Energy and extractive sector debt drivers

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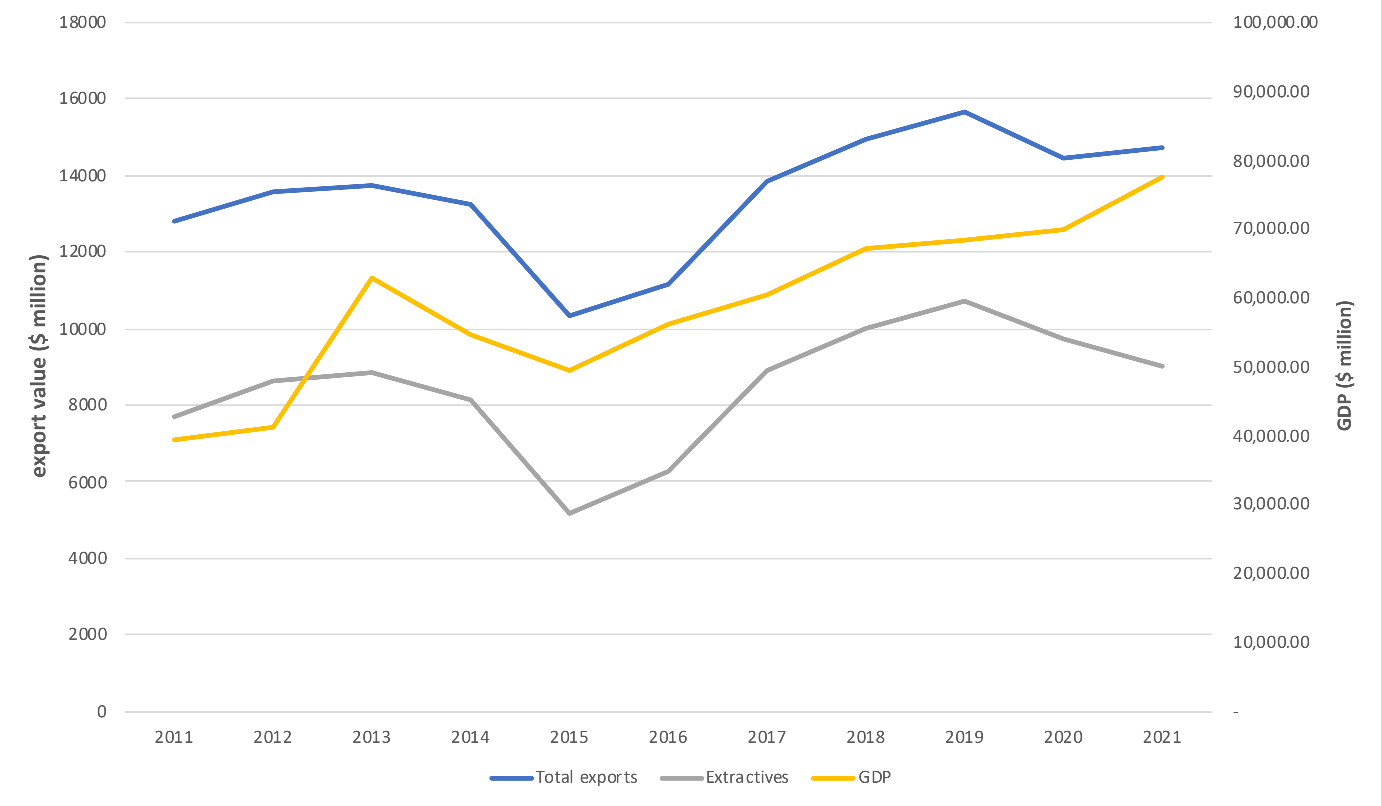
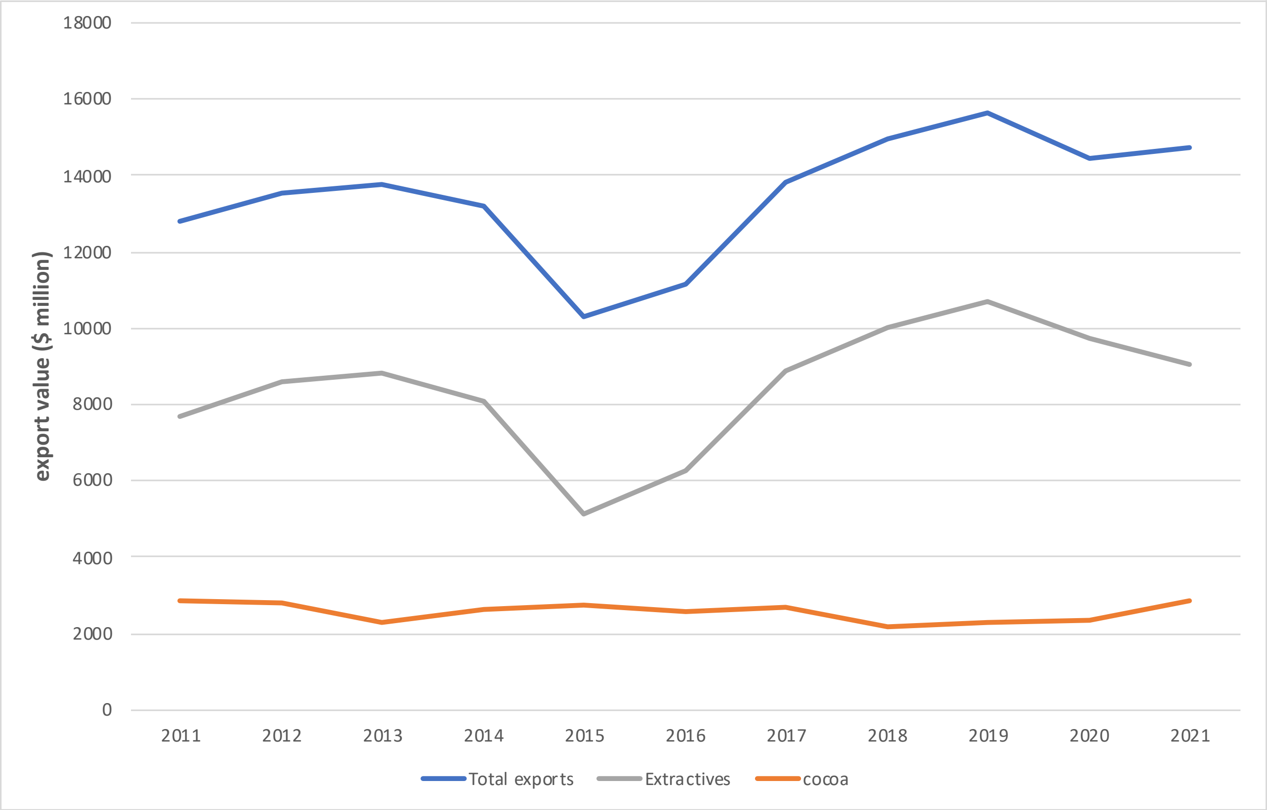
Extractive sector and the economy of Ghana



