

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

**REPORT OF THE FINANCE COMMITTEE ON THE
MIXED CREDIT FACILITY AGREEMENT BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF GHANA
AND KBC BANK OF BRUSSELS, BELGIUM FOR AN
AMOUNT OF €21,887,520.31 FOR THE
CONSTRUCTION OF THE ESSAKYIR WATER SUPPLY
SYSTEM IN THE CENTRAL REGION**

1.0 INTRODUCTION

The Mixed Credit Facility Agreement between the Government of the Republic of Ghana and the KBC Bank of Brussels, Belgium for an amount of *twenty-one million, eight hundred and eighty-seven thousand, five hundred and twenty Euros, thirty-one Cents* (€21,887,520.31) for the construction of the Essakyir Water Supply System in the Central Region was laid in the House on Tuesday 17th May, 2011 by the Hon. Minister for Transport, Alhaji Collins Dauda on behalf of the Hon. Minister of Finance and Economic Planning.

In accordance with Order 171(1) of the Standing Orders of the House, the Agreement was referred 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 Water Resources, Works and Housing, Hon. Dr. Mustapha Ahmed and officials from the Ministries of Finance and Economic Planning

(MOFEP) and Water Resources, Works and Housing (MWRW&H) and hereby presents this report to the House pursuant to order 161(1) of the Standing Orders of the House.

2.0 BACKGROUND

The Essakyir Water Supply System was originally constructed in 1969 to supply drinking water to Essakyir and its surrounding communities. The plant however broke down completely in 1980, causing Essakyir and surrounding towns to be connected to the Kwanyako and Baifikrom Water Treatment Plants which were at considerable distances away. The interconnection could not improve the water situation in the area due to reduced capacity at the two head works coupled with long distances from the two sources.

The Netherlands Government, as part of its support the Government of Ghana to provide safe water to urban centers in Ghana, engaged the services of DHV Consultants of the Netherlands who undertook a study of the urban water supply Master Plan for the whole of the Central Region. The study recommended among other things the construction of a new treatment plant with increased capacity on Ochi Nakwa River and the laying of transmission and distribution pipelines to supply treated water to Essakyir and its environs.

In order to implement the recommendations, further studies were carried out with the objective of meeting demand for a projected population of *One Hundred and Sixty-Two Thousand, Five Hundred and Thirty-Four* (162,534) by the year 2025. As a result, the construction of a water treatment plant with a production capacity of 14,400m³/day (3.16 million gallons a day) was recommended.

3.0 PURPOSE OF THE LOAN

The purpose of the facility is to obtain funds for the construction of the Essakyir Water Supply System in the Central Region.

4.0 TERMS OF THE LOAN

The terms of the facility are as follows:

Total Project Cost	:	€20,040,603.00
Total Finance Cost	:	<u>€1,846,917.31</u>
Total Contract Cost	:	<u>€21,887,520.31</u>

A. LOAN AMOUNT : €10,993,448.52 (50.23% of contract cost)

Grace Period : 3 years

Repayment Period : 10 years

Maturity Period : 13 years

Interest Rate : 6 months Euribor + 1.50% (2.823%) p.a.

Discount Rate : 4.11%

Grant Element (A only) : 8.42%

B. SOFT LOAN	:	€10,894,071.79 (49.77% of project cost)
Grace Period	:	10 years
Repayment Period	:	20 years
Maturity Period	:	30 years
Interest Rate	:	0.00%
Discount Rate	:	6.04%
Grant Element (B only)	:	67.17%

Weighted Grant Element (A & B) : 35.53%

5.0 OBSERVATIONS

The Committee noted that the Financing Cost of the Agreement totaling **€1,846,917.31** includes the following charges:

- Arrangement Fee of €25,000;
- Facility Fee of €50,000
- Commitment Fee of €57,000 and
- Credit Insurance Premium of €1,714,917.31

The Committee observed that the project will consist of the construction of a conventional water treatment plant comprising coagulation, flocculation, sedimentation, rapid gravity filtration and disinfection chlorination. In addition, clean water reservoir with associated high lift pumps would be constructed to convey the treated water to the different sub-systems. Also,

new pipelines with larger diameters will be installed for both transmission and distribution to improve water delivery to the project area.

The Committee was informed of the scope of works and the breakdown of the Project Cost as follows:

Item	Description	Amount (€)
1	Process and Civil Engineering Design	1,357,032.00
2	Clients Facilities – operation vehicle (crane mounted) and laboratory equipment	136,212.00
3	Raw Water Intake	1,972,622.00
4	Raw Water Pipeline (Ø 400mm)	489,200.00
5	Water Treatment Plant	8,434,770.00
6	Transmission Pipelines PN 16: 10.3km of 160mm; 9.43km of 280mm; 7.8km of 200mm; and 10.36km of Ø 110mm PN 16	3,990,954.00
7	Distribution Pipelines 15km of Ø 110mm	1,004,625.00
8	Rehabilitation of Existing Pipelines of Ø 200mm	295,532.00
9	Mobilization, Training and Teaching Assistance	1,588,866.00
10	Contingencies (site monitoring and staff accommodation)	770,790.00
	TOTAL PROJECT COST	20,040,603.00

Beneficiary communities include Ekumfi Otum, Mumford, Dago, Mbroboto, Ekumpono, Muna, Aboano, Sefara, Essuehyia, Akra, Asaafa, Etwaa, Nakwa, Asokwa, Abeka, Ekumfi, Swedru and other communities at the tail

end of the distribution networks of Winneba, Baifikrom and Kwanyako Water Treatment Plants.

