

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

**REPORT OF THE JOINT COMMITTEE ON FINANCE
AND TRADE, INDUSTRY AND TOURISM ON THE
SUBSIDIARY AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA AND
CHINA DEVELOPMENT BANK CORPORATION FOR
AN AMOUNT OF US\$67 MILLION TO FINANCE THE
SEKONDI FREE ZONE - SHARED INFRASTRUCTURE
AND UTILITY SERVICES PROJECT UNDER THE
MASTER FACILITY AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA AND
CHINA DEVELOPMENT BANK CORPORATION**

1.0 INTRODUCTION

The Subsidiary Agreement between the Republic of Ghana and the China Development Bank Corporation for an amount of US\$67,000,000.00 to finance the Sekondi Free Zone - Shared Infrastructure and Utility Services Project under the Master Facility Agreement between the Republic of Ghana and the China Development Bank Corporation was laid in the House on Wednesday 16th May, 2012 and referred to a Joint Committee on Finance and Trade, Industry and Tourism for consideration and report in accordance with articles 103 and 181 of the Constitution and the Standing Orders of the House.

The Committee met and considered the Agreement with the Minister for Trade and Industry, Hon. Hannah Tetteh, Deputy Minister of Finance and Economic Planning, Hon. Seth Terkper, and technical teams from the Ministries of Finance & Economic Planning and Trade and Industry and hereby presents this report to the House pursuant to Order 161(1) of the Standing Orders of the House.

2.0 BACKGROUND

His Excellency President John Evans Atta Mills visited the Peoples Republic of China in September, 2010 at the invitation of His Excellency President Hu Jintao. During the said visit, a Framework Agreement for China Development Bank's Comprehensive Project Finance Facility for Ghana was signed to extend the coverage of bilateral economic cooperation ~~to~~^{for} the mobilization of financing for Ghana's development agenda.

In April 2011, following two previous rounds of discussions with CDB in Beijing, China (January 2011) and Accra (February 2011), the Ministry of Finance and Economic Planning (MOFEP) and CDB signed an agreed "Indicative Term Sheet" subject to necessary internal approvals. This formed the substantive basis for the Master Facility Agreement. Cabinet approved the draft Term Sheet to facilitate the negotiations with CDB in April 2011. Another discussion with CDB was on a special line of credit for the development of African SMEs. With the successful negotiation and initialing in June/July 2011 of the draft Master Facility Agreement on the approved financing terms, the Agreement was presented to the House for consideration and approval.

The Master Facility involves the financing and construction, primarily of infrastructure expansion and development projects in priority sectors under the Ghana Shared Growth and Development Agenda (GSGDA).

Hon. Members would recall that Parliament on 26th August 2011 approved the US\$3.0 billion Master Facility Agreement (MFA) between the Government of Ghana and the China Development Bank. This Master Facility Agreement was signed by Ghana's Ambassador to the People's Republic of China with a Power of Attorney, in compliance with the provisions of Section 4 of the Loans Act, 1970 (Act 335).

The executed Master Facility Agreement necessitated some amendments in the form of an 'Addendum' which was approved by the House on 21st February, 2012.

3.0 PURPOSE OF THE AGREEMENT

The purpose of the Master Facility Agreement is to obtain funds in the sum of US\$3.0 Billion from China Development Bank (CDB) to undertake infrastructural development projects in Ghana pursuant to the Ghana Shared Growth and Development Agenda (GSGDA).

The objective of this Subsidiary Agreement is to draw-down an amount of US\$67 million from the Master Facility to implement the Sekondi Free Zone – Shared Infrastructure and Utility Services Project.

4.0 TERMS OF THE FACILITY

The US\$67 million facility for the Sekondi Free Zone – Shared Infrastructure and Utility Services Project is under **Tranche A** of the **Master Facility Agreement** as already approved by Parliament with the following terms:

TOTAL MASTER FACILITY AMOUNT	:	US\$3,000,000,000.00
TRANCHE A AMOUNT	:	US\$1,500,000,000.00
Grace Period	:	Up to 5 years
Tenure	:	15 years
Interest Rate	:	6 months Libor + 2.95%
Upfront Fees	:	0.25% flat
Commitment Fee	:	1.00% p.a. on undrawn balance

5.0 PROJECT DESCRIPTION

The project entails the development of a privately-financed and owned Export Processing Zone (EPZ) with both on-site and off-site infrastructure of international standard. The Government of Ghana, through the Ghana Free Zones Board (GFZB), has designated the/a 2500 acre land at Sekondi to be developed into an Industrial Estate, and identified a potential developer – Hasan Investment Limited as the strategic developer.

The project will finance a well developed Industrial Estate to attract investors of international repute to operate from there.

State of the art world class infrastructure to be provided for the Sekondi Free Zone include District Cooling System, Sewerage Treatment Plant, Power Plant, Water Desalination Plant, roads, dignages, lightings, water network, gas network, telecommunication network, irrigation system network and landscape.

6.0 OBSERVATIONS

The Committee observed that one of the conditions of the Master Facility Agreement was that each of the emanating Subsidiary Agreements should be presented to Parliament for consideration and approval.

