
Original Paper

Access to Finance for Local Oil Fields Companies in Ghana

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Abstract

This study focused on evaluating access to finance for local oil fields companies in Ghana. The study adopted a census survey design in evaluating access to finance for local oil fields companies in Ghana. The respondents of this study were 30 management members of three oil fields companies in Ghana. The data collected was analysed using Statistical Package for Social Scientists (SPSS) to generate tables and graphs for interpretation. The results show that most companies use equity financing in combination with other forms of financing to finance their business activities. This research has shown the various challenges bordering on the financing of local oil and gas projects with emphasis on the challenges of raising funds by indigenous oil companies. Financing of the projects by indigenous oil field companies in Ghana is preferably achieved through equity finance mainly because it is the easiest to get compared to all the other forms of financing available. Other sources of financing available are debt financing, joint venture and retained earnings from the profits generated from their operations. The study recommends that the companies should make good use of the Ghana stock exchange by listing on the exchange and be able to raise more equity funds to expand their business activities. It was also recommended that indigenous oil fields companies should consider merging or undertaking joint ventures more often with other indigenous companies for some projects particularly in cases where two or more companies possess the financial capacity and technological expertise to carry out a project.

Keywords: Access, Finance, Oil Fields, Ghana

1. Introduction

1.1 Background of the study

The contribution of oil and gas to the economic development of a country is well known. The oil and gas sector positively impacts an economy by increasing revenue generation, gross domestic product (GDP), employment, foreign exchange earnings, supply chain services and management among others. It has been estimated that the discovery of oil in Ghana would add on average 1 billion dollars to revenue annually between 2011 and 2029 and also account for 5 percent of GDP (Bell *et al*, 2010). Oil and gas production is dominated by International Oil Companies (IOCs), national corporations owned by the state and Local Oil Companies (LOCs) owned by private persons. Historically between 1900 and 1970, private international oil companies dominated the global industry apart from North America and communist countries (Stevens, 2016). This was found in all segments of the industry: the upstream (crude oil production), the downstream (refining and marketing of products) and the midstream (oil transportation). The notable companies were Exxon, Mobil and Chevron. Others were Gulf Oil and Texaco, British Petroleum (BP), Anglo-Dutch company Shell among others (Stevens, 2016). Starting from the 1970s however, national governments became important stakeholders in the oil and gas industry through the allocation of finance from government budget to control oil reserves and guarantee security of oil supply. This lasted until 1990s when governments retreated from the sector and responsibility again shifted to the international oil companies (Razavi, 1996). In recent times funding for oil and gas projects has become more complex consisting of the state, international oil companies

(IOCs) and local oil companies (LOCs).

The diverse activities involved in oil field development including exploration, appraisal and development, oil and gas pipelines, oil field services, storage and offloading and others are very capital intensive in nature often requiring enormous amounts of resources to finance operations. This amount of money can range from multi millions to billions of dollars. Indeed, the cost of a project can be as much as \$9 000, 000, 000 USD (Gutuza, 2014). Unlike the IOCs, many LOCs have limited access to capital to support oil field development for many reasons. It has been observed that capitalization of African banks is woefully poor to support large capital financing required of oil and gas production (Odeleye, 2014).

Another factor responsible for the low access to finance for oil and gas development internationally is the change in global development paradigm. For the past three decades, global development strategy has embraced environmental protection or sustainability as a vital component. Consequently, environmental management plans or environmental sustainability criteria have become conditions for financial institutions which normally provide funds to developing countries governments and private sector for projects (United Nations, 2015). One such institution is the World Bank and its allied group International Finance Corporation (IFC) which traditionally assist in funding for oil and gas development (Razavi, 1996). The World Bank group has decided to stop financing upstream oil and gas projects after 2019. The reason for this is to shift more funds to environment and climate protection activities in line with the Paris Climate Agreement of 2015. The agreement makes it mandatory for countries to limit greenhouse gas emissions to 2 degrees Celsius over Pre-Industrial Revolution levels. The World Bank group now prioritizes funding projects considered environmentally friendly and climate sensitive (France24.com) (2013). Petroleum energy is not included in these, resulting in limiting of funds to private companies in the oil sector. The worry is that absence of indigenous oil companies in the local oil sector would imply multinational companies capturing the totality of value chain with its harmful effect on the economy. Thus, to encourage participation of indigenous companies in the oil sector in Ghana, the government introduced the Local Content Law (Arthur & Arthur, 2014; Amoako Tuffour et al., 2015). The objective of the law is to improve management of oil resources and socio-economic development through local participation. The purpose of the study is therefore to investigate how indigenous oil field companies in Ghana access finance for their operations.

