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

REPORT OF THE FINANCE COMMITTEE

ON:

1. **THE FINANCING AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR AN AMOUNT OF ONE HUNDRED AND SIX MILLION, SEVEN HUNDRED THOUSAND SPECIAL DRAWING RIGHTS [(SDR 106,700,000.00) (USD150.00 MILLION EQUIVALENT)] TO SUPPORT THE MACRO-ECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING.**

2. **THE IDENTITY AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR A POLICY-BASED GUARANTEE OF FOUR HUNDRED MILLION UNITED STATES DOLLARS ($400 MILLION) IN RESPECT OF THE FIRST MACRO-ECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING.**

JULY 2015

REPORT OF THE FINANCE COMMITTEE ON:

1. **THE FINANCING AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR AN AMOUNT OF ONE HUNDRED AND SIX MILLION, SEVEN HUNDRED THOUSAND SPECIAL DRAWING RIGHTS [(SDR 106,700,000.00) (USD150.00 MILLION EQUIVALENT)] TO SUPPORT THE MACRO-ECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING.**

2. **THE IDENTITY AGRREMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR A POLICY-BASED GUARANTEE OF FOUR HUNDRED MILLION UNITED STATES DOLLARS ($400 MILLION) IN RESPECT OF THE FIRST MACRO-ECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING.**

1.0 INTRODUCTION

The request for approval of the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for an amount of One Hundred and Six Million, Seven Hundred Thousand Special Drawing Rights [(SDR

106,700,000.00) (USD150.00 Million equivalent)] to support the Macroeconomic Stability for Competitiveness and Growth Development Policy Financing was presented to the House on behalf of the Hon. Minister of Finance by the Hon. Minister for Foreign Affairs and Regional Integration, Ms. Hannah Serwaah Tetteh, on Thursday 9th July, 2015 whiles The Identity Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for a Policy-Based Guarantee of Four Hundred Million United States Dollars ($400 Million) in respect of the First Macro-economic Stability for Competitiveness and Growth Development Policy Financing was presented 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 House.

The Committee was assisted at its deliberations by the Hon. Minster for Finance, Mr. Seth Emmanuel Terkper and His Deputy, Mr. Cassiel Ato Baah Forson, and officials from the Ministry of Finance.

The Committee appreciates the cooperation and assistance received from the Hon. Minister, his Deputy and officials during the deliberations.

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

Ghana has over the past decade made phenomenal strides in economic growth with real GDP growth rising steadily from 3.7 percent in 2000 to 8.9 percent before decelerating slightly to 7.2 percent in 2013. Between 2011 and 2013 growth rates accelerated further averaging a remarkable 10.2 percent per year with 2011 witnessing a record high GDP growth rate of 14.4%. This success came on the back of a positive trend in terms of trade, large oil and gas discoveries, and commencement of oil production, substantial capital inflows, and a reputation for robust democratic institutions.

From 2013 however the economy began to show signs of severe stress. Economic growth slowed from a previously high level, fiscal targets were missed despite significant measures to contain the deficit, exchange rate difficulties as a result to the cedi's depreciation, spike in inflation, energy rationing due to disruption in supply of gas from Nigeria, worsening terms of trade and the subsequent dwindling of international reserves.

Fiscal deficits and currency depreciation caused the debt profile to rapidly deteriorate and interest payments on the public debt jumped to over 6 percent of GDP by 2014. The net public debt stock increased dramatically, rising from 38.7 percent of GDP in 2011 to 52 percent in 2013 and reaching 65 percent in 2014. Overall inflation rose sharply, from 8.8 percent in 2012 to 17 percent in 2014, with non-food inflation increasing from 11.6 percent to 23.9 percent.

Government realising the severe impact of the crisis quickly developed a consolidated set of home grown polices to stem the further decline of the economy. These policies included revenue enhancing and fiscal consolidation measures which sought to broaden the tax base and thus spread the burden of national development on all citizens rather than the few who meet their tax obligations; and expenditure rationalisation policies which would help achieve the fiscal targets for the year.

Whiles these measures helped government to substantially address the challenges, 2014 ended with a fiscal deficit of 10.8 percent of GDP against a target of 9 percent; mainly due to shortfall in tax revenue, continuous shortfall in grants from Development Partners and overrun in compensation or personal emoluments.

To stabilize the economy and reassure domestic and external investors of its commitment to prudent macroeconomic policies, in August of 2014, the government began engaging the IMF for support which was subsequently granted in April 2015. To further consolidate the progress being made, Government again requested support from IDA in a three phase operation called Macroeconomic Stability for Competitiveness and growth (MSCGI) Development Policy Financing (DPF).

4.0 JUSTIFICATION OF THE REQUEST

Fiscal year 2012-14 has seen the economy come under severe stress from both domestic and external shocks. Government has responded to these shocks by implementing a number of policies and measures to reverse the trend. Notwithstanding Government programs aimed at strengthening fiscal consolidation, significant institutional, policy and systems and process weaknesses continue to manifest themselves, thus limiting the impact of reforms already implemented and leading the country into an unsuitable fiscal path.