- Ghana's balance of trade is largely dependent on extractive resources
  - **Extractive resource exports average about 62% of total exports**
- Strong relationship exists between the extractive sector exports and overall GDP
  - **Correlation coefficient : 0.93**

The Economy has not been diversified



- Correlation between extractive sector and exports is visible
- Other major exports have not improved much
- Over time, the economy has not been diversified

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Constraints and required actions for resource dependency

Price volatilities

- Introduces the potential to be caught off-guard if no robust plans exist to smoothen impacts
- Makes it risky to create a resource dependent borrowing appetite.
  - Difficulties in managing debt obligations in low price regimes

There is the need to diversify the economy

- Ghana sought to diversify the economy with oil through the PRMA
- Data show that Ghana has not been successful in diversifying the economy
- So much of oil money spent on Agriculture, yet food import is growing

Requires effective decision making that reduces the negative impact of resource dependency

- Quick and transparent decisions
- Build confidence in the sector

Specific decision-making issues

- Decision making tends to be slow and less effective
  - Posing significant investment risk
- More complains about future extractive industry challenges and less action on curtailing the challenges.
  - **Inactions** - Wait for problems to crystalise
  - **Consequence** – The country pays more than anticipated

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Gas sector decisions

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OCTP gas investment

Ghana signed a $7 billion investment agreement for gas to be produced by 2018

- Contractors completed the investment within time
- Ghana was supposed to do a reverse flow infrastructure to coincide with the OCTP project completion

Reverse flow infrastructure delayed

- Agents of GoG wanted to construct the infrastructure

Consequences of the Delay in Building the Needed Infrastructure

Ghana began paying for unutilised gas

- Cost of unutilised gas - $17.36 million per month (at the start of the project)

At the same time, Government was buying HFO when take-or-pay gas was stranded in the Western enclave

Eventually, the OCTP partners had to finance the investment on behalf of GNPC to flow gas to Tema