1.2 Contribution of the study

The study fills a gap in the research literature on access to finance by indigenous oil fields companies in Ghana. Since the oil sector is relatively young in Ghana, currently there are not many studies examining this problem comprehensively. Secondly, it provides direct benefit to investors in the local oil industry on ways to overcome some of the financial challenges facing the sector. The findings also provide practical guidelines for new indigenous oil field service companies who intend to expand internationally and how they can easily access finance in the industry.

The rest of the study is organised as follows:

Section II discusses research literature review, theories, theoretical framework while section III presents study methodology and data. Section IV focuses on analysis of the data, collected and section V provides a summary of the research findings and relevant conclusion, and offers appropriate policy recommendations.

2. Literature Review

2.0 Sources of finance

2.1 Available sources for Project Financing in the Oil and Gas Industry in Ghana

The upstream sector of the Ghanaian oil industry plays a vital part in the economy and positions itself as one of the important sources of income for the government and foreign exchange earnings. The upstream sector is greatly controlled by international oil companies who command colossal capital, technology and effortlessly get their funding to finance their projects through multilateral moneylenders and international financial establishments. The IOCs have standing finance arrangements in the upstream industry through contractual agreements like Joint Ventures (JV), Joint Operating

Agreements (JOAs), production sharing contract (PSCs) and risk service contracts (RSC) with the government. Nevertheless, it is the local oil service companies that need funding to finance the opportunities in exploration and production as wells service. They need financing for infrastructure to construct pipelines, storage facilities and the purchase of equipment. The upstream sector of the oil and gas industry refers to the processes or activities that take place when oil and gas are extracted or produced from the ground. These activities consist of drilling, manufacturing, petrochemical plants and so on. Exploration, drilling, production of oil and gas industry in Ghana is rich and full of favourable investment prospects. From Ghana's point of view, funding of oil and gas activities is largely conducted by the government acting through Ghana National Petroleum Corporation (GNPC) in partnership with key oil exploration companies. However, the development of "home-grown" determined oil companies have generated the need for local operators to access loans to finance their undertakings. These local companies have funding restraints to carry out their activities especially in developing new oil fields (Shosanya, 2013).

Petroleum is a chief source of energy internationally and accounts for about 3 percent of GDP growth rate in Ghana in the year 2017 and a major revenue earner for the Ghanaian economy. Oil and gas projects in Ghana are presently being carried out by Ghanaian government through the Ghana National Petroleum Corporation (GNPC), the International Oil Companies (IOCs) and the Local Oil Companies (LOCs). It is essential to have privately-owned home-grown oil companies executing analogous roles as the International Oil Companies as this upsurges the revenue accumulating to Ghana, inspiring the local content capability and additionally reinforces the oil and gas sector.

2.1.1 Project Finance

Financing of oil and gas activities can be accomplished through project financing. Project financing can be thought of as a system of financing in which the creditor looks principally to the revenue made by a solitary project as security for the loan. Hoffman (1998) used the term "project finance" to refer to a situation where debt, equity and credit improvement are put together to finance the construction and operation of a particular facility in a capital-intensive industry, in which lenders base credit appraisals on the projected revenues from the operations of the facility. With this the loan facility is the individual sponsors do not guarantee for the loan, but the loan or financing is done on the actual assets and the revenue expected to be generated from the project is used to collateralise the loan. By going this direction, the loan facility is not limited by the sponsors' assets and credit worthiness. This makes it possible to raise enough funding or financing to undertake the project to its logical conclusion.

This implies that loan is contracted and pay back based on the revenue that will be generated by the project itself and not by the financial soundness of the promoter of the project. For instance, Ghana National Gas Company took a loan to construct the Atuabo Gas Processing Plant in the Western Region of Ghana, from where they supply Gas to the various energy power producers in Ghana. Ghana Gas now can pay its debt from the revenue being generated from the independent power producers and Electricity Company of Ghana. These loans are mostly used in developing countries to finance infrastructure projects, projects in the oil and gas sector and independent power projects in the energy sector among others.

According to Funmilayo (2014), a project can be bankrolled by having a syndicate of investors, lenders and other interested parties who can contribute the financial capital for the project if the financial requirement is very huge for one or few individuals to raise the money to undertake the project. A project comprises the sponsor(s) who synchronise(s) the development of the project. The sponsors form a Special Purpose Vehicle (SPV) otherwise known as the project company using equity or mezzanine debt. Fundamentally, the cash stream of the project company is used to pay back the loan while the assets act as guarantee to the lenders. There are different partakers involved in financing a project. They include sponsors, project-company (borrower), contractor, financial institutions, experts, advisors, lawyers, lenders, government, lessors, insurers, suppliers, buyers, export credit agencies. The diverse participants in a project enable the project risks to be allocated to the parties who are in the best position to manage them (Stefano Gatti, 2013).

