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Ghana: Implications of Energy Sector State-Owned Enterprises Debt Restructuring for the Fiscal Position and the Banking Sector

1.0 Introduction

For nearly three decades after independence, the public sector dominated economic activities in Ghana. State-owned enterprises (SOEs) were involved in almost all sectors, including power, industry, finance and banking. Reforms to liberalize the economy and reduce the public sector involvement began in 1983 under the structural adjustment program, which saw the privatization of about 400 public enterprises. Nonetheless, the government currently fully owns 44 non-financial enterprises and is also a majority shareholder in 40 others. While some of these enterprises are profitable, the vast majority operate at a loss, requiring budgetary or other forms of government support to enable them sustain their operations. A large number of these enterprises undertake activities that are partly fiscal in mature, providing social safety nets, subsidies, and accumulating arrears and debt. These activities are undertaken to support the government to achieve a number of economic, social and political objectives. Consequently, many activities of public enterprises have broad macro-fiscal and structural implications.

Many activities of SOEs can result in implicit contingent liabilities, thus affecting both fiscal and public debt sustainability. This can occur, for example, if contingent liabilities are created by government guarantees on domestic and foreign borrowing by state enterprises. Adverse effects on the financial system through moral hazard can also be created due to excessive lending by financial institutions to public enterprises under the presumption that the government will bail them out if a problem arises. Indeed, losses of these enterprises must also be financed, and profits must be returned to the government through transfers or dividends. A more complete fiscal picture of the public sector should, therefore, include the financial position of the non-financial, non-commercial state-owned enterprises.

This paper seeks to assess the implications of the restructuring of the energy sector SOEs debt for Ghana's fiscal position and the banking sector. Following this introduction is section two which reviews the financial performance of Ghana's energy sector SOEs. This is followed by section three where the energy sector debt and restructuring is discussed. Section four examines the Energy Sector Levy Act (ESLA) and the energy sector bonds. In sections five and six we look at the implications of the energy sector debt restructuring for the government's fiscal position and the banking sector, respectively. Section 7 concludes the study.

2.0 Financial Performance of Energy Sector SOEs

Ghana's energy sector comprises (i) the power sub-sector which covers generation, transmission and distribution of power by specific power utility companies and (ii) the petroleum sub-sector which deals with downstream and upstream activities. The energy sector is dominated by four state-owned enterprises, namely Volta River Authority (VRA), Ghana Grid Company (GridCo), Electricity Company of Ghana (ECG) and Tema Oil Refinery (TOR). There is also the Ghana National Petroleum Company (GNPC), the only state-owned enterprise involved in upstream exploration and production of oil and gas.

In recent years, Ghana has been experiencing a number of challenges in the energy sector, such as inadequate fuel supply, disruptions to power infrastructure, financial distress and poor operating performance of SOEs within the power sector, which resulted in recurring power outages beginning in 2007. Due to the strategic impact the energy sector has on the broader economic prospects of the country, government has made significant investments in power generating infrastructure and introduced several reforms in the sector. These initiatives were aimed at turning around the performance of many of the SOEs and thus strengthening the foundation for further development of the energy sector.

The financial performance of the energy sector SOEs, including VRA, GridCo, ECG and TOR, has been mixed in recent years. Together, these enterprises have been witnessing sharp increases in revenue since 2014. The enterprises revenue increased from GH₵6.2 billion in 2014 to GH₵7.9 billion in 2015, and thereafter rose sharply by 52.6% to GH₵12.0 billion in 2016. Despite this, the enterprises reported consistent losses, with the losses increasing sharply from GH₵1.9 billion in 2014 to GH₵2.5 billion in 2015, before dropping to GH₵1.6 billion in 2016. As a percentage of total revenue, the losses of the enterprises increased from 32.1% in 2014 to 40.7% in 2015, but in 2016, the losses amounted to a whopping 229.7% of total revenue. Receivables of the enterprises together increased sharply from GH₵5.8 billion in 2014 to GH₵10.2 billion in 2016, reflecting an increase of 75%. Similarly, payables by the enterprises rose from GH¢5.4 billion in 2014 to GH¢13.0 billion in 2016, reflecting an increase of 139.1% over the period. Net profit margin remained negative for the SOEs in each year between 2014 and 2016, increasing from-69.4% in 2014 to -71% in 2015 before dropping to -45.3% in 2016 (see Table 1). Consequently no dividend was paid and no surplus was transferred to the government between 2014 and 2016.

Table 1. Financial Status of Energy Sector State-Owned Enterprises*

Company/Indicator	2014	2015	2016
Revenue (GH₵' mil)	6,157	7,869	12,011
Net Profit (GH₵' mil)	-1,932	-2,537	-1,595
As % of GDP	-0.6	-1.5	-0.7
Receivables (GH₵' mil)	5,845	7,934	10,228
Payables (GH₵' mil)	5,458	8,854	12,979
Total Assets (GH₵' mil)	24,941	30,110	36,871
Total Liabilities (GH₵' mil)	14,190	19,830	25,498
Net Profit Margin (Av. %)	-69.36	-70.96	-45.34
Return on Equity (Av. %)	-21.41	-12.32	-11.46

Source: Ministry of Finance (2016); *comprising of VRA, GRIDCo, ECG, and TOR

(a) **VRA.** VRA's revenue increased from GH¢2.0 billion in 2014 to GH¢2.5 billion in 2016, reflecting an increase of 24.6%. Despite this, the company's net loss increased by 100% from GH¢800 million in 2014 to GH¢1.6 billion in 2015, before dropping to GH¢1.5 billion in 2016 (Table 2). Correspondingly, VRA's net profit margin of 18.4% in 2014 turned into a net loss margin of 66.7% in 2015 and 36.8% in 2016. The Company's current ratio of 0.8 in 2015 and 0.7 in 2016 indicates that it had difficulties in settling its short-term liabilities, whilst its average gearing ratio of 2.0 during the three-year period of 2014-2016 suggests that the Company was overly leveraged. All these happened despite the company receiving a 3.5% haircut on loans from the local banks in 2015.

VRA's receivables increased from GH¢4.0 billion in 2014 to GHS 5.0 billion in 2016, creating a huge liquidity gap that was financed by banks and suppliers in the form of short-term dollar denominated debt, exposing the company to significant exchange rate and rollover risks. VRA also accumulated GHS 4.7 billion in payables to suppliers as at end of 2016 (Table 3), including Ghana Gas Company Limited, Sahara and WAGP. The poor financial performance of VRA between 2014 and 2016 was due mainly to below cost recovery pricing, high cost of financing, exchange losses and accumulation of payment arrears from ECG and the government. About 40 percent of VRA's liabilities are long term external loans, with current- and medium-term liabilities comprising of domestic borrowing and trade credits. Altogether, VRA's liabilities rose from GH₵5.2 billion in 2014 to GH₵9.6 billion in 2016.

