

## AFRICA RISK CONSULTING

### Country briefing – Ghana

28 October 2014

#### 1 Summary

*President John Mahama's (2012-present) popularity falls to a new low. Public sector workers go on strike over the management of pensions, closing schools and hospitals. The Public Utilities Regulatory Commission (PURC) raises electricity and water tariffs while a power crisis continues. The government and the International Monetary Fund (IMF) end their second round of talks in Washington and announce the outline of a three-year structured programme. The cedi remains stable and the markets positive towards the IMF negotiations but ratings agency Standard & Poor's (S&P) downgrades Ghana's outlook to B-, citing no clear way out of the downturn even with IMF help. However, a flurry of investments in the financial services sector shows long-term optimism in the private sector. The power crisis worsens, harming major industries such as mining and timber. The opening of the Atuabo gas plant, the government's main hope of respite, is pushed back another month into November.*

#### 1.1 Mahama's popularity plummets as public sector goes on strike

President **John Dramani Mahama** (2012-present) is increasingly unpopular in the electorate despite a slight turnaround in the economy. Mahama faces a number of continuing and emerging grievances: a public sector strike focused on pension funds has brought many schools and hospitals to a standstill; increasing water and electricity tariffs despite a continuing power crisis; the prospect of an **International Monetary Fund (IMF)** backed austerity programme; and doubts over the stabilisation of the cedi (see below).

The **Forum for Public Sector Pension Schemes (FPSPS)** called an indefinite strike on 21 October. According to the organisers, 800,000 workers are involved in the dispute over management of their second tier pension funds. The FPSPS is made up of 12 labour groups across the health, education and local government sectors.<sup>1</sup> The strike has left many public sector institutions closed or partially closed, particularly schools and hospitals.<sup>2</sup> The workers are demanding full disclosure of how much

<sup>1</sup> Namely: Health Service Workers' Union (HSWU); Ghana Registered Nurses' Association (GRNA); Ghana Medical Association (GMA); Ghana Physician Assistants' Association (GPAA); Government and Hospitals Pharmacists' Association (GHOSPA); Ghana Association of Certified Registered Anesthetists (GRCRA); Ghana National Association of Teachers (GNAT); Teachers and Educational Workers' Union (TEWU), National Association of Graduate Teachers (NAGRAT); Coalition of Concerned Teachers (CCT); Judicial Services Staff Association of Ghana (JUSAG) and Civil and Local Government Staff Association Ghana (CLOGSAG).

<sup>2</sup> Starr fm 24 Oct 2014

their funds have accrued and a disbursement of the second tier pension fund. They also want to appoint their own fund managers. However, the government insists that it has the right to appoint a trustee to manage the funds on behalf of the workers.

The government launched legal action on 24 October to try to declare the strike illegal and order the strikers back to work. It also wants the workers to pay the government compensation for any financial or economic loss the state suffers as a result of the strike.<sup>3</sup> Employment minister **Haruna Iddrisu** called for striking workers to enter into a dialogue with the government over the scheme. He made an offer that the government would pay workers their full pension funds as they retired from January 2015 but maintained the government would control the appointment of fund managers.<sup>4</sup> As well as exploring legal action, the employment ministry has lodged a formal complaint with the **National Labour Commission** against the workers for embarking on an illegal strike action. As an employer the ministry requires notification in terms of the **Labour Act 2008** (Act 651) before workers can strike, which the government claims the workers failed to do.<sup>5</sup>

The strike reflects the lack of trust in the Mahama regime, according to a local journalist:

*“The public sector strike is an indication of the lack of trust people are generally having in the government. They do not trust that government has been transparent in the management of their funds... [and] are tired of unfulfilled promises.”<sup>6</sup>*

## 1.2 .... amid further electricity and water tariff increases

The government’s standing has further eroded due to increases in water and electricity tariffs announced on 30 September. The **Public Utilities and Regulatory Commission (PURC)** increased the electricity tariff by 6.54% and the water tariff by 5.54%. The announcement comes in the midst of an energy crisis. Consumers face 24-hour power outages every other day. The PURC cited increased use of crude oil for power generation as the main cause for the adjustment.<sup>7</sup> This is due to the lack of gas through the **West African Gas Pipeline (WAGP)** and low volume of water in the **Akosombo** and **Kpong** hydroelectric projects.

