

# Ghana PPP Workshop

## November 2008

### Future for PPPs in Ghana

#### Andrew Porter



# Future for PPPs in Ghana

## Andrew Porter

Where – sector applicability

Why – reasons for using PPPs

How – the role of reform in enabling PPPs

What – likely PPP deals

When – delivering PPP deals in current external environment

# Future for PPPs in Ghana

Where – sector applicability



P W C

# Infrastructure investment requirements

## Energy sector

### Power

- Thermal generation
- Hydro generation
- Transmission
- Distribution
- Rural electrification

### Gas

- Trunk pipelines linking to WAGP
- Consuming industry

### Oil

- Offshore crude oil pipelines
- Refining
- Product pipelines
- Import facilities
- Storage

# Infrastructure investment requirements

## Social sector

### Water supply

- Production and storage
- Distribution

### Wastewater

- Sewer system
- Treatment and disposal

### Municipal waste

- Collection
- Treatment and disposal

### Health

- Hospitals
- Health centres

### Education

- Schools
- Colleges, accommodation

### Agriculture

- Crop collection
- Crop processing

# Infrastructure investment requirements

## Communication sector

### Surface transport

- Urban roads
- Highways
- Railways
- Ports

### Air transport

- Airports
- Air traffic control
- Airlines

### Telecoms

- Landlines
- Mobile
- Broadband

# Future for PPPs in Ghana

Why and how – enabling issues



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# PPPs

PPPs can provide all these requirements ...

- ... so why are they not already being met?
- Because PPPs are not a panacea

Infrastructure investment has to be paid for by:

- User charges
- Efficiency improvements
- Government payments (ie taxes)
- Aid

PPPs:

- Should deliver efficiency improvements
- But they still need to be paid

## Enabling PPPs to happen

### Tariff reform

- So that user charges sufficient to repay investment

### Budget reform

- So that government can repay investment

### How PPPs help to provide infrastructure:

- Delivering efficiency improvements
- Linking payment explicitly to delivery and performance
- Deferring payment until benefits are realised

