

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

**REPORT OF THE
FINANCE COMMITTEE**

ON THE

**REQUEST FOR WAIVER OF CUSTOMS DUTIES, VALUE ADDED TAXES,
NATIONAL HEALTH INSURANCE LEVY, DESTINATION INSPECTION FEES
EXPORT DEVELOPMENT AND INVESTMENT FUND AND ECOWAS
LEVIES, , WITHHOLDING TAXES AND OTHER PROJECT RELATED TAXES
AMOUNTING TO US\$57,501,825 ON GOODS AND SERVICES REQUIRED
FOR THE IMPLEMENTATION OF THE GOVERNMENT CONSENT AND
SUPPORT AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA AND CENPOWER GENERATION COMPANY IN
RESPECT OF THE CONSTRUCTION OF A 340 MW INDEPENDENT POWER
PLANT (IPP) AT KPONE IN THE GREATER ACCRA REGION.**

NOVEMBER, 2014

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REPUBLIC OF GHANA AND CENPOWER GENERATION COMPANY IN RESPECT
OF THE CONSTRUCTION OF A 340 MW INDEPENDENT POWER PLANT (IPP) AT
KPONE IN THE GREATER ACCRA REGION.**

1.0 INTRODUCTION

The request for Waiver of Customs Duties, Value Added Taxes, National Health Insurance Levy, Destination Inspection Fees, Export Development and Investment Fund and ECOWAS Levies, Withholding Taxes and other project related taxes amounting to US\$57,501,825 on goods and services required for the implementation of the Government Consent and Support Agreement between the Government of the Republic of Ghana and Cenpower Generation Company in respect of the construction of a 340 MW Independent Power Plant (IPP) at Kpone in the Greater Accra Region was presented to Parliament by the Hon. Deputy Minister for Finance Mr. Cassiel Ato Baah Forson on Thursday 2nd October, 2014. The Rt. Hon. Speaker referred the request to the Finance Committee for consideration and report in accordance with Article 174(2) of the 1992 Constitution and Order 169 of the Standing Orders of the Parliament of Ghana.

The Committee met with the Hon. Deputy Minister for 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;
- Government Consent and support Agreement (GCSA)
- Amended Power Purchase Agreement (PPA) and Addendum
- PPA Direct Agreement

3.0 BACKGROUND

An increased installed capacity of the country's electricity generation has been a major policy thrust of government and as a result programmes and strategies are being put in place to increase the country's install capacity from the current level of about 2,000 MW to 5,000 MW and develop a non-congested transmission system by December, 2015. This requires accelerated efforts to increase generation, reinforce and expand the electricity transmission grid to ensure reliable and secure evacuation of power to meet the increasing national demand. To this end, Government has supported the efforts of the Electricity Company of Ghana (ECG) to enter into Agreements with Independent Power Producers to complement its efforts to achieve this objective.

In August 2009, Cenpower and the Electricity Company of Ghana (ECG) entered into a Power Purchase Agreement under which Cenpower agreed to supply ECG with 200 MW of power. Under the terms of the Agreement, ECG is to assume 60% ownership of Cenpower after the end of 20 years term. Following the review of the agreement in 2010, the ECG agreed to increase its offtake to 340 MW full capacity of the plant.

To give effect to the this partnership therefore, the Minister for Finance presented and got approval of Parliament, for the Government Consent and support Agreement between the Government of the Republic of Ghana and Cenpower Generation Company Limited in respect of the construction of a 340 MW POWER Plant (IPP) at Kpone. The Memorandum also requested the project to be exempted from appropriate taxes, duties, fees and other charges relating to the execution of the project. It is therefore in this regard that the request for waiver is being presented to Parliament for consideration and approval.

4.0 APPROVAL OF THE AGREEMENT

Hon. Members may recall that the House at its Sixth Sitting of the Third meeting held on Tuesday 30th October, 2012, approved by resolution, the Memorandum from the Minister of Finance requesting a Parliamentary approval for the execution of a Government Consent and Support Agreement relating to the Independent Power Plant at Kpone and approval for the exemption and taxes, duties, fees and other charges relating to the execution of the project.

