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Leveraging Extractive Industries to Address Ghana's Fiscal Challenges: Lessons From the Pandemic

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Key messages

- Ghana's economy grew by less than 1 percent in 2020, the lowest in nearly four decades as the impact of the coronavirus pandemic manifests in key sectors of the economy.
- Petroleum revenue is expected to create a revenue gap of GHS 5.2 billion (USD 907 million) as part of an overall fiscal revenue gap of 20 percent of GDP. This calls for intensified domestic revenue mobilization efforts, such as taxes on emissions of greenhouse gases or fossil fuel energy production, a new sliding-scale royalty or resource rent tax in the mining sector or punitive sanctions on oil and mining companies found to have avoided taxes.
- The government spends more than a quarter of total expenditure and 49 percent of tax revenue on debt servicing. Between 2011 and 2019, about 87 percent (USD 808.86 million) of all transfers into the Ghana Stabilization Fund have been drawn down in line with provisions in the Petroleum Revenue Management Act. The government has continued to borrow despite increasing petroleum revenues accruing to the Sinking Fund. The government may wish to consider immediate debt restructuring.
- The government estimated a 6.3 percent fiscal deficit following the suspension of the Fiscal Responsibility Law (FRL) to create fiscal space for increased spending. Ghana should consider adopting an expenditure-based fiscal rule to address the procyclicality of the FRL. We also recommend that deficit calculations be outsourced to independent analysts, as Canada and Chile have done, supporting the fiscal advisory council with research and logistics as well as a legal review of Ghana's macro-fiscal regime.

INTRODUCTION

Ghana's economy and public finances have been hard hit by the dual shocks of the coronavirus pandemic and the oil price crash. The country's economy grew by less than 1 percent in 2020, the slowest pace since 1983.[1] More than a quarter of the country's formal workforce had wages reduced and another quarter worked reduced hours during the partial lockdown.[2] Many have lost their jobs, whether in the

1 Moses Mozart Dzawu, "Four Charts Showing How Ghana's Banks Are Being Hurt by Economy," Bloomberg, 20 August 2020, www.bnnbloomberg.ca/four-charts-showing-how-ghana-s-banks-are-being-hurt-by-economy-1.1482488

2 World Bank, "COVID-19 forced businesses in Ghana to reduce wages for over 770000 workers and caused about 42000 layoffs," 3 August 2020, www.worldbank.org/en/news/press-release/2020/08/03/covid-19-forced-businesses-in-ghana-to-reduce-wages-for-over-770000-workers-and-caused-about-42000-layoffs-research-reveals

formal or informal sectors. Instead of the projected 4.7 percent of GDP deficit, the government will likely run a deficit in excess of 12 percent of GDP in 2020.[3]

Despite the downturn, the government has managed the pandemic better than most countries. An early response, clear communication, wide testing and tracing and economic measures, such as food assistance and covering water and electricity bills, among other measures, mean that Ghana is expected to be one of the world's few economies that may continue to grow this year in nominal terms.[4]

The Ghanaian government is becoming more dependent on extractive production. Just four years ago, in 2016, extractive revenues represented just 5 percent of fiscal revenues. In 2018, mineral revenues represented more than 3 percent of non-aid fiscal revenues. In 2019, oil revenues represented nearly 10 percent of non-aid fiscal revenues.

While Ghana remains a net importer of refined petroleum products, it is now a net exporter of crude oil and raw minerals. More importantly for public finances, the Ghanaian government is becoming more dependent on extractive production. Just four years ago, in 2016, extractive revenues represented just 5 percent of fiscal revenues.[5] In 2018, mineral revenues represented more than 3 percent of non-aid fiscal revenues (about USD 400 million).[6] In 2019, oil revenues represented nearly 10 percent (USD 937.6 million) of non-aid fiscal revenues.[7] The government expects oil, gas and mineral receipts to double between now and 2022, which would constitute a five-fold increase in resource dependence in six years unless other sources of revenue can be mobilized.[8]

Ghana's tax revenue to GDP ratio remains among the lowest in Africa and could be improved by reducing exemptions (especially in the mining sector), improving compliance through technology and (re)introducing less distortionary and progressive taxes such as luxury import taxes. Ghana's extractive revenue growth is largely dependent on the success of the new Tweneboa, Enyara and Ntome (TEN) and Pecan fields—whose development is on hold due to the low oil price and coronavirus pandemic—and the ability of the government to extract more tax revenue from its mineral sector, which made up more than 50 percent of exports in 2018, dominated by gold.

