

LAD CASE STUDY

Choosing China: Ghana's \$3 Billion Loan Decision

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LAD

ABOUT LAD

The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center on Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and is conducted in partnership with the Johns Hopkins School of Advanced International Studies.

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Introduction

A Loan and a Choice

It's August 2011, and Ghanaian Parliament member Papa Owusu-Ankomah must decide whether to vote to support a massive \$3 billion loan for Ghana from the China Development Bank (CDB), a Chinese state-owned bank. The loan has competitive financing arrangements and was arranged much more quickly than a comparable World Bank loan would have been. The money has been earmarked for developing the resource extraction infrastructure in Owusu-Ankomah's Western Region of Ghana. In 2007, Ghana discovered a large offshore oilfield with an estimated 3 billion barrel capacity. The oilfield, called the Jubilee field, is located 60 km off of Ghana's Atlantic shoreline. In order to extract and export this oil wealth, Ghana has been actively soliciting funding for major infrastructure projects, including pipelines and ports. Ghana hasn't taken a loan close to \$3 billion from any institution before, let alone from China, and the terms and conditions of the deal are quite different from the previous interactions that the country has had with the World Bank and International Monetary Fund (IMF).

Owusu-Ankomah knows that the World Bank has also signaled a willingness to provide funding for these offshore gas projects in Ghana. In the past, the World Bank's financing agreements have carried a lower interest rate than commercial loans, including the proposed \$3 billion China Development Bank (CDB) deal that Owusu-Ankomah is considering. Despite these lower rates, some officials within Ghana's Ministry of Finance and Economic Planning believe that World Bank loans will take too long to be disbursed and contain too many stipulations regarding procurement processes and due diligence.

Lucas Beard conducted interviews and prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

The Members of Parliament know that they can also delay developing the offshore resources by refusing any foreign loan. The country only recently pulled itself out of the IMF's Heavily Indebted Poor Countries category and some MPs are not eager to take on more debt.

Country Introduction

Located in West Africa, Ghana is counted among the success stories of the region. The agricultural sector, rule of law, and a history of democratic elections have combined to create a strong economy. Formerly a British colony, Ghana was the first African country to obtain independence in 1957. Ghana has previously received aid and loans from Western institutions, including the World Bank and IMF, European Union, and USAID. Recently, Ghana also accepted a large resource-backed loan from a Chinese bank to develop a hydroelectric dam. Ghana's funding needs have begun to change since the country discovered large offshore oil fields, and the country is now considering another loan from one of China's state-owned banks.

Current Ghanaian Economy

Currently, Ghana's debt-to-GDP ratio is just above 40 percent. This ratio has been steadily increasing over the last five years. Debt servicing fees on such a large debt-to-GDP ratio take a toll on the economy, and a further \$3 billion would cause this ratio and the fees to dramatically increase. The current government headed by President John Atta Mills completed an IMF loan deal in 2009 intended to stabilize the financial sector to blunt the impact of the global recession. For more information on Ghana's debt to GDP ratio, please see Appendix A.

This loan, along with the proposed CDB deal, requires that loan funds be distributed through a procurement process. The procurement process varies according to the loan provider, and these contracts represent a substantial part of the Ghanaian economy. The fulfillment of public procurement contracts is responsible for between 50-80 percent of the national budget and represents approximately 14 percent of GDP.¹

The Ghanaian currency (the cedi) has depreciated rapidly versus the U.S. dollar and the Chinese RMB for a number of years, dropping from one cedi to 8 RMB in July 2007 to 4.26 RMB in February 2011. A weak cedi means that Ghana may have more difficulty obtaining sufficient foreign currency to service its international debt obligations. However, the weak cedi also means Ghanaian exports will be more attractive on global markets. Analysts from Ghana's foremost think tanks have warned policymakers that if the cedi depreciates further the country's debt-to-GDP ratio will be untenable.² For more pricing information concerning the Ghanaian cedi, please see Appendix B.

Ghana has previously agreed to an IMF-mandated debt ceiling (borrowing limit). The ceiling is currently set at \$800 million, far below the \$3 billion required for the CDB loan. In order to seal the proposed deal with CDB, Ghana must first make an agreement with the IMF to raise the debt ceiling, or face strong reprisals from Western financial institutions.

The Deal

To cement a growing relationship between the People's Republic of China and Ghana, President John Mills traveled to Beijing in September 2010. His discussions with China's President Hu Jintao produced the early framework of this \$3 billion deal.^{3,4,5} The China Development Bank then formally proposed a loan facility agreement to the Ghanaian Government for \$3 billion that provided the terms and conditions of the loan. Parliament must approve the loan agreement before any lending can take place. The parliamentary meeting is scheduled for August 2011 and there has been fierce debate over the terms and conditions of the loan agreement and on how the loan would affect relationships with the World Bank and IMF. Specifically, many minority parliament members are concerned about tying up the newly discovered oil reserves as collateral for the loan.

Under the multi-year finance proposal the CDB would make two \$1.5 billion payments for a total of \$3 billion. The payments are intended to support infrastructure components of flagship industrial projects, mostly related to oil production in Ghana's Western Region.⁶ Please see the

map in Appendix C for more information about the locations of these planned infrastructure development projects.

The first tranche of \$1.5 billion has a 15-year repayment term with a further five-year grace period. The interest rate for the first tranche is based on the six-month LIBOR rate (which changes over time) added to a set margin of 2.95 percent.⁷ The LIBOR rate is currently set at a very low 0.2112 percent, but as Owusu-Ankome remembers, this rate can change quite rapidly. For example, in 2007 prior to the financial crisis, LIBOR was 5.5 percent.⁸ The second tranche, also consisting of \$1.5 billion, has a 10-year repayment term, a three-year grace period, and an interest rate of LIBOR plus a margin of 2.85 percent. This tranche has a shorter term (10 year versus 15 year) and a lower interest rate (2.85 percent versus 2.95 percent). For more information on the interest rates, terms, and amount of these tranches, please see Appendix D.

To repay the loan principal and interest, Ghana and the CDB entered into an offtake agreement between their two subsidiary resource companies, the Ghana National Petroleum Corporation (GNPC) and the China International United Petroleum and Chemicals Co. (UNIPEC Asia). An offtake agreement between the producer (Ghana) and the buyer (CDB) is a deal to buy/sell a given amount of the future production. This agreement is common for large-scale natural resource deals with high initial capital costs. This offtake agreement serves Ghana by guaranteeing a market for these new Western Region petroleum products while also benefiting CDB by guaranteeing a steady supply of oil for the next 15 plus years. Further items of note in the proposed contract are included in the table below.

Conditions	Explanation
<i>Upfront Fee</i>	The upfront fee, often called an origination fee, of 0.25 percent of the loan total would be charged to the Government of Ghana. Half of this upfront fee (0.125 percent) would be due within 20 days of signing the Master Facility Agreement and the other half would be due when the first subsidiary agreement is signed. The first subsidiary agreement is the development of the Western Corridor Gas Infrastructure Development Project, one of twelve projects earmarked to receive CDB loan funds.
<i>Owner Contribution</i>	The loan requires an additional financial commitment from the owner (the Government of Ghana) to co-pay 15% of each subsidiary agreement.
<i>Commitment</i>	A commitment fee of 1 percent annually would be charged to the Government of Ghana on the

<i>Fee</i>	undrawn and un-cancelled balance of the loan.
<i>Debt Cover</i>	Ghana would be required to maintain a balance of 1.5x the repayment amount (for each six month cycle) in a designated account at all times.

