

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



REPORT OF THE
FINANCE COMMITTEE

ON THE

MASTER PROJECT SUPPORT AGREEMENT (MPSA)
BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND
SINOHYDRO CORPORATION LIMITED FOR AN AMOUNT UP TO TWO
BILLION UNITED STATES DOLLARS (US\$2.00 BILLION) FOR THE
CONSTRUCTION OF PRIORITY INFRASTRUCTURE PROJECTS.

JULY, 2018

1.0 INTRODUCTION

The **Master Project Support Agreement (MPSA)** between the **Government of the Republic of Ghana** and **Sinohydro Corporation Limited** for an amount up to **Two Billion United States Dollars (US\$2.00 Billion)** for the **Construction of Priority Infrastructure Projects** was *presented* to the House on Monday 23rd July, 2018 by the Honourable Deputy Minister for Finance, Mr. Kwaku Agyeman Kwarteng on behalf of the Minister responsible for Finance.

Pursuant to article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the Agreement was *referred* to the Committee on Finance for consideration and report.

The Committee subsequently met and discussed the Agreement with a Deputy Minister for Finance, Hon. Charles Adu Boahen and officials from the Ministry of Finance.

The Committee hereby submits this report to the House pursuant to Order 161(1) of the Standing Orders of the House.

The Committee is grateful to the above-mentioned Honourable Deputy Minister and officials for attending upon the Committee.

2.0 REFERENCES

The Committee referred to and was guided by the following documents *inter alia* during its deliberations on the Agreement:

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

3.0 BACKGROUND

The Government of Ghana recognises the importance of good road infrastructure as a critical facilitator for rapid socio-economic development of the country through the improvement of accesses, reduction in travel times, congestion, vehicle operating cost, accidents and cost of doing business.

To ensure the operational efficiency of road transport in moving persons, goods and services within the country and with neighbouring countries, the Government has implemented some major road infrastructure projects and continues to source funding to implement additional critical infrastructure projects such as hospitals, bridges, interchanges, roads, affordable housing and fishing landing sites in line with its infrastructure development agenda.

Pursuant to the above, the Government of Ghana is entering into a Master Project Support Agreement (MPSA) with Sinohydro Corporation Limited to support priority infrastructure projects in Ghana.

4.0 PROGRAMME OBJECTIVES

The overriding consideration for identifying the Priority Projects is the strategic socio-economic significance of the selected Priorities.

The objectives are to improve road infrastructure for enhanced intra-urban, regional and national road traffic flow, pursue rural electrification, affordable housing, fish landing sites strengthen economic and regional integration and reduce the cost of doing business in the country.

5.0 TERMS AND CONDITIONS OF THE MPSA

The terms and conditions of the MPSA are as follows:

MPSA Amount	-	US\$2.00 Billion
Advance Payment (GOG)	-	15% of the EPC Contract Price (to be pre-

financed by Sinohydro)

Grace Period	- 3 years
Repayment Period	- 12 years
Tenor	- 15 years
Repayment Item	- receipts from refined Bauxite (alumina or aluminium)
Interest Rate	- US Libor + 2.8%-3.3% per annum
Commitment Fee	- 1.00% p.a.
Management Fee	- 1.2% Flat
Sinosure Premium	- 7%-9% Flat and Financed Upfront

6.0 OBSERVATIONS

6.1 Scope and Subject Matter of the MPSA

The Committee noted that under the MPSA, Sinohydro agrees to arrange for one or more loan facilities for payment of *eighty-five percent (85%)* of the construction and project cost of the Priority Projects of the Government of Ghana. The aggregate cost of these priority projects is estimated at **Two Billion United States Dollars (US\$2.00 Billion)**. Sinohydro agrees to arrange the Project Financing for Deferred Repayment by the Government of Ghana.

6.2 GoG Counterpart Funding

The Committee was informed that the Government of Ghana is, in principle, required to provide the remaining fifteen percent (15%) of the construction and project cost. However, Sinohydro has agreed to enter into good faith negotiations with the Government of Ghana to reach an agreement on the source and method of financing this 15% of the cost.

The Deputy Minister for Finance, Hon. Charles Adu Boahen explained to the Committee that Sinohydro will arrange the 15% on behalf of Government along similar terms as the Deferred Payment Facilities.