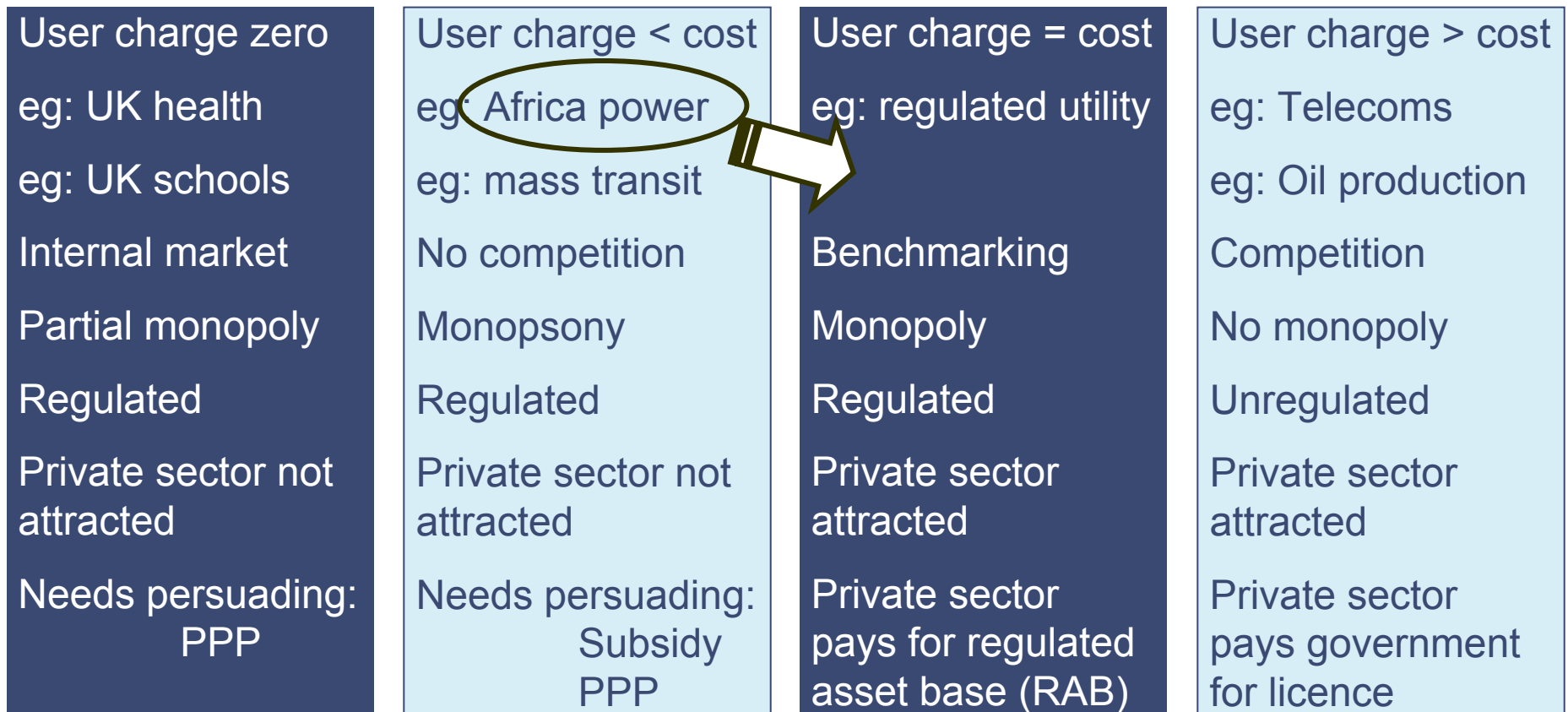
# Enabling PPPs to happen

.. Not just a Ghana problem

UK waste treatment and disposal 2005

Policy Issues	Delivery issues
Set & stick to credible targets	Develop public sector capacity
Depoliticise technology choice	Avoid gratuitous innovation
Clarify the regulatory framework	Improve template documentation
Address market issues (RDF, compost, recyclates etc)	Clarify WCA/WDA interface
Clarify treatment of LAWDCs	Address planning/site risks
Create a PPP Unit in DEFRA to provide focus & direction	Allow realistic time horizons for contracting process

# Why is the private sector attracted to Telecoms?



# Tariff reform therefore essential to attract private sector Power system

## Without

- Open-ended subsidy required
- Difficult to improve efficiency
- More customers = higher subsidy
- No incentive to connect
- Government gives money to urban well-off

## With reform

- Subsidy progressively reduced
- Efficiency starts to matter more
- More customers = lower subsidy
- Incentive to connect
- Urban well-off pay their way

## So how is a PPP different from a subsidy?

### Same

- Government still responsible for paying private sector
- Underlying economics essentially unchanged (benefit v cost)
- Political decision required

### Different

- Government says what it wants
- Private sector held to account
- Competitive tendering

### In summary

- Better form of procurement

## Subsidy: justification and affordability

PPPs still involve government subsidy:

- Better directed and targeted
- More efficient
- Greater deliverability

Subsidy must be justified:

- Benefits to individuals and state must exceed cost of subsidy
- Calculation should be unaffected by availability of aid

Subsidy must be affordable:

- Bear in mind that it is a long-term contractual obligation
- Calculation should be affected by availability of aid

# PPP Models

Government pays

Government mediates user charges

Government supports user charges

# Future for PPPs in Ghana

What – likely PPP deals



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Ghana PPP prospects  
Already in operation

Takoradi T2 thermal IPP Phase 1 (open cycle)

Water supply and distribution management contract

Privatisation of Ghana Telecom

West African Gas Pipeline

# Ghana PPP prospects

## Active or considered

Accra-Kumasi Toll Road

Accra-Cape Coast Toll Road

Takoradi T2 Phase 2 (combined cycle)

Privatisation of Takoradi T1 (merge with T2)

