

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

**REPORT OF THE JOINT COMMITTEE ON FINANCE AND
WORKS AND HOUSING ON THE WATER PURCHASE
AGREEMENT BETWEEN THE GHANA WATER COMPANY
LIMITED AND BEFESA DESALINATION DEVELOPMENT
GHANA LIMITED, WITH GOVERNMENT OF GHANA AS
GUARANTOR, FOR AN AMOUNT OF US\$110,000,000.00 TO
FINANCE THE DEVELOPMENT OF A 60,000M3/DAY
CAPACITY SEAWATER DESALINATION PLANT TO
PRODUCE POTABLE WATER FOR DELIVERY TO GWCL
EXISTING PIPELINE INFRASTRUCTURE IN TESHIE,
NUNGUA AND THEIR ENVIRONS AND THE REQUEST FOR
THE WAIVER OF THE ASSOCIATED TAXES AND DUTIES
AMOUNTING TO US\$72,827,330.00**

1.0 INTRODUCTION

The Water Purchase Agreement between the Ghana Water Company Limited and Befesa Desalination Development Ghana Limited, with Government of Ghana as Guarantor, for an amount of *one hundred and ten million United States Dollars* (US\$110,000,000.00) to finance the development of a 60,000m³/day capacity Seawater Desalination Plant to produce potable water for delivery to GWCL existing pipeline infrastructure in Teshie, Nungua and their environs AND the Request for the waiver of the associated taxes and duties amounting to *seventy-two million, eight hundred and twenty-seven thousand, three hundred and thirty United States dollars* (US\$72,827,330.00) were laid in the House on Tuesday 13th

March, 2012 and referred to a Joint Committee on Finance and Works and Housing for consideration and report.

The Committee met and considered the Agreement with the Minister for Water Resources, Works and Housing, Hon. Enoch Teye Mensah and his Deputy, Hon. Nii Nortey Dua, Deputy Minister of Finance and Economic Planning, Hon. Fifi Fiavi Kwetey and officials from the Ministries of Finance and Economic Planning (MOFEP) and Water Resources, Works and Housing (MWRW&H) as well as the Ghana Water Company Limited (GWCL) and hereby presents this report to the House pursuant to order 161(1) of the Standing Orders of the House.

2.0 BACKGROUND

Teshie, Nungua and their environs have, for the past 25 years, been experiencing acute water shortages. After a contract to supply water to the area by Aqualyng Ghana Limited was abrogated by the Ghana Water Company Limited (GWCL) for non-performance, GWCL received an unsolicited proposal from Messrs Befesa Ghana limited on 29th April, 2010 for the development of a 60,000m³/day desalination plant for Teshie, Nungua and their environs.

The objective of the project is to supplement the shortfall in water production in the Accra Tema Metropolitan Area. The project beneficiary area falls at the end of distribution network of both Weija and Kpong treatment plants, making the project area the very last to receive water supply under the ATMA production system.

The Ghana Water Company has determined that the project to supply 60,000m³/day of potable could be easily achieved with the desalination plant rather than wait on the expansion of the Kpong water plant which would take not less than four years to complete. Again, the desalination

option is deemed more appropriate given that drilling and mechanizing boreholes are not recommended because all boreholes already drilled in the locality have high salinity content.

Pursuant to the seawater desalination project, negotiations were held between the **Government of Ghana** (represented by the Ministry of Finance and Economic Planning, Ministry of Water Resources Works and Housing, the Attorney-General's Department and Ghana Water Company Limited) and **Messrs Befesa Ghana Limited** upon which a Water Purchase Agreement was agreed. The Water Purchase Agreement (WPA) was jointly amended by both parties and the resulting Addendum to the WPA was signed on 20th February, 2012.

3.0 PURPOSE OF THE AGREEMENT AND THE GUARANTEE

The purpose of the Water Purchase Agreement is to enable Messrs. Befesa to produce and deliver to the Ghana Water Company Limited 60,000m³/day of potable water from desalinated sea water for distribution to Teshie, Nungua and their environs.

The objective of the provision of Government of Ghana Guarantee is to assure Messrs. Befesa of payment for the water delivered to the GWCL.

The Tax Waiver is further required to ensure that the project is carried out at the barest minimum cost and also a way of Government's commitment to the successful implementation of the Project.

