

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

**REPORT OF THE FINANCE COMMITTEE ON THE
DEVELOPMENT CREDIT AGREEMENT OF SDR132,700,000
(EQUIVALENT US\$180 MILLION) BETWEEN THE
GOVERNMENT OF GHANA AND THE INTERNATIONAL
DEVELOPMENT ASSOCIATION TO FINANCE THE SECOND
ECONOMIC REFORM SUPPORT OPERATION (ERSO II)**

1.0 INTRODUCTION

The above Credit Agreement was laid in the House on Tuesday 15th June, 1999 in accordance with Article 181 of the Constitution and referred to the Finance Committee pursuant to Order No.171(1) of the Standing Orders for consideration and report.

The Committee met with the Deputy Minister of Finance Hon. Moses Asaga and his technical staff to consider the Agreement and reports as follows:

2.0 BACKGROUND INFORMATION

In February, 1999, the Government of Ghana in collaboration with the IMF and the World Bank prepared a Policy Framework Paper (PFP) which highlights the economic policy reforms measures of the country for the period 1999 - 2001. The International Development Association

KEY ACTIVITIES OF THE PROGRAMME

The key activities of the programme include the following:

- Measures to ensure Macro economic stability.
- Reforms in tax administration.
- Implementation of Medium Term Expenditure Framework.
- Financial sector reform.
- Cocoa sector reform
- Divestiture

Most of the measures above are ongoing programmes initiated by the Government towards restructuring the economy.

3.0 PURPOSE OF THE CREDIT

The Credit is a follow-up to the One-tranche Economic Reform Support Operation (ERSO) which was disbursed in 1998. It forms part of external inflows projected to support the 1999 budget and financial programme which had a central objective of consolidating the macro economic gains achieved in 1998; accelerating the overall growth of the economy; achieving a single digit rate of inflation and improving the

4.0 TERMS AND CONDITIONS

- Loan Amount - SDR132,700,000 (US\$180 million)
- Terms of Loan - 40 years
- Moratorium - 10 years
- Commitment Charges - At rates to be determined by IDA but not exceeding 0.5% per annum, payable on the principal amount of the credit not withdrawn from time to time.
- Service Charge - 0.75% per annum on the principal amount of the credit withdrawn and outstanding from time to time.
- Repayment of Principal - The principal amount of the credit shall be paid in semi-annual installments payable on each August 1 and February 1, commencing August 1, 2009 and ending February 1, 2039. Each installment to, and including the one payable on February 1, 2019 shall be 1% of such principal amount, thereafter each installment shall be 2% of such principal

5.0 OBSERVATIONS

5.1 Number of Tranches

The Committee observed that the credit is in three (3) Tranches, and shall be withdrawn from the Credit Account as follows:

<u>Catgories</u>	Amount of the Credit allocated (Expressed in SDR Equivalent)	% of the Expenditures to be financed
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First Tranche	59,000,000	100%
Second Tranche	59,000,000	100%
Floating Tranche	14,700,000	100%

5.2 CONDITIONS PRECEDENT TO THE UTILIZATION OF THE CREDIT

The Committee also observed that prior to the release of the respective Tranches, the following conditions must be met:

- (1) **Conditions for the release of First Tranche**
 - (i) The Macro-economic Policy Framework of Ghana must be consistent with the objectives of the programme
 - (ii) Ghana must achieve progress, satisfactory to IDA, in the carrying out of the programme.
- (2) **Conditions for the release of the Second Tranche**

- (a) (i) Ghana must have increased cocoa farmers' share in the fob price to 65% in the 1999/2000 crop season.
- (ii) Ghana must have issued instructions, satisfactory to IDA, to allow qualified cocoa-licensed buying companies to export 30% of their domestic purchases, starting with the 2000/2001 crop season.
- (iii) A legislative instrument, satisfactory to IDA, establishing electricity regulations for the operation of the national interconnected electricity system must have been presented to Parliament.
- (iv) 30% of the shares of the Ghana Commercial Bank must have been offered for sale to a strategic investor and the remaining government shares placed on the stock exchange.
- (b) The Bank of Ghana must have withdrawn the licenses of all commercial banks which do not meet capital adequacy requirements set by the Bank of Ghana.

(3) **Condition for the release of the Floating Tranche**

Following procedures satisfactory to IDA, Ghana must have offered for sale, or caused the Electricity Company of Ghana (ECG) to offer for sale, shares in ECG's electricity

5.3 RESULTS OF THE FIRST ECONOMIC REFORM SUPPORT OPERATION (ERSO) - 1998

Hon. Members would recall that on 7th July, 1998, the House approved by a resolution an amount of SDR37,100,000 (US\$50 Million) as funding from IDA to support the 1998 component of the Economic Reform Support Operation (ERSO). The Committee was informed that, the credit was used to cover the financing gap in the 1998 budget.

The main objective of the programme was to ensure macro-economic stability during the fiscal year and beyond. The ERSO resource, together with other external as well as domestic resources, made possible the following macro-economic achievements in 1998:

- Real GDP increased by 4.6% compared to 4.2% in 1997.
- The domestic rate of inflation (end-period) fell to 15.8% by December, 1998, from 20.8% in December, 1997.
- Money supply (M2+) recorded a growth of 17.7% of GDP (year-on-year) compared with 40.8% of GDP in 1997.
- Money Market rates and Deposit Money Bank's interest rates fell as a result of the reduction of Bank of Ghana's rate from 45% to

- The external debt service ratio decreased from 32% in 1997 to 27% in 1998.

5.4 COMMITTEE BRIEFING

The Committee noted the lack of information on some components of the Reform Programme to Hon. Members and therefore recommends that the various sector ministries find time to brief their respective Parliamentary Select Committees on reforms going on in their Ministries.

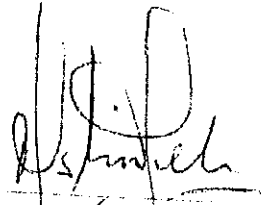
6.0 RECOMMENDATIONS

It is the Committees expectation that the IDA facility would go a long way to support the reform programmes embarked upon by the Government in order to develop a dynamic and efficient public sector to support a sustainable private sector led economic development.

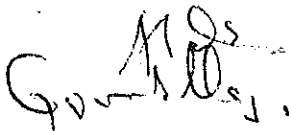
Accordingly, the Committee recommends to the House, the approval of the Credit Agreement of **SDR132,700,000 (equivalent US\$180 million)** from the International Development Association (IDA)

in accordance with Article 189(2) of the Constitution and Section 7 of the Loans Act, 1970, Act 335 to finance the Second Economic Reform Support Operation (ERSO II).

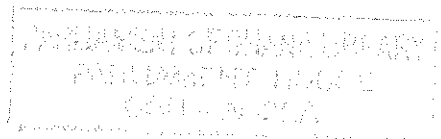
Respectfully submitted.



**HON CDRE S.G. OBIMPEH (RTD)
CHAIRMAN**



**ALHAJI IBRAHIM GOMBILLA
AG. CLERK TO THE COMMITTEE**



23RD JUNE, 1999