

AFRICA RISK CONSULTING

Ghana Monthly Briefing July 2018

Ghana Summary 31 July 2018

Ghana's vice-president, Muhamadu Bawumia, claims the cedi's depreciation against the United States (US) dollar is a "wobble" in response to US interest rate hikes. The Bank of Ghana (BoG) (central bank) annuls shares of US-based Belstar Capital Ltd., Ghana-based Starmount Development Co., Togo-based Ecobank Capital Ltd. and Ghana-based SIC Financial Services Ltd. (SIC) in partly state-owned Agricultural Development Bank. Ghana expects a cocoa yield of one million tonnes this season and seeks to develop its cocoa processing capacity.

Cedi "wobbles" against dollar in response to US interest rate hikes

The **Bank of Ghana (BoG)** (central bank) released its **Monetary Policy Committee's (MPC)** findings on 23 July, stating that the strengthening of the **United States (US)** dollar, coupled with higher interest rates in the US, had caused reverse capital flow in Ghana.¹ This led the Ghanaian cedi to depreciate against the dollar. The BoG quoted the US dollar at 4.85 cedis on 4 July, a drop in value from 4.42 cedis to the dollar in September.² **University of Ghana Business School** professor **Godfred Bokpin** reassured the public that the depreciation of the cedi would be temporary, as the hike in US interest rates which caused the drop would not cause a sustained run on the cedi.³

This depreciation is the largest since President **Nana Afuko-Addo** (2017-present) came to power in 2017, and has led to criticism of the government's currency management policy from the opposition **New Democratic Congress (NDC)**. **University of Ghana Business School** lecturer **Lord Mensah** blamed the drop in the cedi's value on a confused approach to currency management by national regulators.⁴ Mensah criticised the government's dual approach of initially freely floating the cedi but stepping in to regulate the currency to manipulate its value to suit its aims.⁵

Vice-president **Muhamadu Bawumia** fired back at opponents who raised concern over the cedi's depreciating value, attempting to put the currency "wobble" into perspective. Bawumia flagged previous governments' poor track records with maintaining the cedi's value to the US dollar.⁶ He announced in **Kumasi** on 23 July that over the first 18 months of Nana Afuko-Addo's **New Patriotic Party (NPP)** government, the cedi depreciated the least under any other government's first 18 months since 1993.⁷

Ghana's economic outlook appears positive and steady overall. An **International Monetary Fund (IMF)** delegation visiting Ghana between 20 and 26 June reflected the positive outlook on Ghana's financial position, praising the country's macroeconomic state (see *ARC Briefing Ghana June 2018*).⁸ Public debt reduced from 67.3% of GDP in May 2017 to 63.8% of GDP in May 2018.⁹ The

¹ Press Release, Bank of Ghana, 23 Jul 2018.

² Myjoyonline, 8 Jul 2018.

³ Myjoyonline, 4 Jul 2018.

⁴ Myjoyonline, 8 Jul 2018.

⁵ Myjoyonline, 8 Jul 2018.

⁶ Myjoyonline, 24 Jul 2018.

⁷ Myjoyonline, 24 Jul 2018.

⁸ Press Release, International Monetary Fund, 26 Jun 2018.

⁹ Press Release, Bank of Ghana, 23 Jul 2018.

government's cash deficit for January to May 2018 was at 2.6% of GDP, just 0.2% over the government's target of 2.4%.¹⁰

BoG annuls shares of four companies in Agricultural Development Bank

The BoG cancelled the holdings of US-based **Belstar Capital Ltd.**, Ghana-based **Starmount Development Co**, Togo-based **Ecobank Capital Ltd.** and Ghana-based **SIC Financial Services Ltd. (SIC)** in partly state-owned **Agricultural Development Bank Ltd (ADB)** on 16 July.¹¹ Between them, the four companies held a 52% stake in ADB, which will now revert to the BoG.¹² The four companies had bought the holdings during ADB's 2016 initial public offering (IPO).¹³ The BoG cancelled the holdings because it found that Belstar Capital and Starmount Development, affiliate companies, had entered into deals with SIC and Ecobank Capital to purchase shares in ADB without the knowledge of the BoG.¹⁴ Belstar Capital and Starmount Development obtained the money to buy a 35% stake in ADB from **UniBank Ghana Ltd.**¹⁵ In so doing, Belstar Capital and Starmount Development used funds the BoG gave to UniBank when UniBank was put into administration in March 2018 (see *ARC Briefing March 2018*).¹⁶ These funds were intended to keep the bank afloat after it suffered constant cash shortages and gave out non-performing loans, not to fund the purchase of state-owned assets through further loans.¹⁷

