



REPUBLIC OF GHANA

## MINISTRY OF FINANCE

**Enhancing the government's negotiation position through rigorous financial analysis**

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Ministry of Finance, Ghana**

**CABRI POLICY DIALOGUE ON NEGOTIATING FAIR and BALANCED CONTRACTS WITH  
CREDITORS/INVESTORS in AFRICA  
5-6 October 2021**



*Stay Safe: Protect yourself and others.  
Observe the COVID-19 Health and Safety Protocols.*



Alice: **“Would you tell me, please, which way I ought to go from here?”**  
The Cheshire Cat: **“That depends a good deal on where you want to get to.”** Alice: **“I don't much care where.”** The Cheshire Cat: **“Then it doesn't  
much matter which way you go.”**





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# Content Overview

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- Introduction
  - BRIEF OVERVIEW OF THE DIFFERENT SOURCES OF DEBT FINANCING
  - FINANCING TERMS (INTEREST RATE, MATURITY, CURRENCY, ETC),
  - ASSESSMENT OF LOAN ETC TO MTDS, DSA ETC
  - REGULATORY FRAMEWORK TO CONTRACT LOANS
  - CHALLENGES
  - CONCLUSION
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# **BRIEF OVERVIEW OF THE DIFFERENT SOURCES OF DEBT FINANCING**

