

AFRICA RISK CONSULTING Ghana Monthly Briefing April 2018

Ghana Summary 17 April 2018

Ghana's vice president, Mahamudu Bawumia, announces a plan to review its process for granting tax exemptions for the resource sector. Bank of Ghana (BoG) governor Ernest Addison announces the appointment of accounting firm KPMG as administrator of Ghanaian privately owned uniBank to save it from "imminent collapse" and ensure that the bank's customers can withdraw their deposits. Nigeria's state-owned Nigerian National Petroleum Corporation (N-Gas) appears to have reduced its gas supply to Ghana's state-owned thermal power production by roughly 50% due to Ghana's outstanding \$160m debt with N-Gas. Ghanaian officials visit Japan in a bid to diversify Ghana's bondholders. The BoG's monetary policy committee (MPC) cuts the key interest rate from 20% to 18%, the lowest rate in four years.

Ghana to review corporate tax exemptions for the resource sector

Ghana's vice president, **Mahamudu Bawumia**, stated on 4 April that his government plans to review its process for granting tax exemptions for the resource sector, including mining and oil companies.¹ The purpose of the review is to bolster measures against fraud and boost tax revenues.² Whilst not accusing any company of wrongdoing, Bawumia bemoaned the *"improper accounting of resources by concessionaires"* as *"a major source of revenue loss"*, explaining that tax exemptions claimed by concessionaires are often not backed by records.³ This review comes after the **International Monetary Fund (IMF)** called on Ghana in March to boost tax revenues.⁴ The finance ministry reportedly granted around \$678m worth of tax exemptions in 2017.⁵

ARC's source in Ghana stated that a review of tax exemptions within the resource sector could indeed boost Ghana's tax revenues, and would work to satisfy the *"mistrust and suspicion"* of ordinary Ghanaians who believe that politicians have colluded with multinational corporations in the past for private profit in return for highly favourable tax arrangements.⁶ However, the government needs to strike a fine balance to ensure that unfavourable tax demands upon companies in the resource sector do not *"dampen investor desire"* in Ghana or *"reduce the rate at which [such businesses] may want to expand."*⁷

Despite Bawumia's announcement, tax exemptions for companies in the resource sector are likely to continue.⁸ Ghana's economy is banking heavily on its resource sector for national development. The government therefore needs to maintain Ghana's position as a competitive and workable destination for the resource sector.

¹ Reuters, 4 Apr 2018.

² Reuters, 4 Apr 2018.

³ Reuters, 4 Apr 2018.

⁴ Reuters, 4 Apr 2018.

⁵ Thomson Reuters, 4 Apr 2018.

⁶ ARC source, analyst, Accra

⁷ ARC source, analyst, Accra

⁸ ARC source, analyst, Accra

... as UniBank goes into administration

Bank of Ghana (BoG) (central bank) governor **Ernest Addison** announced on 20 March the appointment of accounting firm **KPMG** as administrator of Ghanaian privately owned **uniBank** to save it from “*imminent collapse*” and to ensure that the bank’s customers could withdraw their deposits.⁹ These developments follow the trend of failure amongst smaller banks in Ghana in recent times. According to Addison, uniBank had consistent cash shortfalls and subsequently relied on the BoG to service its liabilities over the last two years, with uniBank taking \$498m from the BoG in liquidity support during that time.¹⁰ Addison also levelled charges of “*poor governance and risk-management practices*” at uniBank, adding that the bank “*misreported the state of its loan book*”.¹¹

UniBank appears to be following the trend set by local banks **UT Bank** and **Capital Bank**, both of which were forced to close and selected assets transferred to BoG on 14 August 2017 in the face of a high percentage of non-performing loans and untenable liabilities.¹² The BoG’s new minimum capital requirements for commercial banks have increased the risk of smaller banks having their licences revoked (see *ARC Briefing Ghana September 2017*). The BoG announced on 8 September a 233.3% increase in minimum capital requirements for commercial banks, from 120m cedis (¢) (\$27.2m) to ¢400m (\$90.4m).¹³ Commercial banks have until 31 December 2018 to meet the new capital requirements.¹⁴

There have been attempts in Ghanaian political circles to construe the BoG-ordered takeover of uniBank as politically motivated. The family largely in charge of uniBank, the **Dufuors**, are aligned to the opposition **National Democratic Congress (NDC)** party.¹⁵ NDC member of parliament (MP) **Isaac Adongo** said “*the motive [of the takeover] is to bring uniBank on its knees so that the owners of uniBank who are perceived as NDC will lose their business*”.¹⁶ Adongo implicated finance minister, and prominent member of the ruling **New Patriotic Party (NPP)**, **Ken Ofori Atta** as orchestrator of the takeover. However, many have refuted these allegations. Economics department head at the **University of Ghana** professor **Peter Quartey** called for observers to look at the hard facts of uniBank’s failings rather than use the event to needle political opponents.¹⁷ UniBank had dealt with consistent cash shortfalls for the past two years and had struggled to recover money from borrowers since 2014.¹⁸