Table 2. Ghana: Summary of Energy Sector SOEs Profit and Loss

Enterprise	2014	2015	2016	2014	2015	2016
	GH₵' Million			As % of Revenue		
ECG	-38	-288	277	-1.2	-8.6	5.1
VRA	-800	-1,612	-1,456	-35.7	-71.9	-49.6
GridCo	-42	45	69	-10.5	9.5	10.3
TOR	-1,053	-681	-485	-348.1	-368.0	-195.4
TOTAL	-1,932	-2,537	-1,595	-32.1	-40.7	-229.7

Source: ESLA Plc (2017);

(b) GridCo. GridCo's financial performance between 2014 and 2016 was fairly good. The company recorded a steady increase in revenue from 2014 through to 2016. The company's reported revenue increased from GH₵396 million in 2014 to GH₵472 million in 2015, indicating an increase of 19.2%. Revenue rose again to GH₵674 million or by 42.8% in 2016 (Table 2), making the company's net profit to recover from a loss of GH₵42 million in 2014 to a profit of GH₵54 million in 2016. Consequently, the company's profit margin increased from -11% The company's debt to equity ratio shows that it was highly leveraged during 2014-2016, with the ratio increasing from 0.75 in 2014 to 1.06 in 2016 (ESLA Plc. 2017).

Table 3. Ghana: Summary of Energy Sector SOEs Payables and Receivables

Enterprise	2014	2015	2016	2014	2015	2016
	Payables (GH₵' M7llion)			Receivables (GH₵' Million)		
ECG	2,886	4,575	6,355	1,551	2,640	4,320
VRA	999	2,859	4,699	3,962	4,771	5,028
GridCo	176	234	485	365	467	715
TOR	1,397	1,186	1,440	-33	56	165
TOTAL	5,427	8,853	12,977		7,934	10,228

Source: ESLA Plc (2017)

Between 2014 and 2016, GridCo only incurred a loss in 2014. Despite this good performance, GridCo's operations were affected by the accumulation of receivables, including some GH₵340 million owed by ECG as at the end of 2016 whilst its payables also increased somewhat by a similar amount (see Table 3). Overall, however, GridCo's level of debt and other liabilities compared favorably to that of other utilities. In fact, had ECG been making timeous payment, GridCo's financial performance would be much better. There is also the issue that the associated full liabilities of power transmission were not transferred to GridCo when it was hived-off from VRA. Notwithstanding this performance, no transfer of dividend or surplus was received by the government from the company as it had a policy of not paying dividend for the first 10 years of operationalization. This policy was to enable the Company to reinvest profit in power infrastructure to improve power supply reliability and availability.

(c) **ECG's** revenue increased steadily from GH₵3.1 billion in 2014 to GH₵5.4 billion in 2016, reflecting a significant increase of 74.2% over the period. Consequently, the company's finances moved from a loss of GH₵238 million in 2015 to a net profit of GH₵277 million in 2016 (ESLA Plc. 2017). Up to 2015, the company was experiencing a serious deterioration in profitability which was attributed to technical, commercial and collection losses, depreciation of the cedi exchange rate, increasing costs of power purchases, and electricity tariffs that were set below market levels. Due to the weaknesses in collection of bills from its customers, growth in the company's revenues was accompanied by an increase in trade and other receivables from GH₵1.6 billion in 2014 to GH₵4.3 billion at end-2016 (Table 3). The current ratio of 0.7 recorded by the company in 2016, however, indicates that the company faced challenges in settling its short-term liabilities, although the ratio for 2016 shows a marked improvement over the 2014 and 2015 figures. For ECG to continue operating, it had to accumulate payables to its suppliers, amounting to GH₵6.4 billion at end-2016, up from GH₵2.9 billion at end-2014 (Table 3). Like the VRA, the ECG's long term liabilities comprised of external loans, which accounted for about 40 percent of its total liabilities.

(d) TOR. TOR's financial performance has been poor for a number of years. The company's operations have not been consistent due in part to ageing equipment and mechanical inefficiency. The refinery's operation therefore stalls very frequently with serious implications for its financial performance. Until recently, the government was heavily involved in the pricing of petroleum products, and this had serious adverse effects on TOR's financial performance. Before the new automatic pricing mechanism was adopted in February 2005, the government effectively administered petroleum product prices and adjusted them only infrequently, and in large jumps to catch up with the prevailing market conditions. Over the past several years therefore, TOR operated at a loss, although a small profit was made in 2004, largely on account of subsidies from the government.

TOR has also been facing a huge debt overhang over a long period of time and was unable to purchase crude oil to run its operations. Meanwhile, the company continued to pay for its fixed and some variable costs, resulting in massive net operating losses. The company resumed its operations at end-2014 with a lifeline support from the government, but had to shut down again in 2015 because of maintenance challenges and lack of reliable power supply. The company had at the end of 2016 accumulated substantial short term liabilities, including GH₵565 million of short-term debt/bank overdrafts and GH₵1.4 billion payables. The company's total liabilities, however, were reduced to GH₵3.1 billion at the end of 2016 from GH₵3.9 billion in 2015, following some pay-downs from TOR recovery levy passed under the Energy Sector Levies Act (ESLA Plc, 2017). As at end-2016, the company's total debt had been reduced from GH₵2.7 billion in 2015 to GH₵1.7 billion (Table 4).

(e) BOST. BOST recorded improved financial performance between 2014 and 2016, with revenue increasing sharply from GH₵363 million in 2014 to GH₵1.8 billion in 2015, and then to GH₵3.2 billion in 2016. Net profit for the company however fluctuated during the period. The company reported a net loss of GH₵89 million in 2014 but this was recovered in 2015, with a net profit of GH₵109 million in 2015, reflecting an increase of 222%. The net profit dropped by 24.8% to GH₵82 million in 2016, indicating a deterioration in the company's liquidity position by 24.8%. Consequently, the company's profit margin increased from -25% in 2014 to 42% in 2016. The company's current ratio of more than 1.0 recorded in each year of 2014-2016 indicates that it was able to cover its current liabilities. The company posted a debt to equity ratio of 2.8 in 2016, indicating that it was highly reliant on debt finance for its operations during the period (ESLA Plc. 2017).

