

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

**REPORT OF THE FINANCE COMMITTEE ON THE
CREDIT AGREEMENT BETWEEN THE GOVERNMENT
OF THE REPUBLIC OF GHANA AND THE
INTERNATIONAL DEVELOPMENT ASSOCIATION FOR
AN AMOUNT OF TWENTY-FOUR MILLION, TWO
HUNDRED THOUSAND SPECIAL DRAWING RIGHTS
(SDR24.2 MILLION)[US\$38 MILLION EQUIVALENT]
TO FINANCE THE OIL AND GAS CAPACITY
BUILDING PROJECT**

1.0 INTRODUCTION

The Credit agreement between the Government of the Republic of Ghana and the International Development Association for an amount of twenty-four million, two hundred thousand Special Drawing Rights (SDR24.2 million)[US\$38 million equivalent] to finance the Oil and Gas Capacity Building Project was laid in the House on Thursday 17th March, 2011 by the Minister of Finance and Economic Planning, Hon. Dr. Kwabena Duffuor.

Pursuant to order 171(1) of the Standing Orders of the House, the Rt. Hon. Speaker referred the Agreement to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Deputy Minister of Finance and Economic Planning, Hon. Fifi Fiavi Kwetey, Deputy Minister of Energy, Hon. Inusah Fuseini and

officials from the Ministries of Finance and Economic Planning and Energy and hereby presents this Report to the House in accordance with Order no. 161 (1) of the Standing Orders of the House.

2.0 BACKGROUND INFORMATION

The Petroleum Sector of Ghana is undergoing a major transformation following the Jubilee discovery. After the discovery of Jubilee, a number of other significant discoveries have been made following intensive exploration program pursued by several international oil companies. The rapid development of the finds has the potential to bring significant economic development opportunities to Ghana especially if onshore gas-based industries are developed.

Until petroleum was discovered in commercial quantities, Ghana had had no pressing need to rigorously develop local capability in oil and gas. As a result, the country lacks the necessary skills and competencies to build and run the industry. The policy and oversight roles also need to be beefed-up as prospects for further discoveries remain good. Furthermore, for the country to reap maximum benefits from the oil find, Ghanaians should be able to fully participate in the sector. Unfortunately, they do not have all the necessary skills and capabilities to enable them take advantage of the opportunities that arise.

In the year 2009, a needs assessment in the petroleum sector was conducted. The assessment recommended capacity development in various areas. The objective of the capacity development project is to:

- Improve public management and regulatory capacity while enhancing transparency; and
- Strengthen local technical skills in Ghana's oil and gas sector

3.0 PURPOSE OF THE CREDIT

The purpose of the Credit is to support the development of local institutions and provision of technical and professional skills to Ghanaians to manage the oil and gas sector.

4.0 TERMS OF THE CREDIT

Loan Amount	-	SDR 24,200,000.00 (US\$38,000,000.00 equivalent)
Commitment Charge	-	0.5% on undrawn balance
Service Charge	-	0.75% on withdrawn amount
Grace Period	-	10 years
Repayment Period	-	25 years
Maturity Period	-	35 years
Closing Date of Credit	-	June 30, 2015

5.0 OBSERVATIONS

The Committee observed that part of the loan earmarked for the Petroleum Regulatory agency may not be withdrawn until a new petroleum regulator has been established with an appropriate mandate; and a functional board of directors and a chief executive have been appointed to the said agency.

According to schedule 1 to the Financing Agreement, the Project consists of the following parts:

"PART A: Resource Management and Institutional Support

– This part is made of the following five sub-parts:

- i. Developing the technical capacity of (a) the MOE for management of the petroleum sector, including refurbishing said Ministry's offices; and (b) the future petroleum regulatory agency for regulation of the petroleum sector, all through the acquisition of goods, provision of works, training and technical advisory services.

- ii. Installing at the GNPC, secure electronic data storage capacity for loading petroleum data on petroleum exploration and production operations, and associated equipment, including inter alia, air conditioners, firefighting equipment and backup power supply, an appropriate facility to house the national data repository, and provision of training to GNPC staff on the use of the said equipment.

- iii. Building the capacity of EPA for environmental and social management including: (a) provision of technical advisory services to EPA to focus on planning, management and training on environmental and social issues in the oil and gas sector; (b) strengthening the capacity for an EPA led rapid response to oil and gas sector emergency events; (c) strengthening the EPA through the acquisition of goods, provision of technical advisory services and adequate staffing; (d) advancing the use of the geographical information system to facilitate the EPA staff in collection, storage and analysis of large volumes of spatial data; (e) establishing laboratory facilities at the EPA Western Region office, and acquisition of marine vessel; and (f) provision of training and other required technical support to EPA staff, in international best practices in the petroleum sector.
- iv. Strengthening the capacity of the MOFEP and the Ghana Revenue Authority for revenue management, including, inter alia, tax administration and fund management of oil revenues, through the acquisition of goods, provision of training and technical advisory services.
- v. Enhancing the capacity for oil and gas sector governance, including (a) strengthening the capacity of public agencies involved in oil and gas governance, for communication, outreach and dissemination of information; (b) strengthening sector governance by establishing an independent information resource center on oil and gas; (c) building the capacity of the secretariat supporting the Extractive Industries Transparency Initiative (EITI) in the oil and gas sector; and (d) strengthening the information

and accountability mechanisms at the local level, and anti corruption functions at the national level.