Revenue mobilization is essential since Ghana remains a country at high risk of debt distress, as it was even before the coronavirus crisis. This means that any further economic or financial shock could draw the government into a debt spiral and default. Already, the government spends more than a quarter of total expenditure and 49 percent of tax revenue on debt servicing. Foreign creditors hold nearly all of Ghana's external debt and a quarter of its cedi-denominated debt, representing more than 60 percent of sovereign debt. Based on Ministry of Finance figures, for each 100 cedis paid in taxes to the government, about the equivalent of 18 cedis in local and foreign currency are sent abroad to foreign creditors. (The remaining interest is paid mainly to Ghanaian banks and other financial institutions along with the Bank of Ghana.)[9] Moreover, the external debt portion generates a significant

3 Fitch Ratings, "Ghana's Slow Fiscal Consolidation May Add to Rating Strains," 19 August 2020, www.fitchratings.com/research/sovereigns/ghanas-slow-fiscal-consolidation-may-add-to-rating-strains-19-08-2020

4 Jiaqi Zhang, Justice Nonvignon, and Wenhui Mao, "How well is Ghana—with one of the best testing capacities in Africa—responding to COVID-19?" (Brookings, 2020), www.brookings.edu/blog/future-development/2020/07/28/how-well-is-ghana-with-one-of-the-best-testing-capacities-in-africa-responding-to-covid-19

5 Ghana Ministry of Finance, Budget Statement and Economic Policy (2017), www.mofep.gov.gh/budget-statements/2017

6 GHEITI, *2017 & 2018 Mining Sector Report*, www.eiti.org/document/ghana-2017-2018-mining-sector-report-0

7 Ghana Ministry of Finance, *Budget Statement and Economic Policy* (2019), www.mofep.gov.gh/sites/default/files/budget-statements/2020-Budget-Statement-and-Economic-Policy_v3.pdf;

8 *Ibid.*

9 Ghana Ministry of Finance, *The Annual Public Debt Report* (2020) www.mofep.gov.gh/sites/default/files/reports/economic/2019-Annual-Public-Debt-Report.pdf;

foreign currency outflow—around USD 900 million in 2020 alone—required to pay for essential imports such as medication, fuel and inputs for businesses.

The International Monetary Fund's (IMF) October 2020 Sub-Saharan Africa Regional Economic Outlook forecasted that the country's debt-to-gross domestic product (GDP) will reach 76.7 percent by the end of 2020, declining to 74.7 percent by 2021.[10] The government is currently borrowing at 6.4 percent on seven-year Eurobonds and 20 percent on seven-year Ghanaian cedi issuances, higher rates than all but a handful of countries that have not yet defaulted on their sovereign debt (e.g., DRC, Iraq, Mozambique and Zambia). The secondary market indicates that, if it needed to issue a seven-year Eurobond today, the government would be paying more than 8 percent interest.[11] What's more, the cost of capital for Ghana's government is diverging from its African peers, including Cameroon, Côte d'Ivoire, Kenya, Nigeria and Senegal.

THE ROLE OF EXTRACTIVES IN ADDRESSING GHANA'S FISCAL SITUATION

Ghana's debt situation is untenable. The government has responded in three ways: committing to macroeconomic stability and fiscal discipline, debt monetization and working to mobilize revenues. We will discuss each of these strategies.

In 2018, the government passed the Fiscal Responsibility Act (FRA). Embedded in the act are two fiscal rules: the budget deficit cannot exceed 5 percent of GDP and the government must run a positive primary balance. While these fiscal rules may help reign-in government spending, both rules are pro-cyclical, as they allow for spending to increase when GDP and tax revenue rise and may require spending cuts when GDP contracts. This is a concern because fiscal policy in Ghana is notably procyclical and getting worse, with a clear bias towards overspending in good times. In the recent past, spending has spiked before elections and in anticipation of oil revenues.[12]

The law incorporates an escape clause that allows for suspension of the rules in response to severe economic shocks, catastrophes or when GDP growth runs below one percent. A fiscal advisory council has been established to support implementation of the law. The council has no formal powers; rather it advises the president on how to comply with the fiscal rules.

