

AFRICA RISK CONSULTING**Ghana Monthly Briefing September 2019**

Ghana Summary 17 September 2019

Private energy operators decline finance minister Ken Ofori-Atta's proposal to convert 'take-or-pay' consumption deals to 'take-and-pay' deals, which would save Ghanaians about \$454m. The refusal is a major backfire against Ofori-Atta's quick fix to the country's long-standing energy problems. The Ghana Export Promotion Authority (GEP) reports that cashew nuts pushed national earnings from non-traditional exports (NTEs) up 10% year-on-year in 2018, indicating that the government's incentives to diversify the economy are paying dividend. The Bank of Ghana (central bank) tightens its compliance and regulations through additional staff and acquires a new IT system. The banking sector crackdown has substantially reduced the number of lenders and resulted in around 70,000 investors having their savings frozen.

From insufficient to abundant energy

Chamber of Independent Power Producers (CIPP) CEO Elikplim Kwabla Apetorgbor said on 15 September that private operators will not accept finance minister **Ken Ofori-Atta's** proposal to renegotiate the termination clauses for power contracts and will demand their full payment, which could amount to \$2 billion.¹ Ofori-Atta's proposed easy-fix solution to **Ghana's** long-standing energy problems – which were caused by insufficient supply five years ago – has backfired, and threatens to cause financial risks to the economy and government finances.

Ofori-Atta first announced plans to convert all 'take-or-pay' contracts in the energy sector to 'take-and-pay' deals on 29 July during his presentation of the **2019 Mid-Year Fiscal Policy Review**.² A take-or-pay agreement obligates the purchaser to take any product that is offered (and pay the cash purchase price), and pay a specified amount if the product is not taken. This sort of agreement primarily benefits the supplier by reducing the risk of losing money on any capital spent to produce the product they are trying to sell. In contrast, a 'take-and-pay' agreement depends on the delivery of goods purchased or upon the consent of the buyer to take delivery.

Ofori-Atta said Ghana is paying about 2.5 billion cedis (\$454m) annually for power generation capacity that is not used by the citizenry. Converting to 'take-and-pay' contracts would mean customers pay only for what they use, rather than paying for energy regardless of whether they consume it or not. According to Ofori-Atta,

"Less than 40 percent of the contracted take-or-pay capacity is used, meaning that we are throwing away money by paying for the remaining 60 percent of excess capacity, which we do not consume."³

The finance and energy ministries began a three-month consultation period with independent power producers in August to resolve the issues addressed at Ofori-Atta's mid-year fiscal policy review.⁴ While the consultation period is yet to finish, there are worrying signs that no agreements have been made. In fact, Apetorgbor's announcement that independent producers have refused to convert the existing termination clauses shows that the consultations have been detrimental to Ofori-Atta's plans.

¹ Bloomberg, 15 Sep 2019

² Ghana Business News, 30 Jul 2019

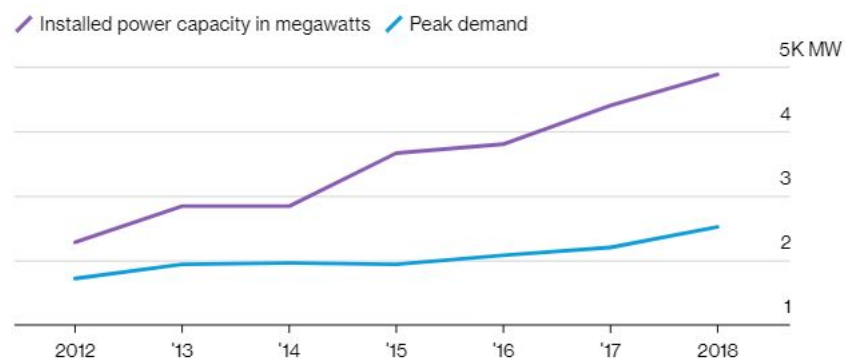
³ Ghana Business News, 30 Jul 2019

⁴ GhanaWeb, 26 Aug 2019

Apetorgbor also commented that private producers are already frustrated by late payments, transmission losses and the government's indebtedness to the power distribution utility, **Electricity Company of Ghana (ECG)**, and that these issues need to be addressed and "then we can come to negotiate."⁵ ECG energy economist **Ebenezer Baiden** called on the CIPP to analyse the government's **Energy Sector Reform** structure and make proposals to improve electricity services and enhance collaboration between power generators and stakeholders.⁶ The CIPP represents nine members who generate about 1,500 megawatts of the country's installed capacity of 4,889 megawatts.