3.0 The Energy Sector Debt and Restructuring

The energy sector debt consists of bank loans and payables due suppliers and power producers that were considered for phased refinancing under ESLA's program. Over the years, the under-recovery of the energy sector public enterprises was financed primarily by bank borrowing and accumulation of arrears to other public sector enterprises and the government.

As a result, the energy sector SOEs accumulated debts totaling GH₵14.0 billion in 2014, which by end-2016 had risen to GH₵21.9 billion. The enterprises short term debt increased from GH₵9.2 billion in 2014 to GH₵15.5 billion in 2016, representing an increase of 69% over the three-year period. Medium and long term debts similarly increased from GH₵4.8 billion in 2014 to GH₵6.3 billion in 2016, reflecting an increase of 32% during the period (Table 4).

Table 4. Ghana: Summary of Energy Sector SOEs Debt Profile (GH₵' Million)

Enterprise	2014	2015	2016	2014	2015	2016	2014	2015	2016
	Short Term Debt			Medium and Long Term Debt			Total Debt		
ECG	3,165	4,935	6,927	1,964	2,230	2,525	5,129	7,165	9,452
VRA	3,442	5,705	7,748	1,739	1,990	1,822	5,182	7,694	9,570
GridCo	287	496	292	1,008	1,155	855	1,295	1,651	1,147
TOR	2,301	2,502	565	96	194	1,130	2,397	2,696	1,695
TOTAL	9,196	13,638	15,532	4,807	5,567	6,332	14,003	19,206	21,864

Source: ESLA Plc (2017)

About 33% of the total energy sector debt incurred between 2014 and 2016 was owed to financial institutions in the country and about 44% was also due to fuel suppliers in respect of feedstock supplied for power generation (natural gas, light crude oil and diesel). TOR, for instance, ran up overdrafts in two commercial banks, including Ghana Commercial Bank (GCB), far in excess of its prudential limit. As at September 2009, TOR owed GCB US$600 million and also owed other service providers about US$30 million. At various times, the government took over responsibility for TOR's debt and its servicing, which in mid-2004 amounted to GH₵220 million (equivalent to 2.8 of GDP). For a long period, TOR suspended the refinement of crude oil because of its huge debts and was only involved in receiving and marketing refined products because it couldn't buy crude oil from the international market. The rest of the SOEs debt was owed to other entities that were running the power value chain, such as GridCo, GNPC and other independent power producers (IPPs) who supplied power to the national grid on credit.

Government, as part of its efforts to support SOEs in their delivery of services to the Ghanaian public, provided guarantees and subsidies to these enterprises and also borrowed on their behalf and on-lent to them. This led to a serious exposure of the central government to the energy sector in the form of contingent liabilities by way of guarantees and on-lent facilities. In 2016, six SOEs including ECG, TOR, GridCo, COCOBOD and GWCL disclosed that their indebtedness to the government totaled GH₵7.3 billion. VRA and GNPC indicated that they had received financial support from the government, but details of the support were not disclosed in their financial statements (Ministry of Finance, 2016a). Government exposure to the SOEs increased so significantly in the last decade that without proper measures to mitigate it, fiscal sustainability would have been in serious jeopardy.

To resolve the energy sector debt crisis, government reviewed the energy sector cash flow in 2015.

Subsequent to the review, the government validated the sector's debt position and took the necessary steps to restructure and ultimately pay off the exposures. This exercise led to the promulgation of the ESLA (Act 899) in December 2015 to raise levies to settle the large energy sector SOEs debts and commitments. The levies imposed by the ESLA were on the sale of petrol, diesel, marine gas oil, residual fuel oil, liquefied petroleum gas, kerosene, and electricity. The Act was amended in March 2017 by the Energy Sector Levies (Amendment) Act, 2017 (Act 946) to reduce the levy on consumption of electricity by the public and under the national electrification scheme. The national electrification scheme levy was reduced from 5% to 2% per kilowatt hour of electricity charged on all categories of consumers whilst the public lighting levy was dropped from 5% to 3% per kilowatt hour of electricity charged on all categories of consumers.

Table 5. Ghana: Levies Imposed under the Energy Sector Levies Act

Levy	Purpose	Levies Collected in 2016 (GH₵)
1. Energy Debt Recovery Levy	To facilitate debt recovery of TOR, downstream petroleum sector foreign exchange under-recoveries and power generation and infrastructure support	1,281,180,000
2. Price Stabilization and Recovery Levy	To be used as a buffer for under-recoveries or subsidies to stabilize petroleum prices for consumers	338,470,000
3. Road Fund Levy	To support road maintenance	1,204,180,000
4. Energy Fund Levy	To support the activities of the Energy Commission as a technical regulator	29,840,000
5. Public Lighting Levy	To support investment, maintenance and payment of energy consumed by traffic lights, street lights, and public lights on highways	168,380,000
6. National Electrification Scheme Levy	To provide funding to support the national electrification program to improve access to electricity across the country	176,870,000
Total		3,298,920,000

Source: ELSA Plc. (October 2017)

The relevant levy under the ESLA for the purpose of refinancing the energy sector debt is the energy debt recovery levy (EDRL). As Table 5 shows, ESLA collections for 2016 amounted GH₵3.3 billion (equivalent to US$765 million), with the bulk of proceeds coming from the EDRL and the Road Fund Levies. The ESLA stipulates that all collections under the EDRL are to be paid into two designated accounts held with the Bank of Ghana, namely, the Energy Debt Service (EDS) Account and the Power Generation and Infrastructure Support (PGIS) Account. In terms of the arrangement, 32% of EDRL collections are paid into the EDS Account and the balance of 68% of the collections goes into the PGIS Account. The energy sector levies are independently administered outside the government's Consolidated Fund for the specified purposes. The Minister of Finance is required to submit an annual report to Parliament on the management of the collected levies. The first report was released in the first quarter of 2017 and presented to Parliament in July 2017.

In July 2016, the energy sector creditor banks, led by representatives of the Ghana Association of Bankers and the chief executives of the banks, agreed with the Ministry of Finance on a framework for restructuring and repayment (over 3 to 5 years) of approximately GH₵ 2.2 billion of debts owed by VRA and TOR to the banks. At the time, this amount represented the energy sector legacy debt, consisting of US$358 million and GH₵766 million.