The government has claimed that it met the FRA fiscal targets in 2019, despite the IMF calculating a budget deficit of 7 percent of GDP.[13] The government argued that exceptional financial sector bailouts and energy sector costs—namely reducing the domestic gas price, relocating a gas plant and renegotiating expensive and unnecessary power generation contracts—should not be counted in deficit figures. Still, the Minister of Finance committed to the targets going forward, projecting a 4.7 percent of GDP budget deficit in the 2020 budget. In its October 2020 economic outlook, the IMF projected a fiscal deficit of 16.4 percent of GDP by end of 2020.[14]

10 IMF, Regional Economic Outlook (2020), www.imf.org/en/Publications/REO/Issues/2020/10/20/Regional-Economic-Outlook-October-2020-Sub-Saharan-Africa-A-Difficult-Road-to-Recovery-49787
11 Fitch Ratings, "Ghana's Slow Fiscal Consolidation May Add to Rating Strains."
12 Michael Geiger and Arthur Mendes, *Will procyclicality override Ghana's new fiscal responsibility law?* (World Bank, 2019), blogs.worldbank.org/africacan/will-procyclicality-override-ghanas-new-fiscal-responsibility-law
13 IMF Country Report (2019), www.imf.org/~/media/Files/Publications/CR/2019/1GHAEA2019002.ashx
14 IMF, *Regional Economic Outlook* (2020), www.imf.org/en/Publications/REO/Issues/2020/10/20/Regional-Economic-Outlook-October-2020-Sub-Saharan-Africa-A-Difficult-Road-to-Recovery-49787

The oil price crash has seriously affected these projections. The July revised national budget predicts a fiscal revenue drop of 20 percent in 2020 compared to earlier estimates (GHS 13.4 billion). Petroleum revenue shortfalls represent nearly 40 percent of this decline (GHS 5.2 billion; USD 907 million). The government has invoked the FRA's escape clause and projects a 6.3 percent of GDP deficit in the first half of 2020. The figure is likely to grow over the second half of the year to almost 8 percent of GDP, according to government figures.[15] Independent analysts place the figure above 12 percent of GDP.[16]

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The government's plan is to finance the growing deficit primarily with domestic financing. Approximately GHS 8.8 billion (USD 1.5 billion) has been secured from multilaterals (IMF, World Bank and African Development Bank) and the government is maintaining its plan to only borrow USD 3 billion in Eurobonds (already issued in February 2020) in addition to nearly USD 1 billion in project loans. However, it intends to increase its Ghanaian cedi borrowing from non-bank financial institutions by more than GHS 7 billion, borrow GHS 10 billion from the Bank of Ghana and withdraw GHS 1.2 billion from the Ghana Stabilization Fund, which the government says it will replace by December 2022. The domestic borrowing portion is likely to further crowd out credit to Ghanaian businesses, especially given high interest rates offered by the government on cedi-denominated bonds.

Central bank purchases of government debt have raised fears that too much debt monetization will lead to runaway inflation. These fears are largely unfounded. Inflation is largely a function of inflation expectations. If the central bank purchases government debt denominated in Ghanaian cedis as a temporary emergency measure, but commits to responsible and predictable monetary policy once the crisis is over, as the Bank of Ghana has done, expectations will not substantially change. Some prices could rise temporarily, like those for some foods, but this will be due to frictions in specific markets, not debt monetization. That said, maintaining high levels of central bank deficit financing post-crisis could lead to inflation or exchange rate depreciation over the longer run. Debt monetization is a viable policy response in countries with credible central banks operating floating exchange rates, such as Ghana.

So far, central bank financing of the deficit has not generated excessive inflation. Headline inflation rose slightly in April and May, but only for food, housing and utilities, a result of COVID-related restrictions. Since July, the consumer price index has been declining marginally. Prices remain well within the inflation target band of 8 percent plus or minus 2 percent for all other goods and services.[17] The currency has stabilized at just above USD 0.17 per cedi since the start of the crisis.

