

# Resource-Backed Loans in Ghana: Risks, Opportunities and Lessons

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## Key messages

- Ghana's government continues to pursue "creative" financing approaches involving the country's resources. Lessons from Ghana's past experiences with resource-backed loans (RBLs) should inform such plans as there are shared characteristics and risks.
- RBL arrangements have helped to address critical infrastructure gaps in key sectors such as power, gas and road infrastructure but are characterized by ineffective oversight, project financing challenges, hidden debt and negative economic impacts. Officials ought to address such risks in the conception of any unconventional financing arrangements in the future.
- RBLs in Ghana, as elsewhere in sub-Saharan Africa, have been largely characterized by unrealistic projections of loan amounts and potential projects; this has resulted in disbursement challenges and project funding bottlenecks. More modestly sized loans and rigorous valuation of earmarked projects could address these and minimize costs charged as a percentage of the initial loan amount.
- Given the trajectory of Ghana's debt and questions around the use of borrowed funds, it has become imperative for the government to publish all project-related loan contracts, including RBLs, with foreign creditors of all types. Officials can draw lessons from the experiences of nearby countries including Cameroon.
- Collateralized resources are collectively owned by citizens; officials and policymakers must therefore solicit and hear their concerns. The government must factor citizens' concerns about collateralizing mineral royalties into the structure of any deal. It is not sufficient for sponsors to rush such deals through parliament with the justification that "the representatives of the people will provide oversight."

## INTRODUCTION

Developing countries have trouble financing development mainly due to limited access to capital markets, high cost of borrowing, slow growth, or a mix of these. Countries with natural resource endowments have attempted in the last few decades to leverage these endowments to surmount those challenges. Many of their development efforts focus on closing huge infrastructure gaps.

Ghana is a producer of cocoa, minerals, oil and gas—assets that have increasingly featured in the government's infrastructure financing plans. Ghana's [infrastructure financing](#) totaled USD 23 billion between 2007 and 2020, and annual infrastructure investment will need to reach \$9.3 billion by 2030 (13.9 percent of 2019 GDP). Official development funding and private sector financing have been inadequate to meet these infrastructure needs. As a result, the [Ghana Infrastructure Plan](#) identifies Chinese infrastructural funding as a source to fill the gap.

Ghana's infrastructure financing has in part relied on leveraging its natural resources. Through resource-backed loans (RBLs), governments (directly or through state-owned companies) borrow funds and repay the loans in physical natural resources or with money from resource-related future income streams. Ghana has entered into three such RBL deals, totaling more than \$5 billion, in the last two decades; all three involve Chinese state-owned enterprises as lenders.

Given the country's narrowing fiscal space and debt levels, Ghanaian officials may be tempted to explore additional innovative financing arrangements including pursuing additional resource-backed loans (RBLs).

The government continues to pursue "creative" financing approaches involving Ghana's resources, such as the controversial proposed Agyapa deal whereby the government would leverage mineral royalties for development financing by listing of 49 percent of Ghana's gold royalties through a special purpose vehicle. While Agyapa is not a resource-backed loan per se, Ghana's experience with RBLs should inform such plans as there are shared characteristics and risks with resource valuation and collateralization, project financing, lack of transparency and citizen consultation.

## HISTORY OF RESOURCE-BACKED LOANS IN GHANA

In 2007, Ghana entered into a \$292 million loan agreement (as part of the China Exim Bank facility) for the construction of a hydro-generated power plant on the Bui Dam. The government guaranteed repayment with proceeds from the sale of up to 30,000 metric tons of cocoa beans per year to Genertec Corporation of China by the Ghana Cocoa Board (Cocobod) until the dam became operational. The loan had a 17-year maturity, a five-year grace period, and an interest rate of 6.13 percent. A year later, Ghana's government borrowed a further \$296 million from China Exim Bank on more concessional terms.

