

DR. BAWUMIA SHEDS MORE LIGHT ON THE SINOHYDRO AGREEMENT -
CLEARLY IT IS A LOAN AGREEMENT

(1) In presenting Mid-Year Fiscal Policy Review of the 2018 Budget Statement to the Parliament on 19th July, 2018. the Finance Minister said, and I quote:

"the agreement between the Government of Ghana and Sinohydro is a barter agreement, a new financing model for Ghana, hence will not add to the public debt".

The Finance Minister and his team re-echoed same when they met with the Finance Committee of Parliament to seek approval for the agreement.

Subsequently, the Majority members in Parliament approved the Barter (*Loan*) *Agreement* by a Resolution.

The Minority in Parliament identified some inconsistencies in the supposed barter arrangement between the Government of Ghana and Sinohydro of China as well as some legal and technical issues, and wrote to the IMF seeking clarification on whether it was a loan or barter arrangement. The request is currently being reviewed by the IMF.

(2) However, during the 2018 Economic Forum on 5th September 2018, the Vice President of the Republic, Dr. Bawumia, when engaging the business community, shed some more light on the arrangement between the Government of Ghana and Sinohydro of China as stated below:

“What this arrangement does basically is to say that we agree with Sinohydro that they provide us our choice of infrastructure worth two billion dollars (\$2bn). We should note that some people misunderstand this deal and this is why it's important.

The Sinohydro Corporation which is going to provide the infrastructure is

not the same company that is going to mine the bauxite and they are not taking our raw bauxite. I know Sinohydro is not a mining company. Rather the government, in our plans, has set up a holding company by an Act of Parliament, the Ghana Integrated Aluminum Development Authority, which will soon enter into ***joint venture arrangements with potential mining and aluminium refinery companies.*** The takers will establish bauxite mines and a refinery. We are going to have a situation where it will not be Sinohydro. Sinohydro will be providing the infrastructure but Ghana will choose its own partner to set up the Integrated Aluminum Development Industry in Ghana. ***The partners could be from the US, Australia, Canada or China.*** Wherever we are confident of the capacity of the potential partners we can enter into partnerships with them to mine. We are talking about refining the bauxite, we are not taking raw bauxite outside Ghana. **After mining and refining, government of Ghana will then use her share of the refined bauxite to pay off whatever cost of the infrastructure provided by Sinohydro Corporation after a period of three years,** on condition that Sinohydro would have completed the infrastructure projects that the people of Ghana have asked them to do. So it's a quite different arrangement. We want to add value to our bauxite reserves which are around 900 million metric tons, worth about \$50 billion in the market. If we refine this bauxite it could be worth almost \$400 billion and we are talking of using a two billion dollar facility to unlock all of this potential" – **Dr. Mahamudu Bawumia, 5th September, 2018.**

- (3) Clearly, the Sinohydro Corporation of China is playing no role in mining the bauxite, refining it into Aluminum, and finding an off-taker to buy the aluminium.
- (4) Basically, Sinohydro is only a contractor coming in to build infrastructure to be paid for with the proceeds from the refined Bauxite.

- (5) From the structure of the arrangement presented to us in Parliament, Sinohydro is borrowing from International Commercial Bank of China (ICBC) to fund the infrastructure projects for GoG. Sinohydro therefore requested for a Letter of Support from the Government of Ghana as a Sovereign Guarantee. With the letter of support, Sinohydro then assigns all its rights and obligations under the arrangement to ICBC. Is Ghana so unattractive in the capital market as to fall on a Chinese company to front for us in borrowing from the International Commercial Bank of China (ICBC) which we have done business with in the past?
- (6) Mr. Vice President, you and I know that in conventional practice, a Letter of Support as a Sovereign Guarantee is only required in loan transactions and not in barter arrangement.
- (7) Furthermore, the terms of the transaction also mandates Government of Ghana to open an escrow account into which all future proceeds from the refined bauxite (our natural resources) will be paid into for the purposes of servicing the \$2 billion debt. Also, the Government of Ghana is mandated to ensure that the escrow account has enough balances to settle debt service and repayment when due. The Government of Ghana is to top up any short fall for debt service and repayment. This totally contradicts the Vice Presidents claim that government of Ghana will use her share of the refined bauxite to pay off whatever cost of the infrastructure provided by Sinohydro Corporation.
- (8) Mr. Vice President, this is simply a supplier's credit and cannot be so complex to comprehend.
- (9) As was stated in the Midyear Budget Statement, the infrastructure deficit of Ghana is \$30 billion. How can a country with an infrastructure deficit of \$30 billion give out his whole bauxite concession worth about \$40 billion for \$2 billion barter/loan arrangement?

(10) **I will like to point out that the structure of this arrangement is similar to the petroleum-based CDB loan arrangement for the gas infrastructure. First, under the CDB Loan, the GoG is tasked to sell crude oil, which is a natural resource, to an off-taker and then pay 49 percent of proceeds into an Escrow Account which is used for debt repayments for the gas infrastructure. Second, Government of Ghana is to ensure that 1.5 times of all debt service due is always kept in the escrow account. Third, GOG is to engage Chinese contractor's to build those infrastructure approved as part of the subsidiary agreement. It has the escrow and debt service accounts that have become innovative to the Veep.**

(11) So if CDB arrangement is a loan arrangement, what makes Sinohydro arrangement a barter agreement?

(12) The attempt to confuse the issues is understandable since the NPP vociferously rejected this structure while in opposition.

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