

**JOINT MEMORANDUM TO PARLIAMENT**

**BY**

**HON. JOHN - PETER AMEWU (MP)  
(MINISTER FOR RAILWAY DEVELOPMENT)**

**AND**

**KEN OFORI-ATTA  
(MINISTER FOR FINANCE)**

**ON THE  
FACILITY AND COMMERCIAL AGREEMENTS FOR THE  
CONSTRUCTION OF SECTIONS OF THE WESTERN RAILWAY LINE  
ON STANDARD GAUGE FROM EDUADIN TO OBUASI**

**30<sup>th</sup> NOVEMBER, 2021**

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## 1.0 ACTION REQUIRED

Parliament is respectfully invited to consider and approve the following:

- 1.1 The Commercial Contract of **Three Hundred and Sixty-One Million, Two Hundred and Thirty-One Thousand, Nine Hundred and Sixty-Five Euros (€361,231,965)** between the Republic of Ghana represented by the Ministry of Railway Development through the Ghana Railway Development Authority and Messrs AFCONS Infrastructure Limited for the construction of sections of the Western Railway Line on standard gauge from Eduadin to Obuasi (the "Project"). **(Annex A)**
- 1.2 The Facility Agreement of up to **Four Hundred and Thirty-Nine Million Euros (€439,000,000)** between the Republic of Ghana represented by the Ministry of Finance and Deutsche Bank AG (London) as Arranger, Structuring Bank, and Facility Agent and Other Financial Institutions as Original Lenders, with export credit guarantee from EKF Denmark's Export Credit Agency (EKF) to finance the cost of the Project (i.e. **€361,231,965**) and the estimated cost of the EKF insurance premium (i.e. **€77,768,035**). **(Annex B)**
- 1.4 The request for waiver of Import Duties, Import NHIL, Import GETFUND, Import VAT, EXIM Levy and Special Import Levy, and Domestic VAT, amounting to Ghana Cedi equivalent of **Twenty-Nine Million, One Hundred and Fifty Thousand, Seven Hundred and Thirty-Five Euros (€29,150,735)** on materials, equipment and works/services, required for the implementation of the Project. **(Annex C)**

## 2.0 BACKGROUND INFORMATION

- 2.1 The Western Railway Line, which is from Takoradi to Kumasi with a branch line from Dunkwa to Awaso (340km), is the major route for the transportation of major minerals and other bulk commodities. The haulage of such bulk commodities (manganese, bauxite, cocoa, timber, cement, petroleum products, mining equipment etc.) on the line reduces the challenge of using road transport which causes road deterioration.
- 2.2 Unfortunately, due to several decades of neglect and underfunding, the Western Line is completely broken down, except for partial freight services on the Takoradi - Nsuta section which is used for the haulage and export of Manganese through the Takoradi Port.
- 2.3 Government has adopted a systematic approach to gradually develop the Western Railway Line in accordance with the Railway Master Plan.
- 2.4 First and foremost, and in order to sustain the haulage and export of manganese from Nsuta through the Takoradi Port, the narrow gauge section of the line from Kojokrom to Tarkwa has been rehabilitated by Ghana Railway Company Ltd with funds provided by the Government of Ghana and passenger rail services have been reintroduced along the corridor for the first time since 2007.
- 2.5 Secondly, in order to develop the Western Railway Line on a new standard gauge, approval was conveyed in 2017 for the single-source procurement of Messrs Amandi Holding Limited and a contract dated December 8, 2017 was