# Sources of Financing the Budget Matters

## Government Financing Sources

Printing Money

Inflation

Dom. Borrowing

Debt + Crowding Out

For. Borrowing

Debt + systemic crises

Sale of Assets

Sustainability

Arrears

Crowding Out

Foreign Grants

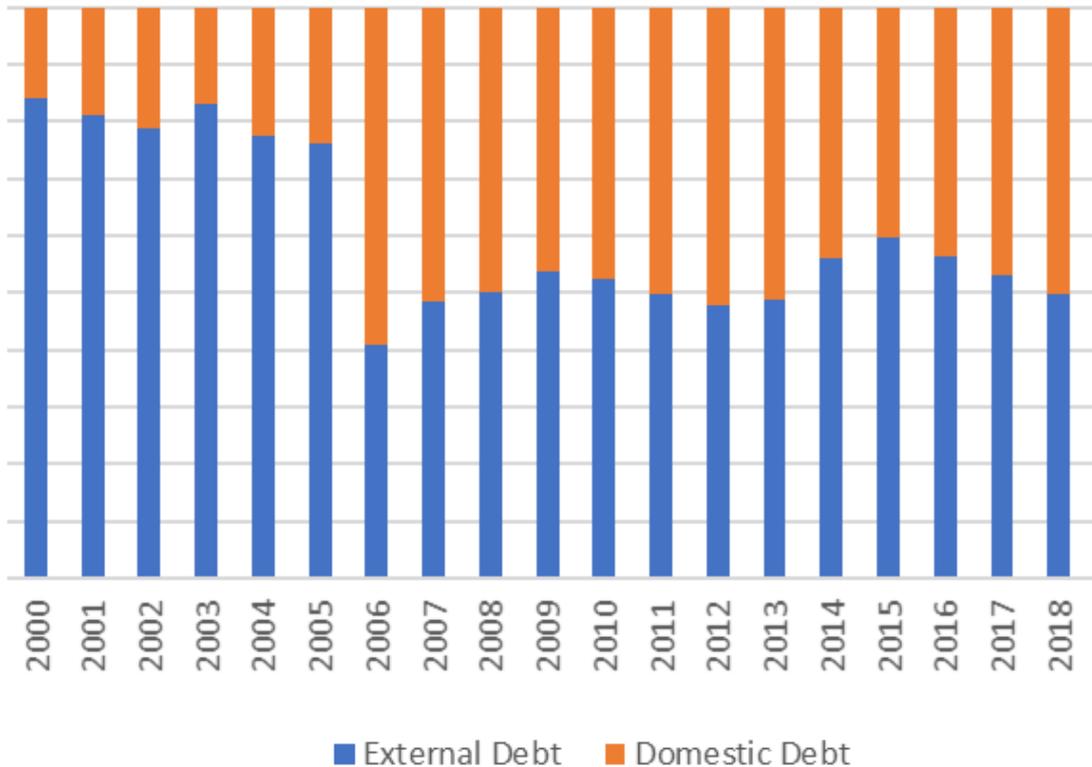
Predictability + Dwindling

Natural Resource

Sustainability

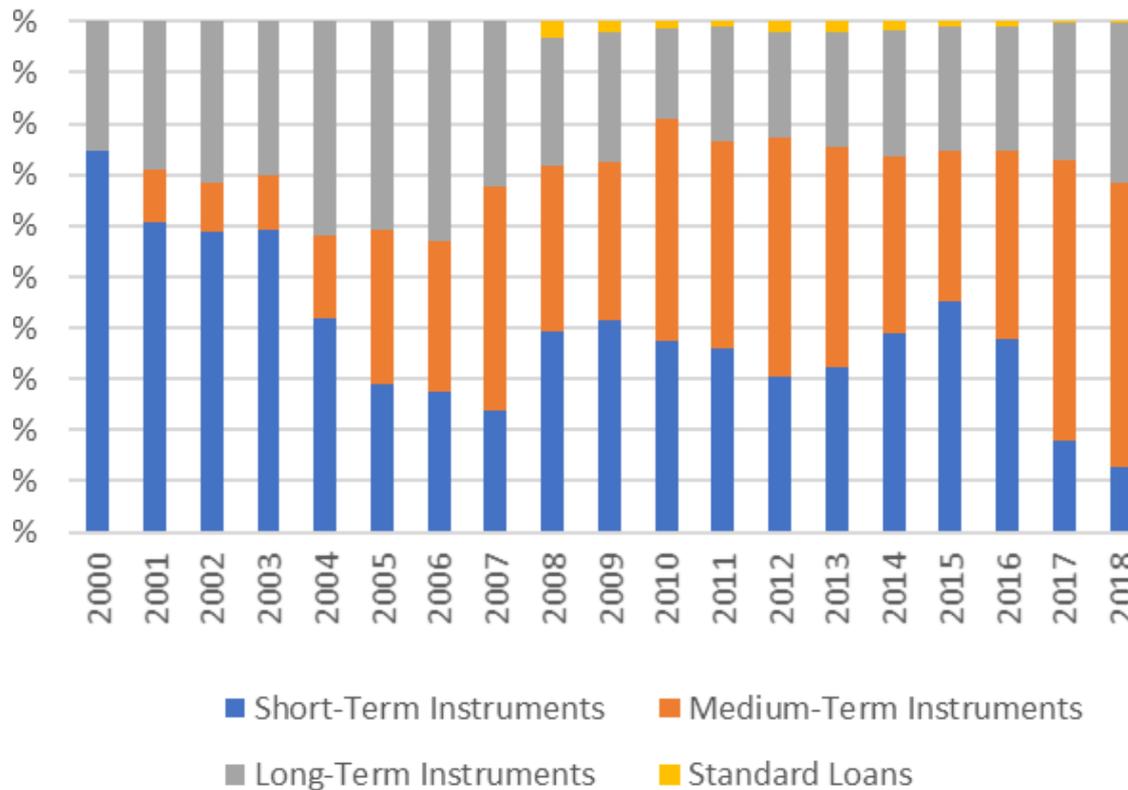
- Domestic Revenue is King.
- All other sources of Financing have implications.
- Why is that? ....

Total Debt stock mix in Ghana has changed, indicating a changing source of financing...



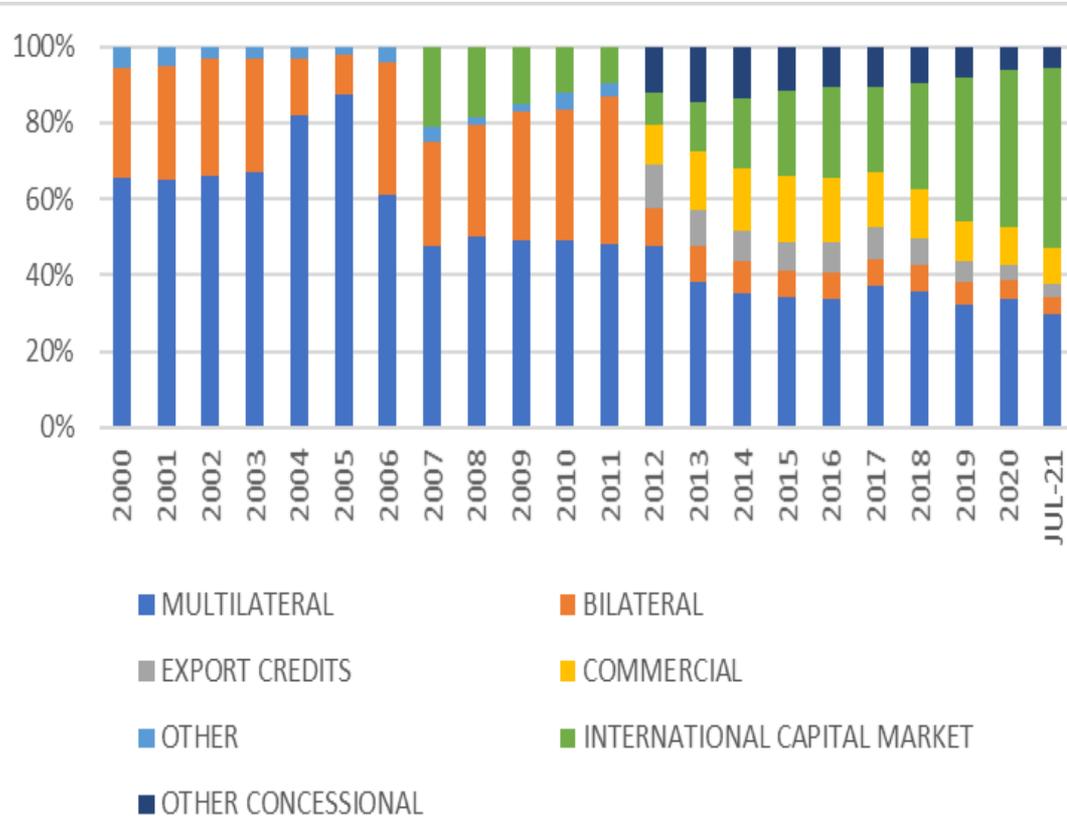
- Sources of Debt Financing are domestic & external
- External was 84% and Domestic 16% at the turn of the millennium,
- Two decades later external is 48 % and domestic 52%
- Why this development?.....