Currently there is no "Take or Pay" gas but power sector is unable to pay

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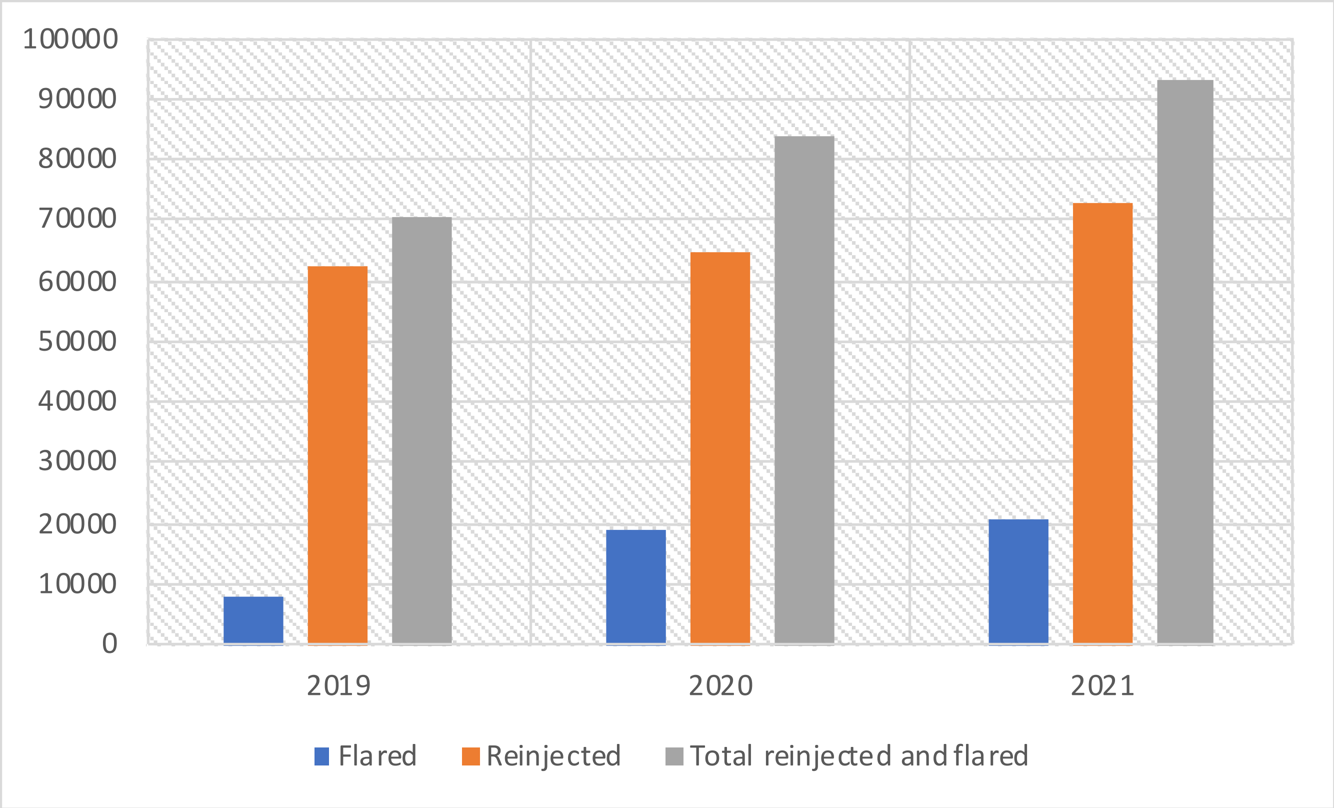
Gas flaring and re-injection



- About 246 bcf of gas was either flared or reinjected between 2019 and 2021
  - 47 bcf flared; 199.8 bcf reinjected
  - Total flared volumes account for forgone revenues of about $300 million
- Gas is still flared although Ghana has a “no flaring” policy
  - Ghana has not delivered on its responsibility to expand gas processing infrastructure and the gas consumption market
- Yet the governemnt is fixated on importing Liquefied Natural Gas (LNG)

