

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



REPORT OF THE
FINANCE COMMITTEE

ON THE

FIRST DEMAND GUARANTEE BETWEEN THE REPUBLIC OF GHANA [REPRESENTED BY THE MINISTRY OF FINANCE] AND AGENCE FRANCAISE DE DEVELOPEMENT (AFD) OF UP TO US\$199,800,000.00 RELATING TO THE CREDIT FACILITY AGREEMENT (NO. CGH 1109 01H) ENTERED INTO BETWEEN AFD AND GHANA GRID COMPANY LIMITED (GRIDCO) ON 16TH AUGUST, 2012 IN AN AMOUNT OF US\$173,900,000.00 FOR THE CONSTRUCTION OF A 330KV KUMASI-BOLGATANGA TRANSMISSION LINE AND THE 161KV VOLTA-ACHIMOTA-MALLAM TRANSMISSION LINE UPGRADE

JULY, 2019

1.0 INTRODUCTION

The **First Demand Guarantee** between the **Republic of Ghana** [represented by the Ministry of Finance] and **Agence Francaise de Developement (AFD)** of up to **US\$199,800,000.00** relating to the **Credit Facility Agreement** (no. CGH 1109 01H) entered into between **AFD** and **Ghana Grid Company Limited (GRIDCo)** on 16th August, 2012 in an amount of US\$173,900,000.00 for the construction of a **330KV Kumasi-Bolgatanga Transmission Line** and the **161KV Volta-Achimota-Mallam Transmission Line Upgrade** was *presented* to the House on Friday the 26th day of July, 2019 by the Hon. Minister responsible for Parliamentary Affairs, Mr. Osei Kyei-Mensah-Bonsu on behalf of the Minister responsible for Finance.

Pursuant to Article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the Agreement was *referred* to the Committee on Finance for consideration and report.

The Committee subsequently met and discussed the Agreement with a Deputy Minister for Finance, Hon. Charles Adu Boahen, Deputy Minister for Energy, Hon. Joseph Cudjoe as well as officials from the Ministries of Finance and Energy. Also in attendance were the Chief Executive Officer and other officials from the Ghana Grid Company Limited (GRIDCo).

The Committee hereby submits this report to the House pursuant to the Standing Orders of the House.

The Committee is grateful to the above-mentioned Honourable Deputy Ministers and the officials for attending upon the Committee.

2.0 REFERENCES

The Committee referred to and/or was guided by the following documents *inter alia* during its deliberations on the Agreement:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- The Public Financial Management Act, 2016 (Act 921)

3.0 BACKGROUND

The Government of Ghana received a credit facility of €26.0 million from the World Bank/International Development Association (IDA) for the development of infrastructure on the 330KV West African Power Pool (WAPP) Coastal Transmission Backbone Project. Part of the credit proceeds was applied towards the feasibility study, engineering study and bidding documents for the proposed 330KV Transmission System extending from the existing 330KV Aboadze-Volta Transmission Line which forms part of the 330KV Coastal Transmission Backbone Project.

The central backbone 330KV system extends from the West Coast to the Upper Region of the country. The proposed transmission system are expected to reinforce the transmission system in Ghana and provide adequate power transfer capability for power supply and interconnection to the Sahelian countries of WAPP including Mali, Burkina Faso and Niger.

The project pre-feasibility study considered two alternatives for the proposed 330KV Transmission System to extend from the West Coast to the Upper Region of the country.

Alternative 1 of the project consists of the construction of a 330KV Transmission Line from Aboadze to Han whilst alternative 2 terminates the transmission line at Bolgatanga substation from Aboadze. Han and Bolgatanga will be the terminal points for the committed 225KV interconnection with Burkina Faso.

The technical analysis showed that Alternative 2 (330KV line Aboadze-Prestea-Kumasi II –Kintampo-Tamale-Bolgatanga) provides a number of significant advantages over Alternative 1 (330KV line Aboadze-Prestea-Kumasi II –Kintampo-Han), hence the additional investment for the implementation of Alternative 2 will result in enormous economic benefits (over the 30 year life period) due to the reduction in system losses despite the longer length of the line.

GRIDCo signed a direct credit facility with AFD on 16th August, 2012 for an amount of US\$173,900,000.00 without Government Guarantee. Government of Ghana subsequently signed a Framework Agreement with AFD on 24th September, 2012 to show its commitment to the transaction.

