

IN THE SECOND SESSION OF THE SIXTH PARLIAMENT OF THE
FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE

ON THE

**EKN SUPPORTED EXPORT CREDIT FACILITY
AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA, HSBC BANK PLC (AS
ARRANGER, ORIGINAL LENDER, AND AGENT) AND
GHANA INTERNATIONAL BANK (AS ORIGINAL
LENDER) FOR AN AMOUNT OF SEVENTEEN MILLION,
THREE HUNDRED THOUSAND UNITED STATES
DOLLARS (US\$17,300,000.00) TO PART FINANCE THE
ACQUISITION OF TWO HUNDRED AND NINETY-FIVE
(295) SCANIA BUSES AND SPARE PARTS RELATED
INFRASTRUCTURE FOR THE ACCRA BUS RAPID
TRANSIT SYSTEM AND INTERCITY STC COACHES
LIMITED**

JULY, 2014

IN THE SECOND SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC

**REPORT OF THE FINANCE COMMITTEE ON THE EKN SUPPORTED
EXPORT CREDIT AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA AND HSBC BANK PLC(AS ARRANGER,
ORIGINAL LENDER AND EKN AGENT) AND GHANA INTERNATIONAL
BANK (AS ORIGINAL LENDER) FOR AN AMOUNT OF SEVENTEEN
MILLION, THREE HUNDRED THOUSAND UNITED STATES DOLLARS
(US\$17,300,000.00) TO PART FINANCE THE ACQUISITION OF TWO
HUNDRED AND NINETY-FIVE (295) SCANIA BUSES AND SPARE PARTS
FOR THE BUS RAPID TRANSIT SYSTEM AND INTERCITY STC
COACHES LIMITED**

1.0 INTRODUCTION

The EKN supported export credit agreement between the Government of the Republic of Ghana and HSBC bank plc(as arranger, original lender and EKN agent) for an amount of Seventeen million, three hundred thousand united states dollars (US\$17,300,000.00) to part finance the acquisition of two hundred and ninety-five (295) Scania buses and spare parts for the Bus Rapid Transit System and Intercity STC Coaches limited was presented to the House by the Hon. Minister of Finance Mr. Seth E. Terkper on Thursday, 17th July 2014 in accordance with Article 181 of the 1992 Constitution.

The Rt. Hon. Speaker referred the agreement to the Finance Committee for consideration and report in accordance with Order 169 of the Standing Orders of the Parliament of Ghana.

The Committee was assisted in its deliberations by the Hon. Ministers of Finance, Mr. Seth E. Terkper and Transport, Mrs. Dzifa A. Attivor, Hon. Deputy Minister of Finance, Mr. Ricketts Kweku Hagan and Mr. Cassiel Ato Baah Forson, Officials from the Ministries of

Finance and Transport. The Committee is grateful to the Hon. Ministers and Officials for the assistance.

2.0 REFERENCE

The Committee referred to the following additional documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana; and
- Loans Act, 1970, Act 335

3.0 BACKGROUND

The current mass transit services in the urban centres are current virtually provided exclusively with low occupancy vehicles by the private sector comprising various transport unions. The physical infrastructure and services of these operators are not only inadequate but uncomfortable and limited in scope. As a result, there is perennial problem of traffic congestion, delays for trips as well as very old and unmaintained low-capacity vehicles. With the increased population in the cities and the growing urbanization of the country, the intra-city mass transit in the major cities and urban centres require urgent attention.

It is therefore in response to these challenges that the Ministries of Transport, Roads and Highways and Local Government and Rural Development are collaborating under the Urban Transport Project to introduce the Bus Rapid Transit (BRT) System in the Greater Accra Region.

4.0 TERMS AND CONDITIONS OF THE FACILITY

The terms of credit facility are as follows:

| | | |
|-------------|---|-------------------|
| Loan Amount | : | US\$17,300,000.00 |
| Tenor | : | 6 years |

| | | |
|--------------------|---|------------------------------|
| Grace period | : | 18 months |
| Interest rate | : | Libor + 3.65% p.a (Floating) |
| Commitment Fee | : | 1.50% p.a |
| Structuring fee | : | 1.25% on undrawn balance |
| Administration fee | : | US\$ 50,000 flat |
| Risk Premium | : | 9.5% flat |

Detailed condition of the Facility is attached as appendix A.

5.0 OBSERVATION

5.1 *Justification for the Agreement*

Commenting on the importance of the facility, the Minister of Transport stated that the growing traffic congestion in the cities demands the use of high occupancy and good quality buses that are capable of attracting different categories of commuters. Further, there is also the need to continually support the operators to enable it to provide affordable transport services throughout the country in line with the Government's commitment to provide social services to the vulnerable in the society.

