

ASHESI UNIVERSITY COLLEGE

**FINANCING CAPITAL PROJECTS IN GHANA: THE CHOICE OF
EUROBONDS OVER LOANS FROM INTERNATIONAL DEVELOPMENT
PARTNERS**

By

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STUDENT'S DECLARATION

I hereby declare that this dissertation is the result of my original work and that no part of it has been presented for another degree in this university or elsewhere.

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SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guideline on supervision of thesis laid down by Ashesi University College.

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ABSTRACT

This study explored the various reasons or factors behind using Eurobond as against loans from development partners such as the World Bank (WB), International Monetary Fund (IMF) and the African Development Bank (AfDB), in financing capital projects in Ghana. In addition, the study examined the impact of how these factors could predict the financial choice as well as the various measures put in place to benefit from using this type of debt instrument. This study came at a time, where many developing countries like Ghana have limited access to loans from development partners for improving its income status from a lower income status to a lower middle income country.

The study gathered data from a sample of four policy makers and a policy analyst, through the use of interviews and a questionnaire.

Findings were generally consistent with the literature. The economic global interest rate, loan currency, size of funds and maturity of projects as well as the economic environment are relevant factors when the government of Ghana intends to borrow externally. However, the policies available are not strong enough, if it is not effectively implemented.

The study recommends that policy makers should make prudent borrowing decision which is consistent with road macroeconomic policy by ensuring that projects present value is less than equal to the loan disbursed to manage its debt burden.

Keywords: capital projects, Eurobonds, loans, development partners, Ghana

LIST OF ACRONYMS

AfDB- Africa Development Bank

BOG- Bank Of Ghana

CEPA- Centre for Economic Policy Analysis

GIPC- Ghana Investment Promotion Centre

IBRD -International Bank for Reconstruction and Development

IMF- International Monetary Fund

ISSER- Institute of Statistical, Social and Economic Research.

LIBOR- London Interbank Offered Rate (interest rate on loans between banks)

LMIC- Lower Middle Income Country.

MoFEP- Ministry of Finance and Economic Planning

WB- World Bank

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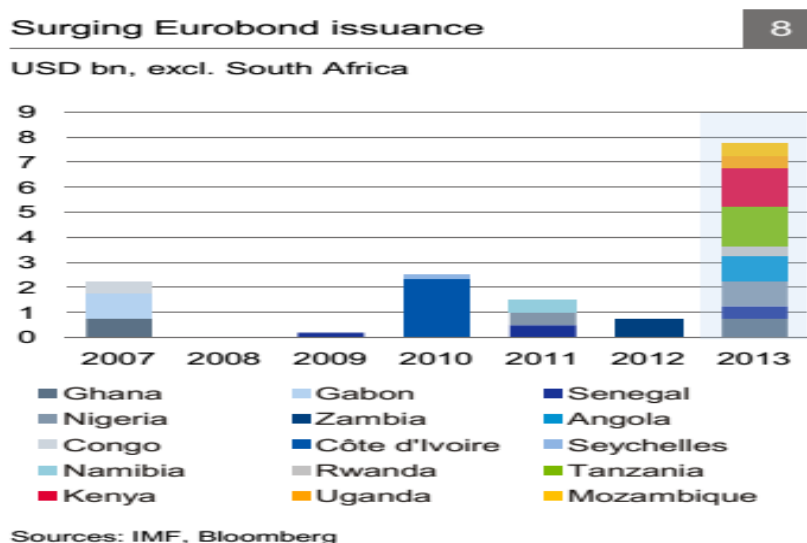
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Chapter 1 : INTRODUCTION

1.1 Background to the study

Most sub-Saharan African countries have had to rely heavily on foreign assistance or loans from international financial institutions to supply and finance many projects. But now, due to the improvement in their economic performance and the income status, many of these countries, such as Ghana, are finding new sources to finance their projects to create jobs and promote development. There has been the proliferation of Eurobonds on the African continent for the past years (as seen in the figure below). Many of these countries are now tapping the Eurobond market to finance their most important infrastructural projects. Gabon, Zambia, Rwanda as well as Ghana (just to mention a few) have joined South Africa to issue Eurobonds. The diagram below shows the number of African countries that have entered the Eurobond market since the year 2007.



Ghana has raised capital from various sources through grants, loans from bilateral, multilateral and domestic sources. For example, in the 1950's, the Akosombo dam was financed through a loan from the World Bank valued at 37 million pounds sterling (Meng, 2004). The level of foreign debts as at that time was not the most important thing, but meeting the infrastructural needs of the country was a major priority for the country. However, in the 1970's, due to the limited access to loans from foreign aid donors, many African countries, like Ghana, had to raise money from within. Even with the poorly developed financial sector, the government had no alternative or option but to raise capital through the injection of money; mainly from the printing of money. This strategy led inflation to increase to about 123% (highest so far), declined economic growth in 1983 (Sowa, 2002). There were poor health service delivery, food shortages and massive unemployment which drove investors out of the country.

The early 2000s saw the evolution and the development of the domestic bond market. During these periods, the government borrowed internally (short term) through treasury bills (T-bills), where 90% of the debts were in the 91 and 180 day T-bills (Sowa, 2002). However, in the year 2001, due to the inability of the government of Ghana to control the increasing debt portfolio, the country was declared as Highly Indebted Poor Country (HIPC). Government debt as at the year 2001 rose from 88.1% in 2000 to over 125% in 2001. This high debt burden arose as a result of the inability of the government to repay its loans (external loans) accumulated from successive governments. With the debt relief initiatives and tighter fiscal and monetary

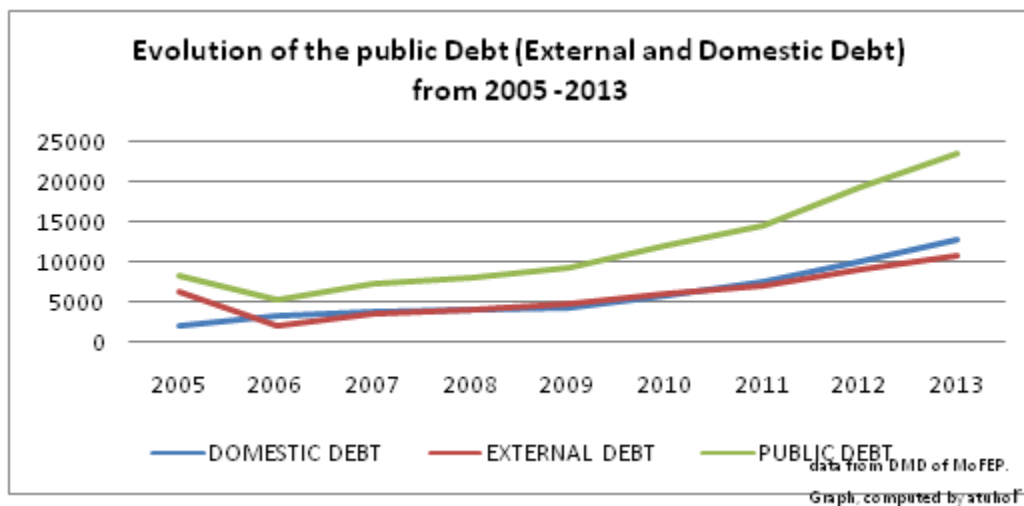
policies, the government of Ghana was able to reduce the debt stocks from the years 2002 to 2007 (as seen in the figure below) (Ackah, Aryeetey, & Aryeetey, 2009).



In 2007, Ghana diversified its sources of capital by selling its maiden Eurobond (10-year \$750m at 8.75%), of which majority of the proceeds was said to have been used for projects such as, roads, dams and railways. The year 2008 and the years thereafter saw for the first time after the debt relief, the debt to GDP increasing from 26%.

Eurobond is defined as international bonds issued in another currency than the local currency of the issuer and not native to the country of issuance (Lindgren, 2011). There is limited availability of such concessional flows from these foreign countries because of the Euro crisis (Budget Of Ghana, 2013). Due to this, most sub Saharan countries are diversifying their sources of capital through Eurobonds. The crisis in the Euro zone has forced developing countries to find new ways of financing their projects such as the issuance of

international bonds known as euro bonds aside their domestic securities (Ackah, Aryeetey, & Aryeetey, 2009). The growing activity on the market is as a result of the availability of credit information about sub Saharan Africans through the rating agencies (Oliver & Aila, 2013). This new diversification has expanded the debt portfolio of Ghana. The public debt as at the end of 2012 increased to 49.4% of GDP from 40.8% in 2011, and from 49.4% to 52% in 2013, with about 26% of GDP being external debt and 53%, domestic debts (seen in the figure below). The increase was as a result of the issuance of the long dated Cedi-denominated bonds, which was intended to finance most budgeted projects like the eastern corridor roads, gas processing plant, Wa and other hospital projects, rehabilitation of the Western railway line and many more (Kunateh, 2013). And as at the end of September 49.4% to 52% in September 2013, with about 24.6% of GDP being external debt and 28.9% on domestic debts (seen in figure below).