The key features of the agreed framework for VRA debt restructuring were as follows:

- Creditor banks would receive an upfront payment of approximately GH₵250 million in aggregate to be funded by the ESLA;
- Interest rate on the domestic currency component of the VRA debt would be reduced from an average of 30% to 22%;
- Interest rate on the foreign currency component of the VRA debt was to be reduced from an average of 11% to 8.50%;
- Repayments of VRA's cedi and dollar denominated loan facilities, totaling GH₵2.2 billion (VRA legacy debts), were to be funded from a debt service account which itself was to be funded by cash flows from the EDRL, a debt service reserve, and a proportion of VRA's receivables;
- Proceeds of the EDR levy which are applied to repay and service VRA legacy debts would be converted to equity on VRA's balance sheet or would be subject to an on lending arrangement with the government;
- Repayment was over five-year tenure and on quarterly instalments ending in April 2021; and
- Government was to place limits on the ability of VRA to incur new indebtedness without the express approval from the Ministry of Power and the Ministry of Finance.

For TOR, the Ministry of Finance working in collaboration with the Ministry of Power and the management of the company agreed on a restructuring arrangement of the debts owed to a consortium of local banks. Under the arrangement, TOR's debt to the banks were converted into a 10-year zero coupon bond with an initial investment of GH₵161 million to yield a future value of GH₵917 million. Interest payable was to be made on a semi-annual basis (Ministry of Finance, 2016). At the time, the government envisaged that this approach will be used to restructure VRA and TOR's remaining indebtedness wholly or partially, as well as the debt of other energy sector SOEs. The collecting agency for the EDR levy is the Ghana Revenue Authority (GRA) who appointed Ghana Commercial Bank Limited, Ecobank Ghana Limited, Standard Chartered Bank and Fidelity Bank as collection banks for the levy and the banks have set up accounts for the collection of the levies. The EDR levy is a fixed tariff amount per unit volume of the relevant petroleum product sold to consumers through the oil marketing companies (OMCs). The OMCs order petroleum products from the bulk distribution companies (BDCs) and retail them to their customers. The OMCs are required to declare volumes of products lifted at each time to the NPA and GRA. After assessment and validation by the GRA, the actual levies to be paid by the OMCs are communicated to them for payment into GRA Collection Accounts within a specified time frame. When the levies are paid into the GRA Collection Accounts, the designated EDR levy portions are then transferred into the EDS Account and the PGIS Account held with the Bank of Ghana. Deposits in these two accounts are referred to as the ESLA receivables. As of July 2017, a total of GH¢2,099.7 million had been deposited into the two accounts as ESLA receivables, with an average monthly EDR levy collection of about GH¢110 million.

4.0 The ESLA Plc. Energy Sector Bonds

ESLA Plc. was incorporated in September 2017 as a special purpose vehicle (SPV) and a public limited liability company by shares in Ghana to, among others, issue bonds (debt securities) to raise funds to refinance the energy sector debt. To this end, the EDR levy was irrevocably assigned by the government to ESLA Plc. to serve as the primary repayment source for bonds issued to raise funds to pay the energy sector debts. According to Table 6, a total of GH¢9.39 billion of the energy sector SOEs debt was set out to be financed by the ESLA Plc, of which the bulk, amounting to GH¢4.48 billion or 47.8%, belonged to VRA. ECG's debt to be financed under the program amounted to GH¢2.18 billion or 23.2% of the total for the group, whilst TOR's was GH¢2.11 million, equivalent to 22.4% of the total. The remaining GH¢616 million or 6.6% of the total debt to be refinanced belonged to the BDCs.

Table 6. Ghana: Energy Sector Debt to be Re-financed by ESLA Plc.

Debtor	Total Obligation (GH₵' million)	% Share
SOEs		
VRA	4,485,394,228	47.8
TOR	2,107,848,663	22.4
ECG	2,184,269,951	23.2
BDCs		
Legacy Bonds Limited	616,000,000	6.6
TOTAL	9,393,512,842	100.0

Source: ESLA Plc. (September 2017)

Table 7. Ghana: Energy Sector Debt to be Re-financed by ESLA Plc. Bonds

Creditor	Total Claim (GH₵' million)	% Share
Commercial Banks	2,790,275,148	29.7
Fuel Suppliers (BDCs and OMCs)	2,947,660,222	31.4
Other Suppliers	1,062,906,405	11.3
Power Producers	1,976,731,067	21.0
Legacy Bonds Limited	616,000,000	6.6
TOTAL	9,393,512,842	100.0

Source: ESLA Plc. (September 2017)

As Table 7 shows, the bulk of the GH₵9.4 billion energy sector debt to be refinanced, amounting to GH₵2.9 billion or 31.4% is owed to fuel suppliers. Commercial banks are owed GH₵2.8 billion or 29.7% of the total, and power producers, GH₵2.0 billion or 21%. A total of GH₵1.1 billion, representing 11.3%, of the total debt to be refinanced belong to others suppliers, whilst the remaining GH₵616 million or 6.6% of the total is owed to Legacy Bonds Limited.

ESLA Plc. established a program to raise debt financing of up to GH₵10 billion to refinance the energy sector debt. The bonds were to be issued in one or more tranches by ESLA Plc. They were to be senior bonds, with floating or fixed rates and were to be listed on the Ghana Fixed Income Market (FIM) or any other stock exchange. Bondholders are to be repaid primarily with the ESLA receivables which have been assigned to ESLA Plc.

by the government under an Assignment Agreement entered into between the government, ESLA Plc. and Fidelity Bank (Bond Trustee). The assignment is valid for as long as an amount remains outstanding under any final bond tranche issued by ESLA Plc. Bondholders are expected to pay the relevant consideration for the bonds into an Escrow Account which will credit the relevant amount of bonds to the accounts of the bondholders. After all conditions precedent to disbursement have been met by ESLA Plc., the funds in the Escrow Account will be transferred to the Bond Proceeds Utilization Account to be utilized as follows: (i) Payment of any expenses related to the bond series or tranche or the program (as the case may be); (ii) Disbursement of the reserved proceeds amount into the DSRA, in relation to only the first series or tranche; and (iii)Payment directly to relevant creditors who opted for the energy debt cash payment. Where a creditor opted for the energy debt swap, it shall be issued with bonds subject to entering into a bond purchase agreement with the ESLA Plc.

