

IN THE THIRD MEETING OF THE SECOND SESSION OF THE SEVENTH
PARLIAMENT OF THE FOURTH REPUBLIC

**REPORT OF THE FINANCE COMMITTEE ON THE FINANCING
AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF
GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION
(IDA) OF THE WORLD BANK GROUP FOR AN AMOUNT OF
FOURTEEN MILLION, TWO HUNDRED THOUSAND SPECIAL
DRAWING RIGHTS (SDR 14,200,000) (EQUIVALENT TO US\$20
MILLION) TO FINANCE THE PROPOSED GHANA ENERGY SECTOR
TRANSFORMATION INITIATIVE PROJECT**

1.0 INTRODUCTION

The request for approval of the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) of the World Bank Group for an amount equivalent to Fourteen Million, Two Hundred Thousand Special Drawing Rights (SDR14,200,000) (Equivalent to US\$20 million) to finance the Proposed Ghana Energy Sector Transformation Initiative Project was presented to the House on Wednesday, 14th November, 2018 in accordance with Article 181 of the 1992 Constitution.

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

The Committee was assisted in its deliberations by a Deputy Minister for Finance, Hon. Abena Osei Asare, a Deputy Minister of Energy, Hon. William Owuraku Aidoo and officials from the Ministries of Finance and Energy.

The Committee is grateful to the two Deputy Ministers and officials for attending upon it to assist in the deliberations.

2.0 REFERENCE

The Committee referred to the following documents in its deliberations:

- The 1992 Constitution of Ghana;
- The Public Financial Management Act, 2016 (Act 921); and
- The Standing Orders of the Parliament of Ghana;

3.0 BACKGROUND

The Energy Sector plays a vital role in Ghana's industrial and socio-economic development and has been undergoing a number of developmental initiatives to improve overall operational efficiency and supply security. Government's energy policy, embodied in the Strategic National Energy Plan (SNEP) 2006-2020, aims to develop a sound energy market that would provide sufficient, viable and efficient energy services for Ghana's economic development.

Ghana's access rate (2017) is second only to South Africa in Sub-Saharan Africa. However, there is disparity between rural and urban access. The Government's goal is to achieve universal access to electricity and scale up renewable energy penetration by ten (10) percent by the year 2020. Ghana is also committed to the United Nation's Sustainable Development Goals, which targets universal access to modern energy service by 2030. The Government also aims to address the disparity between urban centers (where access is over 90 percent) and rural communities (60 percent) and therefore, with support of World Bank and other development partners, the Government has been working on off-grid renewable energy technology solutions and mini-grid pilot programs to bridge the gap.

Ghana's Energy Sector has however, been challenged financially over the past decade, and especially in recent years, arising from

- (a) high cost of fuel used by thermal power plants,
- (b) gas supply shortages,
- (c) high payments for installed capacity to Emergency Power Producers (EPPs) and Independent Power Producers (IPPs),
- (d) high distribution losses,
- (e) low revenue collections by ECG, and
- (f) non-payment by Government entities.

Consequently, electricity sector revenues have fallen far short of costs, causing the sector entities to find themselves in precarious financial circumstances. In the recent past, this situation led to VRA incurring expensive external debt in order to maintain their operations. As a result, by March 2017, the sector had accumulated US\$2.3 billion of net debt, and the cost of servicing this debt has become its financial burden.

The financial stress of the power agencies has also been exacerbated by the fact that the revenue mobilized is not fairly shared among the players. It is currently skewed towards Government contracting Energy Power Partners (EPPs) at the expense of other Independent Power Producers (IPPs) and public entities like VRA and GRIDCO. The result is that fuel supplies from Ghana National Gas Company, West Africa Pipeline Company, Nigeria Gas and imports from Ivory Coast are left outstanding. There is therefore the need to devise a new means of sharing the revenue inflows equitably in order to ensure the survival of the power industry players. One of such measures is the Cash Waterfall Mechanism. Unfortunately, the Cash Waterfall Mechanism which has been approved by Cabinet requires some financial support for its implementation.

