

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



**REPORT OF THE COMMITTEE ON ROADS AND  
TRANSPORT**

**ON THE**

**SUPPLY CONTRACT AGREEMENT BETWEEN THE  
GOVERNMENT OF THE REPUBLIC OF GHANA  
(REPRESENTED BY THE MINISTRY OF RAILWAYS  
DEVELOPMENT) AND MESSRS DONGFANG  
ELECTRIC INTERNATIONAL CORPORATION FOR AN  
AMOUNT OF TWO HUNDRED AND FORTY-THREE  
MILLION, SIX HUNDRED THOUSAND UNITED  
STATES DOLLARS (US\$243,600,000.00) FOR THE  
PROCUREMENT OF STANDARD GAUGE ROLLING  
STOCK**

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# REPORT OF THE COMMITTEE ON ROADS AND TRANSPORT ON THE SUPPLY CONTRACT AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA (REPRESENTED BY THE MINISTRY OF RAILWAYS DEVELOPMENT) AND MESSRS DONFANG ELECTRIC INTERNATIONAL CORPORATION FOR AN AMOUNT OF TWO HUNDRED AND FORTY-THREE MILLION, SIX HUNDRED THOUSAND UNITED STATES DOLLARS (US\$243,600,000.00) FOR THE PROCUREMENT OF STANDARD GAUGE ROLLING STOCK

## 1.0 INTRODUCTION

On Monday, 3<sup>rd</sup> August 2020, the Supply Contract Agreement between the Government of the Republic of Ghana (represented by the Ministry of Railways Development) and Messrs Donfang Electric International Corporation for an amount of Two Hundred and Forty-Three Million, Six Hundred Thousand United States Dollars (US\$243,600,000.00) for the procurement of standard gauge rolling stock was presented to Parliament by the Minister for Defence, Hon. Dominic Bingab Aduna Nitiwul on behalf of the Minister for Railway Development, Hon. Joe Ghartey.

The Rt. Hon. Speaker referred the Agreement to the Committee on Roads and Transport for consideration and report in accordance with Article 181(5) of the 1992 Constitution and Order 189 of the Standing Orders of Parliament.

The Committee is grateful to the Minister of Railway Development, Hon. Joe Ghartey, the Chief Director and other Officers of the Sector Ministry for attending upon the Committee.

## 2.0 REFERENCE DOCUMENTS

- i. The 1992 Constitution of Ghana
- ii. The Standing Orders of Parliament
- iii. The Supply Contract Agreement between the Government of Ghana (represented by the Ministry of Railway Development) and Messrs Donfang Electric International Corporation for an amount of Two Hundred and Forty-Three Million, Six Hundred Thousand United States Dollars (US\$243,600,000.00) for the procurement of Standard Gauge Rolling Stock.

### 3.0 BACKGROUND

The Government of Ghana, desirous to develop a modern standard gauge railway network, is currently engaged the construction of a number of standard gauge railway lines. These includes the construction of the 97km standard gauge Tema-Mpakadan railway line and the development of sections of the standard gauge Western railway line from Kojokrom-Eshiem (5km) and Eshiem-Manso (17km).

In addition, the Government has signed a Commercial Contract for the continuation of the Standard Gauge Western railway line from Manso to Huni Valley. This includes a new standard gauge line connecting to the Port of Takoradi to the Harbour Junction, near the Takoradi Station totalling 102km of standard gauge rail track.

The Contract for the construction of the 97km railway line from the Port of Tema to Mpakadan is expected to be completed ahead of the contractual completion date of July, 2021. The contract does not include the supply of rolling stock to test and operationalise the line upon completion.

The Ministry received a Supplier's Credit Offer for the supply and financing of Rolling Stock from Messrs Dongfang Electric International Corporation on 15<sup>th</sup> January 2019. A copy of the offer from Messrs Dongfang Electric International Corporation was forwarded to the Ministry of Finance for their advice vide a letter dated 16<sup>th</sup> January, 2019.

The Ministry of Finance conveyed a favourable response to the Supplier's Credit offer by letter dated 28<sup>th</sup> January 2019 (Annex "A").

The Ministry of Railways Development then constituted a Committee to conduct Technical, Legal and Financial due diligence before the commencement of contract negotiations with the supplier.

The Committee was tasked to undertake due diligence on the supplier and it comprised officials from the Ministry of Railways Development, the Ministry of Finance, the Office of the Attorney General and Ministry of Justice, the Ghana Railway Development Authority, Ghana Railway Company Limited as well as

representatives of Parliament's Select Committee on Roads and Transport. A due diligence mission was undertaken from 27<sup>th</sup> April to 1<sup>st</sup> May 2019. It included site visits as well as technical meetings with the supplier and its partners.

