

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

REPORT OF THE FINANCE COMMITTEE

ON

THE TREATY TO THE SECOND MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE GOVERNMENT OF THE REPUBLIC OF GHANA, OPERATING THROUGH THE MILLENNIUM DEVELOPMENT AUTHORITY (MIDA) FOR A GRANT AMOUNT OF FOUR HUNDRED AND NINETY-EIGHT MILLION, TWO HUNDRED THOUSAND UNITED STATES DOLLARS (US\$498,200,000) AND A GOVERNMENT OF GHANA CONTRIBUTION OF THIRTY-SEVEN MILLION, THREE HUNDRED AND SIXTY-FIVE THOUSAND UNITED STATES DOLLARS (US\$37,365,000).

MARCH, 2016

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1.0 INTRODUCTION

The request for the ratification of the treaty to the Second Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Ghana, operating through the Millennium Development Authority (MiDA) for a grant amount of Four Hundred and Ninety-Eight Million, Two Hundred Thousand United States Dollars (US\$498,200,000) and a Government of Ghana contribution of Thirty-Seven Million, Three Hundred and Sixty- five Thousand United States Dollars (US\$37,365,000) was presented by the Hon. Deputy Minister of Finance, Mr. Cassiel Ato Baah Forson on behalf of the Hon. Minister for Finance on Tuesday, 1st March, 2016 in accordance with Article 75 of the 1992 Constitution. And in accordance with Order 169 of the Standing Orders of Parliament, the Rt. Hon. Speaker referred the agreement to the Finance Committee for consideration and report.

2.0 REFERENCE DOCUMENTS

The Committee referred to the following additional documents during the consideration of the Treaty:

- The 1992 Constitution of Ghana
- The Standing Orders of the Parliament of Ghana; and
- The Millennium Challenge Compact Agreement between the United States of America and the Republic of Ghana

3.0 DELIBERATIONS

The Committee was assisted by the Hon. Minister at the Presidency in-charge of Development Authorities, Mr. Kwasi Oppon-Fosu and Hon. Deputy Minister for Finance Mrs. Mona K. Quartey and other officials from the Ministry of Finance and MiDA. The Committee is grateful to them for their assistance.

4.0 BACKGROUND

The Millennium Challenge Compact is between the United States of America, acting through the Millennium Challenge Corporation (MCC) a United States government corporation and the Republic of Ghana acting through the Millennium Development Authority (MiDA).

Ghana was selected as eligible to develop this Compact prior to completion of a \$547 million compact which entered into force in February 2007 and completed in February 2012. This was aimed to reduce poverty by raising farmer incomes through private sector-led agribusiness development and to enhance the competitiveness of Ghana's agricultural products in regional and international markets through investments in agriculture, transportation and rural development.

Ghana was subsequently named eligible to develop the second Compact, and was also ~~named as one of the four (4) countries to participate in the pilot project for the Partnership~~ for Growth, an initiative intended to create the next generation of emerging markets

through a better coordinated and strategically focused United States Government programs and resources.

Based on an analysis of the obstacles to economic growth, conducted jointly by a team made up of Government, United States Agency for International Development (USAID) and a group of economist from MCC, three (3) key constraints to Ghana's economic growth were identified: insufficient and unreliable electrical power, lack of access to credit, and insecure land use of rights. The Government selected the power sector as the area of intervention for the proposed second compact.

Throughout the development of this Compact, the Government used an inclusive consultative process, conducting consultations across Ghana and in the United States. Together with MCC, the Government has utilized other formal mechanisms to solicit direct input to inform project selection and design from relevant stakeholders at different steps in the process.

5.0 GOALS AND OBJECTIVES

The goal of this Compact is to reduce poverty through economic growth in Ghana. MCC's assistance will be provided in a manner that strengthens good governance, economic freedom and investments in the people of Ghana. Specific objectives of the Programme are to:

- Increase private sector investment and the productivity and profitability of micro, small, medium and large scale businesses;
- Increase employment opportunities for men and women; and
- Raise earning potential from self-employment and improved social outcomes for men and women.

6.0 PROGRAMME COMPONENTS

The Programme consists of six Projects. These are:

- i. The ECG Financial and Operational Turnaround Project
- ii. The NEDCo Financial and Operational Turnaround Project
- iii. the Regulatory Strengthening and Capacity Building Project
- iv. the Access Project
- v. the Power Generation Sector Improvement Project; and
- vi. the Energy Efficiency and Demand Side Management Project

7.0 PROGRAMME FUNDING

In accordance with Section 7.3 and upon entry into force of this Compact MCC will grant the Government under the terms of the Compact, an amount not to exceed Four Hundred and Ninety-Eight Million, Two Hundred Thousand United States Dollars (US\$498,200,000) (“Programme Funding”), consisting of Two Hundred and Seventy Nine Million, Three Hundred Thousand United States Dollar (US\$279,300,000) (“Tranche 1 Funding”) and One Hundred and Ninety Million United States Dollars (US\$190,000,000) (“Tranche II Funding”), for use by the Government to implement the Programme.

