



WORLD BANK GROUP

THE WORLD BANK
IBRD • IDA

IFC

International
Finance Corporation

MIGA

Multilateral Investment
Guarantee Agency

FINANCIAL SOLUTIONS BRIEF

GHANA

Policy-Based Guarantee

PROJECT MILESTONES

- First bond issuance supported by a Policy-Based Guarantee (PBG) in the market in 14 years.
- Longest Eurobond tenor of 15 years first achieved by a Sub-Saharan African country (except South Africa).
- Reduced yields by 150-200 bps compared to a theoretical uncovered equivalent Eurobond (theoretical because Ghana did not have standalone access).
- 100 percent over-subscribed order book with a diversified investor base compared to standalone bonds.

Market sentiment was negative in 2015 and this made Ghana a challenging credit story. The country needed to undertake a large capital market financing, but falling export prices and currency instability meant the country was under pressure. Ghana did not have access to the international bond market on a standalone basis and, despite the International Monetary Fund's (IMF) program, the drop in oil and commodity prices and Ghanaian Cedi instability were having a negative impact. Yet the country needed to meet pressing refinancing deadlines, extend debt maturities to reduce fiscal pressure, and smooth out its debt service profile.

World Bank support helped the country meet its debt management objectives and raise \$1 billion with a 15-year tenor, despite international financial markets being inaccessible to Ghana for large-scale capital raisings. Both the amount and tenor were unprecedented.

CONTEXT

Refinancing deadlines, extending debt maturities to reduce fiscal pressure, and smoothing out its debt service profile was a priority for Ghana in 2015. But with commodity prices falling and the Ghanaian Cedi going through a period of instability, the situation was extremely challenging for the Government of Ghana. To make matters worse, the country did not have access to the international bond market on a standalone basis.

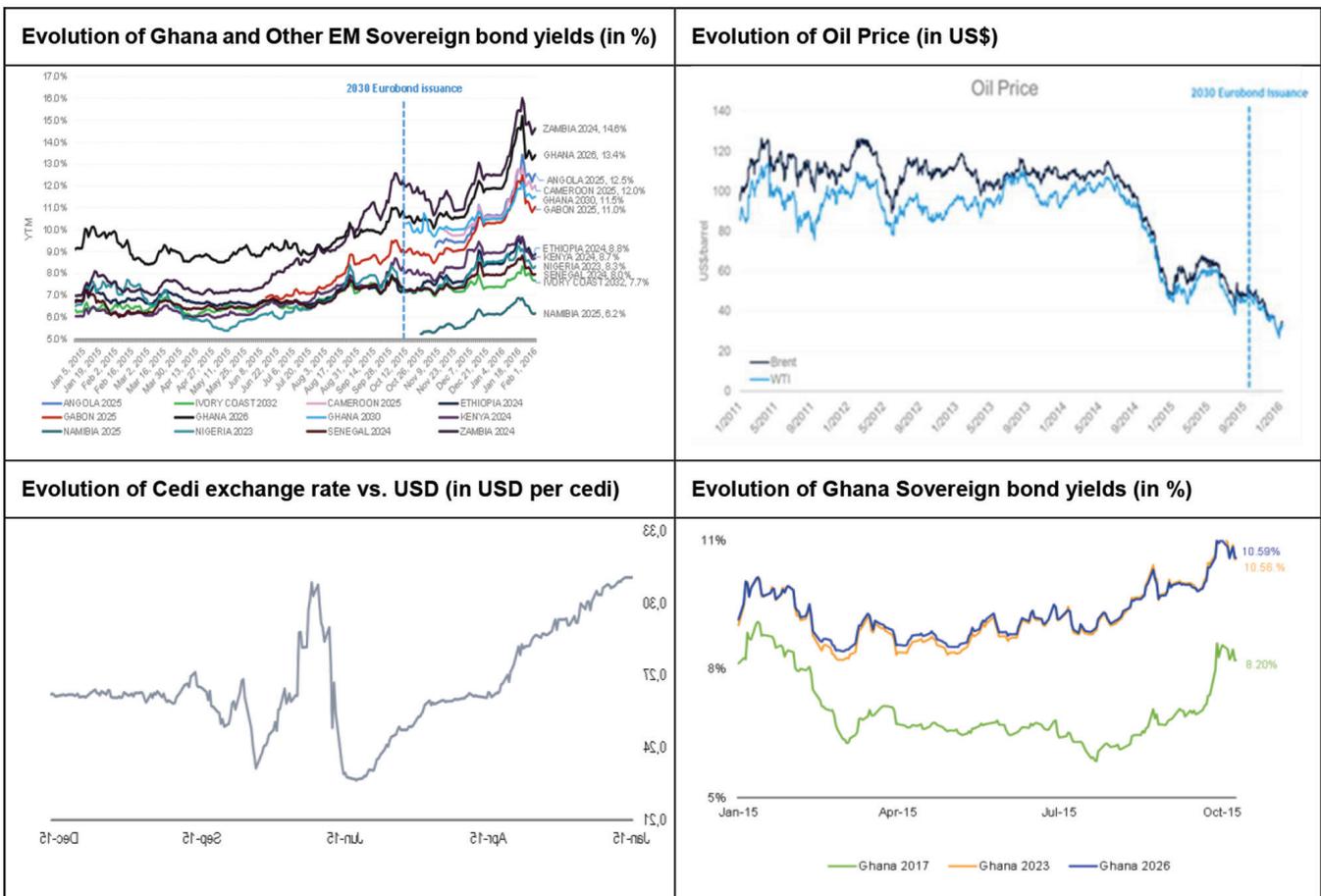
Ghana was also paying a price for having issued much short-term debt (especially for domestic issues). This had seen short-term domestic yields rise significantly. Ghana's international bonds were also trading at all-time high yields due to the worsening of its credit and the decreased appetite of bond investors in emerging markets.

