



WORLD BANK GROUP

THE WORLD BANK
IBRD • IDA

IFC

International
Finance Corporation

MIGA

Multilateral Investment
Guarantee Agency

FINANCIAL SOLUTIONS BRIEF

GHANA SANKOFA GAS PROJECT

PROJECT HIGHLIGHTS

- The Sankofa Gas Project has the potential to change Ghana's energy mix for power generation from expensive imported fuels to domestic natural gas. Yet Ghana's track record and low sovereign credit rating posed major challenges to raise financing for the project.
- The World Bank, the Government of Ghana, GNPC, and project investors collaborated on a multi-layer security package. This accommodates the requirements and constraints of all parties.
- The World Bank Group developed a \$1.35 billion financing support package. This helped mobilized a total of \$7.7 billion in commercial financing for the project

In 2014, Ghana was facing a severe macroeconomic crisis, in part due to high electricity costs. Constraints on hydropower generation and delays in developing domestic natural gas resources were making Ghana increasingly dependent on expensive and imported liquid fuels for power generation.

To keep electricity tariffs affordable, the government provided more than \$500 million in fuel subsidies to the power sector in recent years (2.5 percent of Ghana's GDP). Those subsidies were putting significant pressure on already constrained public finances. A long-term solution was needed to provide Ghana with a stable and cost-competitive source of fuel for its power sector.

The Sankofa Gas Project is part of the Offshore Cape Three Points (OCTP) project, a wider undertaking that encompasses two major oil fields holding an estimated 131 million barrels and Ghana's first non-associated gas fields (Sankofa and Gye Nyame). The gas part (Sankofa Gas Project) has the potential to produce up to 1 trillion cubic feet (Tcf) of non-associated gas. The commercial agreements under the project provide for a long-term natural gas sale arrangement from the private-sector led joint venture to the Ghana National Petroleum Company (GNPC) over the next 15-20 years.

CONTEXT

In addition to the macroeconomic challenges, the financial health of Ghana's electricity sector was also suffering from significant technical and operational inefficiencies, especially in the electricity distribution sub-sector. The Electricity Company of Ghana (ECG) – the main distributor and accounting for 90 percent of power sales – struggled to reliably deliver power and collect payments from customers.

In 2013, Ghana started implementing several reforms to improve commercial and operational efficiency of the power sector, increase tariffs, and attract private financing. But the full effect of these reforms was yet to be felt.

The development of Ghana's first "non-associated" gas resource was an essential part of Ghana's energy challenges. A partnership between the Government of Ghana and a joint venture of two international investors had been formed. The joint venture had the daunting task of raising \$7.7 billion of commercial debt and equity. The collapse of oil prices in 2014 only compounded matters. Negotiation of key terms between the Government of Ghana and the developers stalled.

At the request of the Government of Ghana, the World Bank helped design an innovative payment security structure involving World Bank guarantees (IBRD and IDA) amounting to \$700 million. The security structure reduced investors' requirements for direct sovereign support and paved the way for the investors to commit to the project's investment. The World Bank's involvement mobilized financing of \$7.7 billion including subsequent participation by international commercial banks, export credit agencies (ECAs) as well as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

PROJECT DESCRIPTION

The project encompasses: (i) the drilling of wells in deep sea offshore waters 65 km off the Western Coast of Ghana; (ii) construction of a Fuel Production, Storage, and Offloading (FPSO) vessel; (iii) a submarine gas pipeline to the coastline; and (iv) onshore gas receiving facilities interconnecting with Ghana's natural gas pipeline system. The capital expenditures for this project require total lifetime project investments of \$7.7 billion. This is a massive

project for Ghana, whose GDP amounted to \$32 billion in 2014.

The project has the potential to change Ghana's energy mix fundamentally. The gas quantities to be produced are enough to provide reliable gas supply for up to 1,000 MW of power generation capacity (or 50 percent of Ghana's peak electricity demand in 2017). In addition, the OCTP oil fields have the potential for exporting oil to global markets, which in turn would earn the Government of Ghana important fiscal revenues in the form of royalties and taxes.

