

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

**REPORT OF THE FINANCE COMMITTEE ON THE
SUPPLIER'S CREDIT FINANCING AGREEMENT
BETWEEN THE GOVERNMENT OF THE REPUBLIC
OF GHANA AND STX ENGINEERING AND
CONSTRUCTION GHANA LIMITED FOR AN
AMOUNT OF US\$1,525,443,468.00 FOR THE
CONSTRUCTION OF 30,000 UNITS OF HOUSES
UNDER THE SECURITY SERVICES HOUSING
PROJECT**

1.0 INTRODUCTION

The Supplier's Credit Financing Agreement between the Government of the Republic of Ghana and STX Engineering and Construction Ghana Limited (STX Ghana) for an amount of *one billion, five hundred and twenty-five million, four hundred and forty-three thousand, four hundred and sixty-eight United States Dollars (US\$1,525,443,468.00)* for the construction of thirty thousand (30,000) Units of Houses under the Security Services Housing Project was laid in the House on Wednesday 23rd June, 2010 and *referred* to the Finance Committee for consideration and report in accordance with article 181 of the Constitution and order no. 171(1) of the Standing Orders of the House.

The Committee held a number of meetings to consider the Agreement with the Minister of Water Resources, Works and Housing, Hon. Alban Sumana Kingsford Bagbin, Deputy Minister of Finance and Economic Planning, Hon. Seth Terkper, Deputy Minister of Water Resources, Works and Housing, Hon. Major Dr. Mustapha Ahmed (Rtd.) and technical teams from the Ministry of Finance & Economic Planning and the Ministry of Water Resources, Works and Housing and presents this report.

2.0 BACKGROUND

The Ministry of Water Resources, Works and Housing was given approval by the Office of the President in December 2009 to enter into a Public Private Partnership (PPP) to develop two hundred thousand (200,000) units of houses in all the ten regional capitals for the next five years. This executive approval was further enhanced in a letter dated April, 28, 2010.

In pursuance of the above, the Government of Ghana entered into an Off-taker Agreement with STX Engineering and Construction Ghana Limited under which the Government of Ghana agreed to off-take ninety thousand (90,000) units representing 45% of the housing project.

The Ministry of Water Resources, Works and Housing per the Off-taker Agreement, indicated the need to provide thirty thousand (30,000) units out of the total 90,000 units as duty post accommodation for Security Agencies. These houses are needed urgently by the Security Agencies.

As stated under paragraph 5(2) of the Off-Taker Agreement, "The Government of Ghana also acknowledges that in order to materialize the off-taking, it is essential that GOG provides any and all infrastructure necessary for STX to freely access to Sites and successfully execute the Housing Project, including, but not limited to, water, electricity, telephone, roads, sewerage, drainage, etc".

3.0 PURPOSE OF THE CREDIT

The purpose of the Supplier's Credit Agreement is to enable STX Engineering and Construction Ghana Limited to finance the construction of thirty thousand (30,000) units of houses for the Security Agencies in Ghana.

4.0 TERMS AND CONDITIONS

The terms and conditions of the Agreement are as follows:

Total Contract Amount - **Up to US\$1,525,443,468**
(including insurance premium)

Grace Period	-	5 years
Repayment Period	-	15 years (semi-annual payments)
Maturity Period	-	20 years
Interest Rate	-	2% fixed per annum
Arrangement Fee	-	0.75% flat
Management Fee	-	0.5% flat
Grant Element	-	36.93%

5.0 OBSERVATIONS

The Committee was informed that "the Government of Ghana (GOG) intends to initiate a housing development project ("Housing Project") whereby over the next five years, 200,000 housing units will be built in ten cities in Ghana, forty-five percent (45%) of which the GOG will become an off-taker to meet some of the accommodation needs of security agencies of Ghana ("the GOG Off-Take") and HFC will become an off-taker (as the principal mortgage finance provider) of the remainder (i.e. 55%).

The Committee observed that the project will be executed by Messrs STX Engineering and Construction Ghana Limited.

It was further observed that in addition to providing decent accommodation for the security agencies such as the Police, Military, Immigration, Prisons, Fire Service and others, the project would also help to create jobs, improve incomes, reduce poverty and enhance the socio-economic conditions of construction workers and project beneficiaries.

In exchange of what GOG undertakes to provide, STX commits, under paragraph 6(3) of the Off-Taker Agreement "to directly or indirectly use local resources of Ghana for at least thirty percent (30%) of the resources for the Housing Project and train the locally-hired labour force

so that they can be equipped with necessary technical and professional skills".