2.1.2 Corporate Finance

Corporate finance can be defined as the funding provided to support the operations of a business undertaking. The two main sources of corporate finance are debt and equity. Debt is the quantity of money borrowed from a lender and protected against some properties of the business in return for a promise to pay interest on the outstanding amount as well as to pay back the principal of the loan on or before an agreed date. Equity is the quantity of stocks that are obtained in a company to grant the investor the right to become part owner of the business. This ownership of equity is not secured on the firm's assets, but they are rewarded when the company makes profit (EY, 2014). Equity financing takes place the minute a corporate offer up a fraction of its proprietorship to a shareholder in give-and-take manner for investment. In equity financing, the stakeholder is attractive a risk. As soon as an equity stockholder come to an agreement to invest in your business, they spend in give-and-take for proprietorship in the commercial establishment. A firm that requires financing for long-term, general commercial operations can solicit funds through either equity or long-term debt. Debt funding is normally less expensive; however, it produces cash stream obligations that the business must handle appropriately. In Nigeria, Home-grown oil companies involved in exploration and production activities have started listing their companies on foreign stock exchanges to fund their projects. These companies include Afren Oil, Heritage Oil, Eland Oil and Gas, Lekoil, Mart Resources and MP Nigeria which are listed on the London Stock Exchange (LSE) and the Alternative Investment Market (AIM). Lekoil in recent times raised the sum of £50 000 000 on the LSE to finance its oil exploration and production work in Nigeria (Nigeria Oil and Gas Intelligence June 2013).

2.1.3 Lease Finance

Financial leasing is a medium-term financial mechanism practice for the purchasing of heavy equipment, vehicles, machinery and other forms of properties. Leasing offers invest in fixed assets (equipment, vehicles, etc.) instead of proving the company or the lease with straight funds to do the business. Leasing organisations (Lessors) such as banks, leasing companies, insurance companies, equipment producers or supplier, and non-bank financial institutions procure the equipment in their own names and offer the equipment for a specific period to companies or businesses at an agreed fee. At the end of the agreed duration, the ownership of the equipment is transferred to the lessee, or the equipment is completely run down and thrown away, and in some cases sold to a different entity. Leasing is established on the intention that profits are made from the utilisation of the assets, and not from their proprietorship and they are focused on the borrowers' capacity to make more cash turnover from the business operations to service the contract fees. They do not base the viability of the lease on the balance sheet or on previous credit history of the lessee. This is the main reason why leasing is overall beneficial for start-ups, small and medium-scale businesses that do not have a enough money to buy the equipment of prolonged credit history, as well as a noteworthy property base to use for security to secure loans. Leasing has become an essential source of funding for medium- and long-term financing for enterprises in both advanced countries and in emerging countries.

2.1.4 International Finance Corporation (IFC)

The IFC is a member of the World Bank and was established in 1956. It is the largest global development organisation whose emphasis is on the private sector in developing countries. It plays an important role in the financing of projects including oil and gas projects by providing long-term loans, guarantees and equity financing, and risk management and advice among other services. The main aim of the IFC in relation to project finance is to encourage the development of the private sector and mitigate country risks in terms of breach of contract, convertibility and expropriation (IFC Global Oil and Gas, 2012). Its participation in a project is similar to a World Bank guarantee as its presence in the project enhances its success which is important to the lenders and investors. The IFC grants loans, equity, derivatives and partial credit guarantees.

2.2 Other range of funding options in Ghana

i. Commercial Bank loans

These are typical terms loans from the local banks to finance project activities. The benefits for using bank loans are that they are most flexible source of short-term debt financing for working capital,

moderately geared borrowers well perceived by lenders and there is flexibility in draw down and repayment profiles. The downside, however, are that there is a capacity constrained except for large investment grade borrowers or short-term borrowing, pricing, repayment periods and covenants deteriorating and greater ancillary business requirements. Commercial/Universal banks in the performance of its service of giving loans have a vital role to play in financing oil and gas projects particularly for Indigenous oil companies. The Universal banks in Ghana had played a limited role in funding oil and gas projects due of its low level of liquidity and its inability to provide long-term loans for capital-projects. With the increase in the capital requirement by the Bank of Ghana for all the universal banks to increase their minimum capital from 120 million to 400 million cedis, it is expected that the universal banks operating in Ghana can finance more of the local oil field companies on their own or they can syndicate to raise more money to finance these companies.