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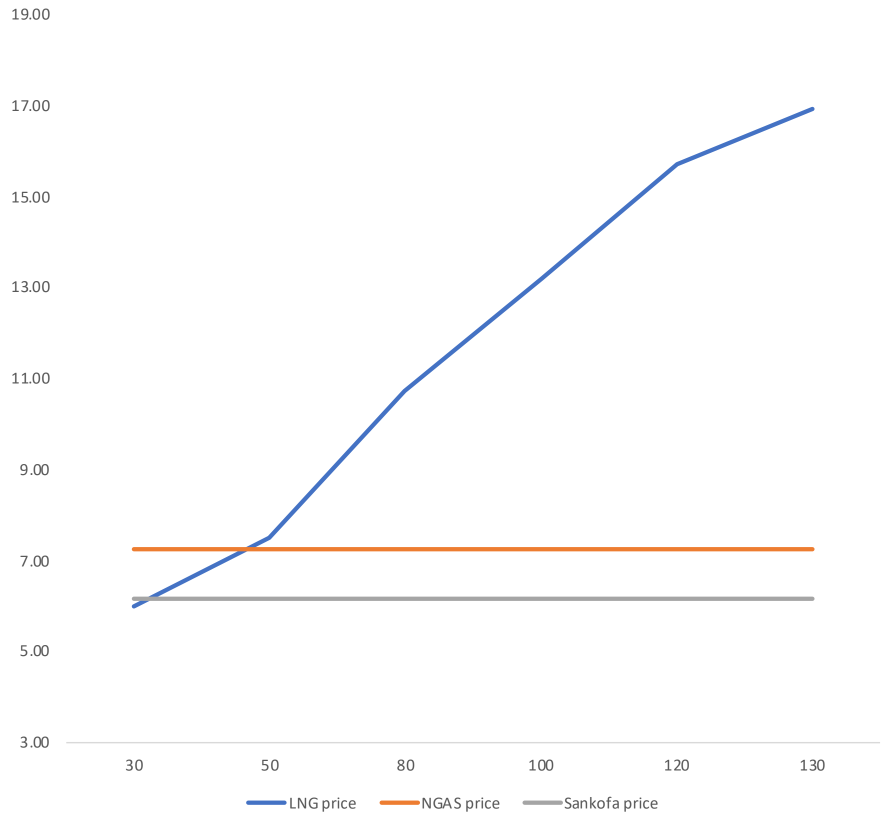
LNG imports

- Price risks in LNG
  - LNG price benchmarked against the price of crude oil
  - Uncertainty in crude oil prices cause instability in LNG prices
  - Current price of crude oil renders LNG expensive
- LNG Costs
  - LNG Terminal fixed cost for 2022: $59.5 million (approved by Parliament)
  - LNG purchases - $163 million
  - Total LNG costs for 2022: $222.5 million
- **Estimated revenue from LNG: $149.95 million**
- **Estimate revenue from LNG is less than costs!**



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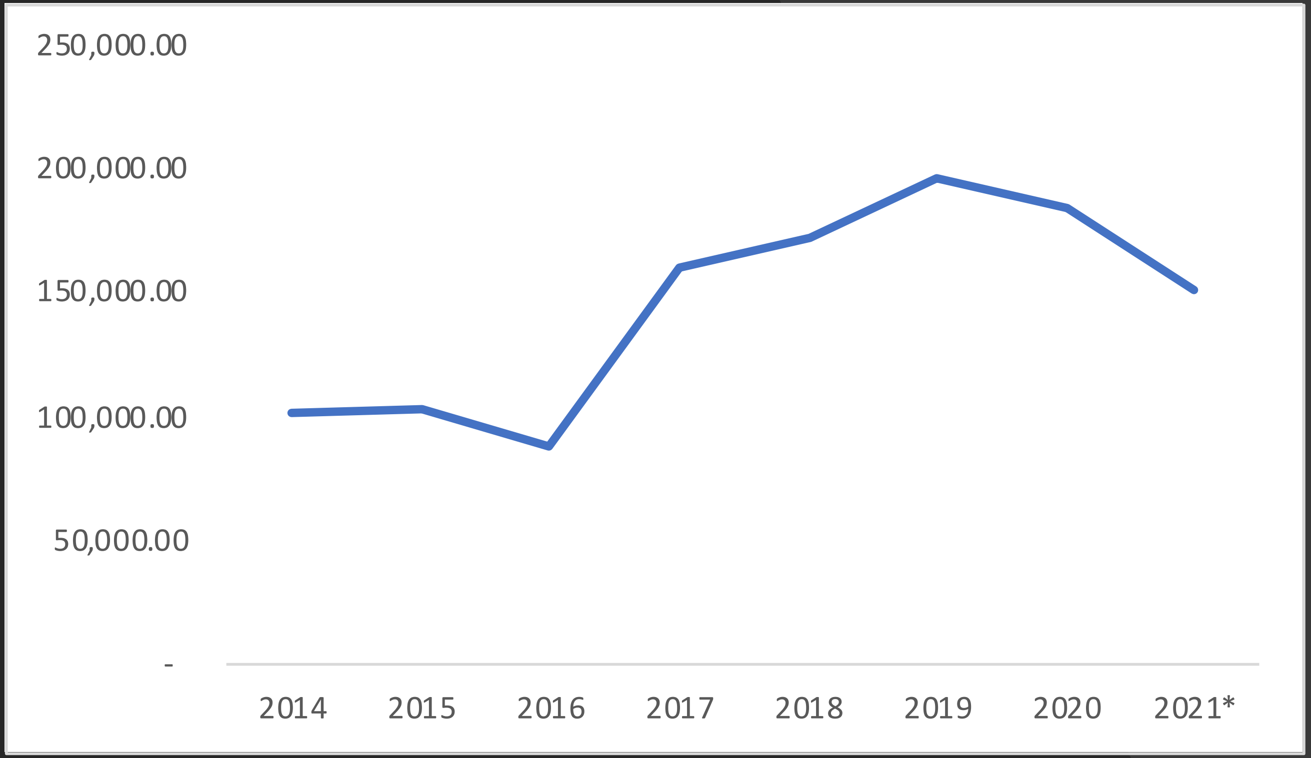
Decline in oil sector investments

