

## AFRICA RISK CONSULTING

### Country briefing – Ghana

27 February 2013

#### 1 Summary

*The new government appointed in January 2013 is focused on reducing the large 2012 budget deficit, a symptom of election year spending. Under donor pressure, it took the necessary but harsh step of removing fuel subsidies. Petrol prices rose 20%, causing popular discontent over the rising cost of living. The opposition is boycotting political processes as it seeks an unlikely Supreme Court ruling to overturn the December 2012 election results over alleged irregularities. The removal of fuel subsidies distorts 2013 budgeting for business by further increasing input costs. The government will also look to business to raise tax revenue, particularly in the oil and gas sector. The Petroleum Commission (PC) targets Ghanaian companies fronting for foreign businesses to take advantage of local content concessions. Large protests or other unrest over the fuel subsidies removal is unlikely. However, the Supreme Court case may result in isolated incidents of political violence.*

#### **The new government removes fuels subsidies to tackle the budget deficit**

The priority of the new government appointed in January 2013 is to cut the large budget deficit accrued in the election year. On 14 February Finance Minister **Seth Terkper** confirmed a 2012 budget deficit of 12.1% of gross domestic product (GDP), almost double the target of 6.7%<sup>1</sup>. *“The deficit is a source of concern. It follows a trend...there was the same blow-out in the last election year in 2008.”*<sup>2</sup> The government will confirm its deficit target for this year when it presents the 2013 budget to parliament on 5 March 2013.

The government bowed to donor pressure on 17 February and removed fuel subsidies, a major component of the budget deficit. The move followed a visit from the **World Bank** Vice President for Africa **Makhtar Diop** on 14-15 February. The World Bank and **International Monetary Fund (IMF)**

---

<sup>1</sup> Bank of Ghana, 14 February 2013

<sup>2</sup> Source, economist, Ghana

had repeatedly called on the government to follow other countries in the region and remove subsidies on fuel, water and electricity. The government spent \$526m (1 billion cedis) on fuel subsidies in 2012 and these would have cost \$1.3 billion (2.4 billion cedis) in 2013<sup>3</sup>. The government will reduce these subsidies to \$23m in 2013 and target social programs<sup>4</sup>. *“Last year the government tried to remove the subsidies but it couldn’t in the election year... there is more political will to cut the deficit this year with the elections passed.”*<sup>5</sup>

The removal of fuel subsidies took effect immediately, with petrol prices rising 20%<sup>6</sup>. The move triggered popular discontent over the constant increases in the cost of living and poor service provision.

*“Particularly in Ghana, once there is a fuel price hike everything else goes up. Transport, electricity... the cost of living goes up. The NDC [ruling **National Democratic Congress**] said they would not increase the price of fuel and cost of living. They criticised price increases when they were in opposition. Ghana has not been working well since the election...there have been water and electricity cuts, now this.”*<sup>7</sup>

The government also pledged to stabilise the public sector wage bill, another major component of the budget deficit. Throughout 2012 the government implemented a **Single Spine Salary Structure** to structure public service wages in accordance to job levels<sup>8</sup>. The implementation resulted in excess payments, including arrears for many positions, of \$1 billion (1.9 billion cedis)<sup>9</sup>. An 18% public sector wage increase in 2012 further increased the deficit<sup>10</sup>. Most civil servants have migrated to the new salary structure and thus the government expects the wage bill to stabilize in 2013<sup>11</sup>.