4.0 OBSERVATIONS

The Committee was informed that Messrs. Befesa Ghana Limited by a letter dated 29th June, 2010 requested for approval of tariff from the Public Utilities Regulatory Commission (PURC) for the desalination plant. The PURC however found the proposed bulk water tariff of US\$1.716/m³ to be uncompetitive and asked Messrs Befesa to review it. The indicative bulk tariff approved by PURC is US\$1.37/m³. This is however subject to verification of the actual cost incurred upon the execution of the project.

The Committee noted that the Ministry of Finance and Economic Planning on 3rd October, 2011 issued a Letter of Comfort to the Company in support of the Project.

The Board of Directors of GWCL also on 25th August, 2010 gave its approval for the signing of the contract between GWCL and Messrs Befesa Ghana Limited for the development of a 60,000m³/day desalination plant for the delivery of potable water to GWCL.

The Committee was informed of the scope of the Project as follows:

- a) Detailed engineering Designs
- b) Civil Works Construction
- c) Construction and laying of sea intake line and sea outfall pipeline
- d) Supply and installation of 60,000m³/day desalination plant
- e) Construction of transmission pipeline from treatment plant to GWCL distribution network and elevated tanks
- f) Construction of working offices at the site
- g) Obtain Environmental Impact Assessment Report permit
- h) Operation of a 60,000m³/day desalination plant for 25 years under a Build, Operate and Transfer (BOT) scheme.

As to what constitutes desalination, the Committee was informed that desalination involves a separation process used to remove the dissolved salt content of saline water to a usable level for safe human consumption.

Communities to benefit from the Project include Teshie, Nungua, Nautical, Barrier, Nungua Buade, Baatsona, Adosona Naattojor, Adjor Man, Tsui Bleoo, Agbleshia, Sutsumor, Teshie Camp 2, Wajir Barracks, Military Academy and Training School (MATS), 48 Engineer Regiment and La Tse Ado.

Benefits to be derived from the project include improved access to potable water for the beneficiary communities, improved level of service by increased coverage in the project area, reduction in the level of non-revenue water, growth in productivity of the inhabitants leading to economic development and reduction in poverty, boosting of business opportunities and the maximization of social and health benefits of safe and reliable drinking water.

Payments for volumes of water delivered by the company shall be made by GWCL every sixty (60) days in accordance with the PURC approved tariffs and the provisions of the Water Purchase Agreement.

As to how long the project would take to complete, the Committee was informed that the Project would be completed in 12 months after commencement of works.

It was noted that Messrs Befesa Ghana Limited would solely finance the 60,000m³/day capacity project at the cost of *one hundred and ten million United States Dollars* (US\$110,000,000.00), operate it for a contract period of twenty-five (25) years and then transfer the plant to the Government of Ghana.

Some Honorable Members of the Committee wondered why Ghana should be embarking on sea water desalination when fresh water abounds in the country.

The Committee was however informed that one significant merit of the sea water desalination system is that the source of raw material (sea water) for the product (potable water) is inexhaustible. Sea water desalination by Reverse Osmosis offers an immediate and substantive solution to the water crisis in the project area as it has a relatively short implementation period and also the water meets World Health Organization (WHO) standards.

Some Members of the Committee also expressed concern about the situation where the Parent Company of Befesa Ghana Limited (Abengoa Water S.L.U of Spain) was not a party to the Agreement. Particularly, they were concerned that Befesa Ghana Limited on its own was a new company without any tax history or track record of having previously executed a project of this nature.

To this, the Acting Managing Director of Ghana Water Company Limited explained to the Committee that Befesa Ghana Limited was owned by Abengoa Water S.L.U of Spain (51%), Sojitz Corporation of Japan (44%) and Hydrocol Ghana Limited (5%). He explained that the expertise of the international partners in applying innovative technology for sustainability in the energy and environment sectors, generating energy from the sun, producing biofuels, desalinating sea water and recycling industrial waste would be brought to bear on the execution of the project.

The Committee admonished the Ghana Water Company Limited to put in the necessary mechanisms to ensure that water received from the project does not go waste as 'non-revenue water'. The GWCL assured the Committee that measures such as prepaid metering, GIS and SCADA would be deployed to ensure that wastage is cut to the barest minimum.