5.0 REQUIRED WAIVER

To ensure the smooth execution of the project the Ministry of Finance is seeking for tax exemption amounting to US\$57,501,825.00 on suppliers, services, goods and equipment required for the implementation of the Project. The composition of the exemption is as follows:

I.	Customs Duties, Destination Inspection Fees, Export Development And Investment Fund and ECOWAS Levies	-	US\$29,308,275.00
II.	Domestic VAT/NHIL	-	US\$16,975,000.00
III.	VAT/NHIL on imported services	-	US\$11,218,550.00
	Total	-	US\$57,501,825.00

6.0 OBSERVATIONS

The Committee during its deliberations made the following observations:

Justification for Government support

Briefing the Committee on the rationale for government support, the Deputy Minister for Finance emphasised that the project is in line with government objective of increasing the nation's total installed generation capacity to 5000MW by 2015, increase private investment in power generation and also increase thermal generation in the energy mix. The Deputy Minister explained that due to the capital intensive nature of power project, government support is generally required in order to attract private sector investment into the sector. The Deputy Minister added that though government has over the years granted tax waivers to IPPs, the CENPOWER Project is the first solely-owned private IPP to be granted a waiver. This, the Deputy Minister explained is part of government effort to attract more private sector participation in power generation in the country.

Addressing the Committee's concern about the increasing rate at which tax exemptions are being granted, the Deputy Minister explained that though tax exemptions may seem to be negatively affecting government revenue, the exemptions amounts are actually government contribution toward the implementation of such projects and if these exemptions are not granted it would therefore mean an increased project cost. Citing the CENPOWER Agreement to buttress his point, the Deputy Minister mentioned that the generation cost analysis done on the project indicates that if the exemption is not granted, the cost at which the generated power would be sold to ECG would be higher which may eventually increase the price at which ECG would sell to the final consumer.

Though the Committee is not oblivious of the expected benefits of the Project, it was concerned about the seemingly blanket granting of tax exemptions and waivers and holds the view that exemptions regime should be streamlined and considered on a case by case basis. The Committee accordingly urges the Ministry of Finance to strengthen its monitoring activities to ensure that the regime is not abused. The Committee further calls on the

Ministry of Finance to present to the House for consideration, a comprehensive returns on the tax exemptions granted so far.

Benefits of the project

The Deputy Minister was certain that the project, when completed, will increase the total installed capacity of the country by 340MW. The increased generation capacity in his view, will improve generation adequacy and reliability. The following were mentioned as some of the specific advantages of the increased power generation:

- Creation of jobs both directly and indirectly. As part of the development and construction of the 340MW power project, it is conservatively estimated that over 600 jobs (at peak of construction) will be created.
- Employment of over 200 permanent staff over the 20 year duration of the PPA.
- Improvement of the competence level of the workforce of the region, especially in the neighbouring communities
- Improvement in the standard of living of Ghanaians through the provision of reliable power supply
- Promotion of industrial development, especially small and medium scale enterprises which should help reduce poverty.

Approval of the Tax Waiver

Parliament at its Sixth Sitting of the Third meeting held on Tuesday 30th October, 2012, approved by resolution, the Consent and Support Agreement relating to the Independent Power Plant at Kpone and approval for the exemption and taxes, duties, fees and other charges relating to the execution of the project.

The Committee observed that the Ghana Revenue Authority upon assessment granted a total interim tax waiver amounting to US\$57,501,825 on goods and equipment required for the implementation of the Project pending Parliamentary approval. The waiver is in respect of import Duties and Surcharges, Import VAT, EDIF, ECOWAS Levy, Destination

Inspection Fees, Withholding Tax Liabilities on suppliers, interest payable to project lenders and other project related import amounting to US\$29,308,275.00 and US\$28,193,550.00 being VAT/NHIL on local project transactions.

Given that the values for tax assessments are normally based on invoices submitted by suppliers and contractors, the Committee reiterates its call to the Ministry of Finance to ensure that the final waiver would be reassessed and verified by the Destination Inspection Companies (DICs) upon arrival of the imported items as well as the locally purchased ones. Further, the Monitoring Unit of the Tax Policy Unit should conduct an audit of the items that would be imported or purchased locally to ensure that there is value for money and the items for which the exemption is being given are not diverted.

The Ministry should also put in place mechanism to ensure that the appropriate taxes are paid on the equipment when they are disposed off at the completion of the project.

7.0 CONCLUSIONS

the Committee having carefully examined the referral is of the view that the project when completed will contribute significantly to improve the generation capacity of the country and improve stable power supply. The Committee therefore recommends to the House to adopt its report and approve by resolution, the request for Waiver of Customs Duties, Value Added Taxes, National Health Insurance Levy, Destination Inspection Fees, Export Development and Investment Fund and ECOWAS Levies, Withholding Taxes and other project related taxes amounting to US\$57,501,825 on goods and services required for the implementation of the Government Consent and Support Agreement between the Government of the Republic of Ghana and Cenpower Generation Company in respect of the construction of a 340 MW Independent Power Plant (IPP) at Kpone in the Greater Accra Region

Respectfully Submitted.



HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)



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

