

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

**REPORT OF THE SELECT COMMITTEE ON
MINES AND ENERGY**

ON THE

**THE COMMERCIAL CONTRACT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA
AND THE CHINA HUNAN CONSTRUCTION
ENGINEERING GROUP CORPORATION FOR
THE AMOUNT OF NINETY-TWO MILLION
UNITED STATES DOLLARS (US\$92,000,000.00)
IN RESPECT OF THE SUPPLY AND ERECTION
OF ELECTRICAL MATERIALS AND EQUIPMENT
FOR THE ELECTRIFICATION OF 556
COMMUNITIES IN THE EASTERN, VOLTA AND
NORTHERN REGIONS, PHASE I**

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**REPORT OF THE COMMITTEE ON MINES AND
ENERGY ON THE COMMERCIAL CONTRACT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA AND CHINA HUNAN
CONSTRUCTION ENGINEERING GROUP CORPORATION FOR AN
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VOLTA AND NORTHERN REGIONS, PHASE I**

1.0 INTRODUCTION

- 1.1 The Commercial Contract between the Government of the Republic of Ghana and the China Hunan Construction Engineering Group Corporation for an amount Ninety-Two Million United States Dollars (US\$92,000,000.00) in respect of the supply and erection of Electrical Materials and Equipment for the electrification of 556 communities in the Eastern, Volta and Northern Regions, Phase I was laid in Parliament on 23rd February, 2016 by the Hon. Minister responsible for the Ministry of Power, Mr. Seth Tekper.
- 1.2 The Commercial Agreement was subsequently referred to the Committee on Mines and Energy for consideration and report pursuant to Order 188 of the Standing Orders of Parliament.

2.0 DELIBERATIONS

The Committee met with the Deputy Minister for Power, Hon. John Jinapor and Officials of the Ministry to discuss the Commercial Agreement. A Deputy Minister for Finance, Hon. Cassiel Ato Forson also attended the meeting to assist in the Committee's deliberations.

The Committee is grateful to the Hon. Deputy Ministers and the Officials for their attendance and for providing clarifications on issues raised at the meeting.

3.0 REFERENCE DOCUMENTS

The Committee referred to the following documents during its deliberations on the Agreement:

- i. The 1992 Constitution;
- ii. The Standing Orders of Parliament;

- iii. The Credit Facility Agreement between the Government of Ghana and Industrial Commercial Bank of China (ICBC) Limited and Standard Chartered Bank Limited for Financing the Supply and Erection of Electrical Materials and Equipment for the Electrification of 556 Communities in the Eastern, Volta and Northern Regions.
- iv. International Federation of Consulting Engineers (FIDIC) General Conditions of Contract for EPC/Turnkey Project, 1999 Edition.
- v. The Minutes on Value for Money Negotiation Among the Ministry of Power, the Ministry of Finance, Hunan Construction Engineering Group Ltd and Crown Agents Ghana Ltd on the National Electrification Project.

4.0 BACKGROUND INFORMATION

One of the Government's major objectives towards poverty reduction and growth agenda is the extension of electricity infrastructure to support the operations of productive ventures, social projects and activities in the rural areas. This objective is being pursued through the implementation of the National Electrification Scheme (NES). The Scheme, which was commenced in 1990, aims at extending reliable electricity supply to all parts of the country over a period of thirty (30) years.

The Scheme is being complemented with the Self-Help Electrification Programme (SHEP) under which some communities are supported to get connected to the national grid. To qualify under the programme, a community must be within 20km radius of an existing medium voltage (MV) network, and should have provided the requisite Low Voltage (LV) electricity poles and wired at least one third of their houses.

So far, over 5,000 communities in Ghana have been connected to the national electricity grid under the NES and SHEP since their commencement in 1990. Consequently, the access rate to electricity in Ghana has increased from about 15% in 1990 to 80.5% in 2015.

In a bid to build on the gains achieved so far, the Government of Ghana executed a Commercial Agreement with China Hunan Construction Engineering Group for the Extension of Electricity to 556 Communities in the Eastern, Volta and Northern Regions on 13th November, 2014. The Commercial Agreement was subsequently amended by the parties on 8th June, 2015. Additionally, the project was broken down into two phases.

5.0 PARTIES TO THE AGREEMENT

The parties to the Commercial Agreement are the Government of Ghana (represented by the Ministry of Power) and China Hunan Construction Engineering Group Corporation.

5.1 The Government of Ghana

The Government of Ghana is represented under the Agreement by the Ministry of Power. The Ministry of Power is mandated to initiate and formulate policies to ensure the effective and efficient generation, transmission and supply of power to all sectors of the economy of Ghana in an environmentally sustainable manner.

5.2 The China Hunan Construction Engineering Group Corporation

The China Hunan Construction Engineering Group Corporation is incorporated under the laws of the Republic of China. The Company has its principal place of business at Number 788, First Segment of Furong South Road, Changsha City, Hunan Province, PR China.

6.0 THE NATURE OF THE PROJECT

6.1 The project involves the design, manufacture, delivery, installation, completion and commissioning of the electrification project in 556 communities in the Eastern, Volta and Northern Regions of the country. The project will be delivered in two phases.

6.2 The duration for the completion of the project under the Agreement is 5 years (1,825 days) from the effective date of the Agreement.

