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President John Dramani Mahama (2012- present) meets with his Ivorian counterpart Alassane Ouattara (2011- present) to resolve the maritime border dispute with Côte d'Ivoire after a preliminary international arbitration ruling in Ghana's favour. The ruling allows Tullow Oil Plc to continue developing its \$4.9 billion Tweneboa-Enyenra-Ntomme (TEN) project signed with the Ghanaian government. United States (US) foreign aid programme Millennium Challenge Corporation (MCC) commits the government to sell a minority stake or award a concession to a company to operate state-owned power distribution company Electricity Company of Ghana (ECG) within two years. The Bank of Ghana (BoG) raises its main policy rate by 100 basis points to 22% to offset the risk of inflation, amid a further depreciation of the cedi, deteriorating debt position and lowest growth in 20 years forecast for 2015.

Mahama seeks to resolve maritime border dispute with Côte d'Ivoire

President **John Dramani Mahama** (2012- present) has sought to resolve the maritime border dispute with **Côte d'Ivoire** following a favourable preliminary ruling as part of the international arbitration process. Former **United Nations (UN)** secretary general **Kofi Annan** led mediation talks on the issue between Mahama and his Ivorian counterpart **Alassane Ouattara** (2011- present) on 10 May in **Geneva (Switzerland)**.¹ Following the talks, a joint statement said the two presidents “*have decided to engage in a process aimed at achieving cooperation as prescribed by the ITLOS (International Tribunal for the Law of the Sea)*.”² In addition, Annan said that: “*We have a deal,*” but was not prepared to elaborate, while other officials were also not prepared to disclose details of any potential agreement.³

*“It’s not really an agreement on the dispute...it’s an agreement to continue talks and establish a framework for that. But I don’t think these talks will have an impact on the arbitration, I think the tribunal will still rule on the case. Annan had met with both presidents separately beforehand and wanted to get them together. I think this ‘agreement’ was aimed at trying to reach a potential deal on allowing new drilling (see below).”*⁴

The ITLOS in **Hamburg (Germany)** on 24 April banned new oil exploration drilling in the disputed area, which Ghana currently controls and where it has awarded licences.⁵ However, the Ivorian government failed in its 29 March request with ITLOS for a complete stop-work request for projects, pending an international arbitration ruling.⁶ While the ruling bans the drilling of new wells, it allows **Tullow Oil Plc**’s \$4.9 billion **Tweneboa-Enyenra-Ntomme (TEN)** project to continue its development. Thus, the ruling is viewed as a preliminary victory for the Ghanaian government and for Tullow.

The ITLOS order is a provisional ruling and, if arbitration is pursued, the ITLOS is due to make a final ruling in 2017, according to Tullow.⁷ The ITLOS said the two governments “*shall pursue cooperation and refrain from unilateral action that may lead to aggravating the dispute*”.⁸

Following the ruling Tullow said it would “*move ahead*”⁹ with the TEN project. Its stock price climbed almost 10%, its highest since November 2014, following the ruling. The company reiterated its commitment

¹ Bloomberg, 10 May 2015.

² Reuters, 11 May 2015.

³ Reuters, 11 May 2015.

⁴ Source, investigative journalist, Côte d'Ivoire

⁵ ITLOS statement, 25 Apr 2015.

⁶ Reuters, 29 Mar 2015.

⁷ Tullow statement, 25 Apr 2015.

⁸ ITLOS statement, 25 Apr 2015.

to starting production at TEN in mid-2016. The ITLOS ruled that any suspension of TEN's activities "would entail the risk of considerable financial loss to Ghana and its concessionaires and could also pose a serious danger to the marine environment."¹⁰

Tullow has drilled 10 wells already and aims to increase output to 80,000 barrels per day (bpd) by 2017.¹¹ Tullow has a 47% operating stake in the TEN project. The other partners are **United States (US)**-based **Kosmos Energy Ltd** and **Anadarko Petroleum Ltd**; **South Africa's Petro SA**; and state-owned **Ghana National Petroleum Corporation (GNPC)**.

According to documents filed in the arbitration, the Ghanaian government has awarded nine permits partly or wholly within the disputed area although TEN is the only project close to production.¹² It awarded the permits to companies including **United Kingdom-based Heritage Oil**, **Hess Ghana** and **Russia-based Lukoil**. The Ivorian government has awarded two permits to **London-listed Afren**, and **Nigeria-based Taleveras Energy** as well as state-owned **Petoci** in the disputed area, although no work has started on these concessions.¹³

Both sides announced plans to take the dispute to international arbitration in the last quarter of 2014 after several attempts to resolve the dispute through bilateral meetings failed. International bodies have never officially set the border, like most sea borders in Africa.

Several local sources claim that the Ivorian government is unlikely to gain any of the disputed territory through international arbitration. Analysts have also noted that international arbitration rarely redraws the customary equidistant boundary.¹⁴ The Ghanaian legal team says that the Ivorian government had accepted the demarcation that the Ghanaian government considers to be the border for the last 40 years.¹⁵ However, a favourable final ruling for Côte d'Ivoire could result in TEN becoming part of a joint development zone.¹⁶

The two countries remain committed to a peaceful resolution but relations have deteriorated over the dispute. The Ghanaian government accused its counterpart of sending "threats" to oil firms drilling in the disputed area in 2014.¹⁷ The Ivorian government has also produced three new boundaries that crisscross the 30,000 sq km disputed area.¹⁸ In arbitration documents, it claims that it had "never recognised, either in practice or law, any kind of customary maritime boundary" with the Ghanaian government.

