

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

REPORT OF THE FINANCE COMMITTEE ON THE LOAN  
AGREEMENT OF DM11.00 MILLION BETWEEN THE  
REPUBLIC OF GHANA AND THE KFW TO FINANCE THE  
IMPLEMENTATION OF THE PROMOTION OF DISTRICT  
CAPITAL III PROJECT (PRODICAP III)

1.0 INTRODUCTION

The above Loan Agreement was laid in the House on Tuesday, 26<sup>th</sup> June 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 to consider the Loan Agreement with the Minister for Local Government and Rural Development, Hon. Kwadwo Baah-Wiredu and a technical team from his Ministry and the Ministry of Finance and reports as follows:

2.0 BACKGROUND

It may be recalled that this House in 1996 approved a grant of DM21.2 million to support the Promotion of District Capital I Project (Prodicap I) which was disbursed through two German Agencies - KfW, DM17.0 million and GTZ DM4.2 million. The DM17.0 million disbursed through KfW, was initially a loan but was converted into a grant following the good performance of the Project Implementation Unit. This House again approved a loan of DM10.00 million in 1999 to

million in 1999 to finance the promotion of District Capital II Project (Prodicap II) to improve Municipal infrastructure and management systems in 10 districts in Brong Ahafo and Ashanti Regions.

The loan agreement under consideration is to finance PRODICAP III which has the main objectives of continuing the capacity building and infrastructure development initiatives in order to improve upon selected physical infrastructure facilities in the beneficiary districts, improve upon the capacity of the beneficiary District Assemblies to plan and implement plans for projects and operate and maintain infrastructure services.

The PRODICAP III project will be implemented in ten districts in Ashanti and Brong Ahafo Regions respectively. The six districts selected in the Brong Ahafo include Atebubu, Kintampo, Nkoranza Nene, Techiman and Wenchi, whilst the four districts selected in the Ashanti are Ejura Sekyedumase, Offinso, Sekyere East and Sekyere West. The Committee was informed by the Minister that unlike PRODICAP I which was limited to only District Capitals, other towns which have a population of 5,000 and above will be selected by the District Assemblies to benefit from this project.

The PRODICAP III project is designed to adopt a demand-driven and participatory approach. The participating districts are to prioritize, plan and design the projects and apply for funds from the loan fund on a competitive basis to finance eligible projects. It is an expansion of the promotion of District Capital II project which is to be implemented over a period of three years up to December 2003.

### 3.0 PROJECT COST AND FINANCING PLAN

The total project cost is **DM11.98 million** including Communities and District Assemblies' contributions equivalent to approximately **DM0.98**. The project cost is to be funded as follows:

(i)	90% of cost of physical infrastructure projects KfW Loan	-	DM8.8 million
(ii)	Foreign and Local Consultancy Services KfW Loan	-	DM2.2 million
(iii)	10% physical Infrastructure Projects Communities and District Assemblies	-	DM0.98 million
	<b>Total</b>		<b><u>DM11.98 million</u></b>

#### 4.0 TERMS OF THE LOAN

- |       |                   |   |  |
|-------|-------------------|---|--|
| (i)   | Commitment Charge | - | 0.50% to be charged on<br>undisbursed Loan Fund<br>beginning 3 months after<br>signing   |
| (ii)  | Interest          | - | 0.75% to be charged<br>against disbursed amount  |
| (iii) | Loan Duration     | - | December 2000-June 2040  |
| (iv)  | Grace Period      | - | 10 years (2001-June 2010)  |
| (v)   | Repayment Period  | - | December 2010-June 2040.<br>Repayment schedule of<br>installment of the principal<br>is provided in Article 3.4 of<br>the Agreement. |

## 5.0 OBLIGATIONS OF GOVERNMENT OF GHANA/BENEFICIARY DISTRICTS

The Government of Ghana's obligations cover the provision of staff and regular budgetary allocations to the project by the District Assemblies.

The beneficiary District Assemblies together with the beneficiary communities are to contribute 10% of the physical infrastructure works.

## 6.0 OBSERVATIONS

Members observed that the implementation of PRODICAP II had been very successful especially in the Nkoranza and Atebubu districts and therefore welcomed the implementation of PRODICAP III, which is an expansion of PRODICAP II.

