GOVERNMENT PARTNERS BANKS IN RESOLVING ENERGY SECTOR LEGACY DEBTS

By

Minister of Finance

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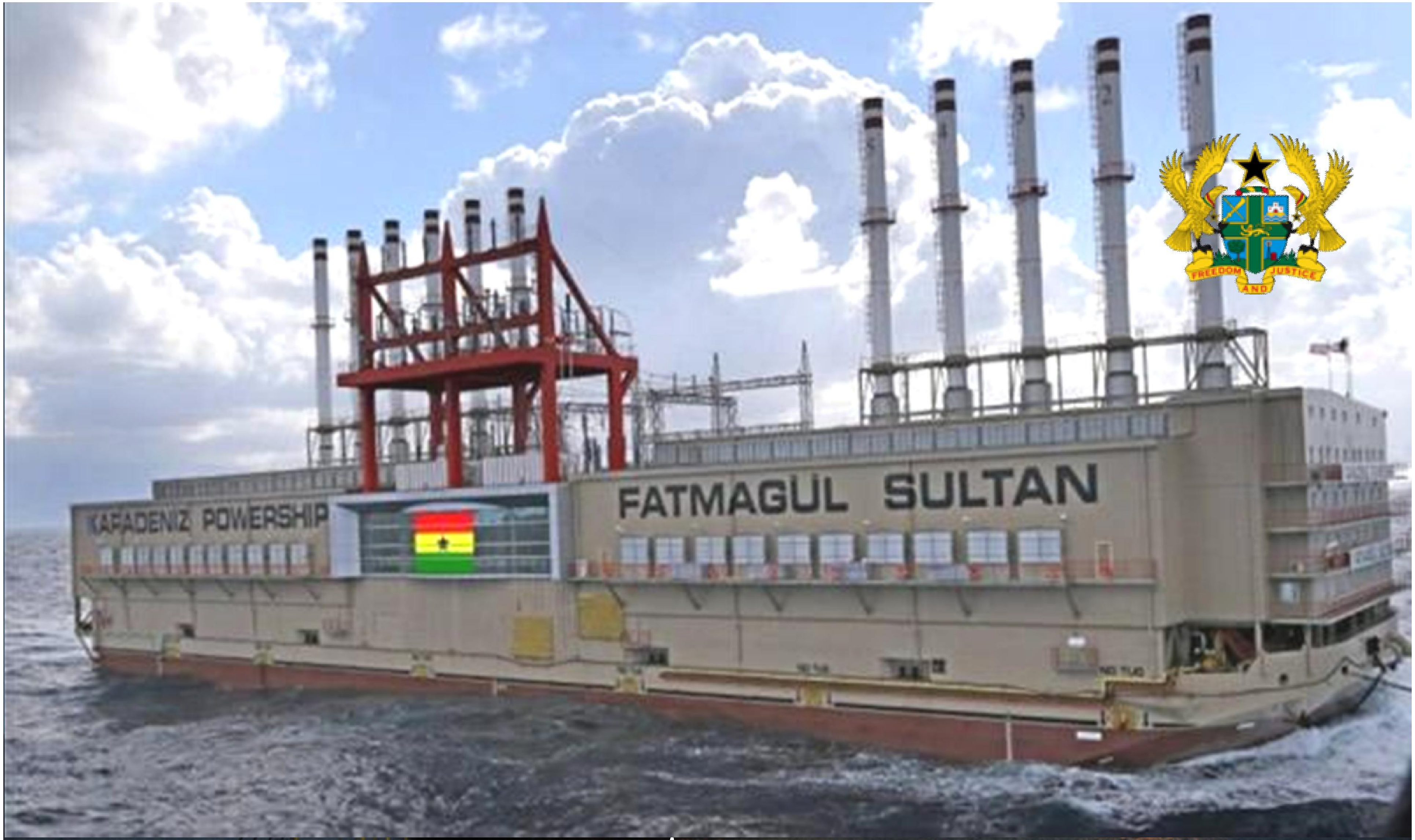
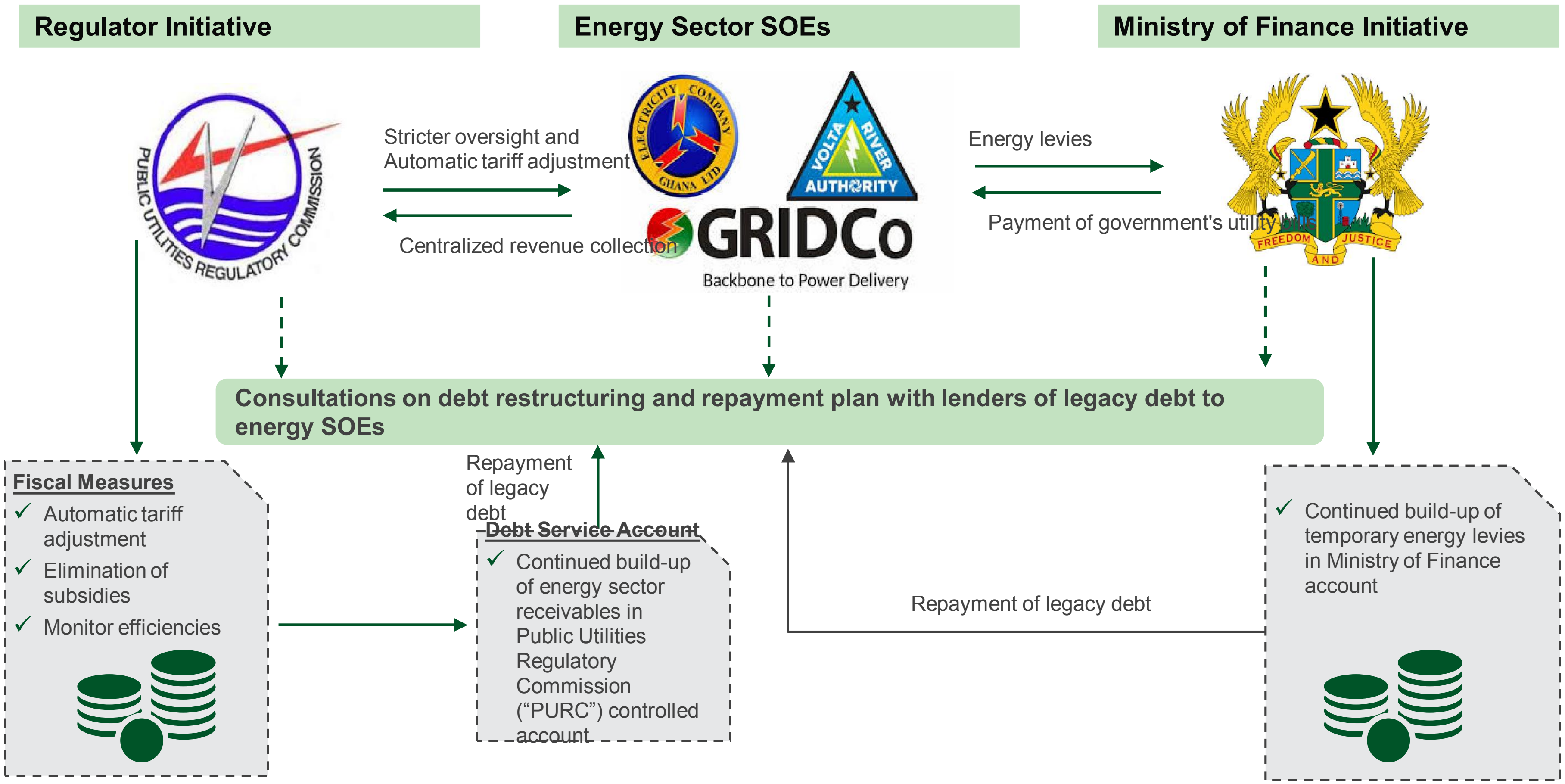