5.2 *Tax Exception*

The Committee noted that, among the request in the memorandum submitted to Parliament is the request the waiver of VAT, NHIL and customs duties on all the busses and spare parts imported under the project and on expatriate remuneration for a quota of ten expatriates. The details of the exemption were however, not presented to the Committee during the deliberation. The Committee was accordingly unable to consider the request and recommends that the Minister of Finance present to the House for consideration, a separate request for the waiver and exemptions when the details are ready.

5.3 *On-lending*

The Committee observed that the credit will be applied to a commercially viable venture with a stream of future cash flows. The Minister of Finance explained to the Committee that, in line with Government's debt management strategy, the facility will be on-lend to the Agencies concerned and proceeds used to redeem the loan. The Minister of Finance reiterated the view that this on-lending arrangement will harness the undeveloped potentials in many state own institutions and afford them the opportunity to borrow from the commercial market on their own balance sheet and issue Bonds and other Securities to finance commercially viable projects.

6.0 **CONCLUSION**

The Committee having carefully examined the request is of the view that the supply of the buses will significantly enhance the quality, reliability and accessibility of the intra-city mass transit services. The Committee therefore respectfully recommends to the House to adopt its report and approve the EKN supported export credit agreement between the Government of the Republic of Ghana and HSBC Bank plc (as Arranger, Original Lender and EKN Agent) and Ghana International Bank (as Original Lender) for an amount *Seventeen Million, Three Hundred Thousand United States Dollars (US\$17,300,000.00)* to part finance the acquisition of two hundred and ninety-five (295) Scania buses and spare parts for the Bus Rapid Transit System and Intercity STC Coaches limited in accordance with Article 181 of the 1992 Constitution, Section 7 of the Loans Act, 1970, Act 335 and Order 171 of the Standing Orders of the House.

Respectfully Submitted.


HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)


ROSEMARY ARTHUR SARKORDIE (MRS)
(CLERK, FINANCE COMMITTEE)



APPENDIX **A**

INDICATIVE TERMS AND CONDITIONS FOR A COMMERCIAL LOAN FACILITY (THE
"COMMERCIAL TERM LOAN")

This summary of terms and conditions has been produced solely to assist discussions between the parties to arrange this transaction. At this stage it is not to be construed as a financing commitment from any member of the HSBC Group. Any financing commitment remains subject to approval from HSBC credit authorities, absence of material adverse changes in the Borrower and/or the Ghanaian and international financial market, further discussions between the relevant parties and the HSBC Group, and completion of satisfactory documentation and any other requirements appropriate to transactions of this nature.

- Supplier** : Scania CV AB, Sweden
- Buyer** : Ministry of Transport, Republic of Ghana.
- Borrower** : Ministry of Finance, Republic of Ghana.
- Loan Agreement** : Agreement between the Lender and the Borrower to assist in the financing of the Contract.
- Contract** : The supply of up to 295 buses for public transport together with technical assistance, ancillary equipment and spare parts for the first phase of the Accra BRT project.
- Contract Value** : Currently estimated as being up to USD 100,000,000 or such other amount as may be agreed by the Buyer and Supplier.
- Arranger** : HSBC Bank plc
Project and Export Finance
8 Canada Square
London, E14 5HQ
United Kingdom
- Agent** : HSBC Bank plc.
- Lender** : A member of the HSBC Group as sole lender or as leader of a consortium of banks shall make available to the Borrower a facility to assist in the financing of the Contract.
- Loan Amount** : Expected to be up to USD 15,000,000 representing the portion of the Contract not eligible for finance under the EKN Facility.
- In addition, up to 100% of the applicable Risk Premium may be financed and included within the Loan Amount subject to the approval of the Arranger and Lender.
- Currency** : United States Dollars ("USD").
- Drawings** : Drawings will be made in accordance with the payment programme set out in the contract, but subject to the terms of the loan agreement.

HSBC Bank plc
Global Banking and Markets
Project and Export Finance
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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority



- Disbursement** : The Lender will disburse funds directly to the Supplier under the terms the Loan Agreement, against presentation of appropriate documentation as may be of determined in the Contract and agreed by the Lender and the Borrower.
- Availability Period** : ((Expected to be up to 12 months from loan effectiveness.
- Term** : ((Expected to be up to 5 years from the end of the Availability Period, or such other date as may be agreed subject to the approval of the Lender.
- Repayment** : Repayment of the Loan Amount will be effected by 10 substantially equal and consecutive semi-annual installments of principal together with payments of interest. The first repayment of principal shall occur 6 months from the end of the Availability Period or such other date as may be agreed, subject to the approval of the Arranger and Lender.
- Interest shall be calculated on the day-to-day outstanding balance of principal and paid semi-annually in arrears such that the interest due dates shall be the dates in each year that are established for the repayment of principal.
- Repayments of principal and payments of interest shall not be the subject of any present or future taxes, charges, deductions, withholdings or any other levies of any nature.
- Evidence of Debt** : The Loan Amount, together with interest payable under the facility, will be evidenced by a Loan Agreement.
- Interest Rate** ((: The rate of interest payable by the Borrower will be 6-month USD LIBOR plus a margin of 3.65% per annum, payable semi-annually in arrears.
- Fees** : A **Structuring Fee** of 1.25%, calculated flat on the Loan Amount, will be payable by the Borrower to the Arranger for the account of the Arranger upon signature of the Loan Agreement.
- A **Commitment Fee** of 1.50% per annum on the undrawn balance of the Loan Amount will be payable by the Borrower to the Lenders semi- annually in arrears throughout the drawdown period.
- An **Administration Fee** of USD 50,000 flat will be payable by the Borrower to the Agent upon signature of the Loan Agreement.
- Costs & Expenses** : All costs and expenses – including, but not limited to, those related to the engagement of legal advisors to the Lender – incurred by the Arranger, Agent and the Lender in the development, arrangement, structuring negotiation, documenting and conclusion of the facility will be for the account of the Borrower, whether or not the facility is finally signed. All such costs and expenses will be subject to the prior approval of the Borrower before they are incurred.

- Risk Premium** : The Risk Premium applicable to this transaction will be 9.5% flat calculated on the Loan Amount, assuming an Availability Period of 12 months and a Repayment Period of 5 years.
- The Risk Premium is payable by the Borrower and may be financed and included in the Loan Amount, as mentioned above.
- Prepayment** : Subject to the approval of the Lender, the payment by the Borrower of any break-funding costs incurred by the Lender, and the giving by the Borrower of 30 days' written notice, prepayment of the Loan Amount outstanding may be made on an interest due date. Any sums so prepaid will not be available for redrawing.
- Availability** : The terms and conditions outlined herein are subject to approvals within the HSBC Group, including any applicable environmental approvals, to the execution of documentation in a form satisfactory to all relevant parties, and confirmation from the Borrower that the loan will adhere to any IMF or IDA programmes or guidelines as may apply to the Republic of Ghana.
- The ability of HSBC to act as the Arranger, Agent and Lender will be contingent on the satisfaction of the HSBC Group's "Know Your Customer" regulations in respect to each of the transaction parties and the transaction structure.
- In addition, such terms assume the absence of any event or circumstance (including any material adverse change) which may have adversely affected or could adversely affect: (a) the ability of the Borrower to perform their obligations; (b) (i) the international or any relevant domestic loan, debt, equity or capital markets or (ii) the ability of the Borrower to access such markets; or (c) the political and economic situation of the Republic of Ghana.
- Provision of the Commercial Term Loan is subject to the take up of the EKN Facility set out in Appendix 1.
- Miscellaneous** : The Loan Agreement will contain standard provisions relating to, inter alia, market disruption, increased costs and usual lender protection.
- Covenants** : The Borrower will comply with positive covenants customary for this type of facility including but not limited to payment of obligations, compliance with laws, performance and enforcement of agreements, payment and discharge of taxes and claims, delivery of financial statements, notices, insurance, use of proceeds, environmental compliance.
- Representations & Warranties** : Customary for facilities of this nature and appropriate in the judgment of the Lenders and the Agent for this transaction.
- Default Interest** : Default interest shall accrue at 2% over the applicable rate of interest (including the applicable margin) for the facility on any amounts which are due and unpaid.

- Material Adverse Change** : The terms and conditions herein are subject to the absence, in the Arranger's opinion, of any event or circumstance (including any material adverse change or disruption or in the continuation of any circumstance): (i) in or affecting the domestic or international financial markets; (ii) in the socio-political and economic situation of the Republic of Ghana; (iii) which has affected or could affect the financial condition, assets, prospects or business of the Borrower; and (iv) which has affected or could affect the ability of the Borrower to perform and comply with their obligations under these terms which, in the Arranger's opinion, has affected or could affect the successful syndication of the facility.
- Market Flex** : The Arranger may need to change the structure, terms and/or pricing of the facility if it determines that the changes are advisable to ensure a successful syndication. In the event that an agreement cannot be reached between the Borrower and the Arranger, the Arranger reserves the right to terminate the financing and return the mandate.
- Governing Law** : English law.
- Validity** : 60 days from the date of this indication, unless expressly extended by the Arranger in writing.

The terms and conditions set out above are indicative and do not constitute a commitment on behalf of HSBC Bank plc or any other member of the HSBC Group

Date: 2nd July 2014