Limited activity in the upstream oil and gas sector

No additional field after SGN

Crude oil production has declined year-on-year after a peak in 2019

Dwindling contribution of the sector to GDP growth



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Limited activity in the upstream oil and gas sector

- **DWT/CTP development**
  - Aker was unable to submit an acceptable PoD to meet 2022 production timeline
  - In July 2021, Aker Energy attempted to offload a significant stake in the DWT/CTP to GNPC
    - $1.65 billion in cash and $740 million for FPSO financing and prefinancing of some local partners
- **ENI Block 4 discovery**
  - Company proposed a fast-track development with a subsea tie-in to the FPSO John Agyekum Kufuor
  - However, this proposal has not scaled regulatory lethargy.
  - In contrast, *Baleine 1X* discovery in Ivory Coast is progressing

Limited activity in the upstream oil and gas sector

- **Other discoveries are not appraised**
  - Springfield’s Afina discovery- awaiting unitisation agreement with Eni
  - Nyankom Discovery by AGM- just refused to submit appraisal programme

- **Other Block holders are not delivering on their work programme**
  - They keep getting extension without meeting their work obligations

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Power sector under-recoveries

Dealing with the shortfalls - Interventions

- Government’s intervention
  - About GHS 6.8 billion in 2020
  - $1.25 billion in 2021
- Where will the government get money to pay for 2022 imminent power sector shortfalls within the difficult economic context?
  - ~ $1.3 billion as of June 2022

High Investments, High Losses

- Total investments by ECG for completed and ongoing projects (2018-2021): $667 million
- **However, losses have increased from 24% to 30% between 2018 and 2021**
- The Private Sector Participation (PSP) process required the concessionaire to make investments of about $500 million to reduce technical and commercial losses by **1 percentage point** each year.

Debt accumulation in the power sector

- Legacy debts as of January 2019 was about $2.7 billion
- Debts projected to reach about $12 billion by 2023 if urgent steps were not taken to ensure the financial viability of the sector.
- Drivers of the power sector debts are largely
  - Power sector under-recoveries
  - Inefficiencies in the management of utilities