Background

Concerted Efforts to Address Energy SOEs' Legacy Debt

- **Energy sector utilities are facing financial challenges which are affecting their viability necessitating a restructuring and priority repayments of their debts via introduction of special energy levies, automatic tariff adjustments and elimination of subsidies**
  - **These legacy energy utilities debt in arrears are not MOF direct or guaranteed debt but posed some level systemic risk to the banking sector**
- **Acting prudently and responsibly, the government is stepping in along with other stakeholders to create an enabling environment to ensure coordinated restructuring and repayments of these legacy debts with agreement in principle now reached with the banks**



Source: Ministry of Finance

Understanding the Energy Levies

Game Changing Plan to Ensure Viability of Energy SOEs

Energy Sector Levies Act consolidates existing sector levies and redefines a framework for the use of proceeds with an aim to correct imbalances, promote financial viability and facilitate investments

Energy Debt Service Account

- Debt recovery of Tema Oil Refinery
- Downstream petroleum sector FX under recoveries

Price Stabilization and Recovery Account

- Buffer for under recoveries on the petroleum sector
- Stabilise petroleum prices for consumers
- Subsidise premix and residual fuel oil

32%

Power Generation and Infrastructure Support Sub-Account

- Support payment of power utility debts
- Ensure power supply
- Power generation and infrastructure support recoveries
- Support power infrastructure risk mitigation including PRGs

Price Stabilization and Recovery Levy

- Ghp12 per litre on Petrol
- Ghp10 per litre on diesel
- Ghp10 per kg on LPG

68%

60%

60%

Energy Debt Recovery Levy

- Ghp41 per litre on Petrol and Diesel
- Ghp3 per litre on Marine Gas Oil
- Ghp4 per litre on Fuel oil
- Ghp37 per kg on LPG

Public Lighting Levy

- 5% per price of kWh charged on all categories of consumers

National Electrification Scheme Levy

- 5% per price of kWh charged on all categories of consumers

Source: Ministry of Finance, Parliament, Energy Levies Act December 2015

Progress Update on Resolution of Energy SOEs Debts

Agreement reached in principle on restructuring of a substantial proportion of VRA debt to domestic banks

The landmark VRA agreement has the following features:

Key features of the agreement in principle:

- Upfront payment of approximately GHS250 million which will be funded by the new collections from the energy sector levies;
- Reduction of interest rate on the GHS component of the VRA debt from an average of 30% to 22%;
- Reduction of interest rate on the foreign currency component of the VRA debt from an average of 11% to 8.50%;
- Repayments will be funded from a debt service account which will receive cashflows from (i) the energy debt recovery levy and a debt service reserve; and (ii) a proportion of VRA's receivables;
- Proceeds of the energy debt recovery levy which are applied to VRA debts will be converted into equity on VRA's balance sheet or could be subject to an on-lending arrangement with the government
- Government will place limits on the ability of VRA to incur new indebtedness without express approval

The government anticipates that this approach will be used to restructure VRA's as well as the debt of other energy-sector SOEs

Assessment and elimination of SOE arrears

The government has conducted an assessment of arrears between the government and SOEs and cross-SOEs' arrears and prepared an action plan and a timeline for their elimination

This will include improving the repayment the "legacy debt" to ECG in the amount of GHS728 million over five years

Significant SOE reforms being implemented:

- Strengthening monitoring and evaluation: introduction of performance management contracts for senior managers which will include targets for reducing losses as well as a framework facilitating monitoring of SOEs by the Office of the President, the Ministry of Finance, the relevant committee of Parliament and sector Ministry in order to strengthen operational and financial discipline;
- Private sector participation: evaluation of potential for private sector participation in SOEs; and
- Strengthening governance: Conducted an assessment of SOE's governance and action plan for reforms being prepared. This will include strengthening of oversight of

Source: Ministry of Finance

REPAYMENT MECHANISM

Primary Source of Repayment: Proceeds accruing under the Power Generation and Infrastructure Sub-Account ("**PGISSA**") of the Energy Debt Recovery Levy (the "**Levy**") under the **ESLA**.

