Obed Ashie, the Vice President, Head, Corporate Debt at Absa Bank Ghana, has advised businesses in financial distress to consider swapping their debt with equity as a method of restructuring their debt to avoid defaulting on their loans.

He remarked that debt to equity swap occurs when creditors agree to cancel a portion, or all of a company's outstanding debt, in exchange for equity (part ownership) of a business.

Distressed businesses may also consider loan haircut (when a company negotiates with its creditor to write off or not to pay a portion of outstanding loan balance or interest) or negotiate new payment terms.

Mr. Ashie further remarked that these methods "can be win-win for both sides, as the company avoids bankruptcy, and the creditor receives more than it could in a liquidation scenario".

He was speaking at a recent UKGCC webinar organised in partnership with Absa Bank Ghana and the Ghana Association of Restructuring and Insolvency Advisors (GARIA) on "Corporate Restructuring, Debt Restructuring and Refinancing". The webinar was moderated by Eric Nii Armaah Ashitey, Director of Global Clients, Absa Bank Ghana, and chaired by John Addo Kufuor, CEO of The African Regent Hotel and UKGCC Board Member.

Debt restructuring in general restores liquidity to a company to avoid bankruptcy; gives a business respite to operate and be in a position to start debt repayments; reduces the level of debt; decreases interest rate; and increases the time to pay back the debt.

Mr. Ashie also addressed the topic of debt refinancing, which occurs when an existing loan is paid off by a new loan with better terms (interest rates or payment schedule).

"You need to understand your needs as a business. What you want to avoid is the situation where default happens before you approach your creditor or lender to consider restructuring of your debt obligations…don't shy away from having that conversation with your lender/creditor", he cautioned.

Speaking on the Corporate Insolvency & Restructuring (CIRA) Act 2020, Mr. Felix E. Addo, President of GARIA, said in 2020, an Administration/Restructuring (Act 1015) element was added to the options available to a company in distress.

This element was designed to help turn around a company by providing the legal framework for the temporary management of the affairs, business and property of a distressed company; and placing a temporary freeze on the rights of creditors and other claimants against a distressed company, instead of resorting to liquidation.

Companies likely to be placed in restructuring are those unable to pay debts or those with negative net worth.

Despite the business-friendly options available in the CIRA Act, there have been challenges in its implementation, such as lack of awareness by all stakeholders; inadequate institutional capacity; limited capacity of IPs; and absence of distressed funding.

Mr. Addo urged the government of Ghana to set up venture funds to take care of distressed companies.

In his closing remarks, Mr. Kufour remarked that “the timing of this webinar couldn’t be better”, as businesses continue to build back better in the shadow of the COVID pandemic. He urged companies to be self-aware and employ best corporate practices to turn the businesses around.

Speakers also discussed the pros and cons of debt restructuring and debt refinancing; appointment of an administrator, period for convening, and classification and priority of debt under the CIRA among others.