- signed with the contractor for construction of the line from Kojokrom to Eshiem, a distance of 5km.
- 2.6 Subsequent to this, and with the approval of the Public Procurement Authority (PPA), a contract was awarded in 2018 for the continuation of the construction works for a further 17km railway line from Eshiem to Manso.
  - 2.7 Furthermore, on 3<sup>rd</sup> June, 2020, the Ghana Railway Development Authority signed an Engineering, Procurement and Construction (EPC) contract with Messrs Amandi Investment Limited with financing arrangement from Deutsche Bank AG for the continuation of the construction works on sections of the Western Railway Line from Manso to Huni Valley. The project also includes the development of a standard gauge railway line into the Port of Takoradi as well as the conversion of the existing dual gauge line between Takoradi and Kojokrom.
  - 2.8 For some strategic policy reasons, Government has decided to develop the Western Railway Line southwards from Kumasi to Takoradi and 83.5km will be covered from Kumasi to Obuasi. The first phase, from Kumasi (Adum) to Kaase, covering a distance of 6km was signed on 18<sup>th</sup> August, 2020 between the Ghana Railway Development Authority and Messrs David Walter Limited and funds will be provided by the Government of Ghana.
  - 2.9 The second phase of the project involving the section from Kaase to Eduadin (approximately 12km) was also signed on 1<sup>st</sup> December, 2020 between Ghana Railway Development Authority and Messrs David Walter Limited.
  - 2.10 With regard to the section from Eduadin to Obuasi, covering a distance of 51km, Messrs. AFCONS Infrastructure Limited has submitted Technical and Financial Proposals dated 31<sup>st</sup> August, 2020, including a financing offer from Deutsche Bank AG dated 15<sup>th</sup> September, 2020 for the construction of a single standard gauge railway line from Eduadin to Obuasi, a section of the Western Railway Line. Details of the works to be carried out per the proposal is as spelt out in the scope of works.
  - 2.11 The contract dated 15<sup>th</sup> September, 2020 is denominated in United States Dollars at a contract sum of Four Hundred and Nineteen Million, Seven Hundred and Fifteen Thousand, Four Hundred and Twenty United States Dollars (US\$419,715,420.00). Per an Addendum No. 1 to the Contract dated 20<sup>th</sup> November 2020, the contract sum was converted into Euros to correspond with the currency of the loan facility being sourced for the implementation of the contract. The contract sum was therefore amended to **Three Hundred and Sixty-One Million, Two Hundred and Thirty-One Thousand, Nine Hundred and Sixty-Five Euros (€361,231,965)** exclusive of applicable local taxes/charges and stamp duties and/or such other sums as may be determined in accordance with the Conditions of the Contract.
  - 2.12 The terms of the financing have been found acceptable by the Ministry of Finance and the necessary processes toward the finalization of the Financing Agreement is on-going for the sourcing for a credit facility to finance the project.

### **3.0 SCOPE OF WORKS**

3.1 Pre-contract negotiations were undertaken to agree on the detailed scope of works to be undertaken by the Contractor in line with the engineering design and requirements of the Client. The negotiations were concluded in September, 2020 and the following were the scope of works agreed upon:

3.3.1 Construction of infrastructure for a single standard gauge railway line, including supply/procurement of materials, testing and commissioning based on the design provided by the Employer from Eduadin to Obuasi, approximately 51km in length including extension lines on both ends. The works consists of the following:

- i. Construction of a single standard gauge railway formation with embankment in cut and fill and protected with a blanket layer;
- ii. Construction of culverts, bridges and other drainage facilities for hydrological purposes;
- iii. Construction of grid separation structures like Road Over Bridges and Road Under Passes;
- iv. Construction of a permanent way with ballasted track, pre-stressed mono-block concrete sleepers and anti-theft/anti-vandal rail fastening system;
- v. Construction of maintenance workshop facility including supply of basic rolling stock and track maintenance equipment;
- vi. Construction of station buildings with passenger amenities, loop lines, passing loops and yards;
- vii. Setting up of a communication-based signalling and telecommunication system for the entire length of the project;
- viii. Supply of rolling stock which includes 2 units of 3500 HP Locomotives, 2 units of 750 HP Shunting Locomotives, 20 Nos. of Passenger Coaches and 64 Nos. of Freight wagons;
- ix. Provision for the Employer's and Engineer's inspection facilities, project management services including detailed design and drawing, construction supervision, support towards land acquisition and utility shifting;
- x. Provision for laboratory and accommodation facilities to support the supervision and control of railway development by the Employer;
- xi. Construction of pedestrian footbridges at locations to be determined in consultation with Local Authorities; and
- xii. Construction of fencing along the right-of-way per the design.