The Committee expressed some concern about the inability of some of the beneficiary communities to contribute 10% of the physical infrastructure works and called on the Minister to consider directing the District Assemblies to always pay on behalf of such communities. The Minister noted that the projects under PRODICAP III are designed to adopt a demand-driven and participatory approach and therefore the contributions of the communities are very important. He however indicated that his Ministry would consider all the issues raised concerning the inability of communities to contribute their share to projects in order to address the problem.

The Minister informed the Committee that it is a common feature with KfW to carry on residual funds from previous projects to new projects. He therefore indicated that the residual fund from PRODICAP I would be added to the projects under PRODICAP III.

On the 20% cash contribution of the Beneficiary Communities and District Assemblies towards the project, the Minister indicated that he had agreed with KfW to reduce the Community Contribution from 20% to 10% and increased the cost of physical infrastructure project

(KfW loan) from 80% as stated in the Agreement to 90%. Refer to Annex I.

Members also expressed concern about the high cost of consultancy fees and wanted to know the percentage of foreign consultants to local consultants on the project. The Minister informed the Committee that there is only one foreign consultant on the project and the rest are local consultants. He noted that his Ministry is always encouraging local consultants by awarding them most of the consultancy services in the Ministry.

## 7.0 RECOMENDATIONS

The Committee recommends that this House approves by Resolution the loan of Eleven Million Dutch Marks (DM11 million) to finance the Promotion of District Capital III Project (PRODICAP III) in accordance with Article 181 of the Constitution and Section 7 of the Loans Act, 1970, Act 335.

Respectfully submitted.



HON. R. A. BASOAH  
CHAIRMAN



ALHAJI IBRAHIM GOMBILLA  
CLERK

25<sup>th</sup> July 2001

# ANNEX I.

## Minutes of Meeting

A delegation of Kreditanstalt für Wiederaufbau (KfW) comprising Mrs. Herbig-Lang, Project Manager and Mr. Ting, Technical Advisor visited Ghana from May 21 to 28, 2001 in order to carry out a review of the on-going co-operation projects District Capitals I and District Towns II- III and to appraise District Towns IV within the framework of Financial Co-operation (FC). The delegation was accompanied by Mr.H.J.Schaefer representing the Technical Co-operation (TC) for all phases (PRODICAP).

The delegation had fruitful discussions with officials of MLGRD headed by the Honourable, Mr. Kwadwo Baah-Wiredu, Minister of Local Government and Rural Development (MLGRD) as well as with Mrs. Levina Owusu, Director of the PIU, Mr. Kwame Akowuah, Principal Engineer and Mr. Peter Reeves, Chief Technical Advisor to the projects.

The mission included a field trip to Konongo, capital of Asante Akim North District and to Kwabre District to inspect primary health and education facilities similar to those being considered for possible improvement under District Towns III and IV.

It was agreed by all parties that all statements made and all agreements reached are subject to confirmation by KfW management and - as far as the TC component is concerned - by the GTZ management as well as the German Government. It is understood that the mission's findings and the programme conception as presented below are also subject to further approval by the Government of Ghana.

### 1. Review of Progress on Project I

The mission found that after initial delays the progress is now satisfactory.

The construction works on Atebubu market and lorry park had been completed in April 2000. A private management team (Atebubu Markets Limited) which had successfully been trained under the TC component is currently operating the facilities which are well used.

The construction works on the water component in Ejura, Kintampo and Nkoranza are to be completed in July 2001. Until then, the outstanding Government of Ghana counterpart payments should have been made.

### 2. Review of Progress on Project II

The response of the District Assemblies on this demand-driven programme which formed the conceptual basis for all following phases has been encouraging. Out of more than 60 eligible towns 34 applications were received and about 20 will be selected for the Detailed Design. This design of the markets will be done in close cooperation with the relevant market associations and traders (especially to determine the required number of open sheds, stalls and lockable shops) in order to assure full use of these facilities.

**3. Review of Progress on Project III**

The Loan Agreement was submitted to the Ghanaian Government on July 7, 2000 but cabinet approval has only recently been obtained. Taking into account the delay of almost one year, MLGRD commits to speed up the procedure for obtaining parliamentary approval in order to ensure loan effectiveness latest July 2001.

**a) General Remarks on the phases II-IV**

In contrast to District Capitals I, where measures had been earmarked, the phases II-IV are conceptualised as demand-driven. The districts can compete on the funds in presenting an adequate investment and O&M concept for the individual measure they have applied for. In 1998 and 1999 an upfront payment of 20% own contribution for each individual measure had been agreed upon by MLGRD and KfW.