5.1 TAXES

The Duties/Taxes on materials to be imported or purchased locally for the project over the 25 year contract period; AND VAT/NHIL and Corporate and Withholding Taxes over a ten year period of the project as estimated by the Ghana Revenue Authority are as follows:

	US\$	US\$
Duties on Materials and Equipment		30,327,330.00
VAT/NHIL	20,000,000.00	
Corporate Tax	17,000,000.00	
Withholding Tax	<u>5,500,000.00</u>	
		<u>42,500,000.00</u>
TOTAL		<u>72,827,330.00</u>

Attachment: Please find attached as Appendices I and II, details of the taxes and duties as assessed by the Ghana Revenue Authority.

5.0 CONCLUSION

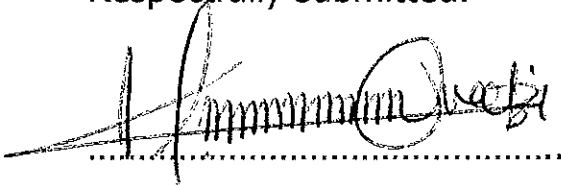
Upon critical examination of the Agreement and the Request, the Committee respectfully recommends to the House to

- i. approve by resolution, the Water Purchase Agreement between the **Ghana Water Company Limited (GWCL)** and **Befesa Desalination Development Ghana Limited** and the provision of **Government of Ghana Guarantee** for an amount of *one hundred and ten million United States Dollars* (US\$110,000,000.00) covering the development of a 60,000m³/day capacity **Seawater Desalination Plant** to produce potable water for delivery to GWCL existing pipeline

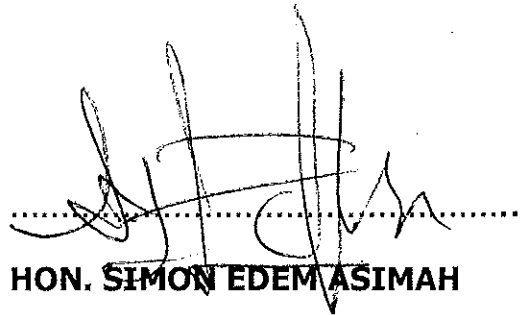
infrastructure in **Teshie, Nungua and their environs** in accordance with article 181 of the Constitution and section 10 of the Loans Act, 1970 (Act 335) ; and

- ii. approve by resolution, the **waiver of the taxes and duties on equipment/materials** to be imported or purchased locally amounting to *thirty million, three hundred and twenty-seven thousand, three hundred and thirty United States Dollars* (US\$30,327,330.00) spanning the twenty-five (25) year contract duration and **corporate taxes** amounting to *forty-two million, five hundred thousand United States Dollars* (US\$42,500,000.00) spanning the first ten (10) years of operation in accordance with article 174(2) of the Constitution.

Respectfully submitted.



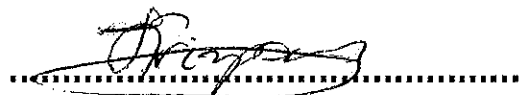
HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE



HON. SIMON EDEM ASIMAH
VICE CHAIRMAN, COMMITTEE ON
WORKS AND HOUSING



PEACE A. FIAWOYIFE (MS.)
CLERK, FINANCE COMMITTEE



JANET FRIMPONG (MS.)
CLERK, COMMITTEE ON WORKS
AND HOUSING

15TH MARCH, 2012

GHANA REVENUE AUTHORITY

In case of reply the number and date of the letter should be quoted

Our Ref. No.
Your Ref. No.

Tel. No. 0302 67 57 14
Fax No. 0302 66 58 33



Office of the Commissioner of
Domestic Tax Revenue Division,
P. O. Box 2202,
Accra - Ghana

February 21, 2012

The Ag. Managing Director,
Ghana Water Company Limited,
P. O. Box M 194,
Accra.

Dear Sir,

**REQUEST FOR TAX ASSESSMENT FOR EQUIPMENT AND MATERIALS
AND CONFIRMATION OF FIGURES FOR CORPORATE TAX
FOR SEAWATER DESALINATION PROJECT AT NUNGUA, ACCRA**

We acknowledge receipt of your letter dated February 6, 2012 on the above subject matter.