#### 4.0 JUSTIFICATION FOR GOVERNMENT ACTION

- 4.1 The Western line, which used to haul bulk commodities such as bauxite, manganese, cocoa, timber, petroleum products, cement, mining equipment etc. and therefore the main stay of the Ghana Railway Company Limited is currently in a serious state of disrepair. The line north of Tarkwa has been closed and only limited freight (manganese) services from Nsuta to Takaradi and passenger services from Takoradi to Tarkwa and also from Takoradi to Sekondi via Kojokrom are being provided.
- 4.2 In order for the Western Line to be able to provide the services of hauling bulk commodities and also provide efficient passenger services to support economic growth, Government is making serious efforts to revamp the line. For example, between 2017 and 2019, Government provided funding from the annual budget for the construction of a new standard gauge line from Kojokrom to Manso, through Eshiem, a distance of about 22km.
- 4.3 Additionally, on 3<sup>rd</sup> June, 2020, the Government of Ghana, represented by the Ghana Railway Development Authority, signed a contract with Messrs Amandi Investment Limited for the continuation of the standard gauge railway line from Manso to Huni Valley, approximately 70km of single track. The Engineering Procurement and Construction (EPC) contract, which is being financed under a Deutsche Bank AG credit facility, also includes the conversion of 10.6km dual gauge tracks between Takoradi and Kojokrom from narrow gauge to standard gauge and the construction of approximately 8km of standard gauge railway tracks connecting the existing dual gauge tracks from the Takoradi Train Station to the Takoradi Port for easy and efficient access of cargo handling.
- 4.4 A contract for the section of the line from Kumasi (Adum) to Kaase, covering a distance of 6km was signed on 18<sup>th</sup> August, 2020 between the Ghana Railway Development Authority and Messrs David Walter Limited. Contract for the second phase of the project involving the section from Kaase to Eduadin (approximately 12km) was also signed on 1<sup>st</sup> December, 2020 with the same contractor.
- 4.5 In order to strengthen Government's efforts to quickly actualise its plans to develop the Western Line to enhance economic activities along the corridor, Government, through the Ghana Railway Development Authority has again signed a contract dated 29<sup>th</sup> September, 2020 with Messrs AFCONS Infrastructure Limited for the development of the section of the Western Railway Line from Eduadin to Obuasi, a distance of approximately 51km. The estimated contract sum for the project as per the Addendum No. 1 dated 20<sup>th</sup> November, 2020 is **Three Hundred and Sixty-One Million, Two Hundred and Thirty-One Thousand, Nine Hundred and Sixty-Five Euros (€361,231,965)**. The contract is however, subject to the following conditions precedent for effectiveness:
- i. Obtaining Executive approval;
  - ii. Obtaining Ministry of Finance's approval in accordance with sections 33 and 96 of the Public Financial Management Act, 2016 (Act 921);

- iii. Obtaining approval from the Public Procurement Authority in accordance with Section 40 of the Public Procurement Act 2003 (Act 663) as amended;
- iv. Obtaining Parliamentary approval in accordance with Article 181(5) of the Constitution of the Republic of Ghana, 1992;
- v. Obtaining the Environmental and Social Impact Assessment (ESIA) report, according to IFC Performance Standards;
- vi. Conducting a Value for Money audit;
- vii. Execution of the Financing Agreement for the Project;
- viii. Receipt of the Performance Bond by the Employer; and
- ix. Full payment of Advance to the Contractor.

4.6 The processes for achieving the above conditions precedent have already commenced and the following approvals have been obtained:

- i. Executive Approval by His Excellency the President (**Annex D**);
- ii. Approval by the Public Procurement Authority for the single-source procurement of the contractor, Messrs AFCONS Infrastructure Limited (**Annex E**).

4.7 The Ghana Railway Development Authority has engaged the services of a consultant to undertake a detailed Environmental and Social Impact Assessment (ESIA) in line with the World Bank's International Finance Corporation (IFC) Performance Standards. The Ministry of Railway Development is also collaborating with the Ministry of Finance to go through the necessary processes to engage an independent consultant to undertake Value-for-Money (VfM) audit of the contract.

4.8 The approval of Parliament is required in accordance with Article 181(5) of the 1992 Constitution of the Republic of Ghana. This approval by Parliament will also be in partial fulfilment of the conditions precedent to enable the contract come into full force and effect.

## **5.0 IMPACT ANALYSIS**

### **5.1 Employment/Job Creation**

The project will create employment opportunities for both skilled and unskilled labour in the project area. These will include artisans such as masons, carpenters, steel benders and welders. Besides these construction related employment opportunities, the project will create indirect employment or income earning opportunities for a number of people, in the informal sector.

## **5.2 Skills Transfer**

There will be opportunities for workers engaged in the project implementation to upgrade their technical skills. The expatriate project contractors will employ a number of skilled foreign and local personnel such as civil engineers, mechanical engineers, electrical engineers, surveyors, quantity surveyors and planners. However, majority of the workforce will be Ghanaian artisans. As the local workers work with the specialists, it is expected that there will be transfer of skills and technological know-how. This impact is positive and significant as the local workers will acquire skills and improve their capacity for other related job opportunities.

## **5.3 Local Economy**

With the development of the railway, both direct and indirect employment opportunities will be created and income will be generated in the communities. This will engender improvements in the local economy with associated positive impacts. Improved local economy will help reduce migration from the rural communities to towns and cities; youth unemployment and associated social vices will reduce; investible money will be available to establish new enterprises, thus, reducing poverty and improving standard of living within the affected communities.

