JOINT MEMORANDUM TO PARLIAMENT

BY

MINISTER FOR FINANCE

AND

MINISTER FOR ENERGY

ON THE

LOAN AGREEMENT

BETWEEN

GOVERNMENT OF GHANA

AND

THE EUROPEAN INVESTMENT BANK (EIB)

FOR AN AMOUNT OF

€12.50 MILLION

AND

ONLENDING AGREEMENT BETWEEN THE GOVERNMENT OF GHANA AND THE VOLTA RIVER AUTHORITY

AS ADDITIONAL FINANCING

FOR THE

KPONG GENERATING STATION RETROFIT PROJECT

Dated .................................. 2019
ACTION REQUIRED

1.0 Parliament is respectfully requested to consider and approve a loan facility of €12.5 million between the European Investment Bank (EIB) and the Government of Ghana as additional financing to co-finance the Kpong Generating Station Retrofit Project which is being implemented by the Volta River Authority (VRA).

2.0 Parliament is also requested to consider and approve the draft On-lending Agreement to enable the Ministry of Finance on-lend the facility to VRA.

3.0 An executive approval dated 20th December, 2019, granted approval for this memorandum to be laid before Parliament.

BACKGROUND

4.0 The Ministry of Finance, acting on behalf of the Government of Ghana secured a Fifty Million Euros (€50.0 million) concessional loan facility in 2012 from Agence Française de Développement (AFD) to enable the VRA retrofit the Kpong Generation Station, carry out studies for multi-purpose dams, purchase prepayment electricity meters and to improve its financial modeling capacities. The facility was subsequently on-lent to the VRA.

5.0 The object of the project was to rehabilitate and upgrade the electromechanical equipment and systems of the four (4) generating units of the Kpong Station. The overall objective of the Kpong GS Retrofit Project is to rehabilitate and replace the necessary systems/components in order to extend the life and ensure a further 30 years of safe and efficient operation of the generating units and power plant equipment. Retrofitting of Units 1, 2, 3 and supply of major parts and equipment for retrofit of Unit 4 have been completed and are being paid for under AFD funding.

6.0 The initial scoping on the project undertaken envisaged the rehabilitation of most of the components. However, when the units were disassembled, it was realised that the wear and tear were too extensive and needed to be completely replaced in order to achieve the intended objective. This changed the project scope and invariably meant that the AFD funding would not be adequate to complete the project. Following detailed examination of the dismantled components by the Contractor, it was revealed that more work would have to be done than originally envisaged and therefore require additional funding.

7.0 Agence Française de Développement could not provide funding for the additional works because once a country’s debt to GDP ratio reaches the 60 percent threshold, by law, the French Government stops lending to the government of that country. They were, however, prepared to facilitate the provision of the additional funding through the European Investment Bank (EIB).

8.0 Consequently, in a letter dated 12th February 2018, the Ministry of Finance requested the EIB to provide €12.5 million to co-finance the additional works.

9.0 The European Investment Bank has agreed to provide the amount of €12.5 million for the project.
JUSTIFICATION

10.0 The Kpong Generating Station was commissioned in 1982, and since its commissioning, the Station has been very reliable until early 2000 when the power generating components started experiencing high failure rate. In addition, spare parts for repair works at the Station were very difficult to acquire because most of the equipment were obsolete and the original equipment manufacturers (OEM) were no longer manufacturing spare parts to support their maintenance. Following the high failure rate, a technical audit of the Station was conducted in 2006 and updated in 2010 to assess the condition of the generating components and recommended rehabilitating and replacing the necessary systems/components in order to extend the life and ensure a further 30 years of safe and efficient operation of the generating units and power plant equipment.

11.0 Typical of rehabilitation of such assets, the extent of work required could not be established fully as it depends on thorough condition inspection of the dismantled components and also on site conditions. Though the original contract acknowledges that some scope of works can only be determined after disassembling and inspection and therefore did not include replacement parts in the basic scope of supply, the volume of additional work required was found to be beyond the initial scope of Project during implementation, and provisions made for contingency became woefully inadequate.

12.0 Currently, the Project has commenced refurbishment of the last unit (Unit 4) and prior to that, noted the existing funding arrangement with AFD will be exhausted after making all payments of the refurbished units (Units 1, 2, & 3). Further delays in completing the works will result in contractual increase in cost of the works and also short fall in generation capacity. It is therefore imperative to secure the additional concessionary funding as soon as possible from EIB to complete the project, in order not to distort implementation plan.