According to Frimpong and Abayie (2006), as high debts become accumulative and checks are not put in place, the debts become

unsustainable, and Ghana could be declared HIPC again. If Ghana is declared HIPC, then accessing capital for development will be closely unavailable which will cause development and growth to fail or take place in the country.

1.2 Research problem

Capital or infrastructural projects are long-term projects that tend to promote development in one's nation. The cost of the infrastructural gap is valued at US\$1.5bn yearly. According to the Minister of Finance, Mr. Tekper, it was the top priority of government to provide roads, dams, energy and other infrastructures which will facilitate the ease of economic activity. (Budget of Ghana -Ministry Of Finance and Economic Planning, 2013). Through the years, the government has financed the majority of its projects through loans from international development banks like the International Monetary Fund (IMF), Africa Development Bank (AfDB) and World Bank (WB). However, there has been a reduction of such loans from the international development banks listed above due to the country's transitioning status from a low income country to a lower middle income country. For instance, the World Bank has revised the country's loan terms from a 0.75% for forty years to 1.25% in twenty five years. Due to this limitation, governments of many developing countries have begun tapping the international bond market to raise funds to finance long-term projects and for other purposes. This continual rush by some African countries could cease, if the global interest rate increases (Amadou, 2013). This will lead to a higher borrowing cost, decrease in investment to developing countries, a reduction in economic growth and development as well as lack of confidence

by investors in injecting capital into African nations—with Ghana being no exception. This high global bond rate threat could lead to a major financial crisis among some African countries.

However there is no literature, to the best of my knowledge that explains the various factors that are shaping developing country's policy maker's decisions to issue Eurobonds. The available literature on the subject concentrated on the choice of bonds or loans amongst emerging countries was on the basis of lower interest rates. Galina Hales' model failed to predict the decisions of developing countries in going for either debts or loans. This purports that there are other factors aside the low cost interest rate some African countries consider before seeking international debt sources. If many sub-Saharan countries (existing and first issuers) still want to issue Eurobonds just to raise capital to finance its capital projects, then there may be a cause to worry in relation to countries that are having strong economic issues and wider infrastructural gap.

This reaffirms that the choice or decision of going for Eurobonds over the other debt instruments among developing countries (especially existing and potential issuance) still needs lengthy analysis and more research attention. For this reason, the importance of this study stems from it being an attempt to fill the gap in literature. The study explores the reasons behind the policy makers' decision of tapping the international bond market in relation to financing capital projects in Ghana.

1.3 Research objectives

One of the main objectives of this research was to find out the various factors government or policy makers of Ghana take into consideration before deciding to use Eurobonds over loans from international development partners in financing its long term capital projects. This objective helped provide broad knowledge about the conditions that should be present and the reasons for governments' choice in Eurobonds for projects. In addition, this objective also showed how financing was made at the highest level and the most important factors crucial to the country.

Another objective is to discover the effectiveness and efficiency of the factors in predicting the financing method and their impact on the economy of Ghana.

The last objective is to explore the various strategies or measures that have been put in place to effectively utilize the Eurobond financial opportunity. This helped the researcher understand whether policy makers are hedging against any unforeseen international shocks like financial crisis, unexpected increase in bond rates and much more.

1.4 Research questions

The main research questions are presented below:

- (a) What are the factors the government or policy makers of Ghana take into consideration before deciding to use Eurobonds over loans from international development partners in financing its long term infrastructural or capital projects?

- (b) How effective and efficient are the factors in predicting choice of the financing method and their impact on the economy?
- (c) What measures or policies the government of Ghana has placed to effectively utilize the financial opportunity and manage debt sustainability of Ghana?

1.5 Theoretical framework

There are various theories propounded by many researches to explain the reasons behind the choice of one debt instruments over the other. There are three theories that try to explain this behavior.

1.5.1 Asymmetric information theory

Information asymmetry occurs when one person (seller or the borrower) has more knowledge or information than another (buyer or lender) in a transaction. In relation to the credit market, the unbalance information between a borrower and a lender makes one take advantage of the other in the transaction. However, the choice of international debt instruments is dependent on the degree of information imbalances the country is exposed to or the availability of credit information present in the market about the borrower. Diamond (1984), Fama (1985) and Hale (2001) hypothesize that countries with a higher degree of information asymmetry will choose loans, while countries with lower information asymmetry would go for bonds. Adverse selection and moral hazard are the problems arising from the information imbalances present in the financial (debt) market. Adverse selection occurs when due to poor information on the lenders side about the

borrower, the lender invests in the wrong (riskiest) projects or investment (Bedczuk, 2003) and moral hazard occurs when the borrower uses the fund for other purposes other than what was agreed. Owing to this problem, lenders would require higher premium for the risk taken depending on the degree of the information they know about the borrower.

1.5.2 Reputation, renegotiation and liquidation theory.

In a reputation-lending hypothesis, private lenders sovereign defaulters access to capital market in the future. If a country defaults on its bonds, it cannot raise additional capital with a new issue of bonds. If such funds can be obtained from banks, financial distress countries may prefer bank debt to the bonds. The creditworthiness or a country's risk of default could affect the borrower's choice of financial instruments (between bonds or loans). According to Berlin and Loyes (1988), countries with low and high liquidity problems in theory are supposed to issue bonds than to enter the loan market. In addition, Yener & Kara & Marques-Ibanez (2010) hypothesized that countries that are more likely to suffer from extreme liquidity problems are less likely to go for bonds instead of loans. Diamond (1991) model explained that banks were 'delegated monitors and negotiators' than bondholders and that countries facing extreme financial distress can acquire a good reputation through borrowing from banks after which they can then switch to the bond market to finance their investment. However, countries with low and high liquidity would issue external debts.

1.5.3 Flotation cost theory

The flotation costs argument posits that the use of public debt entails substantial issuance costs, including a large fixed-cost component (Blackwell and Kidwell (1998); Bhagat and Frost (1986)). This cost involved in issuing bonds includes the underwriting and credit-rating costs, global advertising and road shows and many more. They also stated that the size of the fund being raised also affects the choice of going for issuing bonds or loans. Esho, Lam and Sharpe (2000) model explained that due to large issuance costs involved in issuing debt instruments, bond issues are not cost-efficient in smaller capital requirements. Only when large amounts of capital are needed, a country would turn to the bond market. This is to say that, to finance huge capital projects it is efficient to issue bonds, since it is the best market to raise huge capital at a much lower rate. It is prudent to borrow from within to raise funds to finance short term projects through shorter government treasuries to enjoy some economies of scale.

1.6 Overview of methodology

This research was exploratory in nature. It was able to find out the reasons or factors policy makers considers when financing capital projects through Eurobonds instead of loans from IMF or WB or AfDB as well as the various strategies that have been put in place to hedge against external shocks and best utilize the Eurobond financial opportunity. The study generated information by sampling the views of policy makers and a policy analyst from IMANI GHANA, BOG, MoFEP and GIPC. Secondary data was obtained through the MoFEP, BOG, IMF and AfDB. As an explorative study, a face-to-face

interview was employed to gain broader spectrum and insight of possible answers and also allow for discussion with respondents to solicit their opinions.

Semi in-depth interviews were the main tool used for collecting primary data. A purposive sample was used for the study. Purposive sampling was used for selecting one key staff from BOG, MFEP and GIPC respectively. Convenience sampling was also used for selecting one policy analysts. In all, a sample of five (5) was used for the study.

1.7 Limitation of study

Limitations faced in the course of the research were accessibility to information, difficulty in accessing the target sample during working hours due to the busy nature of their operations, inability to use more policy and financial analysts sample size due to time and resource constraints. There was a high possibility that some of the interviewees would have been biased towards the government since they were employed in a state-owned institution.

In spite of these limitations, data collected was sufficient to perform a thorough analysis.