In 2011, barely a year after Ghana began commercial oil production, its government signed a \$3 billion commercial loan agreement with the China Development Bank (CDB), which was later capped at \$1.5 billion, on these terms:

Amount	Project	Key terms	Guarantee
\$3B (\$1.5B tranche A and \$1.5B tranche B)	Multiple (including Atuabo Gas Project)	Tranche A: 15-year maturity, five-year grace period, interest rate of 6-month LIBOR plus a 2.95% margin, a 0.25% upfront fee, and a 1% commitment fee  Tranche B: 10-year maturity, three-year grace period, an interest rate of 6-month LIBOR plus a 2.85% margin, and a 1% commitment fee	13,000 bpd from Jubilee Field to UNIPEC Asia over a 15.5-year period

Terms of China Development Bank – Government of Ghana facility

Then, in 2018, Ghana's government entered into a \$2 billion agreement with Sinohydro Corp., a Chinese state-owned hydropower and construction company. Under a master project support agreement (MPSA), Sinohydro is meant to finance and execute the construction of infrastructure projects in Ghana. In return, Ghana will repay the loan amount with earnings from an as-yet unconstructed bauxite refinery.

Little is known about the quantities of alumina involved in the repayment but known terms include a loan tenure of 15 years with a three-year grace period at an interest of LIBOR plus 2.8 percent. The first tranche of \$649 million was reportedly disbursed, and is being spent on various road construction projects. Little is known about a second tranche which was expected in early 2020.

## HAS GHANA BENEFITED FROM THESE ARRANGEMENTS?

These RBL arrangements have helped to address critical infrastructure gaps in key sectors such as power, gas, roads and road infrastructure among others.

The cocoa-collateralized [Bui Power Project](#) is the country's second largest hydro project with installed capacity of 404 MW and contributes about 10 percent of Ghana's power supply. The plant provides clean and reliable supply of power to the northern sector and contribute to Ghana's non-fossil power generation.

The CDB loan, which funded construction of the [Atuabo Gas Processing Plant \(AGPP\)](#), helped to minimize the atmosphere-damaging practice of gas flaring and gas reinjection while guaranteeing relatively cheaper gas supply for power generation and industrial use. Close to 90 percent of processed gas from the plant is supplied for power generation which, in addition to gas from other fields, has led to all but one thermal power plant being run on gas instead of crude oil. The gas produced from the processing plant, after some delays and incurrence of some extra costs, has yielded savings on costly fuel imports of at least \$1.5 billion, and the environment has benefited as a result of cleaner gas.

The Sinohydro bauxite loan has raised environmental concerns, particularly around impacts on the [Atewa Forest](#), which hosts one of four bauxite mines but is also a world-renowned reserve and a source of three major rivers that provide water to 5 million people in Ghana. In addition, there have been concerns around the repayment conditions in a difficult post-pandemic fiscal context. Nevertheless, on the infrastructure side, a number of projects under the facility are reportedly ongoing with the [Tamale highway interchange](#) recently inaugurated.

Other benefits include the creation of jobs, especially as some of the RBL deals have local content requirements. Both the Bui generating plant and the processing plant are staffed by Ghanaian workers.

## KEY CHALLENGES AND RISKS OF RBLs IN GHANA

Several challenges and risks have hindered the realization of the full benefit of resource-backed loans in Ghana.

### Outsized expectations

RBLs in sub-Saharan Africa are often characterized by unrealistic projections of both loan amounts and projects that could be financed by the borrowed funds. In 2017, Guinea [announced](#) a \$20 billion deal backed by three bauxite concessions for multisector infrastructure including roads, port expansion and a university; this amount is greater than the country's gross domestic product. To date, a much more modest loan amount has been drawn down. Ghana's \$2 billion Sinohydro deal was initially announced as part of larger package of \$19 billion, but with few accompanying details. Even the relatively smaller \$3 billion CDB facility was eventually capped at half the originally mooted amount.

The Bui Power Authority better managed the smaller cocoa-backed Exim Bank facility, which was more targeted (one key project).

Wider consultations and rigorous valuation of earmarked projects by government officials could ensure more realistic loan amounts and that potential projects are funded. More modestly sized RBLs could also minimize costs (e.g., commitment fees, management fees) as these are charged as a percentage of the initial amount and paid upfront.

### Disbursement bottlenecks

Ghana's RBLs have also been troubled by disbursement bottlenecks. Disbursement of the CDB loan was substantially delayed, in turn delaying the construction of the gas infrastructure. To date, about \$1.4 billion of the loan amount has been disbursed. Similarly, as noted above, little is known about phase II of the Sinohydro loan, which was to be disbursed early 2020; projects under that phase are pending. Delays in disbursement and project execution can also create substantial additional costs to public finances. With the CDB loan, gas which should have been processed for domestic use had to be flared or reinjected, with around \$30 million in budgeted gas receipts for 2013 and 2014 forgone due to the delay in establishing gas infrastructure.