When the sponsors of the Sankofa project reduced their revenue expectations to reflect the significant declines in oil prices, the rationale for making the \$7.7 billion investment weakened. The increased dependence on gas revenues, and hence on flows from Ghana's electricity sector, raised the project risk substantially. In addition, GNPC lacked a track record of honoring such large long-term commitments and Ghana's sovereign credit rating was also low (S&P B-). In that context, a credit enhancement mechanism became necessary.

KNOWHOW AND INSTRUMENTS USED

The World Bank, the Government of Ghana, GNPC, and the private investors worked together on a security package that accommodated the requirements and constraints of all parties.

The first layer of the security package was a payment mechanism that ensured all the receipts from the on-sale of the Sankofa gas to the power sector in Ghana flowed to a single designated account from which the private sponsors would be paid in priority for their share of the gas. Should there be any payment shortfall under the Gas Sales Agreement, the sponsors would be able to access an escrow account funded by GNPC with the equivalent of 4.5 months of gas sales (\$205 million).

If the escrow account is depleted the project company may draw under a \$500 million Letter of Credit jointly provided by HSBC and Standard Chartered Bank and fully backstopped by a World Bank (International Development Association–IDA) Payment Guarantee.

Following a drawing under the Letter of Credit, GNPC has 12 months to repay HSBC and Standard Chartered Bank before the two banks can request the World Bank to reimburse them. If drawings on the Letter of Credit re-



duce the facility's available balance to \$100 million, the investors may access a limited sovereign guarantee of \$100 million. Such a back-ended structure with access to the sovereign was key to limit immediate recourse to the Government of Ghana and therefore accommodate its fiscal constraints.

Finally, a World Bank (International Bank for Reconstruction and Development–IBRD) Loan Guarantee of up to \$200 million provides long-term coverage to Eni's shareholder loans if the security package has been fully depleted and not replenished.

FINANCING

In 2014, when the two private investors—Eni and Vitol—took their final investment decision, the project was 100 percent financed by equity and shareholder loans. The brokering by the World Bank of an improved security structure allowed Vitol, with the help of IFC and Standard Chartered Bank as Lead Arrangers, to refinance part of their equity through an international commercial banking consortium. This replaced part of the Vitol equity with commercial debt in an amount of \$1.35 billion.

BOX 1. HIGHLIGHTS OF THE WORLD BANK SECURITY STRUCTURE

- A security structure designed to ensure commercial capital in this all-equity investment was mobilized despite great market uncertainty.
- Several layers of enhancement including an innovative combination of a World Bank IDA Payment Guarantee and an IBRD Enclave Loan Guarantee.
- Back-ended recourse on the Government of Ghana, providing certain advantages in a fiscally constrained environment.
- Designed so that gas payments would be secured over at least 4-5 years if at least 50 percent of all gas bills are paid by the downstream power sector. This ensures gas exploration activities continue, despite revenue shortfalls occurring in the power sector.

The commercial debt package also included a \$400 million export credit debt facility from the UK's export credit agency (UKEF) supporting the investments into UK-manufactured equipment for the project. In addition, commercial banks partially benefited from \$217 million in political risk guarantees from MIGA.

Through the World Bank Group's engagement and under the initial leadership by the World Bank, a total of \$7.7 billion in commercial financing was mobilized with a final total support of \$1.35 billion.