Based on the observations and findings made after the inspection of the plant and facilities of the manufacturers in China, as well as the outcome of the technical meetings, it was established by the Committee that, the Supplier and its partners has the pedigree and experience, track record and the capacity to manufacture the locomotives and rolling stock required by the Government of Ghana. The Committee submitted its report to the Ministry in May, 2019. A copy of the due diligence report is attached as Annex "B".

The Ministry of Finance, per its letter dated 11<sup>th</sup> November, 2019, included the loan facility for the purchase of the rolling stock from Messrs Dongfang Electric International Corporation as part of a list of Government priority projects and as sought for insurance cover from the China Export & Export Insurance Corporation (SINOSURE) (Annex "C").

The Ministry of Finance is in discussions with the suppliers to finalize arrangements for the signing of the Financing Agreement for the project. A copy of the draft Financing Agreement is attached as Annex "D" hence the need for the House to grant favour for the passage of this agreement.

#### **4.0 OBJECTIVES OF THE PROJECT**

The supply of rolling stock is crucial to the operation of a railway line and the objective of the Contract Agreement is the supply of Rolling Stock for the operations of the country's Railway Lines.

The supply Contract Agreement covers the supply of Diesel Locomotives, passenger coaches, freight wagons and the construction of maintenance workshop.

#### **5.0 SCOPE OF THE SUPPLY CONTRACT**

The scope of the contract agreed by the Parties covers the following:

### **A - Locomotives, Coaches and Wagons:**

- a. Supply of nine (9) Nos. 4500HP Mainline Diesel Locomotives with maximum speed of 160km/hr for Passengers.
- b. Supply of forty-eight (48) Nos. Passenger Coaches.
- c. Supply of fifteen (15) Nos. 4500HP Mainline Diesel Locomotives for freight with maximum speed 100km/h
- d. Supply of three hundred and thirty (330) Nos. freight wagons.
- e. Supply of eleven (11) Nos. 1000HP Shunting Diesel Locomotives

A total of thirty-five (35) standard gauge trains are therefore to be delivered by the Suppliers as part of the Contract.

### **B - Spares and Tools**

The supply of accompanying Spares and Tools along with the Locomotives and Rolling Stocks within the twenty-four (24) months warranty period.

### **C - Maintenance Workshop**

The establishment of one (1) Maintenance Workshop (not more than 3000m<sup>2</sup>) with Maintenance Equipment at a location to be determined by the purchaser.

### **D - After Sales Service**

The Contract also includes After Sales Services to guarantee regular routine and periodic maintenance of the rolling stock during the operational period.

### **E - Training**

The Supplier will also provide training for skilled personnel or railway engineers and managers in all aspects of rolling stock systems including locomotive design, operation and maintenance.

## **6.0 OBSERVATIONS**

The Committee noted that the procurement of standard gauge rolling stock will enable the testing and commissioning, as well as, the immediate

operation of new standard gauge railway lines currently under construction as outlined in the background information.

#### 6.1 Supplier's Profile

##### **Dongfang Electric International**

The Committee took note that Dongfang Electric International Corporation is one of the largest backbone enterprise groups in China and has become a comprehensive group specialised in supplying the manufacturing industry with cutting-edge technology for the exporting of complete plants and equipment.

Its affiliate group of companies, Dalian Locomotive and Rolling Stock Company Limited are key factories that develop diesel locomotives, electric locomotive engines for urban transit and light Rail Vehicles.

Qigihar Rolling Stock Company Limited is the mainstay enterprise in freight, wagon, a dominant design company. The Committee observed that the supplier has the capabilities, experience and track record to deliver the rolling stock.

#### 6.2 Project Description

The facility before the Committee involves the procurement of Locomotives and Standard Gauge Rolling Stock to Ghana under a Supplier's Credit. The supplies include locomotives, wagons and coaches.

#### 6.3 Cost Component

The Committee learnt that the cost of the project amounts to Two Hundred and Forty-Three Million, Six Hundred Thousand United States Dollars (US\$243,600,000.00).

#### 6.4 Socio-economic Impact

The Committee noted that the operation of the trains will facilitate the movement of people, increase trade and create both direct and indirect employment opportunities and therefore generate income within the communities. This will reduce poverty and bring about improvement in the

local economy with its associated positive impacts, for example on health and education. Improved local economy will help reduce migration from the rural communities to towns and cities, youth unemployment and associated social vices will reduce; investable funds will be available to establish new enterprises, thus, the standard of living will improve within the affected communities.

## 6.5 Financial Impact

The Committee noted that under the contract cost of the supply will be fully paid from the proceeds of the supplier's credit to be contracted by the Ministry of Finance on behalf of the Republic of Ghana.

The financing package provides a 100% financial closure with no additional budgetary requirement from the Government to execute the project.

