

IN THE SECOND SESSION OF THE FIFTH PARLIAMENT OF THE FOURTH  
REPUBLIC OF GHANA

**REPORT OF THE FINANCE COMMITTEE ON  
THE AGREEMENT FOR THE ESTABLISHMENT  
OF THE AFRICA FINANCE CORPORATION,  
THE CHARTER OF THE AFRICA FINANCE  
CORPORATION AND THE REQUEST FOR  
GHANA TO JOIN AND SUBSCRIBE TO  
SHARES IN THE CORPORATION FOR A  
MINIMUM AMOUNT OF FIFTY MILLION  
UNITED STATES DOLLARS  
(US\$50,000,000.00)**

**1.0 INTRODUCTION**

The Agreement for the establishment of the Africa Finance Corporation (AFC), the Charter of the Africa Finance Corporation (AFC) and the Request for Ghana to join and subscribe to shares in the Corporation for a minimum amount of *fifty million United States Dollars* (US\$50,000,000.00) were laid in the House on Wednesday 24<sup>th</sup> November, 2010 and *referred* to the *Committee* on Finance for consideration and report in accordance with the 1992 Constitution of Ghana and Standing Orders of the House.

The Committee met and discussed the Agreement and the Request with the Deputy Minister of Finance and Economic Planning, Hon. Fifi Fiavi Kwetey and a technical team from the Ministry of Finance and Economic Planning (MOFEP) and presents this report.

## **2.0 BACKGROUND**

The Africa Finance Corporation (AFC) is a public private partnership (PPP) investment bank and development finance institution, majority of which is currently owned by the private sector.

The AFC has been established as a legal entity through an international agreement executed amongst African Countries including Nigeria, Guinea Bissau, Sierra Leone, The Gambia, Liberia and Guinea. A shareholding Agreement has been executed for the various investments into the AFC. Additionally, the AFC has executed a Headquarters Agreement with Nigeria, where its headquarters is located.

The Federal Republic of Nigeria has ratified the Agreement for the Establishment of the Africa Finance Corporation and the Headquarters Agreement and has subsequently accorded the Corporation Diplomatic Immunities and Privileges.

The most critical needs facing infrastructural development projects in Africa are financial structuring to make projects bankable while delivering attractive returns and anchoring risk equity capital to boost market confidence. It is expected therefore, that Ghana's membership of the Africa Finance Corporation will serve as an additional source of vitally needed capital for the development of the country's infrastructure.

## **3.0 OBJECT OF AFC**

Under article 2 of the Agreement for the Establishment of the Africa Finance Corporation (AFC), "the Corporation is established to foster economic growth and industrial development of African Countries, collectively and individually, and more specifically, to

- (a) Support and promote infrastructure development in Africa through the provision of investment funds;
- (b) Facilitate African trade generally and export-oriented trade by African Countries;
- (c) Contribute to the development of the energy and extractive industries in Africa;
- (d) Provide on-lending and refinancing facilities to African financial institutions; and

- (e) Generally engage in any kind of banking and financial business intended to promote investments in Africa.”

## **5.0 OBSERVATIONS**

The Committee observed that the AFC was founded and promoted by Nigeria, Ghana, The Gambia, and Guinea Bissau.

The Committee was informed that in addition to the headquarters in Nigeria, the AFC will enter Branch Office Agreements with the respective countries in which it will operate.

The Africa Finance Corporation has an authorized share capital of two billion United States Dollars (US\$2 billion) divided into 2 billion shares of US\$1 each. Out of this, US\$1.09 billion has been successfully secured from the Central Bank of Nigeria, private banks and industrial businesses. Other private sector shareholders are insurance companies, pension firms and high net worth individuals. The private sector currently holds 58% of the capital. This is divided into 44% for top African banks and 14% for industrial groups, corporations and a few individuals.

The Central Bank of Nigeria owns the remaining 42%, most of which is being warehoused for other potential African shareholders.

It was noted that the Charter of the AFC allows a maximum of twenty-one (21) members of the Board of Directors. There are currently fifteen (15) Board members with six (6) seats yet to be allocated. Ghana's subscription of a minimum amount of fifty million United States Dollars (US\$50,000,000.00), an equivalent of fifty million shares, would enable Ghana to have a seat on the Board.

To ensure good corporate governance, the AFC has developed key guiding corporate governance principles benchmarked against global investment banking and multilateral development finance institutions, a disciplined cost structure and a lean organization designed along product, industry and advisory business groups and functions.

The Committee further observed that the structure of the AFC is designed to have its membership to confer *International Status* on the AFC such that AFC will have the status of an international organization like International Finance Corporation (IFC), African Development bank (ADB) and Afreximbank.

Again, signatory countries are required to confer on the AFC Diplomatic Privileges and legal immunities as applicable to multilateral financial institutions.

Article 12 of the Charter of the Africa Finance Corporation stipulates that unless otherwise decided by the Board of Directors, and subject to the restrictions and limitations set forth in the charter, shares shall be transferrable by means of lodging with the Corporation, a duly signed and stamped instrument of transfer in any usual form or in any form prescribed by the Board of Directors.

Hon. Members of the Committee wanted to know whether Government would buy the US\$50 million shares directly or would do so in partnership with the Social Security and national Insurance Trust (SSNIT) as indicated in the Cabinet approval letter.

The Deputy Minister of Finance and Economic Planning, Hon Fifi Kwetey explained that current reforms in the pension sector and the liquidity situation of SSNIT may not enable it to invest in the Corporation. Government would therefore have to subscribe for the shares directly.