It has also been identified that there is the need to deliver innovation and practical solutions to resolve the Sector's challenges. This would require the development of a Financial Recovery Plan for the Energy Sector Agencies.

Successful commercial operation of the Energy Sector requires effective coordination and planning, as well as consensus building among the various implementation, supervisory, and regulatory agencies. Previous coordination challenges led to the over signing of Power Purchase Agreements (PPAs) and lack of planning for gas transportation infrastructure to meet the power sector's requirements. An efficiently operated integrated system would potentially position Ghana as one of the key power exporters to the West African Power Pool (WAPP) community.

Delivering such a system would require

- (a) improving the coordination within and between the gas and power systems,
- (b) rationalizing the roles and mandates of energy SOEs and agencies and restructuring of the institutional set up,
- (c) strengthening of the regulatory environment, and
- (d) capacity building to operate the system and allocate resources in the most efficient way.

Underpinning all the above is the availability of good data and information sharing as a much more transparent approach to economic regulation, planning and investment decisions.

Attainment of Government's goal of universal energy access will require

- (a) developing a bankable investment plan by collecting the necessary information and lessons learned from previous electrification projects,

- (b) utilizing geospatial mapping to determine the limits of extending the grid,
- (c) determining the cost of stand-alone off-grid and mini-grid solutions where grid extension will not be feasible,
- (d) capacity building to provide technical skills in the use of non-conventional technology systems,
- (e) as part of the access agenda, and also included in the Nationally Determined Commitment, the Government is committed to scale up access and adoption of two (2) million efficient cook stoves by 2030 in line with Sustainable Development Goals (SDGs)

Ghana has three commercial oil and gas development projects; Jubilee, TEN, and Sankofa. Production of associated gas from these fields (130 MMcfd out of anticipated 150 MMcfd) has resulted in inconsistent supply of gas for power production. Contracted gas volumes from (West African Gas Pipeline) WAGP (120 MMcfd) has historically been under supplied, averaging 50 MMcfd as a result of both supply shortages in Nigeria and nonpayment for gas by Ghana. The imbalance between gas supply and electricity demand resulted in electricity supply interruptions and increased electricity production costs. The gas sub-sector thus needs to develop a strategy for balancing natural gas demand and supply. The need for comprehensive study to find solution to the imbalance in the gas supply cannot be over emphasized.

As a technical assistance project aligned to Government's strategies, the GESTIP will focus on providing support for the development of strategies and frameworks to support a more meticulous and transparent approach to the planning, coordination, regulation and decision making within the Energy Sector. In order to successfully implement the project, Government is seeking for approval of a loan amounting to SDR 14.2 million (USUS\$20 million) from the International Development Association (IDA).

4.0 OBJECT OF THE LOAN

The object of the loan is to finance the Ghana Energy Sector Transformation Initiative Project which aims at supporting Government's vision of making a broad range of affordable, high quality and formal financial services and products available to Ghanaians, whilst ensuring that these services are provided by sound, responsible and innovative financial institutions.

5.0 TERMS OF THE LOAN

The terms of the loan are as follows:

Loan Amount	SDR 14,200,000 (US\$20.0 million)
Grace Period (Moratorium)	5 years
Repayment Period	25 years
Maximum Commitment Charge (This is waived for now)	0.5% per annum
Service charge	0.75% per annum
Interest charge	1.25% per annum.
Grant element	33.23%.

6.0 PROJECT COMPONENTS

The Project is structured around five (5) components as described below:

1. **Component 1 covers the Management of Energy Sector Financial Flows (US\$6.3 million).** The activities under this component will assist in addressing the financial viability of the energy sector by improving revenue

management at sectorial level, revenue collection at the utilities level, organizational structures, and strengthening the power companies' operational and financial management (FM) functions. The activities to be supported are as follows:

- a) Cash Waterfall Mechanism (CWM): This activity will support the finalization of the structuring of the CWM which was approved by Cabinet on July 20, 2017. This support will include training stakeholders (MoEn, MoF, PURC, EC, ECG, NEDCo, and VRA) in financial modeling and financial management. It is expected that the outcome of the operationalization of the CWM will lead to high level of predictability of the revenue streams in the Energy Sector.
- b) Electronic billing and collection of electricity payments from customers: This activity will help design the implementation arrangements for an e-billing/e-payment mechanism for NEDCo and finance the required software to roll it out. Kenya's well-performing e-billing/e-payment system will be used as an example to enrich the already existing ECG system in the country.
- c) VRA restructuring: This activity will inform the design and implementation of the Government approved new structure for VRA. The new structure would break up VRA into several companies, one each for hydro, thermal, and other assets.