The Petroleum Revenue Management Act (PRMA) requires the government to allocate a portion of oil revenues to the Ghana Heritage Fund (GHF), Ghana Stabilization Fund (GSF) and the Annual Budget Funding Amount (ABFA), which feed into the national treasury account for current year spending. The most recent balances show USD 608 million in assets in the GHF and USD 133 million in the GSF.[18]

15 Ghana Ministry of Finance, Mid-Year Budget Statement (2020), www.mofep.gov.gh/sites/default/files/budget-statements/2020-Mid-Year-Budget-Statement_v3.pdf

16 Fitch Ratings, "Ghana's Slow Fiscal Consolidation May Add to Rating Strains."

17 Bank of Ghana, *Statistical Bulletin* (2020), www.bog.gov.gh/wp-content/uploads/2020/08/Statistical-Bulletin-May-2020.pdf

18 Bank of Ghana, Petroleum Holding Fund (PHF) & GPFs Semi-Annual Report: Jan. 1 to Jun. 30, (2020), www.bog.gov.gh/news/petroleum-holding-fund-phf-gpfs-semi-annual-report-jan-1-to-jun-30-2020

Since inception, the average annual rate of return on GHF savings has been 2.5 percent (USD year-on-year) while the average annual rate of return for the GSF has been 0.93 percent. This is because the PRMA prescribes low risks instruments as qualifying instruments for investment of the petroleum funds (GHF and GSF). Given the 5.5 to 7 percent difference between Ghana's cost of borrowing and its rate of return on savings, the government loses money with each dollar it saves in petroleum revenues rather than paying down the debt or investing in growth-enhancing public assets.

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On the other hand, given Ghana's significant debt burden, the transfer of money from the Petroleum Funds to the treasury has only encouraged further borrowing. Between 2011 and 2019, about 87 percent (USD 808.86 million) of all transfers into the GSF have been drawn down in line with provisions in the PRMA and the government has continued to borrow despite increasing petroleum revenues accruing to the Sinking Fund.[19] The government continues to run large fiscal deficits and borrow in foreign currency, implicitly collateralized by future petroleum earnings. The principal justification for maintaining foreign savings would be for liquidity management or as a store of foreign currency if the government intends to default on its debt in the near future. In this case, it would need a store of foreign currency to pay for imports while the debt is restructured.

At the same time, transferring the GHF and GSF balances to the treasury account would not fill the government's deficit gap nor would it address Ghana's debt challenge. At best, it would reduce the deficit by 10 to 20 percent in 2020 or cover several months of debt servicing. Eliminating the GHF or GSF without broader reforms such as expenditure controls, revenue mobilization measures and/or debt restructuring would only delay solving the problem. It would certainly not address Ghana's underlying public finance challenges.

While gold royalties are expected to increase, other revenue streams may not respond in the way models would predict. The proposed Agyapa deal may sign away three quarters of future gold royalties to Agyapa Royalties in perpetuity.

With respect to revenue mobilization, the good news is that the gold sector is benefiting from record-high prices. Unfortunately, the Ghanaian mineral fiscal regime is largely neutral relative to profitability, meaning that the government's share of profits will not increase as prices increase. Moreover, base erosion and profit shifting, along with tax avoidance, have historically resulted in under-payment of corporate income taxes and dividends, the two revenue streams that models suggest would grow the most when prices rise.[20] While royalties are expected to increase, other revenue streams may not respond in the way models would predict. For example, the proposed deal may sign away three quarters of future gold royalties to Agyapa Royalties in perpetuity.[21] On the other hand, exploration companies are finding it easy to raise cash from investors, meaning that exploration activities may intensify over the coming years.

19 D.M. Gyeyir, "The Ghana Stabilisation Fund: Relevance and Impact So Far," *Energy Policy 135* (2019) 110989, www.sciencedirect.com/science/article/abs/pii/S0301421519305762

20 Alexander Malden and Edna Osei, *Ghana's Gold Mining Revenues: An Analysis of Company Disclosures* (NRGI, 2018), resourcegovernance.org/sites/default/files/documents/ghana-gold-mining-revenue-analysis-company-disclosures.pdf

21 Tax Justice Network, *Murky Ghana Gold Deal raises questions about role of finance in secrecy jurisdictions* (2020), www.taxjustice.net/2020/09/04/murky-ghana-gold-deal-raises-questions-about-role-of-finance-in-secrecy-jurisdictions/

As we discussed, oil sector revenues are expected to be less than 50 percent of what the Ghana Ministry of Finance projected at the beginning of 2020. Equally worrying from a revenue mobilization perspective is that Aker Energy, the operator of the Pecan field, has delayed investment due to the drop in oil prices. A recent statement from the company indicated a willingness to change the project plan to suit the lower oil price environment.[22] Ghana's other major fields, the ENI-operated Sankofa field and the Tullow-operated Jubilee and TEN fields remain on schedule or in production.