The CDB is a wholly state-owned bank with a mandate to coordinate its business practices with China’s national economic strategy and help China's economic and social development abroad.⁹ It is one the three large policy banks that carry out the Chinese Communist Party’s directives to promote stable economic development at home and increase access to new markets abroad.¹⁰ Instead of giving aid, the CDB provides financing opportunities for developing countries.¹¹ Despite the policy direction from the Communist Party, the CDB is also a profit-orientated institution. The bank’s Chairman, Chen Yuan, is a Party member and the son of a founding member of the People’s Republic of China. In 2007, CDB had set up 20 teams in temporary offices all over Africa. These teams were directed to build relationships and seek investment opportunities primarily in transportation, manufacturing, and resource extraction.¹² One of these teams was sent to Ghana, and they began the process of looking for resource financing opportunities. The State Council of the PRC, the primary government authority in China, has directed state efforts to securing additional natural resources from diversified sources. CDB’s international projects and funding operations require State Council approval; the Council has approved CDB’s use of offtake agreements in the proposed deal with Ghana and the arrangement would comply with the Council’s resource diversification directive.

Subsidiary Agreements

The subsidiary agreements (planned infrastructure projects) have specific terms and conditions within the proposed loan framework. There are 12 planned infrastructure projects, and therefore 12 anticipated independent subsidiary agreements. Each of these agreements, for instance the Takoradi Port Retrofit, requires the CDB and the Ghanaian Ministry of Finance to sign a separate agreement and CDB officials must perform comprehensive due diligence on the project before disbursing the funds. Up to five subsidiary agreements may be made per year, and the money for each project is paid directly from the CDB to the project contractors, such as UNIPEC Asia. This financing agreement would not allow Ghanaian government officials to serve as intermediaries

for the planned infrastructure projects. Furthermore, the Ministry of Finance would be responsible for supervising the projects and reducing cost overruns.

Commodity-Backed Payments

The offtake agreement proposed to facilitate the loan deal has given Papa Owusu-Ankoma pause. The agreement, officially to be arranged through the subsidiaries, GNPC and UNIPEC Asia, states that UNIPEC Asia will purchase the oil as soon as it is produced with revenues paid directly into Ghana's Petroleum Holding Fund for at least 15 years and six months. If the oil proceeds are insufficient to cover the \$3 billion plus interest during that period, then the agreement would extend in duration until the loan had been paid in full.

Papa Owusu-Ankoma knew that much of the recent Chinese financing in Africa is associated with securing the continent's natural resources. Using what is sometimes characterized as the "Angola Model," China frequently provides low-interest loans to nations that rely on commodities such as oil or mineral resources as collateral.¹³ Some Ghanaian academic experts claim that China's practice of financing projects in exchange for guaranteed streams of a commodity product and cash may reduce Ghana's future benefits from world commodity markets. They argue that Ghana cannot negotiate these complex, long-term futures agreements to Ghana's benefit, and they will instead commit the country's oil reserves to China at low future prices.¹⁴

This loan guarantees the buyer (CDB) a set supply of oil at certain prices. The price of oil is set based on the monthly weighted-average oil prices in the international market. For instance, in a similar 2009 deal with Russia, the CDB loan specified the market price minus \$3.

These offtake agreements (also known as energy-backed loans) have become common tools used by CDB and other developing countries to access natural resources. Since 2005, CDB has signed \$74.6 billion in energy-backed loan deals. The details of these loans are provided in Appendix E.¹⁵

Use of Local Labor and Technology Transfer

The proposed loan with Ghana reportedly includes a clause ensuring at least 60 percent of the companies performing construction work organized through the subsidiary agreements be Chinese owned and operated. The remaining 40 percent of each tranche can be applied towards local contractors.¹⁶

The executive director of a local Ghanaian NGO, Gabby Darko of the Danquah Institute, recently spoke to the media and advised Parliament not to take the loan. He claimed that besides the poor financing terms, Parliament should be concerned about the Chinese contractors bringing their own subcontractors and laborers while asking for direct access to Ghana's oil.¹⁷

The level of technology and skills transfer between Chinese and Ghanaian workers remains low. A widely-read 2009 case study from the African Center for Economic Transformation attributes this weakness to the ownership structure of Chinese investments (very few joint ventures) and the stratification between laborers (Ghanaians) and managers (Chinese).¹⁸

Furthermore, Chinese companies may have an unfair advantage when bidding for work on many development projects. These projects, including many of the subsidiary agreement projects and World Bank jobs, require a transparent tendering process that rewards lower bids. With their access to capital and goods, Chinese firms, particularly state-owned enterprises, can crowd out Ghanaian producers and contractors for these projects. In many scenarios, a three-part system produces little impact on the Ghanaian economy. For example, (1) a Chinese bank can provide a loan (earning interest), (2) a Chinese company can win the contract (paid through the loan), and (3) Chinese workers perform the labor (earning wages). All three steps sterilize the money from the Ghanaian economy, even if the investment looks good on paper.

Conditionality

With Western aid, particularly development assistance from the U.S. and international development institutions, there are numerous non-financial conditions packaged with the deal.

These conditions include stipulations on corruption, tendering, governance, human rights, etc.¹⁹ The World Bank in Ghana focuses on the importance of truly competitive bidding processes for infrastructure projects. The Bank sees this condition as crucial to reducing corruption and staying within project budgets.²⁰

Chinese banks generally have not emphasized combating corruption, fostering transparency or raising environmental and social standards to the same extent as Western donors.²¹ China is often characterized as a “rogue donor” because it does not adhere to the same conditionality stipulations as most Western development organizations. China has stated that respect for sovereignty, especially pertaining to choice in political system and development path, is a primary tenet in its development policy.²² Additionally, compared to World Bank loans, the bidding and procurement processes for CDB loans are not transparent. Contracts are issued to international and domestic firms, but Ghana’s policy makers may not know how the firms are selected.²³

Funding Speed and Disbursements

In general, when compared to loans originating from the World Bank or IMF, Chinese loans require the national governments to adhere to fewer conditions and this speeds completion of the Master Facility Agreements. The Chinese approach creates opportunities for Chinese actors to take advantage of weak state capacity in two ways. Firstly, the comparatively less experienced China desk within the Ministry of Finance and Economic Planning in Ghana means that the country does not have either the due diligence capabilities, or the negotiating acumen to compete with an institution such as the CDB. Additionally, the executive branch may influence the process by mandating the timing and funding specifics as President Mills did with his trip to China. This pressures the Ministry of Finance and Economic Planning to produce a deal quickly, diminishing the opportunity to negotiate favorable terms. Secondly, an opportunity for arbitrage arises when the CDB is in charge of the loan disbursement timeline. As all subsidiary agreements necessitate CDB due diligence approval and if CDB was not comfortable with any of the deals, the loan portion would not be disbursed but Ghana would still be obligated to pay the commitment fee in this situation. CDB has complete control over the speed of the disbursement.

Note that these commitment fees are common in development project finance, and any World Bank loan would likely include a similar clause.²⁴

Political and Economic Realities

While not perfect in any way, Ghana is considered an exemplar of effective democratic governance in West Africa. Ghana maintains a multi-party system in the framework of a democratic republic. The most recent election in 2008 saw John Atta Mills, representing the National Democratic Congress (NDC), beat Nana Akufo-Addo of the New Patriotic Party (NPP) in a runoff. This was the closest election in Ghanaian history; settled by a margin of less than 1 percent.²⁵ The NDC also won 116 seats out of 230 (50.4 percent) while the NPP earned 107 seats (46.5 percent). Smaller parties and independent politicians filled the remaining seats. For more information regarding the most recent elections in Ghana, please see Appendix F.