### **... while the opposition is fixated on the election legal challenge**

The opposition **New Patriotic Party (NPP)** remains fixated on the **Supreme Court** case against President **John Dramani Mahama** and the NDC’s 7-8 December election victory (see January 2013 briefing)<sup>12</sup>. The NPP’s chances of winning the case and forcing re-run elections are slim due to a lack of evidence of electoral fraud. *“...It’s just a matter of saving face for the NPP.”*<sup>13</sup> The Supreme Court

<sup>3</sup> National Petroleum Authority, 12 February 2013

<sup>4</sup> Reuters, 17 February 2013; based on a crude oil price of \$116 per barrel

<sup>5</sup> Source, economist, Ghana

<sup>6</sup> Ghana Business News, 17 February 2013

<sup>7</sup> Source, political analyst, Ghana

<sup>8</sup> <http://www.fairwages.gov.gh>

<sup>9</sup> Bank of Ghana, 13 February 2013

<sup>10</sup> Source, economist, Ghana

<sup>11</sup> Source, economist, Ghana

<sup>12</sup> Source, diplomat, Ghana

<sup>13</sup> Source, diplomat, Ghana

demands further details of electoral irregularities<sup>14</sup>. The case is adjourned but is likely to start in March 2013<sup>15</sup>.

The NPP is thus refusing to participate in the political process. It opted against capitalising on the discontent over the fuel subsidies removal and budget deficit. The NPP also boycotted ministerial vetting in parliament<sup>16</sup>. *“Weirdly, there were no objections from the NPP over the fuel subsidy cut. The government is running without any opposition.”*<sup>17</sup>

### **... thus widespread unrest over the fuel subsidies removal is unlikely**

Despite criticism from trade unions and civil society over the fuel subsidy removal, the opposition focus on the election challenge means that large street protests are unlikely. Other African countries that recently passed the measure have experienced widespread unrest. The Nigerian government was forced to reinstate fuel subsidies in January 2012 after large street protests. *“I don’t think there will be unrest over this issue. Ghana has shown that it deals with crises differently than other countries in the region.”*<sup>18</sup>

### **Investors face increased input costs and taxes**

Removal of the fuel subsidies in February will increase the cost of doing business in Ghana where investors already consider the cost of energy-related inputs high. **Unilever Ghana** partly attributed a 44% decrease in net income in 2012 to rising input costs including rising fuel and energy costs<sup>19</sup>. An investment fund manager in Accra says energy costs account for a high proportion of expenditure for companies in the manufacturing, mining and agricultural sectors. The removal of the fuel subsidy further increases the cost of doing business. *“It changes everyone’s budgeting, including construction project tenders.”*<sup>20</sup>

*“The business community is not happy with the measure, partly because of the impact on operations but also because it is viewed as unplanned. Most businesses in Ghana drew up their budgets for the current year in December. Such sudden and large price hikes on an essential business input will cause distortions in expenditure budgets and the expected performance.”*<sup>21</sup>

---

<sup>14</sup> GNA, 6 February 2013

<sup>15</sup> Source, political analyst, Ghana

<sup>16</sup> Source, political analyst, Ghana

<sup>17</sup> Source, political analyst, Ghana

<sup>18</sup> Source, political analyst, Ghana

<sup>19</sup> Bloomberg, 1 February 2013

<sup>20</sup> Source, business consultant, Ghana

<sup>21</sup> Source, fund manager, Ghana

The government will also turn to investors to increase revenue from taxes. In 2012 tax revenue was \$6.2 billion (11.6 billion cedis), 3.7% lower than the budgeted target<sup>22</sup>. In particular, the government seeks to increase taxes on imports, “...many exemptions will be removed and the **Ghana Revenue Authority (GRA)** will close some loopholes.”<sup>23</sup> The government targets the oil and gas sector to raise tax revenue and boost foreign investment<sup>24</sup>. Oil exports totaled \$3 billion in 2012<sup>25</sup>. However, the government missed oil and gas revenue targets due to lower than expected production from the Jubilee field<sup>26</sup> and delays with the construction of **Sinopec’s** gas processing plant at **Atuabo**<sup>27</sup>. With 16 new oil discoveries in 2012, the government plans to use the sector as a catalyst for foreign investment in 2013<sup>28</sup>. Foreign investment fell 28% to \$4.9 billion in 2012 due to the election year uncertainty, with **China** the leading investor<sup>29</sup>.

