

Alliance of CSOs working on Extractives, Anti-Corruption, and Good Governance

8th September 2020

Government's Responses to Concerns on Agyapa Deal Unconvincing

Distinguished Ladies and Gentlemen of the Media, since our last press conference on the controversial Agyapa Mineral Royalty deal, government has made efforts to respond to the questions we raised. However, the more we get to know about the deal the more concerns it raises. We are therefore not surprised that many Ghanaians are encouraged to join our course to ask the necessary questions that help to bring our country to the path of consensus on how to protect our mineral royalties, and to optimise their use for the benefit of current and future generations.

We find it rather unfortunate, that, while the Minister for Finance has favourably responded to the call for further consultations, he has publicly stated that he will go ahead with the transaction regardless of the serious concerns being raised by a large section of the Ghanaian population. Such posturing raises doubts about the genuineness of the pledge to undertake further consultations.

We have so far been constrained in our analysis of this transaction by our inability to access the full complement of data and assumptions used in Government's valuation of the royalties being traded. At our last meeting with the Ministry, some slides containing some data were presented. However, when we requested for copies, those particular slides of interest to us, were omitted either deliberately or inadvertently.

According to government, its objective for the Mineral Income Investment Fund is to maximise the value of the royalties due the Republic from the mineral wealth of the country, for the benefit of its citizens, in a responsible, transparent, accountable and sustainable manner. The challenge, however, is how the outright sale of up to 49 percent of the royalties from 48 leases that constitute the bulk of Ghana's proven gold deposits and currently contributes about 95 percent of royalty receipts, translates into the stated objective.

Ladies and gentlemen, it is important for us to separate the key strands of the issue and deal with them in simple language.

1. Government of Ghana is selling almost half of the royalties available for annual budgetary support for a lump sum of about \$500 million for unknown quantities of mineral resource embedded in the 48 leases under the Agyapa transaction. This is a sale of right as of heritage. Put simply, the Government assumes half of the unknown share of the royalties in the most prolific 48 geographic areas are worth about \$500 million.
2. An assumption is created that, the remaining share of 51 percent will generate returns to continue to support the budget by investing in a company incorporated in a Tax Haven and operated by politically exposed persons. However, the government has not told the good people of Ghana, what guarantees exist to ensure that risk free royalties can be invested without subjecting the resource to significant risk exposures. In the event where Agyapa's investments do not yield the expected returns, Ghana would

have risked its royalties that would have flowed from the mines to support the budget. The sad part is that, Ghana has no way out, if the government wakes up in future to the reality that mining sector investments have their own risks as happened in the seventies when assets were nationalised.

3. Another assumption deduced from government's communication is that, listing on the London Stock Exchange (LSE) will ensure transparency and accountability in the management of the resources. If the government is unable to ensure transparency and accountability when it controlled 100 percent of royalties, listing on the LSE through a company incorporated in a Tax Haven will not guarantee transparency.

Today we will try to, once again, break down the key questions to see if government will provide the answers rather than pushing a utopian agenda of revenue maximisation when in actual sense, it is selling half of the royalties accruing from the resource;

1. How did Government value the royalties at \$1 billion?

The answer we have heard so far, is that, the \$1 billion is the book value for Agyapa, it is not the actual valuation for the IPO. This doesn't answer the question. The \$1billion valuation reflects the Ghana government's assessment of its assets assigned to Agyapa which has been approved by Parliament. In recent communication, the Minister of Finance has stated that Agyapa's asset value of \$1 billion approved by Parliament will not be the fair value that will be determined by the market. This is where appreciating the difference between *net asset value* and *fair value* becomes extremely important. Granted that the market will determine the fair value of the asset, it is important for government to determine the appropriate net asset value for the market to consider what it deems fair. This essentially is what the contract states as \$1 billion. Therefore, if the asset is under-valued by government itself, then Ghana cannot expect the market to give a favourable valuation of the IPO which the Minister himself states will be about 0.6 to 3.2 times the asset value. This indicates that Ghana is just gambling on the market for the determination of the value of an important revenue stream.