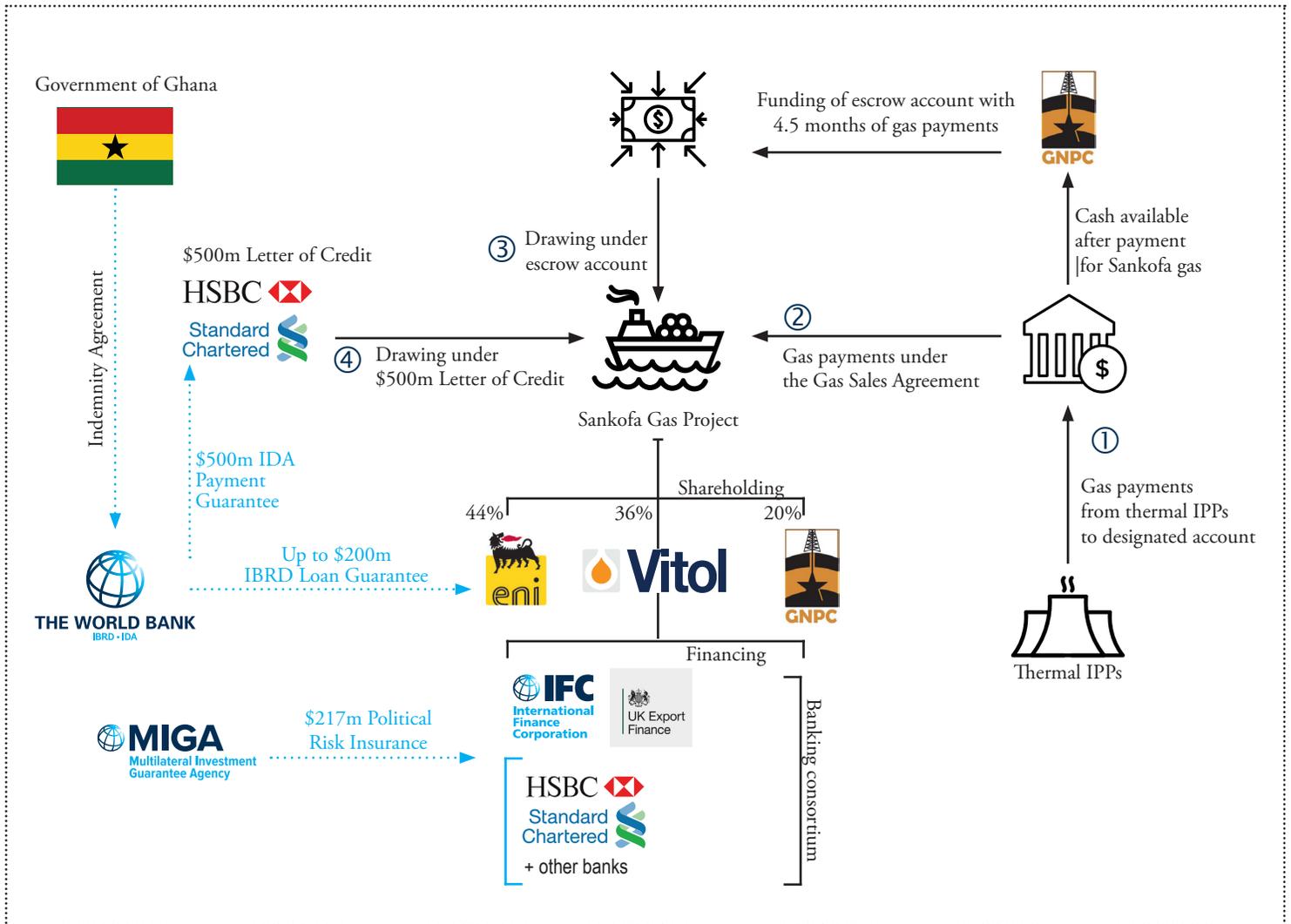
BENEFITS OF WORLD BANK GROUP SUPPORT

The investors took sufficient comfort from the World Bank's presence in Ghana's energy sector as well as its long-standing country support program to invest in the project. The World Bank, acting as an honest broker, liaised between the private investors and government stakeholders to facilitate an innovative financial structuring with limited sovereign support.

The gas from the project will fuel up to 1,000 MW of domestic power generation, or about 40 percent of Ghana's currently-installed generation capacity. This will help improve the reliability of power services in Ghana, replacing the current use of expensive, polluting fuels (imported light crude oil) with cleaner and more affordable gas resources.

Close to 90 percent of the net economic benefits of the project are expected to be captured directly or indirectly by Ghana through revenues for the government and GNPC (\$2.3 billion) and through fuel cost savings (\$1.2 billion). Additional indirect economic benefits of the Sankofa gas field include economic growth—as energy services improve due to increased stability of gas supply and reduced carbon emissions. At a time when the global price of oil had fallen dramatically and oil companies had shelved \$200 billion of projects around the world, the intervention of the World Bank Group made possible this \$7.7 billion project in Ghana. This project is expected to have a transformational effect on the country, its economy, and the power sector for the next two decades.

GUARANTEE STRUCTURE



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