Other IPPs with MoUs

Power distribution management contract

Railway development

e-Government

Privatisation of Tema Oil Refinery

Airport privatisation

# Ghana PPP prospects

## Possible

Rural electrification

Pipelines

Schools

Hospitals

Ports

Water supply

Agriculture

# Future for PPPs in Ghana

When – external financing issues



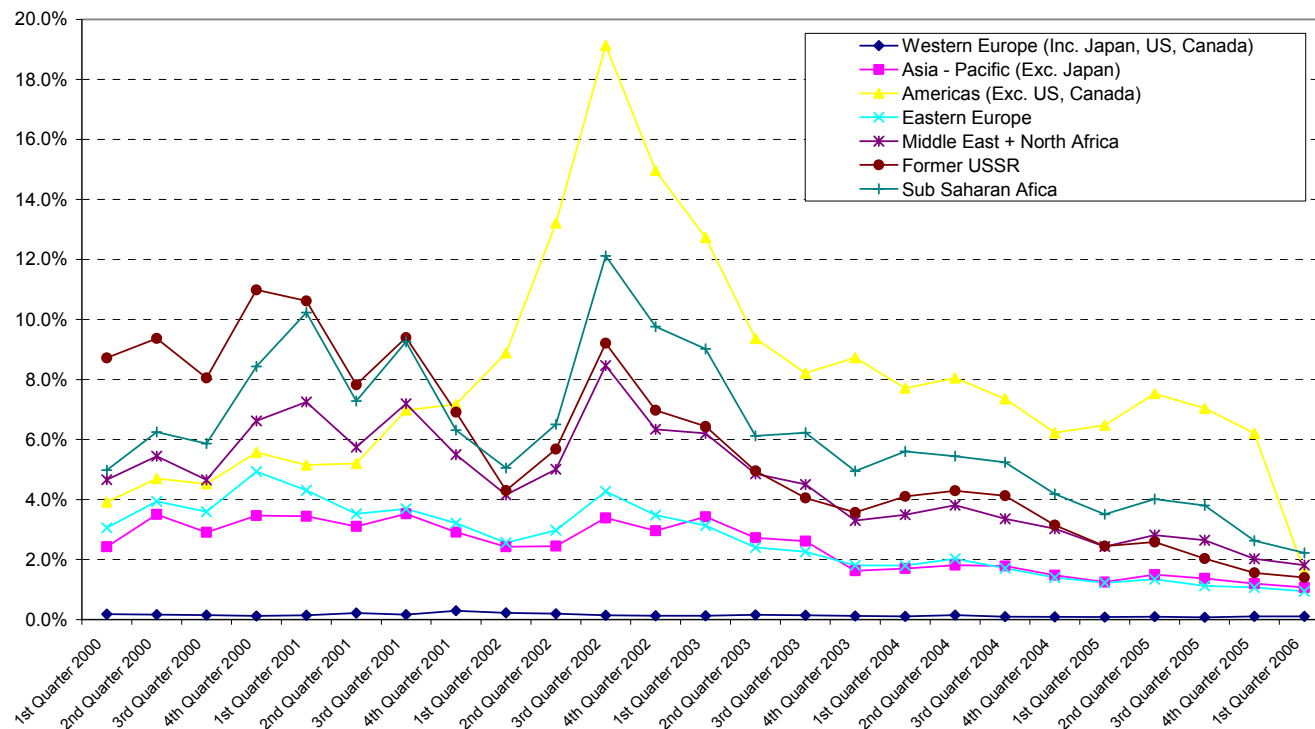
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# Country risk premia

Consistent falls in country risk premia worldwide over the last few years

- to less than 2%
- Including Africa

Historical Series of Country Risk by Region (GNP weighted)



# Ghana Bond

Enabled Ghana to issue US\$ 750 million 10 year bonds in 2007

- at a premium of 4% relative to US Treasury



*Source: Bond prospectus*

**THE REPUBLIC OF GHANA**  
**US\$750,000,000 8.5% Notes due 2017**  
**Issue Price: 100%**

The US\$750,000,000 8.5% Notes due 2017 (the “Notes”) to be issued by the Republic of Ghana (the “**Republic**” or “**Ghana**”) are direct, unconditional and unsecured obligations of the Republic. The Notes will bear interest from (and including) October 4, 2007 at the rate of 8.5% per annum payable semi-annually in arrear on April 4 and October 4 in each year commencing on April 4, 2008, subject to adjustment if any such day is not a business day. The Notes will mature on 4 October 2017 (the “**Maturity Date**”). Payments on the Notes will be made in U.S. Dollars without deduction for or on account of taxes imposed or levied by Ghana to the extent described under “Terms and Conditions of the Notes—Taxation”.

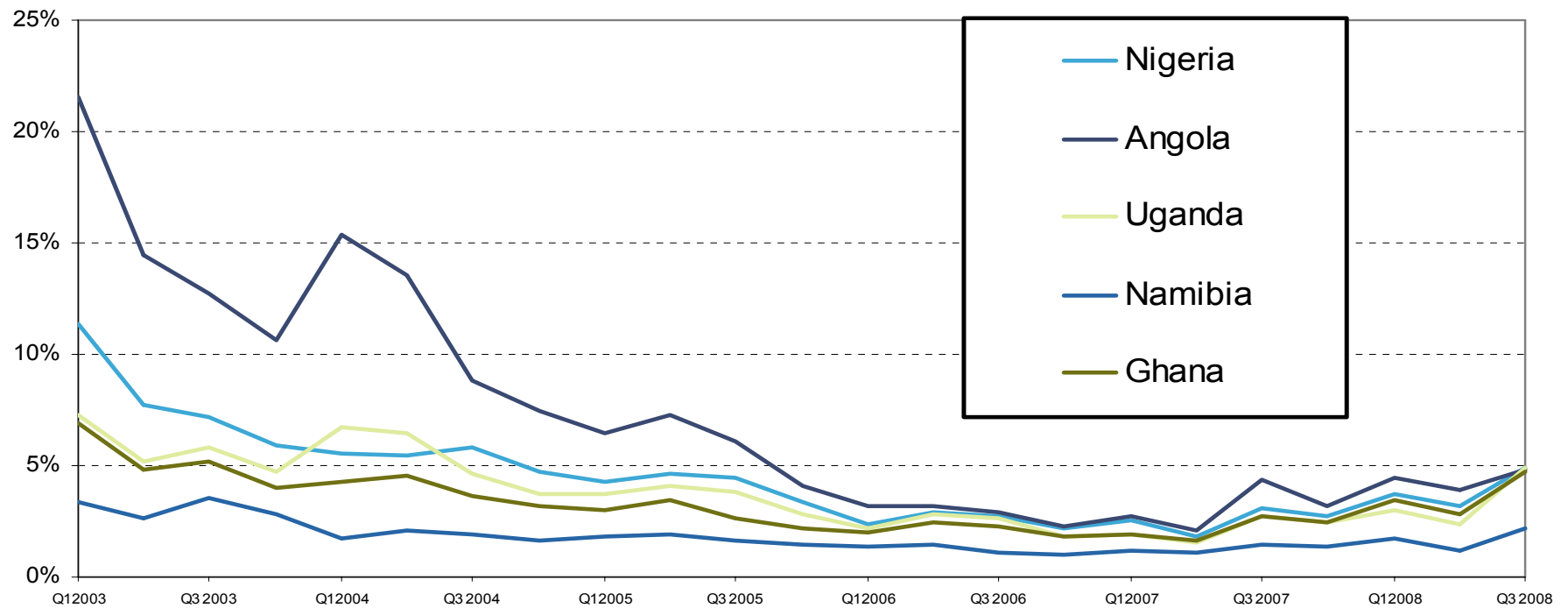
**SEE “RISK FACTORS” FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.**