Secondary Source of Repayment: Proceeds from VRA operations (in the event of a repeal of ESLA/PGIS or failure of PGIS to generate sufficient revenues to pay the Legacy Debt Lenders in accordance with the Facility Agreement).

Cashflow Waterfall: All credit into the Debt Recovery Accounts to be distributed in the following order:

- fees, costs, expenses arising from restructuring,
- full interest payments,
- funding the DSRAs, where required
- Principal Repayments
- any Mandatory Cash Sweep

Provided that the MoF shall be entitled to any amount remaining after such withdrawals/payments ("Surplus") provided that no Event of Default has occurred or may result or arise from payment of the Surplus to the MoF.

32. Legacy Debt Recovery Account: The Legacy Debt Lenders have established a Legacy

REPAYMENT MECHANISM CONT'

▶**Legacy Debt Recovery Account: The Legacy Debt Lenders have established a Legacy**

Debt Service Reserve Accounts:

- MoF shall establish, fund and maintain for as long as the New Facilities or any part thereof is outstanding the following Debt Service Reserve Accounts ("DSRAs") to a required balance equivalent to at least two (2) instalments of Estimated Total Quarterly Amount to be maintained at the BoG:
  - US Dollar DSRA denominated and funded in US Dollars
  - Ghana Cedi DSRA denominated and funded in Ghana Cedis

Legacy Debt Recovery Account:

The Legacy Debt Lenders have established a Legacy Debt Recovery Account at the BoG, into which the Monthly PGIS Receivable Amounts will be paid for distribution to the DRAs on monthly basis.

Source: Ministry of Finance

EXPECTED OUTCOMES

▶**The following are the expected outcomes from the SOEs Debt restructuring exercise.**

SOEs (TOR & VRA):

- Increase our energy security prospects
- Cleaned and Improved balance sheets;
- Sound commercial footing to engage in their core businesses;
- Operational viability;
- Improved outcome for consumers;
- Boost economic growth;
- Enhance Ghana's vision of being the energy hub for the sub-region.

BANKS

- Strengthens banks balance sheets;
- Reduction in NPA
- Enhanced credit availability
- Improved profitability of banks.
- Secure the employment status of banks staff
- Boost banks confidence
- Boost state coffers through increase corporate taxation

Source: Ministry of Finance

Volta River Authority

Volta River Authority (VRA)

▶The Volta River Authority ("VRA") is a 100% state-owned by the State.

- VRA operates the 1020MW Akosombo and 160MW Kpong hydro-electric dams as well as crude/gas-fired thermal plants with a combined capacity of 900MW.
- Through its subsidiary, the Northern Electricity Distribution Company ("**NEDCo**"), VRA also distributes power in the Northern parts of Ghana.

- **VRA has large recurrent and capital funding needs, owing to its size and strategic importance**
- **The domestic banking sector on account of the critical role played by VRA has over several years provided significant funding to VRA**
- **A large part of domestic bank funding has been for the importation of light crude oil and gas to fire the thermal plants (as well as finance unpaid receivables) to meet power demand of Ghanaians**

Over the last few years in particular, the financial position of VRA has declined considerably mainly as a result of but not limited to the following:

- tariff issues
- Value-chain problems (GRIDCO & ECG unpaid receivables)
- High price of light crude on the international market
- depreciation of Cedi against the US dollar
- Unpaid Government subsidies
- High finance costs
- Disruption in gas supply from WAPCo

Consequently, VRA has faced severe cash flow and debt service challenges over the last three (3) years

VRA AGREEMENT WITH BANKS

- **VRA: Legacy Debt Restructuring: USD358m & GHS776.6m PGIS Receivables- backed Medium Term Loan Facilities**
- **Arrangers: Ecobank Ghana Ltd, Stanbic Bank Ghana Ltd and Standard Chartered Bank Ghana Ltd.**

Outstanding Legacy Debt:

