

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

**REPORT OF THE FINANCE COMMITTEE ON THE
RE-CONSIDERATION OF THE LOAN AGREEMENT
BETWEEN THE GOVERNMENT OF GHANA AND
ABN AMRO BANK N.V. OF THE NETHERLANDS FOR
THE VOLTA LAKE DEBRE SHOALS REMOVAL AND
MAINTENANCE DREDGING WORK**

1.0 INTRODUCTION

The above document was laid in the House on 9th May 2000, pursuant to article 181 of the Constitution, and referred to the Finance Committee for consideration and report. The Committee met with officials of the Ministry of Finance and Volta River Authority to examine the referral.

The Committee reports as follows:

2.0 BACKGROUND INFORMATION

Parliament on 15th December 1999, by resolution, approved a loan facility of **NLG 8,880, 458.60** from ABN AMRO Bank N.V. of the Netherlands, and a tax exemption of **¢8.4 million**, for the removal of the Volta Lake Debris shoals and maintenance dredging works.

The project covers the purchase of dredging equipment and related materials and the cost of supervision, training of local personnel, equipment installation, removal of the shoals in the lake, maintenance and

repairs. The loan is to finance the project to enhance uninterrupted use of the waters from Debre to Buipe.

The loan represents 60% of the total cost of the project. The remaining 40% is a grant from the Dutch Government. The interest rate of the loan at the time was 6.05%.

While processing the necessary documents for signing to enable a legal opinion to be issued to make disbursement of the loan effective, ABN AMRO Bank N.V. informed the Ministry of Finance that the interest rate had been reviewed upwards to 7.30%. This, it was explained, was due to an increase in the long-term interest rates in financial markets world-wide. It therefore became necessary for Parliament to reconsider the loan agreement in light of this upward adjustment in the interest rate.

3.0 OBSERVATIONS

The Committee noted that, as confirmed by the *Financial Times of Tuesday, 30th May 2000*, as well as from the data of ABN AMRO Bank N.V., there has been a world-wide consistent upward adjustment of interest rates on long-term loans between the 2nd quarter of 1999 and the first quarter of 2000. This is exhibited by the rates of the following European Countries:

<u>Country</u>	<u>Percentage Increase over Period</u>
Germany	1.37%
Netherlands	1.05%
France	1.24%
U. K.	0.75%
Italy	1.36%

It is the Committee's opinion that the percentage change in interest rates over the period presented above compares well with the 1.05% of the ABN AMRO's, even though the base rate of the Bank is on the higher side. This, the Committee believed, is compensated for by the grant component of 40% of the project. The above is also evidence that during the period of processing the loan, that is, between the last quarter of 1999 and the first quarter of 2000, there has been upward adjustments in the interest rates of long-term loans for financial institutions world-wide.

The Committee noted the confirmation of the Ministry of Finance that even at the new interest rate, the loan agreement has not lost its concessional status even though it is reduced from 40% to 36.29%. Also the current rate of 7.30% is not likely to change. This is because ABN AMRO Band N.V., after being informed by the Ministry of Finance that no further increase could be accommodated, agreed to "lock in" that value.

The Committee further noted that apart from the change in the interest rate, the other conditions of the loan agreement are, as they were when Parliament approved it.

The terms and conditions of the loan after the adjustment in the interest rate are as follows:

Loan Amount	NLG8, 880,458.60 (equivalent to US\$4,440,229.30)
Interest Rate	7.30%
Repayment Period	7 years in fourteen (14) equal consecutive semi-annual instalments
First Payment	Six (6) months after disbursement of the amount payable under the signed letter of credit
Management Fee	0.375% flat, calculated on the loan amount and payable within thirty (30) days from the day the agreement is signed
Commitment Fee	0.5% per annum - to be calculated daily on the undrawn amount of the loan and payable quarterly in arrears from, the date of acceptance of the offer.

The Committee noted, and took the V. R. A. to task, on the fact that there had been no Environmental Impact Assessment done on the project.

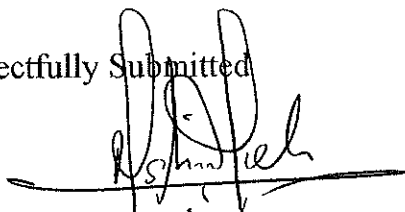
The V. R. A. however indicated that they have started liaising with their

Engineering, Real Estate & Environment Departments, to prepare the bid documents to this effect.

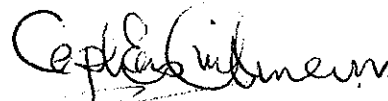
4.0 RECOMMENDATIONS

In view of the above, the Committee recommends to the House, approval by resolution, of the new interest rate of 7.30% per annum in the matter of the Loan Agreement between the Government of Ghana and ABN AMRO Bank N.V. of The Netherlands for the Volta Lake Debre Shoals Removal and Maintenance Dredging Works in accordance with article 181 of the Constitution and Section 7 of the Loans Act, 1970 (Act 335).

Respectfully Submitted



HON. CDRE S. G. OBIMPEH (RTD)
(Chairman, Finance, Committee)



CEPHAS AMEVOR
(Clerk, Finance Committee)

13TH JUNE, 2000