billion programme (MoFEP, 2022). Upon reaching an IMF Staff Level Agreement, a debt management strategy was instituted, which comprises domestic and external debt restructuring programme aimed at bringing the country to a sustainable debt path. Specifically, the aim of

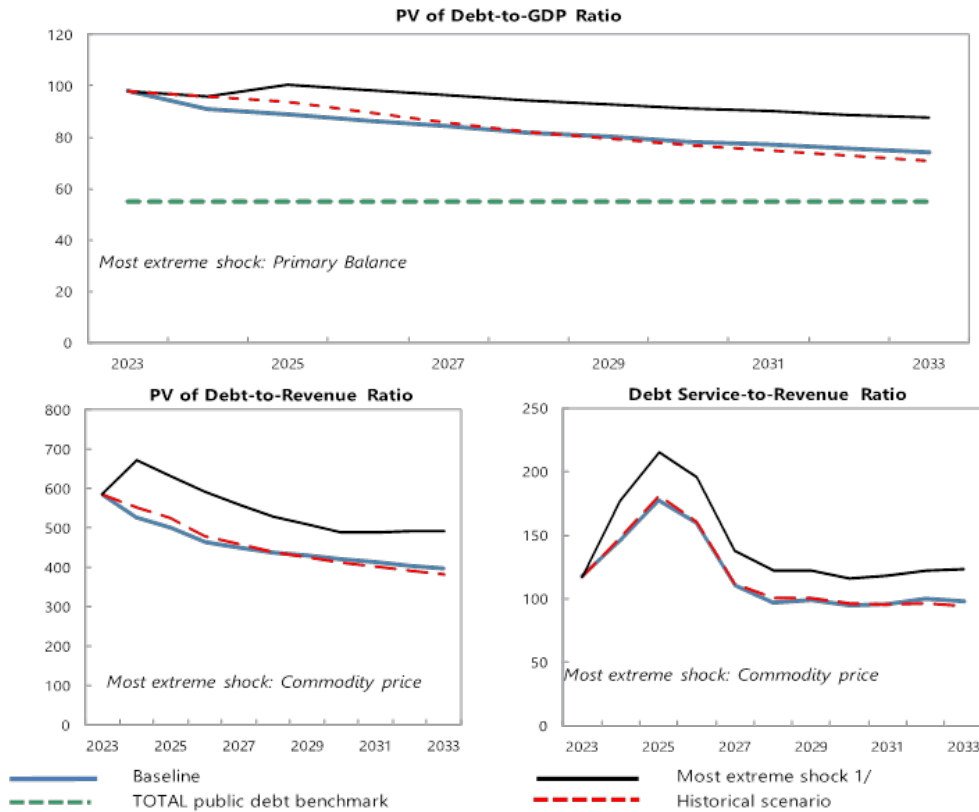
Ghana's debt restructuring is to “restore a moderate risk debt distress” in a way that the ratios of external debt service to revenues and exports are below their 18% and 15% thresholds, respectively”; and the “ratios of the present value of overall and external debts to GDP to below 55% and 40% thresholds, respectively” (IMF, 2023: 17).

On 5 December 2022, the domestic debt exchange programme (DDEP), which was a voluntary exchange of about GH¢137 billion of domestic notes and bonds of the Republic was launched by the Government of Ghana.<sup>4</sup> The DDEP targeted all bond holders<sup>5</sup> (excluding holders of Treasury bills), for a package of new bonds to be issued by the Republic. The DDEP was initially met with strong opposition by the bond holders. However, with series of engagements with stakeholders, some level of agreement was achieved, and about 85% of eligible bondholders had signed up for the programme by 10 February 2023, when the government officially closed the DDEP (MoFEP, 2022).

Exactly two weeks after the launch of the DDEP, the government announced an external debt restructuring (EDR) for all categories of external creditors apart from multilateral institutions, but this is yet to be carried out. The EDR targets external debt relief of US\$10.5 billion (out of nearly US\$30 billion) during the IMF programme period (2023-2026). In the case of bilateral creditors, the government requested for a debt treatment initiative under the G20 Common Framework (MoFEP, 2022), and on 12 May 2023, a creditor committee made up of countries with eligible claims on Ghana, and chaired by China and France, was established. The committee's assessment of Ghana's macroeconomic and financial situation, and its request for a debt treatment under the Common Framework of Debt Treatments, supported the country's IMF support programme request, and further encouraged Multilateral Development Banks to maximise aid for Ghana.<sup>6</sup> On 17 May 2023, the IMF Executive Board approved US\$3 billion (SDR 2.242 billion) 3-year Extended Credit Facility (ECF) arrangement for Ghana. The first disbursement of about US\$600 million (SDR 451.4 million) was released immediately, and the rest are expected to be released semi-annually following programme reviews by the IMF Executive Board.<sup>7</sup> Then, on 18 October 2023, the Minister for Finance and Economic Planning indicated an external debt rework scenario that aimed for a haircut of between 30% and 40%.

Arguably, since the inception of the IMF-supported programme, there seems to be a sense of optimism regarding the macroeconomic environment. Month-on-month rate of inflation, for example, has been largely contained (although with occasional marginal increase), and the local currency is relatively stable to the major foreign currencies compared to the same period last year. Real GDP growth, on the other hand is projected to slow down (i.e., 1.5% growth) compared to last year's (3.1%), and this is attributed to the fiscal consolidation programme, the DDEP, and the externalities from the Russia-Ukraine war (MoFEP, 2023).

Figure 11: Indicators of public debt under alternative scenarios, 2023-2033



Source: IMF (2023).

The importance of Ghana's debt restructuring can be seen in Figure 11, showing the present value (PV) of key debt indicators for the next decade (2023-2033), obtained from Debt Sustainability Analysis (DSA) by the IMF (see IMF, 2023). The DSA did not incorporate the effect of any debt restructuring on the indicators, hence, all three scenarios (baseline, historical, and most extreme shock) assume no debt restructuring. Under all alternative scenarios, shown in Figure 11, we can observe that there is no tendency for Ghana's debt levels to return to sustainable levels within the next decade. This means without debt restructuring, Ghana's status as a debt distressed country may continue into the distant future with significant implications for macroeconomic stability, growth, and development.

### Progress on domestic revenue mobilisations, particularly tax effort

A good indicator for determining revenue mobilisation effort is the ratio of domestic revenue to GDP, and gauging how this ratio is changing over time. Based on this indicator, Ghana's revenue mobilisation effort has not been impressive in one to two decades (Figure 12). After increasing from 11.05% in 2008 to 15.24% in 2012, Ghana's revenue to

