

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

REPORT OF THE FINANCE COMMITTEE
ON THE REQUEST FOR WAIVER OF TAXES
AND DUTIES ON MATERIALS,
EQUIPMENT, SPARES, CORPORATE
TAXES AND PERSONAL INCOME TAXES
IN RESPECT OF THE KWAHU RIDGE
WATER SUPPLY PROJECT IN THE
EASTERN REGION AND KONONGO AND
KUMAWU WATER SUPPLY PROJECTS IN
THE ASHANTI REGION

1.0 INTRODUCTION

The request for waiver of taxes and duties totaling *thirty eight million, six hundred and forty-one thousand, seven hundred and sixty-nine Ghana Cedis and sixteen pesewas (GH¢38,641,769.16)* on the materials, equipment, spare parts, corporate taxes and personal income taxes in respect of the Kwahu Ridge Water Supply Project in the Eastern Region and Konongo and Kumawu Water Supply Projects in the Ashanti Region was laid in the House on Tuesday 23rd November, 2010 and referred to the Finance Committee for consideration and report in accordance with order no. 169 of the Standing Orders of the House.

In considering the request, the Committee met with the Deputy Minister of Finance and Economic Planning, Hon. Fifi Fiavi Kwetey

and officials from the Ministry of Finance and Economic Planning and hereby submits this report.

2.0 BACKGROUND

The rehabilitation and expansion of the Kwahu Ridge, Konongo and Kumawu water supply systems form part of the priority water supply projects in the urban water sector and managed by the Ghana Water Company Limited.

The **Kwahu Ridge** is characterized by very great differences in elevation. It rises from 91m altitude at the Volta Lake to 608m and falls steeply to 182m at Nkawkaw. It covers an area of approximately 512 sq km and the population is concentrated in relatively large towns along the main road area. There are a number of large industrial and commercial activities mainly in and around Nkawkaw.

The existing water treatment plant was built in 1978 and is located at Kotoso. It has an installed capacity of 3,600m³/day. However, due to deterioration of the system, daily production of water has currently shrunk to 900m³/day resulting in acute water shortage in the area.

Konongo is a surface water scheme based on the abstraction of raw water from River Anunu. A weir and screened intake have been constructed across the river which provides storage for the nearby water treatment plant. The river is reported to dry up four months in a year from February to April. The current production by the system is about 1,338m³/day.

The **Kumawu** water supply system on its part relied on the Ongwam River as its source of supply. Over the last decade, the river virtually dries up every year, making water supply very unreliable. The citizens are then compelled to look for water from whatever source is available with its attendant health problems.

These projects are therefore being undertaken to provide reliable and all-year-round potable water supply to the people of the project areas.

3.0 TOTAL WAIVER REQUESTED

The total amount of taxes and duties for which waiver is being sought is *thirty eight million, six hundred and forty-one thousand, seven hundred and sixty-nine Ghana Cedis and sixteen pesewas (GH38,641,769.16)*.

The breakdown is as follows:

Taxes on equipment and materials
(US\$25,737,918 @ GH¢1.42 to a Dollar) GH¢36,547,843.56

Corporate and Expatriate Income taxes GH¢2,093,925.60
TOTAL **GH¢38,641,769.16**

Attachment: Please find attached as **APPENDIX**, the official assessment of the relevant taxes and duties *on the equipment and materials* conducted by the Ghana Revenue Authority (Customs Division)

5.0 OBSERVATIONS

The Committee noted that Parliament on 12th November 2008 approved a mixed credit facility in the amount of **US\$120 million** (comprising US\$115 million Loan and US\$5 million Grant) between the Government of Ghana and Bank Hapoalim of Israel for the implementation of the three (3) water projects.

In accordance with the conditions of that mixed credit facility, the Government of Ghana was required to make an upfront payment of about US\$14 million for the settlement of the credit insurance premium before the commencement of the project. The Bank Hapoalim of Israel however agreed to finance the credit insurance

premium of US\$14 million through a supplementary facility so that the Government of Ghana will repay it over an eleven (11) year period.

Parliament on Thursday 16th July, 2009 approved that Supplementary Credit Facility Agreement between the Government of Ghana and Bank Hapoalim of Israel for an amount of US\$14.00 million to finance the credit insurance premium.

The Committee was informed that due to the varied complexity of the three projects, project completion period will vary from 18 to 24 months from the time of commencement of the projects.

Beneficiary towns under the **Kwahu project** would include Abene, Abetifi, Asakraka Kwahu, Aduamoah, Atibie, Bepong, Bokuruwa, Kwahu Tafo, Mpraeso, Nkwatia, Nteso, Obo, Obomeng, Pepease, Tweneduase, Kotoso, Asempanaye, Nkawkaw, Hweehwee, Akwasseho, Afi, Suminakese and surrounding villages.

The **Konongo project** would benefit residents of Konongo and surrounding communities.

Beneficiaries of the **Kumawu project** would include Kumawu, Besoro, Abotanso, Bodomase, Worase, Sekyere, Banko, Wuoso, Awonga, Asuafo, Nsuta, Timate, Amaansu, Kyebi, Atonsu, Kwaman and other settlements along the transmission pipelines.