## **5.4 Impact on Flora and Fauna**

Construction of the railway will result in the removal of vegetation from the land over a distance. Vegetation will also be cleared on sites for the development of construction camps. The removal of vegetation is to facilitate the movement and operation of construction trucks and machinery and also the performance of construction activities. This will affect the vegetation and subsequently affect the habitat and the livelihood of the various animals in the affected areas. There is therefore the need for mitigation measures like reforestation and re-grassing to be undertaken to address this occurrence.

## **5.5 Impact on soil**

The construction of the railway will cause the removal of trees, shrubs and grass as well as the root systems. This will lay bare the soil surfaces for both wind and rain and eventually soil fertility and quality will be lost through erosion and thus will affect the livelihood of crops and food supply. The entire ecosystem will also be destroyed and thus affect the livelihood of various plants and animals in the affected areas.

## **5.6 Impact of Noise and Vibration**

The main sources of noise and vibration during the construction phase of the project include blasting of rocks, excavations, drilling and piling as well as the movement and operation of heavy machinery and trucks. Noise from some of these sources can be excessive and the exposure of persons living in serene communities along the corridor could develop or generate serious negative implications on their health and life in general. The noise and vibration could



also scare animals within the communities and cause them to migrate to other areas.

#### **5.7 Impact on Air Quality**

The quality of air in the railway corridor is normally considered to be good because of its rural nature and the absence of industries that would emit significant volumes of air-borne pollutants into the atmosphere. However, the construction of the railway will affect the local air quality as volumes of local air pollutants including dust from construction activities and emissions from the movement and operation of construction machinery and trucks will be significant sources of air pollutants which could be hazardous to both plants and animals (including human beings) living within the affected communities.

#### **5.8 Impact on Properties**

Apart from the existing right-of-way on the corridor, the Government of Ghana will have to acquire land outside the existing right-of-way from its rightful owners. The acquisition of private land will result in destruction of farms including plantations of perennial and food crops and demolition of some buildings. A property impact survey will have to be undertaken to determine the various categories of buildings, structure and other properties that will be affected and their associated costs ascertained.

#### **5.9 Political Impact**

The construction of the railway will bring about the achievement of the mandate of the Ministry and Government and these would be a huge positive socio-political impact.

### **6.0 INTER-MINISTERIAL CONSULTATION RECORD**

6.1 The Ministry of Railway Development has been in consultation with the Ministry of Finance for the financing arrangement for the project. As part of the conditions precedent for the effectiveness of the contract, the approval of the Ministry of Finance will be sought in accordance with sections 33 and 96 of the Public Financial Management Act, 2016 (Act 921) for a multi-year expenditure commitment. The Ministry of Railway Development is also collaborating with the Ministry of Finance for the conduct of Value-for-Money (VfM) audit of the contract.

6.2 The Ministry, through the Ghana Railway Development Authority, has also obtained approval from the Public Procurement Authority in line with Section 40 (1) (b) of the Public Procurement Act, 2003 (Act 663) as amended, to engage Messrs AFCONS Infrastructure Limited as the EPC contractor for the project development.

6.3 Further consultations will also be undertaken with the Lands Commission on land acquisition issues and the Environmental Protection Agency (EPA) of the Ministry of Environment, Science, Technology & Innovation (MESTI) to obtain approval of the Environmental and Social Impact Assessment (ESIA) Report. This will also be in partial fulfilment of the conditions precedent for the effectiveness of the contract.

## **7.0 IMPLEMENTATION PLAN**

- 7.1 The Contractor shall complete the Works within a period of **thirty-six (36) months** from commencement of the project.
- 7.2 As per the contract, the project commencement date shall take effect when seventy percent (70%) of the site (right-of-way) is handed over to the contractor free from all encumbrances and all other conditions precedent as listed in section 4.5 above have been fulfilled. The remaining thirty percent (30%) shall be handed over to the Contractor within three hundred and sixty-five (365) days from the commencement date, provided always that the available 70% as mentioned above would be contiguous or with minimal intermittent gaps.
- 7.3 In the event that the remaining thirty percent (30%) of the site (right-of-way) is not handed over to the Contractor within the period stated above, the time for completion of the contract shall be extended to a period agreed upon by both Parties.
- 7.4 As outlined in the scope of works in section 3.0 above, the project aims to deliver the following within the thirty-six (36) months implementation timeframe:
- 51km of standard gauge single tracks from Eduadin to Obuasi
  - Railway bridges, road overpasses and underpasses, drainage systems etc.
  - Railway maintenance workshop infrastructure
  - Rolling stock and track maintenance equipment
  - 5No. passenger railway stations
  - Initial setup for signaling and telecommunications
  - 2No. 3500HP standard gauge locomotives
  - 2No. 750HP shunting locomotives
  - 20No. passenger coaches
  - 64No. freight wagons