ii. Public bond

This is where loans or capital are raised from the public by the sale of debt instruments. Huge sums of monies can be raised from the public bond sale depending on how credit worthy the company is or the return they are prepared to offer due to the risk premium that they may attached to the bond. The advantages one derives for using public bond are that they are deep and liquid market, less financial covenants than banks, long repayment periods available, benchmark issue lays ground for future issues and flexible maturities terms available. The disadvantages are that they require public credit rating and ongoing disclosure, Minimum deal size of £200m and early redemption costs.

iii. Export Development and Agriculture Investment Fund (EDAIF)/Export import bank (EXIM Bank)

When the scheme was set up, companies that have export projects could borrow up to a maximum of \$500,000 over a five-year period at a reduced interest rate of 15%. Even though the scheme is run through the banks, the EDAIF board maintained the management of the programme. In 2016 the EDAIF was transformed into an EXIM bank. The Ghana Export-Import Bank (GEXIM) was established by the Ghana Export-Import Bank Act 2016 (Act 911) to support the Government of Ghana's quest for a feasible and sustainable export led economy. The mission is to facilitate the transformation of Ghana's economy into an export one by supporting and developing trade between Ghana and other countries, overseas investments by Ghanaian Companies and eliminate critical market failures in the Ghanaian economy thereby making Ghana competitive in the global marketplace.

2.3 Empirical Review

According to Odeleye (2014), Nigeria has over 100 local energy companies working in the downstream energy sector in Nigeria; however, their main difficulty is accessibility to sufficient funding, which subsequently, hinders their effectiveness

Considering at the connection between the source of finance and a company's choice to transform, Leiponen and Zhang (2010) employed a huge sample of Asian developing countries to find that equity finance as well as funding from family and friends are important enhancers of modernisation undertakings, although they do not discover a substantial association between debt finance and modernisation. UNEP (2008) submitted that African development Bank (ADB) examined the matters coming in the determinations to conventional energy bankrolling in emerging economies. The analysis showed that most of the energy sector projects range from \$200,000 to \$2 million. They indicated that those projects normally have payback periods that range from one year to three years and are normally only need domestic currency funding and credit maintenance. The loans are characterised by huge transaction costs in the forms of processing period comprising the needs to safeguard social and environmental issues. The huge transaction costs are also because of deficiency of institutional, technical competences as well as expertise. It similarly acknowledged some obstacles related with domestic funding such as the cost decreases engendered from energy savings that were not a source of profit or an 'asset' that banks understood or were contented to provide credit facility and use as a collateral.

Fama and French (2005) perceived that majority of companies really distributed and withdrew equity in most years and that there were several instruments by which equity was give out. According to them,

abuses of the pecking order were routine and as much as half of the companies disrupted the pecking order at the time of issuing equity. Conversely, Gomes and Phillips (2005) observed that half the equity issues remained in the public market whereas half remained private issues but that the pecking order delivered an improved explanation of the public issues but struggled to explain the private issues.

3. Method

3.1 Research Design

The research method involved the use of both quantitative and qualitative data. The quantitative data was collected using questionnaire and analysed using descriptive statistics and others. The qualitative data was collected from in-depth interviews of respondents using interview guide. The respondents are senior staff or managers in the selected local oil companies with the technical knowledge and experience to answer the interview questions. The purposive non-probability sampling method was adopted for the study. As the respondents were mostly senior staff and managers employed in the local oil field companies, this sampling technique was very appropriate. A total of 30 respondents in senior positions from 3 local oil companies were selected to participate in the survey for the quantitative data collection. In addition, 6 individuals from the managerial category were interviewed for the qualitative data. Questionnaires and interviews were the main instruments used to collect the primary data for the analysis.

3.2 Data analysis

The quantitative data collected was analysed using Statistical Package Social Scientists (SPSS) and Stata. The analysis focused on the variables of interest to the study (Field, 2009). They include company information, demographic information, sources of finance for oil companies, access to finance, constraints to obtaining finance and the other factors. Simple descriptive analysis techniques were used to analyse data and presented in the forms of frequency tables, charts and computation of means, standard deviations and correlation analysis.