It was noted that the US\$3.0 billion Master Facility approved by the House would be disbursed through two windows (i.e. Tranche A and Tranche B) and that specific disbursements under each of the Tranches would be determined project-by-project as spelt out in separate Subsidiary Agreements.

The Committee also noted that the US\$67 million Subsidiary Agreement currently under consideration is a Tranche A facility.

The Committee noted that in principle, **Tranche A** of the Master Facility has a Grace Period of **indicative 5 years** whilst **Tranche B** has an **indicative 3 years** Grace Period.

The Committee also noted that *Finance Documents* which are required to be approved under the Master Facility Agreement include the Offtaker Agreement, the Security Document being the Charge over Accounts Agreement, the Accounts Agreement and the Five Party Agreement. These Agreements have already been approved by the Honourable House.

Some benefits to be derived from the Sekondi Free Zone – Shared Infrastructure and Utility Services Project include:

- Industrial Synergies – Anchor tenants and subsequent spin off industries to enjoy industrial synergies with one another by not functioning in isolation. The byproducts and waste produced from an industry would serve as raw material for another.
- A Conducive Working Environment – The Zone will provide a comprehensively planned city with industrial areas where the workforce works and resides, with a vibrant city center complemented with amenities in a park-like setting.
- Innovative Business Environment – Host innovative industries that will help diversify the economy and spearhead the provision of industrial development that significantly supports the mining economy.
- Employment Opportunities – Sites would be demarcated to provide opportunities for the interfacing of technology, education and recreation. The industries to be sited at the Enclave are expected to provide 60,000 direct jobs and between 800 and 1000 supporting jobs.
- Well Planned City with World Class Infrastructure - with lower land leases that can translate into lower business costs, clustering of similar industries to minimize impact to the surroundings, planned land bank with the capacity to develop other high end industries and to afford flexibility and capability for future expansion as well as major utility installations.

The Committee was informed that the total cost for Phase 1 of the Project is estimated at US\$118 million and would be financed from the following sources:

CDB	US\$67 million
GOG (15%) Counterpart	US\$12 million
Additional Requirement (GOG)	<u>US\$39 million</u>
TOTAL	<u>US\$118 million</u>

The Committee observed that the base metals, minerals and logistics segment have been identified as the anchor industrial segments, the key investors having been identified as an alumina refinery by Bosai Mineral Group, Ferro Alloy Plants for Ferro Manganese, alloy and silico-manganese alloy by Dao Steel Minerals Group, and First Sunergy involved in the manufacture of solar panels and wind turbine parts.

The Committee was informed that the Successful implementation of the project and operation of the Zone is expected to generate over 60,000 direct manufacturing jobs and another 800-1000 supporting jobs. This would help to significantly ease the unemployment situation in the country.

It was noted that Hasan, the strategic developer is envisaged to bring in approximately US\$8 billion worth of investments by reputable industrialists. Hasan itself is envisaged to invest about US\$800 million – US\$1 billion in residential estate, logistic clusters and specialized industrial and infrastructure operation.

Some Honourable Members of the Committee admonished the Ministry of Trade and Industry (MOTI) and the Ministry of Finance and Economic Planning (MOFEP to take necessary care to ensure that the Developer (Hasan) does not fail in delivering on its obligations as happened with the STX Korean Partners.

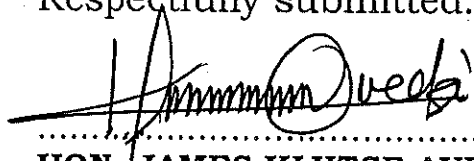
Members also advised that inscriptions and manuals to the facilities to be installed at the Enclave should be in English so as to make them user friendly and easy to maintain/repair.

Some Honourable Members expressed concern about the US\$600,000 per kilometer estimated for the asphaltic road to be constructed in the Enclave. They were of the view that this amount would not be sufficient to complete the road since the Ghana Highway Authority has quoted (in official documents) far higher figures per kilometer for other roads to be constructed in that Region.

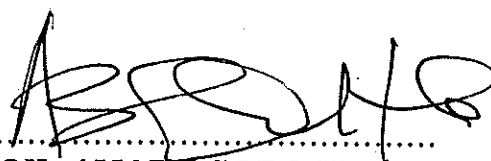
7.0 CONCLUSION

The Committee, after careful consideration, respectfully recommends to the House to approve by Resolution, the **Subsidiary Agreement** between the **Government of the Republic of Ghana** and **China Development Bank Corporation (CDB)** for an amount of *sixty-seven million United States Dollars (US\$67,000,000.00)* to finance the **Sekondi Free Zone – Shared Infrastructure and Utility Services Project** under the Master Facility Agreement between the Republic of Ghana and the China Development Bank Corporation 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.



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HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE



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HON. AMADU SOROGHO
CHAIMAN, COMMITTEE ON
TRADE, INDUSTRY & TOURISM



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PEACE A. FIAWOYIFE (MS.)
CLERK, FINANCE COMMITTEE



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8TH JUNE, 2012