The VAT/NHIL and Corporate and Withholding Taxes over the period of the project are estimated as follows:-

		US\$
i.	VAT/NHIL	- 20.0 million
ii.	Corporate Tax	- 17.0 million
iii.	Withholding Tax	- <u>5.5 million</u>
	Total:	42.5 million

The total tax liability for the exemption period of ten (10) years would be **US\$42.5 million.**

Please be advised accordingly.

Mrs. Comfort Booehene-Osafo
Yours faithfully,
for: COMMISSIONER-GENERAL

MRS. COMFORT BOOHENE-OSAFO
AG. COMMISSIONER - DTRD

cc: Commissioner-General

Deputy Commissioner (LTO)

Managing Director
Befesa Desalination Dev. Gh. Ltd.
Accra.

TAX ASSESSMENT FOR 25 YEARS PERIOD

1. IMPORTER/AGENT'S NAME & ADDRESS:- BEFESA DESALINATION DEVELOPMENT GHANA LIMITED.....

2. INVOICE NO..... 3. TIN NO..... 4. FCVR NO.....

5. AIRWAY BILL/BILL OF LADING NO..... 6. DECLARANT NO..... 7. EXCHANGE RATE.....

Qty (8)	Description of Goods (9)	CIF (10) USD	Import Duty		Import VAT @12.5%	Import NIHL @2.5%	ECO. Levy @0.5%	EDIF @ 0.5%	Inspection Fee @1%	Processing Fee @1%	Withholding Tax @1%	Total (20) USD
			Rate (11)	Amount (12)	Amount (13)	Amount (14)	Amount (15)	Amount (16)	Amount (17)	Amount (18)	Amount (19)	
3sets	Seawater Intake Pump	2,187,994	0%	nil	273499	54700	10940	10940	21880	21880	21880	415,71
2sets	Intake Screen System	808,950	10%	80895	111231	22246	4045	4045	8090	nil	8090	238,64
3sets	Filter System	539,296	0%	nil	nil	nil	2696	2696	5393	5393	5393	21,57
3sets	Cartridge Filter System	125,749	0%	nil	nil	nil	629	629	1257	1257	1257	5,02
3sets	Ultrafiltration System	7,689,886	0%	nil	nil	nil	38449	38449	76899	76899	76899	307,59
4sets	Auxiliary Pump System	301,427	0%	nil	37678	7536	1507	1507	3014	3014	3014	57,27
16sets	Pump System for RO	6,663,577	0%	nil	832947	166589	33318	33318	66636	66636	66636	1,266,08
9sets	RO System	7,038,276	10%	703828	967763	193553	35191	35191	70383	nil	70383	2,076,29
1set	Energy Recovery Device	2,411,000	10%	241100	331513	66303	12055	12055	24110	nil	24110	711,24
3sets	Product Water Pump	409,975	0%	nil	51247	10249	2050	2050	4100	4100	4100	77,89
												5,177,34

21. CERTIFICATE

TOTAL TAX LIABILITY = 30,327,330.00 US DOLLARS

This is to certify that the assessment given is true and correct.

Signature:.....

.....
Date

Importer/Agent's Name & Designation:.....

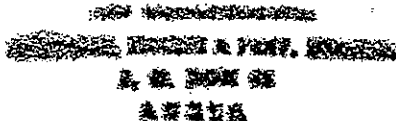
For Official Use

Assessment rechecked and found correct and complete.

23-02-2012
Date

Signature:.....

Officer's Name & Rank:- **GIDEON GLEY
ASST COLLECTOR**



TAX ASSESSMENT FOR 25YEARS PERIOD

1. IMPORTER/AGENT'S NAME & ADDRESS:- BEFESA DESALINATION DEVELOPMENT GHANA LIMITED.....
 2. INVOICE NO..... 3. TIN NO..... 4. FCVR NO.....
 5. AIRWAY BILL/BILL OF LADING NO..... 6. DECLARANT NO..... 7. EXCHANGE RATE.....