# Country risk premia

Since the credit crunch began in Q3 2007, premia have increased

- rising towards 5% by end Q3 2008

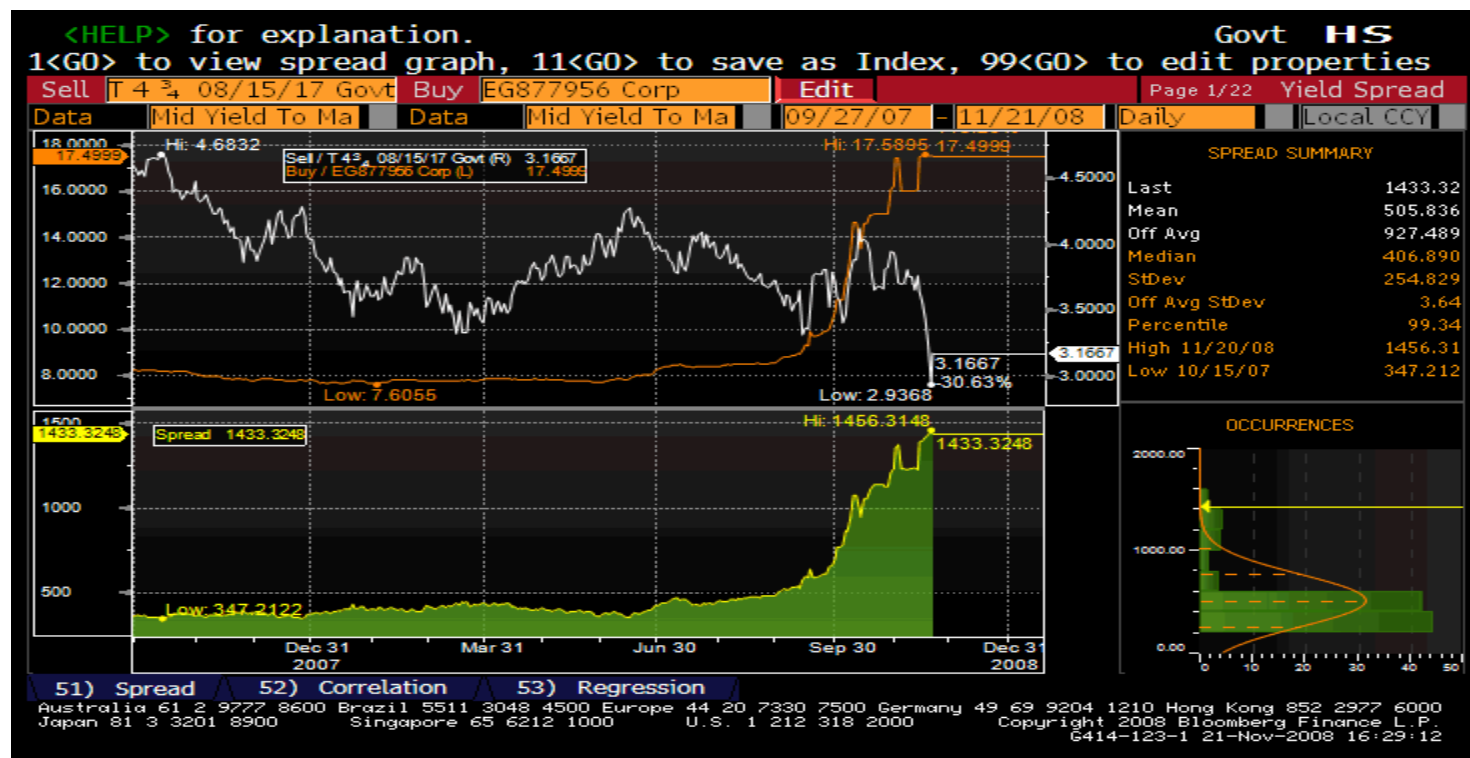
Historical Country Risk Premia



# Ghana Bond

But since September, yield on the bond has shot up, along with most others

- now close to 18%, giving a premium over US Treasuries of 14%



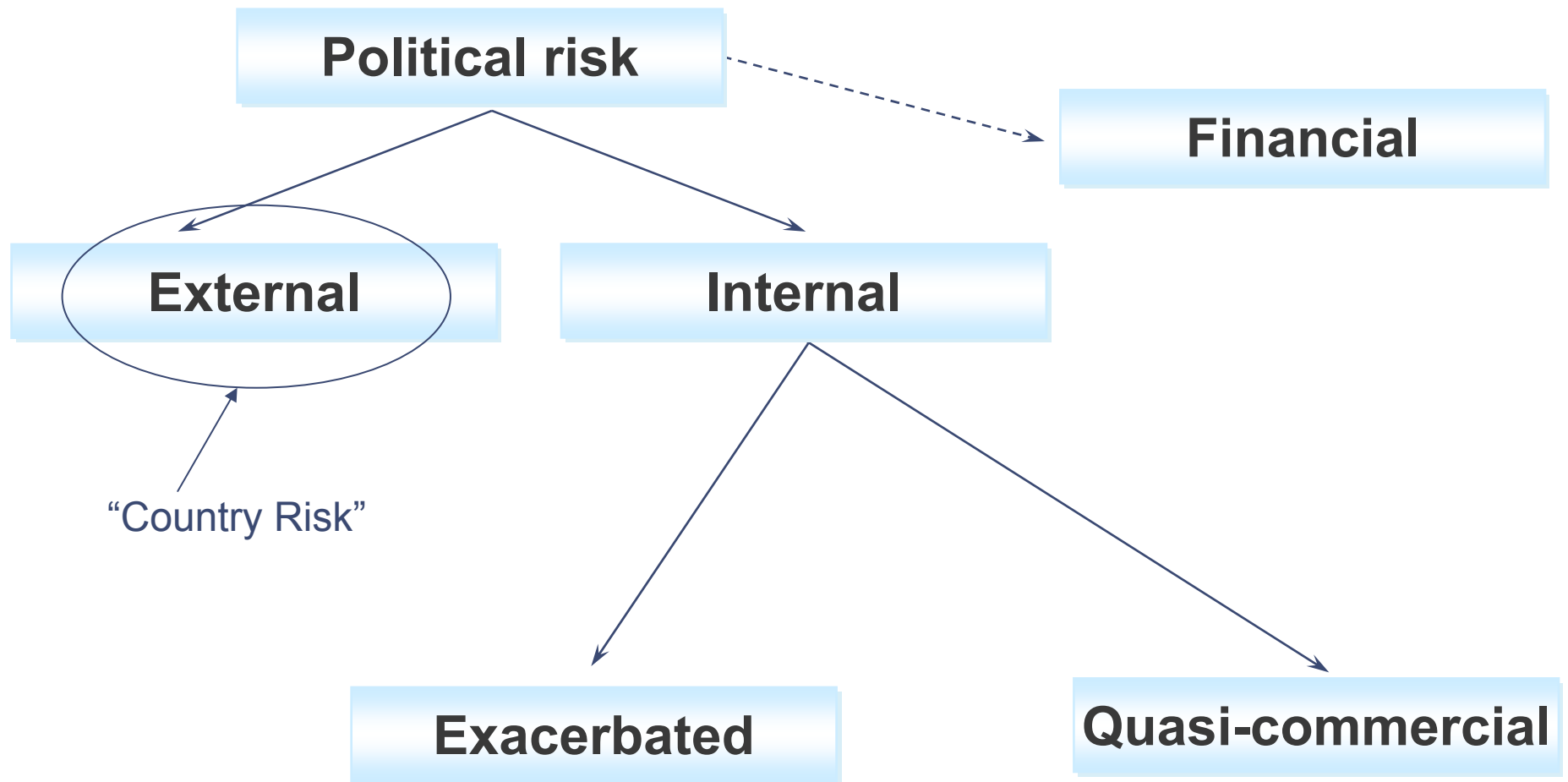
## Ghana Bond Issue Risk Factors

- ***Political instability or a change in government...***
- ***A significant decline in the Ghana Cedi...***
- ***High inflation...***
- ***...dependence on external sources of financing...***
- ***High levels of debt and continued borrowing...***
- ***Power shortages...***
- ***...a developing country such as Ghana is subject to substantially greater risks...***