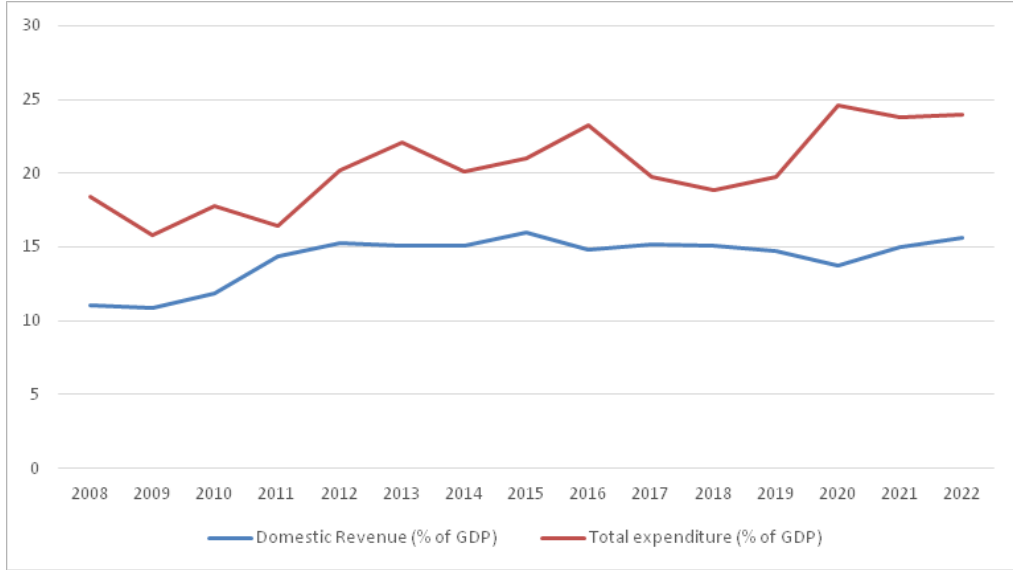
GDP virtually saw no change from 2012 to 2022, except in 2015 and 2020 where there was about a percentage increase and a percentage decline, respectively. The decline in 2020 may have been partly driven by the economic downturn occasioned by the COVID-19 pandemic. The trend in the revenue to GDP ratio means that, relative to the size of the economy, the amount of revenues the government is able to generate has not improved over time, especially in the last decade. However, expenditure to GDP ratio has trended upward although not sharply. It is also important to note that throughout the last one to two decades, government spending relative to GDP has stayed above domestic revenue (expressed as a percentage of GDP) and the deviations were relatively high in years in which presidential and parliamentary elections were held (i.e., 2008, 2012, 2016, and 2020), especially in 2020. Indeed, it can be observed from Figure 12 that the years preceding each of the election years generally saw a lower gap between revenues and expenditures, but the election year is associated with a widening of this gap. Interestingly, in the last two election years, revenues as a percentage of GDP fell. Thus, each election in Ghana appears to be associated with a disruption of public financial management with significant implications on macroeconomic stability, sustainable growth, and welfare. This is consistent with the characterisation of Ghana's political system as one that has become an impediment to structural transformation and inclusive growth in the sense of how it shapes economic and political incentives, policies and how they are implemented (Osei et al. 2020; Osei et al., 2022).

While expenditures have always been higher than revenues, Ghana, like most SSA countries, has much lower expenditure to GDP ratio compared to countries in other regions such as Asia (see Figure 13). Meanwhile, there are huge gaps in social service delivery, from housing to road and other social and economic infrastructure and amenities, and from healthcare to education. To bridge these gaps would require higher levels of expenditure on the part of the government and to address the 'problem of underdevelopment' in Ghana. Thus, an effective way to ensure that the government is able to drive development that leaves no one behind does not seem to be one that is predicated on excessive austerity measures to deal with budget deficits. This is particularly so in settings like Ghana where revenue mobilisation is affected by significant structural constraints such as high levels of informality, which also require long-term measures, including public sector investment to deal with. Also, the existing global economic order only allows developing countries to derive disproportionately low benefits from globalisation, compared to their developed counterparts. For example, one can argue that the fact that a large part of international transactions are denominated in the US dollars provides the US with significant monetary space to manage their fiscals, without much economic consequence. This means that a more innovative development financing framework is needed for developing countries like Ghana rather than measures that just say 'cut your coat according to your size'.

A review of the performance of major revenue handles or sources (see Figure 14) in the light of changes in revenue mobilisation strategies and more generally economic management philosophies over the past two decades, helps lay emphasis on constraining factors to revenue mobilisation in Ghana. Revenues from taxes on income and property were on a downward trend between 2012 and 2016, after following an

upward trajectory from 2008 to 2012. Before 2016, however, revenues from both taxes on domestic goods and services and international trade trended upwards but went on a steady decline after 2016, especially for the period between 2016 and 2020. At the same time, that is, for the period after 2016, we observe an upward trend in revenues from taxes on income and property. It thus appears that these trends reflect a shift in economic management philosophy after the government machinery passed from one political party to the other in January 2017 following the general elections in December 2016.

Figure 12: Domestic revenues and expenditures as percentages of GDP (2012-2021)



Source of data: Ministry of Finance and Economic Planning.

Figure 13: Government expenditure (% of GDP, 2021) around the world

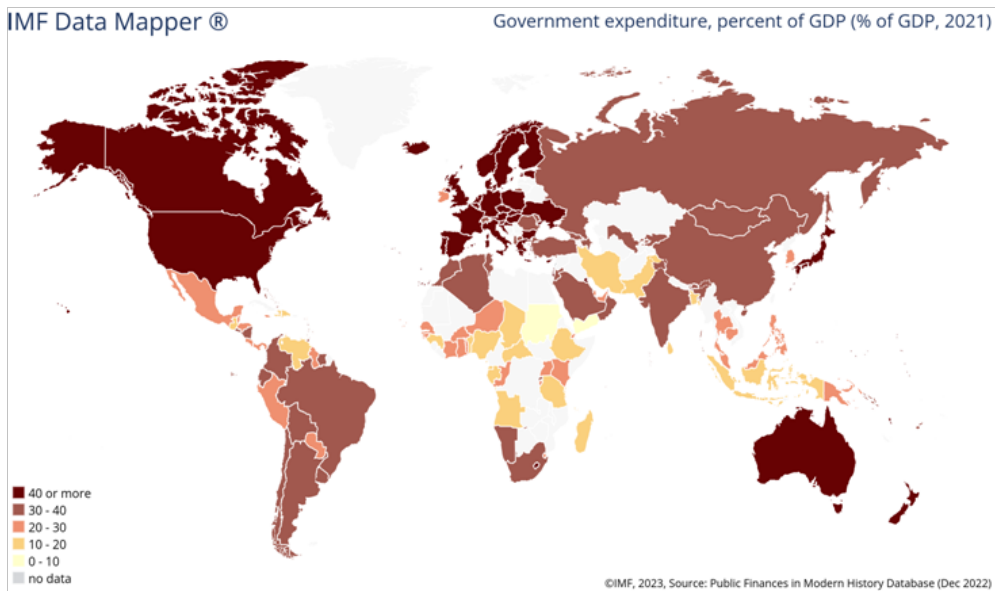
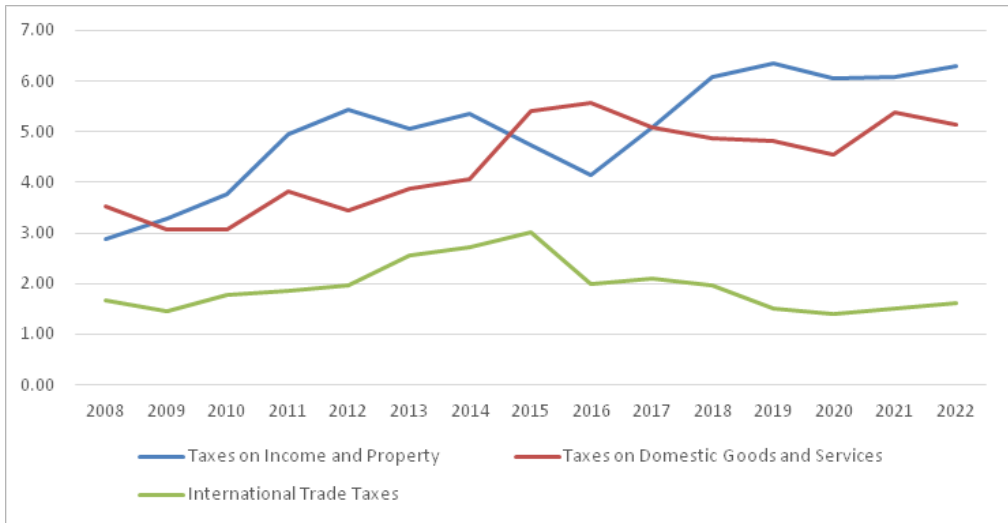


Figure 14: Trends in different tax revenues (% of GDP)



Source of data: Ministry of Finance and Economic Planning.