In 2007, the NPP, then the majority government, successfully completed an effort to move Ghana away from IMF-sponsored structural adjustment programs. From 2001-2005, the IMF categorized Ghana as a Heavily Indebted Poor Country (HIPC), which was an unpopular designation within Ghana. Removing this label and distancing itself from the IMF goals for HIPC countries was a top priority for the government. President Mills' predecessor, President John Kufuor told the IMF in 2005 "the nation must assume full responsibility for its own policies."²⁶

In 2007 Ghana issued its first sovereign bonds. There was high demand for this debt, and the issuance was oversubscribed. By both reducing dependence on the IMF and issuing debt, Ghana was signaling that it didn't want handouts, concessionary loans, or donors. The NPP government wanted full discretion over its budget to avoid the strict IMF conditions that the country experienced during the structural adjustment programs (SAPs) in the 1980s and the HIPC designation in the early 2000s.²⁷

Papa Owusu-Ankomah is a member of the NPP, part of the minority coalition in government. While support for the CDB financing deal has come mainly from the John Atta Mills-headed

NDC government, Owusu-Ankomah knows that many of constituents in the district he represents, Sekondi, would benefit from the infrastructure deal. However, members of Parliament also understand that additional loans could push Ghana's debt ratio above 70 percent, and could trigger the IMF to re-categorize Ghana as an HIPC again.

Western Region

Ghana's Western Region, where offshore oil was discovered in 2007, contains most of the infrastructure development projects described in CDB's \$3 billion loan proposal. The Western Region is bounded by the Atlantic Ocean to the south and Côte d'Ivoire to the west. This region is crucial to political success in Ghana for two reasons. Firstly, the Western Region contains an important swing constituency of independent, undecided voters. Secondly, the region has not benefited greatly from Ghana's cocoa and gold export industries because these revenues were largely not shared with the locals where the commodities were produced (Western Region mines and farms). By providing a loan deal guaranteeing infrastructure improvements in the Western Region, including roads, railway expansions, and utility services, the Mills government believes they can sway crucial voters and influence the outcome of the next elections in its favor.

The Western Regional Chiefs

The Western Regional House of Chiefs is a politically powerful body comprised of local village chiefs. It serves as a local judicial authority with appellate powers to hear cases from local, traditional councils. While the Western Regional House of Chiefs does not possess legislative responsibilities, the organization nonetheless influences public opinion.²⁸ In November 2010, the chiefs came to the National Parliament and requested that at least 10 percent of future oil revenues go to Western Region projects. The President of the Western Regional House of Chiefs, Awulae Attribrukusu III, stated that despite providing the majority of the country's oil, the Western Region was receiving only a very small amount of the benefits.²⁹

After several rounds of negotiations with Parliament, Attribrukusu III was convinced that the CDB loan deal's proposed infrastructure development projects were sufficient recompense for

the Western Region, and the House of Chiefs rescinded their request for 10 percent of the proceeds from future oil revenues and in August 2011, declared their support for the CDB loan facility.³⁰ With this support, the Mills government knew that if Parliament approved the CDB loan deal, the NDC government would earn major plaudits from constituents in the Western Region.

Resource Curse and the Petroleum Revenue Management Act

The discovery of billions of USD worth of oil resources just off of Ghana's coast in 2007 seemed like a stroke of luck to many in Parliament. With some investment, Ghana could now use these newfound natural resources to provide improved public services for its citizens and encourage the country's economic growth. However, as other oil-rich developing countries have found, discovery of natural resource bounty does not always lead to positive outcomes. The resource curse refers to a number of negative outcomes associated with abundant natural resources. Such countries may suffer from "Dutch disease," where commodity exports drive up the value of their currency and make exports from other sectors less competitive. Resource exports have been closely associated with corruption, while the temptation to use resource rents in place of taxes weakens democratic accountability. Finally, countries can get into trouble spending too much money when times are good, and finding themselves facing a huge fiscal hole when commodity process collapse.³¹

To avoid this resource curse and on the advice of the international community, Ghana passed the Petroleum Revenue Management Act in early 2011. This act established the Petroleum Holding Fund, into which all petroleum receipts will be deposited; a Stabilization Fund to account for the effects of revenue volatility through expenditure smoothing; and a Heritage Fund to secure money for the future.³²

Corruption

Although Ghana has far less corruption than its neighbors, corruption of government officials is not uncommon. Transparency International ranks Ghana as the 69th least corrupt country in the

world, comparable to Italy.³³ The organization has noted that while corruption in Ghana has improved, evidence of persistent petty corruption exists in the public sector, including misuse of state assets and financial mismanagement of public procurement operations. A 2007 study found that 60 percent of companies reported that they expected to have to provide “gifts” to obtain Ghanaian government procurement contracts.³⁴

Some members of the media and civil society have claimed that members of Ghana’s majority party, the NDC, have stood to gain personally from arranging the CDB loan. There are unconfirmed reports claiming that President John Mills’ brother, Dr. Cadman Mills, was involved in arranging the loan.³⁵ Dr. Cadman Mills is well known to members of Parliament, including Papa Owusu-Ankome, for his role as economic advisor to the president.³⁶ Dr. Mills formerly worked for the World Bank as an economist and as such, his involvement would not be unusual. Executive Director of the Danquah Institute, Gabby Asare Otchere Darko, claims that an arrangement fee of \$30 million will be paid to unnamed individuals after the Master Facility Agreement has been signed. The prospect of this fee, he alleges, explains why the deal is moving so quickly and why the Ghanaian government is willing to accept loan terms and conditions that he sees as unfavorable to the country.³⁷ Deputy Finance Minister, Seth Tekper, refutes Darko’s claims by saying that since the Government of Ghana is negotiating directly with CDB, there is no need to pay any individual or organization arrangement fees. The proposed unsigned loan agreement does not contain any formal mention of an arrangement fee.

Ghana’s Relationship with the World Bank and IMF

The IMF and the World Bank have been strong influences over African economic policy for the last 50 years. These two post-WWII international financial institutions have at times offered money, advice, and even punishments in order to help African economies, such as Ghana’s, stay on track with development goals formulated in accordance with Western economic beliefs.

Most recently, in July 2009, the IMF agreed to loan Ghana SDR 387.45 million (about \$613.1 million) in a three-year Extended Credit Facility. As part of this IMF Extended Credit Facility, Ghana agreed to a number of conditions, including a borrowing limit to stabilize the country’s

debt ratio. In May 2011, Ghana signed an IMF agreement establishing a strict borrowing ceiling for the country at \$800 million. In order to borrow \$3 billion from any source, including CDB, Ghana needs to convince the IMF to raise the borrowing ceiling.

The IMF, through its debt ceiling agreement with the government of Ghana, also has the power to stop the CDB loan transaction. If Parliament approves the loan's Master Facility Agreement, then Ghana would have to convince the IMF to amend their debt ceiling agreement or risk losing out on the deal. For more information on Ghana's financial position with the IMF, please see Appendix H.

In 2009, Waqar Haider, the World Bank Sector Leader for Sustainable Development in charge of Ghana, Liberia and Sierra Leone, expressed interest in offering financing for an enclave operation that would enable Ghana to develop gas infrastructure. Haider claimed that the World Bank "had discussions with the government for about six months and then the government said 'sorry we are in a great deal of hurry, World Bank guys you are very slow, you have all these environmental and social safeguards and guidelines.' By that time, the Chinese had actually stepped in and they had offered under the China Development Bank (CDB) loan to do this."³⁸ World Bank financing requires projects to meet certain conditions, specifically environmental impact assessments and an international competitive tendering process. Contrasting the proposed CDB deal where 60 percent of the construction contracts are guaranteed to Chinese firms, a World Bank loan would require potentially time-intensive environmental impact assessments and a more open bidding system, in which all parties stood a chance of winning. Additionally, the World Bank would not likely have been able to finance the full \$3 billion. The World Bank's strategy would have been to partner with its private sector lending arm, the International Finance Corporation, and build a lending consortium to provide the full amount.³⁹

Chinese Aid in Ghana

At the start of China's aid relationship with Ghana, the majority of the loans were interest-free or concessional. From 1972 to 1990, 100 percent of the aid from China to Ghana was interest-free.

This changed in the 1990s, when China began offering concessional loans (loans with interest rates beneath market rates) and non-concessional loans.

