IN THE SECOND SESSION OF THE EIGHTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE ON THE LOAN FACILITY AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA (REPRESENTED BY THE MINISTRY OF FINANCE), AND AFRICAN EXPORT-IMPORT BANK (AFREXIMBANK) FOR AN AMOUNT OF UP TO SEVEN HUNDRED AND FIFTY MILLION UNITED STATES DOLLARS ($750,000,000.00) TO FINANCE CAPITAL AND GROWTH-RELATED EXPENDITURES IN THE 2022 BUDGET

1.0 INTRODUCTION

The Loan Facility Agreement Between the Government of the Republic of Ghana (Represented by the Ministry of Finance), and African Export-Import Bank (Afreximbank) for an Amount of up to Seven Hundred and Fifty Million United States Dollars ($750,000,000.00) to Finance Capital and Growth-Related Expenditures in the 2022 Budget was presented to the House on Thursday 16th June, 2022 in accordance with Article 181 of the 1992 Constitution of the Republic of Ghana and Section 56 of the Public Financial Management Act, 2016, Act 921.

Pursuant to Article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the Agreement was referred to the Finance Committee for consideration and report.

The Committee subsequently held series of meetings with the Hon. Minister for Finance, Mr. Ken Ofori-Atta, Hon. Minister of State at the Ministry of Finance, Mr. Charles Adu Boahen, Hon. Deputy Ministers for Finance, Dr. John Ampontuah Kumah and Mrs. Abena Osei Asare and Officials from the Ministry of Finance and discussed the Agreement.

The Committee hereby submits this report to the House pursuant to Order 161(1) of the Standing Orders of Parliament.

The Committee is grateful to the Hon. Ministers, Deputy Ministers and Officials for attending upon it and assisting in the deliberations.

2.0 REFERENCES

The Committee referred to and was guided by the following documents *inter alia* during its deliberations on the Agreements:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- The Public Financial Management Act, 2016 (Act 921)
- The Budget Statement and Economic Policy of the Government of the Republic of Ghana for the 2022 Financial Year.

3.0 BACKGROUND

The Government had expressed its intentions in the 2022 Budget Statement and Economic Policy of Government to raise up to the Ghana Cedi equivalent of US$750.00 million under a syndicated term loan facility arrangement to support the implementation of the 2022 Budget. The loan syndication approach was chosen following Government's announcement that no Eurobond would be issued in 2022 under the International Capital Market Programme (ICMP) until market conditions improve. This approach was necessitated because, at the time of the 2022 Budget approval, the spread of the new COVID-19 variants had led to the re-imposition of restrictions worldwide coupled with incidences of energy price increases and supply side disruptions thereby limiting access to the international capital market.

Additionally, the, the global economy, according to the IMF was in a weaker position than previously anticipated as a result of the emergence of new COVID-19 variants. Further supply chain disruptions, crude oil price hikes, rising global inflation and geopolitical risks in the Ukraine/Russia war has affected growth and financing conditions. As a response to these global economic challenges, Central Banks of the major world economies responded by raising interest rates to control the increasing levels of inflation in their economies. Other central banks have indicated their intention to hike rates to combat global elevation in inflation. Consequently, non-resident investors in Ghana's domestic bond market are pulling out of the country. From a high of 35% share of holdings in domestic bonds, the proportion of non-resident bond holders has declined to 16% as at end December 2021. A further reduction to 15% has been experienced as at the end of March 2022. This non-resident sell-offs also have implications for the level of reserves of the Bank of Ghana and foreign exchange management.

The withdrawal of non-resident investor in the domestic bond market is a cause for concern for economies such as Ghana which relies on the bond market (both international and domestic) to raise financial resources to support the implementation of the national budget and finance liability management operations.

As a policy response, the Ministry of Finance recommends an increase in the Sovereign issuance from US$750.00 million to US$1.00 billion through international loan syndication to support the implementation of the 2022 Budget.