The recurrence of power rationing and the latest tariff adjustment have undermined Mahama’s promise that the power crisis will subside this year and have triggered widespread criticism. **Kofi Kapito**, CEO of the **Consumer Protection Agency**, has questioned the timing and necessity of the

<sup>3</sup> Starr fm 24 Oct 2014

<sup>4</sup> Government press release, 27 Oct 2014

<sup>5</sup> Government press release, 27 Oct 2014

<sup>6</sup> Source: journalist, Accra

<sup>7</sup> PURC press release, 30 Sep 2014

increase in electricity tariffs.<sup>8</sup> **K.T Hammond** a member of the parliamentary committee on energy and petroleum and a member of the opposition **New Patriotic Party (NPP)** said the increase is unjustified as an improved exchange rate against the dollar and the decreasing price of crude oil mean that the tariff should instead fall.<sup>9</sup> Others, including the opposition **Convention People's Party (CPP)** and renowned social commentator **Kwesi Pratt** have urged the PURC to abandon the automatic adjustment formula used to calculate utility prices saying it does not serve the needs of ordinary people.<sup>10</sup>

With schools and hospitals closed, daily power cuts, and increasing prices for electricity and water, criticism of Mahama and the **National Democratic Congress (NDC)** administration has peaked:

*"If elections were held today...President Mahama would lose. He has lost popular support first among the middle class or elite but now ordinary citizens are complaining. They think the Mahama administration is not on top of governance...[he] lacks experience and is at cross roads on what to do. Some say he governs by 'trial and error'."*<sup>11</sup>

### 1.3 ... as the IMF plan fails to convince ratings agencies and the electorate

The government has unveiled the broad structure of a three-year IMF structured support programme following the end of the second round of talks in **Washington DC, United States** on 16 October. While the markets have remained positive throughout the initial IMF negotiations, ratings agency **Standard & Poor's (S&P)** has downgraded Ghana's economic outlook further, citing concerns over the fallout of fiscal consolidation.

Former finance minister **Kwesi Botchwey** led the delegation which included finance minister **Seth Terkper**, employment minister Haruna Iddrisu, and **Bank of Ghana (BoG)** governor **Kofi Wampah**. **Joel Toujas-Bernate**, IMF mission chief for Ghana, described the Washington meeting as "productive" and said that it could form the basis of a structured programme, although he did not clarify whether one would go ahead.<sup>12</sup> The IMF is expected back in Ghana in November to begin the third round of negotiations.

President Mahama announced the government's commitments to the three-year IMF programme according to five broad areas:

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<sup>8</sup> Citi fm 30th Sep 2014

<sup>9</sup> Joy online, 30 Sept 2014

<sup>10</sup> Peace fm, 30 Sept 2014

<sup>11</sup> Source: journalist, Accra

<sup>12</sup> IMF Press Release No. 14/474, 16 2014

- reduction of the public sector wage bill;
- reducing and making overall public expenditure more efficient;
- improving public revenue collection;
- addressing the issue of Ghana's debt stock; and
- developing strong social development and protection policies.<sup>13</sup>

The IMF wants the government to reduce the public sector wage bill and/or fuel and energy subsidies in order to narrow the spending deficit. The budget deficit reached 9.75% in 2014. The IMF forecasts that growth in 2014 was likely to fall as low as 4.5%, from 7.1 % in 2013. Mahama said that the demands of the IMF were being implemented and cited the public sector wage bill/tax revenue ratio, which has fallen from a high of 73% earlier this year to 57% in late October, as evidence of this.<sup>14</sup> However, government members are sending mixed signals. In a bid to allay fears of public sector workers, deputy finance minister **Cassiel Ato Forson** said the government will not reduce the size of the public sector as part of any IMF programme.<sup>15</sup>

The state of the Ghanaian economy has failed to convince ratings agencies. S&P downgraded Ghana's economy from a B rating with a negative outlook to a B- rating with a stable outlook.<sup>16</sup> S&P cited concerns about continuing access to finance even if the government enters an IMF programme. It argued that, despite a successful **Eurobond** issue in September, the country has gross external financing needs of 137% of the current account receipts and reserves in 2015. S&P cannot foresee an economic recovery in the near term.<sup>17</sup>