The **World Bank** estimates that Ghana lost about 1.8% of GDP during the 2006-07 power crisis.⁷ The wave of 'take-or-pay' deals to private operators was negotiated in 2013-15 when lenders were hesitant to provide more finance for state-owned utilities.

Ghana's installed power capacity is almost double the peak demand of 2,525 megawatts. Ofori-Atta said 'take-or-pay' contracts would cost the government over \$12.5 billion by 2023. His push to clean up the energy sector comes amid a rise in the budget-gap forecast from 4.2% of GDP to 4.5%.⁸



Source: Energy Commission of Ghana

A surge in non-traditional exports

Ghana Export Promotion Authority (GEPA) deputy chief executive of operations and finance **Samuel Dentu** announced on 2 September that cashew nuts had pushed national earnings from non-traditional exports (NTEs) up 10% year-on-year in 2018.⁹ The statistics indicate that Ghana is taking the necessary steps to diversify its economy and move away from being suppliers of raw material to suppliers of finished goods, particularly in the agriculture sector.

The NTE sector is made up of three sub-sectors, namely agriculture, processed/semi-processed, and industrial art and craft. The biggest earner in the NTE portfolio is the processed/semi-processed sub-sector, which contributed \$2.21 billion, or 78.53%, to the overall NTE basket.

Total revenue from NTEs increased from \$2.56 billion in 2017 to \$2.81 billion in 2018. Cashew nut exports rose 43.84% to \$378m in 2018, from \$263m in 2017. This impressive growth is attributed to various government-supported schemes to enhance crop production, such as a pilot mass spraying and seedling distribution programme the GEPA launched in December 2017 in **Brong-Ahafo Region**, southern Ghana, which targets 70,000 acres annually.

The top five revenue-generating NTE products in 2018 were cashew nuts, cocoa butter, cocoa paste, articles of plastic and canned tuna (see table below). Others high revenue NTE products in 2018 were cocoa cake, cocoa powder, iron/steel circles, rods, billets, bananas and aluminium plates, sheets and coils.

⁵ Ghana Business News, 30 Jul 2019

⁶ Ghanaian Times, 2 Aug 2019

⁷ 'Energizing Economic Growth: Making the Power and Petroleum Sectors Rise to the Challenge,' World Bank, June 2013

⁸ Bloomberg, 29 Jul 2019

⁹ Unless otherwise stated: Ghana Export Promotion Authority, 3 Sep 2019

Top Ten NTE Products 2018 ¹⁰		
Product	Country	Value (\$)
Cashew nuts	India	184,599,143
Cocoa butter	Netherlands	174,970,223
Cocoa paste	France	75,756,168
Articles of plastics	Burkina Faso	129,709,242
Canned tuna	France	69,116,650
Cocoa cake	Netherlands	25,547,458
Cocoa powder	Netherlands	46,289,932
Iron/Steel circles, rods, sheets, billets	Burkina Faso	24,472,476
Bananas	UK	33,752,194
Aluminium plates, sheets and coils	Netherlands	64,343,759

NTEs were exported to 151 countries in 2018. The **European Union (EU)** was the principal market for NTEs with 41% and a value of \$1.14 billion. The **Economic Community of West African States (ECOWAS)** placed second with a total amount of \$742m, a contribution of 26.36% of overall NTE earnings. Exports to other countries saw a growth of 17.28% to \$723m, those to other developed countries fell by 16% to \$161m, and other **African** countries dropped 6.45% to \$43m.