- Consists of (i) and (ii) below, being the outstanding exposures estimated as of May 31, 2016:
- (i) **USD358 million**: being the gross amounts outstanding in foreign currency denominated facilities granted to VRA ("Outstanding Foreign Currency Legacy Debt")
- (ii) **GHS776.6 million**: being the gross amounts outstanding under local currency denominated facilities granted to VRA ("Outstanding Local Currency Legacy Debt")

The Outstanding Legacy Debt excludes all current lending to VRA

- (a) provided by foreign banks
- (b) provided by its trade creditors
- (c) provided by lenders/creditors with specific receivables assigned for debt service such as the facilities from the African Export-Import Bank ("**Afrexim**"), Fidelity Bank Ltd (KTPP & MRP project financing) and CAL Bank LtdDebt")

VRA AGREEMENT WITH BANKS CONT'

▶ Term Sheet

ISSUER:	The Volta River Authority
OBLIGOR:	The Ministry of Finance (acting on and through the Energy Sector Levies Act, 2015 (Act 899) ("ESLA"))
MATURITY:	3-5 year
AVAILABILITY PERIOD:	The period from and including Financial Close up to and including 30 September 2016.
INTEREST RATE:	• Foreign Currency Loan: 8.50% p.a. fixed ("FCY Interest Rate") • Local Currency Loan: 22.0% p.a. ("LCY Interest Rate") subject to LCY Interest Rate
PURPOSE:	The purpose is to restructure the Legacy Debt on the balance sheet of the Volta River Authority ("VRA").
MANDATED LEAD ARRANGERS (MLA)	Ecobank Ghana Limited, Stanbic Bank Ghana Limited and Standard Chartered Bank Limited.
LENDERS OR LEGACY DEBT LENDERS	All the existing Legacy Debt Lenders

Tema Oil Refinery (TOR)

TEMA OIL REFINERY

- TOR's operations have been hampered by severe liquidity challenges over the years.
- TOR's "Oil Trading and Logistics Business": Due in large part to lack of working capital and government petroleum pricing policy, TOR had incurred heavy losses in the "Oil Trading and Logistics Business."

Over the past 12 months or so, however, under a new Management, the company's fortunes have started turning around. Government needs to consolidate the gains so far achieved through the deregulation of the downstream petroleum sector, by exploring alternative approaches to accomplish two principal objectives, namely:

- Implement long overdue refinery improvement and debottlenecking measures that will achieve optimal performance of TOR, including increasing crude oil processing capability of the refinery from 45,000 to 60,000 barrels per day, based on financing to be provided to TOR by PSISL, without recourse to Sovereign Guarantee.
- Consolidate and rationalize the deployment of logistics assets which are vital and necessary for cost efficient importation and storage of TOR's feedstock (crude oil, residual fuel oil, natural gas condensates; and
- Conclude negotiations with domestic banks to restructure the company's debts.

Under the Agreement, TOR's existing indebtedness is converted into Cedis) effective June 30, 2016

Facility Agreement Relating to:
A 917,000,000.00 Ghana Cedis Long Term Loan Facility into a 10 year facility to be settled as follows:

- **Principal:** to be settled out of the proceeds from an investment to be made by TOR in a 10-year Bond, and
- **Interest:** to be settled out of proceeds due TOR under the Energy sector Levies Act, 2015 (Act 899)

THE TOR AGREEMENT WITH BANKS

- **TOR is committed to providing the sum of GHS150.0 million (calculated on the basis of a 10 year zero coupon bond at a coupon rate of 20% per annum fixed for term (10 year zero coupon bond) and Lenders will manage the investment and bear the interest rate risk.**