# Domestic Debt Stock Mix also changing over time



- Treasury Notes reducing over time.
- Medium to long Term Instruments increasing over time
- Book Building approach for Bonds & Auction for Treasury Notes.
- Primary Dealers for Treasury Notes; Bond Market Specialists from the Primary Dealers deal with Bonds.
- Exchange

# External Debt Stock Mix also changing over time



- At the turn of the millennium, Multilateral Funding dominated.
- 20 years later, International Capital Market dominating
- Why this development?.....
- What are the implications?.....

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FINANCING TERMS (INTEREST RATE, MATURITY,  
CURRENCY, ETC),

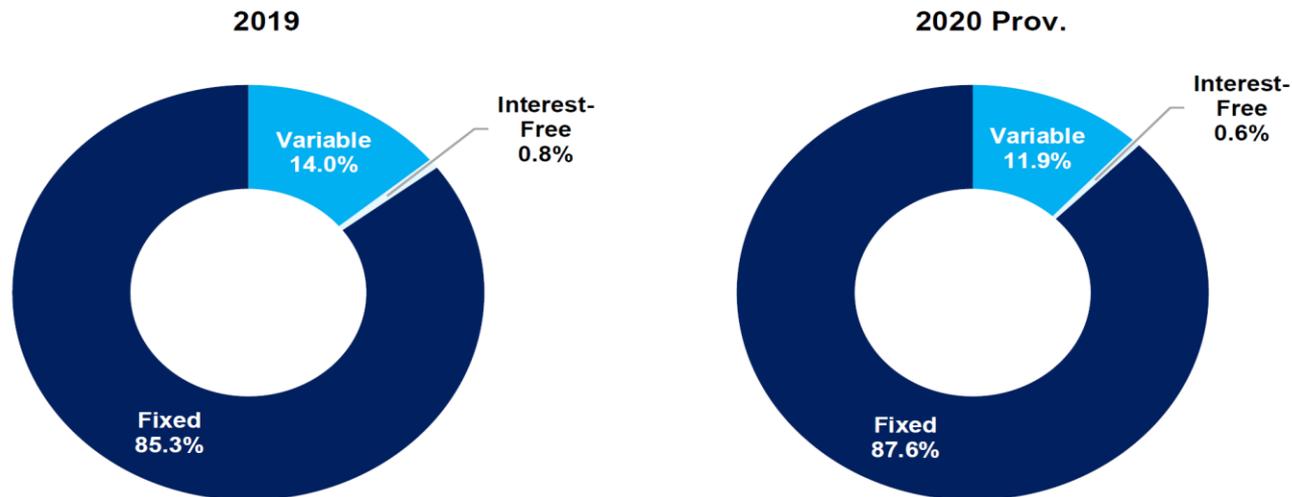
# Currency Composition in Ghana is changing due to pricing etc

Currency	2019	2020 Prov.
	<i>(in percent)</i>	
USD	70.7	70.0
Euro	16.6	17.3
CNY	2.6	3.8
GBP	1.9	2.2
JPY	3.0	2.0
Other currencies	5.3	4.5

- Loans contracted in Euros are increasing due to the competitiveness of its pricing.
- Euribor has been negative for almost 4 years and it is expected to remain low for the next decade.
- Caution: Compare composition of your reserves and exports receipts to your currency composition

# Fixed Interest Rate dominating Ghana's financing - Eurobond

- Fixed Rates with certainty in interest payments vrs variable rates with uncertainty in interest payments.
- Analyse the future economic prospects for the determinants in the volatility in the variable interest rates.