The Ministry of Finance has therefore mandated the African Export-Import Bank (Afreximbank) to support government to raise up to US$750.00 million for the implementation of some flagship projects approved for loan financing in the 2022 Budget.

4.0 JUSTIFICATION FOR GOVERNMENT ACTION

Government intends to secure the credit facility to finance critical flagship projects under the 2022 Budget. This arrangement has become necessary because of the decision by Government not to use the capital market to raise financing until market conditions improve. Additionally, the increasing withdrawal of non-resident investors in Ghana's domestic bond market with its implications for the level of reserves of the Bank of Ghana and foreign exchange management generally requires the injection of additional foreign currency to shore-up the country's reserve to enable it meet its obligations when they fall due. The withdrawal of non-resident investor in the domestic bond market means that the government would need to adopt other innovative means to mobilise financial resources to support the implementation of the 2022 budget and finance liability management operations. To this end, the Ministry of Finance has therefore mandated the Afreximbank to support government to raise up to US$750.00 million for the implementation of some flagship projects approved for loan financing in the 2022 Budget. The execution of the loan agreements would provide the needed resources to support the implementation of some critical government projects and provide the needed foreign exchange to shore up the reserve position of the Bank of Ghana and support foreign exchange management.

5.0 USE OF PROCEEDS

The Government's total foreign financing requirement for 2022 was estimated at US$1.45 billion (equivalent of GH¢9.09billion), comprising exceptional financing of US$700.00 million from the US$1.00 billion IMF SDR allocation (which has been secured) and foreign financing of US$750.00 million to be raised through the International Capital Market Programme (ICMP), with an option to raise a further US$750.00 million for budget support and liability management. The financing requirements were provided for in the 2022 Budget Statement and Economic Policy of the Government. This effectively means that the approved Budget authorised Government to raise foreign financing up to US$1.50 billion to support the implementation of the 2022 Budget.

The US$750 million to be raised under this transaction therefore forms part of the ICMP. The proceeds would be used to finance critical infrastructure related projects in sectors such as roads, energy, railways, and health as captured in the 2022 Budget.

6.0 TERMS AND CONDITIONS OF THE LOAN

The US$750 million facility for budget support to be procured from Afreximbank. The facility comprises of two tranches. Tranche A is made up of EUR200,000,000 and US$101,000,000 and Tranche B is made up of US$350,000,000. The financing terms of the loan facilities are as follows:

Table 1: ***Terms of Afreximbank Facility (Up to US$750.0million)***

	Tranche A (EUR)	Tranche A (US$)	Tranche B (US$)
Loan Amount	**EUR200,000,000**	**US$101,000,000**	**US$350,000,000**
Grace period	3 years	3 years	3 years
Repayment period	4 years	4 years	7 years
Tenor	7 years	7 years	10 years
Interest Rate	Euribor (0.00%)	Term SOFR (2.56%)	Term SOFR (2.56%)
Margin (Inclusive of Insurance)	5.75%	6.25%	6.25%
Interest rate	5.57% p.a.	8.81% p.a.	8.81% p.a.
Upfront fee	1.75% flat	1.75% flat	1.75% flat
Commitment fee	1.00%	1.00%	1.00%
All-in-Cost	6.49% p.a.	9.55% p.a.	9.33% p.a.

7.0 OBSERVATIONS

The Committee having critically examined the Agreement made the following observations:

7.1 Financial Impact

The Committee expressed concerns over the alarming rate of debt accumulation and the increasing fraction of foreign currency denominated loans on the public debt. This is significant because, foreign currency denominated loans tend to increase the Debt to GDP when the local currency devalues thereby exerting pressure on debt service commitment of government. The Hon. Deputy Minister for Finance however indicated that Contracting the loans would not threaten the fiscal space, because the amount has been factored into the Government's Medium Term Debt Management Strategy (MTDS) and the annual borrowing plan. The fiscal impact has also been adequately incorporated in the 2022 Budget and forms part of the anticipated disbursements for 2022. Additionally, the related debt service cost has also been provisioned in the debt service payments for 2022.