4. Result

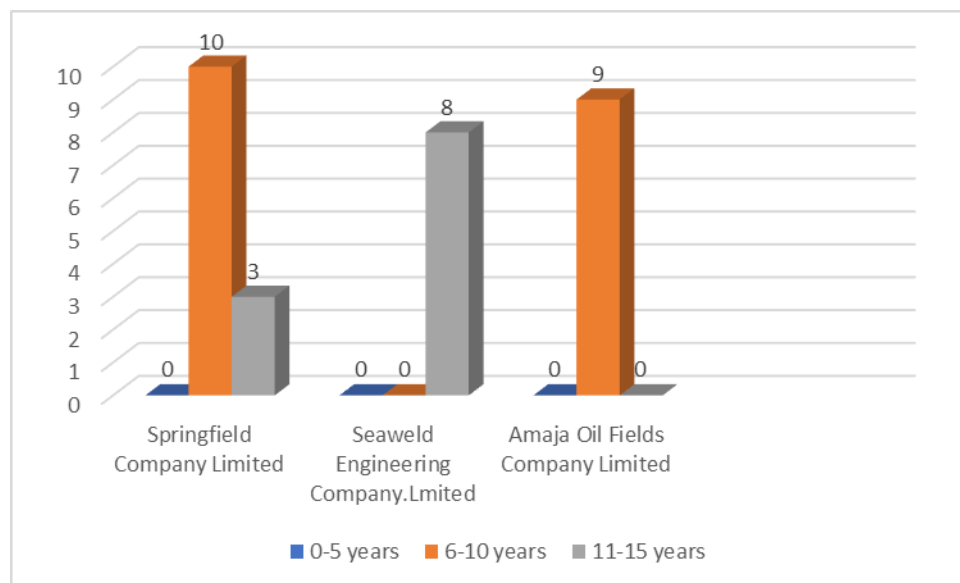


Figure 1. Number of years of business has been in operation

Source: Field data 2021.

From the data gathered, it was realised that Springfield and Amaja Oil fields have been operating between 6 to 10 years. Approximately 77 percent of respondents from Springfield Company Limited

said they have been operating in Ghana for 6 to 10 years while 23 percent suggested that have been in operation in Ghana between 11 to 15 years. All the respondents from Amaja oil fields answered that they have been in operation for between 6 to 10 years in Ghana. Seaweld Engineering Company has been operating in Ghana between 11 to 15 years now as answered by all the respondents from the company.

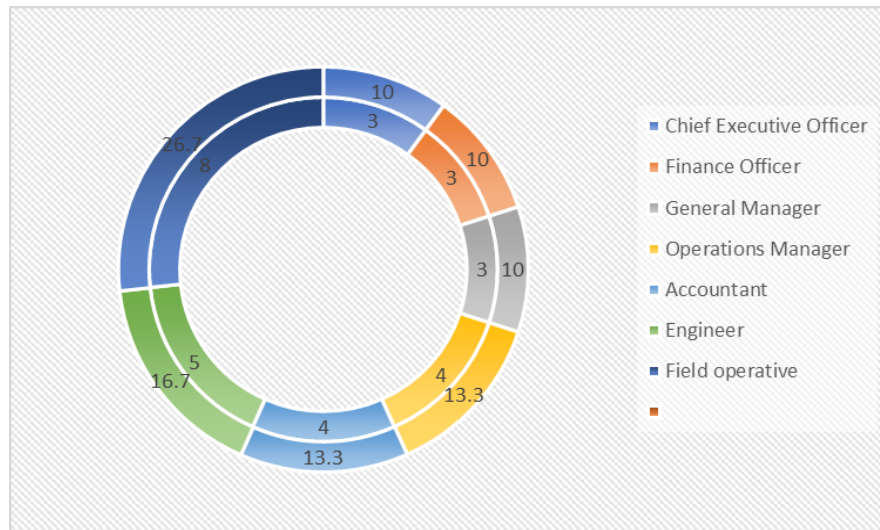


Figure 2. Position of respondents in the company

Source: Field data 2021

The questionnaires that were given out were filled by people who occupy very important position in the various companies. This is so because they are able to give accurate information about the issues being addressed. From the data, there were three (3) Chief Executive Officers, three (3) Finance Officers and three (3) General Managers representing 10 percent each of the respondents. There were four (4) Operational managers and Accountants each constituting 13.3 percent each of the respondents. Engineers constituted 16.7 percent of the respondents and finally field operatives constituted 26.7 percent (8 respondents) of the total respondents.

Table 1. Has company ever received equity financing?

	Yes	Total
Springfield Company Limited	13	13
Seaweld Engineering Company.Limited	8	8
Amaja Oil Fields Company Limited	9	9
Total	30	30

Source: Field data 2021

Table 1 shows that all the companies involved in the studies have received equity financing for their business activities. All the respondents who answered the questionnaires answered in the affirmative that they have received equity financing.

Table 2. Has company ever received debt financing?

	Yes	Total
Springfield Company Limited	13	13
Seaweld Engineering Company.Limited	8	8
Amaja Oil Fields Company Limited	9	9
Total	30	30

Source: Field data 2021

Also, from table 2, all the respondents indicated that their companies have received debt financing to fund their business activities.