Additionally, there is the need to make public expenditure more efficient and effective by continuing with the ongoing reforms in the Public Financial Management (PFM). This is to enhance the credibility of the budget which has hitherto been low and has adversely impacted service delivery efficiency in Government. This is an overarching problem mainly caused by institutional, behavioural and policy weaknesses. Until these weaknesses are addressed, efficient and effective fiscal consolidation will not be achieved.

Given our challenging financial situation, it is anticipated that debt especially the Eurobond which may fall due in 2017, might be serviceable. Hence a guarantee negotiated with the World Bank to refinance existing external and domestic debt, without increasing the total debt stock. The bond proceeds of US$1.0 billion would enable an early payback of the US$531 million sovereign bond due in 2017 with the remaining amount used for refinancing existing domestic debt.

Finally, the Macroeconomic Stability for Competitiveness and growth (MSCGI) support the policies and programme outlined in the Ghana Shared Growth Development Agenda

(GSGDA) II for 2014-17 and the President's Coordinated Programme of Economic and Social Policies, 2014-2020 - An Agenda for Transformation.

5.0 TERMS OF THE FACILITY

The terms of the credit facility as follows:

Loan Amount	:	US$150 million
Repayment Period	:	25 years
Grace Period	:	5 years
Interest Rate	:	1.25% p.a on the withdrawn credit balance
Maximum Commitment Charge	:	0.5% of 1% p.a. on unwithdrawn credit balance
Service Charge	:	0.75% of 1% p.a. on withdrawn balance
Closing Date	:	June 2016
Grant Element	:	38.75%

6.0 ORGANISATION OF THE OPERATIONS

The proposed operation has been organised around two strategic pillars namely:

- Pillar 1:Strengthen institutions for more predictable fiscal outcomes; and
- Pillar 2: Enhance the productivity of public spending

Pillar 1: Strengthen institutions for more predictable fiscal outcomes: This pillar will support reforms designed to increase the comprehensiveness of fiscal accounting, strengthen oversight of the budget allocation and expenditure processes, and ensure that annual budget and medium-term fiscal plans are credible and consistent with the government's broader development strategy.

Pillar 2: Enhance the productivity of public spending: Pillar 2 will support reforms in Public Investment Management (PIM) and the governance of SOEs and their regulators to reduce technical and operational inefficiencies, improve the quality of public services, and enhance the economic impact of capital investment.

7.0 OBSERVATIONS

The Programme and the use of the Credit

The Committee noted that the MSCGI is the first in a series of three DPF operations which combines an IDA Credit of US$150 million and a Policy-Based Guarantee (PBG) up to the equivalent of US$400 million to cover securities issuance of up to US$1.0 billion by the Government. The proposed operation, the Committee was informed, would build upon the earlier initiatives of government and support its efforts to strengthen institutions for more predictable fiscal outcomes and enhance the productivity of public spending. Thus, the IDA Credit is intended to support efforts to consolidate ongoing fiscal stabilization measures and support the policies outlined in the Ghana Shared Growth and Development Agenda ("GSGDA") for 2014-2017.

The Committee was further informed that the proceeds of the credit basically will be used to support the implementation of the 2015 budget and economic policy of government and contribute to the attainment of key macroeconomic targets outlined in the budget. The targets were highlighted as follows:

i. Non-oil real GDP growth of 2.7 percent;

ii. Overall real GDP (including oil) growth of 3.9 percent;

iii. An end year inflation target of 11.5 percent;

iv. Overall budget deficit equivalent to 6.5 percent of GDP; and

v. Gross international reserves of not less than 3 months of import cover of goods and services.

Financial Implication and Impact on Debt Stock

The Committee was informed that the credit facility is highly concessional with standard IDA terms given that the grant component of 38.78% is higher than the country's minimum grant requirement of 35%. Further, the facility particularly, the proposed PBG of up to US$400 million would support the government strategy of refinancing existing external and domestic debts without increasing the total debt stock. Also the bond proceeds of US$1.0 billion would enable an early payback of the US$531 million sovereign bond due in 2017 with the remaining amount used for refinancing existing domestic debt.

Expected Outcomes

The under-listed were outlined as the expected outcomes of the Credit Facility:

i. Improved control over the wage bill
ii. Better management of government subsidies and arrears
iii. Enhanced debt management capacity
iv. Stronger governance of SOEs
v. More effective public investment management
vi. Reinforcing social protection in a context of macroeconomic transition.

In addition the PBG will enable Ghana to access longer-term refinancing resources at more attractive rates, extend the maturity of Ghana's debt and lower the interest cost of domestic debt repayments.

8.0 CONCLUSION AND RECOMEMDATION

The Committee after a careful examination of the facility recommends to the House to adopt its report and approve by resolution, the request for approval of the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for an amount of One Hundred and Six Million, Seven Hundred Thousand Special Drawing Rights [(SDR 106,700,000.00) (USD150.00 Million equivalent)] to support the Macro-Economic Stability for Competitiveness and Growth Development Policy Financing 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 and the Identity Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for a Policy-based Guarantee of Four Hundred Million (US$400.million) in respect of the First Macroeconomic Stability for Competitiveness and Growth Development Policy Financing 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 House.

Respectfully Submitted.

Avedzi

HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)

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

July. 2015