All payments of interest, instalment amount, principal or redemption amount, or any other payments under the bonds will be primarily funded from the ESLA receivables. Other sources of funding for payments will be proceeds from cash support agreements with the government (if any), returns on investment of funds in the lock box account, the capped cash commitment and DFI financing. DFI financing is a revolving standby letter of credit financing of up to GH₵900 million to be obtained by ESLA Plc. from a development finance institution for the purpose of satisfying any debt service reserve unfunded amount. This amount is to be drawn by ESLA Plc. only after (i) the entire amount of the capped cash commitment has been funded, (ii) the Bond Trustee has determined that it will not result in a breach of the debt service coverage ratio, and (iii) the written consent of the Bond Trustee has been obtained (ESLA Plc. 2017).

As part of the GH₵10.0 billion ESLA Bond program, ESLA Plc. opened bids for Ghana's first-ever energy bond on October 24, 2017, targeting GH₵6.0 billion in two separate tranches of GH₵2.4 billion 7-year bond and GH₵3.6 billion 10-year bond. Instead of following the norm of backing the bonds with a sovereign guarantee, the government rather issued the long dated instruments with the backing of inflows from the ESLA, 2015. At the close of the book building, orders received for the 7-year bond was GH₵2.5 billion, but the company accepted GH₵2.4 billion at the coupon rate of 19%. Unfortunately, only GH₵872 million of the GH₵3.4 billion 10-year bond was raised. After extending the closing date for the bond for about a week, the government still failed to raise the total targeted amount of GH₵6.0 billion from the investing public. It was able to raise GH₵2.3 billion for the 10-year bond at a yield of 19.5%, bringing the total to GH 4.7 billion, which was GH₵1.3 billion short of the target of GH₵6.0 billion. Given that this is a program, future issues will be undertaken subject to favorable market conditions and adequate levels of EDR Levy inflows. Subsequent issuances will continue until the total outstanding legacy debts and other obligations due suppliers and other creditors within the energy sector have all been settled. ESLA Plc., the issuer, shall ensure that the EDR Levies are monitored and collected in a timely manner to ensure that all bond covenants are met in accordance with the bond prospectus. Bond holders will be paid from EDR Levy receipts assigned to ESLA Plc.

ESLA Plc. was unable to raise the full GH₵6.0 billion expected for a variety of reasons. First, although the bonds were sold through a special purpose vehicle was to be funded with proceeds from the energy sector levies, offshore investors were reluctant to buy them because they were not covered by a sovereign guarantee. The bonds were not issued as "vanilla bonds", but came across with an unusual structure that made risk-averse investors, especially foreign buyers, to shy away from them. Some potential investors were concerned about the liquidity of the ESLA levy over the life span of the bond. They were unsure if there would still be liquidity after the 7-year bond is paid to pay for the 10-year bond. Second, ESLA Plc. failed to achieve the targeted GH₵6.0 billion because of the price put on it. Investors were not happy with the 19% coupon rate promised for the 7-year bond and 19.5% rate for the 10-year bond. There are reports that not even the explanation and appeal by the government changed the minds of investors who seemingly wanted higher interest on their investments. Third, it appears that the issuance was too big. The biggest issuance government did before this was a US$2.25 billion 15-year bond issued in April 2017, of which 95% was absorbed by one investor, giving a false impression of actual demand for the local sovereign paper. Fourth, there are a number of risks associated with the bonds which can result in the ELSA Plc. becoming unable to make payments on maturity.

The risks include the following: Ghana's current high risk of debt distress; vulnerability of the economy, including the EDR levy, to imported petroleum products and consumption; financial distress of the energy sector SOEs; no operating history or assets of the bond issuer to indicate its ability to make payments; uncertainties about the energy sector levy to retire fully the liability when it falls due; bondholders limited recourse to the issuer in the event of default; and other risks relating to the bond itself, such as its treatment by the Bank of Ghana.

5.0 Implications of the Debt Restructuring for Government Fiscal Position

Ghana's fiscal performance during the 2014-2016 period was seriously mixed. The fiscal deficit dropped from a high of 10.2% of GDP in 2014 to 6.3% of GDP in 2015. However, the fiscal consolidation efforts in 2016 suffered a serious setback, due largely to huge revenue shortfalls and large expenditure overruns, causing the overall deficit (on cash basis) to rise to 9.3% of GDP. The fiscal deficit, on cash basis, stood at 3.0% of GDP in June 2017, compared to the target of 3.5% of GDP. As a result, total public debt increased from GH₵76.1 billion in 2014 to GH 122.6 billion in 2016, and by the end of June 2017, the public debt stock had reached GH₵138.6 billion. In relation to GDP, total public debt increased from 48.4% in 2012 to 73.3% in 2016. By June 2017, the deficit had dropped to 68.6% of GDP (see IFS, Oct. 2017).

The picture of Ghana's recent fiscal and debt position is incomplete, since it takes account only of the central government. The scope of fiscal policy in the country goes well beyond the central government to include quasi-fiscal activities undertaken by local governments, statutory funds, the social security system and state-owned enterprises. Quasi-fiscal activities include all activities under the general direction of government, undertaken by the central bank and public financial and non-financial state-owned enterprises that are fiscal in nature. These activities are "off-budget," but can be executed through the budget either in the form of explicit taxes, subsidies, or direct expenditure. In other words, quasi-fiscal activities involve a net transfer of public resources to the private sector (households and enterprises) through non-budget channels. A wide range of Ghana's energy sector SOEs activities are quasi-fiscal in nature, involving the pricing of services and products below market or cost recovery levels; building-up payment arrears, non-billing of activities or low billing and collection rates on services provided; and losses due to operational and technical inefficiency.

State-owned enterprises play an important role in the Ghanaian economy, given their sizes and the quasi-fiscal activities they undertake. Majority of the state-owned enterprises operate in critical sectors of the economy and are important to the management of the country's public finances and policy. As a shareholder, the government expects SOEs to pay dividends and/or transfer surplus funds to it on a yearly basis.

Unfortunately, a number of the country's SOEs are not commercially viable, relying on state support for funding of their activities. Many of these enterprises operate at a loss, or with low profitability. These enterprises largely finance their operations through accumulation of debt, payment arrears and depletion of their capital stock. Others benefit from government loans and/or guarantees, while a handful benefit from tax and regulatory exemptions.

