

TIMING OF THE SIGNING OF THE CHINA DEVELOPMENT BANK (CDB) LOAN AND ITS IMPLICATIONS

Introduction

In August 2011, Parliament approved by resolution, the China Development Bank (CDB) Master Facility Agreement (MFA) of US\$3.00 billion.

The effectiveness of the CDB loan requires that certain conditions are fulfilled. However, the timing of the signing of the MFA is critical as it has financial implication as well as implications for Ghana's relation with the IMF under the Extended Credit Facility (ECF) Programme.

This is to bring to the attention of His Excellency the President, the implications for signing the Master Facility Agreement (MFA) on September 12, 2011, especially given our programme with the International Monetary Fund (IMF).

If the proposed programme of signing the agreement in September is followed, there could be a number of implications which are discussed below.

Implications of signing the MFA

a. Upfront Fee

Clause 11.1 of the loan agreement requires that half of the upfront fee (US\$3,750,000.00) be paid 20 days after execution of the MFA and the other half (US\$3,750,000.00) paid as part of condition precedent to the first utilisation, under the First Subsidiary Agreement. The total upfront fee payable upon signing of the MFA is US\$7,500,000.00.

b. Commitment Fee

Clause 11.2 stipulates that the commitment fee is due for payment on the date of satisfaction of the conditions precedent or sixty days after execution date, whichever is earlier. The first commitment fee payable upon signing of the MFA is US\$5,000,000.00 (applying 60 days in calculating the fee). The commitment fee, thereof, is payable semi-annually on the undisbursed balance.

c. Implications for Ghana's Programme with the International Monetary Fund

The International Monetary Fund (IMF) recognises a country's commitment of new loans on the date of signature. The concessionality of the new commitments is therefore, assessed based on the date of signature. Under the Extended Credit Facility (ECF) Programme with the IMF, there is a limit of US\$800 million for non-concessional

borrowing. Signing the MFA now will breach the non-concessional limit approved by the Fund under the programme.

The IMF Team that visited Ghana recently signalled their willingness to make a case to the Fund Management to enable Ghana utilise the Chinese loan for infrastructure development. This, however, will have to be negotiated during the 5th Review of the programme, for the amount to be considered for the 2012 Budget. Deferring the signing of the MFA (to early 2012) will also give Government ample time to prepare the projects under the Subsidiary Agreements.

Bridge Financing

In the 2011 Budget, there is an outstanding provision of an amount of US\$600 million for non-concessionary borrowing. Of this amount, US\$500 million has been earmarked to GNPC for the development of gas infrastructure.

The US\$300 million could be utilised to start the development of the gas infrastructure which is the most critical of the projects to be financed under the loan, while adequate preparations are made to finalise the subsidiary loan agreements/project documents. This will also allow us time to discuss and obtain support from the Fund.

Preparation for accessing the loans under the MFA

- a. Borrower's Parliament ratification of the MFA which is already in place.
- b. Fulfilment of the following conditions precedent:
 - i. Certification of the Minister's authority and the authority of all stakeholders to execute documents under the MFA.
 - ii. Negotiation of all the Finance Documents other than the Subsidiary Loan Agreements.
 - iii. Submission of Finance Documents and the Offtaker Agreement to Parliament for approval.
 - iv. Submission of other documents such as the Small and Medium Enterprises (SME) Agreement, and operationalization of Accounts.

The above Conditions Precedent are to be fulfilled before the first commitment fee is charged.

- c. Execution of the MFA and other Finance Documents excluding the Subsidiary Agreements.

- d. Road Map to the signing of the First Subsidiary Agreement under the MFA to be completed within 45 days has been prepared.
 - i. Satisfaction of conditions precedent as stated above under (b).
 - ii. Submission of an application set out in schedule 2 of MFA and provides information on the relevant projects to be financed under the Subsidiary Agreement.
 - iii. Execution of the Offtaker Agreement in respect of the relevant projects.
 - iv. Lender's due diligence on the relevant projects.
 - v. Agreement with lender as to which tranche a project should be financed under.
 - vi. Subsidiary Agreement is then signed.

The above road map is to be completed within 45 days.

Recommendation

Given the fact that the IMF is currently studying the MFA and CDB's request to seek IMF's consent, as well as the ample time needed to prepare and access the subsidiary loans under the MFA, it would be prudent to defer the signing of the MFA to early 2012. Meanwhile, it is recommended to utilize the US\$300 million non-concessional borrowing provision in the 2011 budget, earmarked for gas development.