UniBank’s administration is likely a result of both poor corporate governance and political rivalry.¹⁹ Although uniBank issued many bad loans that could not be repaid,

“Despite the bank’s difficulties, there could have been a gentleman’s agreement whereby uniBank would have been allowed to continue with monitoring. But, because of the bad blood, a gentleman’s agreement was not an option.”²⁰

UniBank managers seek to overturn the BoG’s decision to place them under administration, arguing that the BoG did not meet the requirement to notify uniBank before taking over.²¹ **Dominic Ayine**, a legal adviser to uniBank, said that they “*intend to go for arbitration*”.²²

⁹ The Statesman Online, 22 Mar 2018.

¹⁰ Reuters, 20 Mar 2018.

¹¹ Reuters, 20 Mar 2018.

¹² Reuters, 14 Aug 2017.

¹³ www.bog.gov.gh

¹⁴ www.bog.gov.gh

¹⁵ ARC source, Accra

¹⁶ The Statesman Online, 22 Mar 2018.

¹⁷ The Statesman Online, 22 Mar 2018.

¹⁸ The Statesman Online, 22 Mar 2018.

¹⁹ ARC source, Accra

²⁰ ARC source, Accra

²¹ Reuters, 20 Mar 2018.

The new minimum capital requirement will impose a stricter capital environment for banks, which will improve the health of the commercial banking sector, but has created an increasingly difficult environment for smaller banks in Ghana. Possibly even more worrying for investors is the possible politicisation of such investments, with the government refusing to come to the aid of uniBank due to its links with the political opposition.

Nigeria's N-Gas reduces gas supply for state-owned thermal power production

Nigeria's state-owned **Nigerian National Petroleum Corporation (N-Gas)** appears to have reduced its gas supply to Ghana's state-owned thermal power production by roughly 50% (from 123 million cubic feet of gas per day to around 60 million cubic feet) due to Ghana's outstanding debts with N-Gas.²³ The debt is estimated at \$160m, after previously being stated at \$40.3m.²⁴ **Walter Perez**, managing director of the **West Africa Gas Pipeline Company Limited (WAPCo)**, the company managing the transit of the gas, stated that gas is still being delivered to Ghana because the government is prepaying for the deliveries it receives.²⁵ Moreover, WAPCo officials have stated that government of Ghana debt repayments to N-Gas have been agreed upon and are largely being followed.²⁶ **Kweku Awotwi**, chairman of the board of the Ghanaian state-owned electricity producer **Volga River Authority (VRA)**, contended that since the contract was signed, N-Gas and WAPCo have been unable to supply even 100 million cubic feet of gas to Ghana, let alone the agreed 123 cubic feet expected daily.²⁷

ARC's source in Ghana deems this debt as "worrying", and illustrative of a cycle of debt within Ghana's energy sector.²⁸

*"It is such that from the bottom, consumers owe the two distributors – [Electricity Company of Ghana] ECG and [Northern Electricity Development company] NEDCo – for unpaid bills. The two in turn owe GRIDCo and the VRA for unpaid power supply and purchases respectively... At the top are the banks and fuel suppliers (including N-Gas)."*²⁹

The "worrying" nature of this debt is ratified by the recent announcement on 4 April of a government plan to sell stakes in three state-owned thermal power plants in order to cut public debt and restore investor confidence in the industry.³⁰

Disregarding the severity of the debt, Awotwi was optimistic about the future of Ghana's own gas industry, which he hopes will overturn Ghana's current dependency on Nigeria for gas. Ghana currently obtains roughly a quarter of its thermal energy needs from Nigeria, but Awotwi predicted that "over the next 6-12 months things should improve", stating that domestic gas extraction in Ghana is growing.³¹ The **Sankofa** offshore gas field is soon to be operational and the **Tweneboa, Enyenra and Ntomme (TEN)** gas field is predicted to begin sales in the first half of 2018.³² Although Ghana's growing domestic capacity to provide its thermal power plants with gas will diminish the importance of Nigerian imports, there is still a large shortfall between the gas Ghana uses and produces.³³ For the

²² Reuters, 20 Mar 2018.

²³ Pulse, 5 Apr 2018.

²⁴ GhanaWeb, 11 Apr 2018.

²⁵ Pulse, 5 Apr 2018.

²⁶ Modern Ghana, 13 Apr 2018.

²⁷ Pulse, 5 Apr 2018.

²⁸ ARC source, Accra

²⁹ ARC source, Accra

³⁰ Bloomberg, 4 Apr 2018.

³¹ Pulse, 5 Apr 2018.

³² Pulse, 5 Apr 2018; Press Release, Tullow Oil, 14 Feb 2018.