7.0 FUNDING OF THE PROJECT

7.1 The initial cost of the project was One Hundred and Eighty Million United States Dollars (US\$180,000,000.00). However, due to the break down of the project into two (2) phases, the cost of the first phase of the project will now cost Ninety-Two Million United States Dollars (US\$92,000,000.00).

7.2 The project is to be funded by the Credit Facility Agreement between the Government of Ghana and Industrial Commercial Bank of China (ICBC) limited and Standard Chartered Bank, Ghana the amount Ninety-Eight Million, Eight Hundred and Sixty-Nine Thousand United States Dollars (US\$98,869,000.00) approved by the House in December, 2015.

8.0 BENEFICIARY COMMUNITIES

A total of 556 communities in the Eastern, Volta and Northern Regions are to benefit from the project by the end of the two phases of the project.

9.0 OBSERVATIONS

The Committee made the following observations during its deliberations:

9.1 Access to Electricity

On access to electricity in the country, Officials of the Ministry of Power informed the Committee that despite the progress made in increasing access to electricity, some Regions are far below the National Average of Electricity Access Rate of 80.5%. The access rates for the Regions are shown in Table 1. The Committee believes that the execution of the project will contribute significantly towards addressing the disparities in Regional access to electricity in the country to ensure equity.

Table 1 : Current Electricity Accessibility Rates for the Regions

Region	Access Rate (%)	Population with Access	Total Population
Ashanti	90.48	4,273,968	4,723,661
Brong Ahafo	75.77	1,954,781	2,579,888
Central	84.32	1,768,412	2,097,263
Eastern	78.56	2,349,904	2,991,222
Greater Accra	96.43	4,600,359	4,769,188
Northern	54.53	1,358,755	2,491,757
Upper East	51.65	575,116	1,113,487
Upper West	71.62	518,600	724,100
Volta	79.09	2,079,297	2,630,024
Western	78.12	1,990,340	2,547,798
Total		21,469,532	26,668,388

National Average of Electricity Access Rate = $\frac{\text{Population with Access} \times 100\%}{\text{Total Population}}$

$$= \frac{21,469,532 \times 100\%}{26,668,388} = \mathbf{80.5\%}$$

9.2 On-Going Rural Electrification Projects

The Committee was informed that despite this project, the Ministry of Power will continue with the on-going rural electrification projects across the ten (10) Regions. This is expected to increase the national electricity access rate.

9.3 Performance Security

The Committee also noted that the Commercial Agreement contains provisions to ensure that the Contractor meets all its obligations under the Agreement. Per the terms of the Agreement, the Contractor has undertaken to post a Performance Security from an acceptable financial institution. The value of the security shall be ten percent (10%) of the contract price. This is to be done within twenty-eight (28) days of coming into force of the Contract Agreement. The Security shall remain valid until the date of the issuance of the provisional taking-over certificate. However, it shall be returned to the Contractor at the end of the project period.

9.4 Submission of Progress Reports

It was again noted that the Agreement provides for the submission of Progress Reports to the Ministry of Power at the end of every month. Per the terms of the Agreement, the Contractor is mandated to submit to Progress Reports to permit the effective monitoring of the project by the Ministry. The Reports will cover each aspect of the installation services and show structures installed during the period.

9.5 Dispute Resolution Provisions

The Committee again noted that the Commercial Agreement makes adequate provisions for the resolution of dispute that may arise from the execution of the project. Parties will be required to exercise utmost good faith in the execution of the Agreement and shall as much as possible settle disputes amicably through consultation. In the event that the parties are unable to settle disputes amicably, the disputes shall then be settled definitely and conclusively through arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL Rules).

9.6 Provision Relating to Local Content

It was again noted that the Commercial Agreement promotes local content in the power sector. The Contractor has committed under the Agreement to procure local goods and services for the execution of the project in the amount of not less than thirty percent (30%) of the total contract price.

9.7 Value for Money Assessment

The Committee noted that cost savings of Nine Million United States Dollars (US\$9,000,000.00) was made after a value for money assessment was conducted by the Crown Agents Ghana Limited (CAGL). Some Members from the Minority however felt that there could have been more savings.

9.8 Utilization of Cost Savings

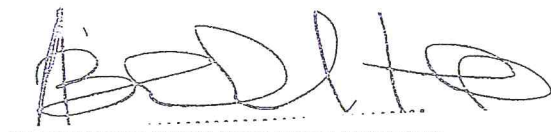
On the utilization of the Nine Million Dollars (US\$9,000,000.00) being the cost savings achieved during the renegotiation of the unit cost of materials for the project, Officials of the Ministry of Power informed the Committee that the savings will be used to cover additional communities under the project.

10.0 CONCLUSION AND RECOMMENDATION

It is believed that the execution of the project would contribute significantly towards the achievement of universal access to electricity. The State would also derive immense socio-economic, environmental and financial benefits from the project.

The Committee by a majority decision recommends to the House to adopt its Report and to approve the Commercial Contract between the Government of the Republic of Ghana and the China Hunan Construction Engineering Group Corporation for an amount Ninety-two Million United States Dollars (US\$92,000,000.00) in respect of the supply and erection of Electrical Materials and Equipment for the electrification of 556 communities in the Eastern, Volta and Northern Regions, Phase I in accordance with Article 181 (5) of the Constitution.

Respectfully submitted.



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HON. ALHAJI AMADU B. SOROGHO
CHAIRMAN, COMMITTEE ON
MINES AND ENERGY



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PEACE FLAWOYIFE (MS.)
CLERK TO THE COMMITTEE