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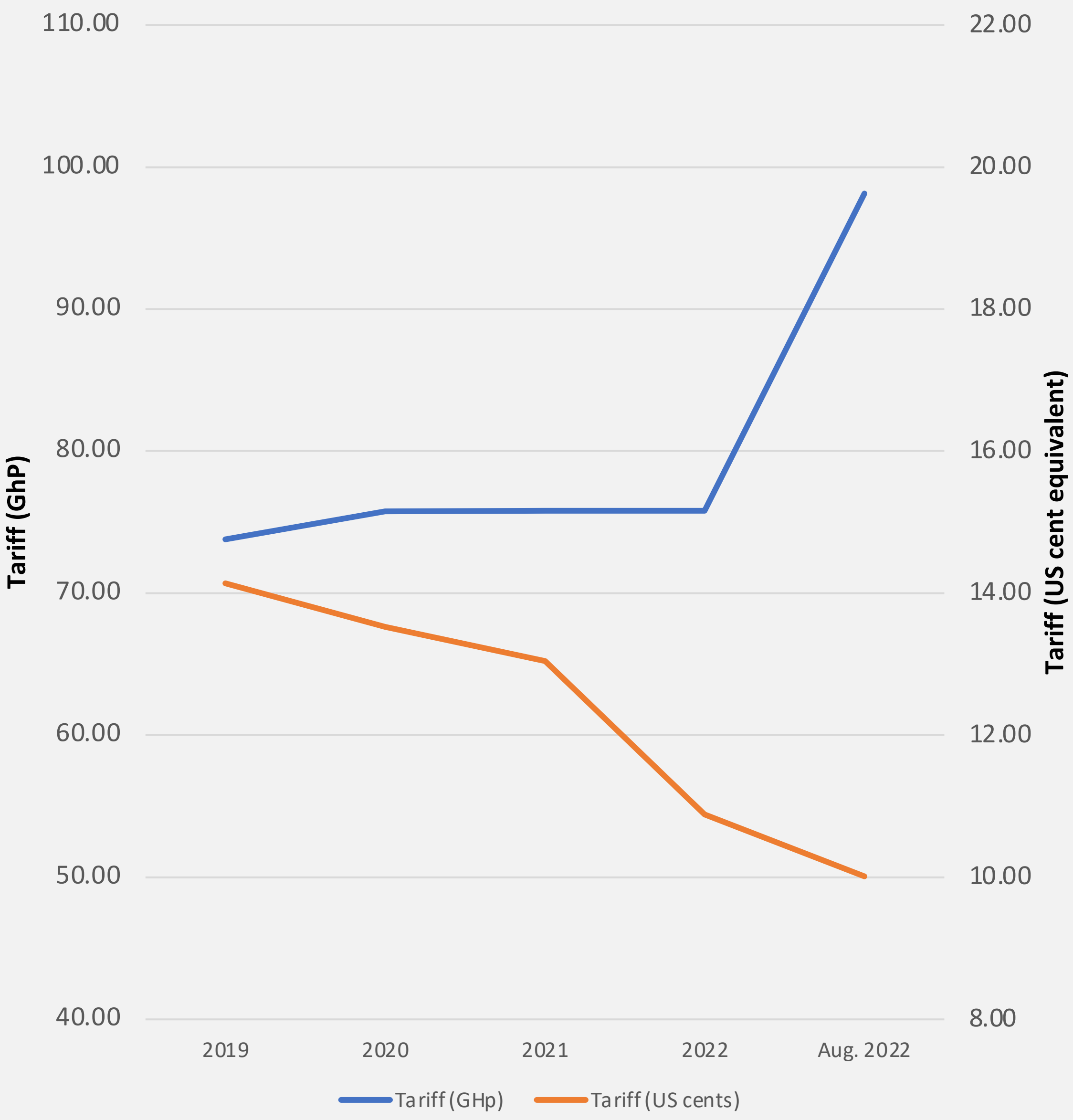
Shortfall from currency depreciation

- Much of the power sector costs are usually dollar denominated
  - Fuel
  - Capital recovery
  - Other inputs (e.g. consumables, spare parts, some services)
- Impact of tariff increments are wiped off by depreciating currency
  - Dollar value of tariffs reduced by 29% between same period