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# Developments on the Financial Market

- **LIBOR Transaction:** The financial services industry, are moving away from LIBOR towards “Risk-free rates”, or “Near Risk-free Rates” :
- EURIBOR – there are no plans to discontinue its usage.
- GBP LIBOR – The UK’s Financial Conduct Authority (FCA) announced the cessation of GBP, EUR, CHF, JPY LIBOR and 1w, 2m USD LIBOR effective December 31, 2021. The FCA expects active conversion of all GBP LIBOR contracts expiring after 2021 to be completed by Q3.
- USD LIBOR – The cessation of the USD LIBOR would take effect from June 30, 2023. Fed has signaled banks to cease from entering into new contracts that use USD LIBOR as a reference rate by December 31, 2021.

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# Political Risk Insurance

- There are two types of PRI providers:
  - Private insurers - AIG, Starr Insurance, & Atradius.
  - The Public Insurers - state-backed investment-guarantee firms that are motivated by that government's foreign policy & international development goals like ECAs - US's Overseas Private Investment Corporation (OPIC), MIGA, Asian Development Bank, & African Trade Insurance Agency
- Currently, risk mitigation fee for 5- and 7-years tenor loans is 2.8% p.a. and 2.95% p.a., respectively.

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## ASSESSMENT OF LOAN ETC TO MTDS, DSA ETC

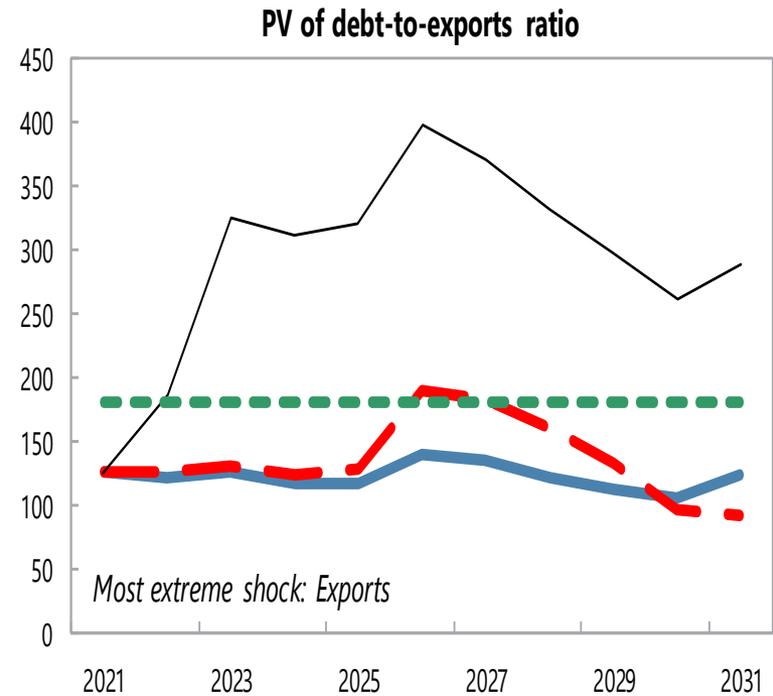
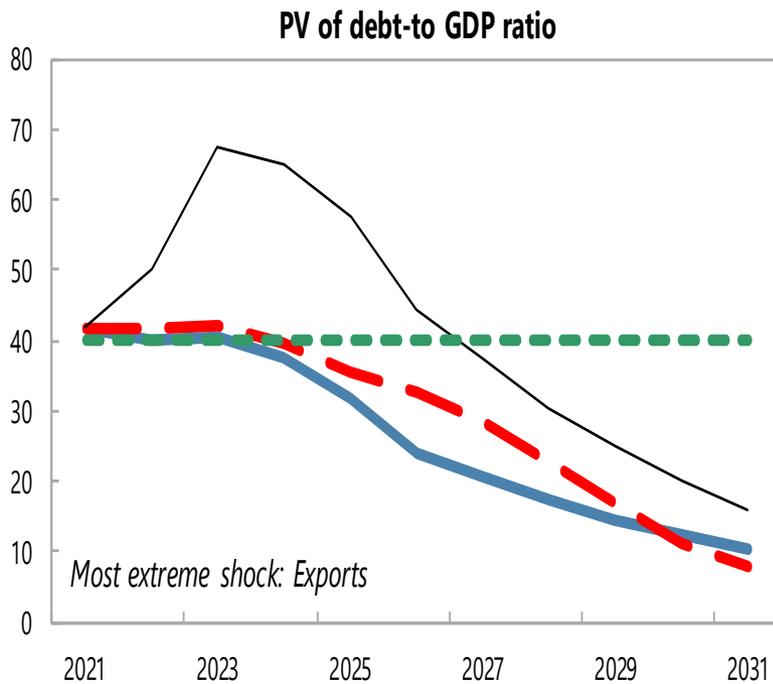
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# Pre-Borrowing Processes and Procedures

