

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

# REPORT OF THE FINANCE COMMITTEE

ON

THE BUYER'S CREDIT LOAN AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE  
EXPORT-IMPORT BANK OF CHINA FOR AN AMOUNT OF  
FIVE HUNDRED AND SIXTY-TWO MILLION UNITED  
STATES DOLLARS (US\$562 MILLION)

FOR

FINANCING OF THE 400 MW BUI HYDROELECTRIC  
PROJECT

July 26, 2007

## **1.0 INTRODUCTION**

The Buyer's Credit Loan Agreement between the Government of the Republic of Ghana and the Export-Import Bank of China for an amount of five hundred and sixty-two million United States Dollars (US\$562 Million) for financing of the 400 mw Bui Hydroelectric Project was laid in the House on Tuesday 24<sup>th</sup> July 2007 in accordance with article 181 (3) of the Constitution and referred to the Finance Committee for consideration and report pursuant to Order No. 171 (1) of the Standing Orders of the House.

To consider the agreement, the Committee met with the Minister for Finance and Economic Planning, Hon. Kwadwo Baah-Wiredu, Deputy Ministers for Finance and Economic Planning, Hon. Dr. A. Akoto Osei and Hon. Prof. George Gyan-Baffour, officials from the Ministries of Energy and Finance & Economic Planning and reports as follows:

## **2.0 BACKGROUND**

The Bui Hydropower site was discovered in the 1920's by Albert Kitson as part of the campaign by the British Government to develop potential hydroelectric power sites in Ghana.

Currently, the 400MW Bui hydropower project is considered to be the most technical and economically attractive hydropower site in Ghana after the Akosombo and Kpong power plants.

As Members are aware, the Bui site has been the subject of many studies, namely, detailed studies by J.S Zhuk Hydroproject of the USSR in 1966, a Feasibility Study by Snowy Mountains Eng. Corp (SMEC) of Australia in 1976 and another Feasibility Study by Coyne

Et Bellier of France in 1995. The Feasibility study of 1995 was subsequently updated by Coyne Et Bellier in October 2006. On the basis of this study, the project feasibility and economic viability was confirmed.

Although the Bui project is designed primarily for hydropower generation, it has irrigation potential for agricultural development. The irrigation potential is about 30,000 ha and the suitable sites are in the downstream reaches of the dam site at New Longoro, Asantekwa etc. the project also has potential for ecotourism and fisheries.

### **3.0 TERMS AND CONDITIONS**

The terms and conditions of the financing are as follows:

#### **CONCESSIONAL LOAN**

<b>Loan Amount</b>	<b>US\$270,000,000.00</b>
<b>Interest Rate</b>	<b>2% per annum (Fixed)</b>
<b>Grace Period</b>	<b>5 years</b>
<b>Repayment Period</b>	<b>15 years</b>
<b>Maturity Period</b>	<b>20 years</b>
<b>Management Fee</b>	<b>0.30% flat</b>
<b>Commitment Fee</b>	<b>0.30% per annum</b>

## **BUYER'S CREDIT**

<b>Loan Amount</b>	<b>US\$291,680,137.00</b>
<b>Interest Rate</b>	<b>CIRR* 107.5% (6.13%)</b>
<b>Grace Period</b>	<b>5 years</b>
<b>Repayment Period</b>	<b>12 years</b>
<b>Maturity Period</b>	<b>17 years</b>
<b>Management Fee</b>	<b>0.30% flat</b>
<b>Commitment Fee</b>	<b>0.30 per annum</b>
<b>Government of Ghana's Contribution</b>	<b>US\$ 60,000,000.00</b>
<b>TOTAL FINANCED COST</b>	<b><u>US\$ 621,680,137.00</u></b>

### **4.0 OBSERVATIONS AND RECOMMENDATIONS**

The Committee observed that since the Concessional Loan is a bilateral agreement between the People's Republic of China and the Government of the Republic of Ghana, it will attract no guarantee and/or security. It will however be treated under full faith and credit of the Government of Ghana.