The political party that won the 2016 presidential elections campaigned on a promise to move the economy from ‘taxation to production’, and immediately scrapped several indirect tax handles they considered as nuisance taxes, including lowering benchmark values for taxes on imported goods and services. While this may have helped improve revenue collection through taxes on income and property (see Figure 14), it appears it had a rollback effect on revenues from indirect taxes (i.e., taxes on domestic goods and services and international trade), with an overall marginal declines in revenue-to-GDP ratio between 2016 and 2020 (see Figure 12). Indeed, although recent external shocks (e.g., COVID-19 pandemic) have negatively affected economic activity since 2020, and hence may have impacted negatively on revenue mobilisation, it is important to note that some key tax revenue sources were already on a declining trend before the economic ravages from the external shocks ensued.

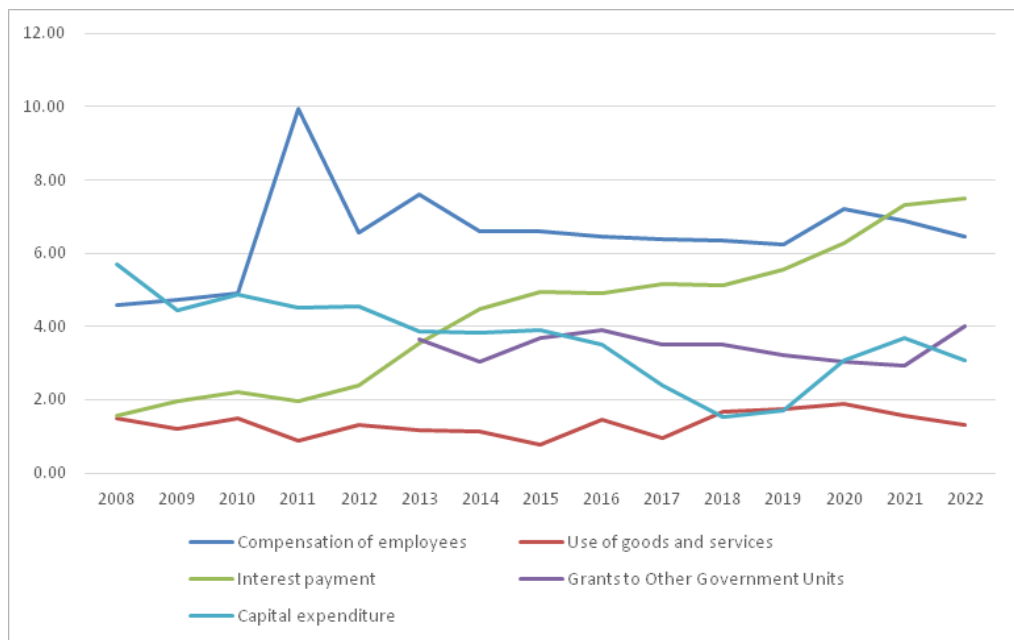
In 2021, taxes on domestic goods and services rebounded from the continuous decline observed between 2016 and 2017 on the back of significant revision in several indirect tax handles, particularly VAT. Also, the government revised upward the benchmark values for imported goods and services, and this has been associated with a halting of the downward trend in taxes from international trade, observed between 2015 and 2020.

An important insight from these trends is that the change in revenue mobilisation strategy did not deliver any significant improvement in revenue collection largely because the strategies over the years have focused more on dealing with largely proximate factors affecting revenue mobilisation rather than more fundamental ones such as informality and aspects of global economic order that disadvantage developing countries. Recently, Ghana has embarked on an extensive digitalization drive as part of broader efforts to downsize the informal economy. While this is commendable, the benefits are not yet at hand, and there is a need to scale up these efforts that also requires massive public investment.

## Expanding fiscal space through efficiency of government expenditure

Efficiency in government spending can be a crucial way of ensuring that government expenditure does not deviate significantly from revenues. It can also be a way to enhance or widen public delivery of quality public goods and services to promote growth and development. Here, we reflect on how changes in the expenditure profile over time may be indicative of changes in the efficiency of government spending. Figure 15, therefore, presents trends in the key government expenditure items in the last one to two decades. Historically, there has been a large public wage bill, often accounting for nearly 40% of domestic revenues, and has always been a source of major concerns for efficiency in public spending. The problem is that this leaves a little space for capital expenditures needed for developing the infrastructural base of the economy as well as expanding the delivery of social services, including social protection programmes. The large wage bill weighing on government finances has been driven by oversized public or civil service sector, characterised by low productivity, bloated payroll with ‘ghost names’, and large government sizes. Successive economic reform efforts, dating back to the days of Structural Adjustment Programme in 1980s, have sought to address this problem by downsizing the public service, continuous auditing of the public payroll, and promoting private sector development to expand employment avenues for the growing population, most of which are youthful.

Figure 15: Trends in key spending items (% of GDP)



Source of data: Ministry of Finance and Economic Planning.

A key impression from Figure 15 is that these efforts may have yielded some results, especially in the last decade, with a downward trending of expenditure on compensation of employees as a percentage of GDP. The large increase observed in 2011 were largely driven by the Single Spine Salary Policy which was adopted to bring about equities in public sector wages distribution, while the increase in 2020 was largely driven by the COVID-19 pandemic which required government to expand the delivery of many social services beyond what was planned for that year. We also observe from Figure 15 that, until 2019, capital expenditure as a percentage of GDP was on a declining trend. Similarly, grants to other government units (mainly local government units) as a percentage of GDP has been on a declining trend and fell year after year between 2016 and 2021. Government purchase of goods and services largely remained stable compared to the other expenditure items, while being the lowest component of spending. In contrast, debt servicing (specifically interest payments) has increased multiple-fold, from 1.56% of GDP in 2008 to 7.49% of GDP in 2022. With Ghana's debt going far beyond the IMF-recommended threshold, it appears the gains from the declining public wage bill are being whittled away by the growing public debt in the form of hefty interest payments. Also, the high level of debt servicing appears to have negatively affected capital expenditure and government's purchase of goods and services. Thus, the 'borrowing spree' of government in the last decade is restricting the fiscal space in ways that negatively affect efficiency in spending. However, an interesting question for everyone is whether the borrowing was really avoidable, especially in a winner-takes-all, competitive, clientelist political system. Is the borrowing really avoidable when there are real needs to be met?