- 1) Prior to contracting loans and issuance of securities, we:
  - a) prepare or update a Debt Sustainability Analysis (DSA) – Solvency ratios / Liquidity ratios / results;
  - b) update the Medium-Term Debt Management Strategy (MTDS) - Cost and risk trade-off; and
  - c) prepare an Annual Borrowing and Recovery Plan (ABRP) including a domestic bond issuance program or calendar. – information to the markets

# Debt Sustainability Analysis

- Results of the External DSA

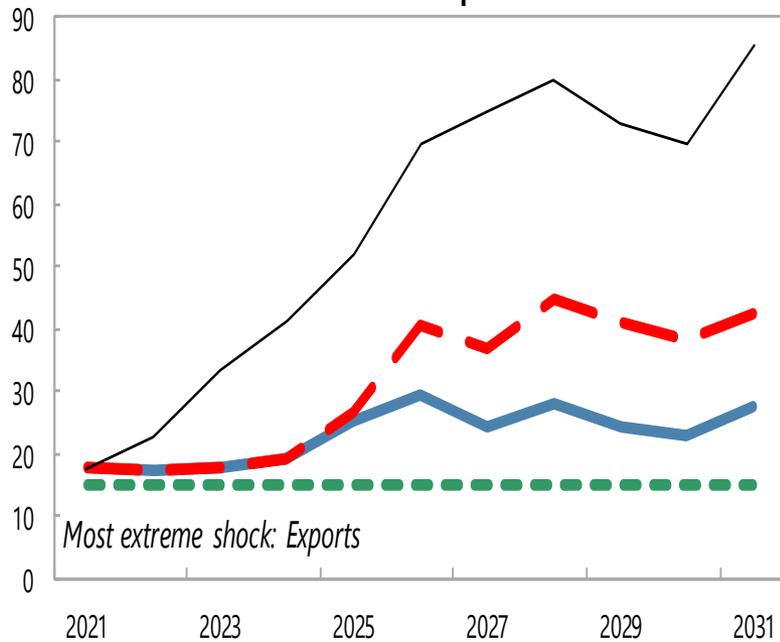


— Baseline      - - - Historical scenario      — Most extreme shock 1,      - - - Threshold

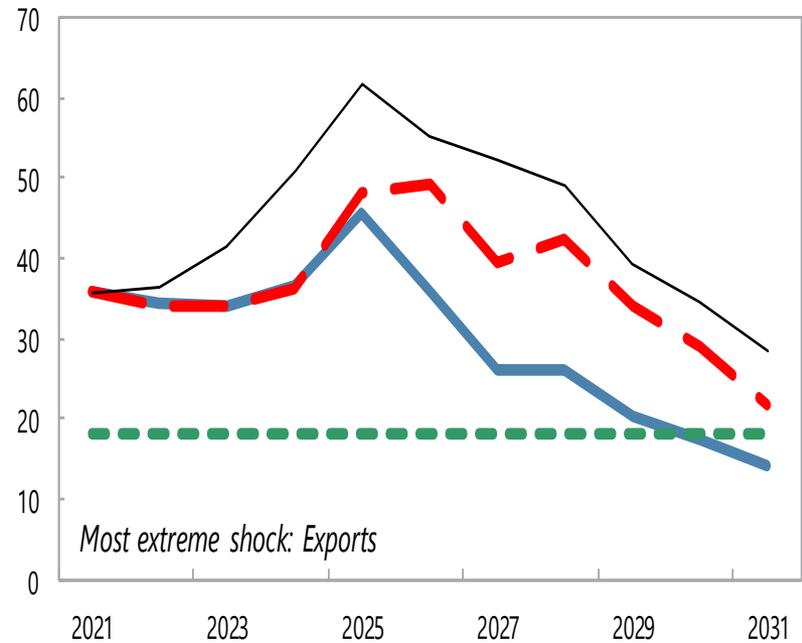
# Debt Sustainability Analysis Cont'd...

- Results of the External DSA cont'd...

