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# Ghana Compact II

## MCC's Assessment of GoG's Concept Papers



# Key Questions

- What's happened since last January?
- What's in/What's out?
- How long is this going to take?
- Why am I here?



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# Compact Development Milestones to Date

- Concept Notes submitted to MCC November 2011 and feedback provided by MCC - December 2011
- GoG Core Team Private Sector Workshop in Accra - December 2011
- **Private Sector Roundtable in Washington - January 2012**
- **MCC conducts call with IPPs - April 2012**
- **MCC & GoG Core Team meetings with private sector in Accra – April 2012**
- GoG Core Team private sector, media, gender experts, parliamentary and regional consultations - June/July 2012
- Concept Papers (CPs) submitted to MCC - November 2012
- **Request for Information (RFI) issued - November 2012**
- MCC Ghana II Country Team presents CP assessment & recommendations to MCC management - end November 2012
- MCC Board reaffirms Ghana's eligibility - December 2012
- MCC communicates MCC management decisions - January 2013



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# Major Sector Issues Identified by Private Sector

## Reliable gas supply

- Unreliable gas supply and lack of commercial terms negatively impacting existing thermal generation plants and the development of new plants
- Must have transparent pricing and allocation framework and infrastructure for Ghana's off-shore gas

## Transparent IPP Framework

- Need greater clarity regarding GoG roles and responsibilities in the sector
- Need to continue to build institutional capacity within GoG to facilitate development of IPPs, including capacity planning and negotiating PPAs and other key agreements

## Credible Off-taker

- Lack of credible off-taker due to financial weakness of utilities – need to improve collections, reduce losses
- Credit support arrangements required for IPP transactions ,e.g., MDB credit enhancement products, GoG payment guarantee

## Cost reflective tariff

- Must have cost reflective tariff that provides for a reasonable regulated return on investment
- Tariff model should be more transparent and allow for an appeals mechanism
- Requires appropriate indexation and review of life line tariff



# MCC Assessment

The GoG Concept Papers were assessed on the basis of:

- Soundness of project rationale and program logic
- Expected economic impact
- Expected poverty impact
- Environmental, social and gender issues
- Consideration of private sector involvement
- Implementation considerations
- Sustainability
- Evaluability (ability to verify project results)



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# What's in/What's out

	Sector Governance & Regulation	Fuel Supply	Generation	Transmission	Distribution	Customers
Infrastructure			Supporting infrastructure for power park (land, access roads, transmission infra, gas connection)		Tema infrastructure upgrades	Improved Access for Peri-Urban Communities
					Tamale infrastructure upgrades	Improved Access for Economic Enclaves & Social Facilities <b>Improved Access for Island Communities (PV)</b>
Business Operations	Tariff reform (support for EC & PURC and appellate body creation)	Consultancy/TA to operationalize Gas Sector Master Plan w/ gas allocation policy and pricing framework	<b>Establish bulk trader</b>		ECG Tema pilot	Improved billing and collections
	<b>Restructuring of cross-debt mechanism</b>				NEDCO Tamale pilot	
Capacity Building	Improved monitoring ability and capacity of regulators	Capacity Building to strengthen GoG entities in sector	TA for PPP unit at Ministry of Finance		ECG management support	Capacity Building in Energy Efficiency / Demand Side Management best practices
					NEDCO management support	
Policy and Regulations	Corporate Governance Standards	Develop regulations and procedures for Gas Sector Master Plan	Enhance IPP framework		Financial restructuring and management / operational policies	Development of Energy Efficiency standards



# Compact Program Design

In terms of compact development process, we are moving into the program refinement and due diligence phase for three major projects:

1. Increasing Private Sector Investment in Generation
2. Strengthening the Distribution Sector
3. Improving Access to Electricity





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# Increasing Private Sector Investment in Generation

Create environment to facilitate private sector investment in generation:

- **Fuel Supply**: Support for operationalization of Gas Sector Master Plan; gas allocation and pricing framework; commercial gas contracts
- **Tariff**: Support for tariff reform including creation of appellate body and improved capacity of regulators
- **Credible Off-taker**: Support for exploring credit support options
- **IPPs**: Support establishment of framework for Independent Power Producers (IPP) and process for competitive bidding
- **Power Park**: If substantial progress is made on issues listed above, support for power park to house multiple IPPs – common infrastructure such as gas connection, transmission interconnection, and access roads
- **Demand Side Management/Energy Efficiency**: Support for policy changes & programmatic investments