*Source: Bond prospectus*

# Defining political risk

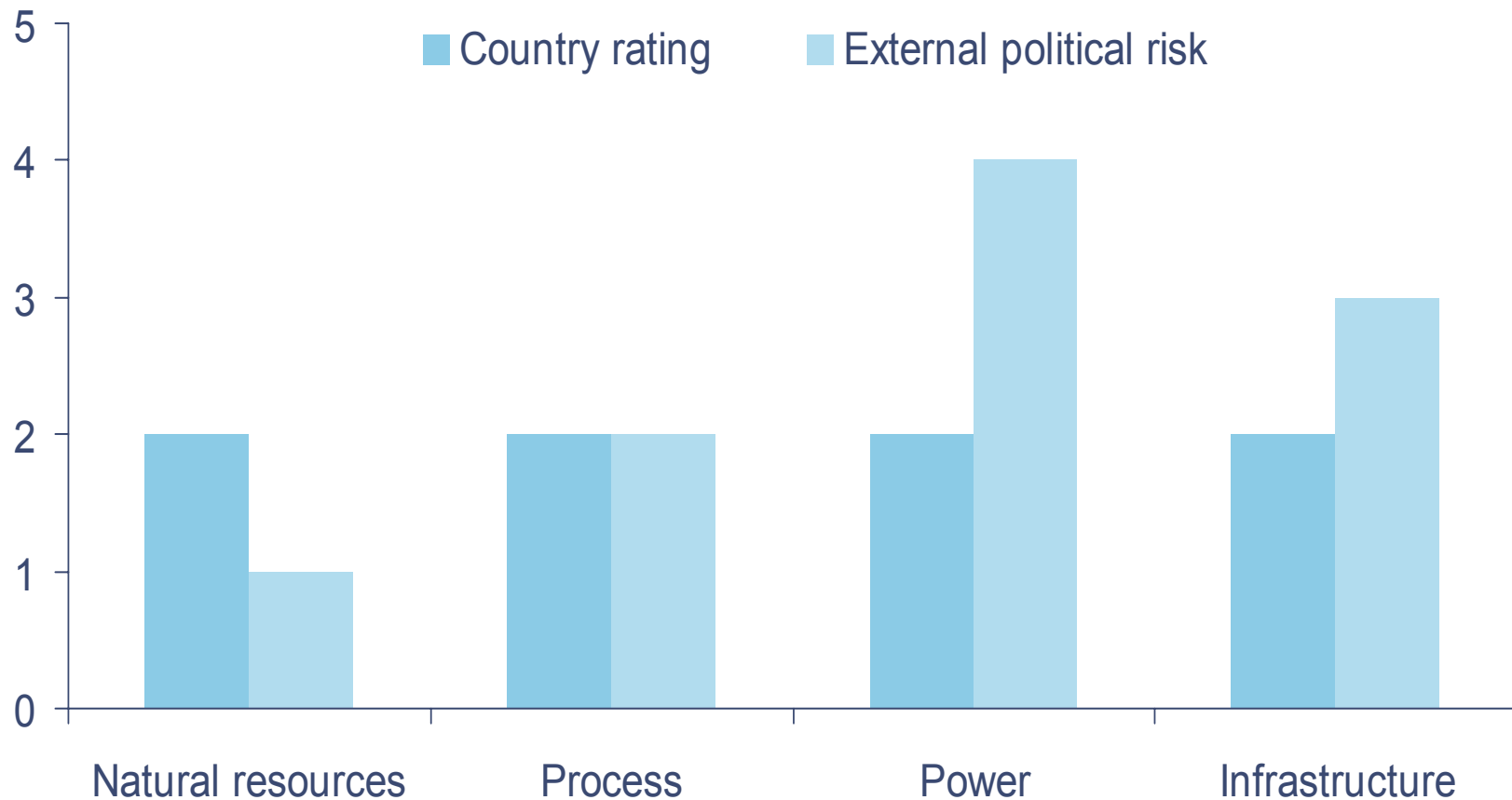
A useful classification



# Assessing political risk

External risk: impact varies by sector

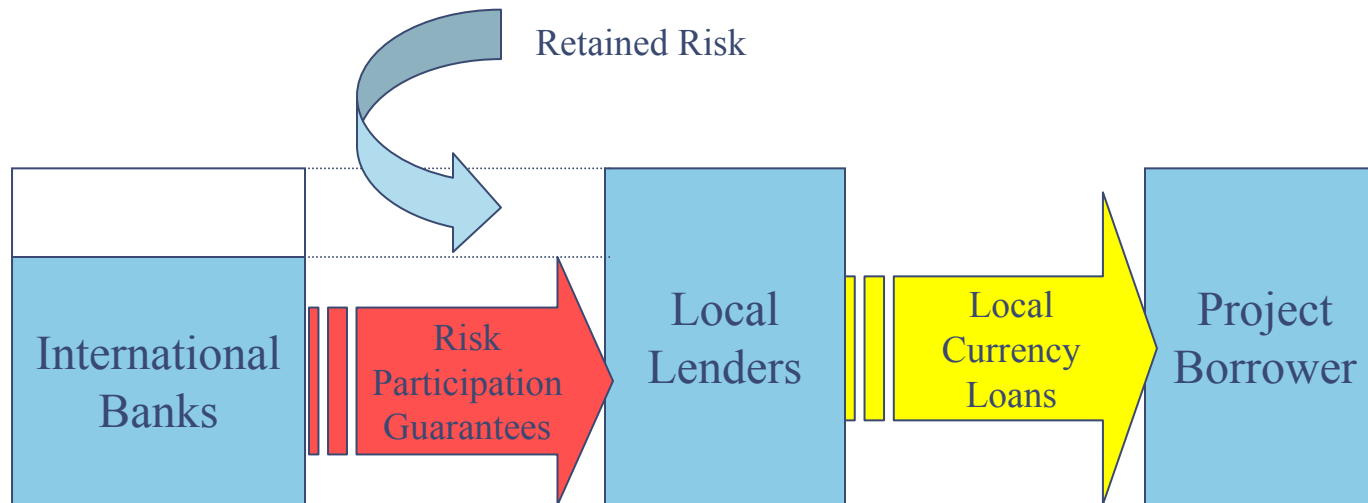
Projects can be better or worse than the country