1.8 Significance of the study

The findings and recommendations will not merely satisfy the researcher's curiosity, but would have the potential to help policy makers in Ghana and in Africa. This would help policy makers to lead effective actions on deciding on the best way to utilize Eurobonds without adversely affecting economic

growth. It will also help policy makers in selecting the best capital projects that would be solely financed through Eurobonds for the nation's growth and economic development. By putting measures in place, the country's reputation increases, since more investors would be confident about the economic 'health' of the country. For academic purposes, this study would also add to literature on the factors and conditions policy makers or the government of Ghana consider when deciding the sale Eurobonds in financing its capital projects as against loans from World Bank and International Monetary Fund.

1.9 Thesis outline

This paper is organized into five chapters. Chapter 1 represents the background, the problem and the questions the study sought to answer whilst highlighting the methodology by which the questions were answered, the scope and the limitations of the study. Chapter 2 reviews the relevant literature regarding the determinant of issuing Eurobonds, advantages of bonds over loans and Eurobond financing affects development. Chapter 3 describes the methods employed in executing the study and the highlights the tools used. Chapter 4 discusses the findings of the various analyses conducted under the study. Chapter 5, the final chapter, articulated answers the questions raised in the study by drawing inferences from the findings.

Chapter 2 : LITERATURE REVIEW

2.1 Overview of the international bond market

A Eurobond is a debt instrument issued simultaneously to investors in a number of countries, outside the jurisdiction of the issuer's country. This debt instrument is denominated in foreign currencies like the US dollar, pounds. Originally, the main borrowers in the Eurobond market were international agencies, sovereign governments of developed countries and major banks. After the mid-1980s, high quality corporate borrowers also entered the market. In the mid-1990s, corporate borrowers became dominant (Melnik & Nissim, 2006). Most corporate Eurobonds are issued by firms from the financial services sector. The Eurobond market grew rapidly during the 1990s. During the 1980s, bonds with initial maturity between 5 and 10 years accounted for more than 50% of the total face value (Melnik & Nissim, 2006).

The Eurobond (1) denominated in the foreign currency, (2) underwritten by a national syndicate, and (3) sold primarily to investors in that country are the main features of this type of international debt instrument. In fact, the Eurobond market is virtually free of any direct regulation or control. The Eurobond must always be attracted to investors all over the world. There are various elements that investors look out for when Eurobonds issues are made and these elements are also the challenges issuers face when floating their issues. The economic quality, denomination of the currency of the bond (the stability and the convertibility of the currency) and the tax free or the freedom of national tax are the most important conditions or factors to

lenders (investors) (Nelson, 1969). According to Melnik & Nissim, there increase in demand for Eurobonds as a result of the high quality and high yield as well as the tax free nature of the Eurobond has attracted a lot of wealthy investors into the market (2006). However, in the early start of 1969, there was a drop in offerings in the market, due to the high and rising interest rates. These rates discouraged a lot of borrowers and thus, many investors also moved to other instruments to make their investments.

The Eurobond market has continued to play an important role in international finance by providing facilities that are attractive to both borrowers and lenders all over the world, especially developing countries like Ghana (Amadou, 2013). The market's success can be explained by its ability to provide access to funds on a worldwide scale and to avoid many official regulations concerning foreign borrowings in local currencies (Benzie, 1992). At the same time, it offers investment opportunities which are exceedingly attractive because of the outstanding quality of the borrowers, the public quotation of the securities, and the high and, in practice, frequently tax-free yield (Melnik & Nissim, 2006). Benzi(1992), Melnik and Nissim (2006) and Nelson (2006) emphasized that the huge capital accessible from this market, lower interest rate, no monitoring as well as tax free components are the drivers of offers made on the market. The performance of issuers bonds is dependent on the economic discipline and the currency denomination. These are the conditions that issuers should consider when they consider to tap the Eurobond market.

2.2 Foreign debts over domestic debts and economic growth

There are reasons that influence countries to borrow more externally than internally. Literature has presented some of the reasons that affect many countries decision to choose external debt. For instance, Soludo (2006) opined that countries borrow for two broad categories; macroeconomic reasons to either finance higher investment projects or higher consumption and to circumvent hard budget constraint.

Generally, when domestic debts are not enough to run the country, external borrowing is sourced. However, there are other reasons that affect some country's decision. Marsetti and Mihr (2013) stated that the interest rate in the domestic market is normally significantly greater than what the foreign markets offers and thus the government would select the cheaper interest rate to reduce pressure on the domestic economy. As lower interest rate incentivizes the government or policy makers, the international bond market is selected to raise huge capital for longer maturity periods (Das, Papaioannou & Polan, 2008). Both literatures also agreed that borrowing through the domestic market in effect is efficient for short term basis. However, sometimes domestic borrowing tends to push up domestic interest rates, thereby crowding out private sector investors from the economy. A strategy of borrowing from the external market tends to avoid this crowding-out effect completely and reduces the cost of borrowing and debt burden for the economy.

Venner and Williams, also established that the underdevelopment of the domestic capital market, low level of financial intermediation; high risk of default in developing countries, fear of the crowding out effect on private investments, exchange rate depreciation and an inflationary environment are the conditions deterring most developing countries from borrowing more in their country (1994). However, Marsetti and Mihr (2013) and Venner and Williams (1994) argued that the impact of the debts, whether domestic or foreign, on the economy depends on how the proceeds would be used. This then means that the project appraisal and evaluation should be analyzed to project prior to the external borrowing. The benefit of the loan is in the hands of the government. If the amount is used as said for productive investment, then there is a likelihood growth will take place, but if it is used for consumption, then, it will be difficult for growth to occur in that economy (Ackah, Aryeetey, & Aryteetey, 2009).

2.3 Issuing international debt instrument (Eurobonds)

There are various reasons that many countries that enter the bond market. There are costs and risks countries that enter the international debt market face. Below are the some of the costs and benefits.

2.3.1 Cost and benefits

The augmentation of domestic savings is the main reason for entering the bond market (Das, Papaioannou, & Polan, 2008). Entering the market of Eurobond reduces the risk of crowding out domestic investors from the market and thus supporting growth and development in the domestic market

which increase domestic savings. This proves the floatation theory which states that, it is rational to borrow smaller funds from within and huge capital from the international bond market. This bond issuance chosen in consistence with the economic framework can significantly promote growth and prosperity in alleviating poverty and bridging developmental gaps existing in the country (IMF, 2003 & AFRODAD, 2013). Das, Papaioannou and Polan (2008) believe that the primary benefit of going on to the international financial market (Eurobond) in this way is building up greater domestic savings. This greater leverage could increase macroeconomic market discipline at a broader level, which establishes a presence or 'makes a mark' in the international market and thus attract investors and allow local corporations or business to access the international market in the future (Agenor, 2001; Dittmar and Yuan, 2007). According to Papaioannou, Polan and Das, the risk profile of the government debt portfolio gets improved due to the cheaper rate offered and its long maturity as compared to domestic (2008). Also, by raising financing in capital markets, governments tend to diversify the sources of capital and reduce reliance on foreign banks, bilateral and multilateral sources, often associated with conditionality (Das, Papaioannou, & Polan, 2008). Furthermore, many countries through external debt issuing have been able to fund their infrastructure projects (Bahrain), repair Balance of Payment problems and repay part of their country's existing debt (Ukraine and Poland). These benefits could be made possible under a sustainable debt level.

Having a strong presence and confidence in the market through country's economic indicators or discipline in the economic environment is crucial in attracting large number of investors. However, for sovereign bond issuers, the biggest challenge is maintaining a strong macroeconomic discipline especially its fiscal discipline. Having a strong economic discipline shows the credit worthiness of a country. The economic, financial and market position as well as the liquidity needs, strongly affect sovereign nations' bonds from performing well or succeeding in the market in the future (Das, Papaioannou, & Polan, 2008) and (Melnik & Nissim, 2006). Agenor (2001) and (Ackah, Aryeetey, & Aryteetey, 2009) identified that, growth would fail to show on the economy, if the proceeds from the external debt issuance are disbursed to low quality investments or used for consumption. It was further stated that, for countries to succeed in the market against all the risks, there is the need for more research, feasibility projection reports or testing so as to reduce the risk of vulnerability through the market.

