

MEMORANDUM TO PARLIAMENT

BY



**HON. JOE GIDISU
MINISTER FOR ROADS AND HIGHWAYS**

AND

**HON. DR. KWABENA DUFFUOR
MINISTER FOR FINANCE & ECONOMIC PLANNING**

ON THE

CONCESSION AGREEMENT FOR THE ACCRA - KUMASI ROAD CORRIDOR

TO BE IMPLEMENTED BY

**ARTERIAL TOLL ROADS COMPANY LIMITED (ATRCL) ON A PUBLIC PRIVATE
PARTNERSHIP (PPP) ARRANGEMENT WITH THE GHANA HIGHWAY
AUTHORITY (GHA) ON BEHALF OF THE REPUBLIC OF GHANA ON BUILD
OPERATE AND TRANSFER (BOT) SCHEME**

JUNE, 2012

ACC NO : 3773
Class No : PM / ATRCL / 12

8/12/12

1.0 Action Required

Hon. Members are respectfully invited to consider and approve for the **Concessioneing of the Accra–Kumasi Road Corridor (the corridor) through a Public–Private Partnership (PPP)** arrangement on **Build Operate and Transfer (BOT)** scheme.

The request is to consider the draft Concession Agreement and authorize the Ghana Highway Authority (GHA), supported by Ministry of Roads and highways, acting on behalf of the Republic of Ghana, to enter into a Concession Agreement, (after satisfying all approvals and processes) with Arterial Toll Roads Company Limited (ATRCL), for the designing, construction, financing, operating (by tolling) and maintaining of the Corridor.

2.0 Background

On February 14, 2005, the Ministry of Roads and Transport and ATRCL entered into a Memorandum of Understanding (MOU) for construction and possibly tolling of some major road corridors in Ghana. Consequently, the ATRCL began pre-construction works (including designs and feasibility studies) on the Corridor for tolling. On October 2, 2009, the initial MOU was amended to reflect changes in scope of work and specifications as well as Parties, since MRT had changed to Ministry of Roads and Highways (MRH).

The MRH processed and submitted the project, which involves granting the Corridor on a Concession, to Cabinet for consideration. On 30 June 2010, Cabinet approved the project to grant the concession to ATRCL to finance the designing, construction, and management of the AKRC and tolling to recoup the investment. The approval was given with a proviso, that the various stakeholders prepare and submit the draft **Concession Agreement** to Cabinet for consideration.

In December 2011, the draft Concession Agreement was submitted to Cabinet and received Executive Approval in January 2012, which was later ratified by Cabinet in a letter dated January 20, 2012.

2.1 Provisions in MOU – Roles and Responsibilities

In accordance with the provisions of the latter MOU, the following tasks and responsibilities were outlined, and completed by the Parties;

(i) ATRCL

- a) ATRCL had agreed to prepare and submit to MRH feasibility studies, preliminary designs, engineering studies and a financial model on the project,
- b) ATRCL is expected to proof its ability to finance, construct and manage the AKRC,
- c) ATRCL in principle agreed to the concession period and to transfer the Corridor to Government of Ghana in a reasonably good condition, as will be specified in the concession agreement and at no extra cost to Government,

(ii) MRH & GHA

- a) MRH has agreed upon obtaining the all necessary authorization to release the Corridor to ATRCL,
- b) GHA is to approve all preliminary designs and studies made by ATRCL before signing off on the Concession Agreement and final design and engineering studies will be concluded during the pre-construction period,
- c) Both parties will agree on all terms and conditions before signing the concession agreement,

2.2 Parties and Type of PPP

The project is arranged on a Public Private Partnership (PPP) through granting of Road Corridor in a Concession Agreement between the Republic of Ghana represented by;

- a) Ministry of Finance and Economic Planning (Facilitator)
- b) Ministry of Roads and Highways (Sector ministry)
- c) Ghana Highways Authority (Implementing agency), and the
- d) ATRCL and Partners (Concessionaire which includes; DSC Infrastructure Company as contractor and financiers).

The PPP arrangement is on the basis of a **Built Operate and Transfer (BOT)** scheme.

2.3 Coordination and Consultation

Based on the recommendation from Cabinet, an inter-Ministerial Committee was set up to meet with the proposed Concessionaire to discuss and deliberate on the transaction, most especially the Concession Agreement. The Government of Ghana (GOG) representatives to the Committee were made up of Officials from the Ministries of Finance and Economic Planning, Roads and Highways, Ghana Highway Authority (GHA) and the Justice and Attorney General Department. The Concessionaire Team was also made up of ATRCL, a consortium comprising; Savarino Ghana LLC, the Wellington Trust, DSC Infrastructure Limited, HHO Africa, and Macquarie First South Corporate Finance (Proprietary) Ltd. The transaction was reviewed by the Committee and recommendations were made to produce the draft Concession Agreement. The Concession Agreement was again reviewed and finalized by the AG's Department.

