

## **Ghana: Three-Year Arrangement Under the Extended Credit Facility—Request for Modification of Performance Criterion—Staff Report**

In the context of the Ghana three-year arrangement under the Extended Credit Facility—request for modification of performance criterion, the following document has been released and is included in this package:

- The staff report for the Ghana Three-Year Arrangement Under the Extended Credit Facility—Request for Modification of Performance Criterion, prepared by a staff team of the IMF. The staff report was completed on March 25, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Internet: <http://www.imf.org>

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

GHANA

**Three-Year Arrangement Under the Extended Credit Facility—Request  
for Modification of Performance Criterion**

Approved by Saul Lizondo (AFR) and Dominique Desruelle (SPR)

March 25, 2010

- 1. In the attached letter, the Ghanaian authorities request a modification to the ECF-supported program ceiling for nonconcessional external borrowing (Attachment I).** This would allow the authorities to contract a US\$49.1 million loan to finance the import of fire-fighting equipment. The inadequacy of existing equipment has been demonstrated by a number of major fires, including the destruction of the headquarters of the Ministry of Information and Foreign Affairs in October 2009. Risks to property and public safety have also risen with the construction of new high-rise developments. Accordingly, the government would like to proceed with a long-standing contract to strengthen the fire service, involving the import of new fire tenders and related fire-fighting equipment. They view the project as urgent for public safety reasons, and to avoid price increases that would be applied if the contract is not quickly agreed. The modification of the relevant performance criterion under the ECF arrangement would allow the government to proceed with the contract ahead of the next Executive Board meeting to conduct the combined first and second ECF reviews, currently scheduled for late May 2010.
- 2. The proposed loan involves borrowing at nonconcessional terms.** The loan would have a maturity of 10.5 years, with a grant element of 10.3 percent. It would be guaranteed by the US Export-Import Bank. Fund staff have been provided with a favorable cost-benefit analysis of the project conducted by the authorities.
- 3. The authorities' request is consistent with the intention to consider modification of the limit on external borrowing at nonconcessional terms in the context of the combined first and second reviews to accommodate new high-return projects, in line with the new Fund policy on debt limits.** The ECF arrangement currently establishes a \$300 million ceiling on new nonconcessional external debt contracted or guaranteed by the government to finance projects in the oil and gas sectors conducted by the state oil company GNPC (this provision has not yet been used). The authorities' request would represent an increase in the existing ceiling (see the revised performance criterion in the table attached to the authorities' letter).

4. **The current request coincides with a breach of the debt ceiling.** The authorities informed staff that in November 2009 the government took over the debt obligation of the national oil company (GNPC) to an oil supplier in an amount of US\$100 million, thereby violating the PC on nonconcessional external borrowing. This debt is being repaid on commercial terms through end-2010. In their attached letter, the authorities note that this violation of the debt limit was unintended, and that steps will be taken to avoid any recurrence.

5. **Staff supports the authorities' request for modification of the performance criterion.** The project is calculated to deliver a high rate of return, and will have only a limited impact on Ghana's debt sustainability. Staff welcomes the government's intention to strengthen debt management to safeguard against future breaches of the borrowing limits. The mission will also establish whether new technical assistance is needed on debt management to strengthen monitoring arrangements. Specific steps to strengthen debt management will be discussed in the staff's mission to Accra in March 2010 to conduct the discussions for the first and second ECF-supported program reviews. In the context of the combined first and second ECF reviews, the Ghanaian authorities will request a waiver for the above-mentioned breach of observance of the debt ceiling based on appropriate corrective actions.

March 24, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Mr. Strauss-Kahn,

In 2008, the Government of Ghana started negotiating with Project Development International (PDI) for the supply of fire engines and firefighting equipment costing US\$49.1 million to be funded by borrowing from Societe Generale, New York and guaranteed by US Exim Bank.

With the approval of the Extended Credit Facility which imposes a limit on external nonconcessional borrowing, Government has not been able to confirm the contract. Recently there have been a number of disastrous fire outbreaks in the country leading to loss of lives and property. Fires involving government establishments such as the Ministries of Information and Foreign Affairs, Forestry and Electoral Commissions, the loading Gantry of Tema Oil Refinery and the residence of the former President have recorded huge losses to the state.

The losses would have been minimized if the Ghana National Fire Service was well-equipped, hence the urgent need to equip the Ghana National Fire Service to ensure public safety and prevent the loss of property. The suppliers have also indicated that prices for the equipment which have been kept at the same levels for the past nineteen months, can no longer be guaranteed, if the contract is not confirmed quickly.

We, therefore, write to request that the continuous performance criterion under the Extended Credit Facility arrangement be modified to accommodate the loan for the purchase of the fire equipment (see attached table). The Government of Ghana is committed to strict management of nonconcessional borrowing to ensure debt sustainability.

Consistent with the government's interest in ensuring that external public debts are prudently managed, the government agreed in November 2009 to repay, over a 12-month period, an obligation of \$100 million of the state oil company (GNPC) arising from oil imports in 2008 for power generation purposes. At the time, the government regarded this as a regularization of pending public debt service, and did not appreciate that it violated the ECF's continuous performance criterion on external nonconcessional borrowing, by transferring a nonguaranteed liability from the GNPC, which is not subject to the program debt limit, to the government, to which the debt limit applies. The government will ensure that this does not

reoccur, by requiring that all external public debt proposals be subject to rigorous scrutiny by the Ministry of Finance's debt management division.

Sincerely yours,

/s/

Dr. Kwabena Duffuor  
Minister of Finance and  
Economic Planning

/s/

K.B. Amissah-Arthur  
Governor  
Bank of Ghana

Proposed Modification of the Performance Criterion on the Contracting and Guaranteeing  
of Nonconcessional External Debt 1/

---

Contracting or guaranteeing of new external nonconcessional external debt (ceiling; millions of U.S. dollars) 2/	349.1
Oil and gas sector projects conducted by the GNPC	300.0
Purchase of fire-fighting equipment	49.1

---

<sup>1</sup> As defined in the June 2009 Technical Memorandum of Understanding (TMU).

<sup>2</sup> Includes debt with maturity of more than one year, as well as obligations with maturity of one year or less, excluding normal import-related credit and sales of treasury bills to nonresidents. The maximum ceiling is cumulative from July 1, 2009.