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# Strengthening the Distribution Sector

Strengthen the Distribution sector to achieve a sustainable power sector:

- **ECG Pilot**: Attract private sector operator, improve business processes, and invest in selected infrastructure to reduce losses and improve service\*
- **Peri-Urban Communities**: Install distribution substations and low voltage networks to improve access in pilot areas
- **Technical Assistance**: Improve corporate governance, regulatory capacity, and gender equity
- **Financial Performance**: Implement system to ensure prompt payment of public sector electricity bills

\* MCC is also considering hard and soft infrastructure investments in NEDCO to support its sustainable commercial viability subject to achieving significant progress in ECG Pilot activity



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# Improving Access to Electricity

## Improving access to electricity for productive uses in pilot areas:

- **Improved Access for Economic Enclaves & Markets:** Improve infrastructure and provide connections in limited economic enclaves and markets. Potentially include the development and connection of multifunctional platforms for increasing the productivity of micro and small income generating activities, along with extension of service to associated social facilities such as schools and health clinics
- **Affordability Issues:** Conduct a rigorous evaluation of any potential subsidization or affordability/access program

# Related Issues

## Policy Reform:

- In addition to the reforms supported through technical assistance, GoG will need to make changes in the energy sector to ensure viability and sustainability of compact investments

## Economic Analysis:

- Feasibility of substantial economic benefits needs to be established and validated
- Expected costs may be adjusted through due diligence and possibly require strategic realignment/rescoping of projects

## Monitoring & Evaluation:

- Ensure availability of detailed, timely and high quality information on electricity supply, customers and service
- May also include feasibility studies of project design options for rigorous impact assessments, as well as a small enterprise survey and affordability study



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# Indicative Compact Budget

## Proposed Ghana II Compact Budget

Project	Estimated Budget (USD)
Increasing Private Sector Investment in Generation	\$ 82 million
Strengthening the Distribution Sector	\$165 million
Increasing Access to Electricity	\$8 million
Operational Expenses, SGA and M&E (15%)	\$45 million
<b>Total</b>	<b>\$300 million</b>
<b>Minimum GoG Contribution (7.5%)</b>	<b>\$22.5 million</b>

# Key Reforms/Generation

**The GoG will be required to implement key reforms before compact finalization to ensure viability and sustainability of compact program:**

➤ **Generation:**

- Provide public statement on gas policy that provides a clear vision on gas allocation
- Finalize and promulgate gas commercialization framework
- Commit to proceed with an IPP competitive solicitation process
- Commit to address the need for credit support for power purchase agreements to promote IPP development in the transitional period until ECG becomes a credit-worthy off-taker.
- Commit to institute a full cost recovery tariff.
- Allow application of quarterly automatic tariff adjustments
- Establish mechanism to ensure subsidies for provision of lifeline service to the poor are paid to ECG and NEDCO in a timely fashion.



# Key Reforms/Distribution

**The GoG will be required to implement key reforms before compact finalization to ensure viability and sustainability of compact program:**

➤ **Distribution:**

- Clear arrears to ECG and NEDCO and establish a mechanism for timely payment of Ministry, Department and Agencies electricity bills.
- Commit to bring in the private sector to operate an ECG pilot district on a commercial basis. Structure and terms to be negotiated after due diligence
- Commit to operate NEDCO as an independent corporatized and commercially-oriented business



# How long is this going to take?

- **Major milestones in compact development process**
  - March 2013 - compact program refined prior to the commencement of pre-feasibility studies and due diligence
  - December 2013 – compact sent to MCC Board for consideration
  - Early 2014 – compact signing
  - Mid/Late 2014 – compact Entry into Force (5 year clock starts)





# Critical Issues

- Compact success will require strong GoG commitment to policy, regulatory and institutional reform of the energy sector
- Compact development and implementation will run in parallel with JCAP implementation. Key USG agencies include USAID, USTDA, EXIM, OPIC, DoE, Department of Commerce, State Department
- MCC is working closely with key development partners including International Finance Corporation (IFC), World Bank, African Development Bank (AfDB), Agence Française de Développement (AFD), Swiss



# Why am I here?

- Provide feedback on current program – we will continue to engage throughout compact development
- Discuss opportunities for private sector participation – gauge interest