## Mitigating external risk

- Borrow in local currency
  - Good for investor
  - Even better for customers
- Problem:
  - Local banks find it difficult to lend long-term
  - Also to understand project risks
- Solution:
  - Local currency guarantee facility
  - Local lending conduit

# Local currency guarantee





## GuarantCo Offers

- Credit enhancement products such as:
  - Partial Credit Guarantee to local banks to cover default risk on underlying debt
  - Liquidity guarantee
  - Bond guarantees
  - Tenor extension
- Principle of risk sharing with local debt providers
- Acceptance of certain local currency risks

*Source: Guarantco*

## Mitigating internal risk

- Only governments can do this
- Only alternatives:
  - International arbitration
  - Multilateral framework guarantees

# Key success factors for private sector investment in the Infrastructure sector projects



- Government
  - Legal protection of investors
  - Judiciary / regulatory independence
  - Transparency
- Market
  - Adequate tariffs (cost recovery)
  - Customer payment discipline
- Financing
  - Availability of long term financing
  - Availability of local currency financing

*Source: Guarantco*

# Future for PPPs in Ghana

## Summary



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# Future of PPPs in Ghana

## Summary

PPPs are:

- A better form of procurement
- Not easy to implement

PPPs need:

- Enabling actions to be taken in advance
- To be paid for

PPPs accelerate:

- Reforms
- Investment

Current external financing environment unfavourable, so use time to:

- Improve project formation to present to private sector when markets open
- Develop sustainable approach to external financing