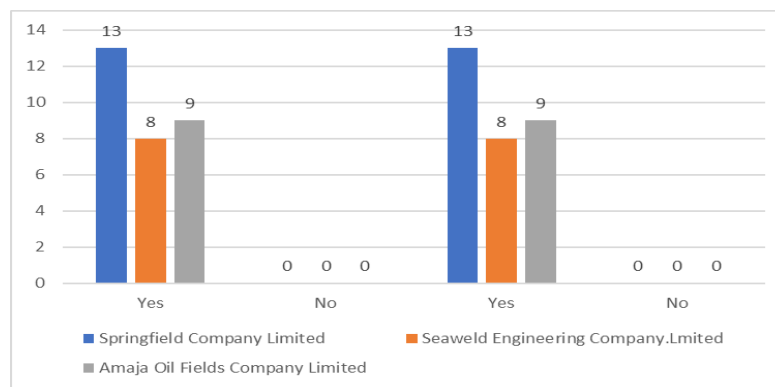


Figure 3. Receipt of equity and debt financing by the various companies

Figure 3 is a diagrammatic presentation of the responses of the respondents to the question whether they have received equity and debt financing for their business activities. The first part of the graph represents receipt of equity financing while the second part represent whether the respondents have received debt financing.



Figure 4. Type of equity financing received by companies

Source: Field data 2021

The researcher wanted to find out from respondents the type of equity financing that their companies have ever received. From the data gathered, ten (10) of the thirteen (13) respondents, representing 77 percent of those who responded from Springfield company limited indicated that they have received equity financing from business partners, while two (2) of them said they received equity financing from family and friends and one (1) mentioned venture capitalist as the source where they received the equity financing from. From the respondents from Seaweld Engineering company limited, six (6) of the eight (8) respondents indicated that their company has received equity funding from their business partners whereas, one (1) each mentioned other companies and venture capitalist as their sources of equity funding for their business activities. The questionnaire also revealed that eight (8), representing 88.88 percent of the respondents from Amaja Company Limited indicated that they have received equity funding from their business partners and only one respondent answered that his company has received equity funding from other companies.

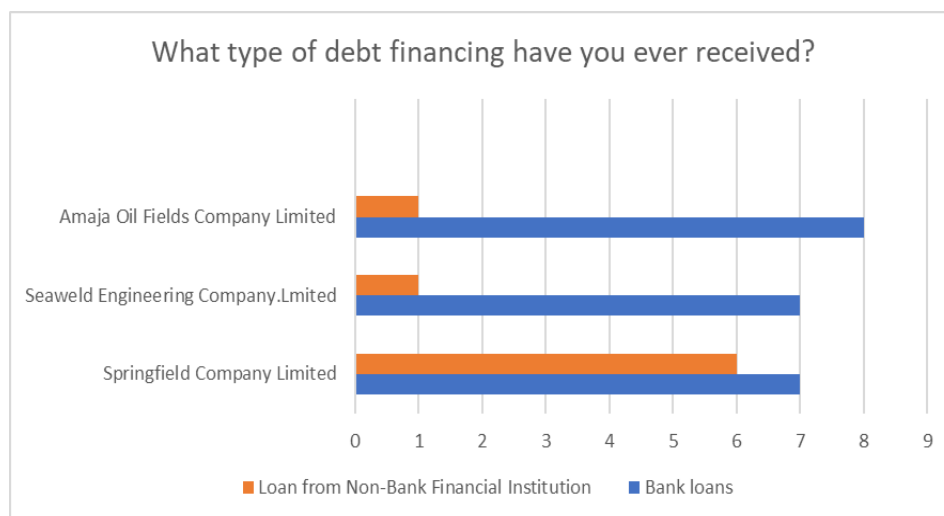


Figure 5. Type of debt financing received by companies

Source: Field data 2021

Once again, the researcher wanted to find out the type of debt financing the companies received. From figure 5, eight (8) respondents from Amaja Company limited said they use bank loans for their debt financing and one respondent said they use loans from non-bank financial institutions for their debt financing. Seven respondents and one respondent respectively from Seaweld Engineering Company limited named bank loans and non-bank financial institutions as their sources of debt financing for their company. On the other hand, seven respondents from Springfield Company answered that they use bank loans for their debt financing and six of them indicated they use non-bank financial institutions as sources of their debt financing.