Further, upon the signing of the Compact, MCC will grant the Government, under the terms of this Compact and in addition to the Programme Funding described above, an amount not to exceed Twenty Eight Million Nine Hundred Thousand United States Dollars (US\$28,900,000) (“Compact Implementation Funding”) under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the “MCA Act”), for use by the Government to facilitate implementation of the Compact, including the following purposes;

- i. financial management and procurement activities
- ii. administrative activities (including start-up costs such as staff salaries) and administrative support expenses such as rent, computers and other information technology or capital equipment
- iii. monitoring and evaluation activities
- iv. feasibility, design and other project preparatory studies, and
- v. other activities to facilitate Compact Implementation as approved by MCC.

The total MCC Funding to Ghana is therefore 498.2 million dollars; made up of 308.20 million in Tranche I and 190.0 million dollars in Tranche II. The Government of Ghana is expected to contribute 7.5% of US\$498,200,000.00 amounting US\$37,365,000 resulting to US\$535,565,000 total funds for Ghana's Second Compact.

8.0 OBSERVATIONS

Legal Basis for the Request

Regarding the legal basis for the request, the Hon. Deputy Minister for Finance indicated that the earlier approval granted by Parliament was given under Article 181 (5) of the Constitution. , the Hon. Deputy Minister added that in line with Section 4.6 of the Compact Agreement, the Second Millennium Challenge Compact upon approval was also signed as a Treaty.

In addition, Section 7.1 of the Compact provides that Government will proceed in a timely manner to complete all of its domestic requirements for the Compact to enter into force and the ratification among others, is an important condition precedent to the entry into force of the Compact.

Level of Implementation of Domestic Condition Precedents

The Committee was informed that the following which were set out as conditions to be satisfied before the presentation of the Compact to the MCC Board have been met:

- i. The approval of a Gas Action Plan and a long term Gas Sector Master Plan.
- ii. Electricity Company of Ghana Restructuring
- iii. Electric Distribution Utility Payment Action Plan
- iv. Continuation of quarterly tariff adjustment

Given details on the level of implementation, it was indicated that compliance with the Gas Action Plan has been substantially completed and that MiDA has received GoG Letter of compliance from the Ministry of Petroleum. Further, the long term Gas Sector Master Plan has been completed and submitted by the Ministry of Petroleum to Cabinet for approval.

Regarding the Electric Distribution Utility Payment Action Plan, it was indicated that there has been substantial compliance and that five (5) quarterly payments of thirty-six million cedis (GH¢36,000,000.00) per a quarter have been made to date. The first instalment in April 2015, second in May 2015, third in August 2015, fourth in September 2015 and the fifth in March 2016. In all a total amount of *One Hundred and Eighty Million Ghana Cedis (GH¢180,000,000.00)* has been paid.

The implementation of the quarterly tariff adjustments was indicated to be on track and in accordance with the existing formula for each of the calendar quarters between the initial Compact Implementation Fund (CIF) Disbursement and the entry into force of the Compact.

The Committee was also informed that substantial progress has been made with respect to the Electricity Company of Ghana Restructuring and that Cabinet on the 11th of February, 2016 approved the transaction structure for the ECG PSP. GoG decisions has since been communicated to IFC.

Changes in the Governance Structure of MiDA

The Committee noted that the governance structure of the Authority with respect to composition of the Board and Management Team have been made. With respect to the composition of the Board, it was noted that, though the Compact provide for twelve (12) members consisting of nine (9) voting and three (3) non-voting observers, the inaugurated Board comprise eleven (11) voting members and three (3) non-voting members. It was explained that in November, 2014, the Government divided the Ministry of Energy and Petroleum into two different ministries, the Ministry of Power and the Ministry of Petroleum and in order to reflect the varied responsibilities of the two ministries within the Board, the composition was increased to include the two ministries. In addition, considering the critical role of gender within the Compact, the Ministry of Gender, Children and Social Protection was also included.

Regarding the Management Team, it was noticed that instead of a Reform Unit Director, a Reform Unit Manager has been recruited by MiDA with an explanation of budgetary constraints. It was added that the changes were made upon discussion and acceptance by the MCC.

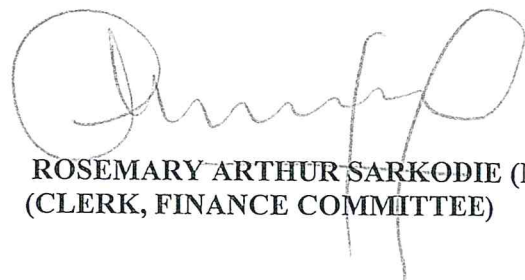
9.0 CONCLUSION AND RECOMMENDATION

The Committee is of the view that since the Finance Committee considered the request for approval of the Compact under Article 181 (5), the request for the ratification should have been referred to the Committee on Constitutional, Legal and Parliamentary Affairs. This notwithstanding, the Committee recommends to the House to adopt its report and ratify by resolution, the treaty to the Second Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Ghana, operating through the Millennium Development Authority (MiDA) for a grant amount of Four Hundred and Ninety-Eight Million, Two Hundred Thousand United States Dollars (US\$498,200,000) and a Government of Ghana contribution of Thirty-Seven Million, Three Hundred and Sixty-five Thousand United States Dollars (US\$37,365,000) in accordance with Article 75 (2) of the Constitution 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)

March, 2016