Market volatility has often been pronounced in emerging markets, despite the growing investor base. This is partly

due to the macro-financial volatility of the issuers. This volatility can mean that countries risk not being able to access debt capital markets at certain times, which creates “windows” at other times. Due to market windows, amount raised, cost and success of an issuance can vary significantly depending on when the issue is made, even for sovereigns with similar macro characteristics and credit ratings. Some issuers may even have to defer issuances after a roadshow due to insufficient demand. For example, over the second half of 2015 and early 2016, significant capital outflows prevented most emerging market issuers from accessing markets. Lower-rated sovereigns, like Ghana, are affected the most which creates additional challenges in managing sovereign debt.

PROJECT DESCRIPTION

Refinancing expensive short-term borrowings to improve the fiscal sustainability of Ghana's debt profile was an im-



Source; Bloomberg

portant objective of the government. Despite this, Ghana was still in the process of delivering on its commitments under an IMF program.

With help from the International Development Association (IDA), Ghana was able to meet its goals. This was done through the deployment of a World Bank Policy-Based Guarantee, which can be used for sovereign level financings along with the World Bank's development policy operations.

The guarantee amounted to \$400 million, or 40 percent of the notional amount of the bond. Coupled with the guarantee was a \$150 million IDA credit for budget support purposes. The deployment of the IDA policy-based guarantee marked the first-ever use of this type of guarantee by IDA and the first intervention by the World Bank using this instrument since 2004.

ROLE OF THE WORLD BANK

The World Bank's objective was to improve Ghana's market access on better terms. Choosing the guarantee instrument allowed Ghana to raise \$1 billion through a sovereign bond issuance supported by the policy-based guarantee.

This leverage and other benefits of the guarantee were what led the government to request IDA support.

THE ISSUANCE

On October 9, 2015, Ghana launched 144A/RegS registered \$1 billion worth of 10.75 percent amortizing notes due in 2030, partially guaranteed by IDA.

IDA's maximum exposure for the transaction is just under \$400 million. Ratings for the notes were sought from two rating agencies—Fitch and Moody's. Both agencies assigned a two-notch rating uplift to rate the notes at BB-/B1 in comparison to the Ghana standalone credit rating of B/B3. The notes were successfully launched and twice oversubscribed, despite the challenging market conditions. Approximately 15 percent of the final order book went to new investors, which helped expand the investor base.

The proceeds of the issue were used by Ghana to refinance debt maturing within the following 90 days to two years. This debt carried a nominal interest rate of 25 percent per annum. Ghana's local currency Cedi has also experienced considerable stability since the Ghana 2030 issuance.

THE REPUBLIC OF GHANA \$ 1 BILLION PARTIALLY GUARANTEED NOTES DUE 2030

National:	\$1 billion
Guarantee Amount:	\$400 million
Issue date:	October 9, 2015
Final Maturity:	15 years
Amortization:	Equal installments in years 13,14 and 15
Coupon:	10.75 percent
Issue Price:	100% percent
Listing:	Ireland
Governing Law:	English
Lead Managers:	Barclays, Deutsche Bank, Standard Chartered

STRUCTURE OF THE NOTES AND GUARANTEE

The notes are direct, unconditional and unsecured obligations of Ghana, backed by the full faith and credit of the country. The World Bank Guarantee ensures timely payment of the scheduled debt service on the notes for an amount of up to 40 percent of the original principal. The guarantee automatically rolls forward as Ghana meets each scheduled debt service as due. Given the notes amortize in equal installments in years 13, 14 and 15, the percentage guarantee on the notes will start increasing from year 13 onwards and be 100 percent covered by the guarantee in the last year. The notes can be accelerated by the investors following an event of default under the notes, however the guarantee cannot be accelerated under any circumstances.

BENEFITS OF THE GUARANTEE

The World Bank's macroeconomic reform program and presence of the World Bank team during roadshow meetings for the bond issuance alongside the government provided important signaling to the international capital markets. This included the World Bank and IMF commitment and support to Ghana's reform efforts and path to fiscal stability.

The guarantee was instrumental in enabling access to much needed funding during challenging markets, extending the maturity beyond what was otherwise available to Ghana and achieving targeted spread savings for Ghana. A requirement of the policy-based guarantee was that the proceeds be used to refinance existing debt and not just to increase overall indebtedness.

CONTACT AND FURTHER INFORMATION

*Sebnem Erol Madan, Senior Infrastructure Finance Specialist, Financial Solutions | serol@worldbank.org
Jukka-Pekka Strand, Senior Infrastructure Finance Specialist, Financial Solutions | jstrand@worldbank.org
Vincent Launay, Infrastructure Finance Specialist, Financial Solutions | vlaunay@worldbank.org
Pankaj Gupta, Practice Manager, Financial Solutions | pgupta2@worldbank.org
Or guarantees@worldbank.org*