Qty (8)	Description of Goods (9)	CIF (10) USD	Import Duty		Import VAT @12.5%	Import NIL @2.5%	ECO. Levy @0.5%	EDIF @ 0.5%	Inspection Fee @1%	Processing Fee @1%	Withholding Tax @1%	Total (20) USD
			Rate (11)	Amount (12)	Amount (13)	Amount (14)	Amount (15)	Amount (16)	Amount (17)	Amount (18)	Amount (19)	
3sets	Seawater Intake Pump	2,187,994	0%	nil	273499	54700	10940	10940	21880	21880	21880	
2sets	Intake Screen System	808,950	10%	80895	111231	22246	4045	4045	8090	nil	8090	415,71
3sets	Filter System	539,296	0%	nil	nil	nil	2696	2696	5393	5393	5393	238,64
3sets	Cartridge Filter System	125,749	0%	nil	nil	nil	629	629	1257	1257	1257	21,57
3sets	Ultrafiltration System	7,689,886	0%	nil	nil	nil	38449	38449	76899	76899	76899	5,02
4sets	Auxiliary Pump System	301,427	0%	nil	37678	7536	1507	1507	3014	3014	3014	307,59
16sets	Pump System for RO	6,663,577	0%	nil	832947	166589	33318	33318	66636	66636	66636	57,27
9sets	RO System	7,038,276	10%	703828	967763	193553	35191	35191	70383	nil	70383	1,266,08
1set	Energy Recovery Device	2,411,000	10%	241100	331513	66303	12055	12055	24110	nil	24110	2,076,29
3sets	Product Water Pump	409,975	0%	nil	51247	10249	2050	2050	4100	4100	4100	711,24
												5,177,34

21. CERTIFICATE

TOTAL TAX LIABILITY = 30,327,330.00 US DOLLARS

This is to certify that the assessment given is true and correct.

Signature:

Date

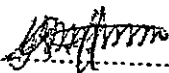
Importer/Agent's Name & Designation:

For Official Use

Assessment rechecked and found correct and complete.

23-02-2012

Date

Signature: 

Officer's Name & Rank:- **GIDEON GLEY
ASST COLLECTOR**

~~REVENUE & EXCISE DEPARTMENT~~
 关 税 部 署
 关 税 部 署

TAX ASSESSMENT

1. IMPORTER/AGENT'S NAME & ADDRESS:- BEFESA DESALINATION DEVELOPMENT GHANA LIMITED.....
 2. INVOICE NO..... 3. TIN NO..... 4. FCVR NO.....
 5. AIRWAY BILL/BILL OF LADING NO..... 6. DECLARANT NO..... 7. EXCHANGE RATE.....

Qty (8)	Description of Goods (9)	CIF (10) USD	Import Duty		Import VAT @12.5%	Import NHIL @2.5%	ECO. Levy @0.5%	EDIF @ 0.5%	Inspection Fee @1%	Processi ng Fee @1%	Witholding Tax @1%	Total (20) USD
			Rate (11)	Amount (12)	Amount (13)	Amount (14)	Amount (15)	Amount (16)	Amount (17)	Amount (18)	Amount (19)	
1set	Fire Fighting System	306,670	0%	nil	38334	7667	1533	1533	3067	3067	3067	58,268
1set	Laboratory Equip	210,803	10%	21080	28985	5797	1054	1054	2108	nil	2108	62,186
1set	Spare Parts	420,202	10%	42020	57778	11556	2101	2101	4202	nil	4202	123,960
3sets	Civil Work Materials	4,106,400	10%	410640	564630	112926	20532	20532	41064	nil	41064	1,211,388
1set	Cartridge Filter	224,640	0%	nil	nil	nil	1123	1123	2246	2246	2246	8,984
4sets	Membrane	18,151,711	10%	1815171	2495860	499172	90756	90756	181517	nil	181517	5,354,749
5103mt	Chemical Product	41,730,033	10%	4173003	5737880	1147576	208650	208650	417300	nil	417300	12,310,359
												19,129,894

21. CERTIFICATE

This is to certify that the assessment given is true and correct.

Signature:.....

Date

Importer/Agent's Name & Designation:.....

For Official Use

Assessment rechecked and found correct and complete.

Signature:.....

23-02-2012

Date

Officer's Name & Rank:- **GIDEON GLEY**
ASSF COLLECTOR

