

APPENDIX 18: REPORT ON EUROBOND TRANSACTION

INTRODUCTION

1. In presenting the 2013 Annual Budget Statement in March 2013, the Minister of Finance announced a debt strategy that included financing the capital component of the annual budget with longer term bonds, preferably from the international capital market. He also indicated a policy to issue bonds and contract loans in a self-financing context for capital projects. These measures will ease the pressure on the short end of the domestic market and minimize the crowding out of the private sector. In addition, borrowing from the international capital market would enable Ghana to diversify its sources of funding at a time of dwindling concessional resources following Ghana's attainment of middle income status; international capital market borrowing also has the advantage of speedy execution compared to the long lead times required to access concessional borrowing.
2. It was in this context that Cabinet approved a second Eurobond transaction on April 2, 2013. (It will be recalled Ghana issued its first Eurobond in 2007.) Based on financing needs and anticipated market conditions, a transaction size of up to US\$1,000 million was indicated. Parliament approved the transaction on 26 June 2013.
3. The planned utilization of proceeds approved by Cabinet and Parliament was as follows:

	USD (MILL)	%	GHS	%
Counterpart funding for approved projects	102	10%	204	10%
New Projects in 2013 Budget	307	31%	614	31%
Early Redemption of Ghana 2017 Eurobond	250	25%	500	25%
Refinancing of maturing Domestic debt	341	34%	682	34%
Total	1,000	100%	2,000	100%

4. The proposed utilization of proceeds was based on the following considerations:
 - The availability of additional resources for counterpart funding and already approved capital projects will speed up disbursements and the implementation of the 2013 Budget.
 - The partial use of the bond issue proceeds to refinance maturing domestic debt will reduce the cost of refinancing maturing domestic debt which is currently in the 19% - 23% range.

- The early redemption of the Ghana's debut 2017 Eurobond will reduce the rollover risk of refinancing the entire \$750 million bond when it matures in 2017.
5. The preparatory activities which lasted about four months involved the following activities:
 - Recruitment of transaction advisors (May-June 2013)
 - Preparation of transaction documents (June-July 2013)
 - Marketing of Bond (road show) (22-25 July, 2013)
 6. Two road show teams travelled to London, Frankfurt, Munich, San Francisco, Los Angeles, Boston and New York. The teams met with 58 investors via one-on-one meetings, group events or conference calls. The Ghana team was represented by:
 - Minister of Finance
 - Governor of Bank of Ghana
 - Deputy Minister of Finance
 - Deputy Governor of Bank of Ghana
 - Additional officials from both the Ministry of Finance Bank of Ghana

LAUNCH OF THE EUROBOND

7. Ghana launched the Eurobond transaction on July 25, 2013. Ghana's bid to raise US\$1 billion from the international capital markets was oversubscribed. The order book for the initial \$750 issue for cash was well oversubscribed with orders reaching US\$2,157 million. In terms of distribution, the U.S. accounts took by far the biggest slice at 60 percent followed by the U.K. (21%), Europe (15%), Middle East and Africa (2.5%) and Asia (1.5%). For the first time, Ghanaian local institutional investors were offered the opportunity to participate in the offer and they have invested US\$16.5 million in the bond.
8. Simultaneously, Ghana invited holders of its existing US\$750 million 8.5% notes due 2017 to offer to exchange these Notes for up to US\$250 million of new Notes. The exchange was highly successful with a total of \$356 million being tendered. Ghana accepted the full target principal amount of \$219.5 million. As a result \$250 million (including the premium to bondholders and accrued interest) New Notes was issued out of the exchange, thus forming a single series of US\$1 billion 7.865 percent Notes due 2023.
9. The bond was officially issued on 7 August 2013. The final issue size was \$1 billion issued at a coupon rate of 7.875 percent. The cash proceeds have since

been lodged with the Bank of Ghana in a Federal Reserve Bank of New York account.

10. The Notes are listed on the Ghana Stock Exchange and the Irish Stock Exchange. This is the first time that a sub-Saharan African sovereign has listed its Eurobond on the local stock exchange.

LESSONS FROM THE TRANSACTION

11. Investors who were attracted to the Ghana bond put a significant weight on the fundamental strengths of Ghana – political stability, institutional strength, fast growing and diversified economy and oil and gas potential. However, while market volatility affected the yield, it was also clear that the cost of borrowing would have been lower with a lower fiscal deficit
12. There is a need for a more proactive engagement with investors. In April 2013, the Ministry of Finance organized non-deal road show in London and New York during which we were able to make presentations to investors on Ghana's credit story. However this was a very small start as we were only able to meet a small fraction of active and potential investors in Government of Ghana Bonds. During the Eurobond road show many investors expressed the desire to engage more often in order that they can have an accurate picture of developments in Ghana. A more active engagement with investors will grow the appetite for Ghana debt and facilitate the distribution of future Eurobonds.
13. Ghana missed a low interest rate borrowing window which effectively ended on June 19, 2013 when the U.S. Federal Reserve Chairman, Robert Bernanke, signalled a possible tapering of quantitative easing. Zambia, with the same rating as Ghana, went to the market in September 2012 and issued a 10-year bond at 5.625 percent; Rwanda, with a lower credit rating than Ghana went to the market in May 2013 and issued a 10 year bond at 6.875 percent. This indicates that Ghana could have issued in the 5-7% area had it gone to the market two months earlier. Our delay in going to the market was primarily because of our demanding internal processes, including a six-week procurement exercise to engage transaction advisors in accordance with the Public Procurement Act and the need for Parliamentary approval. In addition, Ghana's prospectus had not been updated since the 2007 transaction. There is, therefore, a need to improve our processes to position the country to tap the market opportunistically. Some possible changes in the process might include:

- a. Cutting down on the procurement time for the recruitment of transaction advisors. Frequent Eurobond issuers usually preselect a panel of Lead managers, Co-managers, International Counsel and Local Counsel who can be mobilized on short notice for a transaction.
 - b. Seeking Parliamentary approval as part of the annual budget approval process so that Eurobond transactions are pre-approved through the budget.
 - c. Updating our key documents (especially the Prospectus) on an ongoing basis so that we are in a regular state of readiness.
14. The ceiling of US\$1 billion imposed by Parliament turned out to be inflexible. Given the size of the oversubscription, Ghana could have expanded the exchange offer to about US\$300 million to enable us to roll over a larger amount of the Ghana 2017 bond into the new Ghana 2023 bond. Furthermore, the country could have refinanced more domestic debt at rates much lower than domestic rates. Parliament may want to attach an option to its approval that allows Government to exceed the prescribed ceiling in the event of an oversubscription provided the additional amounts are used for debt restructuring
15. In line with the recommendation to align bond issues to the Budget, there is a need to identify specific projects to be financed with project-linked bonds and projects/programs to be funded through general obligation long-tenor bonds.