PART B: Education and Skills Development – This part comprises the following two (2) sub-parts:

- i. Strengthening the capacity of the Recipient's (i.e. Ghana's) training institutions including *Kikam* Technical Institute, *Takoradi* Technical Institute and the Regional Maritime University to enhance the skills of local workforce to engage in the oil and gas sector, including, inter alia, (a) provision of training to the staff of the said institutions; (b) curriculum development and planning; (c) upgrade of facilities in training schools; all through the provision of works, technical advisory services, training and acquisition of goods.
- ii. Strengthening of the capacity of Kwame Nkrumah University of Science and Technology to enhance training in degree programs in petroleum engineering and petrochemical engineering, including: (a) improving the quality and range of courses by developing the faculty for relevant studies; (b) enhancing the learning experience for students by (i) equipping new petroleum engineering laboratories, refurbishing and equipping the existing chemical engineering laboratories and (ii) acquisition of text books, journals and other teaching materials for petroleum and petrochemical engineering reference courses and other programs to equip KNUST for fundamental courses and engineering-related petroleum studies; (c) facilitating the graduating students to extend studies in Masters of Sciences and doctoral programs with

a view to adding to the academic staff of KNUST; and (e) facilitating visiting faculty lecturers, all through the provision of works, technical advisory services, training and acquisition of goods.

PART C: Support for Project Coordination and Management - This part entails the strengthening of the capacity of the Project Coordination Unit for coordination and management of the project, and enhancing said PCUs capacity for procurement and financial management of Parts A and B of the Project, through the provision of technical advisory services, training, operating costs and acquisition of goods."

In accordance with Schedule 3 of the Financing Agreement, the principal amount of the Credit shall be repaid in semi-annual installments on each January 15 and July 15 by the Government of Ghana as follows:

Date Payment Due	Percentage of the Principal Amount of the Credit repayable	Total percentage of the Principal repaid
Commencing January 15, 2021 to and including July 15, 2030	1.25%	25%
Commencing January 15, 2031 to and including July 15, 2045	2.5%	75%

The Committee noted that Government of Ghana’s contribution to the project is in the form of new buildings to be erected on sites belonging to

- Ghana National Petroleum Corporation (GNPC) - US\$1.5 million
 - Environmental Protection Agency - US\$0.5 million
 - Kwame Nkrumah University of Science and Technology - US\$1.0 million
- TOTAL GOG CONTRIBUTION** **US\$3.0 million**

Hon. Members of the Committee expressed concern about the breakdown of the Eligible Expenditures that may be financed out of the proceeds of the Financing as stipulated in section IV.A.2 of Schedule 2 to the Agreement. They were particularly not happy that out of the total loan of SDR 24,200,000 only SDR 2,350,000 (constituting about 9.7%) would be spent on the Petroleum Commission when established. They advised government to request a re-programming of the distribution of the proceeds of the loan to give more funds to the Commission since upon the passage of the Petroleum Commission Act and subsequent establishment of the Commission, most regulatory functions would pass from the GNPC to the Commission.

Members further expressed concern about section V.B.1 of Schedule 2 to the Financing Agreement which requires government to cause KNUST to reduce its staff-student ratio. They found this condition repugnant given that academic decisions are taken by the University and not government. They were also unsure of what will happen should the KNUST fail to comply with the condition.

The Committee advised that in finding means to reduce the staff-student ratio, no attempt should be made to reduce the level of student intake.

The Committee was of the view that a Project Coordination Unit (PCU) was not necessary since the Ministries of Finance and Economic Planning and Energy already have professional staff who could conveniently administer the project. In the view of the Committee, the PCU would be an additional cost and increased bureaucracy for the project.

The Deputy Minister of Energy, Hon. Inusah Fuseini informed the Committee that in addition to this loan, his Ministry is soliciting support from international benefactors such as the USAID to undertake training for Ghanaians in the field of oil and gas.

The Committee noted that the University of Mines and Technology (UMaT) in Tarkwa, Western Region also has a Petroleum Engineering Department. The Committee therefore implores government to consider that Department for funding in future arrangements, given its proximity to the petroleum operations.

The social impact of the project is expected to be positive. Whilst the potential exists for social discontent related to demand for jobs in the areas closest to the offshore oilfields, the component of the project that is supporting two vocational schools will show government's commitment to training and development of skills in the Western Region. Again, the upgrading of EPA's ability to respond to oil and gas related incidents is another element of the project designed to alleviate the social impacts of petroleum operations.

6.0 CONCLUSION

The Committee critically examined the Agreement and found that the Credit would be immensely beneficial to the country's quest to build the needed capacity to manage the oil and gas sector.

The facility was also found to be of standard International Development Association (IDA) concessional terms.

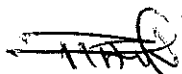
The Committee therefore respectfully recommends to the House to adopt this report and approve by Resolution, the Credit Agreement between the **Government of the Republic of Ghana** and the **International Development Association (IDA)** for an amount of *twenty-four million, two hundred thousand Special Drawing Rights* (SDR24.2 million)[US\$38 million equivalent] to finance the **Oil and Gas Capacity Building Project** in accordance with article 181 of the Constitution and sections 3 and 7 of the Loans Act, 1970 (Act 335).

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI

CHAIRMAN



PEACE A. FIAWOYIFE (MS)

CLERK

23RD MARCH, 2011