2. **Component 2 covers Sector Planning and Coordination (US\$3.5 million).** In order to enhance planning and coordination across the energy sector, this component will assist the Government to design effective institutional arrangements with clear mandates for the regulatory institutions. The project will also support a range of training programs to build capacity of key institutions and finance equipment for remote monitoring of dispatch and outages to enable independent validation of data provided by the Sector's operators. Some of the activities to be financed are:

- a. Electricity and Gas sector assessment with the aim of establishing a robust regulatory framework and institutional setup to support the gas sector's value chain through to gas-fired power generation. The activity will explore the policy and operational requirements to take advantage of the hydro and gas assets and renewable energy potential in Ghana to allow the country to operate its energy system in a flexible and resilient manner.
 - b. Regional power trading: This project will support a gap analysis to identify any policies and regulations that are not in line with evolving regional standards and outline the steps necessary for GRIDCo's full participation in regional trade. The activity will also include regional market analysis on cost and demand projections in the region for power export from Ghana. Capacity building will be directed to support implementation of the recommendations.
 - c. Grid resilience and reinforcement study for GRIDCo will identify the investments needed to expand electricity from renewable energy and assess the impact of integration of renewable energy in the grid. It will also review the institutional, regulatory, and technical aspects affecting GRIDCo's operations to enable it to function as a fully interconnected and synchronized regional power system, while insulating Ghana from external disturbances to its system.
3. **Component 3: Energy access (US\$3.0 million).** This component will support the improvement of access to energy in the following ways:
- a. Investment plan for 100% electrification: In furtherance of governments' goal of achieving universal electrification by 2030, this activity will develop a bankable investment plan by collecting the necessary information and lessons learned from previous electrification projects, utilize geospatial mapping to determine the

limits of extending the grid, and determine the cost of stand-alone off-grid and mini-grid solutions.

- b. Strategy for increasing access to safe, clean cooking: The strategy will outline how the Government will support the increase in access to clean cooking which forms part of Ghana's commitments under the Sustainable Development Goals 7. It will focus on regulatory and incentive structures that can be utilized to increase access.
 - c. NEDCo's operating systems upgrade: This activity will assist NEDCo to improve its operational efficiency. This activity will update NEDCo's distribution system master plan, update distribution standards and produce documented design and construction standards that will guide further expansion and network improvements, and develop the geographic information system (GIS) for NEDCo's Techiman operational area. The project will also finance the purchase of small tools and equipment for NEDCo's business operations and provide training to NEDCo staff across functional areas.
4. **Component 4: Natural gas (US\$3.2 million).** The fourth component will support the natural gas sector in the following ways:
- a. Strategy for balancing gas demand and supply: This activity will review the functioning of the gas sector and develop a strategy to aggregate and allocate natural gas flows, including an options paper on models for gas pricing, pipeline capacity nomination and allocation of gas to power plants.
 - b. Review of WAGP treaties: This study will review the WAGP treaties and operation to identify what is required to further utilize WAGP for the benefit of the region. An options paper will contrast different operational, commercial, and ownership paradigms that could be explored, including third-party access to the pipeline, procedures of nominating capacity, and reverse flow beyond Ghana (Tema).

- c. Support for capacity building and vocational training: As the national aggregator of gas, GNPC has an important role to play in purchasing gas, setting and communicating gas prices, and coordinating available volumes with power generators and the grid operator to ensure security of supply. The project will provide technical support to GNPC, as well as Ghana National Gas Company (GNGC) and other Gas sector Agencies and Institutions, to reinforce their capacity to price and allocate gas transparently to facilitate the reintegration of natural gas in the power sector.

5. **Component 5 deals with Project Management (US\$2 million).** This component will support the administrative cost of the Project including monitoring and evaluation.