The Committee observed that the projects would help provide improved access to reliable water to the beneficiary communities throughout the year and reduce the levels of non revenue water. The projects would also maximize the social and health benefits of clean, safe and reliable water supply and also help promote food, palm oil processing and other agro industries.

The Committee noted that the respective costs of the three (3) projects (without the insurance premium) are as follows:

Kwahu	-	US\$59,977,931.00
Konongo	-	US\$29,896,475.00
Kumawu	-	<u>US\$30,125,594.00</u>
TOTAL		<u>US\$120,000,000.00</u>

The **scope of works** would include the following:

KWAHU

The scope of works of the Kwahu project includes the following:

- Rehabilitation of existing plant
- Expansion of water treatment plant (15,600m³)
- Raw water source development, treatment plant and high level pumping station, supply and installation of electro-mechanical equipment
- Transmission and distribution network (81.9 km)
- 4 no. booster pump stations at Kwahu Tafo, Mpraeso and Nkwatia
- Rehabilitation of Nkawkaw existing boreholes and extension of distribution pipelines
- Provision of boreholes to some communities in the western part of the Ridge
- Supply and installation of 170 kW micro hydro electric unit
- Supply and installation of domestic and stand pipes
- Storage reservoirs.

KONONGO

The scope of works of the Konongo project is in two parts and involves the rehabilitation and expansion of the system to meet the population demand up to the year 2020.

Rehabilitation Works would include the following:

- Water source rehabilitation
- Treatment plant
- Staff accommodation
- Transmission mains
- Water storage
- Distribution, and

- Booster station

The Expansion aspect of the works would include the following:

- Water source development
- Water treatment plant
- Transmission mains
- Water storage facility
- Distribution system – 46km
- House connections – 2,791; and 97 stand pipes

KUMAWU

The Kumawu project would involve the construction of a completely new system to serve Kumawu and 26 other communities. Scope of works would include the following:

- Site installation
- Earth works
- Concrete works
- Intake structure
- Storage reservoir
- Conventional treatment plant
- Electro-mechanical equipment
- Pipe works and other miscellaneous facilities.

A water treatment site would be installed at Aframso. The treated water will be pumped to Kwaman. From Kwaman, the water will be pumped through two transmission mains, one to feed a tank at Kumawu and the other to feed a tank at Kyebi. The Kumawu tank will serve water to Kumawu, Abotanso, Bodomase, Timate, Woraso and Besoro whilst the Kyebi tank serves the population south west of Kyebi.

The Committee was informed that in accordance with the Contract Agreement signed between Ghana Water Company Limited (GWCL) and Messrs DDY Wing Aviation Ltd of Israel, the contractors executing the projects, all expatriate personnel shall not be liable for income tax levied in the country on earnings paid in foreign currency as well as all taxes, duties, levies and charges

on equipment imported for the execution of the Project. Messrs DDY Wing Aviation Ltd of Israel has, by a letter dated 11th January 2010, assigned and sub-contracted the entire contract to Tahal Consulting Engineers Ltd.

Members of the Committee expressed concern about the situation whereby equipment that are brought in the country tax free for specific projects are sold or used for other projects upon the completion of the original project. The Committee advises Ministries, Departments and Agencies (MDAs) under whose purview projects are implemented to put in place strict monitoring mechanisms over such items so that at the completion of the projects, the items are re-exported out of the country or the relevant taxes and duties paid on them.

The Committee noted that there is a tax exemption/waiver policy being developed by the Ministry of Finance and Economic Planning. The Committee encourages the Ministry to expedite action on the said policy to help streamline the regime of tax exemption/waiver to ensure optimum collection of revenue for development.

The Committee recommends to the Ministry of Finance and Economic Planning that whenever a loan is being contracted, the applicable taxes that would be required to be waived must be anticipated and assessed so as to enable Government and Parliament make informed decision on the loan vis-à-vis the amount of revenue that would be lost as a result of the waivers/exemption of taxes.

The Committee encourages the Ministries of Finance and Economic Planning and Water Resources, Works and Housing to endeavour to secure funds to provide water to all parts of the country.

6.0 CONCLUSION

The Committee recommends to the House to approve by resolution, the request for **waiver of taxes and duties** amounting to the cedi equivalent of *twenty-five million, seven hundred and thirty-seven thousand, nine hundred and eighteen United States Dollars (US\$25,737,918.00)* on the materials, equipment and spare parts as well as corporate and personal income taxes amounting to *two million, ninety-three thousand, nine hundred and twenty-five Ghana Cedis and sixty pesewas (GH¢2,093,925.60)* in respect of the **Kwahu Ridge Water Supply Project** in the Eastern Region and **Konongo and Kumawu Water Supply Projects** in the Ashanti Region in accordance with article 174(2) of the 1992 Constitution of the Republic of Ghana.

Respectfully submitted.



**HON. JAMES KLUTSE AVEDZI
CHAIRMAN**



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

26TH NOVEMBER, 2010