2.4 Concessionaire Profile and Track Record in the Field

The Concessionaire is comprised of a consortium of experienced infrastructure developers, contractors and operators. Its sponsors and principals, the shareholders of Savarino Companies and the administrators of The Wellington Trust have been involved in the developing sports stadiums, subway and bus terminals, urban and power infrastructure.

The contractor and O&M operator, and shareholder, DSC Infrastructure LLC, is one of the fastest growing infrastructure developer and investor in India with projects over US \$6.3 billion under various stages of implementation. Landmark projects of DSC in India include the Delhi Gurgaon Expressway, the Western Peripheral Expressway also known as Kundli Manesar Palwal Expressway - the largest BOT Expressway Project in India, and the Raipur Durg Highway Project. DSC and ATRCL have an O&M operator relationship with the Egis Group.

2.5 Policies and Process for Procuring the Concessions

The process of procuring the project through a PPP arrangement commenced in 2005. At the time the National Policy on PPP, approved by cabinet in June 2011 was not in

existence. The process adopted was therefore to seek Cabinet and Parliament approvals project and thereafter, finalize the full Feasibility Report, Financial Model, Operating and Management Contract and the Concession Agreement which umbrella the entire project. The procedures have therefore been outlined as follows;

- a. Preparation of draft Concession Agreement and reviewed by AG (Done- copies attached)
- b. Seek Cabinet approval for draft Concession Agreement (Done- copies attached),
- c. Seek Parliamentary approval for the Concessioneing of the Road Corridor(pending),

Parliamentary approval for the project will authorize the conclusion of the following in accordance with the National Policy on PPP, June, 2011:

- d. Preparation of Full feasibility study report and financial model by ATRCL;
- e. Completion of the Concession Agreement, including all relevant schedules and other project related agreements (e.g. EPC Agreement, O&M Agreement, Shareholders Agreement);
- f. Engagement of a team of advisors experienced in projects of this type by MRH to undertake the following prior to commercial close (signing of Concession Agreement) and financial close (signing of financing agreements and meeting of all conditions precedent necessary for the start of the project); including ;
 - a. Independent assessment of the full feasibility study report prepared by ATRCL;
 - b. An audit of the financial model;
 - c. Value for Money Assessment;
 - d. Review and advise on the terms and conditions proposed in the completed draft Concession Agreement inclusive of all relevant schedules and other project related agreements (e.g. EPC Agreement, O&M Agreement, Shareholders Agreement and other key project agreements, etc.) by ATRCL;
 - e. Provide advice and support in negotiating and finalizing all Project Agreements including financial close;

3.0 Technical Evaluation

In view of the requirements under the latter MOU between MRH and ATRCL, the following considerations have been undertaken;

- a) ATRCL has submitted to MRH the feasibility studies and preliminary designs and engineering studies including detailed preliminary design and engineering reports,

related infrastructure, financial model showing the indicative cost and other key financial indicators and to assess the economic and financial viability of the project.

b) ATRCL has indicated its commitment and ability to finance the project entirely from equity and debt without recourse to public funds, financial guarantee and/or revenue or traffic guarantees.

c) ATRCL demonstrated its ability to construct and manage the Concession and finalize the contractual matters with the MRH,

d) ATRCL has provided the MRH with written confirmation of financing from its Financial Advisor, Macquarie First South Corporate Finance (Proprietary) Ltd., stating that ATRCL has secured all the required capital funding for the completion of the project.

The preliminary engineering and design reports submitted by the Concessionaire, Arterial Toll Roads Company Limited (ATRCL) has been evaluated by the Ghana Highway Authority (GHA) in conformity with the provisions of the new Procurement ACT, 2003 (ACT 663). The reports are found to be technically sound and adequately covers the future conceptual plans of the Corridor as envisaged by GHA. Again, the GHA and the concessionaire agreed to increase the life span of the corridor from the traditional 20 years to 30 years.

The designs also includes interchanges and introduce 'right-hand exits' and 'u-turns', high speed cross-traffic (interchanges) on the corridor with its related safety issues.

The Concessionaire has estimated the total initial cost of the project at GHc692 million. The cost includes the construction of the 141 km segment of the road, as per the scope of works, estimated at GHc488.22 million, or GHc1.73 million per kilometer per single lane. The computation is this estimated takes into account the outlook of the macroeconomic indicators; projected exchange rates fluctuations, inflation and interest rates movements. Without the effects of the macroeconomic indicators, the cost per kilometer would have been GHc1.09 million, indicating a significant exposure and risk. The Concessionaire has agreed to assume the construction, performance, operation and financial risks associated with the project.

4.0 SCOPE OF WORKS

The scope of works includes;

- (i) the design and construction of two new additional lanes of 141 km from Apedwa interchange to Ejisu, including community bypasses and interchanges.
- (ii) the rehabilitation and strengthening of the existing two and four lanes segments and the upgrading of the current segment under construction,
- (iii) the integration of the entire dual carriage Corridor from Ofankor to Fumesua into a tolling regime and the provision of the necessary toll plazas,
- (iv) Maintain and operate the Corridor for the concession period as agreed in the Concession agreement.