According to finance minister Seth Terkper the downgrade came as a surprise. He said that it did not take into account Ghana's macro-economic stabilisation over the past months.<sup>18</sup> Terkper expects Ghana to receive an \$800m package from the IMF in January that will support the cedi's recovery and protect it against currency depreciation.<sup>19</sup> The cedi has remained stable throughout the period, falling slightly from 3.25 on 1 October to 3.22 on 29 October.<sup>20</sup>

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<sup>13</sup> Starr fm, 20 Oct 2014

<sup>14</sup> Starr fm, 20 Oct 2014

<sup>15</sup> Starr fm, 20 Oct 2014

<sup>16</sup> Reuters, 24 Oct 2014

<sup>17</sup> Citi fm 25 Oct 2014

<sup>18</sup> Reuters 17 Oct 2014

<sup>19</sup> Bloomberg 20 Oct 2014

<sup>20</sup> XE.com

*“The S&P downgrade seems mean-spirited given the recent turnaround in Ghana’s macro-economic fortunes ... however they do point to serious issues that Terkper has yet to seriously address ... more will be known when the full details of the IMF programme are released.”<sup>21</sup>*

The government is trying to contain the public relations fallout from the IMF programme. Mahama stoked controversy in Ghana when he announced this would be the last time the government would seek IMF assistance. *“This will be the IMF programme to end all programmes.”<sup>22</sup>* Mahama acknowledged that the economy is still *“not out of the woods”* in spite of the rise of the cedi.<sup>23</sup> Some economic and political commentators have criticised the president describing it as false hope: *“It’s a huge task and one cannot vouch that we will not face difficulties... that may not be the result of the IMF.”<sup>24</sup>*

Locally, caution surrounds the prospect of any IMF programme. While Ghanaians understand the necessity for a bailout, they lack confidence in the government to effectively deliver the programme, sharing some of S&P’s concerns:

*“On the streets...there are fears it could lead to more hardship...lack of jobs...price hikes. Many are unwilling to bear the brunt while government continues to ‘waste’ state resources.”<sup>25</sup>*

## **1.4 ... although financial sector shows long-term private sector optimism**

October has seen a number of acquisitions and investments in the banking and finance sector in Ghana, including:

- **First Bank of Nigeria** acquired 100% equity interest in **ICB Ghana** from **International Commercial Bank Financial Group Holdings**, and launched **FBN Bank Ghana**.<sup>26</sup>
- **South Africa-based Sanlam** acquired a 40% stake in a unit of Ghana's **Enterprise Insurance Company** for around \$21m.<sup>27</sup>
- **Access Bank (Ghana) Ltd** also announced it has secured a \$40m credit facility from **Proparco**, partly owned by **Agence Française de Développement (AFD)**, and Dutch equivalent **Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO)**, to increase private sector lending in Ghana.

<sup>21</sup> Source, former head international organisation mission to Ghana, Ithaca NY

<sup>22</sup> Joy online, 6 Oct 2014

<sup>23</sup> Joy online, 6 Oct 2014

<sup>24</sup> Source, economist, Accra

<sup>25</sup> Source, journalist, Accra

<sup>26</sup> Nigerian Guardian 12 Oct 2014

<sup>27</sup> Reuters 2 Oct 2014

- South African **FirstRand** also says it has set aside \$924m for continental expansion, and that it has a provisional licence for Ghana and should be operational in the country in early 2015.<sup>28</sup>

The acquisitions seem to reflect the financial services sector's long-term optimism that Ghana is an expanding market for financial products. It may also reflect the fact that private sector debt has remained low and the cedi has stabilised.<sup>29</sup>

*"You put money into banks and insurance companies when you think that business is going to pick up.... [and] local companies will want to borrow money and insure new ventures.... it is a vote of confidence."*<sup>30</sup>

## 1.5 Poor electricity service continues to harm business

The **Electricity Company of Ghana (ECG)** announced an extended load shedding timetable on 15 October due to further loss of power. According to public relations officer **William Boateng**, the extended load shedding is due to a further 140 megawatts (MW) shortfall in generation. From 23 September to 15 October the grid had lost approximately 400MW of power.<sup>31</sup>

Power cuts are increasing across the country. The **Central Region**, a key tourist hub, experienced a three-day power cut from 28 September to 1 October after a fire destroyed the **Winneba** junction substation. Severe power cuts are also frequent in the capital **Accra**, with some suburbs experiencing power cuts up to three days due to the failure of **Ghana Grid Company (Gridco)** to deliver sufficient power.<sup>32</sup> The ECG reintroduced load shedding on 23 September and from then consumers have dealt with a 24-hour blackout every other day to cope with the current shortfalls.<sup>33</sup>