7.2 Disbursement of the Facility

The Committee was informed that the facility would be disbursed by Afreximbank through the Bank of Ghana in accordance with the conditions of the loan Agreement. The Minister further explained that, when the facility becomes effective following regulatory approvals by Cabinet and Parliament and the fulfilment of conditions precedent to loan effectiveness, Afreximbank would disburse the loan proceeds in tranches to a designated account at the Bank of Ghana (BoG). Government would accordingly have disbursed the funds directly from the designated account at Bank of Ghana to honor payments under projects to which the funds would dedicated for.

The Bank of Ghana would release the funds for the execution of the projects as and when interim payment certificates are submitted to the Ministry of Finance, through the respective sector Ministries. The arrangement would provide BoG with the needed forex since funds would be released in Ghana Cedis as and when required. This could potentially help shore up Ghana's international reserves and invariably contribute to exchange rate stability.

7.3 Importance of the Facility

The Hon. Minister of Finance explained to the Committee that the approval of the facility is urgently needed to avoid the country going bankrupt and help the country meet its obligations. He indicated that Ghana has over the past recent years accessed financing from the International Capital market and the domestic bond market to support the implementation of its budget. However, the international capital market is not available to Ghana this year as a result of the downgrade of the country's credit rating by international rating agencies. The Government's intention to raise funds from the domestic bond markets did not also yield the desired result. Consequently, the economy is presently challenged with rising inflation, rising interest rates, exchange rate depreciation and increasing energy cost. These challenges are further exacerbated by the rapidly dwindling reserves of the Bank of Ghana which has declined from US$9bn to about US$3bn. With a monthly demand of over US$600 million, the reserves of the central bank may be exhausted in few months if urgent steps are not taken to shore up the countries reserves.

The Minister further indicated that, there is the urgent need for the Government to secure the US$750 million facility to help shore up the reserve position of the Bank of Ghana to avoid the country defaulting on its international commitments and also to avoid the country moving into insolvency.

The Minister explained that, the facility may seem expensive on face of its terms but is a reflection of market overall conditions in Africa as evidenced by the cost at which many African countries borrow from the international market.

7.4 Debt Sustainability and IMF Support

The Committee expressed worry about the impact of the facility on the countries debt sustainability levels which could deprive the country from benefiting from an IMF program since IMF, as a policy, does not lend to countries with unsustainable debt levels. The Hon. Minister explained that Ghana opted for an IMF program because of the increasing debt levels. He explained to the Committee that, a program with the Fund will help improve the country revenue generation and restructure the country's debt to avoid default. The Minister informed the Committee that the debt distress position of Ghana is consistent with the challenges confronting many African countries where the average debt to GDP levels has risen from an average of 60% to 70% across the continent. The Minister was confident that a program with the IMF will help restructure the country's debt and improve revenue generation to bring the nation's debt to sustainable levels.

7.5 Maturity Period of Significant Debts

The Committee noted that significant proportion of Ghana debt will fall due in early part of 2025 and 2026. According the 2021 debt Management report issued by the Ministry of Finance, about US$3.0 billion will fall due in 2024 and a further US$1.525 billion of the country's liabilities will fall due in the first quarter of 2025 and 2026. However, the Ministry of Finance has not put in place any measure to make available resources to retire the maturing debt thereby setting the country on the path of default in the next two years.

The Minister informed the Committee that the Ministry is equally concerned about the growing liabilities and its impact on debt sustainability. He assured the Committee that the Ministry will develop the necessary policies to ensure the availability of funds to retire maturing debts when they fall due. He reemphasizes the need to restructure the country's debt to bring to sustainable levels.

The Committee recommend that the Minister must as a matter of urgency set up a sinking fund to accumulate funds to retire maturing debts. A sinking fund will create buffers to enable the country withstand the shock of the projected increase in amortization to about US$25 billion in 2025. It will also reduce the potential of default and increase investor confidence in the country's bonds.

