

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

**REPORT OF THE FINANCE COMMITTEE ON THE
PREFERENTIAL BUYER'S CREDIT AGREEMENT
BETWEEN THE GOVERNMENT OF THE REPUBLIC
OF GHANA AND THE GOVERNMENT OF THE
PEOPLE'S REPUBLIC OF CHINA ACTING
THROUGH THE EXPORT-IMPORT BANK OF CHINA
FOR AN AMOUNT OF US\$260 MILLION FOR THE
CONSTRUCTION OF THE KPONG WATER SUPPLY
EXPANSION PROJECT**

1.0 INTRODUCTION

The Preferential Buyer's Credit Agreement between the Government of the Republic of Ghana and the Government of the People's Republic of China acting through the Export-Import Bank of China for an amount of two hundred and sixty million United States Dollars (US\$260.00 Million) for the Construction of the Kpong Water Supply Expansion Project was laid in the House on Tuesday 4th May, 2010 and referred to the Finance Committee for consideration and report in accordance with article 181 of the Constitution and order no. 171(1) of the Standing Orders of the House.

The Committee met and considered the Agreement with the Minister of Finance and Economic Planning, Hon. Dr. Kwabena Duffour, Minister of Water Resources, Works and Housing, Hon. Alban Sumana Kingsford Bagbin, Deputy Minister of Finance and Economic Planning, Hon. Seth Terpker, Deputy Minister of Water Resources, Works and Housing, Hon. Maj. Dr. Alhaji Mustapha Ahmed and technical teams from the Ministry of Finance & Economic Planning and the Ministry of Water Resources, Works and Housing and presents this report.

2.0 BACKGROUND

The Ministry of Water Resources, Works and Housing, (then known as the Ministry of Works and Housing) and Ghana Water Company Limited advertised in September 2003 for proposals to execute the Kpong Water Supply Expansion Project.

Out of forty (40) firms that expressed interest, only five (5) firms actually submitted bids. These are Messrs Biwater International Limited, Messrs China Ghezouba and Power Group Company Limited, Messrs Umgeni Kpong Water Supply Scheme Consortium, Messrs PW Consortium Ghana Limited, and Messrs Ballast Nedam/CNTCI.

After Financial Proposal Analysis and Technical Evaluation had been done by the Ministry of Finance and Economic Planning and Ghana Water Company respectively in conformity with the provisions of the Procurement Act, 2003 (Act 663), three successful firms were ranked as follows:

- First: Messrs China Ghezouba and Power Group Company Limited
- Second: Messrs Umgeni Consortium
- Third: Messrs PW Consortium Ghana Limited

The Ministry of Water Resources, Works and Housing on 25th July 2005 invited Messrs China Ghezouba Water and Power Group Limited to enter into negotiations on the project. After the negotiations held on 16th August, 2005, a Letter of Acceptance was signed by Messrs China Ghezouba Water and Power Group Limited with the proviso that the Contract shall be governed by the FIDIC (EPC/Turnkey) conditions of contract for works of Civil Engineering Construction.

3.0 PURPOSE OF THE LOAN

The purpose of the Agreement is to provide funds for the implementation of the Kpong Water Supply Expansion Project.

TERMS AND CONDITIONS

The terms and conditions of the Agreement are as follows:

Total Contract Amount - US\$273.00 Million

Ghana Government Contribution	-	US\$13.00 million
LOAN AMOUNT	-	US\$260.00 MILLION
Grace Period	-	5 years
Repayment Period	-	15 years
Maturity Period	-	20 years
Interest Rate	-	2% per annum
Commitment Fee	-	0.75% per annum
Management Fee	-	1% flat
Grant Element	-	37.08%

4.0 OBSERVATIONS

The Committee observed that the main scope of works identified under the project include the following:

- The construction of a new intake and raw water pumping station (capacity 353,000m³/day delivering 196,000m³/day to proposed new treatment plant)
- Installation of a new treatment plant of capacity 186,000m³/day
- Activating of sludge pump house and improvement of existing sludge discharging channel
- Provision of dedicated power line from Kpong to Dodowa Booster Station (approximately 36 kms)
- Construction of a new booster station at Dodowa
- Installation of pressure mains from Kpong to Accra through Oyibi terminating in Medium Pressure Zones (MPZ) reservoir at Okponglo through
 - a. DI – 1200mm – 66km
 - b. DI – 900mm – 7.5km

- Construction of Oyibi concrete ground reservoir (capacity 40,000m³)

The Committee was also informed that to ensure the improvement of water distribution in Accra, 5,000m³ reservoirs and 1,042m³/h booster stations would be provided at both Boi and Ofankor to serve high areas.