In a strongly-worded statement issued on 16 July, the BoG accused Belstar Capital and Starmount Development of participating in

*"... a series of other questionable, unsafe, and unsound related-party transactions involving UniBank Ghana Ltd. to the detriment of Ghana's financial system and for their financial gain and benefit."*¹⁸

Belstar Capital chairman **Kofi Ampim** issued a statement on 18 July denying that his company's shares in the ADB were bought using funds intended to provide liquidity support for UniBank.¹⁹ Ampim stated that, as borrowers, Belstar were not to know where UniBank's money had come from.²⁰ The statement also described the BoG's further allegations of Belstar Capital's "questionable" financial conduct as "flawed" and "regrettable".²¹

This seemingly technocratic issue of financial fair play appears upon closer inspection to be of a political nature. Speaking to the Ghana-based **Business and Financial Times**, a source close to the deal alleged that the combined shares of Belstar, Starmount, Ecobank and SIC (standing at 52%) in fact gave UniBank (the companies' creditor) a controlling board position at the ADB, enabling UniBank to determine the strategic direction of the ADB, implying that UniBank and its debtors were in collusion.²²

UniBank is largely controlled by the **Dufuor** family, who are aligned with the opposition NDP. This is likely to have contributed to the BoG's harsh treatment of UniBank in March when it was put into administration.²³ This harsh treatment and political rivalry may explain, at least in part, UniBank's

¹⁰ Press Release, Bank of Ghana, 23 Jul 2018.

¹¹ Bloomberg, 16 Jul 2018.

¹² Bloomberg, 16 Jul 2018.

¹³ Myjoyonline, 16 Jul 2018.

¹⁴ Bloomberg, 16 Jul 2018.

¹⁵ Bloomberg, 16 Jul 2018.

¹⁶ Reuters, 20 Mar 2018.

¹⁷ Reuters, 20 Mar 2018.

¹⁸ Bloomberg, 16 Jul 2018.

¹⁹ Myjoyonline, 18 Jul 2018.

²⁰ Myjoyonline, 18 Jul 2018.

²¹ Myjoyonline, 18 Jul 2018.

²² Myjoyonline, 16 Jul 2018.

²³ Source, journalist, Accra

alleged bid to gain strategic control of the partly state-owned ADB and the BoG's swift and punitive action against UniBank's debtors.

The BoG's actions display its willingness to make decisive and important interventions to protect institutions in which it has a stake. The annulment of these holdings also hints that political rivalries permeate Ghana's business community with powerful ramifications. As such, investors should seek to understand the both the economic and political landscape of Ghana before investing.

Ghana expects high cocoa yield amid plans to develop cocoa processing capacity

Yaw Adu Ampomoh, deputy chief executive of cocoa regulator **Ghana Cocoa Board (Cocobod)**, announced on 10 July that Ghana's cocoa production was expected to increase to one million metric tonnes this year after a yield of 850,000 metric tonnes in the previous season.²⁴ Ampomoh attributed the rosy prediction to innovative farming methods that have increased crop yields.²⁵

Parliament approved a \$1.3 billion loan on 26 July for Cocobod to purchase cocoa grown in the 2018/2019 season.²⁶ Cocobod is confident it will pay repay the loan after good initial crop yields.²⁷ The loan, issued by a consortium of banks and financial institutions,²⁸ paves the way for Cocobod to buy cocoa from local farmers at a fixed and artificially inflated price to afford farmers sufficient money to achieve a sufficient standard of living (see *ARC Briefing Ghana March 2018*).²⁹ In February, Cocobod announced plans to scrap subsidies to farmers due to a debt the regulator incurred through a drop in the global price of cocoa, but it reneged on such plans just a month later.³⁰

The government is aware that cocoa subsidies are untenable. Cocobod lost \$600 for every tonne of cocoa bought last year.³¹ However, the roughly 800,000 people employed in the cocoa industry can decide the outcome of a national election. This makes scrapping the subsidy tantamount to electoral suicide, especially after the ruling NPP promised to raise the price of cocoa upon its election in 2017 (see *ARC Briefing Ghana March 2018*).³² Cocobod will hope that prevailing predictions that Ghana will see increased cocoa production and that the global price of cocoa will rise this season prove correct.³³

Plans from the government and international organisations to ensure growth and diversification of the cocoa sector, however, give rise to optimism. **World Cocoa Foundation** president **Richard Scobey** pledged continued investment in Ghana's cocoa and chocolate industry on 6 July.³⁴ Scobey said the attempts to increase the efficiency of Ghana's cocoa farmers to expand their crop yields had led to the consistent growth of the sector.³⁵ In May, Cocobod CEO **Joseph Aidoo** visited **China** to seek \$1.5 billion in loans from the state-owned **Exim Bank of China** to improve cocoa farms and irrigation systems to boost crop production.³⁶

To reduce dependency on the fluctuating global commodities markets, government bodies have announced plans to mitigate the export of unprocessed cocoa, which have historically made up the lion's share of industry's earnings.³⁷ Cocobod research, monitoring and evaluation director **Vincent Okyere Akomeah** told local media on 6 July that the government plans to increase domestic cocoa

²⁴ Myjoyonline, 10 Jul 2018.