4.1 Third Party Works

The entire existing roadway would be taken over by the Concessionaire on 'as-is' condition. In respect of the existing segments of the roadway under construction, being 'The Third Party Works'; The Third Party Works will be taken over by the Concessionaire also on an 'as-is' basis on completion of the Third Party Contracts. The Third Party Contractor would be responsible to the GoG for latent defects in accordance with the terms of the contract with the GoG and the Third Party Contractor. Any latent defects in the roadway will not be a direct responsibility of the GoG.

5.0 FINANCING/INVESTMENT DETAILS

5.1 Financing Structure

The project proposal submitted by the Concessionaire indicated that ATRCL and its consortium of Financiers and Contractors will provide the required funding for the project in the form of investment. The estimated funding for the execution and maintenance of the corridor is about **GHc692 million**. The total estimated funding is raised through **equity and senior debt**, in the ratio of **30% and 70%** respectively.

The proposal further indicated that the Concessionaire shall recoup its equity investment and the repayment of the senior debt through receivables from the tolling of the Corridor. The financing structure and the arrangement of the debt do **not** require a sovereign guarantee or any revenue and/or traffic guarantees. The repayment of the senior debt is customized to reflect expected revenue flow from tolling of corridor.

Government of Ghana (GOG) is therefore **not** obliged for any financial liability in total funding package for execution and maintenance of the corridor over the Concession period.

5.2 Tolling Locations and Rates

The GHA together with the Concessionaire are assessing the tolling strategy to identify the potential locations of the tolling centers along the corridor. However, preliminary indication is that there will be 5 tolling stations along the Corridor, one at both ends of the corridor and 3 within the corridor.

Tolling rates under the Concession Agreement are comparable to the current rates applied on other existing tolls roads in Ghana. The financial model provides tolling rates schedule for five categories roads users, ranging from **GHc0.05 for private cars** to a maximum of **GHc0.25 for heavy duty, 5 axle trucks** on per kilometer travelled. There is a provision for future review of the tolling rates in accordance with the Concession Agreement and in collaboration with and approval from GHA.

5.3 Return on Investment

The appropriate nominal and real Return on Investment (ROI) for a PPP Concession would take into consideration country and project risks, Government guarantees and the amount being investing in the project by the Concessionaire.

In this financial arrangement for this transaction, where Government is not providing sovereign, revenue and traffic guarantees, the Concessionaire will be liable for full Commercial, financial and market risks associated with the project, including Foreign Exchange (FOREX) risk for repayment of the senior debt payable in foreign currencies.

6.0 CONCESSION AND CONSTRUCTION PERIODS

The proposed concession period is up to 30 years, including construction period of four (4) years. The Concession period commences upon reaching financial close and when

the right of way is handled over to the Concessionaire. The right of way on the Corridor is transferred back to the GHA at the end of the Concession period.

7.0 BENEFITS

One of the key pillars of the Ghana Shared Growth and Development Agenda (GSGDA) is the accelerated infrastructure development to facilitate rapid economic activities and growth. In Ghana, road transport is one of the most important and heavily use means of transport, carrying about 95% of passengers and fleet. Until the oil find at Takoradi, Accra and Kumasi have the busies commercial and industrial cities in the country. The upgrading and modernizing the corridor will provide many benefits to Ghanaians, including a faster and safer mode of transportation bringing the two major centers of commerce together resulting in;

1. Vehicle Operating Cost savings to road users,
2. Reduction in travel time,
3. Socio-economic, political and administrative integration of Ghana with other countries like Burkina Faso, Mali and Niger,
4. Major reduction in accidents, and
5. Improving the standard of living of the people in the influence areas thereby contributing to Government's effort of bringing development to the country, in general.

8.0 CONCLUSION

The Accra to Kumasi Road corridor is a priority project which is specified in most development policy objective, including the Annual Budget Statements and Economic Policy. When implemented, the corridor will promote safe and efficient economic activities in the country.

In view of the immense socio-economic and financial benefits to be derived from this project Hon. Members are respectfully requested to consider and approve as follows;

- (i) Authorize the Ghana Highway Authority (GHA), supported by the Ministry of Roads and Highway to enter into the Concessional Agreement with Arterial Toll Roads Company Limited to implement the project on a PPP basis ,

subject to completion of documentations and processes outlined in paragraph 2.5 of this memorandum ;

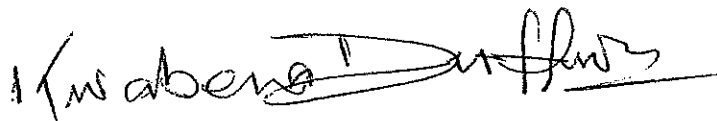
- (ii) Further direct the appropriate Ministers to seek other necessary regulatory approvals through the appropriate processes to procure the project on Build Operate and Transfer (BOT) scheme in accordance with the National Policy on PPP.



HON. JOE GIDISU (MP)

MINISTER FOR ROADS AND HIGHWAYS

Date : ¹⁵.....June, 2012



HON. DR. KWABENA DUFFUOR

MINISTER FOR FINANCE AND ECONOMIC PLANNING

Date: ^{15th}..... June, 2012