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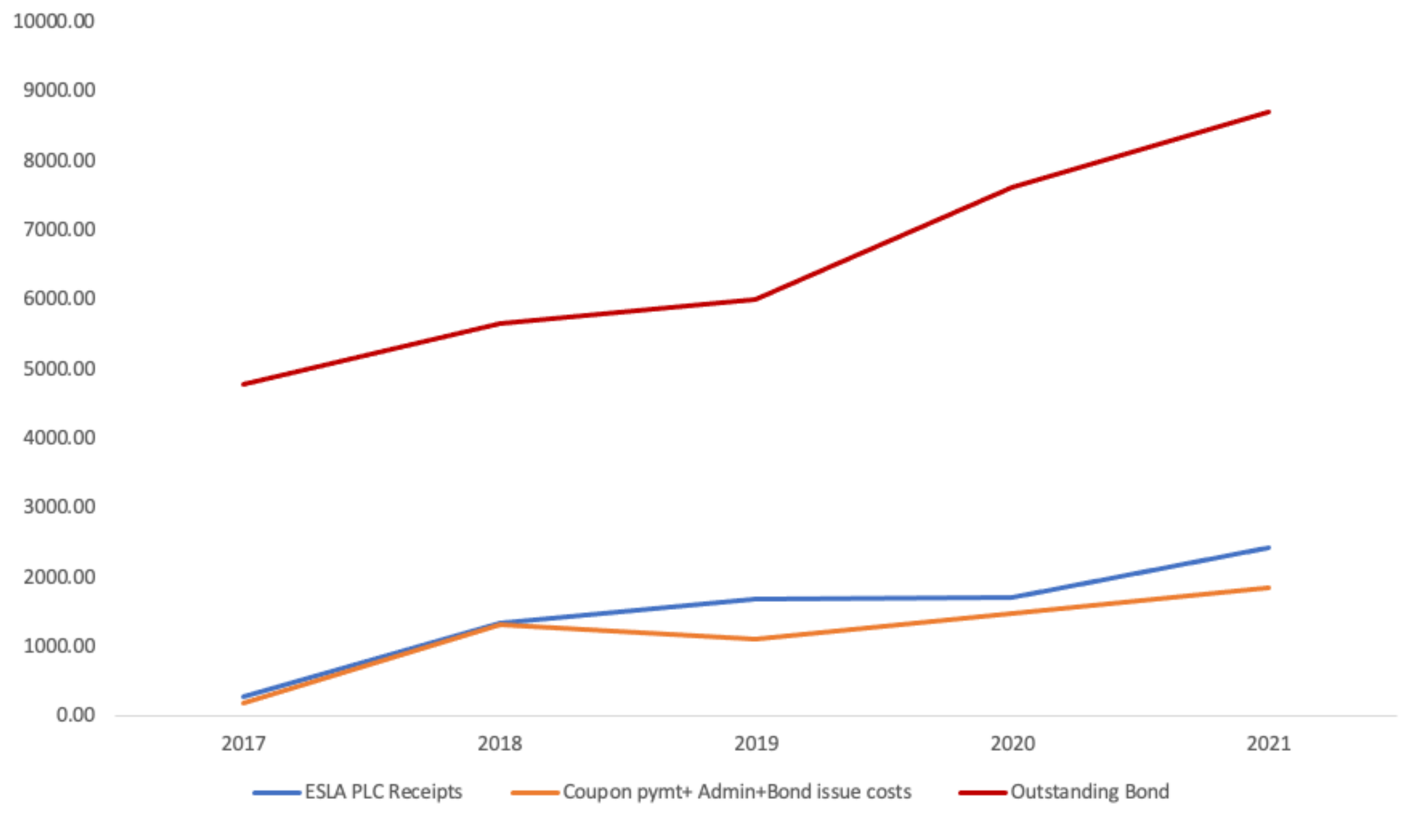
Dealing with the shortfalls - Interventions

- Bonds raised – about GHS 8.7 bn (debt still outstanding)
- ESLA PLC is not just dealing with legacy debt but is also paying for some of the recurrent under-recoveries
- ESLA PLC introduces significant administrative and transaction costs

Year	ESLA PLC Receipts	Coupon payments	Admin costs	Bond issue costs	Coupon pymt+ Admin+Bond issue costs	Outstanding Bond
2017	279.73	145.92	1.32	54.84	202.07	4783.97
2018	1353.71	1243.13	6.77	65.59	1315.49	5664.72
2019	1687.87	1086.26	6.20	11.07	1103.53	6000.00
2020	1711.30	1462.52	6.76	18.67	1487.95	7629.52
2021	2437.38	1812.52	9.47	27.54	1849.54	8700.59



New Power Enclave in Kumasi

- The government plans to set up a power enclave in Kumasi
  - Three Power plants are to be located in Kumasi
  - There is no transparency around the actions
- Not consistent with the excess capacity rethoric?
  - With a robust transmission system, transmitting power from the South to any part of the country is possible without any interruption

New power enclave in Kumasi

- Relocating plants does not resolve the need for improvement in transmission infrastructure

"The relocation of the Ameri Power Plant to Kumasi will improve supply to Kumasi and beyond. However, in the event of contingency due to generator outages and fuel supply constraints, the SVC will provide the requisite reactive power and voltage support."

(Gridco Tariff proposal, 2022)

- About $65 million is required to invest in SVCs
  - Gov't wants to Invest $71.6 million in relocation of Ameri Plant
  - We don't Know how much it will cost to build the pipeline to send the gas. Not even the regulators know