Taking into account the actual difficult economic situation of the country with a sharp depreciation of the Ghanaian Cedi of more than 50% in 2000, an inflation of 25% and a budget deficit of 8% of GDP, which resulted in a delayed payment of the District Assembly Common Fund of almost one year, KfW concedes to reduce the community contribution for the ongoing projects District Towns II-III to 10%. Payment shall be effected in 4 instalments as follows: 3 months after definite selection of the measure (2,5%), before construction (2,5%), halfway through the construction period (2,5%) and at the end of the construction period (2,5%). As far as possible at least 5% of the payments overall shall come from the beneficiaries. The same shall apply for phase IV. All other conditions remain unchanged. KfW will reconsider the percentage for the community contribution when the financial situation of Ghana has significantly changed.

MLGRD commits to strengthen the District Assemblies through regular release of the legally stipulated District Assembly Common Fund to the Districts from now on.

**5. District Towns IV**

**a) General Remarks**

The funds available for this programme will be decided upon in the forthcoming intergovernmental negotiations in October/November, 2001. It is assumed that between DM 10 and 15 Million will be earmarked for District Towns IV.

The demand-driven concept for this phase as well as the eligible individual measures will be the same as for the ongoing phase III. In order to consolidate the impact of the measures executed under the previous three phases and also to minimise the logistic requirements it is intended to undertake District Towns IV in 8 neighbouring districts in the Ashanti Region. Depending on the funds made available for this programme and the number of towns eligible (2000 census data) a further extension of the programme area in four Districts of the Eastern Region might be considered. This regional extension to 8-12 Districts under District Towns IV (see Annex 1) is only acceptable if the capacities of the PIU will be expanded accordingly and appropriate capacity building for the DAs will be furnished by TC.

Generally, only settlements with a population of 5000 and above with clear indications of positive economic growth will be eligible for financing. Smaller and declining towns do not justify infrastructural investments of the intended scope.



**b) Physical Measures to be financed under the Programme**

The following measures will be eligible for financing:

**a) Economic infrastructure:**

- Rehabilitation and construction of facilities of existing markets and lorry parks and related infrastructure,
- Artisan areas generating revenues to the Districts (provision of basic infrastructures for workshops, working areas for blacksmiths, maisons, carpenters, welders, etc.);

**b) Social infrastructure:**

- Extensions to existing water schemes such as extensions to distribution mains, construction or rehabilitation of public stand pipes;
- Rehabilitation or construction of physical facilities in basic schools and basic health facilities which are operational and for which the DAs have maintenance responsibilities;
- Final waste disposal sites and waste treatment under the condition that the towns already have an effective collection system and institutional solutions for waste management.

The upper ceiling for each individual measure is DM 800,000. The selection criteria are listed in Annex 2.

TC will support the Districts with assistance to develop appropriate operation and maintenance systems provided that TC will be commissioned by BMZ accordingly.

**c) Project Identification and Application for Financing**

Prior to the beginning of the programme the respective District Assemblies will be informed by the PIU of the scope and methodology of the programme in a workshop. District Assemblies in close co-operation with sub-structures (town/urban councils, unit committees as well as market associations, PTA and NGO) will be responsible for the project identification which should be presented by the District Assemblies in an application to the PIU. The District Assemblies shall complete the Application Forms and submit them to the PIU for approval.

The PIU will appraise the projects according to the following criteria, inter alia:

- needs assessment,
- affordability and financial situation of the DA in relation to the cost of the measure,
- technical feasibility,
- cost effectiveness,
- provision of DAs matching fund of 10% of the total investment amount,
- readiness to institute an adequate operation and maintenance concept with the guarantee that an amount equivalent to at least 3% of the investment cost shall be set aside annually for maintenance.

**d) Project Execution**

MLGRD as project executing agency is responsible for the project execution. For that purpose it is represented by the PIU and an independent international Consultant with subcontracted personnel financed under the frame of FC. Due to the effective co-operation in the past,



MLGRD intends to award these Consultancy services again to Beller Consult provided that this Consultant presents a technically and financially adequate offer. The Consultant will act on the basis of a Consultancy Contract to be concluded between MLGRD and himself. The Terms of Reference for the Consultant will be elaborated by MLGRD to be approved by KfW.