Of course, the agent-principal problem is a real issue in governance in several SSA countries, including Ghana. Political leaders have high inclination to pursue their interest at a hefty cost to the governed, and this occurs in various forms such as corruption, malfeasance, and politically-motivated social polarisation. While these, especially corruption, impinge on efficiency in public spending, they also create disaffection among well-meaning citizens, eroding their trust in leadership.

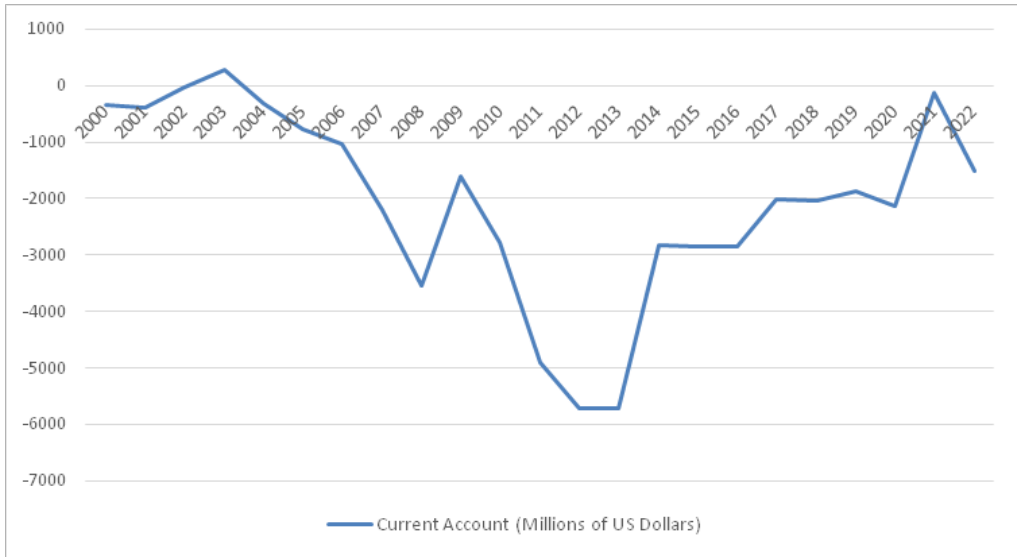
## 3. External balance

### Current account balance

Ghana's current account balance has been consistently negative in the last two decades except in 2003, as can be observed in Figure 16. After taking a nosedive with more and more negative balances between 2004 and 2012, the current account balance saw a consistent and significant recovery from 2013 to 2021, but returned to a deteriorating path again in 2022. Figure 17 shows that the trend in current account balance between 2000 and 2010 was driven by unfavourable balances on merchandised trade while the balances on the services, income and transfers accounts remained positive. From 2010 to 2016, however, the balances on merchandise trade, and services, income and transfers accounts, were negative, with merchandised trade recording more negative balances than the services, income and transfers account. Between 2017 and 2022, however, the trade accounts registered an upward trending positive balance, while the balance on services, income and transfers account remained negative. This suggests that the improvements we observe in the current account balance after 2012 (see Figure 16) were largely driven by a consistently favourable outturn in Ghana's external trade position, while, to a large extent, the poor outturn of services, income and transfers account is to blame for the consistently negative current account balance between 2012 and 2022.

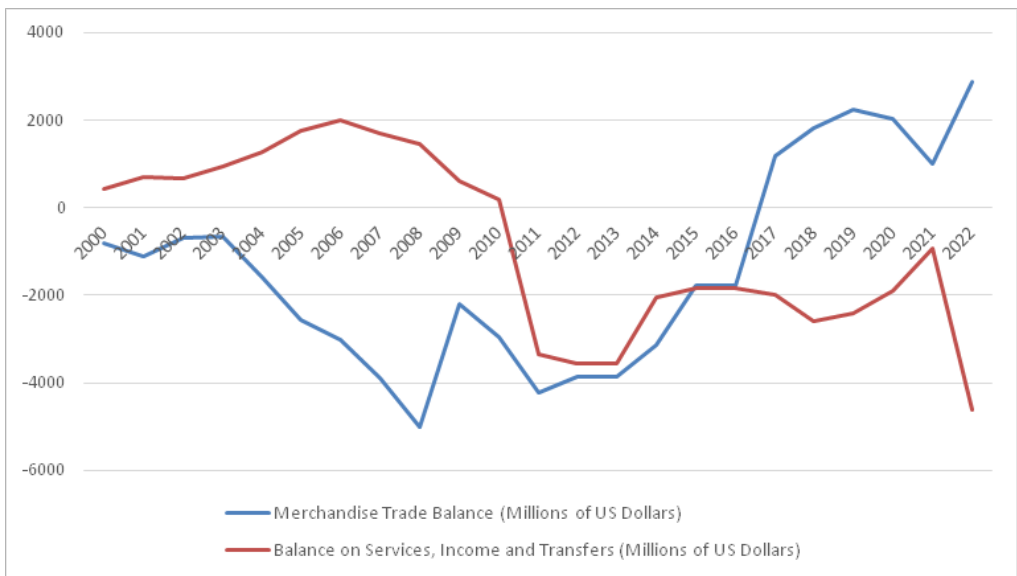
A major factor that could be cited for the poor outturn of services, income and transfers is the rising cost of servicing the growing public debt, especially external and commercially acquired loans. As discussed earlier, interest payment on public debt as a percentage of GDP has risen recently. At the same time, the proportion of the debt due to external borrowing has surpassed the proportion accounted for by domestic borrowing. Thus, the payment of interest income on external borrowing has had significant impact on the current account balance, outdoing the impact of the favourable outturn in Ghana's external trade position. The participants of our initial stakeholder engagement exercise confirmed this, and shared deep insights on how persistent fiscal deficits, which are partly financed through international bonds market, are creating significant balance of payment imbalances for Ghana.

Figure 16: Current account balance (in millions of US dollars)



Source of data: Bank of Ghana.

Figure 17: Trend in balances on trade, and services, income and transfers accounts



Source of data: Bank of Ghana.

## Changes in foreign reserves

Ghana foreign reserve position was generally good between 2005 and 2011 except in 2008, the year which witnessed the global financial crunch, compared to the period between 2012 and 2016 (see Figure 18). Figure 18 further shows that Ghana's reserve position has improved recently when one compares the changes in reserve assets between 2012 and 2014 with the changes that occurred after 2015. In 2018, however, there was a significant reduction in reserves, but this was followed by a large turnaround in the following three years, especially in 2019 and 2021. Until 2020, the year in which Ghana received US\$1 billion from the IMF under the Fund's Rapid Credit Facility Programme to support recovery from the economic disruptions of the COVID-19 pandemic, changes in net credit and loans from the IMF have been relatedly minimal. Indeed, the change in net credit and loans from the IMF was negative in 2021. With the new US\$3 billion support to Ghana under the Fund's Extended Credit Facility programme, which is to be disbursed in tranches over the next three years, changes in net credit and loans from the IMF will remain positive and relatively high in the short to medium term. The importance of the net credit and loans from the IMF is that it is indicative of the extent to which reserve assets may be dependent on support from the IMF. For example, the change in reserve asset in 2020 would have been negative if not for the receipts under the Rapid Credit Facility programme Ghana benefited from.