2.3.2 Considerations for the issuance of external debt instrument.

According to Dan, Papaioannou and Polan (2008), there are various factors that are considered in deciding to issue Eurobonds generally. This was made on the assumption of sustaining its debt level. Below some of the factors;

Size of issue and use of proceeds

The major factor in determining the size of a debut international bond issue is how the size could affect the debt sustainability level of a country. In as

much as we need external capital to help promote development, it's appropriate the issue size does not push the external debt to GDP up to an unsustainable level which has rolling effect consequences on the economy. Also, governments in determining the appropriate size, should answer the question of how much funds are needed to raise from the markets for saying, in the next years and whether the one or more bond(s) is/are to be issued before they issue any external debt and what it would be used for. This principal consideration would help governments determine the disbursement and utilization of the proceeds in needy projects to ensure growth and development in the country. Lastly, higher demand for developing country's bonds could provide an opportunity for raising the huge capital to develop the country.

Maturity, repayment structure and currency of denomination

When the final repayment would be made is a crucial factor when issuing debt to the international markets. The maturity of the bond depends, of course, on the country's ability to repay and the predictions regarding its future sovereign revenues. Depending on the market conditions and what the proceeds would be used for, it is feasible for the project to have long maturity especially if it would be used to finance projects. The payment would be made after the project has started generating revenue. Issuers should have funds where proceeds from the market would be used to repay part of the outstanding debts. Most bond issuers, especially first time issuers, have no choice but to issue in US dollars because the market for US

denominated instruments are highly liquid and also issuers can swap to hedge against currency exposure.

Asset and liability management implications

Before issuance, the assets and liability on the balance sheet or the Balance of Payment of issuance should be assessed carefully by ensuring that the decision to enter the Eurobond market is consistent with the country's debt management strategy. In particular, the size and terms of an issue should be consistent with the country's medium term fiscal policy strategy and the development of the domestic markets. For developing countries, the public debt and the risk of financial distress should be minimal to avoid extreme increment in external debt servicing which could affect economic activities in the country and prevent the country from tapping the bond market. This statement positively proves the reputation and liquidity theory, which states that for countries that are experiencing strong financial crisis would have to go for bank loans, but would switch to (international) bonds if they are able to draw policies that would minimize any risk factor.

Strong investor's relationship

All of the above would not be fully satisfied if the bond existing between issuers and investors is not tight. Issuers could have a strong global presence through building strong relationship with investors through road shows before the debt is issued creates a unique presence for the country. By taking the time to convince and 'tell a good story of your country' to international investors creates the demand for your bond. Also, having a

strong rating before issue and the provision of accurate documentation about the economic performance of the country increases the demand for the bond. All these are backed by having strong advisors both financial and legal as well as lead managers who would give strong advises on the best time to issue the bond and how to attract investors they need.

2.4 Determinants of choosing (Euro) bonds over bank loans

There are few literatures that highlight the factors that borrowers or countries consider before selecting either a bond or loan in external financing of its capital projects. One of the few studies in the literature is Gale's (2001) study in which 75 countries (developing and developed) data between 1991 and 1999 were collected and analyzed. Her model explained the relationship between the borrower's risk level and the choice of international debt instruments. The external debt to exports to GDP, inflation, public debt to GDP, export volatility ratios as well as the political stability and the exchange rate movements of the country were some of the variables used in her model. These variables affected the credit rating residual and the financial development. It was concluded that borrowers from countries with high risk would find it very difficult to borrow from the bank because of their high inflation rate, debt to GDP, debt to export ratio and liquidity issues and thus would have to issue junk bonds to be able to raise funds from the international market. Whereas countries with low risk will also issue bonds, but investment grade bonds, due to its good economic indicators, countries with moderate risk will borrow from banks. The model was built on the assumption that borrowers would choose the instrument with the least cost

of borrowing. However, her model, as she added, was not able to predict the behaviors of sovereign countries on the choice of debt instrument, because, most sovereign countries had various objectives of tapping the international debt market. However, her macroeconomic variables used were consistent with Cantor and Packer (1996). They analyzed the determinants and impact of the credit ratings among thirty five (35) emerging countries in 1995. It was concluded that there were six macroeconomic factors that affected sovereign bond spreads and ratings. These factors were capita income, GDP growth, inflation, external debt, the level of economic development and debt to GDP.

To Marsetti and Mihr (2013) and Amadou (2013), the emergence of the Sub Sahara African bond market through Eurobonds has increased over the past years. The low interest rate, in the international market as well as the availability of credit information about borrowers present in the market, are making it easier for developing countries like Ghana to finance its long term infrastructural investment projects. The access to cheap loans has helped provide capital that would support capital projects and tends to bridge the infrastructural gap existing in the African continent (Amadou, 2013). This is consistent with the theory of flotation cost, which explained that for huge capital, the Eurobond would be selected due to the cheaper borrowing costs. Aside the interest rate as a major factor, Amadou further stated that, the International Monetary Fund (IMF) policy that limited some African countries from exploring other sources of capital has been relaxed and so has caused many sub-Saharan African countries in diversifying their debts portfolio to

choose the international bond market in raising their huge capital to finance projects (2013). This tends to validate the liquidation theory. Ghana in 2001 was facing strong extreme financial problems with their debt to GDP exceeding 120% which was unsustainable. This made Ghana joins the HIPC in order to get some fund or cancel the debt. Ghana could not have raised any fund to restructure their economy without the debt initiatives of IMF. The post debt relief has helped the macroeconomic environment and debt sustainability level improve. This economic discipline has raised the international community confidence and thus, has drawn a lot of international investors onto the continent (Das, Papaioannou, & Polan, 2008). With an improvement in the economic performance, the policy makers decided to issue Eurobonds in 2007 and 2013. This clearly validates the liquidation theory which hypothesized that country that are likely to experience some financial crisis would go for loans from international banks and later switch to banks after the economic indicators improves.

However, Amadou noted that there is a possibility that the interest rate (that most developing countries are enjoying) could increase in the future and this would have some adverse effects on the African continent. He recommended that African and countries should have effective policies that would help manage the debt economic sustainability that is built on a good governance framework. This could help policy makers develop a strong strategy in managing their debts and economic sustainability at the same time enjoy higher capital from the Eurobond market (2013). Aside the management of debt sustainability, governments should make sure that proceeds from

external borrowing are effectively disbursed correctly within the economy so as to reduce the debt burden of the country (Montiel, 2003). The ability to service debt and repay the principal crucially depends on the actual utilization of the funds. Investment projects should be given clear priority over consumption. (IMF/Worldbank, 2001).

African Forum and Network on Debt and Development (AFRODAD), an organization based in Zimbabwe, has developed a charter that outlines various guidelines associated with external borrowing and how countries especially Sub Sahara Africans can effectively utilize the funds to promote growth and reduce any debt crisis as well as hold governments accountable for their financial decisions they make. This charter is divided into principles or chapters. These broad principles are: adherence to prudent public borrowing and debt management practices, existence of predicable rules and regulations, coordinated and coherent structures and obligations, existence of an autonomous debt management office, public participation and inclusivity and information disclosure. In addition, respect for human and people's ecological rights and the mutual respect and equal partnership with lenders and international financiers. These principles are strong recommendations that could help most African countries, if effectively implemented, could provide development and also minimize the debt burden of the country. However, in conclusion, the charter recommends that there should be prudent public borrowing which supported by strong debt management structures and legislative framework as well as having an

inclusive participation through clear disclosure of information about the use of the fund.

Chapter 3 : METHODOLOGY

3.1 Introduction

The gathering of data is essential in drawing a conclusion to this study. Conclusions and recommendations for this study were established or drawn from using both primary and secondary data and qualitative data. This chapter discusses the research tools and methods of data collection used throughout this study. It shows the types of data and their sources, describes the sample area and sample size, data analysis and outlines the possible limitations that could be encountered with the data collection process. The objectives of the research are:

3.2 Research design

This was an exploratory research which delved deeper to find out the factors behind policy makers choice of Eurobond over loans from WB and IMF and its effects on the economy. "Exploratory research is used to increase a researcher's familiarity with a problem, especially when the researcher doesn't know much about the organization and/or problem to be studied.(The Association for Educational Communications and Technology (AECT), 2001). Also this research was effective in gathering data from policy analysts about government's financing decisions. The research is mainly qualitative which was conducted through interviews of heads of departments and staff of the selected institutions namely: BOG, MoFEP and GIPC and IMANI. According to Saunders et al (2000), exploratory research is effective in clarifying problems through focus group and talking to experts in the area of study.