The project is also expected to enhance technology transfer between Ghana and the Republic of Korea, especially in the housing sub-sector.

Out of the total number of 30,000 units of houses to be constructed under this Agreement, 20,000 would go to the Ghana Police Service whilst the remaining 10,000 goes to the Military and other security agencies.

The Committee was informed that majority of the buildings would be four-storey buildings containing flats of one, two and three bedrooms. There will also be three and four bedroom bungalows for senior rank officers.

Article 10 of the Supplier's Credit Financing Agreement provides that *"the Facility shall initially be unsecured and shall rank pari passu with all unsecured financial obligations of the Government"*.

During the Committee's deliberation on the Agreement, some issues became paramount. The Committee therefore met on several occasions to resolve them. These issues include:

- **The Korean Government's backing for the Project:**

Members wanted to be sure that the Government of Korea was actually backing the project. To this end, the Ministry of Finance and Economic Planning presented to the Committee a letter from the Korean Ambassador to Ghana indicating that the Korean Government has identified the Global Infra Fund as part of the sources from which the Korean Government is supporting the STX Group, a Korean Company which is providing the finance and is partnering STX Ghana for the project.

The letter also stated in part that "Messrs STX Business Group, which is the Korean Partner of the STX Engineering and Construction Ghana Limited, is a good standing Conglomerate Group in Korea. Since its current financial standing is over US\$25 billion turnover per annum, it is eligible to obtain any credit facility without Korean Government support in Korea and any part of the world. It is particularly so when the repayment is well guaranteed by the Government of Ghana, which is prerequisite for acquiring credit facility for the project."

Again, the Committee was furnished with a letter from the STX Group of Korea stating their full corporate support for the STX Engineering and Construction Ghana Limited for the execution of the Project.

- **The Off-taker Agreement's requirement for Government to purchase 45% of 200,000 housing units:**

Some Members were concerned that this Agreement for the construction of 30,000 housing units is predicated on the Off-Taker Agreement between STX Engineering and Construction Ghana Limited and the Government of Ghana in which the Government undertakes to purchase 45% of 200,000 housing units. They argued that the required 45% would amount to US\$4.5 billion and that the nation's finances would not be able to sustain such financial exposure.

The Deputy Minister of Finance and Economic Planning explained that with prudent loan management, this facility will not substantially impact the debt sustainability ratio of the country in the medium term.

- **Cost per each unit of house:**

Members wanted to know how much each housing unit would cost. They wanted to have at least some reliable estimate on the cost of each unit considering the number of bedrooms and facilities contained.

To this, the Committee's attention was drawn to paragraph 2 of the Off-Taker Agreement which states that "Based on preliminary information, the Housing Project is estimated to cost USD 10 (ten) billion (U.S. Dollar Ten Billion) on a turn-key basis. STX will use its best endeavour to maximize the financial, geological and design criteria to obtain a minimum cost per unit of housing that is commensurate with the design and quality that will meet the requirement of GOG. The actual and final price per unit of the houses to be acquired by the GOG under the Housing Project shall be agreed between GOG and the Project Company after the Project Company and STX have completed a full-scale project cost analysis."

5.1 TAXES

Under Article 12.2(c) of the Supplier's Credit Financing Agreement, "Government undertakes that during the Facility Period it shall, unless the Lender otherwise agrees in writing, apply for Tax exemptions for:

- (i) The Lender and EPC Contractor in relation to corporate tax obligations;
- (ii) The importation of the Contractor Equipment; and
- (iii) Expatriate employees of the Lender and the EPC Contractor in respect of income earned in relation to the project."

5.2 GREDA PETITION

During the Committee's consideration of the Agreement, a petition from the Ghana Real Estates Developers Association (GREDA) in connection with the Agreement was referred to a Joint Committee on Finance and Works and Housing. Whilst the Committee took the petition into consideration in coming up with this report, the Joint Committee's report on the said petition has been prepared separately for submission to the House.

6.0 CONCLUSION

The Committee finds that the project would be of immense socio-economic benefits to the various security agencies as well as provide employment to the teeming youth.

The Committee therefore respectfully recommends to the House to adopt this report and approve by Resolution, the **Supplier's Credit Financing Agreement** between the **Government of the Republic of Ghana** and **STX Engineering and Construction Ghana Limited** for an amount of *one billion, five hundred and twenty-five million, four hundred and forty-three thousand, four hundred and sixty-eight United States Dollars (US\$1,525,443,468.00)* for the construction of thirty thousand (30,000) Units of Houses under the **Security Services Housing Project** in accordance with article