GEPA chief executive officer **Afua Asabea Asare** hailed the latest statistics and reassured that authorities would sustain the various initiatives to achieve its target of over \$5 billion in NTE revenue by 2021.

Central bank tightens lender regulations

Bank of Ghana (BoG) (central bank) banking supervision head **Osei Gyasi** announced at a conference in **Accra** on 10 September that the central bank is tightening up its compliance and lending regulations through additional staff and that it has acquired a new IT system.¹¹ While the banking sector cleanup has caused considerable collateral damage – such as the 70,000 investors that can't access their savings – it will improve business and investor confidence in the long run. **United States-based Moody's Investors Service** forecasts that now that cleanup efforts are well into effect, lending could grow as much as 15% in Ghana this year, and grow on a much more stable basis than in the past.¹²

The BoG's crackdown on the financial sector, which started in August 2017, has reduced the number of lenders by a third to 23, as well as second-tier lenders from 40 to 25, finance houses from 19 to 11 and micro-finance and micro-credit lenders from 554 to 168. It also saw the closure of 23 savings and loans companies and triggered a run on fund managers who were unable to sell their holdings fast enough to meet demand. The BoG announced on 13 September that it had dismissed project manager **Gilbert Addy** over taking bribes to facilitate an award of a mobile money interoperability contract to **Sibton Switch Systems Limited** and its parent company **Sibton Communications Limited** via a shelf company, **GIB JUST Systems Limited**, in 2016.¹³

An investigation by Ghana's **Securities and Exchange Commission (SEC)** into whether 21 unnamed fund managers violated rules by placing their clients' money into illiquid assets has resulted in around

¹⁰ Unless otherwise stated: Ghana Export Promotion Authority, 3 Sep 2019

¹¹ Bloomberg, 10 Sep 2019

¹² Daily Maverick, 19 Aug 2019

¹³ GhanaWeb, 13 Sep 2019

70,000 investors losing access to their savings.¹⁴ The SEC's move, which is part of the government's cleanup of the banking sector, has tied up as much as 9 billion Ghanaian cedis (GHS) (\$1.6 billion) of investments, which accounts for over a third of the GHS 25 billion (\$4.56 billion) in assets that private fund managers oversee for retail and institutional investors.

The SEC blocked the 21 money managers from accepting new investments for fear they may use the funds to pay out existing investors. According to the SEC, as much as GHS 5 billion (\$911m) is tied up in unlisted bonds, direct private-equity stakes and other deals with small- and medium-sized businesses. Another GHS 4 billion (\$729m) is stuck in fixed-term investments with banks rescued during the clean-up, savings and loans companies, and microlenders.

The government set aside GHS 11.2 billion (\$2.04 billion) to bail out depositors of lenders and GHS 925m (\$169m) to cover those of micro finance and micro-credit companies. GHS 1.2 billion (\$219m) was also set aside to bail out savings and loans.

University of Ghana senior finance lecturer **Lord Mensah** said,

"It's cutting across all the finance houses and when it happens like that the government needs to step in to build confidence again. There's nothing we can do apart from making sure that we create that necessary environment to regain investors' confidence again."¹⁵

Planner

17-19 Sep 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** meets;
 21 and 23 Sep 2019 **(Ghana) Kwame Nkrumah Memorial Day** (national holiday);
 6 Dec 2019 **(Ghana) Farmers' Day** (national holiday);
 25 Dec 2019 **(Ghana) Christmas Day** (national holiday);
 26 Dec 2019 **(Ghana) Boxing Day** (national holiday);
 20 Sep 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** press release;
 20-22 Nov 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** meets;
 25 Nov 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** press release;
 2020 **(Ghana)** Presidential elections;

