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Flooding and a related explosion result in over 180 deaths in Accra, further increasing popular resentment against the ruling National Democratic Congress (NDC). A street demonstration in Accra over continuing power cuts indicates a further deterioration in NDC support. The government and analysts revise down Ghana's cocoa output forecast for the 2014/2015 season. The Bank of Ghana (BoG) interest rate rise on 13 May fails to stabilise the cedi, which has depreciated 23% against the US dollar since the start of 2015.

Flooding crisis and power cuts further erode ruling NDC's support

The ruling **National Democratic Congress (NDC)** is losing support in the electorate due to flooding and power crises in the wider context of continuing mismanagement of the economy. Flooding and a related explosion from a petrol station have left over 200 people dead and thousands homeless in the capital, **Accra**. Heavy rain in the first week of June caused flooding in Accra and led large numbers of people to seek shelter on high ground during a storm on 4 June. Many took shelter in a **Goil** gas station at **Kwame Nkrumah Circle**. A fire ignited after the gas station started its backup generator due to a power cut, a frequent occurrence in Ghana's continuing power crisis.¹ The fire caused an explosion that killed at least 96 people in its immediate surroundings.² The explosion increased the number of deaths from the floods to over 180 and left thousands displaced.³ This is the highest death toll from a disaster since 2001 and has exposed infrastructure flaws in the capital that critics of the government say caused the tragedy.⁴

*"Many of the deaths as a result of the flooding have occurred due to the government's lack of action, or preparedness...there were certain things that should have been done which weren't. This adds to the power cuts and the general mismanagement. Ghanaians will only have themselves to blame if they vote for the NDC next year."*⁵

President **John Dramani Mahama** (2012- present) claims the government has set aside a \$12m emergency fund⁶ and promised to "sit down and strategise to make sure this never happens again"⁷. However, Mahama sought to attribute blame for the flooding to new homes built over waterways.⁸ The local press instead pointed to Accra's poor infrastructure and the handling of local government funds while calling for the resignation of mayor **Alfred Vanderpuije**.⁹ Prior to the start of the flooding season, local celebrities and artists organised a street protest in Accra on 16 May against persistent power outages. "Thousands"¹⁰ including academics, civil servants and businesspeople took part in the peaceful demonstration.

Accra's infrastructure has not kept up with the influx of new inhabitants, many of whom live in temporary and/or poorly constructed accommodation.¹¹ The city of approximately 2.3m people has grown by an estimated 500,000 over the past decade. The government has reportedly not updated the city's drainage

¹ Graphic, 4 Jun 2015.

² Graphic, 4 Jun 2015.

³ Bloomberg, 5 Jun 2015.

⁴ PeaceFM, 4 Jun 2015.

⁵ Source, NGO sector, Accra

⁶ Bloomberg, 5 Jun 2015.

⁷ Peace FM, 4 Jun 2015.

⁸ Peace FM, 4 Jun 2015.

⁹ PeaceFM, 4 Jun 2015.

¹⁰ Reuters, 16 May 2015.

¹¹ Reuters, 4 Jun 2015.

network since the 1970s. Flooding in 2014 led to a cholera outbreak.¹² The **Export Import Bank of the United States (US Exim Bank)** announced \$595m funding for the **Accra Sanitary Sewer and Stormwater Drainage Alleviation Project** in 2013. However, the Accra local government has not commenced the project.¹³

The three-year long power crisis has significantly reduced popular support for the NDC and has undermined business confidence and overall economic activity. In Accra, state-owned electricity distribution company **Electricity Company of Ghana (ECG)** currently supplies just 12 hours of power every 36-hour cycle.¹⁴ However, some areas of the capital have experienced 48-hour outages.¹⁵ Ghana's **Chamber of Commerce and Industry** estimates that 3,000 people have lost their jobs as a result of the power crisis, and if the situation does not improve, a further 5,000 workers could lose their jobs by September.¹⁶

