

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

**REPORT OF THE FINANCE COMMITTEE ON THE
DEVELOPMENT CREDIT AGREEMENT BETWEEN THE
GOVERNMENT OF GHANA AND THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
(IDA) IN THE SUM OF SDR 87,700,000 (US\$110.0
MILLION) TO SUPPORT THE THIRD ECONOMIC
REFORM SUPPORT OPERATION (ERSO III)**

1.0 INTRODUCTION

The above Agreement was laid in the House on Wednesday, 11th July 2001, in accordance with Article 181 of the Constitution, and referred to the Finance Committee for consideration and report, pursuant to Standing Order 171(1).

The Committee met with Hon. Yaw Osafo-Mafo, the Minister for Finance and his technical team and reports as follows:

2.0 BACKGROUND

The objective of the ERSO III Program is to institute macroeconomic stabilization measures, through correction of the fiscal imbalance, restoration of foreign exchange reserves to favorable levels, reduction of inflation and interest rates, and promotion of domestic savings while at the same time providing credit to the private sector.

Thus, the Government's policy thrust is on the effective control of public expenditures, increased revenue mobilization and reduced indebtedness of major parasatals. This credit is therefore meant to provide balance of payments support to the country for the 2001 fiscal year.

3.0 TERMS AND CONDITIONS

The Credit Agreement is on standard IDA terms and conditions.

TOTAL LOAN AMOUNT	-	US\$110 MILLION
REPAYMENT PERIOD	-	40 YEARS
GRACE PERIOD	-	10 YEARS
SERVICE CHARGE	-	0.75% P.A ON THE PRINCIPAL AMOUNT OF THE CREDIT WITHDRAWN AND OUTSTANDING FROM TIME TO TIME.

There is no Commitment Charges because the whole amount will be disbursed as soon as the credit is declared effective.

3.1 CONDITIONS PRECEDENT TO DISBURSEMENT

The Credit, which is a one-tranche operation, would have been disbursed as soon as the Credit was effective and the Government of Ghana had met the following conditions. As it is all of them have been effectively met already.

1. Increase the ex-refinery price for petroleum products to achieve cost recovery and reduce the strain on government expenditure.
2. Increase electricity and water tariffs to cover the operating costs of ECG and GWCL.
3. Obtain the approval of Cabinet for the re-launching of the divestiture process for GCB.
4. Publish notices in the local and international media requesting expressions of interest from potential buyers interested in the purchase of the Government's remaining shares of GCB.
5. The Government sends out a Request for Proposals (RFP) to potential transaction advisors for the divestiture of ECG.
6. The Government commences the compensation of cocoa farmers for the losses incurred by farmers during the 2000/2001 cocoa purchasing season in order to maintain the farmers' share of the producer price of cocoa at a price not less than 65 percent of the FOB export price.
7. The Government commences the process of issuing cocoa export licenses to companies qualifying for such licenses in accordance with the laws of the country.
8. The PURC furnishes the Government and the IDA with its formulation of a transitional plan to adjust electricity tariffs to reach economic levels by the end

of 2002, and an automatic adjustment mechanism for electricity tariffs to adjust for exchange rate and oil import price.

4.0 OBSERVATIONS

The Committee observed that the conditions precedent to disbursement were initiated under the ERSO II program, which was approved in 1999, and have all been fulfilled. The Credit would therefore be released as soon as Cabinet and Parliament approve the Agreement.

Members noted that the funds under this program are very important, as they are to support the budget and also to help clear arrears owed some of the sectors for contracts undertaken.

On the issue of the PURC canceling all subsidies, the Minister informed Members that it is not possible for the State to maintain the subsidies on utilities forever as it would not even promote efficiency in their provision. It was however possible to cross subsidize, where consumers would have token payments to particular sectors incorporated in their utility bills.

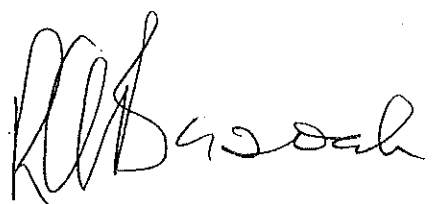
It was also affirmed that if the management of utility services were made more efficient it would be possible to reduce waste in the system and to cut down cost of production of these utilities.

5.0 RECOMMENDATION

The Committee, having closely examined the Agreement recommends to the House for approval, by Resolution, the Loan

Agreement between the Government of Ghana and the International Development Association (IDA) for the amount of SDR87,700,000 (US\$110.0 million) to support the ERSO III, in accordance with Article 181 of the Constitution and Section 7 of the Loans Act 1970, Act 335.

Respectfully submitted.



HON. R. ADDAI BASOAH
(CHAIRMAN)



ALHAJI IBRAHIM GOMBILLA
(CLERK)

20th July 2001