With concessional and interest-free loans, Ghana has not always been obligated to repay its debt to China.⁴⁰ Debt relief featured prominently in the framework of the Forum on China-Africa Cooperation in 2000. President Hu Jintao announced at the Beijing China-Africa Summit in 2006 that China will cancel all debt in the form of interest-free government loans that matured at the end of 2005 owed by the heavily indebted poor countries (HIPC) and the least developed countries (LDCs) in Africa that have diplomatic relations with China. This policy essentially turns these interest-free loans into grants. So far, China has granted two debt relief packages to Ghana. In 2003, China cancelled \$66 million in bilateral debt to Ghana and a further \$24 million in 2007. Despite this history of debt relief, the current CDB deal constitutes neither aid, nor an interest-free loan, and therefore may not receive the same consideration.⁴¹

In 1995, China gave Ghana \$18 million in concessional loans to promote joint ventures between Ghanaian and Chinese companies: \$7.25 million disbursed to Sian Goldfields; \$8.75 million given to Calf International Cocoa; and \$2 million to Ghana Shandong Netting Company. All three companies defaulted on their loans, requiring the Ghanaian government, as guarantors of the loan, to take over the payments.⁴²

The largest single loan deal between China and Ghana has been the Bui Dam infrastructure finance agreement in 2007, which totaled \$621 million. More information on this deal is in the Bui Dam section, and for more information on the types of loans between China and Ghana, please see Appendix I.

China's Business Relationship with Ghana

More recently, China's push onto the world stage is part of a larger "Going Global" strategy. This strategy has two primary objectives: to support Chinese brand-name companies abroad (Haier, Lenovo, etc.) and to nurture national champions (state-owned companies), known as "Dragon Head companies," to compete internationally with multinationals. To enable these

companies to compete in international markets successfully, the Chinese Communist Party (CCP) uses preferential loans, grants, and tax abatements, among other inducements. These strategies enable the companies to lower their costs and win bids on international contracts more easily, including construction and engineering tenders for African development projects.

China and Ghana have a strong, if unbalanced, trading relationship. China exports large amounts of goods to Ghana, but is not a strong market for Ghanaian products. In 2008, China was Ghana's second largest import trading partner, accounting for 13 percent of all imports (Nigeria was first with 15 percent). Ghana's exports to China accounted for less than 1 percent of total exports in 2006. This imbalance has created a trade deficit for Ghana reaching \$474 million in 2006.⁴³

A Win-Win Strategy

Chinese officials describe these grants, concessionary loans, and joint ventures to African leaders as “win-win” arrangements. China claims that these development projects are not aid in a traditional sense where a richer country gifts something to a poorer country, but rather a strategic partnership where both parties have incentives and potential to benefit. China also wants to differentiate itself from Japan and what it refers to as a legacy of Western “imperialist powers.”⁴⁴ By relying on a specific vocabulary, including “win-win”, partnership, joint venture, non zero sum, and cooperation, China has tried to distinguish its activities in Africa from the World Bank and IMF's more prescriptive approaches.

These characterizations aside, Ghanaian equity constitutes only 2 percent of investment in Chinese firms operating in Ghana. Furthermore, Chinese companies operating in Ghana overwhelmingly do not tap Ghanaian investment capital. In 2007, 99 percent of capital used in Chinese operations in Ghana came from abroad. This high reliance on non-Ghanaian sources of capital indicates that profits earned on projects in Ghana's economy primarily benefit companies based outside of Ghana.⁴⁵

The Bui Dam project

To understand the CDB loan offer, Ankome recalled the recent and very similar Bui Dam loan from China to Ghana. In many ways, this dam financing deal is comparable to the \$3 billion CDB deal as both involve project finance for infrastructure, both have commodity-backed offtake agreements, and both involve one of China's major policy banks. Understanding the impacts of the Bui Dam may be important when considering the \$3 billion CDB deal.

In 2007, the governments of Ghana and China signed a major project finance deal to build the Bui Dam, and electricity generating facility outside of Accra. Papa Owusu-Ankome was in Parliament for this first encounter with Chinese state-owned banks, and has seen firsthand the issues that have arisen before and after the loan's negotiation. The loan was secured through an offtake agreement where Ghana used the export of cocoa beans to pay off the loan.

The China EXIM Bank extended a \$562 million deal comprised of a concessionary loan of \$270 million and a commercial loan of \$292 million to cover the cost of constructing the Bui Dam. The dam was needed to help solve the frequent power outages in Ghana and provide irrigation and tourism opportunities for local communities.⁴⁶ As a hydropower project, it was also lauded as a source of clean energy. It also marked a milestone for China as its largest EPC (engineering, procurement, construction) project in West Africa to date. Sinohydro Corporation Limited, a Chinese state-owned company and one of the world's largest hydropower firms by market share, became the contractor for the dam's construction. Scheduled for completion in 2012, the dam has encountered several delays, including some related to the Chinese financing deal.

In February 2011, allegations arose concerning potential corruption and conflicts of interest involving the General Secretary of the National Democratic Congress, Asiedu Nketia, and his relationship with the Bui Dam. Former Bui Project CEO, Fred Oware, claimed that Nketia helped facilitate the infrastructure loan, only to benefit personally from the deal when he sold construction blocks at above-market rates.⁴⁷

Labor disputes also occurred early in the construction of the Bui Dam. More than 2,000 Ghanaian workers are employed at the construction project, predominantly under the management of approximately 1,000 Chinese nationals. The Ghanaian workers who attempted to form a union, citing a 2003 Labour Act, met opposition from their Chinese managers which developed into allegations of unsafe working conditions, unpaid overtime, and unsanitary barracks conditions, and reportedly prompted widespread worker resignations. This labor dispute has delayed the Bui Dam construction timeline.⁴⁸ In March 2011, the current Bui Dam CEO, Jabesh Amissah-Arthur, requested an additional \$168 million in funding to complete the dam. The CEO cited rising costs and a delayed timetable that would push dam's completion date to 2013.^{49, 50} He also noted that several key elements of the dam, including reservoir cleaning and crucial power lines, were not included in the project design upon which Sinohydro Corporation's original bid was based.

Conclusion

In the upcoming parliamentary vote, MP Papa Owusu-Ankome and his fellow Parliamentarians have to decide whether, given the pros and cons of the CDB loan, to support the MFA. There are several alternatives to consider, including the tentative World Bank and IFC deals, renegotiating terms with the CDB or waiting for another loan provider. Owusu-Ankome also must consider whether Ghana will have the capacity to undertake the numerous subsidiary agreements in a timely fashion, which is especially important given the nature of the commitment fee clause. He must balance these realities with the needs of the people in the Western Region and the growth opportunities the oil and natural gas just offshore offers. The CDB deal can allow Ghana to quickly access these resources and provide a willing partner to help develop and sell them.