Figure 18: Changes in reserves (in millions of US dollars)



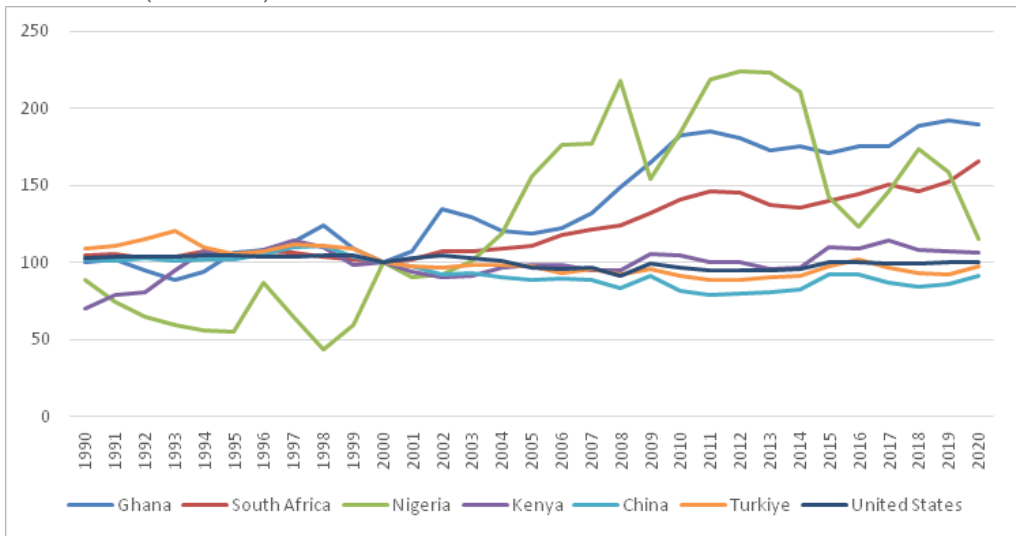
Note: Reserves and related items equal to reserves assets minus the net credit and loan from the IMF; (\*) 2011 was the splice point between official BPM6-basis estimates and IMF converted BPM5-basis estimates.

Source of data: IMF.

## Movements in terms of trade

Terms of trade turned in favour of most natural resource-rich developing countries from the dawn of the 21st century. Most of these countries, including Ghana, have witnessed an upward trend in their terms of trade, while for most of the developed world's terms of trade have remained largely unchanged (see Figure 19).

Figure 19: Trends in Ghana's terms of trade, compared with selected countries (2000=100)



Notes: Net barter terms of trade index is calculated as the percentage ratio of the export unit value indexes to the import unit value indexes, measured relative to the base year 2000. Unit value indexes are based on data reported by countries that demonstrate consistency under United Nations Conference on Trade and Development (UNCTAD) quality controls, supplemented by UNCTAD's estimates using the previous year's trade values at the Standard International Trade Classification three-digit level as weights. To improve data coverage, especially for the latest periods, UNCTAD constructs a set of average prices indexes at the three-digit product classification of the Standard International Trade Classification revision 3 using UNCTAD's Commodity Price Statistics, international and national sources, and UNCTAD secretariat estimates, and calculates unit value indexes at the country level using the current year's trade values as weights.

Source of data: World Bank (World Development Indicators, Online Portal).

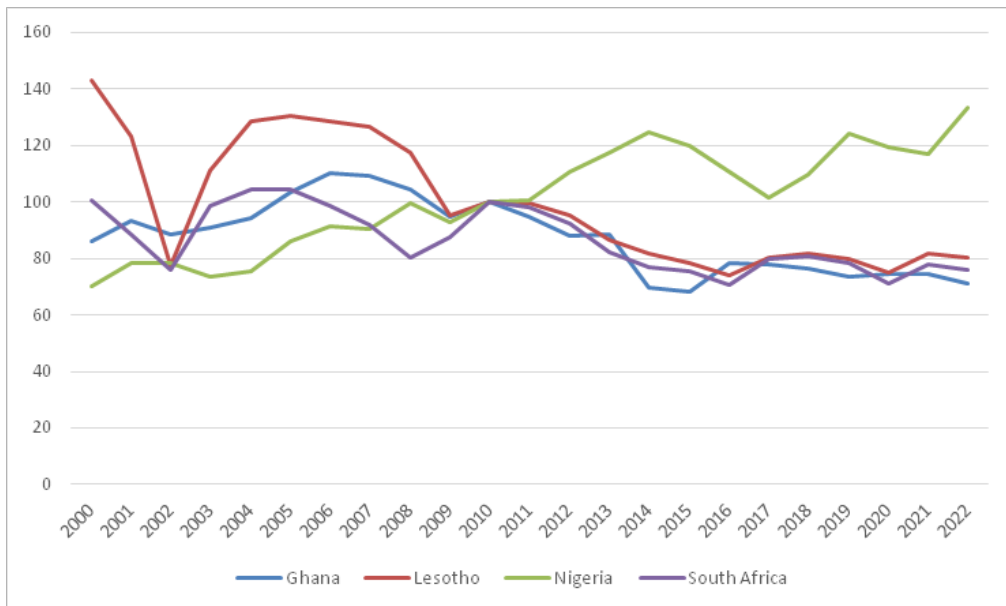
Indeed, Figure 19 shows that Ghana's terms of trade has nearly doubled within the space of two decades, while those of emerging economies such as China and Turkey have been declining marginally, and that of United States remaining largely unchanged in the same period. This phenomenon is termed as terms of trade reversal in international trade literature, and the current episode is known to be largely driven by China's rise to economic power which was achieved through over three decades of sustained high rate of economic growth (i.e., double-digit growth rates). This has been associated with high and growing demand for natural (primary) resources from around the world, but especially resource-rich African countries, and attendant high growth in international prices of primary resources. While this has inured to the

benefits of many natural resource-rich countries by boosting the merchandised trade position of these countries, as can be observed in Figure 17 in the case of Ghana, it has not been a complete panacea for the BoP challenges in most of these countries, including Ghana. It can be argued that this has rather deepened resource dependence syndrome in these countries, potentially undermining their quest for industrialisation and the expansion or diversification of their export base to provide long-term solutions to BoP challenges and high levels of unemployment, particularly among the youth.

## Movement of real exchange rate

As in several other countries in SSA, real exchange rate in Ghana has been on a steady decline in the last two decades (see Figure 20). By economic theory, a fall in exchange rate should make export cheaper relative to imports, with a favourable outcome for trade balance. Hence, the declining exchange rate in the last two decades aligns with the improvement in Ghana's trade balance observed in Figure 17. Thus, all things being equal, the fall in the real exchange rate should have resulted in some gains for Ghana's balance of payment. Also, if not for supply side challenges in the real sector of the economy, the fall in the real exchange rate would have provided an opportunity for expanding the export sector.

Figure 20: Real effective exchange rate index (2010=100)



Source of data: World Bank (World Development Indicators, Online Portal).

## 4. SDR reallocations

Given all the constraints discussed above, which negatively affect Ghana's capacity to independently finance its development process in a sustainable manner, we ask here the question of whether and how SDR can help address this financing gap. To answer this question, the section first provides a historical overview of SDR allocation by the IMF and the level of utilisation by countries, before we zero-in on the case of Ghana.