At the time of the direct credit facility agreement, GRIDCO's operating model was satisfactory, despite the build-up of receivables with its major customer, the Electricity Company of Ghana (ECG). Since 2017 however, GRIDCo's financial situation has deteriorated because of the inclusion of additional assets (and related debts) that were transferred from the Volta River Authority (VRA) at end 2017 and the major utility tariff review by the PURC in March 2018 which decreased the Transmission Service Charge (TSC). These actions reduced the revenue of GRIDCo by about 31% and led to breaches of the financial covenants the Company signed with the AFD.

As a consequence of the breaches of the covenants, the AFD has suspended disbursements under the credit facility even though the project had not been completed and contractor's outstanding certificates amounts to US\$30 million.

3.1 PROJECT OBJECTIVES

The objectives of the Project which forms part of the *WAPP Inter-Zonal Hub* are to reinforce the transmission system in Ghana to ensure the export of at least 100MW of power to Burkina Faso, provide adequate power transfer capability for the interconnection to the Sahelian Countries of WAPP including Mali, Burkina Faso and Niger, to improve local transmission capabilities and to reduce technical and transmission losses.

4.0 TERMS AND CONDITIONS OF THE LOAN

The Project is being financed with a non-concessional credit facility from AFD of France which was signed in the year 2012.

The terms and conditions of the facility are as follows:

Loan Amount	-	US\$173,900,000.00
Repayment Period	-	15 years (30 half yearly instalments)
Grace Period	-	5 years
Interest Rate	-	5.01% p.a. fixed
Commitment Fee	-	0.50% p.a.
Appraisal Fee	-	0.40% flat

The agreement presently before the House is to provide a Government Guarantee for the payment obligations of GRIDCo under the commercial facility contracted from AFD in 2012 with the above stated terms.

5.0 PROJECT COMPONENTS AND DESCRIPTION

The 330KV Kumasi-Bolgatanga Transmission Line is part of the *WAPP Inter-Zonal Hub Transmission Project*. It involves the construction of a 555km transmission line from Kumasi to Bolgatanga which includes the construction of substations at Kintampo, Tamale and Bolgatanga, installation of suspension towers, anchor towers and related equipment.

The project consists of the following components:

- Construction of 185 km 330 KV transmission line with supporting towers from Kumasi to Kintampo and 175km pf 330KV transmission line from Kintampo to Tamale and 195km from Tamale to Bolgatanga;
- Expansion of the proposed 330KV substation at Kumasi for the take-off of the 330KV line to Kintampo;
- Construction of new 330KV substations at Kintampo, Tamale and Bolgatanga including the provision of 330/161KV autotransformers;
- Replacement of 16km of existing 161kV single circuit line with 161KV double circuit line from the existing Tamale substation to the new Tamale substation; and
- Upgrade of the 161KV Volta-Achimota-Mallam Transmission Line.

6.0 OBSERVATIONS

6.1 Advantages of terminating at Bolgatanga instead of Han

The Committee noted that GRIDCo's technical analysis showed that **Alternative 2** (330KV line Aboadze-Prestea-Kumasi II –Kintampo-Tamale-Bolgatanga) provides a number of significant advantages over

Alternative 1 (330KV line Aboadze-Prestea-Kumasi II –Kintampo-Han).

These advantages include the following:

- Lower system losses for peak load conditions in 2030
- Better utilisation of the new 330KV line north of Kintampo
- Decrease in the loading of the Kintampo-Tamale 161KV line
- Lower requirements for shunt compensation (reactors and capacitors)

6.2 Need for Government Guarantee

The Committee was informed that in the year 2017, the Volta River Authority (VRA) transferred some critical assets and liabilities to GRIDCo. The transferred assets included the 330KV Aboadze-Volta Transmission Line project and Kpando-Kadjebi 161 KV Transmission Line. A concomitant total liability of US\$121.57 million of on-lent loans to VRA was also transferred to GRIDCo.

This liability transfer onto the books of GRIDCo was said to have negatively impacted its balance sheet. Coupled with the downward review of the transmission service charge by PURC in the first quarter of 2018, the liability transfer put GRIDCo under considerable financial difficulty, thereby causing the company to default on its obligations under the covenants contained in the AFD Credit Agreement.

AFD has consequently requested a Government Guarantee as security for the facility before it would extend the facility's disbursement deadline and resume disbursement.

6.3 Project Completion Period

As to whether or not the project had missed its scheduled completion date, the committee was informed that the project was originally scheduled to be completed in April 2018 but due to the truncation in disbursements by AFD, the project has still not been completed. Presently, the project was said to be about 88% completed and has only slowed down significantly due to the about US\$30 million debt owed to the Contractor.