The Buyer's Credit Agreement on the other hand will be treated as a secured facility. To ensure the security for the payment of the credit, the following securities will be required:

- Escrow of net revenues from the Power Purchase Agreement (PPA)
- Receivables from the sale of up to 30,000 tonnes of main crop and 10,000 tonnes of light crop cocoa per annum to China under the Cocoa Sales Agreement (CSA)
- Mortgage of the Land and Building, Equipment and Machinery of the Plant
- Insurance of the Loan by means of insurance policy in favour of the lender

The Committee further observed that the project, when completed, would add 400 mega watts to the electricity generation capability of the Country.

The project will also have potential multiple uses for fisheries, tourism and irrigation.

It was particularly noted that the completion of the project will improve the security of electricity supply to the northern sector of the Country and also improve on the Country's potential to export power to Burkina Faso and La Cote d'Ivoire under the West Africa Power Pool (WAPP) arrangement.

The Committee was informed that based on the Environmental and Social Impact Assessment (ESIA) study conducted in October 2006, social impacts such as the loss of fauna and flora along the banks of the river, influx of migrant workers including cultural differences and potential social tensions are likely to be recorded.

Also, 1,710 people who mainly reside within the Bui National Park area would have to be resettled.

Due to the fact that some animals in the Bui National Park would be displaced by the project, Members expressed the need to equip the Game and Wildlife Department to effectively monitor and manage the Park to curb potential increase in hunting of these displaced animals by the local population.

It was further observed that as part of the requirements of the loan from EXIM Bank of China, the Ministry of energy has entered into a Power Purchase Agreement (PPA) with the Electricity Company of Ghana (ECG) for the purchase of the energy to be generated from the Bui Plant. Tentatively, the price is set within the range of 3.5-5.5 US cents/kWh.

The net revenues from the Power Purchase Agreement (PPA) would be kept in an escrow account to serve as part security for the loan.

The Committee was informed that the Ministry of Energy's obligations under the PPA would be assigned to the Bui Power Authority when it is set up and becomes operational.

### **COCOA SALES AGREEMENT (CSA)**

The Committee further noted that pursuant to the conditions of the EXIM Bank of China Loan, the Ghana Cocoa Board and Genertec International Corporation of Beijing have entered into a Cocoa Sales Agreement (CSA) in which thirty thousand (30,000) metric tones of Main Crop Ghana cocoa beans would be allocated to Genertec International Corporation per crop year as part of measures to make cash available for the service of the debt.

It was explained to the Committee that this arrangement would not affect the cash flow and operations of the Ghana Cocoa Board as

the value of the allocated cocoa beans would be set-off against export duty to be paid to the Government.

The Committee noted that this Cocoa Sales Agreement (CSA) would be in force for a period of twenty (20) years; thus for the entire tenure of the loan.

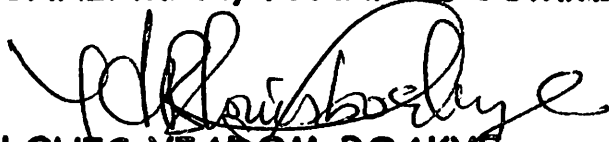
## **5.0 CONCLUSION**

The Committee has carefully considered the agreement and concludes that the project would be immensely beneficial towards ensuring the long term security of Ghana's power supply.

The Committee therefore respectfully recommends to the House to adopt this report and to approve by **Resolution**, the Buyer's Credit Loan Agreement between the Government of the Republic of Ghana and the Export-Import Bank of China for an amount of **five hundred and sixty-two million United States Dollars (US\$562 Million)** for financing of the **400 mw Bui Hydroelectric Project** in accordance with article 181 (3) of the Constitution, Section 7 of the Loans Act 1970, (Act 335) and Standing Orders of the House.

Respectfully submitted.

  
HON. NII ADU DAKU MANTE  
CHAIRMAN, FINANCE COMMITTEE

  
LOUIS YIADOM BOAKYE  
FOR CLERK, FINANCE COMMITTEE  
26<sup>TH</sup> JULY, 2007.