Under the project, the existing Kpong Staff Housing would be rehabilitated whilst access road to the plant would be improved.

As to how long the project would take to complete, the Committee was informed that the project would be completed in 48 months from the date of commencement.

It was noted that the Kpong Water Supply Expansion Project is a priority project which, when implemented, would increase water supply from Kpong Head Works to Accra and Tema to improve the reliability of potable water delivery to domestic, commercial and industrial customers in the Accra-Tema supply area of the Ghana Water Company Limited.

The Committee further noted that article 16.6 of the Agreement provides that any amendment or waiver of any provision of the Agreement and any waiver of any default under the Agreement shall only be effective if made in writing and signed by or on behalf of the party against whom the amendment or waiver is asserted.

Some Members were of the opinion that the cost of the renovation of the GWCL Head Office should be delinked from the 'General Items' and rather be borne out of the Government of Ghana contribution and not from the loan. The Minister of Finance and Economic Planning accepted this suggestion in good faith.

Members of the Committee expressed concern about the increase in the price of the contract from 2006 level of US\$198 million to the 2009 level of US\$273 million, thus an increase of about US\$74 million over the said period.

The Minister of Water Resources, Works and Housing explained with documentary evidence to the Committee that the increase was necessitated by several factors. These include:

- Increase of RMB to the Dollar (This accounts for an additional US\$ 15.5 million)
- Inflation of labour cost (accounting for US\$14.8 million)

- Inflation of material cost (accounting for US\$40.3 million of the increases)
- Inflation of equipment cost (costing US\$4.4 million more)

Some specific examples of the increased prices were cited as follows:

Item	2006 price US\$	2009 price US\$	% increase
DI Pipe – DN1200 (per m)	285.49	529.42	85.44%
DI Pipe – DN900 (per m)	173.27	324.986	87.55%
DI Pipe – DN500 (per m)	66.45	126.34	90.13%
DI Pipe – DN400 (per m)	47.88	91.02	90.10%
DI Pipe – DN350 (per m)	37.92	76.08	100.63%
DI Pipe – DN250 (per m)	24.00	32.38	34.92%

In addition to the above factors, additional works costing approximately US\$11.9 million were added to original design of the project, thus also contributing to the increase in the total price of the contract.

4.1 TAXES

Article 8 of the Agreement requires that all payments by the Borrower under the Agreement "shall be paid in full to the Lender without set-off or counterclaim or retention and free and clear of and without any deduction or withholding for or on account of any taxes or any charges." In the event the Borrower is required by law to make any such deduction or withholding from any payment under the Agreement, "then the Borrower shall forthwith pay to the Lender such additional amount as will result in the immediate receipt by the Lender of the full amount which would have been received had no such deduction or withholding been made".

The Deputy Minister of Finance and Economic Planning, Hon Seth Terpkar informed the Committee that a formal request for the waiver of the relevant taxes and duties associated with the project would be presented to Parliament in due course for consideration and approval.


5.0 CONCLUSION

The Committee respectfully recommends to the House, in view of the foregoing observations, to adopt this report and approve by Resolution, the **Preferential Buyer's Credit Agreement** between the **Government of the Republic of Ghana** and the **Government of the People's Republic of China** acting through the Export-Import Bank of China for an amount of *two hundred and sixty million United States Dollars (US\$260 million)* for the construction of the ***Kpong Water Supply Expansion Project*** in accordance with article 181 of the Constitution, Sections 3 and 7 of the Loans Act, 1970 (Act 335) and the Standing Orders of the House.

Respectfully submitted.



**HON. JAMES KLUTSE AVEDZI
CHAIRMAN**



**PEACE A. FIAWOYIFE (MS.)
CLERK**

5TH MAY, 2010.