Over the longer term, a growing number of oil companies, investors and independent analysts are revising their expectations for oil prices downward in anticipation of an intensifying global transition away from fossil fuels.[23] Temporary price increases above 2020 levels may give the impression of a revival in hydrocarbon markets, however the underlying energy transition and shale revolution will cap oil prices over the long run. We estimate that the Ghana National Petroleum Company (GNPC) plans to invest USD 3 billion in capital expenditures on high-risk projects over the next decade, not including cost overruns and expenses indirectly related to project development. Ghana may need to reconsider its large bet on the petroleum sector, specifically its financial support of GNPC and equity in oil and gas projects. These scarce resources could generate a higher social return in other sectors, such as education and internet infrastructure. The Ghana Beyond Aid development strategy is a step towards export diversification and non-resource growth, however capital spending will need to be better targeted and the debt problem will need to be addressed in order to create the fiscal space to invest more domestically.

Ghana may need to reconsider its large bet on the petroleum sector, specifically its financial support of GNPC and equity in oil and gas projects. These scarce resources could generate a higher social return in other sectors, such as education and internet infrastructure.

22 OE Offshore, *Engineer Down But Not Out: Aker Energy Committed to Developing Ghana Offshore Oil Field Despite Delay* (2020), www.oedigital.com/news/479092-down-but-not-out-aker-energy-committed-to-developing-ghana-offshore-oil-field-despite-delay

23 In 2020 alone, major international oil companies have written off more than USD 80 billion after reducing their long-term oil price assumptions. Jillian Ambrose, "Seven top oil firms downgrade assets by $87bn in nine months," *The Guardian*, 14 August 2020, www.theguardian.com/business/2020/aug/14/seven-top-oil-firms-downgrade-assets-by-87bn-in-nine-months.

POLICY OPTIONS

Fiscal discipline and stability

The Fiscal Responsibility Act (FRA) was a step towards breaking the government's cycle of tax breaks and over-spending, especially before elections, and increasing debt and debt servicing costs. Yet even before the coronavirus pandemic, the government was able to circumvent the deficit rule with off-budget spending—for instance, the Sinohydro deal—or creative accounting.[24] The law is also pro-cyclical in nature, enhancing boom-bust cycles rather than mitigating them, and lacks a strong enforcement mechanism.

The GSF was designed to smooth the flow of oil revenues to the treasury. Whereas this would smooth overall fiscal expenditures in a more oil-dependent country, in Ghana it has no noticeable effect on general expenditure volatility.

We recommend a broad legal review of Ghana's macro-fiscal regime, including the PRMA and the FRA's pro-cyclical fiscal rules. The government of Ghana may wish to consider either replacing the rules in the FRA or adding a simple expenditure growth rule, as Australia, Denmark, Israel or Peru have done. As the IMF writes, "One of the desirable features of expenditure rules compared to other rules is that they are not only binding in bad but also in good economic times. The compliance rate in good economic times, defined as years with a negative change in the output gap, is at 72 percent almost the same as in bad economic times at 68 percent."[25]

The government of Ghana may wish to consider either replacing the rules in the Fiscal Responsibility Act or adding a simple expenditure growth rule, as Australia, Denmark, Israel and Peru have done.

We also recommend that the government introduces a fiscal stabilization mechanism. This could involve transforming the GSF into a stabilization fund that would absorb revenue shocks from all fiscal revenues, not just from the oil sector, and increasing the size of precautionary savings. This may mean expanding the scope of the stabilization fund beyond petroleum to include other revenues sources. After all, the oil sector is not the only source of fiscal revenue volatility. The mineral and cocoa sectors, along with broader global trends, are also sources of volatility.

Finally, we recommend outsourcing deficit calculations to independent analysts, as Canada and Chile have done, and supporting the fiscal advisory council with research and logistical support. NRGI has worked with the Public Interest and Accountability Committee (PIAC) for many years in this capacity, which has proven a valuable partnership for both organizations.