7.6 Promissory Note as Condition Precedent to Disbursement

The Committee noted that one of the conditions precedent for the disbursement of the Afreximbank facility is the issuance of promissory note by the Republic of Ghana. The Minister of State explained to the Committee that the promissory note is necessary to give lenders an assurance that their demand would be met when they fall due. Additionally, the promissory note allows investors to trade their debt in the secondary market but without any additional liability to Ghana. He assured the Committee that promissory notes are critical for term loan facilities. He further assured that, the Agreement has been reviewed by the Attorney-General and they have not raised concerns about any additional liabilities that the issuance of a promissory note by the state would imposed on Ghana.

7.7 Budget Threshold

The Committee noted that the 2022 Budget Statement and Economic Policy approved by Parliament is to be finance through a foreign borrowing of up to GH¢4.8 bn. Approval of the US$750 million request for Budget support means that, the Ministry of Finance would exceed its budget ceiling as approved by Parliament. This would further deepen the country's deficits levels.

The Minister of State explained to the Committee that the total financing in the 2022 Budget is pegged at GH¢36.0 billion. This is made up of a mix of domestic and foreign borrowing. He explained that, following a dwindling in domestic financing, the Ministry intends to increase the foreign financing component in the mix. He assured the Committee that, the Ministry intends to operate within the GH¢36.0 billion threshold approved by Parliament.

The Committee is of the view that, swapping domestic debt for foreign debt could exert additional pressure on the economy leading to currency depreciations with its attendant economic challenges. The Committee therefore urged the Minister for Finance to amend the mix of domestic and foreign debt requirements in the mid-year budget to reflect the present request.

7.8 Application of Funds to be Realised from the Facility

On what the funds to be realized from the facility would be used for, the Minister informed the Committee that, the resources would be used to shore up the reserves of the Bank of Ghana and to support some critical infrastructure projects in the 2022 Budget. Specifically, proceeds from the facility would be applied to the following projects:

Table 2: Indicative cost of Projects to be Finance from the US$750 million Afrexim Facility

SN	List of Project	Estimated Cost (US$)
1	Ofankor- Nsawam Road	200,000,000
2	Ejisu – Konongo Road	75,000,000
3	Completion of Nsawam Apedwa Road Project	10,000,000
4	Suame Interchange and Local Road Network Project	47,000,000
5	Completion of Flower Pot Interchange, Legon-Accra	35,000,000
6	Completion of Sofoline Interchange	35,000,000
7	Construction of Kwabenya – Peduase Road Project – GoG Counterpart Funding	10,000,000
8	Completion of Eastern Corridor Lots 5 and 6	70,000,000
9	*Completion of Enkyikrom – Adawso Road Project*	*98,000.000*
10	Purchase of Rolling Stock and Spare part	30,000,000
11	Construction of Stadia Infrastructure for all African Games	140,000,000
TOTAL		**750,000,000**

Note: The above costs indicated above are indicative estimates for the projects.

8.0 CONCLUSION

The Committee having carefully examined the Agreement is convinced that the facility forms part of Governments International Capital Market Programme (ICMP) aimed at raising funds to finance critical infrastructure projects in the 2022 Budget. Approval of the facility will also enable government meet its revenue projections in the Budget and support governments liability management and ensure exchange rate stability. The Committee therefore recommends to the House to approve the Loan

Facility Agreement Between the Government of the Republic of Ghana (Represented by the Ministry of Finance), and African Export-Import Bank (Afreximbank) for an Amount of up to Seven Hundred and Fifty Million United States Dollars ($750,000,000.00) to Finance Capital and Growth-Related Expenditures in the 2022 Budget in accordance with Article 181 of the Constitution, Section 56 of the Public Financial Management Act, 2016 (Act 921) and Order 169 of the Standing Orders of the Parliament of Ghana

Respectfully Submitted.

....	....
HON. KWAKU KWARTENG	**MRS. JOANA A. S. ADJEI**
(CHAIRMAN, FINANCE COMMITTEE)	**(CLERK, FINANCE COMMITTEE)**

19TH JULY, 2022