3.3 Types and sources of data

Both primary and secondary data were employed in this research. Primary data were mainly sourced from interviews. This was very significant since, there was the need for experts who knew about government external financing decisions and policy makers in the country. This gave useful information on the various factors, conditions and reasons that shapes policy makers choice of using Eurobond to financially support capital projects in Ghana. Policy analysts were also beneficial in suggesting useful policies which have been used to combat or avoid any pitfall from the utilization of the proceeds from the market. Secondary information for this research was mainly through various publications from the internet, articles, journals, reports prepared by various universities. This method through adequate information could be gathered on the reasons for governments Eurobond choice over development partners' loans and the various strategies available on how Eurobond could be effectively utilized to promote growth in the country.

3.4 Sampling techniques and size

For this exploratory study, purposive sampling and convenience sampling non probabilistic techniques were used. The purposive sampling was used because considering the topic, it was decided that key authorities in the institutions involved in making government financing decisions and policies would have the knowledge and expertise to provide the required information. Therefore, heads of investor's relation unit of the Debt Management Division and a technical advisor of MFEP were interviewed. A

key authority of the research department of the BOG was given a questionnaire (due to time) but had detailed conversation on his answers. In order to get a first-hand information about how government external financing decisions affect the investment climate in Ghana, a senior officer of the Research and Investment Development of the GIPC was interviewed. In all, a sample of four was gathered from the use of purposive sampling.

Convenience sampling was used to single out one of the best think tanks in Ghana. However, due to time, job variation, IMANI GH was used. A key member of the research department was interviewed.

In summary, a sample of five (5) was used for the study.

3.5 Data collection

As stated earlier, a sample size of five (5) was used and data was collected through semi-structured interviews and highly detailed questionnaire. This data collection was mainly used to answer my research questions.

3.6 Data Analysis Techniques:

The method of analyzing the primary data which includes the qualitative interviews and questionnaire were done through the use of content analysis. Content analysis is a research tool used to determine the presence of certain words or concepts within texts or sets of texts and thereafter make meanings and relationship of such words and concepts and then inferences (University, 2012). Findings from the interviews and secondary data were used to make suggestions and recommendations to the Ghanaian government on what to do. The findings were then divided into two categories namely, the policy

makers and policy analysts based on themes and thereafter, categorized based on the similarities. Also the budget 2013 on the policy on Eurobonds and maintaining the debt sustainability level of the country was reviewed.

3.7 Limitations of Research:

There was a high possibility that some interviewee would be biased towards the government since he/she is employed in a state-owned institution.

Due to time and job variation, many policy institutions were not used. However, due to time within which I requested for interview, key staffs of CEPA were occupied and thus were dropped.

Also, due to company policy or time, only one respondent was assigned to the study and thus affected the sample size I proposed.

In spite of these limitations, data collected was sufficient to perform a thorough analysis.

Chapter 4 : ANALYSIS OF DATA AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents and discusses the findings from data collected. The first section gives an overview of the policies the Government of Ghana had set in place or is planning to implement in relation to 2013 Eurobonds issue and debt sustainability management in general. The second section presents information collected from policy makers and a policy analyst on Eurobonds in Ghana through interviews and a questionnaire.

4.2 The government of Ghana and policies regarding the management of debt sustainability.

This part tends to answer the research question "What measures or policies the government of Ghana has put in place to effectively utilize the financial opportunity and manage debt sustainability of Ghana?".

4.2.1 Eurobond issues management or strategy

According to Mr. Seth Tekper, the Minister of the Ministry of Finance and Economic Planning (MOFEP), the 2013 Eurobond had succeeded even through the face of the global market challenges (2014 BUDGET). However, in order to manage the country's debt burden associated with the additional debt to the debt portfolio, strategies have been put in place to manage the debt burden and at the same time, take the best opportunity when tapping the international bond market. Below are some of the strategies set up by government in relation to Eurobonds issues. These include the following;

- (a). Starting with the 2014 Eurobonds, the annual bond program should be submitted to Parliament for prior-approval with the annual Budgets.
- (b). Establishing the Capital Markets Committee that would advise the government on the market operations in the international capital market as well as find the best strategies of managing such new issues. This committee will also support a committee known as Ghana Infrastructural Fund which deals in finding infrastructural projects that would yield job creation and growth.
- (c). Managing government debt issues, especially the Eurobond more regularly (in the public debt management strategy), so as to have an orderly financial budget for specific projects.

4.2.2 Debt management in Ghana

Here are some the strategies proposed:

- (a). All self-finance projects would be designed based on the cost benefit analysis, that is, how the revenue generated from the projects could offset the loans.
- (b). The development of loans-top-priority projects Program, which would help the government identify specific projects that could be funded with the recent Eurobonds and other sources of capital.
- (c). Short term borrowing would be sourced only for liquidity management and international capital market for capital expenditure.

It is seen that the government of Ghana is putting a lot of strategies in place to reduce its debt burden and especially protecting the domestic environment to aid investment. Prior to the 2013 Eurobonds and the long procedure of Eurobonds, the government lost out cheaper rate of about 6% than the 8.785% rate its paid at. To minimize this risk, the government now has to approve the Eurobond prior to the Eurobond issue.

The development of Ghana's external debt is also a point of concern for sustainable growth, although a recent debt-sustainability-analysis by the IMF and the World Bank indicated that Ghana's liquidity and solvency prospects are relatively good (IMF/WB, 2011). Ghana is now a Lower Middle Income Country and as such has been able to get access to additional loans through Eurobonds and bilateral loans (China) to help finance the domestic debt and provide developmental projects for the country. According to ISSER (a policy research institution), though external debt is very important in financing the gap in investments, the high appetite to spend and borrow is putting pressure on the debts sustainability and countries efficiency level (2012).

4.3 Information from policy makers and analysts.

Two respondents (policy makers) from MoFEP and one from BOG were interviewed. These two institutions are solely responsible for making financial decisions for government in Ghana. In addition, one person from GIPC got interviewed. GIPC is solely responsible in getting information about investment in Ghana. For policy analysts, a respondent from IMANI Ghana,

the best think tank policy analysis institution in Ghana, was the only policy analyst interviewed.

Below are the information gathered from the respondents and categorized into themes based on their similarities.

4.3.1 The motives behind issuing Eurobonds in financing capital projects

According to the policy makers, the proceeds from the Eurobonds would be used to restructure the domestic market, repair budget issues, pay outstanding loans and financing capital projects. When asked why Eurobond was selected over World Bank loans, respondents from BOG and MOFEP agreed that Eurobond provided a huge source of capital to the country at a lower rate. It was stated further that, the multilateral partners who are made up World Bank, Africa Development Bank could have been chosen as the source to finance the infrastructural projects. However, due to the huge capital (\$1bn) that the Government of Ghana was expecting to raise, the multilateral partners were prepared to offer half, thus, were pulled out. The availability of huge capital offered at a lower rate as compared to the domestic as well as the international multilateral sources at the Eurobond market, made it rational for policymakers to enter that market. It was also further stated that, on a cost benefit analysis principle, it was right to issue Eurobonds at about 8% than borrow from the bank (internally) at 23%. Also aside the huge capital accessibility and the cheaper rate being offered, respondents from MoFEP and BOG agreed that some of the spillover effect of

entering the Eurobond market was having a building a strong international presence which encourages Ghana to have a strong access to the capital market.

When asked about whether the answer would have been the same ten years ago (2003), the policy makers (BOG and MoFEP) both agreed that Ghana could not have access the Eurobond market because of its low economic performance and debt sustainability problems during that period(2003). Ghana ten years ago was a low income country struggling to manage its debt sustainability level and a HIPC country under the Debt Relief and MDRI program. However, these IMF programs had policies that restricted members from exploring other capital sources due to their inability to control their debt burden. The post debt relief, have seen Ghana move to a LMIC. Due to this improvement, some IMF policy has been relaxed for Ghana (and other countries) to source other financial opportunities like the Eurobond.

From the standpoint of the policy analyst, the type of external debt capital is not importance, but it is about the utilization of the fund that matters. Nevertheless, there are other reasons aside the above mentioned government of Ghana's reasons for going to the international debt market (low global interest rate, desperation of capital to complete developmental projects and repair national debts). Many a times, the government borrow mainly for consumption. To the respondent, borrowing after election periods, does not make 'sense'. This political investment makes the revenue of the country go into the election campaigns which runs the country to more debt.

This strategy makes no economic sense. "Could it be more political than economic?" This question was to find out an in depth reasons for some governments financial decisions. His respond was positive. Government borrowings become economical, when the fund is used for consumption in areas like the payment of salaries and other current expenditure. However, if the strategy or the reason behind government borrowing does not make logical sense or inconsistency, then it is political.