24 IMF Country Report (2019), www.imf.org/~/media/Files/Publications/CR/2019/1GHAEA2019002.ashx

25 IMF, *Expenditure Rules: Effective Tools for Sound Fiscal Policy?* (2015), www.imf.org/external/pubs/ft/wp/2015/wp1529.pdf

Case study: Peru

In 1999, Peru passed its Law on Fiscal Responsibility and Transparency, following a deterioration in public finances and regular sovereign defaults from the 1980s to 1997.[26] Over the years, several amendments have been made to the law, though the principles of fiscal stability and sustainability have remained.[27] As of 2018, the fiscal rules in the law and regulations were: (1) public debt cannot exceed 30 percent of GDP; (2) fiscal deficit will converge to 1 percent of GDP by 2021; (3) real recurrent expenditure (wages and salaries, goods and services and pensions) of the government cannot increase by more than 3 percent annually (estimated potential GDP growth); and (4) any new permanent spending plans require new permanent revenue sources. Also, within the first seven months of an election year, recurrent expenditure of the government cannot exceed 60 percent of the budgeted amount.[28] In most years, these rules generate fiscal surpluses.

The law also includes an escape clause that allows a three-year relaxation of the targets in case of national emergency as declared by congress or in case of recession, a term defined in law. Finally, the law mandates the creation of an independent fiscal council and requires reporting explicit contingent liabilities.[29] In practice, the Ministry of Economy and Finance publishes the fund's balance sheet, deposits, withdrawals and overall returns on an annual basis, but not details on fund investments.[30]

The law established a Fiscal Stabilisation Fund, managed by the Ministry of Economy and Finance and overseen by a board of the minister of economy of finance, the central bank governor and a representative of the president. The board has published an investment mandate which requires the fund to only invest in demand deposits or term deposits in major convertible currencies, mostly with maturity of less than a year. All placements are in low-interest, safe and liquid assets.[31] In practice, returns have been modest, averaging around 0.5 percent annually, though the return rose to two percent in 2018.[32]

Deposits consist of budget surpluses along with 10 percent of the sales of privatized assets or state concessions. Previously, 30 percent of royalties from non-renewable resource extraction were deposited into the fund, but this provision was removed in 2013.[33] The interest earned on the fund is used to support the budget (prior to 2013, the fund reinvested the interest). No other withdrawals of the principal can be made except, in the case of national emergency or recession. The fund cannot be used as collateral nor to guarantee loans.[34]

The fund used to be capped at four percent of GDP but can now be larger if public debt is below 30 percent of GDP. Once the fund reaches four percent of GDP, all revenues from asset privatization and concession must be deposited into a Public Infrastructure and Public Services Fund which is administered by Proinversion, a state-owned agency that implements private-public-partnerships across various sectors. The budget surplus must either go to paying down the public debt if it is too high, or is accumulated in the fund if debt levels are low enough.[35] As of 2018, the fund's balance stood at approximately USD 6 billion, or less than three percent of GDP.[36]

Due to its simplicity, intuitiveness and flexibility, the Peruvian fiscal framework has proven robust to external economic shocks and political changes. Despite changes in government, public spending growth has remained relatively stable and public debt remains low. These rules have also served Peru well in the coronavirus pandemic, as the government has been able to draw down on the Fiscal Stabilization Fund and borrow much more cheaply than most other low- to middle-income countries, rather than make harmful cuts or risk a sovereign debt crisis, due to its strong financial position.[37]

26 David Beers and Jamshid Mavalwalla, *Database of Sovereign Defaults* (Bank of Canada, 2017), www.bankofcanada.ca/wp-content/uploads/2016/06/r101-revised-june2017.pdf
27 Juan Carlos Berganza, *Fiscal Rules in Latin America: A Survey*, (Banco de España, 2012), www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosOcasionales/12/Fich/do1208e.pdf
28 IMF, *Peru: Article IV Consultation* (2018), www.imf.org/en/Publications/CR/Issues/2018/07/25/Peru-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46099
29 IMF, *Peru: Fiscal Transparency Evaluation* (2015), www.imf.org/external/pubs/ft/scr/2015/cr15294.pdf; Government of Peru, *Informe annual del Consejo Fiscal* (2018), cf.gob.pe/wp-content/uploads/2019/04/Informe-anual-del-Consejo-Fiscal-2018-version-final1.pdf
30 Peru Ministry of Finance and Economy, *Balance del fondo de estabilizacion fiscal* (2018), www.mef.gob.pe/contenidos/tesoro_pub/fef/FEF2018.pdf
31 Peru Ministry of Finance and Economy, *Lineamientos de inversion del fondo de estabilizacion* (2015), www.mef.gob.pe/contenidos/tesoro_pub/lin_inversion/Lineamientos_inversion_dic2015.pdf
32 Peru Ministry of Finance and Economy, *Balance del fondo de estabilizacion fiscal.*
33 Juan Carlos Berganza, *Fiscal Rules in Latin America: A Survey.*
34 Peru Ministry of Finance and Economy, *Lineamientos de inversion del fondo de estabilizacion.*
35 Raul Salas, et al, *El Fondo de Estabilizacion Fiscal en Peru* (Central Bank of Peru, 2018), www.bcrp.gob.pe/docs/Publicaciones/Revista-Moneda/moneda-174/moneda-174-07.pdf
36 Peru Ministry of Finance and Economy (2018) *Balance del fondo de estabilizacion fiscal.*
37 Andrew Bauer, "As Resource Revenues Come Up Short, Governments Adapt in Unusual Ways" (NRGI, 2020), resourcegovernance.org/blog/resource-revenues-coming-short-governments-adapt-coronavirus