Debt service-to-exports ratio



Debt service-to-revenue ratio



— Baseline

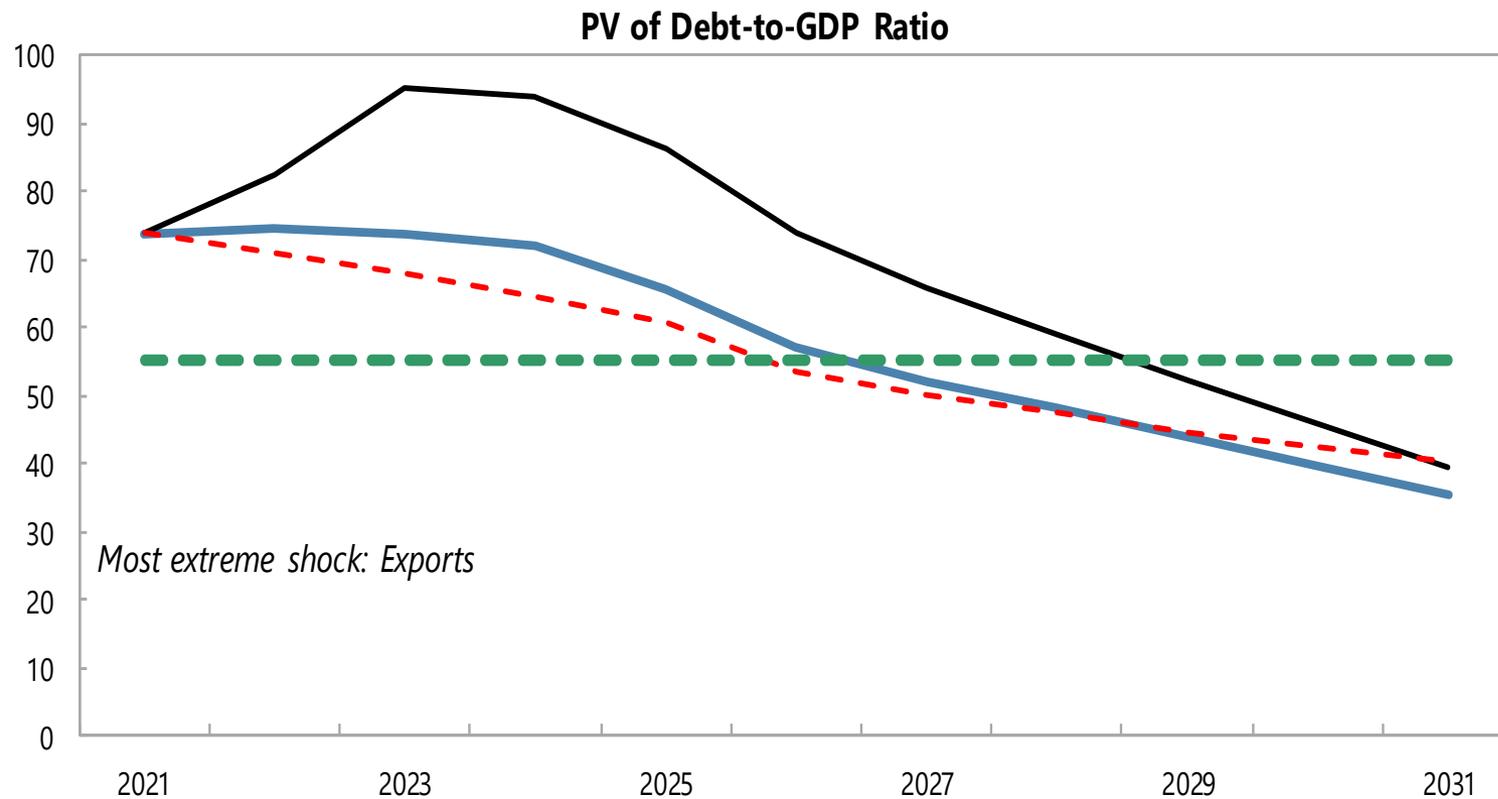
- - - Historical scenario

— Most extreme shock 1,

- - - Threshold

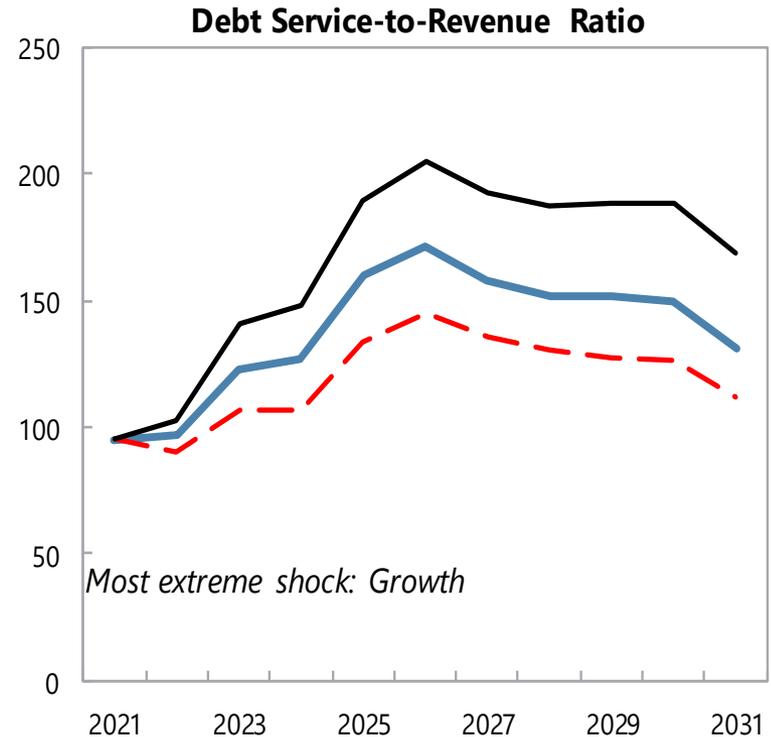
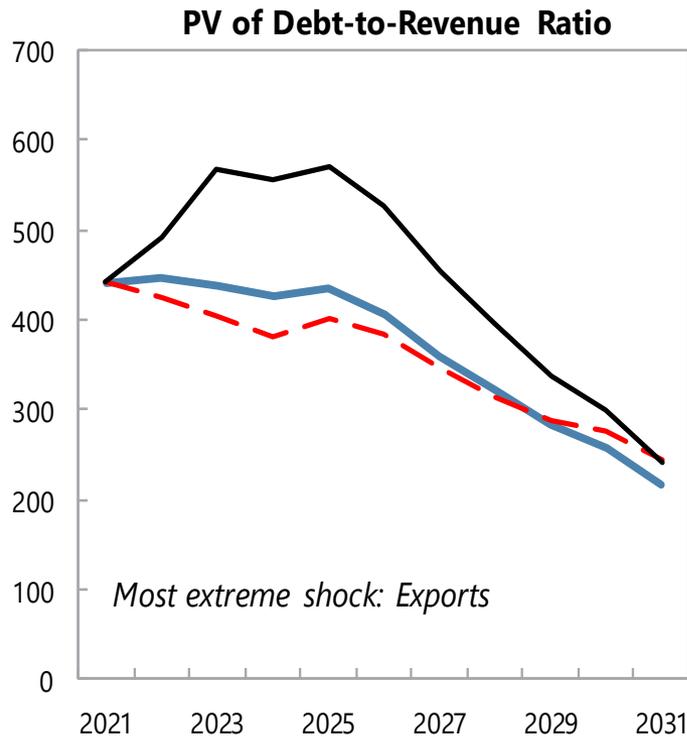
# Debt Sustainability Analysis Cont'd...

- *Results of the Public DSA*



# Debt Sustainability Analysis Cont'd...

- *Results of the Public DSA cont'd...*



— Baseline  
- - - TOTAL public debt benchmark

— Most extreme shock 1/  
- - - Historical scenario

# Cost and Risk of Existing Debt

Risk Indicators		2016	2017	2018	2019	2020 Prov.
Cost of Debt	Weighted Av. IR (%)	11.3	10.6	10.7	11.0	11.7
	Average Time to Maturity (ATM) – Years (Total)	7.7	8.2	8.7	9.8	9.4
	Average Time to Maturity (ATM) – Years (External)	9.3	9.1	10.8	12.4	12.9