4.3.2 Factors influencing external financing decision

Respondents from GIPC, MoFEP and BOG, all agreed that major economic indicators like GDP (PPP), inflation, global interest rate, external debt to GDP and export to external debt ratio were essential when considering any external debt source of capital. These factors affect the economic performance of the country as well as credit rating and investors' reactions. Aside, the economic factors, the technical advisor established that, the global interest rate, loan currency, size of funds and maturity in terms of projects are relevant factors when the government of Ghana intends to borrow externally.

In the policy analyst perspective, all the above mentioned economic indicators are essential in measuring the economic performance of a country. However, the global interest rate is an important factor. It was stated that, the interest rate affected the economic activities in the country. This was because, how much charged on the external market would suggests how much Ghanaians would have to pay to borrow from banks in order to perform

an economic activity. To the respondent, the public debt to GDP should be a very significant, because of the 60% threshold that if crossed could bring adverse economic conditions to the country. However, it doesn't seem that policy makers take this indicator very serious

4.3.3 The timing of Eurobonds (2007 and 2013): right or wrong?

To answer this theme question, the research tended to find out the various conditions that should exist before an external debt is sourced. When questioned about the statement, "Do you think certain conditions should exist before Eurobond issuing is considered?" both respondents of MOFEP and BOG made it clear that, having a strong financial, economic and market discipline should be of much concern when preparing to use such an instrument. Having a high discipline in the market is about having sound economic indicators. The high interest rate, high volatility and huge debt (fiscal) burden drives out investments and the use of such Eurobonds will not be appropriate in such periods. For the Eurobonds to provide the expected fund a country needs there must be a strong economic (indicators) performance that would attract the international investors. A stronger relationship with investors should be of much concern when entering the international bond market. By creating a strong relationship, most 'anchor' investors could be convinced into buying Ghana's bonds in times where the government default or has some economic challenges.

When asked about the right time to issue Eurobonds, MoFEP respondents emphasized that, all capital projects to be financed by such instrument needs to be effectively (appraised) planned and ready. They admitted that the infrastructure projects that are to be financed from the 2013 Eurobonds proceeds were well planned, prepared and ready to aid development as compared to the year 2007. The BOG interviewee acknowledged that when the fund needed cannot be quickly raised from multilateral donors and other sources, Eurobonds is the best alternative.

From the viewpoint of the policy analyst, there are some conditions that need to be present before sourcing any external loan. First of all, the economic health of the country must be stable. The economic condition affects the domestic financial environment and economic activities in the country. Therefore, it is important that the country is economically strong. Furthermore, projects need to effectively appraised, so as know its feasibility and viability. It is all about getting your value for money. This will help provide government and all Ghanaians with a fair idea of how these projects would aid development and reduce the debt burden of the country. It was stated that, this (project appraisal) is the most important condition that is concerned to policy analysts. Evaluation of the impact on the additional debt portfolio should be present. This is done through assessing the debts using economic indicators such as the debt to GDP and external debt to exports to explain the impact of the additional debt to the debt portfolio on the economy. He further stated that, since there are no documentations about

government doing any project appraisal. To the best of his knowledge, the project appraisals if done are not effectively or efficiently evaluated.

Based on the fact that, the 2013 Eurobond came at a time where the country was facing some economic difficulties in the domestic market. Even when the external debt to GDP was around 50%, the Eurobond sale was made. However, he congratulated the policy makers that brought about the idea of issuing (maiden) Eurobonds because, he believed that the introductory structure were efficient. Based on these issues, the 2007 Eurobond sale was better than 2013's.

4.3.4 Factors that hinder the sale of Eurobonds

From the standpoint of the policy makers, internally, the bureaucratic procedures involved in issuing Eurobonds in the country, prevented the government from enjoying lower interest rates in 2013. This was because, it took over four to six months for the sale to be approved by parliament; and this delayed the sale of Eurobonds. It was agreed by the policy makers that the global interest is the greatest risk that could prevent Ghana from entering the Eurobond market. Generally, the increase in the global interest rate would affect the country from having huge capital access hence, reduce development. The higher global interest would reduce the chances of developing countries from having access to huge funds since they now have to compete with stronger nations.

From a respondent (investor's relation) from MoFEP, the risk of default and global financial crises does not pose any threat to Ghana. It was explained

that Ghana has been successful in its Eurobonds in 2007 and 2013 and had never defaulted and do not plan to default in any ways. This was quite contrary to the BOG respondent who stated that increasing external debt as well as the risk of default could affect the confidence the international investors have in Ghana, since our economic environment is not strong enough. Other external risks like quantitative easing and LIBOR¹ rate as well as the depreciation of Ghana Cedi are also risks that could affect the price of Ghana's Eurobond. Increase in LIBOR would increase the global interest rate, which would affect the rates on IBRD loans, commercial bank loans and International bonds. In reducing these risks, as said by the respondent from BOG, the only measure put in place to reduce the depreciation of the Ghana Cedi is the announcement of the BOG to limit the use of the US dollar in the country.

To the policy analyst, the interest rate is very important when policy makers are decided to go in for any external debt capital instrument.

4.3.5 What have been done? And should be done?

From the policy makers (per the 2013 and 2014 budget), there are some policies or strategies that are being put in place to benefit from any Eurobond issues. The Capital Market Committee (CMC) and the Ghana Infrastructural Fund (GIF) are committees that would provide information or reports on the some of the most priority projects that would be financed through Eurobonds to help create jobs, promote development and manage the debt sustainability level of the country. However, due to the longer bureaucratic

¹**LIBOR-** (interest rate on loans between banks)

Eurobond procedure which prevented policy makers from issuing earlier to enjoy cheaper rate, policy makers' new strategy is to get approval from parliament, prior to the issuance of any Eurobond issuance.

From the analyst point of view, government should invest in projects that have rolling effect on the economy. Projects that have rippling effects should be financed so as to increase growth in the other sectors. Also, he raised a concern that the debt management unit that provided policies and measures about debt issues in Ghana should be separated from the Ministry of finance. This makes the unit work diligently and more independently in bringing out clear cut information and thus able to analyze the government debts activities effectively. Furthermore, the feasibility reports on public capital projects should be made available so as to know how effective, the projects would be in order to prevent any transfer of debts through higher taxes and also make the government accountable for their action. In all, policy makers should strive to have better economic indicators. Economic indicators make the country safe for economic activities especially investments from 'anchor' private tycoons. If the macroeconomic environment shows that the additional debt to the debt portfolio would be unsustainable, then there is no value for money and hence, does not make economic sense to make any investment.

4.4 Discussions of key findings

This is where the themes would be analysed to see the consistency of the findings with what theory and literature are saying.

4.4.1 The motives behind issuing Eurobonds in financing capital projects

To policy analysts, any project to be financed should be a project which is linked to all the sectors in the country. Such that, if financed will have a rippling effect in the other sectors. For example, financing oil and gas energy sectors affect the various sectors since all sectors use energy to operate. The policy analyst agrees with the policy makers with some of the reasons of going international to source fund. However, disagree with the government in what policy makers intend to do with the Eurobond. The government entered the market for political investment and consumption. However, the projects that have been selected or ways of disbursing the proceeds from Eurobond were more political than economical since these projects don't have any 'economic value or sense' in promoting growth and debt stability in the country. This buttresses what Ackah, Aryeetey, & Aryeetey (2009) wrote about how the disbursement of proceeds from the external debt market can adversely affect the growth and development of a country. If the proceeds are disbursed to low invest projects or consumed, the debt burden of the country increases since the projects invested cannot yield enough revenue to offset the debt increment thus, making the country, economically unstable (Agenor, 2001).

4.4.2 Factors considered in choosing Eurobonds

The respondents for this study all admitted that the economic indicators such as the GDP, interest and inflation rate, external debt to export, and other indicators needed in the rating a county's credibility are very important

((Cantor and Packer (1996); Hale (2001&2007))). This is because investors need the information or ratings from rating agencies like Moody and Fitch to make their investment decisions in buying the bond or not. Both policy makers and analyst agreed that global interest rate is a major factor in choosing Eurobonds as against other sources. This is because price of the Eurobond if higher would increase the domestic interest rate, inflation which would affect the young financial environment development and the economic activities in the country. However, according to the technical analyst of MoFEP, the interest rate is not strong enough to predict, but knowing the size of capital, loan currency as well as the maturity of the projects together helps government make or find the best external source of capital. In addition, creating a stronger relationship with investors was a factor policy makers looked out for in selling the recent Eurobonds. These factors were coherent with the five factors that Papaioannou and Polan (2008) stated as being essential when considering to issue Eurobonds. These factors are prior to the issuance of a debt instrument.

