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

REPORT OF THE JOINT COMMITTEE ON FINANCE
AND MINES AND ENERGY ON
CONCESSIONAL LOAN AGREEMENT OF
SEK 95.0 MILLION SWEDISH KRONOR (APPROX. US\$11.88 MILLION
BETWEEN THE REPUBLIC OF GHANA AND NORDBANKEN OF SWEDEN
FOR THE PROCUREMENT OF OFF-SHORE ELECTRICAL
MATERIALS AND EQUIPMENT FOR THE GOVERNMENT'S
SELF-HELP ELECTRIFICATION PROGRAMME (SHEP-3)

1.0 INTRODUCTION

The above Loan Agreement was laid on Tuesday 16th February, 1999 in accordance with Article 181 of the Constitution and referred to the Joint Committee on Mines and Energy and Finance under Standing Orders 187 and 169 for consideration and report.

The Joint Committee examined the Agreement and was guided in its deliberations by the Minister of Mines and Energy, Hon. Ohene Kena, his Deputy Hon. Simon Abingya and their technical team and reports as follows:

2.0 PURPOSE OF THE LOAN

The concessionary Loan of about US\$11.88 Million under consideration is for the procurement of off-shore electrical materials and equipment such as insulators, conductors, transformers, arresters, crossarm, meters etc. for the Government's Self-Help Electrification Project (SHEP-3).

3.0 BACKGROUND

As part of the National Electrification Programme (NEP) the Government has set up the National Electrification Scheme (NES) which aims at providing electricity to all communities in the country over a thirty (30) year span; beginning 1990 and ending 2020 over a six, 5-year phase plan.

3.1 The first phase of the Scheme (NES) is the extension of electricity to all the 110 district capitals under the District Capitals Electrification Programme. The electrification of district capitals was completed with the last district capital Nadowli connected to the national grid in October, 1998. However, still in progress is the electrification of towns on-route to the district capitals under the National Electrification Project (NEP) which is being financed by the World Bank and other donors. This project would be completed by mid-1999. A complementary activity to the NES is the Self-Help Electrification Programme (SHEP) under which will be the electrification of communities within 20 km radius of an existing 33kv/11kv national network. Such communities are required to purchase and erect their own Low Voltage distribution poles in order to qualify for the scheme.

3.2 It should be emphasised that under the SHEP, 110 have been connected to the national grid under SHEP-1 Programme, between 1990-1992 and 250 communities have been connected under SHEP-2 Programme to the national grid between 1993-1995.

3.3 In order to accelerate the electrification process, the Ministry of Mines and Energy undertook a survey in 1994 which identified 1400 communities as being those which have satisfied the terms set under SHEP-3, thus qualified to be saved between 1996 and the year 2000. Initially, it was estimated that an amount of US\$80 million would be required to procure materials for the programme. The estimate was approved using an initial penetration rate of 45% assumed by the Canadian Consultants (Acre International) who undertook studies on the scheme (NES) in 1989 and developed the National Electrification Master Plan for the implementation of the scheme. In order to accelerate the initial penetration rate and achieve the aims and objectives of the scheme, Government in 1991 instituted a policy that fixed the fee charge per connection at ¢5,000.00 (Five Thousand Cedis) for the first 18 months of extension the national power grid to a town or a village (instead of the actual cost of service connection which was about ¢50,000.00 (Fifty Thousand Cedis).

3.4 Currently, the full cost of service connection is about ¢25,000.00. This notwithstanding, the service connection of ¢5,000.00 for the first 18 months remains **unchanged**. After the first 18 months, any customer applying for connection is required to pay the full cost of providing materials for the service connection. The result has been a drastic increase of the initial penetration rate from 45% to about 85% as customers prefer to pay the ¢5,000.00 immediately the project is commissioned instead of waiting and having to pay the actual full cost of service connection after the 18-month grace period. In the light of the increase in the initial penetration rate from 45% to 85% coupled with the fact that the Low Voltage (LV)

networks and service connection constitute about 50% of the overall cost of electrification, the amount required to procure the off-shore electrical materials and equipments for the scheme has increased from US\$80 million to US\$120 million.

So far, an amount of US\$70.48 million (including additional US\$10 million from loan contracted from Instituto De Credito and Banco Espanol De Credito S.A of Spain) has been secured for the project, leaving a financial gap of **US\$49.52 million.**

3.5 The loan of approximately, US\$11.88 million, the subject of this report is to partly finance the shortfall.

Details of the amount secured so far is as follows:

Indian Government	-	US\$10.0 million
US Exim Bank	-	US\$8.16 million
Finnish Export Credit	-	US\$7.0 million
Nordbanken AB Sweden	-	US\$8.5 million
Nedcar Bank, South Africa	-	US\$8.5 million
ABSA, South Africa	-	US\$18.32 million
Instituto De Credito Official of Spain	-	US\$5.0 million
Banco Espanol De Credito S.A of Spain	-	US\$5.0 million
TOTAL	-	US\$70.48 million

4.0 TERMS AND CONDITIONS OF THE LOAN

The terms and conditions of the facility are as follows:

4.1 Concessional Loan

1. Amount - SEK95.0 Million (approx. US\$11.88 million)
2. Term of Loan - 8 years
3. Grace Period - 3 years
4. Interest Rate - 0%
5. Repayment - 17 semi annual installments
6. Agency Fee - 0.25%

Diplomatic and consular assets have been excluded from any process of execution of the Agreement.

The Ministry of Finance (MOF) in analysing the Terms and Conditions of the Credit facility has confirmed that it has 36% concessionality and the minimum threshold required by the Ministry of Finance for a concessionary credit is 35%.

5.0 OBSERVATIONS

The Committee observed that the main constraint facing the Ministry of Mines and Energy in the implementation of the SHEP programme is the delay in the release of counterpart funds for the scheme. This has in the past resulted in delays in the payment of contractors, consultants and the procurement of local materials e.g high tension poles. The Committee therefore urges the Ministry of Finance to release counterpart funds on time to ensure early execution of all the projects for which loans have been secured.

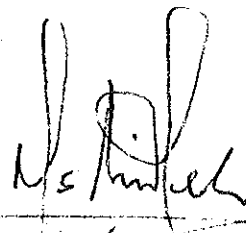
6.0 RECOMMENDATION

In view of the importance Government attaches to the scheme and in order not to delay the electrification of SHEP-3 communities who have erected their low voltage poles since 1993, the Committee recommends for approval by resolution in accordance with Article 181 of the Constitution and Section 7 of the Loan Act 1970, Act 335, the Concessional Loan Agreement of US\$11.88 million between the Government of Ghana and Nordbanken of Sweden for the financing of the Rural Electrification under the Government's Self-Help Electrification Programme (SHEP).

Respectfully submitted.



**ASANTE AMOAKO-ATTA
CLERK TO THE JOINT
COMMITTEE**

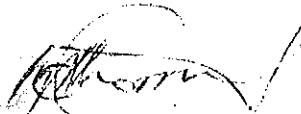


**HON. (CDRE) S.G. OBIMPEH (RTD)
CHAIRMAN OF THE JOINT
COMMITTEE**



**GLORIA SARKU
CLERK TO THE COMMITTEE
ON MINES AND ENERGY**

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**HON. THOMAS YEBOAH
CHAIRMAN, COMMITTEE
ON MINES AND ENERGY**

23RD FEBRUARY, 1999