OBJECTIVE

13.0 The object of the project was to rehabilitate and upgrade the electromechanical equipment and systems of the four (4) generating units of the Kpong Station to extend the life and ensure a further 30 years of safe and efficient operation of the generating units and power plant equipment. To achieve this, VRA signed two (2) Contracts (KP-1 and KP-C1) with Andritz Hydro, Austria and Hatch Energy, Canada respectively in 2013 with the provision of funding by French Development Agency (AFD), France. The KP-1 Contract with Andritz Hydro (AH) comprises the design, manufacturing, delivery, installation, testing, and commissioning of Electrical and Mechanical Systems of the Plant. The KP-C1 contract with Hatch Energy comprises the engineering, construction supervision and project management.

14.0 The project will improve the reliability and the affordability of the supply of electricity in Ghana. Once completed, the Kpong Station would guarantee the country of at least 160MW power generation for the next thirty (30) years.
PROJECT DESCRIPTION

15.0 The project will involve:

i. welding required to correct turbine discharge ring cavitation defects;
ii. replacement of intake gate rollers and repair of intake gate roller path;
iii. modification of the cooling water system, generator thrust and guide bearing replacement;
iv. Turbine outer head cover, intermediate head cover and inner head cover repairs;
v. Spare parts for the retrofitted units and a warehouse for storage; and
vi. Training on new equipment and technologies.

EXPECTED BENEFITS

16.0 The upgrading and replacement of the necessary systems/components will ensure a further thirty (30) years of safe, reliable and efficient operation of the generating units and power plant equipment and improve the reliability and the affordability of the supply of electricity in Ghana.

FINANCIAL DETAILS

17.0 The initial project cost of €45.589 million was provided by AFD. Due to the volume of additional works required beyond the initial scope of the project, EIB is providing additional funding of €12.5 million, while VRA makes an own contribution of €1.9 million, to be able to complete the project and realize the objectives.

18.0 The funding terms of the EIB facility are summarized below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicative Interest Rate</td>
<td>1.009%</td>
</tr>
<tr>
<td>Grace Period</td>
<td>5 years</td>
</tr>
<tr>
<td>Repayment Period</td>
<td>20 years</td>
</tr>
<tr>
<td>Tenor</td>
<td>25 years</td>
</tr>
<tr>
<td>Grant Element</td>
<td>40.39%</td>
</tr>
</tbody>
</table>

IMPLEMENTATION AND ONLENDING ARRANGEMENTS

19.0 VRA, the beneficiary of the loan facility, would implement the project. The Ministry of Finance would on-lend the loan to VRA on the same terms and conditions from EIB and will also have oversight responsibility in the disbursement arrangements. The decision to onlend the EIB loan to VRA on the same concessional terms stems from the fact that the credit risk assessment conducted on VRA revealed unfavourable financial position of the organization and there’s the need not to worsen the already precarious financial position. Government also considers the investment to be very strategic as it will improve the reliability and the affordability of the supply of electricity in Ghana.

20.0 EIB shall disburse funds in accordance with progress of work and upon request by the Ministry of Finance.
INTER-MINISTERIAL CONSULTATIONS RECORD

21.0 The Loan Agreement was appraised and negotiated with representatives from the Resource Mobilisation and Economic Relations Division, Legal Division and Treasury and Debt Management Division of the Ministry of Finance, VRA and EIB. Comments received during the appraisal and negotiation sessions were agreed upon and incorporated into the draft Loan and Onlending Agreements.

CONCLUSION

22.0 The loan facility would provide the requisite additional financing to enable the VRA complete the project. In view of the immense benefits to be derived from the completion of the project, we wish to recommend to Parliament to consider and approve the loan facility from EIB and the on-lending agreement between the Government of Ghana and VRA as indicated in paragraph 1.0 above.

HON. JOHN PETER AMEWU
MINISTER FOR ENERGY

HON. KEN OFORI-ATTA
MINISTER FOR FINANCE

DATED ................December, 2019
REFERENCE DOCUMENTS

Attached as Annex:

(i) Annex 1: Draft Loan Agreement
(ii) Annex 2: Draft On-lending Agreement