There have been four general SDR allocations and a one-time special allocation, totalling SDR 660.7 billion (equivalent to about US\$935.7 billion), of which the latest allocation approved in August 2021 accounted for SDR 456.5 billion, the largest in the history of IMF, to help global economic recovery from the COVID-19 pandemic (IMF, 2023). The first allocation, which took place in 1970-1972, just after the creation of SDR, totalled SDR 9.3 billion allocations, while the second one, which occurred in 1979-1981, amounted to SDR 12.1 billion, and brought the total cumulative allocations to SDR 21.4 billion (IMF, 2009). The case for the first allocation was based on a significant decline in world reserves (gold and US dollars) in absolute terms and in relation to world trade from the mid 1960s, amid heavier reliance on trade restrictions and increased use of capital controls (IMF, 2009). The second allocation was on the back of major changes in the international monetary system since the inception of the SDR (emergence of international capital markets and more flexible exchange rates) and was also occasioned by an assessment of the long-term global needs (IMF, 2009). The third general allocation took place in August 2009. Totalling SDR 161.2 billion (100% of quotas at the time) or approximately US\$250 billion at prevailing exchange rates it was designed to help countries address the global financial crisis (IMF, 2009). A special one-time allocation of SDR 21.5 billion took effect on 9 September 2009 to provide allocations to members that joined the IMF after 1981 who had never been given allocations.

The utilisation or reliance on SDRs as source of financing has been more prevalent among low income or developing countries compared to their developed counterparts (ECA-ECLAC, 2022; Cashman et al., 2022; United States Congress, 2010). Using net SDR holdings as an indicator, it has been shown that there is a significant difference in SDR utilisation rates between developing economies (42.9%) and developed ones (5.9%) (ECA-ECLAC, 2022). The utilisation of SDR among developing countries is usually high

during periods with significant global economic shocks. For example, Cashman et al. (2022) show that 80 developing countries have resorted to their SDRs to manage BoP difficulties following the economic ravages of the COVID-19 pandemic (Cashman et al., 2022). Yet, SDR allocations by the IMF are based on quotas for member countries and not on needs. Consequently, the framework for SDR allocation has favoured developed countries that do not have much need for it. In the last allocation, for example, two-thirds of US\$650 billion went to developed economies, with the United States alone receiving 17% of the total allocations (ECA-ECLAC, 2022; Warah, 2021a). The low levels of SDR utilisation by developed economies invariably make them net lenders of SDRs, while developing countries have been net borrowers. As SDRs attract interest payments, this financial architecture governing the SDR system allows developed countries to benefit from SDRs at the expense of vulnerable developing countries.

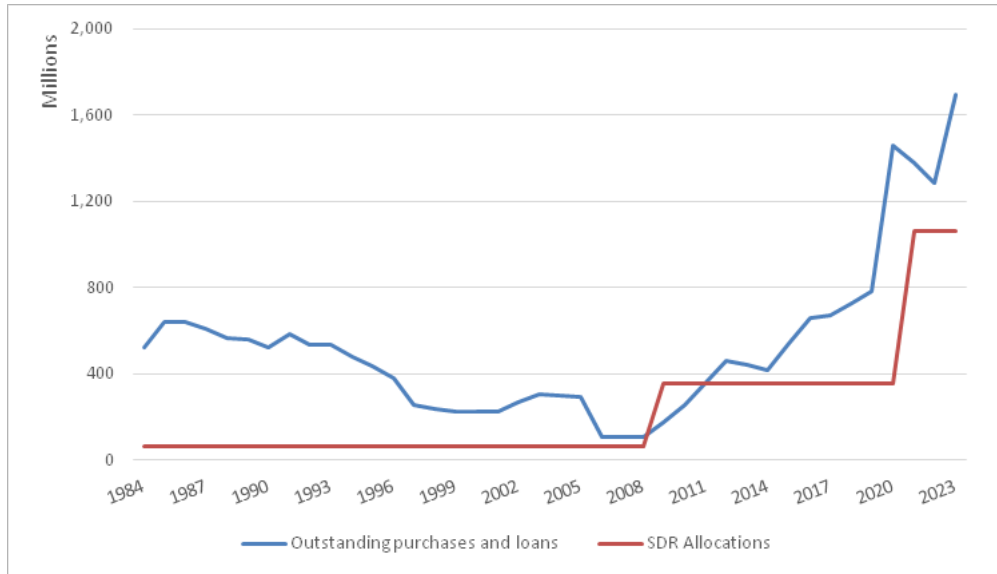
In this section, we provide a review of Ghana's utilisation of the SDR facility and related IMF financin, and examine the potential for provision of sustainable financing through an enhanced or reformed SDR framework.

## Trends and patterns in SDR utilisation in Ghana

Ghana's perennial budget deficits, largely driven by structural constraints to raising domestic revenues as well as inefficiencies in public spending, culminate in high and unsustainable levels of public debt and associated macroeconomic instability and imbalances. Also important to this discussion is the link between overspending and electoral cycles, which is largely induced by the highly competitive and clientelist presidential and parliamentary elections in the country. These instabilities and imbalances are worsened or become more unveiled in times of shocks, especially external shocks, as was seen during the COVID-19 pandemic and the recent Russia-Ukraine war. Historically, attempts to address these economic fallouts have always involved fiscal restructuring with technical and financial support from multilateral agencies, particularly the IMF. Special Drawing Rights have been the main vehicle through which the IMF has extended such support.

Figure 21 shows SDR allocations to Ghana since 1984 as well as a plot of Ghana's outstanding purchases and loans from the IMF. As alluded to earlier, the last two increases in SDR allocations were preceded by global economic shocks. Specifically, the 2008 global financial crisis preceded the nearly five times increase in allocation that occurred in 2009, while the three-fold increase in 2021 followed the COVID-19 global economic disruptions. It thus appears reasonable to believe that the revisions of SDR allocations by the IMF tend to be largely driven by negative events of global proportions, and may be less dependent on economic exigencies that are specific to the global south. This argument reflects the IMF's view that the general SDR allocation of 2021 was a key example of a cooperative multilateral response to global crises that offers significant support to members during challenging periods (IMF, 2021).

Figure 21: SDR allocations, and outstanding purchases and loans (in million SDR)



Notes: Except the value for 2023 which was measured at 30 June 2023, all the others are measured at end of year values, measured at 31 December in the respective years.

Source: IMF.

Nevertheless, the importance of SDRs to the global south cannot be discounted. Developing countries' use of SDRs intensifies in times of crises as they face higher financing needs, coupled with tighter liquidity constraints and more limited fiscal space. This can be observed in the higher and higher increases in Ghana's outstanding purchases and loans from the IMF following the COVID-19 crisis and Russia-Ukraine war (see Figure 21). A preliminary analysis by ONE Africa showed that most African countries planned to use their August 2021 SDR allocations to stabilise their economies and specifically in areas such as enhancing foreign exchange reserves, supporting budget, including health and social protection programmes, and repaying external loans (see Warah, 2021b). Ghana's utilisation of SDR has been high with outstanding purchases and loans from the IMF (in SDRs) having always exceeded SDR allocations except in 2009, the year which saw a large upward revision of SDR allocation to Ghana (see Figure 21). Ghana chose to use this allocation to strengthen its international reserve position (Addo et al., 2010). According to Addo et al. (2010), the IMF support to Ghana in 2009 constituted one of its largest arrangements in Africa in 2009 relative to countries such as Cameroun, Kenya, and Tanzania.