Some Members however opined that SSNIT could withdraw some of its funds from non-performing investments to subscribe for shares in the Corporation since the Corporation is proving to be a safe and promising vehicle for investment.

The AFC, since its formation, has been involved in some notable transactions *including* the following:

- Sub-marine fibre optic cable from Portugal to South Africa, landing in Ghana and Nigeria. It consists of 12,378km long cabling, with landing stations in key markets across Northern, Western and Southern Africa. The first phase of the project costs US\$240.0 million and involves fibre optic cable from Portugal to Ghana and Nigeria. This phase has been completed. AFC is co-largest equity investor in the project with up to US\$37.0 million committed. The Project is

expected to dramatically improve regional connectivity, and significantly reduce broadband cost to local businesses and consumers.

- Seven Energy: an indigenous oil and gas exploration and production company with proven reserves owned in Nigeria and managed by an internationally experienced team. The company is due to start the production of gas in 2011, having entered offtake arrangements with major industrial (power and heavy industry) customers in the sub-region. AFC has an equity investment of US\$20 million in the company (representing 10% of the company's total debt and equity capital of US\$200 million).
- Jubilee Field in Ghana: Jubilee is believed to be the largest deepwater petroleum find in West Africa over the last decade. Filed size estimates range from 500m bbls to 1500m bbls of oil. Aim of transaction is to raise US\$750.0 million in seven year debt for production, with the deal being arranged by International Finance Corporation (IFC). AFC's investment in the project totals US\$50 million in various loans. Sponsors of the project are Kosmos Energy backed by major private Equity (PE) firms Blackstone and Warburg Pincus. Financing partners include IFC, Standard Chartered, BNP and Calyon. The project is expected to have a major impact on macroeconomic profile of Ghana while expanding regional oil and gas industry.
- Aviation: the AFC played a key role in a US\$100.0 million structured Trade Finance transaction for a fastest growing privately owned airline in Nigeria, serving eleven (11) domestic routes with a fleet of sixteen (16) airplanes. This innovative transaction was awarded the 2008 Trade Finance deal of the Year for Africa by Euromoney. Other financing partners in the aircraft transaction are HSBC, Afreximbank and Union Bank of Nigeria.
- Greenfield IPP in Ghana: AFC in conjunction with major local and international partners is working to develop a 340MW combined cycle thermal power plant in Ghana to meet existing demand, and potentially utilize Ghana's discovered gas resources. Work is concluded regarding necessary permits, agreements, approvals and licenses. AFC's co-sponsors will include local entrepreneurs, international development finance institutions (DFIs) and international power companies.

Some Members of the Committee were of the opinion that the AFC should do more to attract non-equity funds to expand its liquidity and ability to finance more developmental projects in member countries.

## **5.1 TAX EXEMPTION**

In accordance with article 15(1) of the Agreement for the Establishment of the AFC, "the Corporation, its property, assets, income, operations and transactions shall be exempt from all taxation and customs duties. The Corporation, and its receiving, fiscal and paying agents shall be exempt from any obligation relating to the payment, withholding or collection of any tax or duty out of funds owned by, or otherwise appertaining to, the Corporation".

Further in article 15(2) and without prejudice to the generality of 15(1) above, "each Member State shall take all necessary action to ensure that the property and assets of the Corporation, its capital, reserves and dividends, loans, credits, guarantees, securities, and other investments and transactions, interests, commissions, fees, profits, gains, proceeds of realization and other income, return and moneys of any kind, accruing, appertaining or payable to the Corporation from any source shall be exempt from all forms of taxes, duties, charges, levies, and imposts of any kind whatsoever, including stamp duty and other documentary taxes, heretofore levied or hereafter imposed in its territory"

The above provisions are however to be applied without prejudice to the right of Member States to tax their residents in the manner each member State deems appropriate.

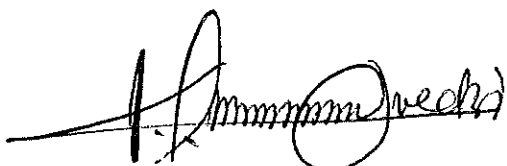
It was explained that due its international status, AFC will be able to avoid tedious market entry formalities and regulatory requirements such as listing requirements. It will consequently make savings on business set-up and regulatory costs, such as incorporation fees and stamp duties, among others.

#### **4.0 CONCLUSION**

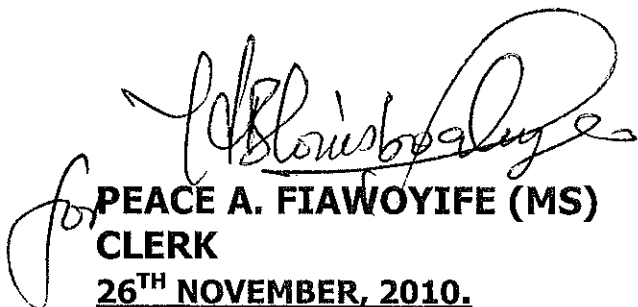
The Committee respectfully recommends to the House to adopt this report and ratify by Resolution, the Agreement Establishing the Africa Finance Corporation and the Charter of the Corporation in accordance with article 75(2)(b) of the 1992 Constitution of the Republic of Ghana.

Pursuant to article 181 of the Constitution, the Committee further recommends to the House to approve by Resolution, the Request for Ghana to join and subscribe to shares in the Africa Finance Corporation for a minimum amount of *fifty million United States Dollars* (US\$50,000,000.00).

Respectfully submitted.



**HON. JAMES KLUTSE AVEDZI  
CHAIRMAN**



**PEACE A. FIAWOYIFE (MS)  
CLERK**  
**26<sup>TH</sup> NOVEMBER, 2010.**