²⁵ Myjoyonline, 10 Jul 2018.

²⁶ Ghana News Agency, 26 Jul 2018.

²⁷ Myjoyonline, 4 Jul 2018.

²⁸ Ghana News Agency, 26 Jul 2018.

²⁹ The Nerve Africa, 21 Mar 2018.

³⁰ The Nerve Africa, 21 Mar 2018.

³¹ The Nerve Africa, 21 Mar 2018.

³² Bloomberg, 23 Feb 2018.

³³ Reuters, 6 Feb 2018.

³⁴ Myjoyonline, 7 Jul 2018.

³⁵ Myjoyonline, 7 Jul 2018.

³⁶ Reuters, 9 May 2018.

³⁷ Boansi David, 'Competitiveness and determinants of cocoa exports from Ghana', *International Journal of Agricultural Policy and Research*, Vol 1 (9), p. 238.

processing capacity to 50% of the country's annual yield from its current capacity of around 25%.³⁸ To further grow domestic capacity in the cocoa industry, the newly-reintroduced **Ghana Cocoa Platform** is seeking to promote domestic consumption of cocoa products.³⁹

Ghana's cocoa industry appears set to perform significantly better in the 2018/2019 season than the 2017/2018 season, due primarily to increased crop yields and an expected increase in the global price of cocoa. Moreover, government efforts to improve the diversity and efficiency of the industry will, to some extent, shield the industry from falls in the global price of cocoa. However, the continued government subsidy to cocoa farmers appears an untenable long-term policy that could render Cocobod vulnerable to fall into further debt in coming seasons.

Planner

18-21 Sep 2018 **Bank of Ghana** MPC meeting date;
 24 Sep 2018 **Bank of Ghana** MPC press release;
 21-23 Nov 2018 **Bank of Ghana** MPC meeting date;
 26 Nov 2018 **Bank of Ghana** MPC press release;
 7 Nov or 7 Dec 2020 (**Ghana**) *Ghanaweb*. General election due;

Chronology

26 Jul 2018 **Accra (Ghana)** *Ghana News Agency*. Parliament approves a \$1.3 billion loan to the **Ghana Cocoa Board** to purchase cocoa grown in the 2018/2019 season;

23 Jul 2018 **Accra (Ghana)** *Bank of Ghana*. Monetary Policy Committee states that the strengthening of the **United States** (US) dollar, coupled with increased interest rates in the US, caused reverse capital flow in Ghana;

16 Jul 2018 **Accra (Ghana)** *Reuters*. The **Bank of Ghana** (central bank) annuls the purchase of 51% of state-owned **Agriculture Development Bank of Ghana** by a consortium led by **United States**-based **Belstar Capital**, deeming the acquisition process inappropriate;

6 Jul 2018 (**Ghana**) *Xinhua*. **Cocobod** research, monitoring and evaluation director **Vincent Okyere Akomeah** announces government plans to increase the domestic cocoa processing capacity to 50% of the country's annual yield;

4 Jul 2018 **Accra (Ghana)** *Myjoyonline*. The **Bank of Ghana (BoG)** (central bank) quotes the value of one US dollar at 4.85 cedis, the lowest cedi value against the dollar for two years;

3 Jul 2018 **Accra (Ghana)** *Reuters*. A **London**-based judge orders **United Kingdom (UK)**-based exploration company, **Tullow Oil**, to pay **Bermuda**-based rig owner, **Seadrill**, \$254m for ending a contract based in **Ghana** on grounds of force majeure in December 2016;

29 Jun 2018 **Accra (Ghana)** *Xinhua*. Former vice-president, **Paa Kwesi Amissah-Arthur**, dies;

28 Jun 2018 **Accra (Ghana)** *africanews*. President **Nana Akufo-Addo** fires electoral commission head **Charlotte Osei** and two deputies after reported misbehaviour and incompetence;

³⁸ Xinhua, 6 Jul 2018.

³⁹ Business News of Sunday, 8 Jul 2018.