The interesting thing for citizens to appreciate is that, through government's communication it is evident that it is either not paying attention to the revenue flows in the sector, or deliberately undervaluing the assets for unknown reasons. When a direct question was posed to the Deputy Minister of Finance on the amount of royalties received from gold in 2019, he said Ghana received about GHS650 million (\$123 million). The truth is that Ghana received GHS 1.06 billion (\$200 million) from the big companies under the Chamber of Mines alone. Government has data on the other receipts, yet it decided to under-report the numbers. Again, in our meeting with the Ministry of Finance, we were given half year receipts for 2019 of \$72 million (GHS 366 million). The underreporting of the 2019 revenue which is the most significant period for revenue projection and emphasis on old royalty numbers is intriguing.

2. What other investment options were considered before settling on the sale of up to 49 percent of Agyapa?

The assertion that government seeks to optimise the royalties presupposes that forward sale of part of the royalties is the best option available to government. We are interested in knowing what other options were considered by government and the specific trade-offs made

to suggest that it is better to sell than wait for the revenues. In considering the stock market, what other deal structures besides the IPO route did Government consider, and can the comparative and benchmarking analysis be shared for review?

3. Why is Ghana patronizing a Tax Haven when internationally, countries are pushing against companies hiding in Tax Havens?

When we asked this of the government, it used examples of private companies to justify its decision. The consensus position of governments around the world is that Tax Havens inhibit the revenue mobilisation efforts of countries; the reason many regulators around the world are cracking down on Tax Havens. For Ghana's government to do business and hide from tax anywhere in the world is a bad message to the rest of the world, particularly when the country is struggling to defend itself before the European Union, having been blacklisted on account of high money laundering risk.

4. Why is Government exempting Agyapa from taxes when it will be partly owned by investors?

Although the royalties are taxes, when a portion is sold to investors, dividend payout is income that must be subjected to tax. At that point the government is not taxing itself, rather, it is taxing income from a company in which it is only a shareholder. The provision in Section 28(5) of the MIF Act seeks to declassify royalties as taxes and make it a revenue stream for MIF, and by extension Agyapa. Exempting Agyapa from taxes does not exempt government alone but also the investors. This is the more reason why government should not exempt Agyapa from taxes, and failure to do so only benefits the investors.

5. In considering Agyapa, what becomes of government's manifesto promise to increase royalty share to mining affected communities?

In government's 2016 manifesto, it stated that;

"With regard to mineral royalties, the NPP's policy is to ensure that mining communities receive a higher share. Currently, 80% of the royalty goes to Government, 10% to the Minerals Commission, and 10% to the community. **The NPP will reduce Government share to 70%, while doubling the community share to 20%.** The additional 10% to the community will be given to the District Assemblies to be used specifically for developing infrastructure in the mining communities." How government is responding to this promise is missing from its new efforts through the MIF.

Ladies and gentlemen, these are important questions that require a national conversation to be addressed. It is not enough for the Minister of Finance or the government to ask citizens to trust their sincerity and their expertise. It would not be right for them to try to bulldoze through a controversial transaction such as this, and about which genuine questions have been raised by experts as well as by ordinary people. We are therefore reiterating our call on the government to suspend implementation of this transaction pending a national dialogue on options available to optimise Ghana's mineral royalties.

Thank you.

Participating Organisations:

1. Africa Centre for Energy Policy (ACEP)
2. Centre for Democratic Development (CDD)
3. Centre for Extractives and Development Africa (CEDA)
4. Centre for Public Interest Law (CEPIL)
5. Chamber of Petroleum Consumers Ghana (COPEC)
6. Citizens Movement Against Corruption (CMAC)
7. Civil Society Platform on Oil and Gas (CSPOG)
8. CSOs Open Licensing Monitoring Group
9. Ghana Anti-Corruption Coalition (GACC)
10. IMANI Centre for Policy and Education
11. Institute for Democratic Governance (IDEG)
12. Integrated Social Development Centre (ISODEC)
13. WACAM
14. Oil Watch Ghana
15. Penplusbytes
16. Public Interest and Accountability Committee (PIAC)
17. Publish What You Pay Ghana (PWYP)
18. SEND Ghana
19. The People's Project (TPP)
20. Women Aspire
21. Centre for Social Impact Studies, Obuasi
22. Friends of the Nation, Takoradi