Appendix A – Debt to GDP Ratio

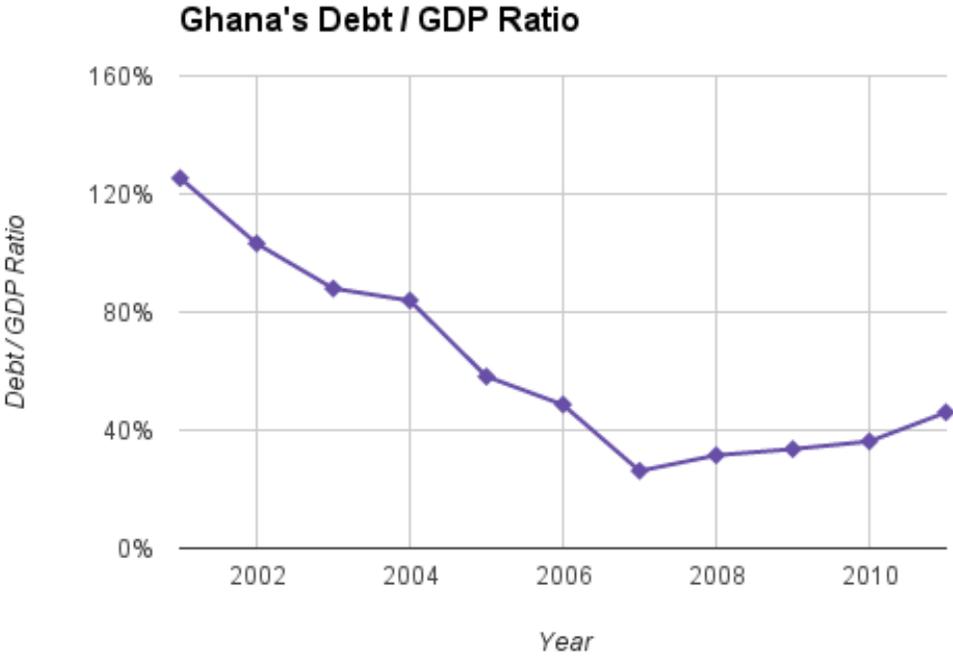


Figure 1 - Debt / GDP Ratio. Data from Bank of Ghana

Appendix B – Ghanaian Cedi Exchange Rate

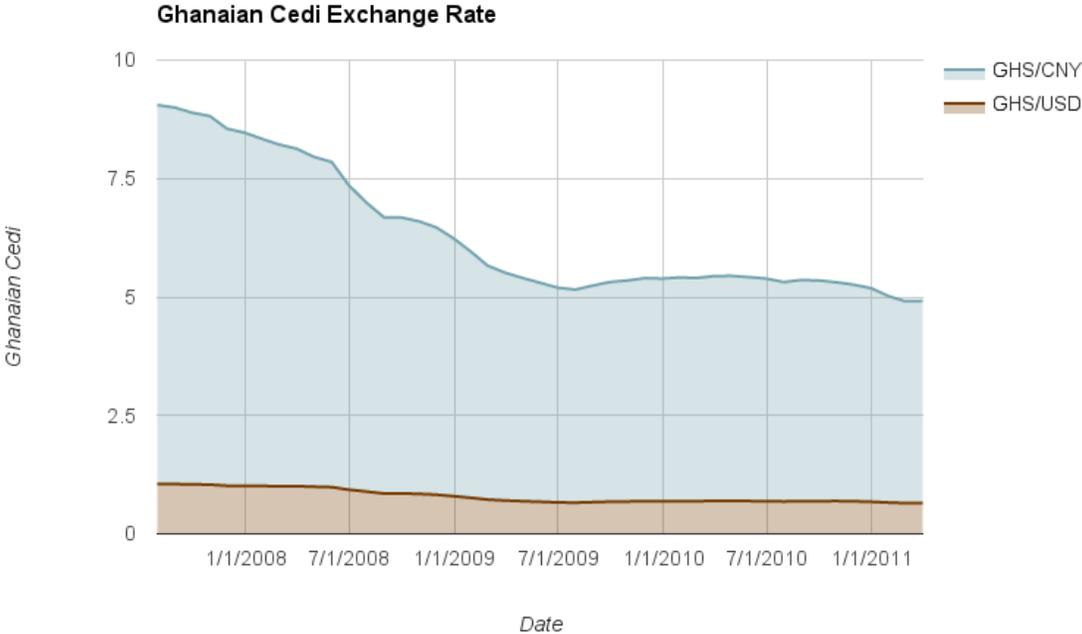


Figure 2 - Ghanaian Cedi Exchange Rate. Data from Bank of Ghana.

Appendix C – Infrastructure Improvement Map

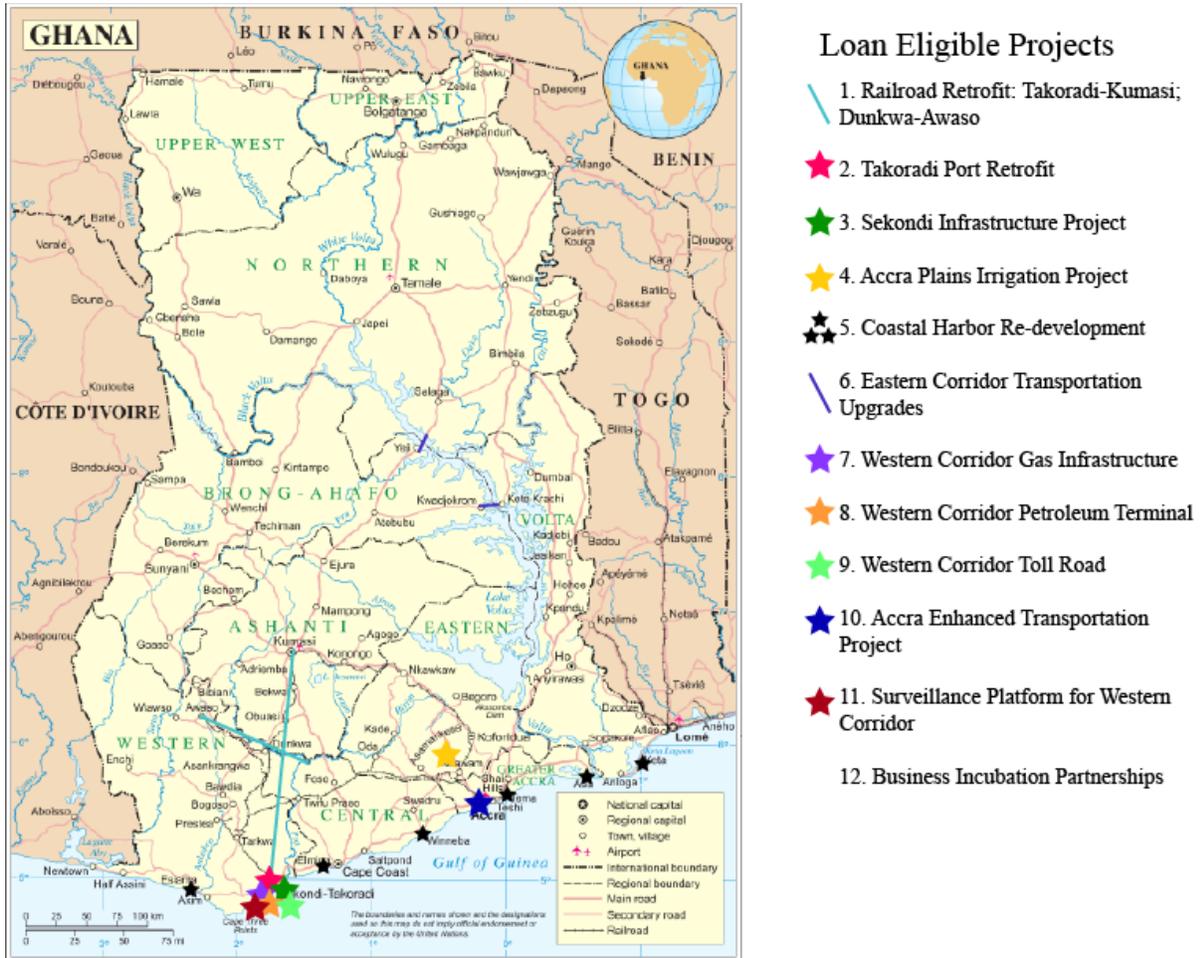


Figure 3 - Infrastructure Map. Map by United Nations. Data by Ministry of Finance and Economic Planning.

Appendix D – Tranche Details

Conditions	Tranche A	Tranche B
<i>Amount</i>	\$1,500,000,000	\$1,500,000,000
<i>Term (years)</i>	15	10
<i>Grace Period (years)</i>	5	3
<i>Interest Rate</i>	2.95%	2.85%

Figure 4 - CDB Loan Details. Data by Ministry of Finance and Economic Planning.