For VRA, there are two main sources of quasi-fiscal activities, stemming from mispricing of power and arrears accumulation resulting from low bills collection rates. In general, the wholesale tariffs levied by the VRA reflect cost recovery for most customers but, until recently, the average tariff rate was much lower on account of the heavy discount provided to the Volta Aluminum Company (VALCO). VALCO was effectively receiving a cross-subsidy paid by other customers of the VRA. As a result, VRA's activities over the years have been financed mainly by accumulation of debt, build-up of arrears and depletion of capital stock through under-investment, and more recently through debt relief. The build-up of arrears by the VRA was largely due to poor payment performance on the part of ECG (the main purchaser of power from VRA), which in turn reflected frequent payment delays from government ministries, departments and agencies (MDAs), and other public enterprises. The Ministry of Finance and Economic Planning takes the lead in settling cross-debts among the large SOEs and the central government. Through this exercise, the inter-enterprise arrears and taxes which are owing are netted out, and either the central government transfers budget resources to clear the books, or it writes off any outstanding enterprise debts. While the magnitude of the VRA's quasi-fiscal activities has declined significantly during the past few years, the enterprise is also engaged in a program to improve both its financial and operating performance. Two elements which are very important in this regard are (i) finding new sources of financing to reduce capital costs and (ii) reducing fuel expenses. The latter is the primary motivation behind Ghana's participation in the West African Gas Pipeline project, in which VRA holds the country's equity interest.

For ECG, its system loss in the past was nearly 30% of power purchases from VRA, due to commercial losses attributed to lack of billing/metering and theft, and technical losses attributed to the poor state of the enterprise's infrastructure. The lack of timely payment from MDAs and other public institutions also contribute substantially to the low bills collection rate by the ECG. The main beneficiaries of ECG's quasi-fiscal operations are the wide range of consumers, many of which accumulate arrears or take advantage of unbilled consumption. In addition to arrears, the ECG has financed its activities through the accumulation of debt and depletion of its capital stock. A portion of the company's external debt, amounting to US$86.9 million, was written-off in the context of the enhanced HIPC Initiative. The World Bank estimates that refurbishing and expanding the electricity network in Ghana would require annual investment (including for operations and maintenance) of about US$117 million over five years. To address this situation, ECG is focusing on (i) stepping up efforts to collect arrears; (ii) facilitating payment by establishing more cash-collection points; and (iii) pursuing an aggressive policy of disconnecting non-paying customers. The Public Utilities Regulatory Corporation (PURC) also continues to support the ECG by ensuring that tariffs set by the Commission reflect full cost recovery. Action is also being taken to improve the company's financial position through debt restructuring to settle all payables/receivables among government entities, and the receipt of debt relief from the government.

Beginning in 2002, petroleum product prices were to be determined by an automatic and independent formula developed to ensure full cost recovery for TOR and monitored by NPA. Government, however, did not allow the pricing formula to function as intended, instead it continued to administer prices by fiat. This administered pricing policy, designed to achieve social and political goals, had several macroeconomic implications. First, it made TOR's financial position to continue to be fragile, as the administered price increases failed to ensure full cost recovery. Second, to finance its operations TOR borrowed heavily from the local commercial banks, leading to significant exposure and vulnerability of the country's financial sector to world oil price changes. Third, consumers were not left to face world prices of petroleum products, leading to distortions in consumption and resource allocation. Thus, the main source of quasi-fiscal operations for TOR stemmed from mispricing, as the government set ex-refinery prices below cost recovery, resulting in significant under-recovery of the refinery's costs. Consumers benefited from this under-recovery, as it worked to prevent the full cost of world prices and changes in the nominal exchange rate from being reflected in retail fuel prices. Recently, the government has adopted a policy of deregulating petroleum products prices that ensures that ex-refinery prices reflect full cost recovery for both TOR and private importers of both crude oil and refined products. This process has positive implications for TOR's financial and operating performance. TOR is also taking a number of actions to improve its operations, aimed at reducing costs and enhancing efficiency.

Table 8. Ghana: Operational Losses and Debt profile of Energy Sector SOEs

Item	2013	2014	2015	2016
Net Operational Losses (GH₵' million)	-1,288	-1,932	-2,537	-1,595
Net Operational Losses/GDP (%)	-1.4	-1.7	-1.9	-1.0
Total Debt (GH₵' million)	3,668	5,846	7,934	10,228
Total Debt/GDP (%)	3.9	5.2	5.8	6.1

Memorandum Item

Government Fiscal Deficit/GDP (%)	11.1	10.1	6.9	8.7
Total Public Debt/GDP (%)	56.8	70.2	72.2	73.3

Extending the coverage of the fiscal indicators to include the energy sector state-owned enterprises presents a different picture of Ghana's recent fiscal stance. In this case, the overall deficit of the public sector deteriorates significantly. The overall deficit of the central government averaged 9.2% of GDP between 2014 and 2016, but this increases to about 10.7% under a broader measure of the extended public sector. Over the same period, the public debt/GDP ratio increases from an average of 68.1% to 73.4% for the extended public sector (Table 8).

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Quasi-fiscal activities of energy sector SOEs in Ghana have a number of undesirable effects, which the government has to address to improve fiscal sustainability and economic performance. The poor perfor

mance of the energy sector SOEs imposes both a financial and economic burden on the country, raising the public sector borrowing requirements and putting upward pressure on interest rates, with significant negative implications for private sector investment and productivity growth. Quasi-fiscal activities have seriously distorted energy consumption, as well as investment decisions of the enterprises. In addition, they have a negative effect on equity and fairness, such as the preferential prices previously offered by the VRA to VALCO. The government budget must eventually absorb these quasi-fiscal losses, suggesting a limited scope for the government to increase spending on growth-enhancing and poverty-reducing social programs.

An interesting issue that arises in connection with the energy bonds is whether the government should consolidate them as government debt. Some commentators and analysts hold the view that the ELSA bonds should not increase the public debt stock because ESLA Plc. (Issuer) is the only party required to make payments under the bonds. Both the government (Sponsor) and the beneficiary SOEs have not guaranteed the bond, which means that the liability will not be on the balance sheet of government. To this viewpoint, the structure of the bonds makes them look more like corporate bonds rather than central government bonds. The only funds available to ESLA Plc. to pay amounts due under the bonds will be the funds placed into the Collection Accounts designated for the purpose of repaying bond holders. This means that if the Issuer is unable to pay any amounts due under the bonds, the Bonds Trustee (on behalf of thebondholders) will not be able to bring a claim for payment against the government (the sponsor) or any of the SOEs involved (see Obeng-Okon, 2017).