There is an uncollected amount of US\$2 Million that has been made available for contingencies, exchange rate losses or any other related activities.

7.0 **OBSERVATIONS**

7.1 **Expected Benefits**

The Committee observed that the expected benefits to be derived from the project include:

- i. Improved financial viability which will result in the stabilization of the sector's finances.
- ii. Improved access by aligning government's goals in order to attain universal access by 2020, and further placing emphasis on adopting a cost-effective approach to meet the goal.
- iii. Improved access to clean cooking mechanisms.
- iv. Improved coordination among stakeholders to enhance the effective utilization of domestic gas for power generation and other industrial use.

The strengthening of this Sector will also facilitate government's agenda to develop and position Ghana as a regional energy hub.

- v. Improved Sector coordination to help complement Government's effort to optimize planning and operation of the Sector. This will also lead to more efficient use of resources in the Sector and set it on the path to improved financial and environmental sustainability.

7.2 Rationale for the Project

The technical team informed the Committee that the objectives of the Ghana Energy Sector Transformation Initiative Project (GESTIP) are aligned with Government's strategies towards the attainment of development outcomes. Government is committed to transforming the energy sector by particularly addressing the financial and sector coordination issues. These measures form part of a broader Energy sector Transformation Plan which Government is working on finalization. The GESTIP has been designed with both Sector policies and Government's Coordinated Program of Economic and Social Development in mind.

The Committee noted that the positioning of the energy sector is unique in the sense that improvements in its planning and operations will have a rollover effect on the other sectors of the economy. Some of the specific issues to be addressed in the project are financial, capacity building, planning and coordination that will lay the foundation for a robust and resilient sector that will compete regionally.

7.3 Unallocated Provision of US\$2Million

In a response to why an unallocated provision of US\$2 million has been made, it was explained that the provision was to take care of variances and fluctuations that may impact on the project.

7.4 Review of WAPCO Treaties



The Deputy Minister indicated that there was the need to review the WAPCO treaties in order to make the treaties much clearer. This difficulty came up when Ghana attempted a reverse flow of gas on the West Africa Gas Pipeline. He said the review would spell out how the West Africa Gas Pipeline could be used for any other future purposes.

7.5 Use of IDA Financing

The Deputy Minister for Energy stated that the facility will render technical assistance which involves improving management systems and capacity building. He said the capacity building component of the expenditure is eight (8) percent whilst consultancy takes Fifty-six (56) percent. He said the losses being recorded in the energy sector is alarming. There is therefore the need for this funding to help build the capacity of the sector, coordinate the sector's framework, realign and develop the necessary framework to help address these recurring energy losses. According to him, this project will address all the challenges facing the entire sector once and for all.

8.0 RECOMMENDATION

Use of IDA support


The Committee expressed concern about the use of IDA facilities in recent times. The Committee observed that lately the IDA facilities that come for Parliamentary approval are targeted at technical assistance and capacity building. Members were, however, of the view that these funding should rather be targeted at projects that support growth whilst budgetary funding be used for capacity building related activities.

In view of the concessional nature of the IDA loans, the Committee urges the Ministry of Finance to streamline them to reflect projects targeted at growth in the country.

9.0 CONCLUSION

The Committee having carefully examined the referral is of the view that the financing is necessary to support Government's efforts to improve the financial sector regulatory framework. Further, the financing for the project is an IDA concessionary facility with favorable terms and conditions. The Committee therefore recommends to the House to adopt its report and approve the request for approval of **the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) of the World Bank Group for an amount equivalent to Fourteen Million, Two Hundred Thousand Special Drawing Rights (SDR14,200,000) (Equivalent to US\$20million) to finance the Proposed Ghana Energy Sector Transformation Initiative Project** in accordance with Article 181 of the 1992 Constitution, Section 56 of the Public Financial Management Act, 2016 (Act 921) and Order 169 of the Standing Orders of the Parliament of Ghana.

Respectfully Submitted.


.....
HON. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)


.....
EVELYN BREFO-BOATENG (MS)
(CLERK, FINANCE COMMITTEE)