Refinancing Risk	Average Time to Maturity (ATM) – Years (Domestic)	5.5	7.2	6.8	5.8	4.8
	Debt Maturing in 1 Year (% of Total)	28.1	17.7	17.6	15.3	14.3
	Debt Maturing in 1 Year (% of External)	7.2	6.7	6.2	4.7	3.1
	Debt Maturing in 1 Year (% of Domestic)	54.5	29.5	28.4	31.7	28.8
	Average Time to Re-fixing (ATR) – Years (Total)	7.2	7.9	8.5	9.5	9.2
	Average Time to Re-fixing (ATR) – Years (External)	8.6	8.5	10.3	12.0	12.5
	Average Time to Re-fixing (ATR) – Years (Domestic)	5.5	7.2	6.8	5.8	4.8
Interest Rate Risk	Debt Re-fixing in 1 Year (% of Total)	38.7	25.9	24.1	21.7	19.2
	Debt Re-fixing in 1 Year (% of External)	26.1	22.5	19.5	15.2	11.9
	Debt Re-fixing in 1 Year (% of Domestic)	54.5	29.5	28.4	31.7	28.8
	Fixed Rate Debt (% of Total)	87.5	90.0	91.9	92.5	94.1
	FX Debt (% of Total)	55.7	52.0	48.5	50.6	46.5
FX Risk	ST FX Debt (% of Reserves)	23.0	14.8	14.1	17.3	13.4