BORROWER:	Tema Oil Refinery (TOR) Limited
OBLIGOR:	The Ministry of Finance (acting on and through the Energy Sector Levies Act, 2015 (Act 899) ("ESLA"))
MANDATED LEAD ARRANGERS	Access Bank Ghana Ltd, Ecobank Ghana Ltd, Guaranty Trust Bank Ghana Ltd, and UT Ghana Bank
LENDERS:	All the existing Legacy Debt Lenders as stimulated.
FACILITY & SECURITY AGENT:	Ecobank Ghana Limited. The Agent Bank will act as the agent of the Lenders, and will perform duties inter alia, • to act as the liaison between Lenders and BoG in terms of the payments to and from the Borrower, • to liaise with the Borrower/Obligor to furnish the Lenders with required information and documents • to pass to the Parties required notices • To hold and maintain the required security in trust for all Lenders • To enforce security where necessary on behalf of Lenders
LENDERS' ACCOUNT BANK:	Ecobank Ghana Limited
FACILITY TYPE: :	Long Term Loan
PURPOSE:	To restructure the Legacy Debt of TOR
CURRENCY:	Ghana Cedis ("GHS")
FACILITY AMOUNT: :	GHS916,783,654.71 being the balance of the Outstanding Legacy Debt less accrued interest during the Standstill Period from 30th June 2016.
TENOR:	10 years from Financial Close
FINANCIAL CLOSE:	The date of the notice by the Agent, advising the Borrower that the Conditions Precedent have been fulfilled or waived, to the satisfaction of the Lenders.
INTEREST RATE:	fixed interest rate of 20.0% p.a. subject to review every 6 months.
REPAYMENT SOURCE:	• **Capital:** Proceeds from investment by TOR of the sum of GHS150.0 million • **Interest**: Proceeds accruing under the Energy Debt Recovery Levy (the "Levy")

Validation of Bulk Distribution Companies Claim

Validation of Bulk Distribution Companies Claim

NPA in establishing a price build up (PBU) rate applies a spot rate. Where NPA's applied forex rate in the PBU is lower than the BoG forex spot rates at maturity of Letters of Credit (LCs), it implies BDCs need to raise more Cedi funds to meet LC obligations for the supply of petroleum products denominated in foreign currency. The Forex Loss 1 computation seeks to ensure that the Price Build Up rates equates at least, the BoG rate at which suppliers LCs are honoured.

Revised Forex Loss 1 Formula

- The Cedi depreciation charge (i.e US$14/MT for LPG and US$10 MT for all other products) which had been factored in the forex formulae applied by the BDCs ceased to be a component of that formula as of September 2014.
- This was due to the fact that the PBU rate which was hitherto computed based on the average of a historical two week rate, was revised to an agreed forward spot rate.

Forex Loss 2 (FX Loss 2)

- Applications for foreign exchange cover from BoG are made by Banks on behalf of their BDC customers. In the event where BoG delays in providing funds, Letters of Credit are honored by the BDC's banks on maturity from the open market at higher rates compared with the BoG spot rates on maturity dates.
- The FX loss 2 computation seeks to ensure that BDCs at least obtain the difference between the BoG spot rate at the LC maturity dates and the rate at the date of eventual settlement by BoG.

2015 Unrealised Losses

- The FX Loss unrealized formula seeks to assist the BDCs recover some amounts to cover losses at a 'cut-off date' for LCs which have matured and have been honored by the Banks on behalf of BDCs, but for which BoG is yet to provide forex cover (outstanding LCs per BoG records)

PREMISE OF THE FX LOSS CLAIM

Prior to deregulation, delays in subsidy payment over the years constrained BDCs ability to timeously mobilize the GHC value of the US equivalent amount needed to retire a matured L/C on time. This leads to BDCs requiring more Cedis to purchase the same amount of U.S Dollars, a central argument advanced by forex loss proponents.

A total of US$449.67 million was claimed Bulk Distribution Companies (BDCs) as loss claims for transactions initiated within the period 1st July 2011 to 31st December 2013. This follows claims by NPA that since 2011, oil importers faced foreign exchange losses, which according to NPA's Pricing Policy, had to be passed on to government. **It is necessary to note that this fiscal cost is a new phenomenon since until 2013 no such costs were passed on to Government. The claims were audited b**y Ernst & Young.

The BDCs allege that Forex Loss occurs when BoG is unable to provide the required US Dollar amount to ensure the payment of a matured L/C on the due date. This factor, however, assumes that the BDC concerned and its bank have made available the corresponding Cedi amount to cover the forex, as well as further adverse movements in the exchange rate.

Thank You