The Chief Executive Officer of GRIDCo assured the Committee that if the Guarantee is approved and disbursements resume, the company expects to have the project fully completed by the end of 2019.

6.4 Revenue from the Project

The Committee sought to know the amount of revenue expected to be obtained from the project. To this, the Committee was informed that presently, GRIDCo makes an amount of US\$4 million annually from the sale of power to Burkina Faso. Upon completion of the project, GRIDCo's revenue for the transmission of power to Burkina Faso is expected to rise to about US\$6 million half-yearly. Thus the company expects to make about US\$12 million annually from power exports to Burkina Faso using the project transmission lines. This revenue is said to be twice the amount required (US\$6 million) to service the loan annually.

6.5 Escrow Arrangement

The Committee observed that the Ministry of Finance and GRIDCo have put an arrangement in place to ring-fence GRIDCo's proceeds from the export of power to neighbouring countries for the purpose of the

repayment of the AFD Credit Facility. In particular, payments from SONABEL and CEB would be put in an escrow account for the AFD loan repayments.

6.6 Guarantee Fee

The Committee was informed by the Deputy Minister for Finance, Hon. Charles Adu Boahen that in accordance with Section 66 of the Public Financial Management Act, 2016 (Act 921), the Ministry has imposed a guarantee fee of *0.5% of the guarantee amount* to be paid by GRIDCo to the Government of Ghana.

6.7 Status of the AFD Credit Facility

The Committee noted that the current status of the AFD Loan Facility for which the Government Guarantee is to be issued is as presented in the table below:

LOAN AND DISBURSEMENT (USD)	SECURITY (Escrow Account)	TOTAL REPAYMENTS MADE (USD)
Loan Amount 173,900,000.00	EUR 10 Million	Principal 7,384,845.94
Total Disbursement as at 31/12/2018 110,790,445.14	USD 18.5 Million	Interest 5,679,648.62
Undisbursed Amount 63,111,284.81		Commitment Fee 3,747,333.03
Outstanding Debt 103,403,869.25		TOTAL 16,811,827.59

It was explained to the Committee that the loan facility would continue to be serviced by GRIDCo and that Government's liability would only crystallise if GRIDCo defaults in its covenant obligations.

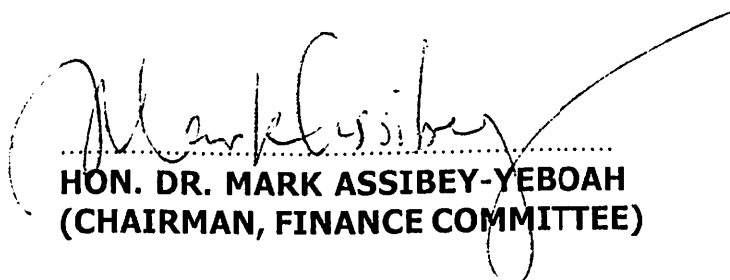
7.0 CONCLUSION

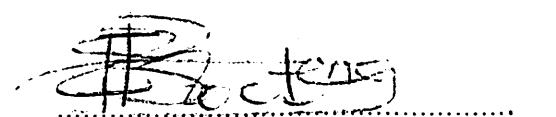
The Committee finds the project to be immensely important towards ensuring enhanced capacity of GRIDCo to export excess power to neighbouring countries and to ensure stable power supply to the northern parts of Ghana.

The Guarantee was also found to be necessary to ensure the resumption of loan disbursements by AFD towards the successful completion of the project.

The Committee, in view of the foregoing, respectfully recommends to the House to adopt this report and approve by Resolution, the **First Demand Guarantee** between the **Republic of Ghana** [represented by the Ministry of Finance] and **Agence Francaise de Developement (AFD)** of up to ***One Hundred and Ninety-Nine Million, Eight Hundred Thousand United States Dollars (US\$199,800,000.00)*** relating to the **Credit Facility Agreement** (no. CGH 1109 01H) entered into between **AFD** and **Ghana Grid Company Limited (GRIDCo)** on 16th August, 2012 in an amount of US\$173,900,000.00 for the construction of a **330KV Kumasi-Bolgatanga Transmission Line** and the **161KV Volta-Achimota-Mallam Transmission Line Upgrade** in accordance with Article 181 of the 1992 Constitution of the Republic of Ghana and Section 66(4) of the Public Financial Management Act, 2016 (Act 921).

Respectfully submitted.


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HON. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)


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MS. EVELYN BREFO-BOATENG
(CLERK, FINANCE COMMITTEE)
30TH JULY, 2019