# Borrowing Limits

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1. Borrowing limit is informed by the annual budget.
2. limit covers all forms of external borrowing
3. Limit is guided by the debt vulnerabilities & risk assessment in the latest DSA, MTDS and within the approved Annual Borrowing & Recovery Plan
4. Depending on the outcome of the risk assessment and vulnerabilities, the borrowing limits may be set:
  - a. on the debt stock;
  - b. on the contracting of new external borrowing; and
  - c. on nominal or Present Value (PV) terms.
5. Limit is applicable to all public and publicly guaranteed borrowing.
6. limits is disclosed in the Budget Statement and Economic Policy as stated in Appendix 10C

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# Pricing Analysis

The debt management strategy and DSA defines how pricing of a loan is negotiated:

- **Fees** - total fees charged, the frequency of the payment, how much our peers are paying for similar transactions, what factors can lead to increase in the fees like commitment fees and amendment fees, legal fees by linking them to the project management factors.
- **Separate direct Fees** - commitment fee, management fee, agency fee, default fees) from indirect fees (amendment fees, break cost, legal fees-when the negotiation and documentation period is extended)

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# Pricing Analysis Cont'd

The debt management strategy and DSA defines how pricing of a loan is negotiated:

- **Interest cost** – what other fees behave like interest
- Insurance cost and how it is funded (upfront and paid out of pocket, upfront and financed, or paid on annual basis like an interest rate.
- Calculate the All-in-Cost to compare to other similar facilities and peers
- Avoid creating precedent as it will be used by other lenders in future transactions
- Identify possible risk factors like the currency mismatch (project currency different from loan currency)
- Behaviour of each fee and the legal wording (the legal wording can change the calculation of a fee)

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# Terms and conditions-

- Availability period (how does it match with the project construction period; can it be extended?)
- Moratorium (does it cover int. & principal or only principal depending on the type of project. For self-financing projects, is the moratorium enough to provide comfort for repayments).
- Tenor (is the strategy to elongate tenor? depending on the type of project which tenor provides comfort for repayment without putting pressure on cashflows).
- Payment terms- quarterly, annually, or semi-annually
- Payment period – the number of days to pay an invoice
- Condition precedent to effectiveness of loans – volume of document to submit
- Frequency of payment – is it in line with local administrative procedures, is it too often like quarterly payment

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## REGULATORY FRAMEWORK TO CONTRACT LOANS

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# Legal Framework

1. The legal framework for public borrowing in Ghana:
  - a) 1992 Constitution of the Republic of Ghana;
  - b) Public Financial Management Act, 2016 (Act 921);
  - c) Public Financial Management Regulations, 2019 (L.I. 2378);
  - d) Fiscal Responsibility Act, 2018 (Act 982);
  - e) Public Procurement Act, 2003 (Act 663) as Amended by the Public Procurement (Amendment) Act, 2016 (Act 914) as directed by these Guidelines;
  - f) Securities Industry Act, 2016 (Act 929);
  - g) Securities Industry Regulations, 2003 (L.I. 1728); and
  - h) Any other relevant guidelines. ( **International law** )

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# Governance & Institutional Framework

- 1) The Governance and Institutional arrangement for borrowing in Ghana involves one or more of the following institutions:
  - a. Parliament of Ghana;
  - b. Cabinet;
  - c. Ministry of Finance;
  - d. Bank of Ghana;
  - e. National Development Planning Commission;
  - f. Attorney General's Department;
  - g. Securities and Exchange Commission;
  - h. Ghana Audit Service;
  - i. Controller and Accountant General's Department;
  - j. Ministries, Departments and Agencies;
  - k. Public Corporations/Parastatals; and
  - l. Metropolitan, Municipal and District Assemblies.

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## CHALLENGES

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# Challenges and way forward

- Mispricing of the projects could affect the results of the financial analysis. (The current PIM regulation provides preconditions for project acceptance)
- Effective interpretation of legal language that could spell out further financing implications. (Engaging in capacity building of staff and effective working with the Legal Division)
- Unsolicited proposals provide operational difficulties. (Working on charging fees for all financial analysis conducted.)

“Tell me and I'll forget;  
show me and I may  
remember; **involve me  
and I'll understand.**” —  
Chinese Proverb

END OF

PRESENTATION