An important insight from the trends in Ghana's outstanding purchases and loans from the IMF is that the country's need or demand for IMF financing has been on a steep rise in the last decade in contrast to the period between 1984 and 2008, when there was a steady decline in Ghana's outstanding purchases and loans from the IMF. Interestingly, Ghana's growing need for IMF financing is occurring in an era where multiparty politics have become highly competitive. Associated with this trend has been an increased politicisation of the country's engagement with the IMF. Politicians

are increasingly capitalising on any recourse to the IMF to discredit the competences of the prevailing economic management team of the country. In Ghana, going to the IMF virtually means having run down the economy and seeking 'life support'. While it is true that countries usually seek IMF support in times of economic difficulties, which is also the case for Ghana, it is also true that the competitive nature of Ghana's politics has led to a politisation of Ghana's engagements with the IMF. The participants of our stakeholder engagement exercise held in August 2023 aligned with this view. Indeed, they underscored this view by noting that the managers of Ghana's economy, against all odds, failed to initiate engagement with the IMF early enough to avoid the extreme macroeconomic instabilities that started in 2022. Meanwhile, the records show that all governments, including the current one in Ghana's fourth republic, resorted to the IMF for programme support (see Table 2).

## Ghana and PRGT financing framework

The IMF taps into the unused SDRs to extend different types of credit facilities to developing countries that need financial support beyond what their allocated SDRs permit. The Poverty Reduction and Growth Trust (PRGT) of the IMF is an important vehicle for such lending using the unused SDRs belonging to developed countries. The PRGT is mainly financed by SDRs from developed countries and is available for only 69 countries classified as low-income and vulnerable or debt-distressed middle-income countries (ECA-ECLAC, 2022). Beneficiary countries currently pay no interest on borrowed funds even though IMF secures the loans at prevailing SDR interest rates for the developed countries (ECA-ECLAC, 2022). The interest cost of loans through PRGT is settled with the PRGT subsidy account, which depends on SDR donations from member countries of the IMF as well as IMF's own resources and returns from the investment (ECA-ECLAC, 2022). Loans from PRGT are provided through three facilities: the Extended Credit Facility (ECF), the Stand-by Credit Facility (SCF), and the Rapid Credit Facility (RCF).

Table 2: History of IMF lending commitments (in thousand SDRs), as of 31 May 2018

Facility Type	Date of Arrangement	Expiration Date*	Amount Agreed	Amount Drawn	Amount Outstanding
Extended Credit Facility	Apr 03, 2015	Apr 02, 2019	664,200	531,360	531,360
Extended Credit Facility	Jul 15, 2009	Jul 23, 2012	387,450	387,450	257,641
Extended Credit Facility	May 09, 2003	Oct 31, 2006	184,500	184,500	0
Extended Credit Facility	May 03, 1999	Nov 30, 2002	228,800	176,218	0
Extended Credit Facility	Jun 30, 1995	May 02, 1999	164,400	137,000	0
Extended Credit Facility	Nov 09, 1988	Mar 05, 1992	388,550	388,550	0
Extended Fund Facility	Nov 06, 1987	Nov 09, 1988	245,400	97,550	0
Structural Adjustment Facility Commitment	Nov 06, 1987	Nov 09, 1988	129,858	40,900	0
Stand-by Arrangement	Oct 15, 1986	Oct 14, 1987	81,800	81,800	0
Stand-by Arrangement	Aug 27, 1984	Dec 31, 1985	180,000	180,000	0
Stand-by Arrangement	Aug 03, 1983	Aug 02, 1984	238,500	238,500	0
Stand-by Arrangement	Jan 10, 1979	Jan 09, 1980	53,000	32,000	0
Stand-by Arrangement	May 29, 1969	May 28, 1970	5,000	5,000	0
Stand-by Arrangement	May 28, 1968	May 27, 1969	12,000	12,000	0
Stand-by Arrangement	May 25, 1967	May 24, 1968	25,000	25,000	0
Stand-by Arrangement	May 17, 1966	May 16, 1967	36,400	31,400	0
Total			3,024,858	2,549,228	789,001

Notes: \*The expiration date for outright disbursements (RFI and RCF) reflects the date the disbursement was drawn, or the date the disbursement expires, i.e., 60 days following the Board approval date. The expiration dates for arrangements under the GRA, PRGT, and RST reflect either the approved expiration date of the arrangement or the date the last disbursement takes place under the fully drawn arrangements.

Source: IMF.

Ghana has benefited from both SCF and ECF (see Table 2). The last eight of Ghana's engagements with the IMF, including what was approved in 2023 (1987, 1988, 1995, 1999, 2003, 2009, 2015, and 2023), has been through the EFC framework. The ECF provides concessional financial assistance in support of a three-year macroeconomic and structural adjustment programme to eligible low-income members facing protracted balance of payment issues. From 6 November 1987 to 9 November 1988, Ghana ran an ECF (SDR 245.4 million) and a Structural Adjustment Facility (SAF) (SDR 129.858 million) concurrently. SAF provides concessional financing to assist low-income countries in addressing balance of payments financing needs arising from structural weaknesses. From 9 November 1988 to 5 March 1992, an ECF (SDR 338.55 million) was implemented. This helped restore macroeconomic stability in Ghana with inflation declining from 142% in 1983 to 10% by the end of 1991, while annual real GDP growth averaged about 5% and the balance of payments recorded significant overall surpluses (IMF, 1995). However, the government faced many challenges in

ensuring that the reforms continued in the run-up to the first multiparty elections in 1992 under the fourth republic. As a result, the programme went off-track with price instability and BoP position being affected (IMF, 1995). Ghana then went back to the IMF for an ECF (SDR 164.4 million) from 30 June 1995 to 2 May 1999, in support of the government's 1995-1997 economic programme. This programme sought to achieve a real GDP growth of 5.5% by 1997 and 6% by the end of the 1990s, while reducing inflation and improving Ghana's current account position.

The ECF (SDR 228.8 million) was renewed for another three years, effective 3 May 1999 through to 30 November 2002. According to the IMF (2003), performance under the 2002 programme was mixed with gains on inflation and reserve position, but significant challenges existed in budget implementation and pressure from poor financial management of parastatals. While progress was made in the areas of tax administration, financial sector reforms and governance, the broad objectives were undermined by fiscal slippages and weak public expenditure management (IMF, 2003). In 2003, Ghana returned to the IMF as a highly indebted poor country. On 9 May 2003, the Executive Board of the IMF approved another three-year ECF arrangement amounting to SDR 184.5 million for Ghana, aimed to support the government's economic reform programme for 2003-2005. The arrangement was later extended until 31 October 2006.

In 2008, an election year, there was a high expansionary fiscal policy, which destabilised the Ghanaian economy (IMF, 2009). Fiscal deficit in that year was 14.5% of GDP. Inflation reached 20%, while the cedi depreciated by 50% against the US dollar, and official reserves was brought down to two months' import cover. Ghana requested for another three-year ECF arrangement from 15 July 2009 to 23 July 2012 which came with SDR 387.45 million credit from the IMF. This three-year programme focused on fiscal adjustment and reforms to budget management to prepare Ghana for the transition to oil producer status (IMF, 2009). In 2015, Ghana experienced a significant power crisis with a large impact on the economy. This necessitated a return to the IMF for a four-year-long ECF (SDR 664.2 million) to support job creation, stabilise the struggling cedi, revive the ailing economy, and facilitate fast growth, while also expanding protection social spending (IMF, 2015). This arrangement spanned from 3 April 2015 to 9 April 2019.