Shut down of the **Sunon Asogli** thermal power plant for two days from 31 May to 1 June has added to the crisis.¹⁷ The combined cycle (gas powered) 180 megawatt (MW) plant generates 14% of Ghana's electricity and the two-day outage led to load shedding and power cuts across the country.¹⁸ A lack of supply in the **West African Gas Pipeline (WAGP)** that pipes gas from **Nigeria** – through **Benin** and **Togo** to **Ghana** – caused the shutdown. The government now supplements the inefficient supply with its own gas through a processing plant at **Tema**. Debt also risks private sector-owned Sunon Asogli's operations. ECG reportedly owes the company \$100m in electricity bills. In turn, Sunon Asogli reportedly owes state-owned **Volta River Authority (VRA)**, which supplies the WAGP gas, \$100m for fuel.¹⁹

Cocoa output revised down...placing further pressure on the economy

The **International Cocoa Organization (ICCO)** has confirmed reduced output during Ghana's 2014/2015 cocoa season. On 2 June the ICCO reduced its forecast from 810,000 tonnes to 696,000 tonnes, a 22% fall.²⁰ The 2014/2015 harvest will be the lowest since 2009. The **Ghana Cocoa Board (Cocobod)** had originally forecast a 1m tonne harvest for 2014/2015 – up from 897,000 tonnes in 2013/2014 – but revised it down on 28 May to 750,000 tonnes.²¹ Earlier, on 21 May, analysts claimed that the harvest might fall by one-third of the 1m tonnes Cocobod had originally forecast.²² They based their lowered forecasts on delayed cocoa shipments from Ghana since the start of 2015.²³

Global cocoa prices have improved marginally in June, however this will not offset the loss in production as cocoa is sold from Ghana to producers on forward selling agreements based on the annual forecasts.²⁴ The lack of information from Cocobod and its sales arm, the **Cocoa Marketing Company (CMC)**, has also reduced investor and market confidence. In the weeks before its late May revised forecast, Cocobod refused to make public statements and respond to several requests from journalists.²⁵ This increased cocoa price volatility. As delays in Ghanaian cocoa shipments continue, the cocoa market may face increased volatility as a mid-June deadline for shipments approaches.²⁶

Cocobod attributes the decline in output to a combination of poor weather, pests and smuggling.²⁷ The weakness of the cedi has driven much of the smuggling, which has led farmers to sell their product in

¹² Quartz, 8 Jun 2015.

¹³ Quartz, 8 Jun 2015.

¹⁴ Reuters, 16 May 2015.

¹⁵ The Guardian, 17 May 2015.

¹⁶ The Guardian, 17 May 2015.

¹⁷ Graphic, 2 Jun 2015.

¹⁸ Graphic, 2 Jun 2015.

¹⁹ Ghana Business News, 2 Jun 2015.

²⁰ MyJoy, 2 Jun 2015.

²¹ Financial Times, 2 Jun 2015.

²² Financial Times, 21 May 2015.

²³ Financial Times, 21 May 2015.

²⁴ MyJoy, 2 Jun 2015.

²⁵ Financial Times, 21 May 2015.

²⁶ Financial Times, 11 Jun 2015.

²⁷ Financial Times, 21 May 2015.

neighbouring **Cote d'Ivoire** for a better rate.²⁸ The ICCO added that competition for land with mining and other crops had also played a role.²⁹

The expected reduced harvest is also partly related to the government's lack of finances. Cocobod delayed deliveries of fertiliser to growers in 2014, and much of it was ineffective due to rains.³⁰ Cocobod also delayed distributing funds to local buying companies, which resulted in increased cocoa smuggling to Cote d'Ivoire.³¹ In addition, the government is yet to reach an agreement with the government to compensate buyers for shortfalls in cocoa.

*"The government has not been able to resolve how to compensate brokers and producers for the poor harvest...they [the producers and brokers] will fight for compensation."*³²

Ghana is the second largest cocoa producer in the world, accounting for around 20% of global production.³³ Chocolate makers in **Japan** purchase around half of Ghana's high quality cocoa bean production.

Interest rate rise fails to stabilise the cedi

The value of the cedi to the US dollar has reached an all time low despite the **Bank of Ghana (BoG)** unexpectedly raising its main policy rate 1% to 22% at its **Monetary Policy Committee** on 13 May.³⁴ The cedi reached 4.125 per US dollar on 5 June, equaling a depreciation of 23% against the dollar in 2015.³⁵ Analysts said the depreciation of the cedi was due to the demand for US dollars to pay for imports as well as speculative dollar purchases in expectation of a further depreciation³⁶ and "*mismanagement of the economy*"³⁷.