³³ ARC source, Accra

time being, Ghana is still reliant on Nigerian gas supplies and must manage its relationship with N-Gas attentively.

... and Ghanaian officials travel to Japan to seek bondholders

Ghanaian officials travelled to **Japan** between 9 and 14 April in a bid to diversify Ghana's bondholders.³⁴ Ghana plans to issue up to \$2.5 billion in sovereign debt this year, including a \$1 billion Eurobond sale by the end of April.³⁵ Ghana hopes to get a lower interest rate in Japan.³⁶ Following the visit, finance minister Ken Ofori-Atta said that the prospect for issuing a Samurai bond looked promising in the medium term.³⁷ This indicates that Japan is unwilling to buy Eurobonds from Ghana in the short term; a setback for Ghana's delegation, which visited **China, Hong Kong** and **Singapore** in February with the purpose of drumming up interest for their \$1 billion Eurobond issue (see *ARC Briefing Ghana February 2018*).³⁸

The government has equally focused on increasing domestic bond issuances, after selling €1.99 billion (\$448m) in five-year local currency treasury bonds, with a yield of 16.5%, on 8 February (see *ARC Briefing Ghana February 2018*).³⁹ After holding its key interest rate steady at 20% in February, the BoG's monetary policy committee (MPC) cut the key interest rate to 18% on 26 March, the lowest rate in four years.⁴⁰ Addison said the MPC decided to reduce the rate to ease the burden of interest payments on the budget.⁴¹

Ghana is eager to issue debt because it is a rapidly urbanising and developing country, and has financed social infrastructure plans in the form of roads, hospitals and schools through loans.⁴² The government has also made its citizens big promises such as building many factories and offering free senior school education.⁴³ Issuing bonds to borrow money appears to be the best option to continue to fund the country's development.

Planner

17-20 Apr 2018 **London (UK)** *Citifmonline*. UK-Ghana investment summit;
 16 -18 May 2018 **Bank of Ghana** MPC meeting date
 21 May 2018 **Bank of Ghana** MPC press release
 21-22 May 2018 **Accra (Ghana)** *Myjoyonline*. Ghana CEO summit;
 18-20 Jul 2018 **Bank of Ghana** MPC meeting date
 23 Jul 2018 **Bank of Ghana** MPC press release
 19-21 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

³⁴ Reuters, 8 Apr 2018.

³⁵ Reuters, 8 Apr 2018.

³⁶ ARC source.

³⁷ Government of Ghana, 16 Apr 2018.

³⁸ Reuters, 8 April 2018.

³⁹ Reuters, 8 Feb 2018.

⁴⁰ Bloomberg, 26 Mar 2018.

⁴¹ CitiFMonline 26 Mar 2018.

⁴² ARC source.

⁴³ ARC source, Accra

Chronology

- 11 Apr 2018 **(Ghana)** *GhanaWeb*. **Nigerian National Petroleum Corporation (N-Gas)** reduces gas supply for Ghana's state-owned thermal power production because of outstanding \$160m debt;
- 9 Apr 2018 **Ahafo region (Ghana)** *Bloomberg*. Six people die and two are injured in the collapse of a mine operated by **United States (US)**-based gold mining company **Newmont**;
- 8 Apr 2018 **Accra (Ghana)** *Reuters*. Ghana's government plans to meet with **Japanese** investors to diversify its range of sovereign bondholders;
- 5 Apr 2018 **(Ghana)** *Pulse*. **Nigerian National Petroleum Corporation (NNPC)** is reported to have reduced its gas supply to Ghana's state-owned thermal power production by roughly 50% due to Ghana's outstanding debt of an estimated \$40.3m with the NNPC.⁴⁴
- 4 Apr 2018 **Accra (Ghana)** *Reuters*. Vice president **Mahamudu Bawumia** announces a government plan to review the process for granting tax exemptions for the resource sector, including mining and oil companies;
- 29 Mar 2018 **(Ghana)** *Mining.com*. **Canada-based Asanko Gold** and **South Africa-based Gold Fields** partner to develop the **Asanko** gold mine in Ghana's **Ashanti region**;
- 26 Mar 2018 **(Ghana)** *Bloomberg*. **Bank of Ghana (BoG)** (central bank) cuts key interest rate to 18%, the lowest rate in four years;
- 22 Mar 2018 **(Ghana)** *The Statesman Online*. Ghana's central bank, **Bank of Ghana (BoG)** places **uniBank** under the administration of **United Kingdom**-based firm **KPMG** to save uniBank from "imminent collapse";
- 20 Mar 2018 **(Ghana)** *BBC*. Ghana and the **US** deny agreeing to establish a military base in Ghana, despite previous media reports;
- 19 Mar 2018 **(Ghana)** *GhanaWeb*. Parliament reportedly approves a **United States (US)**-run military base in Ghana;

⁴⁴ Pulse, 5 Apr 2018.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)