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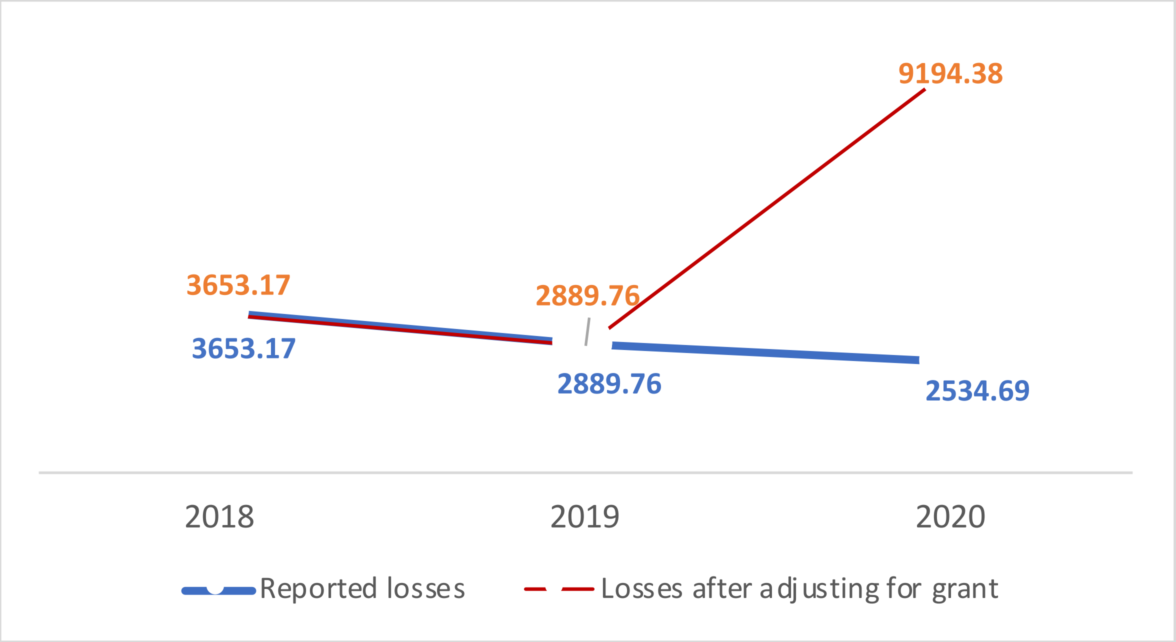
State Participation in Energy and Extractive Industry

2020 State ownership report

- The 2020 SOR reveals that energy sector SOEs made a cumulative loss of about GHS 2.5 billion
- ECG recorded a positive net profit in 2020 after successively recording losses in previous years.
    - Government settlement of about GHS 6.8 billion accounted for as grants
    - Controlling for grant results in a net loss of GHS 6.6 billion
    - Pushes cumulative net loss to about GHS 9.1 billion



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GOG Borrows yet assigns royalty flows to MIIF

- MIIF was established in 2018 to monetise the country's mineral income
  - In 2021 MIIF was assigned 80% of the country's mineral royalties, amounting to about GHS1.3 billion
  - In 2022 MIIF has been allocated about GHS 1.19 billion
- MIIF has bought about 14 million shares in Asante Gold Corporation, worth about $20 million.
  - dividend reliant long-term investor?
    - Reliance on dividend payment that depend on project's profitability
  - cash in on capital gains?
    - Requires a robust trading arm
  - Each decision exposes the country to additional financial risks resulting from market uncertainties.

GOG Borrows yet assigns royalty flows to MIIF

- MIIF intends to invest in small scale gold mining
  - Does not address revenue collection challenges from small scale mining sub sector
    - broader systemic and governance challenges (political and institutional malfunctions)
- The establishment of MIIF to invest risk-free royalty introduces significant risks to revenues that could have been used to address pressing and urgent development needs
  - For example, the assignment of GHS 1.3 billion to MIIF is about 43% of the country's capital investment in health, education, roads, agriculture, and gender in 2021.
- The risk is even heightened by recurrent underperformance of state enterprises.
  - In 2020, the government's fiscal exposure to SOEs amounted to about GHS 21.5 billion, about 30% of Ghana's domestic revenue, 6% of nominal GDP and 700% of capital investment in agriculture, education, health, roads and gender.

GNPC 7% acquisition in Jubilee and TEN

- ACEP supported the acquisition for two reasons
  - Transparent and efficient market-based process for valuing the asset
  - Immediate cash flow for government with less than three-year payback
- Government processes breach the law and do not take advantage of the acquisition to benefit the state directly.
- ACEP’s prompting of the breach of the Constitution and the PRMA on oil revenue appropriation has not yielded the needed remedy to the breaches.
- GNPC is seeking to borrow against the 7% acquisition

Recommendations

- A Quick and wholistic Energy/Extractive sector review is required
  - This has to be transparent and encourage new ideas
- The Oil industry need urgent attention to reformulate investment attraction strategy through transparent processes
  - Enforce agreements transparently
- There is urgent need to review policies to isolate extractive revenue from the budget.
- Private sector participation in the distribution of electricity is urgently required. Government cannot do it.
  - Encourage domestic pension funds and Local businesses to participate in the sector
- Cabinet must assume full control over the energy sector decisions for a sustainable debt management and effective stress-testing of new policies.