Benefits to be derived from the project include improved access to potable water for the beneficiary communities, improved level of service by increased coverage in the project area, reduction in the level of non-revenue water, growth in productivity of the inhabitants leading to economic development and reduction in poverty, boosting of business opportunities and the maximization of social and health benefits of safe and reliable drinking water.

The Committee was further informed that upon the completion of the Project, it will be interconnected with the Baifikrom, Winneba and Kwanyako systems. This is expected to increase the reliability of water supply to the whole areas of these water systems and also provide the opportunity for other communities to be adequately and reliably served with safe water to improve their livelihood and reduce poverty.

The linking up of the Essakyir Project to the Baifikrom, Winneba and Kwanyako systems would also ensure a complete costal water supply and distribution network covering communities from Kasoa to Saltpond.

Article 19 of the Agreement requires the Government of Ghana (Borrower) to "pay all reasonable costs and out of pocket expenses in connection with the preservation, enforcement or the attempted preservation or enforcement of any of the Lender's rights under the Credit Agreement and any other related documents."

Again, if the Government of Ghana (Borrower) "requests an amendment, waiver or consent, the Borrower shall, within twenty-one (21) Business Days, reimburse the Lender for the amount of all reasonable costs and expenses (including legal fees) properly incurred by the Lender in responding to, evaluating, negotiating or complying with that request or

requirement". Such waiver or amendment fee shall be at least equal to *five thousand Euros (€5,000.00)*

The Government of Ghana is further required in article 19.3 to "pay any stamp, documentary and other similar duties, levies and taxes to which the Credit Agreement or any related documents may be subject or give rise and shall fully indemnify and keep indemnified the Lender from and against any losses or liabilities which it may incur as a result of any delay or omission to pay any such duties, levies or taxes"

Members advised the Ministry of Finance and Economic Planning to seek further clarification on the Arrangement, Facility and Commitment Fees, and if possible, negotiate to get them removed in future arrangements.

Some Members expressed dissatisfaction at the situation whereby funds are used to train staff every time a loan is contracted. The Deputy Minister of Water Resources, Works and Housing, Hon. Dr. Ahmed however explained to the Committee that due to factors such as trained staff proceeding on retirement, acquisition of new/different machinery/equipment and the ever expanding scope of operations, there is always the need to train and retrain staff of the Ghana Water Company Limited.

The Committee advised that Cabinet letters in respect of loan and other international financial agreements should properly capture the parties to the agreement, the amount involved and the currency denomination of the transaction so as to enable Parliament to know precisely what it is being called upon to approve.

As to how long the project would take to complete, the Committee was informed that the Project would be completed in 24 months after commencement of works.

5.1 TAXES

In accordance with article 14 of the Agreement, any duties, taxes of any kind, stamp charges, present or future, due by virtue of the Credit Agreement and arising therefrom, legally due in Belgium, shall be for the account of the Lender. However, any duties, taxes of any kind, stamp charges, present or future, due by virtue of the Credit Agreement and arising therefrom, legally due outside of Belgium, shall be for the account of the Borrower.

The Agreement further obliges the Government of Ghana (Borrower) to reimburse the Lender for any amounts charged in the Republic of Ghana as taxes and duties on account of the facility (article 14.3).

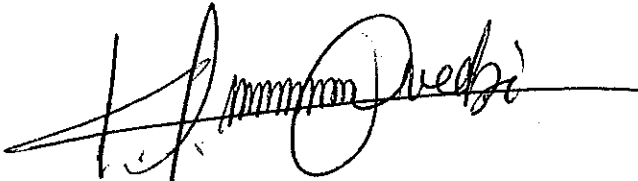
6.0 CONCLUSION

The Committee has critically examined the Facility and found that the terms satisfy the Government of Ghana's requirement for concessionary borrowing. It was also found that the project will lead to improved access to potable water in the beneficiary communities and further contribute to the achievement of the Millennium Development Goal of at least 76% potable water coverage by 2015.

The Committee therefore recommends to the House to adopt this report and approve by resolution, the **Mixed Credit Facility Agreement** between the Government of the **Republic of Ghana** and the **KBC Bank of Brussels, Belgium** for an amount of *twenty-one million, eight hundred and eighty-seven thousand, five hundred and twenty Euros, thirty-one Cents* (€21,887,520.31) for the construction of the **Essakyir Water**

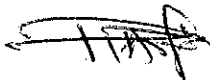
Supply System in the Central Region in accordance with article 181 of the 1992 Constitution and sections 3 and 7 of the Loans Act, 1970 (Act 335).

Respectfully submitted.

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HON. JAMES KLUTSE AVEDZI

CHAIRMAN

A handwritten signature in black ink, appearing to read 'Peace A. Fiawoyife', written in a cursive style with a long horizontal stroke extending to the left.

PEACE A. FIAWOYIFE (MS.)

CLERK

24TH MAY, 2011