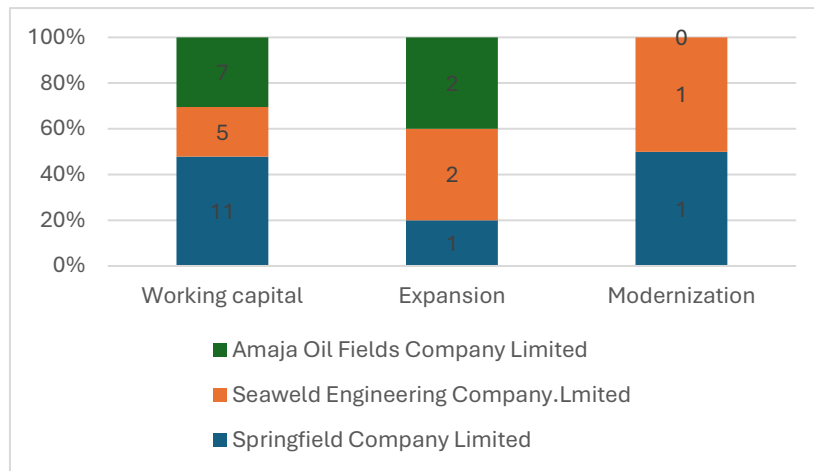


Figure 6. Purpose for contracting loan

Source: Field data 2021

Figure 6 present responses of respondents about the purpose for which they contract loans or debts. From the figure, it is realised that eleven (11) respondents, representing 84.6 percent from Springfield Company Limited answered that they contract loan to finance their working capital while one each indicated that they take out loan to finance the expansion of their businesses and for modernization purposes respectively. On their part, the five (5) respondents representing 62.5 percent from Seaweld Engineering Company Limited named working capital as the main reason for their loans, two respondents said they use the loans for expansion of business while one person answered that they use the loans to modernise their business activities. This could be in the form of setting up ICT services and engaging in electronic businesses. Seven respondents from Amaja Company Limited indicated that they use the loan they contract as working capital whereas two of the respondents said they use the loans to expand their businesses, but one respondent also answered that they use the loans to modernise their business operations.

4.3 Challenges of financing for local oil field companies in Ghana

There are several challenges or problems that most new businesses face when they set up. This ranges from access to finance, access to land, access to electricity among others. Below are data from the field about the challenges that they face in their operations.

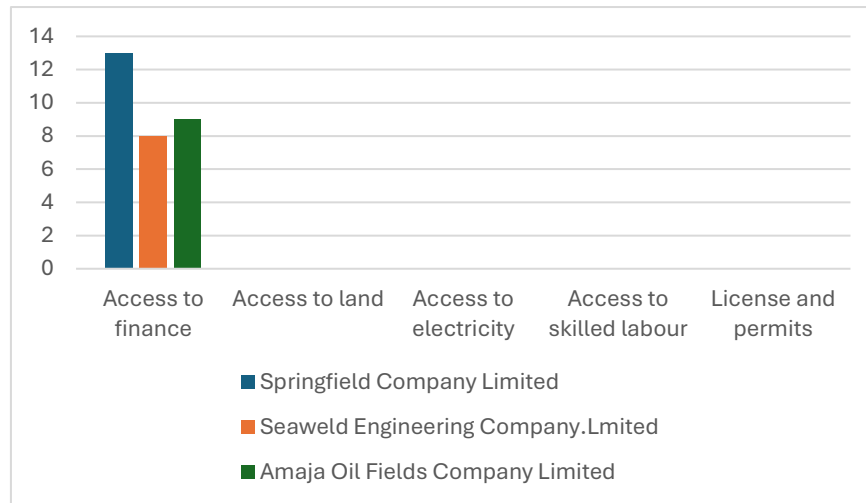


Figure 7. Challenges of the companies

Source: Field data 2021

All the companies cited access to finance as the most difficult when they started their businesses. This confirms that findings of Odeleye (2016), who found out that there are about 100 indigenous energy firms in Nigeria, but their major challenge is access to adequate funding which, consequently, hampers their efficiency. This is also in line with Odeleye (2016), whose study depicted that multinational firms had adequate access to the five (retained earnings, shares, debentures, bank loans and joint venture) sources based on the survey carried out by the author. Only two local firms, Forte Oil and Oando Oil could assess fund from Nigerian capital market in contrast to the foreign firms which got fund via capital market.

