

IN THE THIRD SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE

ON THE

**LOAN AGREEMENT BETWEEN THE REPUBLIC OF GHANA AND
THE AFRICAN DEVELOPMENT FUND FOR AN AMOUNT
EQUIVALENT TO FORTY MILLION UNITS OF ACCOUNTS (UA40,
000,000[EQUIVALENT TO US\$56.80 MILLION]) TO SUPPORT
THE PUBLIC FINANCIAL MANAGEMENT AND PRIVATE SECTOR
COMPETITIVENESS SUPPORT PROGRAMME PHASE 1
(PFMPSCSP)**

JULY 2015

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**REPORT OF THE FINANCE COMMITTEE ON THE LOAN
AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA AND THE AFRICAN DEVELOPMENT
FUND FOR AN AMOUNT EQUIVALENT TO FORTY MILLION
UNITS OF ACCOUNTS (UA 40,000,000) [EQUIVALENT TO
US\$56.80 MILLION] TO SUPPORT THE PUBLIC FINANCIAL
MANAGEMENT AND PRIVATE SECTOR COMPETITIVENESS
SUPPORT PROGRAMME – PHASE I (PFMPSCSP)**

1.0 INTRODUCTION

The request for approval of the Loan Agreement between the Government of the Republic of Ghana and the African Development Fund for an amount equivalent to Forty Million Units of Accounts (UA 40,000,000) [Equivalent to US\$56.80 million] to support the Public Financial Management and Private Sector Competitiveness Support Programme – Phase I (PFMPSCSP) was presented to the House by the Hon. Minister for Finance Mr. Seth Emmanuel Terkper on Thursday 9th July, 2015 in accordance with Article 181 of the 1992 Constitution. The Rt. Hon. Speaker referred the request to the Finance Committee for consideration and report in accordance with Order 169 of the Standing Orders of the Parliament of Ghana.

Pursuant to the referral, the Committee met with the Hon. Deputy Minister of Finance, Mr. Cassiel Ato Baah Forson and officials from the Ministry of Finance and considered the

referral. The Committee is grateful to the Hon. Deputy Minister and Officials from the Ministry for attending upon it.

2.0 REFERENCE

The Committee referred to the following additional documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana; and
- Loans Act 1970 (Act 335)

3.0 BACKGROUND

The overall budget support programme is currently supported by ten Multi-Donor Budget Support (MDBS) members who are signatories to the MDBS Framework Memorandum (FM) which describes the common framework for implementation of grant and loan agreement to support the development agenda of the government. The FM provides room for individual arrangements between each Development Partner and the Government of Ghana. The Public Financial Management and Private Sector Competitiveness Support Programme – Phase I (PFMPSCSP) is the African Development Bank's (AfDB) budget support for 2015 financial year. The support is targeted at fiscal consolidation policy actions, Public Financial Management Reforms (PFM) and electricity sector reforms.

4.0 PROJECT OBJECTIVES

The objective of the proposed operation is to support the implementation of the government medium-term development agenda aimed at building a strong foundation for inclusive and self-reliant economic growth. The operational objective is to strengthen fiscal consolidation and PFM reforms to restore macroeconomic stability, and enhance private

sector-led competitiveness through improved access to electricity and SMEs' access to finance.

5.0 PROJECT DESCRIPTION AND COMPONENTS

The implementation of the project is divided into three (3) components. The first component of the program will support structural measures aimed at strengthening revenue enhancement and expenditure controls. This is to address the large fiscal imbalances in recent years fueled by revenue shortfalls, rising wage Bill and high interest payments associated with rapidly increasing public debt.

The second component will support the strengthening of the strategic anchor of PFM reforms, enhancing credibility of the budget; strengthen procurement and contract management and improving transparency and accountability in the Budget process. This is aimed at ensuring a coherent and comprehensive PFM Reform Strategy to ensure the success of the GOG PFM reform efforts.

The Final component of the program aims at eliminating existing weaknesses that constrain private sector growth and competitiveness. In this regard, measures will be implemented to address the power shortage problem.

