

CONFORMED COPY

CREDIT NUMBER 3094 GH

Development Credit Agreement

(Economic Reform Support Operation)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 13, 1998

CREDIT NUMBER 3094 GH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 13, 1998, between the REPUBLIC OF GHANA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated May 14, 1998 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association;

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications thereof set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made."

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions."

(d) The last sentence of Section 5.03 is deleted.

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement;

(b) "MTEF" means the Borrower's medium-term expenditure framework, the purpose of which is to integrate the process of sectoral policy decision-making and priority setting for budgetary allocations for the period 1998-2000;

(c) "VAT" means the Value Added Tax system described in the Value Added Tax Act, 1998 (Act 546) of the laws of the Borrower;

(d) "Energy Commission" means the Commission established pursuant to the Energy Commission Act, 1998 (Act 541) of the laws of the Borrower;

(e) "Subvented Agencies" means implementing agencies set up by statute or executive order to provide public services and which derive their funding from subsidies explicitly included in the Borrower's budget for specific fiscal years;

(f) "Bank of Ghana" means the central bank of the Borrower established pursuant to the Bank of Ghana Act (PNDC Law 291 of 1992) of the laws of the Borrower;

(g) "Public Utilities Regulatory Commission" means the Commission established

by the Borrower pursuant to the Public Utilities Regulatory Commission Act, 1997 (Act 538) of the laws of the Borrower;

(h) "Cabinet" means an organ of the Borrower's government comprising the President, the Vice President and Ministers, as specified in Article 76 of the Borrower's Constitution of 1992;

(i) "BPEMS" means the Budgeting and Public Expenditure Management System adopted by the Borrower in 1998 to support better budgetary preparation and implementation, improved cash management and strengthened accounting functions on an integrated computerized basis; and

(j) "Divestiture" means the disposal, including liquidation and concessions, by the Borrower of an interest held by the Borrower in any statutory corporation, company or partnership.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirty-seven million, one hundred thousand Special Drawing Rights (SDR 37,100,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in U.S. dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited into the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1, commencing November 1, 2008 and ending May 1, 2038. Each installment to and including the installment payable on May 1, 2018 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Governor of the Bank of Ghana is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially

reversing the objectives of the Program or any action taken under the Program.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date, Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has issued budget guidelines satisfactory to the Association for the preparation of the 1999 budget, including instructions for the preparation of the 1999 budget on an MTEF basis.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
Ministry of Finance
P.O. Box M.40
Accra, Ghana

Cable address:

ECONOMICON

Telex:

2205 MIFAEPGH

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Accra, Ghana, as of the day and year first above written.

REPUBLIC OF GHANA

By /s/ Victor Selormey

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold

Acting Regional Vice President
Africa Region

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof;

fuel

for		elements (cartridges), non-irradiated, nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph, the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble of this Agreement

The Borrower has: established the tax identification numbering system for all tax payers so as to harmonize tax collection information and to monitor compliance by tax payers with the various taxes as specified in the Borrower's relevant tax legislation; promulgated the VAT Act and has established the VAT at a rate of 10%; (a) adopted the MTEF, which includes a three year rolling plan (1998-2000) for allocation of resources; and (b) prepared the MTEF manual for implementing the MTEF in three priority sectors in 1999 and for all sectors in subsequent years; established a subcommittee of the Cabinet to oversee its public sector management reform program, and selected key professional staff to support the operations of the Cabinet; adopted a public sector reinvention and modernization strategy which will guide the Borrower in carrying out reforms in: (a) the structure of the government; (b) human resource requirements for the government; (c) systems and processes; (d) accountability framework; and (e) relations with the general public, especially with the private sector; (a) completed the design of the BPEMS, and (b) selected a contractor for the installation, testing and customization of the computer software for BPEMS; (a) adopted a program for reforming Subvented Agencies, which includes a list of agencies to be closed down, those to operate on a partially commercial basis and those to operate on a fully commercial basis, in accordance with a timetable satisfactory to the Association; and (b) decided, in the pilot phase of the above-mentioned program, to close at least five such agencies, to operate on a partly commercial basis at least seven agencies and to operate on a fully commercial basis at least five other agencies on the basis of a timetable satisfactory to the Association; implemented significant tariff increases in both the energy and water sectors to strengthen the financial viability of the sectors; enacted the Public Utilities Regulatory Commission Act and has established the Public Utilities Regulatory Commission which is responsible for regulating the water and power sectors, including the establishment, from time to time of utility prices and service standards; enacted the Energy Commission Act and has established the Energy Commission, which is responsible for implementing strategies

under a restructured energy sector in order to create a conducive environment to attract private capital, promote competition and enhance efficiency; and (a) revised the list of state-owned companies to be divested to include the following: Ghana National Petroleum Corporation (non-core assets), Tema Oil Refinery, Ghana Airways, Ghana Oil Company, Ghana Water and Sewerage Corporation, Ghana Ports and Harbours Authority, Ghana Railways Corporation, Ghana Commercial Bank, the National Investment Bank, the Agricultural Development Bank, the Bank for Housing and Construction and decided on their divestiture by the end of 2000; and (b) adopted a policy whereby the divestiture of such state-owned companies would be contracted out on a competitive basis to private consulting firms or investment banks.