Table 3. Factors that companies consider when taking loans from banks

	Low rate	interestFlexible repayment terms	Lack ofTerm collateralthe loan	
Springfield Company Limited	2	9	1	1
Seaweld Engineering Company.Limited	7	0	1	0
Amaja Oil Fields Company Limited	6	0	0	3
Total	15	9	2	4

Source: Field data 2021

Since all the companies cited access to finance as the most challenging issue in their businesses, the study sought to find out the factors that they consider very important when they want to apply for loan from the banks. The results are presented in the table above. From table 3, two respondents from Springfield Company Limited indicated that they consider low interest rate as the most important factor to consider while nine of them mentioned that they consider flexible payment terms and conditions as the most important factors to consider. This supports Kisyombe (2014), studies which also discovered that local banks were weary of granting Indigenous Nigerians loans due to their non-challant attitude in honouring terms of repayment and consequently, the major source of finance to indigenous oil firms in Nigeria was retained earnings. Lack of collateral to secure the loan and term (maturity period) of the loan were cited by one each of the respondents as the most important factor to consider when they go in

for loan from the banks. Commercial banks expect collateral security from the loan applicants (for risk), it is however unfortunate that most small business operators lack assets that can be accepted by banks as collateral. This is also supported by Mutezo (2005), Bbenkele (2007) and Agyapong et al., (2011) who also identified these factors as main obstacles to accessing bank finance. Most small business operators confirmed that they do not know the criteria used by banks when granting loans.

For Seaweld Engineering Company Limited, the most important factor to consider when applying for loan is the low interest rate as stated by 87.5 percent of the respondent who filled the questionnaire from Seaweld. The next important factor to consider for Seaweld is collateral to secure the loan to be contracted. This confirms the study by Chimucheka and Rungani (2012), in which they found out that it is lack of collateral security which proved to be the greatest obstacle in accessing finance by SMMEs, contributing 37% in their study entitled “obstacles to accessing finance by small business operators in the Buffalo City Metropolitan Municipality”. This is also in consonance with Kisyombe (2014), who concluded that most businesses in Africa also lack assets that can act as collateral and mitigate the risk involved. As a result, capital in Africa remains too expensive for most entrepreneurs looking to build a sustainable enterprise. On the part of Amaja Oil Fields Company Limited, 66.7 percent of the respondents indicated that the most important factor to consider in contracting loan from the banks is low interest rate and the term of the loan as 33.3 percent cited term of the loan as the factor they consider when they go in for a loan from the bank. This is because when the interest rate is low it makes cost of borrowing less expensive and hence repayment can schedule can easily be met. Also, when the term (duration) of the loan is flexible, it helps the companies to pay at the own pace without putting them under undue pressure.

5. Conclusion

5.1 Sources of financing

It was also found out that all the companies are limited liability companies but are not listed on the Ghana Stock Exchange (GSE). This is important because it has some implications for financing or funding of the activities of the companies. It was realised that most of the oil fields companies in Ghana find it difficult to access financing for their business.

The main objective of the study is to evaluate the sources of funding or financing for the local oil fields in Ghana. The sources of finance for oil and gas projects are also diverse and consider several risks which may deter the repayment of the investment. Financing can be by way of equity and debt obtained from the project sponsors, lenders, capital market and others. From the data analyses, it was found out that although there are several sources of financing for local oil fields companies, the main financing sources used by the local oil fields companies in Ghana are: equity, debt/loans from bank, retained earnings and Joint Ventures. Most of the oil fields companies use equity as their number one source of financing followed by Loan or debt financing. The third most important source of financing for the local oil fields companies are their retained earnings as most companies do not distribute their profits to the shareholders but use them to expand the companies. The least source of financing that the companies used in the study utilise is joint venture financing.

5.2 Challenges of financing for local oil field companies in Ghana

Some of the challenges that the local oil fields companies face are Access to finance, high interest rate, lack of collateral to secure the loan, inflexible repayment terms and term of the loan, Odeleye (2016), found out that there are about 100 indigenous energy firms in Nigeria but their major challenge is access to adequate funding which consequently, hampers their efficiency as opposed to multinational firms had adequate access. Mutezo (2005), Amo (2007) and Agyapong et al., (2011) all identified lack of collateral as main obstacles to accessing bank finance. Kisyombe (2014), discovered that local banks were weary of granting Indigenous Nigerians loans due to their non-challant attitude in honouring terms of repayment. This confirmed the finding by Chimucheka and Rungani (2012), that it is lack of collateral security which proved to be the greatest obstacle in accessing finance by SMMEs and Kisyombe (2014), who concluded that most businesses in Africa also lack assets that can act as collateral and mitigate the risk involved.

5.3 Policy prescription

The study recommends that local oil fields companies should make good use of the Ghana stock exchange by listing on the exchange and be able to raise more money in the form of equity from the public to expand their business activities. Mergers or joint ventures should be encouraged among the local oil fields companies in Ghana as this will accelerate technological advancement and increase financing by local commercial banks. It is also recommended that local banks should utilise loan syndication more often in providing finance for these companies for their projects. This can also be done in conjunction with foreign banks to ensure the interest is repatriated to Ghana.

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