4.4.3 Timing for issuing Eurobonds (2007 and 2013): right or wrong?

According to (Das, Papaioannou, & Polan, 2008), the economic environment of the country should be strong before issuing any external debt instrument. In addition, all projects to be financed by an external debt capital should be effectively appraised, analyzed and evaluated before the external debt is sourced (Marsetti and Mihr (2013) & Venner and Williams (1994)). All these should be in place and carefully monitored and if it satisfies the above conditions, then the country is good to go on issuing the external debt.

The policy makers and analyst agreed that having a stable economic discipline is a condition that needs to be should satisfied before the sale Eurobonds is made. In addition, the economic indicators such as exchange rate, inflation, Debt to GDP, interest rates and real GDP (just to mention a few) should be strong to able to promote growth and development in the financial sector which is still at the nascent stage. These indicators affect the creditworthiness of Ghana and the level of investment. The policy analyst statement was consistent with Marsetti and Mihr (2013) and Venner and Williams (1994). He further stated that feasibility and the viability of the projects should be of much concern. The project evaluation helps decision makers choose the right projects that will be able offsets the loans and promote development. This, if done properly, could reduce the debt burden and prevent the transfer of the debt burden to Ghanaians through higher taxes (Agenor, 2001). According to the policy makers, before Eurobonds are considered, there must be a strong investor's relation unit that will be able to communicate effectively and frequently with investors about their investment. This is consistent with (Melnik & Nissim, 2006) and (Benzie, 1992).

4.4.4 Factors that hinder the sale of Eurobonds

The increase in the global interest rate (influenced by an increase in the LIBOR rate and discontinuity of quantitative easing) is a risk both parties agreed to be a major hindrance. This interest rate risk would mean that pricing or yield curve of Ghana's Eurobonds would have to increase ,hence, makes it difficult to manage the increasing debt portfolio of Ghana. The

exchange rate as raised by the policy analysts is also a threat. These risks mentioned could affect the creditworthiness of the country if it intends to borrow externally (Das, Papaioannou, & Polan, 2008).

As per the second Eurobond sale, the government missed an opportunity to offer the bond at a cheaper rate of about 6% than the 8% due to the long procedure involved in approval of Eurobonds in Ghana. To prevent this from happening, the government through the Ministry of Finance, in the Budget 2014 proposed that all Eurobonds program would be approved prior to its issuance to enjoy any opportunity that tends to reduce the cost of borrowing.

4.4.5 What have been done? And should be done?

The Government of Ghana in order to benefits more from the international capital market as well as reduce costs has set up or yet to be set up committees (Ghana Infrastructural Fund (GIF) and the Capital Market Committee (CMC) would provide appropriate and most prioritize projects of which the proceeds from the Eurobond would be disbursed to these specific projects for job creation and growth of the economy.

To the policy analyst, the debt management should be a separated body from the Ministry of Finance, so as to work diligently in providing credible information on debts financing of some prioritized projects and effective debt management policies. This recommendation is consistent with the AFRODAD (2013) chapter 4 "Existence of an autonomous debt management office", which talked about countries having a separate Debt Management Department (DMD) were the division could work effectively to bring out

policies on borrowing and fund utilization, without having any ties with agencies or government that could make the information flow weak. He further stated that, projects that have rippling effects should be financed so as to increase growth in the other sectors. Most importantly, no matter the source of borrowing the economic health should be stable to attract investors. Lastly, governments should provide feasibility reports on the projects as to be accountable to Ghanaians. The recommendations by the policy analyst were quite similar to (African Forum and Network on Debt and Development (AFRODAD), 2013).

Chapter 5 : CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

The main research questions are presented below:

- (a). What are the factors government or policy makers of Ghana take into consideration before deciding to use Eurobonds over loans from international development partners in financing its long term infrastructural projects?..... (1)
- (b). How effective and efficient are the factors in predicting choice of the financing method and their impact on the economy?(2)
- (c). What measures or policies the government of Ghana have put in place to effectively utilize the financial opportunity and manage debt sustainability of Ghana?.....(3)

This research has successfully been able to answer these questions

This section will make some recommendations to policy makers and also to potential researchers who want to know more about the Eurobonds market in Ghana. Finally, the major limitations to this research would be discussed in details and how it affected my research data.

5.2 Conclusion

These are the conclusions from the findings linked to the research questions.

5.2.1 Factors policy makers consider in selecting Eurobonds over loans from international development

From the findings it is clear that, economic indicators such as the GDP, interest and inflation rate, external debt to export, and other indicators needed in the rating a country's credibility were considered by the Government of Ghana in making such financing decision. In addition, the size of the fund needed and the currency as well as the maturity of Eurobonds are some of the factors that are taken factored before the Eurobonds are issued. However, the cheaper interest rate available on the international Eurobond markets was a major reason why the loan from the international multilateral aid partners like the World Bank and African Development Bank loans were not chosen to invest in its capital projects.

5.2.2 Effectiveness and efficiency of the factors

External lenders (investors) are always concerned about the environment performance of borrowing countries. Especially for Eurobond, it is a main indicator for rating bonds on the international market. Foreign investors look at the information about borrowers through the ratings on the market before they buy their bonds or not. The performance of these economic indicators affects the level of investment that could lead the country to grow. The interest rate factor on the bond is a significant tool in the Ghana.

Economic activities are tied to the interest rates economic activities gets affected by important because the price of the bond acts as a benchmark in pricing the domestic bonds, which affected the economic and financing environment in the country. It also helped in bridging the gap between the external and domestic rate so as to find the best optimal means of borrowing. Lastly, maturity of the projects gives with a fair idea about long the projects would be completed to generate revenue to pay off its loans. This factor is to reduce the debt burden of the country.

5.2.3 Measures or strategies put in place utilize this Eurobond opportunity

We can commend policy makers for having strong 'back up' strategies for maintaining its debt. The Government of Ghana has set out committee, such as the Ghana Infrastructural Fund and Capital Market Committee that would help provide information about projects are could help bridge the infrastructural gap in the country. However, these are policies do not spell out the steps or procedures that could protect the country from high debt burden mismanagement.

However, there seems to be no evidence about how these proceeds are used for and thus is difficult to even draw plans as to promote development, if the productive and prioritize projects that was said to be finance by the proceeds are not. These moral hazards that exist after the policy makers gets the proceeds makes it difficult for development to take place in the country. Even

if the proceeds are not used for what is intended to, best alternative should be considered.

This shows that policy makers are unconcerned about the implication of debt sustainability level and the repayment of loans and how these factors affects the average Ghanaian. This shows that policy makers are unconcerned about the implication of debt sustainability level and the repayment of loans and how these factors affects the average Ghanaian.

In conclusion, the reasons for policy makers going to the Eurobond market instead of getting loans from IMF, WB and AfDB is a laudable one and consistent with literature. The Eurobonds seems to be the best tool for infrastructural or capital project, but if it is actually used for unproductive purposes, then competitive advantage are policy makers taken for using Eurobonds as against the others. The debt portfolio to GDP is fast getting closer to the threshold and the country could face a strong rejection from the bond market and even bilateral partners, since our economic performance and rating is going to be affected.

5.3 Recommendations

Tapping the Eurobond market to raise funds to finance capital have made projects is an effective strategy for promoting developing whilst diversifying. However to effectively utilize this financial opportunity, I recommend that strong government policies should be effectively put in place to reduce costs and manage its debt sustainability effectively. In as much as the government wants to borrow to support growth and development projects, it is

recommended that public debt strategy should be consistent with the broad macroeconomic policy by ensuring that projects that are to be financed are effectively evaluated or appraised. Furthermore, projects to be financed should be able to generate more revenue to offset the cost of the loan disbursed, to be able to manage the debt burden. Also ensuring macroeconomic stability, fiscal sustainability, lower interest and risk of external borrowing should be of much concern in stabilizing its economic and financial health. This will serve as a yard stick in stipulating the limits of external public debt borrowing in Ghana.

Furthermore, for the purposes of a strong debt management system the government, should try as possible to separate the activities of the debt management unit for the Ministry of Finance. This would help the unit work diligently, when dealing with debt policies for borrowing. Also to promote accountability, all feasibility reports should be made available so that Ghanaians could judge about whether the governments are good for all.