## **8.0 LEGISLATION/REGULATORY PLAN**

- 8.1 Currently, the Railway Sector is being guided by the Railway Act, 2008 (Act 779). However, this Act has gaps as it makes the Ghana Railway Development Authority the asset owner, developer, as well as the regulator with its inherent inefficiencies and/or challenges.
- 8.2 As pertains in the other transport modes and in line with international best practices, the Ministry is in the process of reviewing the Railway Act, 2008 (Act 779) in order to decouple the regulatory functions from asset development. Additionally, Regulations are being developed to enforce or implement the Act that is being reviewed.

## **9.0 FINANCIAL IMPACT**

- 9.1 The project cost is programmed to be funded through borrowing and therefore forms part of the Appendix 10C of the 2021 National Budget. For this reason, Deutsche Bank AG was mandated to raise funds with export credit support from EKF to fully finance the project cost.

9.2 The project is expected to be ready for disbursement in 2022 as it will take not less than 6 months to reach a financial close. Some of the conditions precedent for effectiveness of the financing agreement include:

- Environmental Impact Study/Assessment
- Value for Money Assessment
- Parliamentary Approval of commercial contract and financing agreement

9.3 The summarised terms and conditions of the financing agreement are as follows:

<b>Terms</b>	<b>EKF Facility</b>
Facility amount (EUR)	Up to EUR €439,000,000 o/w €361.23mn is to finance the contract amount and €77.79mn is for the estimated EKF premium
Currency	Euro
Availability period	3 years
Repayment period	14 years
Tenor	17 years
Interest rate (fixed)	0.93% p.a. (EKF Cost of Funds 0.63%p.a. plus DB Margin 0.30% p.a.)
Commitment fee	0.65% p.a.
Upfront fee	1.50% flat of the facility amount
Premium indication	17.302% (figure used for calculation circa.17.5% to keep a buffer)
All-in-cost	3.18% p.a.

## 10.0 TAX EXEMPTION

### 10.1 Justification for Waiver

It is to be noted that Article 6 of the Contract puts the burden of taxes, duties and levies/fees on the Buyer. Accordingly, in line with the Article 6, the tax waiver request is also hereby tabled for Parliamentary consideration and approval.

Article 6 of the Particular Conditions of Agreement puts the burden of approved taxes on the project related items on the employer (in this case GoG through the Ministry of Railway Development). Accordingly, per Article 174(2) of the 1992 Constitution the tax liabilities on equipment, materials and works/services have to be submitted to Parliament for their consideration and approval.

### 10.2 Tax Assessment

Ghana Revenue Authority has accordingly carried out the required tax assessment on the Master list on the materials, equipment, and works/services, required for the project. The waiver covers Import Duties, Import NHIL/GETFUND, Import VAT, EXIM Levy and Special Import Levy, and Domestic VAT, amounting to Ghana Cedi equivalent of Twenty-Nine Million,

One Hundred and Fifty Thousand, Seven Hundred and Thirty-Five Euros (€29,150,735). The breakdown is summarized below:

**Summary of Tax Exemption-Eduadin to Obuasi Railway Project**

<b>Tax type</b>	<b>Tax to be exempted</b>	<b>Tax waiver amount (EURO)</b>
<b>Imports (A)</b>	Import Duty	8,016,466
	NHIL/ GETFUND	1,258,017
	Import VAT	3,302,293
	EXIM Levy	806,770
	SIL	1,573,581
<b>Subtotal (A)</b>		<b>14,957,127</b>
<b>Domestic (B)</b>	VAT	14,193,607
<b>Subtotal (B)</b>		<b>14,193,607</b>
<b>Total (A+B)</b>		<b>29,150,735</b>

The details of the tax assessment undertaken by the Ministry of Finance/Ghana Revenue Authority is attached as **Annex "C"**.

**11.0 CONCLUSION**

Given the expected benefits of the Project to the economy of Ghana, Parliament is respectfully invited to consider and approve the commercial and credit facility agreements, and the request for tax waiver as legally mandated.

  
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**JOHN-PETER AMEWU (MP)**  
**MINISTER FOR RAILWAY DEVELOPMENT**

  
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**KEN OFORI-ATTA**  
**MINISTER FOR FINANCE**