BoG governor **Henry Kofi Wampah** said the 13 May rate increase was aimed at containing inflation and stabilising the cedi, in part to reduce the impact of an expected rate increase in the US this year.³⁸ The policy rate is now at its highest level since 2003. In an interview on 14 May, Wampah said the BoG wanted to raise the policy rate by more than 1%, but refrained from doing so due to recently implemented austerity measures as part of an **International Monetary Fund (IMF)** three-year \$918m financial assistance package approved on 3 April.³⁹

*"[The monetary policy committee] felt that we needed more than 100 basis-point tightening, given the analysis that was done...But then, because of the fiscal consolidation, we felt that will do part of the work. It was the fiscal consolidation that moderated the action we took."*⁴⁰

Some economists said that while the monetary policy tightening would fail to reverse the depreciation of the cedi in the short term, it might increase investor confidence because it showed the government's commitment to fiscal consolidation, a pre-requisite of the IMF programme.⁴¹

*"Having made a sizeable contribution to the financing of the deficit last year, the Bank of Ghana [BoG] needed to do more to restore its anti-inflation credibility...Unquestionably, it's the right thing to do. [But] the key is still whether the Bank of Ghana will be able to meet IMF targets on a consistent basis."*⁴²

²⁸ Guardian, 13 Aug 2014.

²⁹ Financial Times, 2 Jun 2015.

³⁰ Financial Times, 21 May 2015.

³¹ Financial Times, 21 May 2015.

³² Source, agricultural commodities trader, London

³³ Financial Times, 21 May 2015.

³⁴ Reuters, 13 May 2015.

³⁵ Bloomberg, 15 May 2015.

³⁶ Celeste Fauconnier, analyst at Rand Merchant Bank, quoted in Bloomberg, 13 May 2015.

³⁷ Michael Otu Fiaw, research analyst at NDK Asset Management Ltd, quoted in Bloomberg, 13 May 2015.

³⁸ FT, 13 May 2015.

³⁹ Bloomberg, 14 May 2015.

⁴⁰ Wampah quoted in Bloomberg, 14 May 2015.

⁴¹ FT, 13 May 2015.

⁴² Razia Khan, chief of Africa research at Standard Chartered bank, quoted in FT, 13 May 2015.

However, other financial analysts said the rate increase raised debt concerns. Regional commercial bank **Ecobank** said the rate increase would increase the cost of debt denominated in the cedi. It estimates that public debt may reach over 70% of gross domestic product (GDP) at the end of 2015. The debt-to-GDP ratio is currently 65.3%.⁴³ Wampah said that public debt increased 16% to 88.2 billion cedis (\$22 billion) in the first quarter of 2015.⁴⁴ Foreign-exchange reserves reduced 2.5% in April.⁴⁵

“[This] suggests Ghana’s debt situation is reaching a crisis point, underlining the urgency of successfully implementing the IMF-advised reforms.”⁴⁶

Implications

A significant proportion of the electorate has attributed the flooding crisis and explosion to the Mahama administration, and is viewed as part of perceived government mismanagement. Together with the government’s inability to alleviate the power crisis, the NDC’s support base has reduced significantly, and the opposition **National Patriotic Party (NPP)** is now the favourite to win the next general elections in December 2016. The government’s belated attempts to respond to the crises will further deteriorate government finances and postpone signs of an economic recovery.

The revised cocoa harvest further undermines the economic outlook. Cocobod’s silence and lack of government support for growers highlight poor government management of the sector.

The BoG rate increase is the latest government action that has failed to stabilise the cedi. The cedi is among the worst performers on the continent in 2015 and its recent depreciation raises debt concerns. However, the rate increase does indicate some government commitment to fiscal consolidation.

⁴³ Bloomberg, 14 May 2015.

⁴⁴ Bloomberg, 15 May 2015.

⁴⁵ Bloomberg, 15 May 2015.

⁴⁶ **Ecobank** quoted in FT, 13 May 2015.

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