The project is to be financed under a supplier's Credit Facility offered by Messrs Dongfang Electric International Corporation. The terms of the financing offer is as follows:

Facility Amount	:	US\$243,600,000.00
Grace Period	:	2 years
Repayment Period	:	10 years
Tenor	:	12 years
Interest Rate	:	6M Libor + 2.5% p.a
Sinosure Premium	:	Up to 7.00% of the supplier's credit

This project was factored into the assessment which informed the Government's Medium-Term Debt Strategy (MTDS) and consequently determined Government's borrowing plan for the medium term as published in the 2020 budget.

## 6.6 Satisfying Conditions Precedent

The Committee was informed that following the submission of the report and the recommendations made available by the Due Diligence Committee, the Ministry commenced pre-contract negotiations with Messrs Dongfang Electric International Corporation. A conditional contract, subject to the following approvals, was signed on 9<sup>th</sup> July, 2019”

- a. Approval by the Public Procurement Authority of Ghana in accordance with section 40 of the Public Procurement Act 2003 (Act 663) as amended.
- b. Obtaining the Ministry of Finance’s approval in accordance with sections 33 and 96 of the Public Financial Management Act, 2016(Act 921).
- c. Executive approval by the Government of Ghana.
- d. Approval by the Parliament of Ghana.
- e. Agreement by the Parties on the final Bill of Quantities and Technical Specifications

## 6.7 Public Procurement Authority

The Committee was briefed that the processes for achieving the above conditions precedents have already commenced and that the Sector Ministry is in the process to obtain the approval of the Public Procurement Authority in line with section 40 of the Public Procurement Act 2003 (Act 663) as amended for the single-source procurement of Messrs Dongfang Electric International Corporation for the supply of the required standard gauge rolling stock.

## 6.8 Project listed in 2020 Budget

The Committee noted that the project was included in the list of priority projects which were approved for financing in the 2020 National Budget.

## 6.9 Consultation and Due Diligence

The Committee was informed that Ministry has been in consultation with the Ministry of Finance for the financing arrangement for the project. As part of the conditions precedent to the effectiveness of the contract, the approval of the Ministry of Finance has been sought in accordance with sections 33 and 96



of the Public Financial Management Act, 2016 (Act 921) for a multi-year expenditure commitment.

The Ministry is also in consultations with the Public Procurement Authority in line with section 40 of the Public Procurement Act, 2003 (Act 663) as amended, to engage Messrs Dongfang Electric International Corporation on single-source procurement basis for the supply of the rolling stock.

The Committee noted that, the Ministry facilitated a due diligence visit to the facilities of the supplier in China. The due diligence team was made up of representatives from the following institutions:

- i. Ministry of Railways Development
- ii. Office of the Attorney-General
- iii. Ministry of Finance
- iv. Ghana Railway Development Authority
- v. Ghana Railway Company Limited
- vi. Parliament Select Committee on Roads and Transport

#### 6.10 **Bill of Quantities and Technical Specifications**

The Committee was informed that the parties have engaged in further negotiations and agreed on the final Bill of Quantities and Technical Specifications. A Contract Amendment No. 1 dated 23<sup>rd</sup> June, 2020 has therefore been signed by the Parties to this effect. A copy of the Contract Amendment No. 01 is attached as Annex "F".

#### 6.11 **Duration of Delivery**

The Committee was informed that discussions with various rolling stock manufacturers indicated that the minimum lead time required for the delivery of rolling stock is about eighteen (18) months. This excludes the duration of the time required for the procurement process for the selection of a manufacturer to undertake the supply of locomotives and rolling stock on open competitive tendering or restrictive tendering basis. This presents risk of delays for completing the construction of the standard gauge railway lines

without any rolling stock for testing and commissioning as well as its subsequent operation.

#### 6.12 Phase Implementation Plan

The Committee was informed that, the contract will be implemented in two (2) phases. The first phase will be completed in two batches within 12 month and 18 months respectively from the date of contract commencement.

The second phase will be completed within 18 months from a commencement date to be mutually agreed by the two parties. The details of items to be delivered in the two phases are as follows:

Types	Passenger Locos	Freight Locos	Shunting Locos	Passenger Coaches	Freight Wagons	Shipment Period
<b>Phase 1</b>						
First Batch	1	1	-	8	30	Within 12 months
Second Batch	2	3	2	8	70	Within 18 months
<b>Total (Phase 1)</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>16</b>	<b>100</b>	
<b>Phase 2</b>						
Single Batch	6	11	9	32	230	Within 18 months
<b>Total (Phase 1 &amp; 2)</b>	<b>9</b>	<b>15</b>	<b>11</b>	<b>48</b>	<b>330</b>	

#### 6.13 Delivery of the Rolling Stock

The Committee was informed by the Sector Ministry that by the time the rail lines have been constructed and the old line rehabilitated, the rolling stock would have arrived for the lines to be tested. The Committee noted that it normally takes 12-18 months for rolling stock to be ready after ordering.