There should be a strong framework, where policy makers and experts on international debt financing are involved in helping the government make financing decisions and as well as provide projects that can promote development and create jobs for Ghanaians. This would led to policy makers making prudent borrowing decisions. Under this framework some organization should be established to monitor the actual utilization of the proceeds and assign penalty when they go contrary to what it the proceeds was intended for.

APPENDIX 1

THESIS TOPIC: FINANCING CAPITAL PROJECTS IN GHANA: THE CHOICE OF EUROBONDS OVER INTERNATIONAL LOANS FROM DEVELOPMENT BANKS

Dear Respondent,

This study is being conducted on the above topic for academic purposes and the researcher would be grateful if you could provide answers to the questions below. Please note that strict confidentiality is assured with respect to answers given, as facts are needed for academic purposes.

Section A

1. i. Which of the following infrastructural projects do you think are crucial but there aren't enough funds to finance them?

- ☐ Roads, dams, gas pipeline
- ☐ Railways
- ☐ Sanitation
- ☐ Others

- ii. Infrastructural projects demand huge capital. However, domestic funds are not enough to finance the projects. How will your answer to the previous question be financed? *Please rank the following from 1 to 4. With 1- first priority and 4- least priority.*

Source of capital	Order of ranking
IMF or World Bank	
Developed countries	
Other international organizations like African Development Bank (AFDB)	
Eurobonds and others	

- iii. Would your answer to the above questions be the same ten years ago?

Yes () No () Why?

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2. i. For what reasons do you think Eurobonds would be chosen over international loans for the financing of infrastructural projects

- ☐ Huge source of capital
- ☐ Non- conditionality
- ☐ Low global interest
- ☐ Others

ii.Which reasons selected in (i) has the highest priority? Why?

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Section B

3. There are various factors that influence a country's external financing choices. There are social, economic and other factors that could have caused the government of Ghana to issue Eurobonds as against borrowing from World Bank or IMF.

Please indicate the level of importance you attach to the following factors.

Factors/ rank level	1	2	3	4	5

of importance	Not so important	Somehow important	Might be important	Very important	Extremely important
GDP (PPP)					
Real GDP					
CPI inflation					
Exchange rate					
External debt to GDP					
Global interest rate					
Domestic debt to GDP					
Export to debt ratio					
Middle income target					
Roads, dams needs					
Unemployment					
Energy problems					
International banks policies and conditions					
Others:					

4. For what reasons do you think Eurobonds are issued?

- ☐ Provision of infrastructure projects
- ☐ Servicing of national debt

- ☐ Solution to balance of payment problems
- ☐ Debt restructuring
- ☐ Meeting middle income status
- ☐ Reducing inflationary pressure
- Others:

5. What are some reasons for using Eurobonds instead of IMF or World Bank loans in the provision of infrastructural facilities in Ghana?.

- ☐ Generate huge capital
- ☐ Low global interest rate
- ☐ Flexible IMF and World Bank policies
- ☐ Meeting the middle income status
- ☐ Others.....
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SECTION C

6. Ghana, like many sub Saharan African countries is trying to diversify its sources of capital for various reasons. What is the benefit of using Eurobonds to Ghana? *Tick as many as possible.*

- ☐ It tends to reduce dependency on international aid from IMF, world bank and there development banks
- ☐ This instrument serves as a safe instrument to attract investment from many investors
- ☐ The government has complete discretions on how to use the proceeds
- ☐ There are no or little conditions or strings to the proceeds from Eurobonds as compared to loans from IMF or world bank or other development banks
- ☐ Others:

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7. The timing of the bonds (2013) for Rwanda and Gabon came at the time when developmental projects were far from completion, due to capital problems. Now, a part of the proceeds would be used to speed up the ongoing projects, which could have split -over effect on other developmental agenda of the country. Also for Rwanda, the money or proceeds came at a time where various developmental programs as EDPRS II were being launched. These countries, Rwanda and Gabon, believe that the timing of their bond was at the perfect time to. This means that, the time of the bonds is essential because it makes governments decide whether to take advantage of it or not. It is a turning point for countries.

What conditions exists for Ghana, to take advantage of this new capital? Was it the right time? Yes () No (). Why?

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Section D

8. i. There are some risks that could affect international debt market such as the Eurobond market. Which of the following risks do you think could hinder the Ghanaian government from issuing Eurobonds?

☐ Increasing global interest rate

- ☐ Global financial crisis
- ☐ Increasing external debt
- ☐ Depreciation of currency
- ☐ Risk of default
- ☐ Others

ii. What measures have been put in place to reduce the above selected risks?

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9. What advice would you give to countries that want to, for the first time, issue Eurobonds?

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THANK YOU

APPENDIX 2

INTERVIEW QUESTIONS FOR BOG AND MoFEP

Dear Respondent,

This study is being conducted on the above topic for academic purposes and the researcher would be grateful if you could provide answers to the questions below. Please note that strict confidentiality is assured with respect to answers given, as facts are needed for academic purposes.

SECTION A

- a. What factors (economic, social, external factors) influences the choice of debt instruments?
- b. What are the challenges faced with choosing an external debt instruments.

SECTION B

- a. Why was Eurobonds chosen over other external loans? / Aside loans from IMF, other countries could have provided some source of capital, why was Eurobond selected?
- b. What factors were considered in making such decision and why were these factors selected?
- c. Do you think there were certain uncontrollable external factors that affected the decision?
- d. Why was Eurobonds selected as financing tool for capital projects development?
- e. Do you think Eurobonds is the best method for financing capital projects? Under what condition would or wouldn't work?

SECTION C

- a. Ghana, like many sub Saharan African countries, is trying to diversify its sources of capital for various reasons. What benefit do you think stands to derive from using Eurobonds.

- b. Do you think other external loans (from IMF, World Bank) couldn't have provided such benefits? Yes, no. Explain why?
- c. Aside loans from IMF, other countries could have provided some source of capital, why was Eurobond selected?

SECTION D

- a. Do you think certain conditions should exist before Eurobond issuing is considered?
- b. In your view, when is the appropriate time to issue such instrument?
- c. What are some of the risks you think could hinder the Ghanaian government from issuing Eurobonds?
- d. What measures are being put in place to hedge or overcome the selected threats or risks?
- e. How were these measures in hedging against the risks in the 2007 Eurobonds?
- f. What challenges were encountered in during the first issuance and the latest issuance?

APPENDIX 3

INTERVIEW QUESTIONS FOR GIPC

- Can you give us an overview of GIPC? What you do here
- What economic, political, social indicators do investors look out for? Can you rank these indicators in level of importance? Which indicator is a major factor in shaping investor's decisions? Why, why not?
- Do you think government financing decisions can affect the various factors or indicators mentioned? How?
- Do you think government financial decisions in capital projects-energy; infrastructural projects could affect investment in any ways? Why or why not?
- How are you working to promote Ghana in the international community?

- How is GIPC working with the other ministries in promoting investment

APPENDIX 4

INTERVIEW GUIDE FOR IMANI GHANA

FINANCING LONGTERM INFRASTRUCTURE PROJECTS

1.
 - a. Which infrastructure projects do you think are crucial to the growth of the economy currently?
 - b. What is the best method in financing these infrastructure projects?

ISSUES ON EUROBOND

2. The government of Ghana has decided to diversify its capital sources by issuing Eurobonds to fund some infrastructural projects. What is your opinion on this issue?
3. Do you think the second sale of Eurobond was a rush? Why or why not?
4.
 - a. What conditions should exist before policy makers decide on using such instrument?
 - b. Were these condition mentioned present in 2007? 2013?
5. Was the timing of the Eurobonds right in 2007? 2013? Why or Why not?
6. Government of Ghana believed that Eurobonds were issued at the time were most infrastructural projects needed funds to be completed to aid development. The projects were carefully appraised and thus, were ready to be financed. Do you agree with this statement?

REASONS BEHIND THE ISSUANCE

7. Low global interest rate, desperation of capital to complete developmental projects and repair national debts are the main reasons for the Government in selling Eurobonds.
 - a. Do you think there are other reasons?

- b. Could it be more political than economic?

EUROBOND AND DEVELOPMENT

- 8. Does the choice of international debts by policy makers affect the amount the current economic condition in any ways?
- 9. What indicators do you think should be of much concern when making such financing decisions and why?

Do you think this debt instrument could aid development in Ghana?

MEASURES

- 10. Do you think the Eurobond best method for funding capital projects? Why or why not?
 - a. Are the measures put in place effective reaping the benefits of Eurobond at the same time promote development effective? Why or Why not?
 - b. What are your recommendations?

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