As we know, the debts owed by VRA, ECG and TOR have accumulated over the years due to following reasons: (i) The poor financial performance of VRA over the years due mainly to below cost recovery pricing, high cost of financing, exchange losses and payment arrears from ECG and the government, especially in respect of subsidies; (ii) Significant losses recorded by ECG over the years, attributed to technical, commercial and collection losses, depreciation of the cedi, increasing costs of power purchases, and below market tariffs; (iii) Huge debt overhang that has confronted TOR for a long time, making the refinery not able to purchase crude oil to run its operations, whilst it continues to pay for its fixed cost and some variable cost. Based on these reasons for the accumulation of the energy sector SOEs debt, the IMF (2017) concludes that the SOEs debt is a government debt. The Fund explains that the debt arose primarily due to government actions, such as subsidized fuel and energy cost for its citizens, and so ESLA Plc. an SPV sponsored by the government is providing a service to the government by taking care of the debt burden of its SOEs.

The Institute for Fiscal Studies (IFS) shares with the IMF the view that the energy sector SOEs debt is a government debt. The reasons are as follows. First, the operational viability of the energy sector SOEs will not be sustainable if the government is unable to oversee a reduction, restructuring or refinancing of the legacy debts of the enterprises. If any of these SOEs is unable to continue to operate, it will have a significant impact on the ability of the government to resolve electrical power issues, thereby posing a substantial risk to the economy. Therefore the establishment of ESLA Plc. by the government was meant to remove the debt pressure off the SOEs so that they can look for alternatives to provide power and fuel to the public. Besides, the taking over of the SOEs debts and paying them through the issuance of bonds frees the banking sector from the burden of non-performing loans that could collapse the sector, with serious systemic impact on the economy and the energy sector SOEs (Akrong, 2017).

Second, though the SOEs loans are not guaranteed by Government of Ghana, most banks lend to the enterprises based on an assumption of an implicit guarantee from the government. Similarly, an implicit assumption is said to be made by investors regarding the two tranches of bonds issued by ESLA Plc. (the Issuer), placing some sort of financial burden on the government.

Third, the government may benefit from unused portion of ESLA Plc. receivables. ESLA Plc. revenue is a government revenue which has been assigned to service the bonds issued and any unused portion of ESLA's receivables will be returned to the source as public funds.

Fourth, ESLA Plc. was incorporated by the government as a special purpose vehicle to, among others, issue debt securities for the purpose of refinancing the energy sector debt. As a result, ESLA Plc. has no operating history, and will not be engaged in any business other than those related to its establishment. Besides, ESLA Plc's ability to perform its mandate is entirely dependent upon the Act establishing the SPV and flow of funds from the levy. Any shortfall and/or delay in the collection of the ESLA receivables will affect the company's ability to undertake its responsibilities and honor its obligations to the bondholders. If the company is unable to meet a shortfall of ESLA receivables, it will affect its ability to issue future bonds to pay the entire energy sector SOEs debt, which will force the government to step in to close the shortfall. This is because if ESLA Plc. is unable to issue the remaining GH¢5.3 billion bonds, it will seriously affect the banking sector and the economy, and it is unlikely that the government will not take action to prevent this from happening. Accordingly, there is a performance risk on the government to help support any shortfall.

Finally, the government has the ability to use its power to affect the nature or size of the bonds because ESLA Plc. is an agent of the government. An agent is a party primarily engaged to act on behalf of and for the benefit of another party (the principal)) and therefore does not control the other party when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as an agent for a Minister or another public entity.

The Public Finance Management Act, 2016 (Act 921) defines public debt to include all borrowings by the central government and those guaranteed by government for the benefit of SOES. ESLA Plc. is as an agent for the Government of Ghana since the government can dictate the terms of the debt securities to be issued by the company. Per the regulations of the company, it is authorized to carry on the following businesses: (a) issue debt securities backed by receivables collected under the Energy Sector Levies Act, assigned to the company by the Government of Ghana and acting through the Ministry of Finance, for the purposes of servicing the debt and related expenses; (b) enter into loan agreements and/or on-lending agreements with public utility companies and other state-owned enterprises in the energy sector in relation to their indebtedness; and (c) enter into such other arrangements and transactions in relation to the issuance of debt securities as may be necessary or required by the government acting through the Ministry of Finance. The last part of ESLA Plc.'s object makes it clear that its decision to issue bonds is based on the directives from the government, acting through the Ministry of Finance, supporting the view that the government controls the company. By specifying in detail the way in which the company must operate, its relevant activities in terms of issuance of the debt securities has predetermined its activities and the nature of benefits to the government. This makes the ESLA Plc. bond a government debt. The government's policy to implement a credit risk assessment to guide SOEs borrowing and continue to ensure that the necessary security structures and instruments are put in place by the companies to ensure that they honor their debt obligations so that they do not become contingent liabilities for debt management is therefore a welcome decision.

6.0 Implications of the Debt Restructuring for the Banking Sector

The debt levels of the energy sector SOEs in recent years have become alarming and frightening. The level of indebtedness is akin to the situation that existed in the early 1980s just before Ghana embarked on economic recovery program under the auspices of the IMF and the World Bank. Over US$800 million of the net debt of the energy sector is owed to local banks in the country. Resident commercial banks have in the past extended substantial credit facilities to each of the energy sector SOEs. The situation became more deleterious in 2017 as the financial position of the energy sector SOEs posed significant risks to the banking sector by way of increasing the level of nonperforming loans within the sector. Without government intervention, possible banking failure was eminent as deleveraging of their debt gets impeded by the drying financial position. It is therefore a welcome development that with the planned issuance of the energy sector bond, the nonperforming loans ratio will improve significantly, and with increased liquidity, the banks will be in a better position to deliver cheaper credit to the private sector.