#### 6.14 Skills Transfer

The Committee noted that under the project, the acquisition of the new standard gauge rolling stock will require training, skills and capacity development of the project staff to be able to operate and manage the new equipment. In this regard, there will be the transfer of technology from the suppliers, who are expatriates to the local staff.

#### 6.15 New Legislation Framework for the Railway Sector

Currently, the Railway Sector is being guided by the Railway Act, 2008 (Act 779). However, this Act has loopholes as it makes the Ghana Railway Development Authority the asset developer as well as the regulator with its inherent inefficiencies and / or challenges.

As pertains in the other transport modes and in line with international best practices, the Ministry is in the process of reviewing the Railway Act, 2008 (Act 779) in order to decouple the regulatory functions from asset development.

#### 6.16 Sensitization Work on Project

The Committee again noted that the fiscal impact of this project has been incorporated in the 2020 budget and forms part of the anticipated Project Loan disbursement amount of GH¢4,345.40 million for 2020. The related estimated debt service cost for the project also forms part of the estimated debt service payments of GH¢13,916.8 million for 2020 fiscal year.

The Committee was informed that the Ministry of Railways Development will intensify the public sensitization exercises that have already commenced to inform and educate stakeholders in order to obtain their cooperation and support to ensure the project addresses the needs of the general public and in particular communities along the rail corridor, of the importance of this project for the overall economic development of the country and the corridor in particular.

The Committee noted that the suppliers of the Rolling Stock, Dongfang Electric are engaged in operations in other countries around the Globe, the Committee is of the view that the Ministry of Railway Development should undertake fact finding visits to countries in sub-Sahara Africa, notably Nigeria, Angola and Kenya, ascertain after sales performance of the rolling stock to be supplied and learn from the experience of operations in these countries.

#### 6.17 Foreign Training

The Committee was noted that a training regime would be made available to 60 personnel of the purchaser for 3 weeks in design operation and maintenance practices in locomotive and rolling stock by the supplier at manufacturing sites in China.

#### 6.18 Environmental Capability of Locomotives

The locomotives and rolling stock shall conform and be suitable to use on all aspects of our lines throughout to the whole Ghana National Railway System and designed to fit specific operations in environmental conditions in Ghana and of high international quality.

#### 6.19 Insurance Cover Guarantee

The Project Insurance covers all the under listed Sinasure insurance cover for Government of Ghana projects under which the MPSA projects and other sovereign projects are insured.

#### 6.20 Local Training

The supplier after dispatch of the locomotives and rolling stocks from China shall give adequate training for 100 personnel for 2 weeks, 30 personnel for phase 1 and 70 personnel for phase 2.

#### 6.21 Transfer of Technology

The committee was informed that the acquisition of the new standard gauge rolling stock will require training, skills and capacity development of the project staff to be able to operate and manage the new equipment. Thus,

there would be the transfer of technology from the suppliers who are expatriates, to the local staff. The Committee advised that the Ministry should rather allow the expatriates from user companies not the manufacturers to build the capacities of the locals on how to maintain the parts should there be a break down. The Committee also proposed that the Ministry should send officers/ locals to China for training. The Committee added that the Ministry should link up with sister countries like Nigeria and Kenya that are already users of the product to enable the Ministry apprise themselves with the challenges before the trains start working.

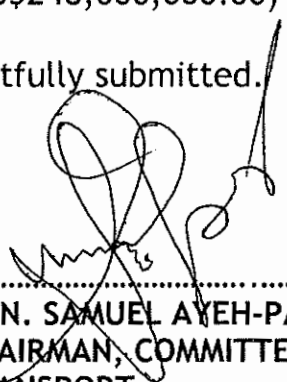
#### 6.22 Establishment of A Workshop

The Committee was informed that the contract agreement includes the establishment of one (1) workshop for the maintenance of Equipment to be located at the premise of the railway training school in Takoradi.

### 7.0 CONCLUSION

The Committee scrutinised the supply contract agreement and was aided by input from the Chair, Ranking Member and the Clerk to the Committee, who were part of the Due Diligence team that visited the supply chain facilities. Given the expected benefits to be derived from the supply contract and the facelift it will give to the railway industry, recommends that the House adopts its report and approve the supply contract agreement between the Government of Ghana represented by the Ministry of Railway Development and Messrs Dongfang Electric International Corporation for an amount of Two Hundred and Forty-Eight Million, Six Hundred United States Dollars (US\$248,600,000.00) for the procurement of Standard Gauge Rolling Stock.

Respectfully submitted.

  
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**HON. SAMUEL AYEH-PAYE**  
**CHAIRMAN, COMMITTEE ON ROADS AND**  
**TRANSPORT**

  
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**MR. ASANTE AMOAKO-ATTA**  
**CLERK, COMMITTEE ON ROADS**  
**AND TRANSPORT**