DEBT RESTRUCTURING OPTIONS

Spending 50 percent of all fiscal revenues on interest to the government's creditors limits fiscal space to spend on development projects and social services, represents an enormous transfer of wealth from taxpayers to foreigners and wealthy Ghanaian investors, and risks exponential debt growth and eventual sovereign default. The government has already taken some steps to reduce debt servicing costs, for instance by lengthening the average time to maturity and tapping into concessional financing by international financial institutions. However, these measures do not address Ghana's underlying debt challenges which threaten the nation's future.

The government's current debt management strategy seems to be centered on remaining solvent rather than lowering interest payments so that these resources could be reallocated to social services and infrastructure. The rationale, as in other countries' facing similar fiscal situations, is that debt restructuring or default would lead to an economic crisis through which the country would be cut off from external financing for a time. In this scenario, domestic bondholders, principally Ghanaian financial institutions reliant on interest payments from the government, might fail.

The Ghanaian government's current debt management strategy seems to be centered on remaining solvent rather than lowering interest payments so that these resources could be reallocated to social services and infrastructure.

Nonetheless, we recommend a reconsideration of the current debt management policy, which is holding back the government's ability to invest in transformative development projects. We recommend that the government seriously examine the advantages and costs of debt restructuring. We also support the government's efforts to negotiate substantial debt relief for several African countries. The alternative is to maintain the cycle of increasing debt servicing costs, debt crises, IMF bailouts and fiscal consolidation programs that harm the Ghanaian people.

OTHER POLICY OPTIONS

The acute debt challenge and the need for transformative investments in education, healthcare and infrastructure to reduce poverty and grow the economy require more fiscal revenue. This will involve widening and deepening the tax base, introducing new revenue streams and improving compliance with tax laws and regulations.

Widening and deepening the tax base refers mainly to reform of income taxes, VAT and other generally applicable revenue streams not specific to the extractive sector. Other policy institutes are better placed to comment on these issues.

New revenue streams can support Ghana's energy transition as well as its macroeconomic challenges. For instance, the government could introduce taxes on emissions of greenhouse gases or fossil fuel energy production. New revenue sources could also address the fiscal deficit and balance of payments problems, for instance through luxury consumer good import fees. In the mining sector, the introduction of a new sliding-scale royalty or resource rent tax could generate additional revenue and improve progressivity, though neither is likely to generate immediate returns due to stabilization clauses in mining contracts.

Compliance with the fiscal regime remains a major issue in the oil, gas and mineral sectors. Several reforms were enacted over the last few years to address the challenges, including introducing a capital gains tax and automation of certain declarations.[38] However much more is needed, such as punitive sanctions on those found to have avoided taxes, more audits and more empowered staff at the Ghana Revenue Authority.

38 Oxford Business Group, *COVID-19 Economic Impact Assessment* (2019), oxfordbusinessgroup.com/overview/compliance-focused-recent-reforms-could-yield-compliance-and-revenue-gains-2019

While fiscal rules and improving revenue generation can help close the fiscal deficit, spending inefficiencies also need to be reviewed. As we have seen in the energy sector, weak contracting processes and insufficient planning can cost Ghanaian taxpayers billions of dollars. This money could be better spent on education, healthcare, water, sanitation and other priorities.

We suggest establishing an independent, multi-partisan commission to study the challenges associated with public financial management and to make recommendations on specific reforms to reduce wasteful spending and target projects that will spur economic development and reduce poverty. Ghana needs a reform and spending plan that is supported by all political parties and that permanently addresses bottlenecks to development and spending inefficiencies.

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