### Contractor selection shortcomings

In all three RBLs, elements of project execution (engineering, procurement, construction) have been undertaken by parties related to the Chinese lending entities. The absence of an international competitive tender reduces the incentive to deliver infrastructure projects that provide value for money.

### Setbacks to the economy and hidden debt

While these loans can address burning development challenges, they also add to the country's overall debt burden. Revenues that would otherwise accrue to the government are earmarked for repayment, usually through Escrow accounts set up outside of the country's financial system.

In the case of Sinohydro deal, the bauxite revenues leveraged are new and the Ministry of Finance, in a [justification](#) to the parliamentary finance committee, indicated that the transaction was a barter deal and would not add to public debt. Nevertheless, the Sinohydro [MPSA](#) makes clear that Ghana would have to use other sources to service the loan if the aluminum project fails to generate enough income. With bauxite reserves still being defined and validated, bauxite estimates or the target refined volumes may prove unrealistic—so Ghana's budget is not totally off the hook.

### Setting adequate repayment terms

RBL repayment terms may become a source of controversy over time. First, product valuation can be a source of dispute especially for those commodities where there is no clear benchmark price. Even for commodities with a benchmark price, volatile prices can lead to debates. For instance, with the CDB loan, the bank demanded more security as oil prices plummeted in late 2014 and 2015. Indeed, [CDB indicated](#) in 2014 that the 13,000 barrels per day of crude oil which provided backing for the \$3 billion loan could only guarantee \$850 million at a price of \$85 per barrel. Where a fixed price is used, as in the Sinohydro bauxite loan, Ghana risks missing out the upside of market price increases and the lender could demand, as in the CDB loan, a review of payment terms if prices drop significantly.

## Opacity of resource-backed loans

RBLs have been noted for the opacity, as observed in NREGI's 2020 study. Ghana's MPSA with Sinohydro indicates that neither party can disclose the loan's terms without prior approval of the other, except if compelled by law. The subsidiary agreements such as the important accounts agreements, security arrangements and the underlying engineering and construction contracts for beneficiary projects remain largely out of public view. Given the trajectory of Ghana's debt and questions around the use of borrowed funds, it has become imperative for the government to publish all project-related loan contracts, including RBLs, with foreign creditors of all types. The experiences of nearby countries suggest best practices: Cameroon, for example, has been touted as the only developing country that has published all of its project-related loan contracts with foreign creditors. These include RBLs entered into between 1999 and 2017.

## Effectiveness of parliamentary oversight

Ghana's constitution requires parliamentary authorization for loan agreements. In reality, these deals are seen as political and often lead to sharp divisions along party lines to the detriment of parliamentary scrutiny and the democratic accountability it is meant to provide. With the CDB loan, the then minority New Patriotic Party (NPP) abstained from approving the deal, citing violations of the Petroleum Revenue Management Act, disregard for International Monetary Fund borrowing limits and lack of clarity on projects costs. Similarly, concerns about the impact on debt levels among others were raised with the Sinohydro deal by the National Democratic Congress (NDC) minority in 2018.

Collateralized resources are collectively owned by citizens, and officials and policymakers must therefore solicit and hear their concerns. Citizens' concerns about collateralizing mineral royalties must be factored into the government's structuring of any deal. It is not sufficient for sponsors to rush such deals through parliament with the justification that "the representatives of the people will provide oversight." Parliamentarians ought to be more effective in scrutinizing the terms, and resource requirements for repayment. Stakeholder engagement with citizens and affected communities can help to amplify some of the issues for the attention of the parliament.

## CONCLUSION AND THE WAY FORWARD

Amid fiscal constraints, and low appetite among private creditors for making loans to Ghana, properly designed RBLs could have been a source of relief. In the current circumstances, another disbursement from a well-structured CDB or Sinohydro facility could have provided much needed project funding to fast-track the implementation of certain RBL-funded projects to address Ghana's infrastructure challenges with possible multiplier or spillover effects to other sectors. It could as well contribute to boost the economy. If the government is to pursue more RBL-type deals going forward, it should learn from its experience to date and seek to address the identified challenges and mitigate the risks.

## ABOUT THE AUTHOR

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