Chronology

16 Sep 2019 **Accra (Ghana) CGTN**. The **Ghana Private Road Transport Union** raises bus, mini-bus and taxi fares by 10% due to the rising cost of petrol;
 16 Sep 2019 **Accra (Ghana) MyJoyOnline**. Ghana and the **Kuwait Fund for Arab Economic Development** sign a \$23.8m loan agreement for the rehabilitation of **Dome-Kitase Road Project**;
 15 Sep 2019 **Accra (Ghana) Bloomberg**. **Chamber of Independent Power Producers** CEO **Elikplim Kwabla Apetorgbor** says private operators will not accept finance minister **Ken Ofori-Atta's** plans to stop paying for power that it doesn't consume;
 14 Sep 2019 **Ouagadougou (Burkina Faso) DefenceWeb**. **Economic Community of West African States** leaders hold an extraordinary summit on terrorism to review existing counter-terrorism initiatives in the region following a sharp rise in insecurity;
 13 Sep 2019 **Accra (Ghana) GhanaWeb**. The **Bank of Ghana** (central bank) dismisses **Gilbert**

¹⁴ Aljazeera, 19 Aug 2019

¹⁵ Lord Mensah quoted in Aljazeera, 19 Aug 2019

Addy for bribery and corruption in connection with a 2016 tender;

12 Sep 2019 **Accra (Ghana)** *Business Insider*. **Ghana Export Promotion Authority's** director of public relations, **Ruth Maafu**, says Ghana will get about \$2.8 billion in revenue from the production and exportation of coconut by 2021;

11 Sep 2019 **Accra (Ghana)** *GhanaWeb*. **Ghana Health Service** launch a four-day vaccination campaign against polio in **Accra** and the surrounding areas;

11 Sep 2019 **Accra (Ghana)** *Ghanaian Times*. Minister for lands and natural resources, **Kwaku Asomah-Cheremeh**, says the mining sector generated \$237,197 representing 17% of total government revenue in 2019, a 39% increase in the sector's contribution to government revenue for the same period last year;

11 Sep 2019 **Abidjan (Cote D'Ivoire)** *Reuters*. **Ghana** and **Cote D'Ivoire's** cocoa regulators meet the industry's major retailers to make plans to regulate the industry's efforts to source cocoa sustainably;

10 Sep 2019 **Accra (Ghana)** *Bloomberg*. **Bank of Ghana** banking supervision head **Osei Gyasi** says the bank's supervision unit is employing more staff and acquired a new IT system to monitor compliance and regulate lenders;

9 Sep 2019 **Accra (Ghana)** *Modern Ghana*. Parliament speaker **Aaron Mike Oquaye** clashes with the **Netherlands** ambassador to Ghana, **Ron Striker**, over Striker's sceptical position towards President **Akufo-Addo's Ghana Beyond Aid** agenda;

3 Sep 2019 **Accra (Ghana)** *Ghanaian Times*. Finance minister **Ken Ofori-Atta** says domestic oil production will more than double over the next four years from under 200,000 barrels per day this year to about 420,000 by 2023;

3 Sep 2019 **Accra (Ghana)** *Ghanaian Times*. The **Local Government Service Council** suspends three local government staff, **Alhaji MaazuAbubakar (Pru West)**, **Alexander Hedidor (Suaman)** and **Roland Nsoh-BillaAbire (Bolgatanga East)** for openly participating in partisan politics;

2 Sep 2019 **Accra (Ghana)** *Ghana Business News*. **Ghana Export Promotion Authority's** deputy chief executive, operations and finance **Samuel Dentu** says cashew nuts pushed national earnings from non-traditional exports up 10% year on year in 2018;

26 Aug 2019 **Accra (Ghana)** *MoneyWeb*. **Germany**-based automobile manufacturer **Volkswagen** will start vehicle assembly in **Ghana**;

22 Aug 2019 **Accra (Ghana)** *Ghanaian News*. President **Nana Akufo-Addo** suspends the **Public Procurement Authority** CEO, **Agyenim Boateng Adjei**, for allegedly selling government contracts using a private company, **Talents Discovery Limited**, and for conflict of interest;

16 Aug 2019 **Accra (Ghana)** *AfricaFeeds*. The **Bank of Ghana** (central bank) revokes the licences of 23 financial institutions due to their inability to recapitalise;

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