What is difficult to understand here is that the financial performance of the key energy-sector SOEs has seriously been deteriorating over the past years (see Table 8). With such a situation, why did the banks continue to lend to the SOEs, some of which were visibly bankrupt? The response could be that they did so under political pressure to support a national discourse and/or because the banks had an implicit assumption that the government will pay them should the SOEs fail to honor their obligations. Indeed at various times, the government took over responsibility for paying SOEs debts and their servicing. In 2002-2004, TOR's bank debt amounting to GH₵313.8 million was exchanged for government TOR bonds, paying 4½-5% real rate of interest. This brought the total amount of TOR debt assumed by the government to approximately GH₵414 million and leaving around GH₵210 million short-term debt on TOR's

books. A portion of these bonds were transferred from GCB to Bank of Ghana to reduce GCB's exposure to the petroleum sector. Accommodation was also made in the medium-term fiscal framework for the servicing and amortization of TOR bonds, funded by the Debt Service Levy. The restructuring of TOR's debt at that time was expected to clear the way for the privatization of GCB, the refinery's main creditor. Again, as at end December 2008, the overdraft position of TOR with GCB was approximately GHS598 million, mainly in the form of established letters of credits, which had crystallized into overdraft facilities. In addition to the GCB debt, TOR as at end September 2010, had outstanding syndicated loan balance with no formal government guarantee as the government had advised in June 2010 that it cannot give a guarantee because it would be contrary to agreements reached with the IMF. Nonetheless, the government took the initiative to restructure TOR's balance sheet. The government appointed Ecobank Development Corporation and Ecobank Ghana Limited as Transaction Advisors to establish the true state of TOR's debt, raise US$300 million to settle part of TOR's debt and issue bonds to raise another US$300 million to restructure TOR's balance sheet, especially its working capital. Again, in the 2011 Budget, government adjusted upwards the DRL to retire TOR debt and reduce its negative effect on the banking system.

In December 2015, ESLA was passed to address the energy-sector's debt situation through the imposition of consumption tax levies on petroleum products. The banking industry's exposure to the energy-related SOEs at that time was estimated to be GHS3.2 billion and to the BDCs was in excess of US$500 million, emanating from foreign exchange losses and under-recovery from subsidies on petroleum products. In August 2016, the government reached agreement with the local banks to restructure and pay the legacy debts of the energy sector SOEs. This agreement sought to restructure a substantial proportion of VRA's debt to the local banks. The outstanding legacy debt of VRA to the banks at that time consisted of US$358 million (being gross amount in foreign currency denominated facilities) and GH₵776.6 million (being gross amount in local currency denominated facilities). This outstanding legacy debt excluded all current lending to VRA by foreign banks, trade creditors, and lenders/creditors with specific receivables assigned for debt services, such as the facilities from the African Export-Import Bank, Fidelity Bank. (see section 4). The government expected that the agreement reached with the banks would not only improve the balance sheets of the affected SOEs but also reduce non-performing loans on the balance sheets of the banks, improve profitability of banks, secure employment status of banks staff, and boost banks confidence (Ministry of Finance, 2016).

In October 2017, the fourth rescue program for TOR and other energy-sector SOEs took place. Under this program, a total of GH₵9.4 billion of the energy sector SOEs debt was set out to be financed, of which the bulk, totaling GH₵4.9 billion belong to VRA. ECG's debt to be financed under the program amounts to GH₵2.2 billion, while TOR's is GH₵2.1 billion. The remaining GH₵616 million of the total debt to be refinanced belonged to the BDCs. Government, acting through the Ministry of Finance, sponsored a special purpose vehicle, ESLA Plc. to issue bonds to pay off the outstanding energy-related debts, backed by collections under the ELSA. ESLA Plc. is to issue energy bonds of GH₵10 billion to pay off the outstanding debt of the energy-sector SOEs and BDCs. As indicated earlier (see section 4) the prospectus for the bond issue defines the GH₵10.0 million bond issuance as a program, under which ESLA Plc. may, from time to time, issue bonds denominated in cedi and having such maturity as may be set forth in the applicable pricing supplement. The prospectus also stipulates that the GH₵10.0 billion bond has 5 years from the date of the prospectus to expire, which is October 2017. This arrangement raises the question of whether the banks factored this development into their liquidity projections. Also, ESLA Plc failed to raise the first tranche of GH₵6 billion issued in November 2017 to pay off some of the energy sector debt and so it is likely that some of the creditor banks did not receive their entire amount unless the ESLA Plc decides to issue additional bonds.

Prior to the issue of the bonds, the Ministry of Finance met representatives of the creditor banks in September 2017 and made the following proposals to them: (i) to receive cash payment, the banks should write off 40% of the debt the SOEs owe them; (ii) to receive debt instruments (bonds), a 10% write-off would be required; and (iii) for a combination of cash and bonds, a 20% write-off should be accepted. Although this move has the potential to adversely affect liquidity of the banks, the government was of the view that the proposal was mutually beneficial to both the banks and the state, arguing that the debt has ballooned to the level it is now because of the huge interest rates, so the banks should write off some of the interest cost. It is difficult to understand why the government took this line of action, knowing its negative implications for the banks. What is also not clear is whether the GH₵2.79 billion stipulated in the Bond Prospectus as the amount owed to banks at the end of August 2017 was the amount to be reduced by the proposed discount, or the GH₵2.79 billion was the total amount outstanding after the write-off. The creditor banks and the Bank of Ghana need to seek clarity on these issues from the Ministry of Finance so that if the amount reflects a haircut to existing debt, then Banks can reflect this accordingly in both their liquidity projections and loan write-offs.

7.0 Conclusion

The extensive nature of quasi-fiscal activities of Ghana's energy-sector SOEs has several implications for the country's fiscal position as well as for the banking industry. Quasi-fiscal activities remain significant and when these activities are included in the expanded coverage of the fiscal indicators, a clearer fiscal picture emerges. It makes the overall fiscal deficit to shoot up with a consequent accumulation of domestic debt for the broader public sector. Thus, poor performance of SOEs, driven mainly by quasi-fiscal activities, has serious fiscal and macroeconomic implications for the economy. Although, the government recognizes the urgent need to improve the financial and operating performance of SOEs, this will take some time to achieve. In the meantime, some measures can help to stem SOEs losses, such as ensuring full cost recovery pricing, settling payment obligations timeously and enhancing rates collection rates efforts.

Government support, by way of guarantees and on-lending to SOEs, are not necessarily a bad thing. They are leveraging tools which enable SOEs access funds for investment purposes. However, such funding arrangements should have a well-structured approval process given the inherent liabilities thereof. The need to undertake credit risk assessment and put together adequate measures to mitigate potential risks is not only prudent but a credible way of helping to stem losses from conducting government business.

The sentiments expressed by many analysts that the major cause of loan defaults by the energy sector SOEs is the irresponsible credit decisions taken by some of the country's banks are totally true. Poor performance of SOEs is a major contributory factor to the high ratio of non-performing loans for many banks in Ghana. This is in no way suggesting that banks should not lend to energy-sector SOEs. Banks should lend to SOEs in a responsible manner by following good credit practices and not expose themselves to risks, such as exceeding the single obligor limit, and putting Ghanaian taxpayers in situations where they will have to pay for avoidable levies.

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