The erratic and unreliable electricity supply over the years has resulted in job losses in processing, manufacturing and mining sectors. According to the **Ghana Timber Millers Organisation (GTMO)**, power cuts have destroyed the industry. Four years ago there were over 105 timber processing companies employing about 100,000 workers. Now there are only 45 companies employing about 30,000 people. Between January 2013 and March 2014, about 3,080 mine workers lost their jobs as a

<sup>28</sup> Business & Financial Times, 1 Oct 2014

<sup>29</sup> The Economist, Oct 9 2014

<sup>30</sup> Source, former head of international organisation mission to Ghana, Ithaca NY

<sup>31</sup> Citifm, 15 Oct 2014

<sup>32</sup> Citifm, 28 Sep 2014

<sup>33</sup> Citifm, 15 Oct 2014

result of the slump in gold prices and the rising cost of operations – attributed to unreliable power supply.<sup>34</sup>

*“Every other day my business cannot work – we rely on computers and machinery [which relies on power]...I cannot begin to know how much I have lost.”<sup>35</sup>*

The government and relevant agencies have tried to improve the situation that deteriorated in early September. The PURC held an emergency meeting on 17 October with power producers including representatives of independent power producers (IPPs) over the power crisis. The producers at the meeting agreed to find \$120m to acquire 900,000 barrels of crude oil for thermal power production as a short-term solution to the power shortage. Mahama has held talks with Nigerian president **Goodluck Jonathan** (2010 – present) over the irregular supply of gas through the WAGP.<sup>36</sup> **Joseph Essandoh-Yeddu**, head of strategic planning at the **Energy Commission (EC)**, says it is working on a revision of the **Strategic National Energy Plan 2006 – 2020**, which it will publish in early 2015. Essandoh-Yeddu says the new framework will take into account new trends and technologies in the energy sector and will help to secure a more stable and affordable energy base in the future.<sup>37</sup>

However, the government has pushed back the completion date for the start of gas production at the **Atuabo Gas Facility** a month further. The CEO of **Ghana Gas Co**, **George Sipa Yankey**, says he expects the Atuabo Gas Facility to begin processing and delivering gas to the **Aboadze Thermal Plant** in November this year.<sup>38</sup> The much anticipated commissioning of the gas plant has been delayed for a number of reasons, primarily the delay from the processing of the loan facility from the **China Development Bank**. The plant has the capacity to produce 150 million cubic feet of gas per day. It will also produce 500 tonnes of liquefied petroleum gas per day.

## 2 Implications

The public sector strike and new electricity and water tariff increases further erode Mahama’s and the NDC government’s standing in the electorate, and give impetus to the opposition NPP’s bid to regain the presidency in 2016. The IMF programme is expected to improve the economy, however it is unclear if Mahama’s reputation will recover. In the eyes of the electorate Mahama has failed to keep several promises: economic recovery, an end to the power crisis, and maintaining the fuel subsidies. With the NPP having chosen **Nana Akufo-Addo** (see *ARC Ghana September 2014 Briefing*) as its 2016

<sup>34</sup> Business & Financial times, 30 Sep 2014

<sup>35</sup> Source, small business owner, Tema

<sup>36</sup> Tv3, 18 Oct 2014

<sup>37</sup> Daily Graphic, 18 Oct 2014

<sup>38</sup> Citi FM 21 Oct 2014

presidential candidate, the prospects of Mahama extending his rule in 2016 have reduced significantly.

S&P's downgrade of the economy shows that an IMF programme will not equal an economic recovery. The prospect of a three-year IMF programme has calmed the markets, but the road ahead requires significant and unpopular government actions to reduce debt. However, fiscal prudence in the public sector and the stability it brings will encourage more private sector investment. There is some initial evidence of this in the finance and banking sector, and this will trigger greater access to loan capital for businesses working to get back on their feet. Signs of an economic recovery will also prompt new investment in other sectors. External factors such as an improvement in the price of gold could also assist the economic recovery through renewing activity in the mining sector.

The economic bottleneck remains the continuing power crisis. The start of gas production at the Atuabo plant will improve the situation, but further delays remain a possibility. Until the facility comes online inadequate and expensive fuel for its thermal generation plants will continue to hold back the economy.