6.0 TERMS AND CONDITIONS OF THE FACILITY

The terms and conditions of the ADF facility are as follows:

Loan Amount	:	UA 40.00M (US\$56.80 million Equivalent).
Interest Rate	:	1% per annum.
Service Charge	:	0.75% per annum on principal amount of the loan disbursed and outstanding from time to time.

Commitment Charge	:	0.5% per annum on the undisbursed portion of the loan.
Grace Period	:	5 years.
Repayment Period	:	25 years.

7.0 OBSERVATIONS

Importance of the Facility

Emphasizing the importance of the Facility the Deputy Minister of Finance stated that the Facility is to enable the Government to implement its medium term development agenda aimed at building a strong foundation for inclusive and self-reliant economic growth. The Deputy Minister stressed that the funds will thus be applied to strengthen fiscal consolidation and PFM reforms to restore macroeconomic stability. The Deputy Minister explained that Ghana has made significant progress on socio-economic development which propelled the country into a lower middle income status. Despite these achievements, Ghana still has many characteristics of a lower income country and the economy is still characterised by high unemployment, vulnerability to external shocks and less than optimum access to social services.

The Deputy Minister indicated further that to resolve these challenges, Government has demonstrated its commitment to macroeconomic stability through prudent fiscal management to sustain economic growth and consolidate the transition to a full middle income country. It is therefore to further sustain these commitment that Ghana's development Partners continue to support the country's development efforts by providing budgetary support and capacity building assistance.

Terms and Condition of the Facility

The Committee noted that the Facility which is African Development Bank's support to the 2015 Budget has a standard AfDB terms and conditions. The Facility is a concessionary

one with favorable terms and conditions. It has a concessionality of 45% which is above the government concessionality requirement of 35%.

Project Cost and Disbursement

The Committee noted that the overall budget support programme is UA75 million and would be implemented in two phases. The first Phase, amounting to UA40million (US\$56.80 million) of which the request for approval is being sought will be disbursed to Government in 2015 with the second and final phase amounting to UA35 million (US\$49.70million), being disbursed in 2016 under a separate Loan Agreement.

The disbursement of the first phase of UA40 million, the Committee further noted shall be conditional upon the entry into force of the Loan Agreement and the opening of a foreign currency account at the Bank of Ghana into which the proceeds of the loan will be deposited.

Monitoring, Evaluation and Audit

The Committee was informed that the implementation of PFMPSCSP will be closely coordinated with the IMF- ECF and the World Bank Budget support operation while the monitoring of the implementation of the operation will be guided by the AfDB Operational Policy Matrix quantitative and qualitative indicators defined in the Results Based Logical Framework. Further, following the completion of the second operation, a Programme Completion Report (PCR) will be prepared to evaluate progress against the Results Based Logical Framework and to draw lessons for follow-up operations.

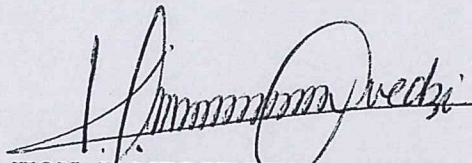
The Committee also noted that the MDDBS Framework Memorandum provides for an external audit of the Government's accounts to be undertaken by the Ghana Audit Service. The reports thereof will be shared with MDDBS partners.

8.0 CONCLUSION

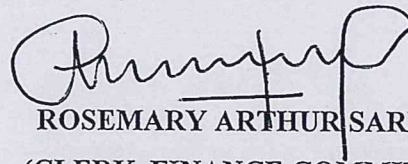
The Committee having carefully examined the facility recommends to the House to adopt its report and approve by resolution, the request for approval of the Loan Agreement

between the Government of the Republic of Ghana and the African Development Fund for an amount equivalent to **Forty Million Units of Accounts (UA 40,000,000) [Equivalent to US\$56.80 million]** to support the Public Financial Management and Private Sector Competitiveness Support Programme – Phase I (PFMPSCSP) in accordance with Article 181 of the 1992 Constitution, Section 7 of the Loans Act, 1970 (Act 335) and Order 169 of the Standing Orders of the Parliament of Ghana.

Respectfully Submitted.



HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)



ROSEMARY ARTHUR SARKODIE (MRS)
(CLERK, FINANCE COMMITTEE)

July, 2015