Appendix E – CDB Loans

Date	Country	Amount (USD Billion)	Term
2005	Russia	6	6
2008	Venezuela	4	3
2009	Russia	15	20
2009	Russia	10	20
2009	Brazil	10	10
2009	Venezuela	4	3
2009	Turkmenistan	4	N/A
2010	Venezuela	20.6	10
2010	Ecuador	1	4

Figure 5 - CDB Loans. Data from Brookings.

Appendix F – Election Results

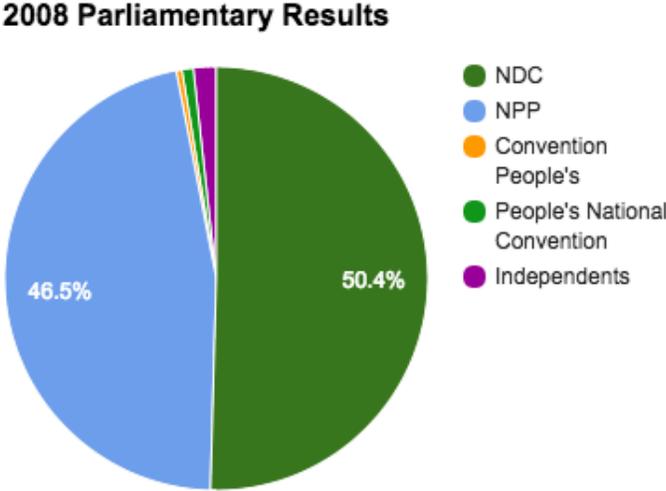


Figure 6 - Parliament Election. Data by BBC.

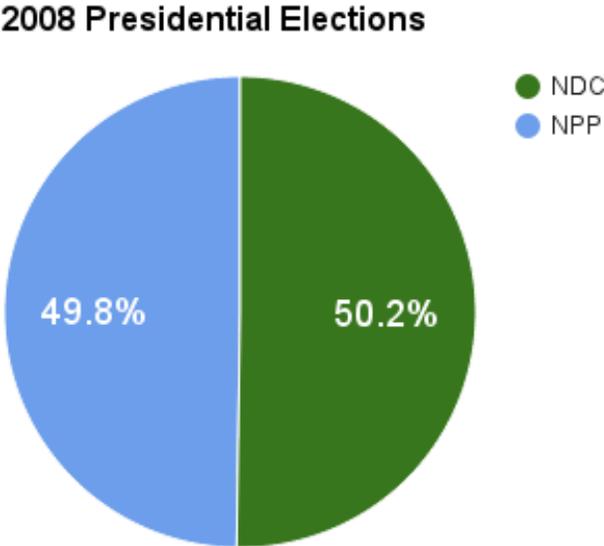


Figure 7 - President Election. Data by BBC.

Appendix G – IMF Loans to Ghana

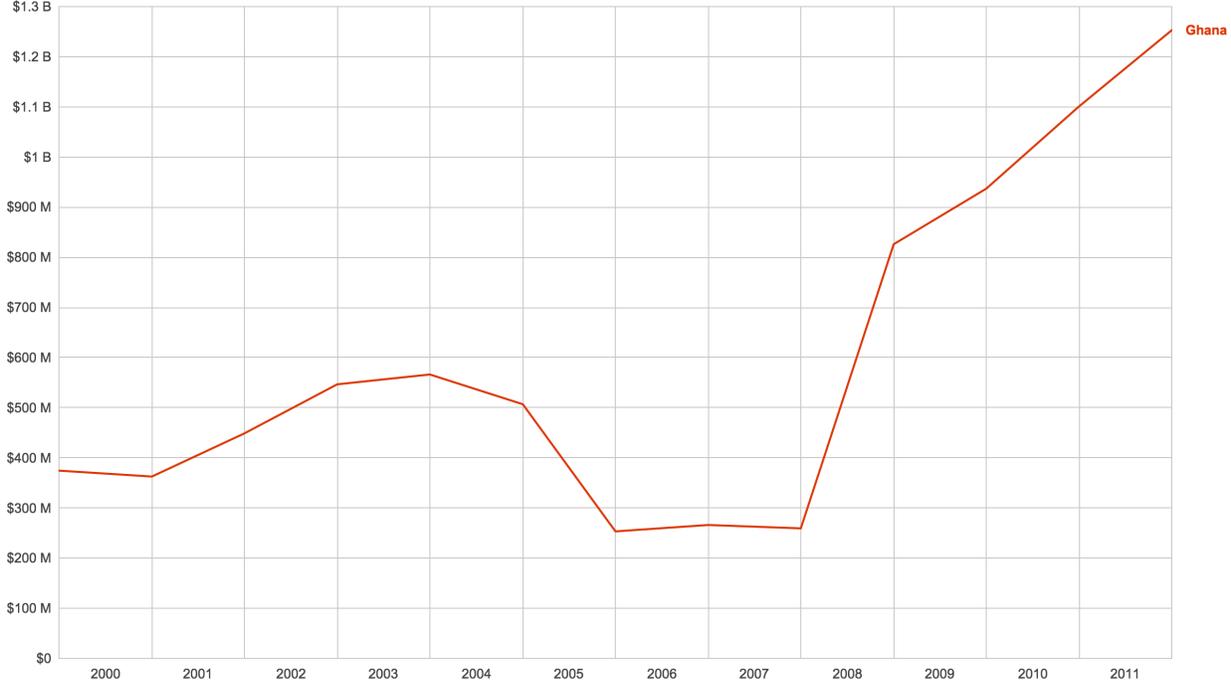


Figure 8 - IMF Loans to Ghana. Data from IMF.

Appendix H – IMF’s View on Ghana

Ghana: Financial Position in the Fund

as of July 31, 2011

Summary of IMF members’ quota, reserve tranche position, SDR holdings, outstanding credit, recent lending arrangements, projected payments due to the IMF, and historical transactions with the IMF.

I. Membership Status: Joined: September 20, 1957;

Article VIII

II. General Resources Account:

	SDR Million	%Quota
<u>Quota</u>	369.00	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	369.00	100.00
<u>Reserve Tranche Position</u>	0.00	0.00

III. SDR Department:

	SDR Million	%Allocation
<u>Net cumulative allocation</u>	353.87	100.00
<u>Holdings</u>	285.90	80.79

IV. Outstanding Purchases and Loans:

	SDR Million	%Quota
ECF Arrangements	308.91	83.72

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Mil.)	Amount Drawn
ECF ^{1/}	Jul 15, 2009	Jul 14, 2012	387.45	208.73
ECF ^{1/}	May 09, 2003	Oct 31, 2006	184.50	184.50
ECF ^{1/}	May 03, 1999	Nov 30, 2002	228.80	176.22

^{1/} Formerly PRGF.