6.3 Government Priority Areas

The Committee was informed that Priority Projects of the Government of Ghana to be funded under the MPSA comprise:

- (a) Rural Electrification
- (b) Construction of
 - (i) Hospitals and Clinics
 - (ii) Bridges
 - (iii) Interchanges
 - (iv) Roads
 - (v) Affordable Housing
 - (vi) Fishing Landing Sites; and
- (c) such other projects as may be identified by the Government of Ghana.

Under the MPSA, Sinohydro is responsible for arranging the Project Financing for all the Priority Projects subject to the mutual agreement of the parties. Sinohydro shall be solely responsible to enter into the financing agreement(s) with any financial institution that agrees to provide the Project Financing.

6.4 Repayment by GoG

The Committee observed from Clause 2.3 of the MPSA that repayment obligations of the Government of Ghana (GoG) to Sinohydro for *Sinohydro Arranged Project Financing* shall be *deferred* and honoured over a total term of fifteen (15) years (inclusive of a 3 year grace period), but the commencement of payment term shall be deferred to the date on which Sinohydro confirms to GoG that it has secured the commitment for the relevant project financing.

GoG is to make the repayments out of receipts from transfers of refined bauxite (alumina or aluminium) to Sinohydro's strategic partner (Offtaker). Where such receipts are insufficient to service the Project Financing, GoG will be required to use other sources for the repayment to Sinohydro.

6.5 Barter Facility

The Committee was further informed that the MPSA is essentially a "barter" facility by which Sinohydro will implement various EPC contracts for Ghana and the Government repays with refined bauxite (alumina/aluminium).

To enhance and maximise the value to Ghana of its bauxite resources, the Committee was informed that Government through the Ghana Integrated Bauxite and Alumina Development Authority (GIBADA) will establish a bauxite processing plant to process the raw bauxite into alumina before shipping same to service the obligations under the MPSA.

This is expected to help create jobs and enhance the value of the resource to Ghana. Presently raw bauxite was said to trade at about US\$24/tonne on the international market whilst processed alumina trades at more than US\$300/tonne.

6.5.1 A Barter Agreement not a Loan?

The Honourable Deputy Minister for Finance, Hon. Charles Adu Boahen informed the Committee that the Agreement is only a barter arrangement and not a loan. He explained that refined bauxite (alumina or aluminium) would be used for the barter agreement and it will not add to the public debt.

6.6 Timetable for the Priority Projects

The Parties are to negotiate and enter into EPC Contracts based on FIDIC EPC Contract Conditions for Phase I of the Projects within three (3) months from the execution of the MPSA. Within six (6) months thereafter, the Parties will negotiate and enter into EPC Contracts for Phase II.

It was explained to the Committee that the conditions, prices and payment schedules of each EPC Contract shall be mutually agreed by the Parties during the negotiations of the EPC Contracts.

6.7 Choice of Ghana Law

The Committee noted that the MPSA shall be governed by and construed in accordance with the laws of Ghana

6.8 Inability to Reach Consensus

A minority of the Honourable Members on the Committee expressed the view that in principle they were not opposed to the Agreement. However they were opposed to what they described as attempts by the Ministry of Finance to 'hide the debt' involved in the Agreement. To them, describing the arrangement as a "*barter*" would obscure what is in their opinion a *debt* that the Government is incurring under the Agreement. For this reason, they declined to support the recommendation to the House to approve of the Facility.

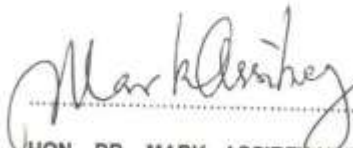
7.0 CONCLUSION

The Committee finds that the MPSA would help to accelerate the pace of infrastructural development in the country.

The Committee therefore, *by a Majority Decision*, respectfully recommends to the House to adopt this report and approve by Resolution, the **Master Project Support Agreement (MPSA)** between the **Government of the Republic of Ghana** and **Sinohydro Corporation Limited** for an amount up to **Two Billion United States Dollars (US\$2.00 Billion)** for the **Construction of Priority Infrastructure Projects** in accordance with

article 181 of the 1992 Constitution of the Republic of Ghana.

Respectfully submitted.



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



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

26TH JULY, 2018