In order to make the project more sustainable and to save consultancy cost in the long run a reduction of the input of the expatriate advisor to 4 short-term-missions is envisaged from January 2004 on. For that reason the new Consultancy Contract (to be concluded from mid 2002 on) shall comprise intensive training for the locally subcontracted personnel to be able to take over some former duties of the Chief Technical Advisor from January 2004 on.

The Consultancy services provided by the international Consultant will amongst others comprise assistance to MLGRD with regard to:

- evaluation and selection of applications from DAs,
- preparation of terms of reference for local consultancy services,
- selection and approval of local consultants in accordance with KfW "Guidelines for Award of Consulting Services",
- approval of design and tender documents, assisting in tender formalities, evaluation of bids and award of contracts,
- supervision of local consultants and contractors.
- acceptance of works executed,
- control/countersigning of all payments made by PIU from the disposition fund,
- visa for requests for replenishment of the disposition fund to be sent to KfW,
- submission of quarterly reports to KfW.

Local consultancy services which are needed for the design, preparation of tender documents, evaluation of bids, contract award as well as supervision of construction will also be financed out of the loan by KfW. The Terms of Reference for the local Consultants will be elaborated by the PIU and approved by KfW. The contracting parties for local consultancy services will be the DA and the local consultants after approval of the PIU, MLGRD and KfW.

The tender procedures for the construction works will follow the KfW "Guidelines for Procurement" and the Ghanaian rules for National Competitive Bidding (lots under USD 100,000 will be tendered by the District Tender Boards, lots up to USD 1.0 Million will be tendered by the Regional Tender Boards and lots over USD 1.0 Million will be tendered by the National Tender Board). Upon approval by KfW, the PIU will draft the relevant contracts in accordance with KfW "Guidelines for Procurement". The contracting parties for the construction works will be the respective District Assemblies - represented by the District Chief Executive - and the contractors after approval of PIU/MLGRD.

The PIU and the German Consultant will be responsible for the monitoring the execution of the contracted works with regard to quality, implementation schedule and cost control until completion of works. The District Assemblies will be responsible for operation and maintenance of the completed works. After completion the PIU will continue the monitoring of operation and maintenance of the projects with support of TC. The PIU shall report to KfW quarterly on the progress of the programme. The details of such reports will be outlined in the Separate Agreement.

e) **Tentative Time Schedule**

A tentative time schedule also comprising the time required for project appraisal and the approval procedures as well as for the project implementation is presented in Annex 3.


f) **Cost and Finance**

The total cost and finance breakdown for the Financial Co-operation component will be prepared after the funds have been earmarked on Intergovernmental Negotiations. The total cost will be financed out of a loan and a matching fund of 10% of the related cost of the individual measures provided by the respective District Assemblies.

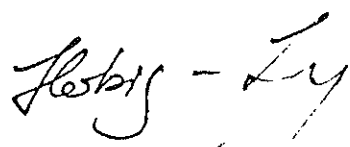
Disbursement procedures shall be governed by the KfW "Guidelines for Disbursement". The same disposition fund for District Towns II and III shall be used for this fourth phase. This fund is managed by the PIU/MLGRD and the German Consultant for direct payment of contractors' and local consultants' invoices. The invoices will be presented by the respective District Assemblies to the PIU. The disposition fund will be replenished by KfW after the PIU has utilised this fund up to an amount of DM 750,000. The PIU will submit a request for replenishment with supporting documents countersigned by the German Consultant. It is also understood that the disposition fund requires to be audited annually by an independent local auditor accepted by KfW. The audit reports will be submitted to KfW not later than three months after the end of the respective financial year.

Accra, May 28, 2001

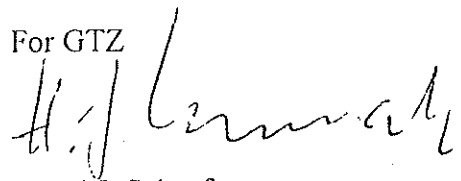
For MLGRD

  
Mr. Kwadwo Baah-Wiredu  
Minister of Local Government and Rural  
Development

For KfW

  
Mrs. J. Herbig-Dang  
Project Manager West Africa

For GTZ

  
Mr. H.J. Schaefer  
Chief Technical Advisor

Enclosures:

- Annex 1: Programme Area
- Annex 2: Measures to be financed under the programme and conditions for financing
- Annex 3: Tentative Time Schedule
- Annex 4: List of Persons met