VI. Overdue Obligations and Projected Payments to Fund ^{2/} (SDR Million; based on existing use of resources and present holdings of SDRs):

Forthcoming

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Principal	5.27	21.09	21.09	21.09	42.77

Charges/Interest	<u>0.19</u>	<u>1.14</u>	<u>1.08</u>	<u>1.03</u>	<u>0.95</u>
Total	5.46	22.23	22.17	22.12	43.72

^{2/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance

Decision point date	Feb 2002
Assistance committed by all creditors (US\$ Million) ^{1/}	2,186.00
Of which: IMF assistance (US\$ million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	Jul 2004

II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	90.05
Interim assistance	25.06
Completion point balance	64.99
Additional disbursement of interest income ^{2/}	4.25
Total disbursements	94.30

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

^{2/} Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ^{1/}	265.39
Financed by: MDRI Trust	220.04
Remaining HIPC resources	45.35
II. Debt Relief by Facility (SDR Million)	

Eligible Debt

<u>Delivery Date</u>	January 2006
<u>GRA</u>	N/A

PRGT	265.39
<u>Total</u>	265.39

^{1/} The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Prepared by Finance Department

Appendix I – Aid Type from China

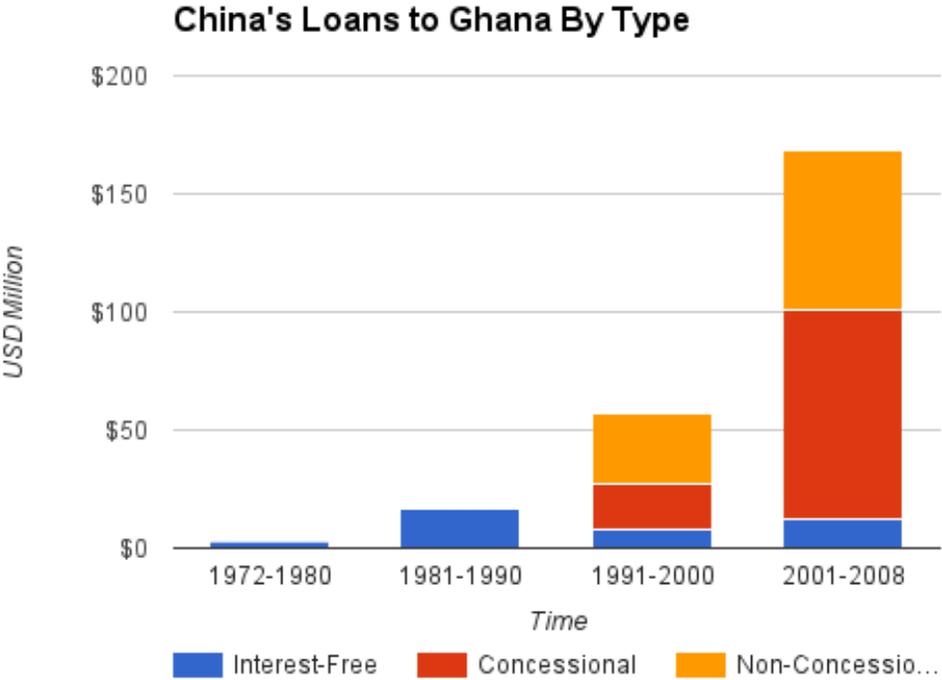


Figure 9 - China Loans to Ghana. Data Ministry of Finance.

Appendix J – ODA Loans

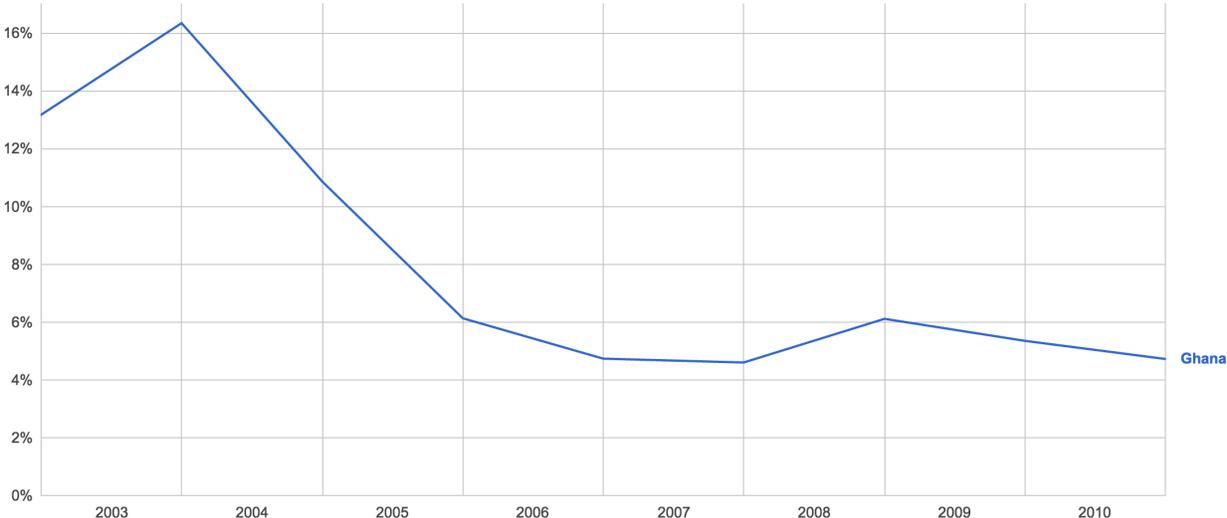


Figure 10 - ODA Loans to Ghana (2003-2011). Data from World Bank

Appendix K – GDP and Population

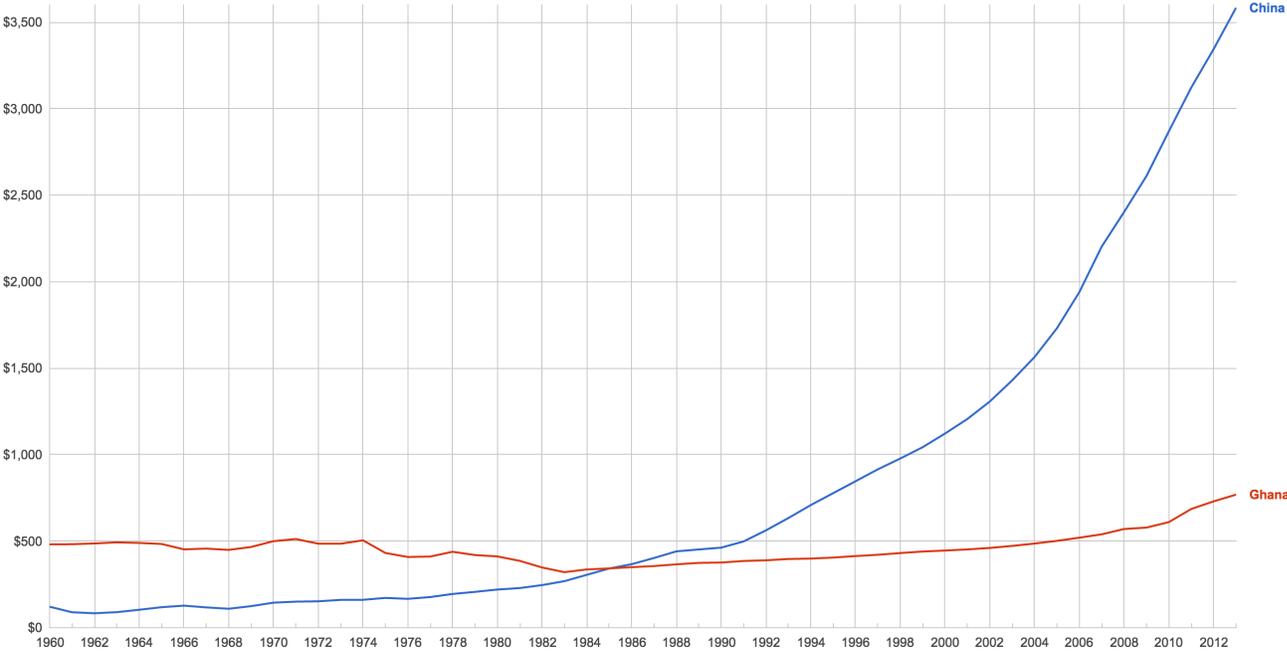


Figure 11 - GDP per Capita (1960-2011). Data by World Bank.