# Thank you

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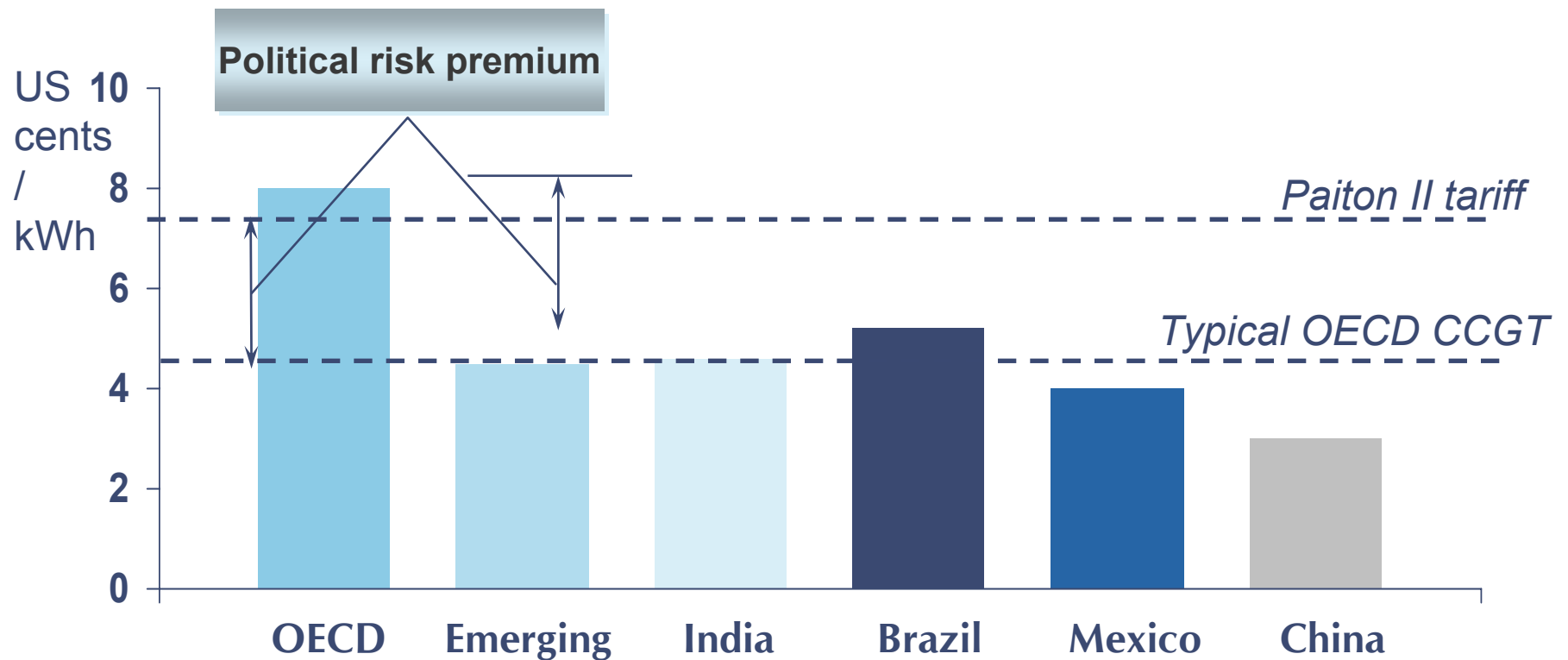
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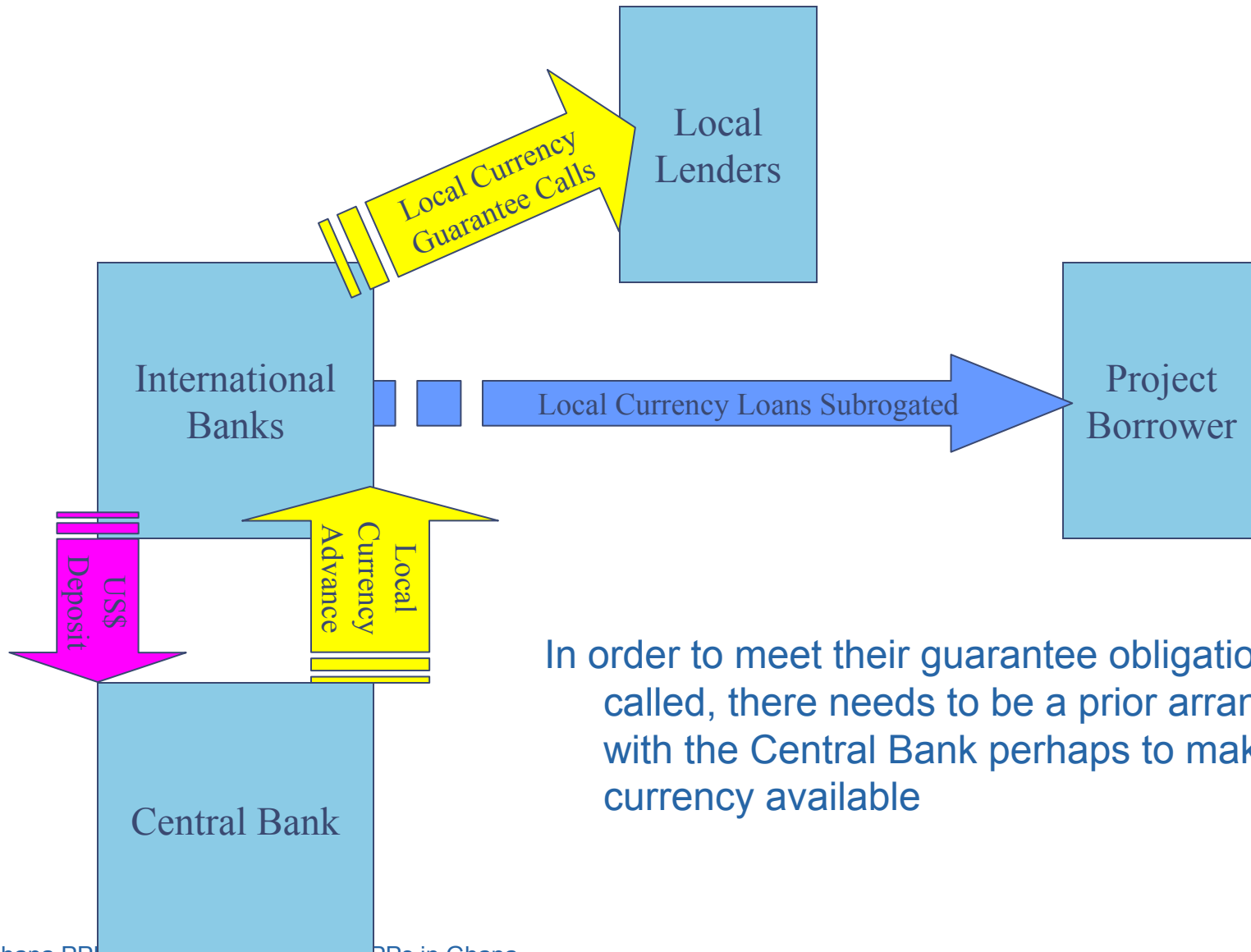
# Assessing political risk

## Internal risk: power sector example

### Comparative Electricity Tariff Levels



# Local currency guarantee - when called



In order to meet their guarantee obligations when called, there needs to be a prior arrangement with the Central Bank perhaps to make local currency available