

IN THE FOURTH SESSION OF THE THIRD PARLIAMENT OF THE FOURTH
REPUBLIC OF GHANA

**REPORT OF THE FINANCE COMMITTEE ON THE
UPWARD ADJUSTMENT OF TAX, CUSTOMS AND
DUTIES EXEMPTIONS ON PROJECTS' GOODS AND
SERVICES BETWEEN THE GOVERNMENT OF GHANA
AND AGENCE FRANCAISE DE DEVELOPMENT (ADF)
TOTALLING €1,159,329 TO FINANCE THE NORTHERN
REGIONAL RURAL WATER AND SANITATION PROJECT**

1.0 INTRODUCTION

The above document was laid in the House on Wednesday, 30th June 2004 in accordance with Article 174(2) of the Constitution, and referred to the Finance Committee for consideration and report pursuant to Standing Orders of the House.

The Committee met with the Deputy Minister for Finance and Economic Planning, Mr. Kwaku Agyemang-Manu and a technical team from the Ministry of Finance and Economic Planning and reports as follows:

2.0 BACKGROUND

Hon. Members will recall that in November 2000, the House approved tax exemptions for the project in accordance with the Credit Financing Agreement. However, during the submission of the necessary documentation to the House for approval of the tax exemptions, the figure was miscalculated as **French Francs 1,992,000.00** which is equivalent to **Euros 303,680.00** instead of **Euros 1,463,000.**

A Credit Facility of **Euros 9,00,000.00** was extended to the Government of Ghana for the financing of the Northern Regional Rural Water and Sanitation Project.

3.0 PURPOSE OF CREDIT

The Credit is to provide:

- 210 boreholes equipped with hand pumps
- 25 hand-dug wells equipped with hand pumps
- 8 small center piped network systems
- 5 pilot surface water schemes
- 2000 household latrines
- 72 institutional latrines

The beneficiary districts are Savelugu/Nanton, Tolon/Kumbungu, East Gonja, West Gonja and Bole.

4.0 TERMS AND CONDITIONS

Concessionary Loan Amount	-	Euros 9.0 million
Interest Rate	-	2.5% per annum
Duration/Maturity	-	19 years
Grace Period	-	7 years on repayment of the Principal
Grant Element	-	40.13%

4.0 OBSERVATIONS

The Committee observed that the House approved a tax exemption of **French Francs 1,992,000** in the year 2000 but the total tax exemption required for the execution of the project as per the original agreement is **Euros 1,463,000**. This, the Committee noted, left a balance of **Euros 1,159,320** of the taxes to be exempted.

The Committee further observed that since the **French Francs 1,992,000** of tax exemption approved by the House constituted only **Euros 303,680 equivalent**, there is the need for an upward adjustment for an amount of **Euros, 1, 159,320** in order to bring the total tax exemptions to the agreed amount of **Euros 1,463,000**.

The Committee was also informed that since the Agreement was negotiated in **Euros**, it was a mistake for the tax exemption to have been computed in **French Francs (FF)**.

It was observed that should these exemptions not be granted, any duties and taxes paid by the contractors would have to be refunded by the Government of Ghana including any interest, penalties and exemptions payable or incurred in connection therewith.

Therefore, in order to avoid the Government incurring more debts as a result of the interest that is likely to accrue on the taxes, it has become necessary to seek approval from the House to waive the payment of the required duties and taxes on the specified equipment and materials being used for the execution of the project as provided for under the contract agreement.

The Committee further observed that the successful completion of the project will improve the level of potable rural water supply and sanitation conditions in the Northern Region.

5.0 CONCLUSION

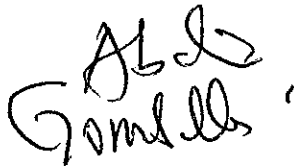
In view of the above, the Committee recommends to the House the adoption of its report on the request by the Minister for Finance and Economic Planning for the approval of the exercise by him of the power to waive such taxes and duties or to exempt the payment of such duties and

taxes totalling Euros1,159,329 to finance the Northern Regional Rural Water and Sanitation Project (NRRWSP) in accordance with Article 174(2) of the Constitution.

Respectfully submitted.



**HON. EUGENE ATTA AGYEPONG
CHAIRMAN**



**ALHAJI IBRAHIM GOMBILLA
CLERK**

12TH JULY 2004

APPENDIX I
ESTIMATES OF TAX EXEMPTION

NO.	ACTIVITIES	No.	ESTIMATED COST (EUROS)	ESTIMATED TAX ELEMENT (EUROS)
1.	Boreholes and Pumps	210	3,281,506.00	701,331.00
2.	Surface Water Supply System	5	304,925.00	61,035.00
3.	Small Towns Schemes	8	1,745,388.00	349,128.00
4.	Wells and Pumps	25	137,216.00	27,443.00
5.	Household Latrines	2000	364,995.00	72,999.00
6.	Institutional Latrines	72	213,447.00	42,689.00
7.	Logistics (DAs and CWSA)		233,381.00	46,676.00
8.	Contingencies		655,609.00	130,722.00
9.	Consultancy		1,871,000.00	30,977.00
	TOTAL		8,807,467.00	1,463,000.00

Appendix II : COST AND FINANCING OF THE PROJECT
(in millions of euros)

The financing of the AFD represents 9 millions euros (that is 83.7% of the total cost of the project) broken down as follows:

Components	Thousands of Euros
Works	6,243
Engineering	1,585
Support for CWSA and District Assemblies (<i>maîtrise d'ouvrage</i>)	407
Reserve for contingencies and price revision	765
TOTAL: AFD financing	9,000
Contribution of beneficiaries	268
Contribution of local authorities (District Assemblies)	25
Contribution of the State (contribution to the project and taxes and levies)	1,463
TOTAL COST OF THE PROJECT	10,756

On the basis of expected financial contributions of the beneficiaries towards the cost of each of the contemplated investments, the overall participation of the beneficiaries in the capital cost will be nearly 268,000 euros. The contribution to the capital cost of the household latrines may take the form of the provision of unskilled labour and equipment.

The participation of the Republic of Ghana will cover:

- the salaries of officials and the offices made available to the project in the context of control and supervision of the project, that is approximately 19 500 euros;
- assumption of taxes and customs duties on imported products and services, that is approximately 1.41 million euros.

The participation of District Assemblies will cover the assumption of the salaries of the DWST employees used on a sporadic basis for the project and making available the corresponding offices, that is approximately 25,000 euros.