Under the current IMF ECF programme approved in May 2023, a 36-month arrangement, an amount equivalent to SDR 2.242 billion (around US\$3 billion, or 304% of quota) would be disbursed over the three-year period. According to the IMF (2023), the programme will build on government's Post-COVID-19 Programme for Economic Growth (PC-PEG) focusing on restoring macroeconomic stability and debt sustainability along with wide-ranging economic and structural reforms to build resilience, laying the foundation for stronger and more inclusive growth. The primary reason for the IMF assistance was to address policy challenges following the COVID-19 pandemic and the Russian and Ukraine war, which resulted in acute financing pressures, a depreciating cedi, declining international reserves, slowing economic activity, and high inflation (IMF, 2023). The first tranche of the facility, SDR

451.4 million (about US\$600 million), meant for budget support, was disbursed immediately after the Executive Board approval.

Ghana also accessed another PRGT facility, the Rapid Credit Facility (RCF), in 2020. This facility provides rapid concessional financial assistance to low-income member countries with pressing BoP needs. The IMF Executive Board approved a US\$1 billion disbursement to Ghana to deal with challenges associated with the COVID-19 pandemic. Ghana used this credit to support GHS100 billion Ghana Cares (Obaatampa) post-pandemic recovery programme.

## Resilience and Sustainability Trust (RST)

Reallocating SDRs using the PRGT framework only benefits PRGT-eligible countries, while the policy conditionalities of PRGT may deter some countries from accessing it (ECA-ECLAC, 2022). Also, it has been argued that loans from the PRGT are only accessible to a prescribed list of low-income countries and for a limited set of purposes (Plant et al., 2021). Consequently, as part of the efforts to support vulnerable countries, the Executive Board of the IMF, in April 2022, approved the creation of the Resilience and Sustainability Trust (RST). RST will be funded from voluntary contributions by IMF members with a strong external position, including through the reallocation of surplus SDRs to help low- and middle-income countries and Small Island Developing States. Holzmann (2023) indicates that the purpose of RST is to channel financial resources from countries with strong external positions to vulnerable nations facing potential BoP problems due to the impact of climate change and other global shocks, particularly COVID-19 pandemic.

Only three African countries have so far received funding through the RST (Africa Media Agency [AMA], 2023). These countries are Rwanda (US\$310 million in October 2022), Seychelles (US\$46 million in March 2023), and Senegal (US\$327.1 million in May 2023). Hallak (2022) has, however, argued that the RST should be reviewed in scope and expanded over time in line with the needs of climate-vulnerable developing countries. *The Guardian*, in a press release (AMA, 2023), has argued that because the ceiling for eligible members is less than 150% of the quota or SDR 1 billion, the RST is highly inadequate for meeting the needs of African countries in terms of climate finance.

## 5. Conclusions and implications for policy

Ghana, like most developing countries, is confronted with limited financing options needed for ramping up investment in critical sectors of the economy to drive sustainable growth and development. Domestic revenue mobilisation has been persistently low due to structural constraints within the local economy, and an international economic order that is skewed against developing countries. These constraints are further compounded by a multiparty democratic dispensation whose evolution over the last three decades has been associated with a patron-clientelist, winner-takes-all politics and institutions that are weak to deal with the agent-principal problem in governance. Consequently, Ghana has resorted to borrowing from the international financial markets, especially the Eurobond market, which comes with high interest costs and significant implications for the country's debt situation. The country's debt-to-GDP ratio is currently way higher than recommended thresholds, while debt servicing obligations are further restricting the country's fiscal space and depriving the country of important capital investments and other social spending. All these factors lead to high vulnerabilities which become worse during shocks, whether at the domestic, regional or global level, as has been observed in the case of the COVID-19 pandemic, Russia-Ukraine war, and climate shocks. Ghana's economy has been in crisis following COVID-19 pandemic, and authorities have had to undertake an extensive debt restructuring programme, affecting both domestic and international lenders. Ghana's story points to the need for more innovative financing options for developing countries, particularly those that leverage on existing multilateral frameworks such as the IMF SDR.

Already, the IMF has come up with important innovations (such as PRGT and RST) to provide friendlier financing options for developing countries by tapping into SDRs for member states that do not use them. While these attempts are quite welcoming, there is the need to deepen the efforts. They should be encouraged with the view to broaden their scope and promote full participation of all member states, especially those that do not use their SDR. Also, to scale up the uptake of such financing opportunities from the IMF and similar multilateral organisations, there should be a concerted effort to de-politicise and/or de-stigmatise Ghana's engagement with the IMF. Now, in Ghana, engaging the IMF is like a cardinal sin every politician would not commit if there was another option.

While the current IMF efforts are commendable, a more sustainable framework should include a revision of the IMF SDR allocation system so that allocations are not only based on quotas but on needs as well, especially given that the global financial architecture is skewed against developing countries. Also, can the allocations pay attention to regional-specific shocks relating to climate change, climate change adaptability challenges, conflicts, etc.? So far, all major SDR allocations by the IMF were occasioned by global shocks, and even with this, the allocations do not consider the disproportionately high impact of these global shocks on poor and vulnerable countries such as Ghana.

Globalisation has come with general benefits for many countries, but it also deepened structural inequalities and created a world economic order that disadvantages already vulnerable and weak countries. This has several negative implications for revenue mobilisation and poses significant constraints in ways that restricts fiscal and monetary policy space for many developing countries. A fairer global economic order should be advocated for.

Ghana, as well as many other developing countries, should invest massively in addressing the problem of informality. This will help improve domestic revenue mobilisation. The last few years in Ghana has seen a significant digitalisation drive to help capture the informal economy. This and other similar efforts need scaling up.

Ghana needs political reforms that will address the winner-takes-all and competitive clientelist political system, which is partly responsible for weak institutions in the country. Such reforms may help strengthen accountability, reduce recklessness in public financial management, realign incentives, and increase efficiency in revenue mobilisation and spending.

## Notes

1. <https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights>
2. Obtained from the 2023 mid-year budget review.
3. This was published on 17 May 2023.
4. <https://www.bog.gov.gh/wp-content/uploads/2022/12/Press-Release-FSC-Government-of-Ghana-Domestic-Debt-Exchange-Potential-Financial-Sector-Impacts-and-Mitigating-Safeguards-7-12-22.pdf> (Accessed on 18 October 2023).
5. These included all medium- and long-term domestic debts issued by the government and the special purpose vehicles (i.e., Energy Sector Levy Act (ESLA) and Daakye bonds) and Cocobills issued by Cocobod.
6. <https://mofep.gov.gh/sites/default/files/basic-page/Paris-Club-Communique%CC%81.pdf> (Accessed on 18 October 2023).
7. [https://www.imf.org/en/Countries/GHA/ghana-qandas#:~:text=The%20IMF%20Executive%20Board%20approved,\(about%20US%24600%20million\),](https://www.imf.org/en/Countries/GHA/ghana-qandas#:~:text=The%20IMF%20Executive%20Board%20approved,(about%20US%24600%20million),) (Accessed in October 2023).

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