The government plans to channel future revenue from foreign investment into infrastructure, notably electricity provision. To reduce popular discontent President Mahama pledged a policy of increasing electricity provision to 100% of the population – “*energy for all*” – by 2016<sup>30</sup>. A \$300m rural electrification project will focus on the undeveloped northern region, the president’s home base.

The business community is realistic but cautious on the government’s plan to cut the deficit,

*“In plain economic terms these steps make sense and we trust they will work. However, success will be determined on how the government can ensure the savings will be used to enhance the livelihoods of the average Ghanaian rather than ending up as some frivolous expenditure. The government’s attention should also be focused on reducing corruption.”<sup>31</sup>*

## **Threats to oil companies from the Petroleum Commission (PC) continue**

The **Petroleum Commission (PC)** seeks a prominent role patrolling the activities of oil and gas companies. On 15 February the PC threatened legal action against Ghanaian companies “*fronting*” for foreign businesses to take advantage of local content concessions in the oil and gas sector<sup>32</sup>. The PC was established under the 1992 constitution “*to monitor and ensure compliance with national policies,*

<sup>22</sup> Bank of Ghana, 13 February 2013

<sup>23</sup> Source, economist, Ghana

<sup>24</sup> Bloomberg, 15 February 2013; confirmed by Finance Minister Terkper

<sup>25</sup> Bank of Ghana, 13 February 2013

<sup>26</sup> Bank of Ghana, 13 February 2013, also see January 2013 briefing

<sup>27</sup> Source, economist, Ghana

<sup>28</sup> Ghana Business News, 29 January 2013

<sup>29</sup> Ghana Investment Promotion Commission (GIPC), 6 February 2013

<sup>30</sup> GNA, 8 February 2013

<sup>31</sup> Source, fund manager, Ghana

<sup>32</sup> According to PC Coordinator for Local Content **Juliette Twumasi-Anokye**, speaking at the pre-event press conference of Offshore West Africa Conference and Exhibition, 14 February 2013

*laws, regulations, agreements on health, safety and environmental standards in petroleum activities.*"<sup>33</sup>  
Its influence has increased since the discovery of oil in 2008.

*"The PC was set up to patrol the sector and take some power away from the [state-owned] Ghana National Petroleum Company [GNPC]. It has the authority to oversee the industry and the potential, one way or another, to cancel contracts."*<sup>34</sup>

The PC has had a hostile relationship with oil companies under managing director **Kwabena Donkor**, a former deputy oil minister. It has made several financial and administrative<sup>35</sup> demands from oil companies to raise revenues. In October 2012 Donkor demanded immediate payment of up to \$150,000 from oil companies for work permits, which previously cost \$1,000<sup>36</sup>. However, Donkor is required to leave his post following his election win as the NDC member of parliament for **Pru East**, in the northern **Brong-Ahafo Region**, in the December 2012 vote. Oil companies are hoping relations with the PC will improve after his departure<sup>37</sup>.

## 2 Implications

The removal of fuel subsidies is a harsh but necessary step. The new government was forced to act against the budget deficit and government debt, which is the key investor concern in Ghana. Business will face increasing costs in the near term, although the measure improves the long-term outlook. However, it places more pressure on the government not only to reduce the deficit, but also to improve economic management that filters through to the average Ghanaian, notably, halting the rising cost of living and improving electricity, water and other service provision. The hostile style of the Petroleum Commission (PC) remains a source of concern. Investors are advised to engage and closely monitor the body.

As previously noted, the Supreme Court election case ruling is a potential security flashpoint. As the case develops and the Supreme delivers its ruling there may be some isolated political violence, particularly given the historical and current tensions between the NDC and the NPP.

---

<sup>33</sup> GNA, 15 February 2013

<sup>34</sup> Source, economist, Ghana

<sup>35</sup> Requests for visas for consultants have been rejected

<sup>36</sup> Africa Energy Intelligence, 7 November 2012

<sup>37</sup> Africa Energy Intelligence, 7 November 2012