Appendix L – Levels of Concessionary Debt

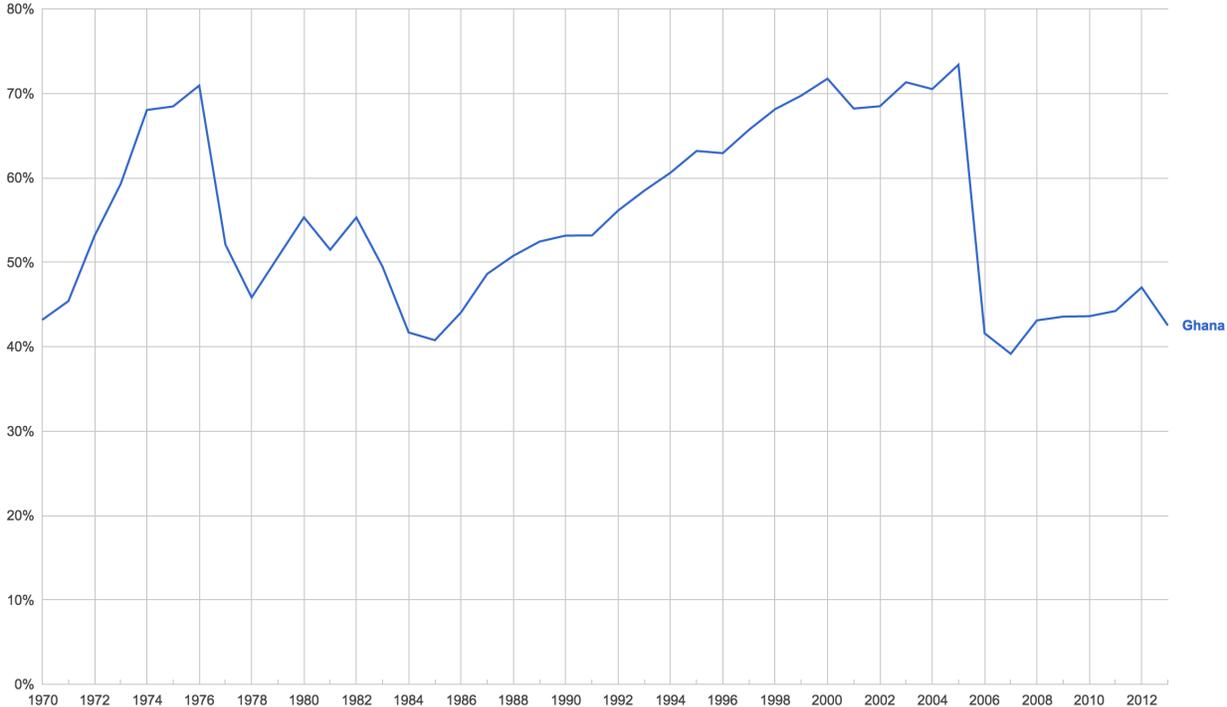


Figure 12 - Concessionary Debt / Total Debt. Data by World Bank.

Appendix M – Ghana Sovereign Debt

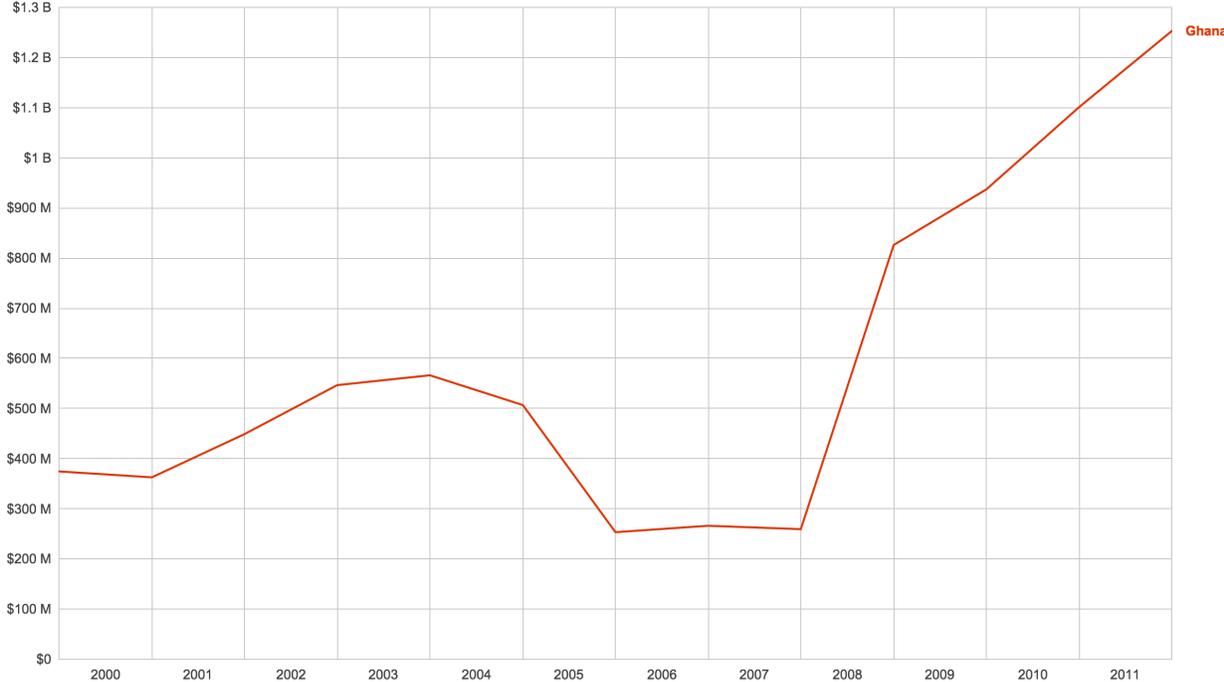


Figure 13 - Ghana Sovereign Debt. Data by World Bank.

Appendix N – Crude Oil Prices

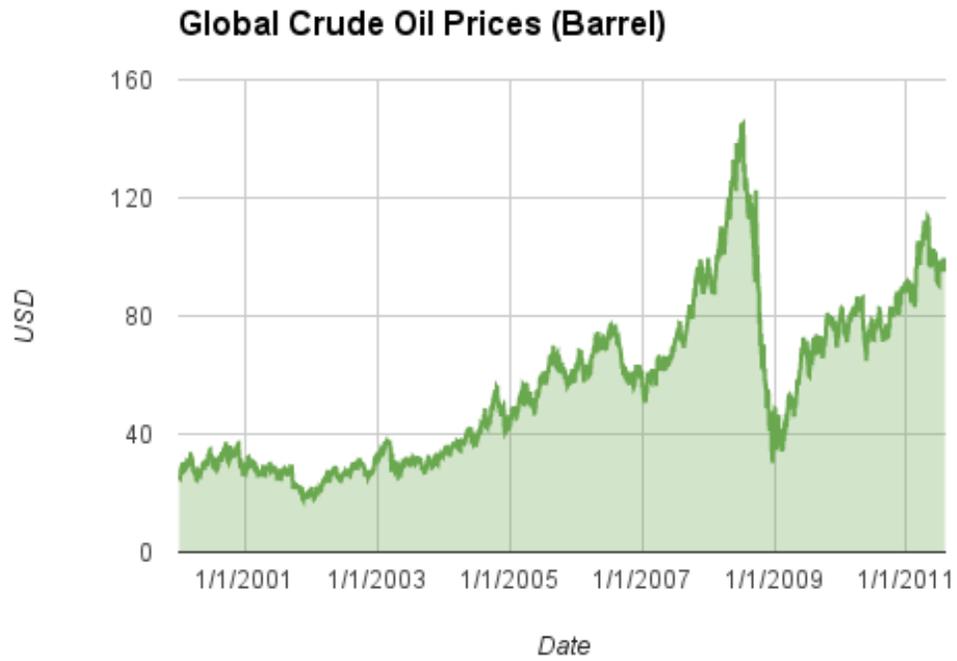


Figure 14 - Crude Oil Prices, Data from U.S. Energy Information Association

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- ⁷ LIBOR is a common interest rate benchmark that is used to provide a lending baseline for loans ranging from home mortgages to sovereign wealth debt. A group of London-based banks define LIBOR based on their approximation of what an inter-bank lending rate would be.
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