The administration of former Ivorian president **Laurent Gbagbo** (2000-2011) had close ties with the Ghanaian elite. Gbagbo did not prioritise the oil sector and it is rumoured he opted not to challenge the boundary in exchange for political support during his term.¹⁹

The government targets private sector involvement in the power sector

Key donors have urged the government to commit to private sector involvement in the state-owned power distribution company **Electricity Company of Ghana (ECG)** amid the continuing power crisis. **Deidra Fair James**, resident country director for the US government foreign aid programme, the **Millennium Challenge Corporation (MCC)**, said on 29 April that the Ghanaian government will decide in the coming weeks whether to sell a minority stake or award a concession to a company to operate ECG.²⁰ James said the operating concession would last 20 years. She said the government would open a tender for the partner in the second half of 2015, and it would select an investor within 18 months to two years. Government officials – including power minister **Kwabena Donkor** – have not commented on this development. James said:

⁹ Tullow statement, 25 Apr 2015.

¹⁰ ITLOS statement, 25 Apr 2015.

¹¹ Tullow statement, 25 Apr 2015.

¹² Reuters, 24 Apr 2015.

¹³ Reuters, 24 Apr 2015.

¹⁴ Reuters, 25 Apr 2015.

¹⁵ Reuters, 29 Mar 2015.

¹⁶ Bloomberg, 25 Apr 2015.

¹⁷ Reuters, 24 Apr 2015.

¹⁸ Reuters, 24 Apr 2015.

¹⁹ Source, journalist, Côte d'Ivoire.

²⁰ Bloomberg, 29 Apr 2015.

“The government in the compact agreed to a partial privatization – a percentage of shares yet to be determined – or a concession. Unless you have an efficient and operationally, financially sound distribution company, the rest of the chain is not going to work.”²¹

The government signed the MCC’s \$498m five-year **Compact II** aid programme focused on the power sector in August 2014. According to a feasibility study as part of the Compact II preparations, the ECG requires \$800m to upgrade the distribution network.²² The MCC designated \$339m of the Compact II funding to upgrade equipment at ECG, according to James.²³ She said that currently the ECG is unable to collect around 30% of its revenue due to unpaid accounts, technical problems and other “commercial” losses.²⁴ However, the Compact II document includes a provision barring the government from “...enter[ing] into any financial arrangements that the MCC reasonably determines would have a material adverse effect” on the ECG.²⁵

Mahama claimed on 26 February that the MCC provided an opportunity to restructure ECG and help meet the government’s target of a 3,500 megawatts power supply increase over the next five years. However, on 17 April Mahama said the government has no intention of selling ECG, but instead would secure private investment to improve its efficiency.²⁶

World Bank funding has further improved the power sector outlook. On 30 April the World Bank approved \$60m lending for the ECG under its **International Development Association (IDA)** mechanism.²⁷ The credit will go towards the **Ghana Energy Development and Access Project (GEDAP)** running since 2007 and now focused on strengthening the ECG.

Residential and business consumers have experienced severe power outages during 2014 and 2015, frequently for as long as 24 hours at a time. The power outages are reportedly the worst in eight years and the power crisis has contributed to a reduced economic growth forecast (see below).²⁸ Power minister Donkor has promised to fix the situation by the end of December 2015.²⁹

Bank of Ghana raises interest rates to stem inflation and spur growth

At its **Monetary Policy Committee** on 13 May, the **Bank of Ghana (BoG)** raised its main policy interest rate by 100 basis points to 22% to offset the risk of inflation.³⁰ The BoG has gradually raised interest rates over the last two years with the aim of spurring growth and reducing inflation. Governor **Henry Kofi Wampah** said: “The committee concluded that risks to both inflation and growth are elevated but tilted more to inflation.”³¹ Consumer inflation increased to 16.8% in April, up from 16.6% in March.³²

Further economic data confirms the deteriorating debt position. At the end of March the debt-to-gross domestic product (GDP) level reached 65.3%, while the cedi continues to depreciate, falling 17.2% against the US dollar from 1 January to 8 May 2015.³³

Razia Khan, chief of Africa research at **Standard Chartered** bank, said:

“We expect this (hike) will help to stabilise the currency in the near term... However, it does not change our medium-term view, based on expectations of a still-wide current account deficit, that the cedi will continue to weaken.”³⁴

The policy rate increase surprised most analysts. A *Reuters* survey of economists and analysts on 11 May claimed that the BoG would maintain the rate and that it would wait until economic reforms take affect at

²¹ Bloomberg, 29 Apr 2015.

²² Bloomberg, 29 Apr 2015.

²³ Bloomberg, 29 Apr 2015.

²⁴ Bloomberg, 29 Apr 2015.

²⁵ Bloomberg, 29 Apr 2015.

²⁶ Citi FM, 17 Apr 2015.

²⁷ World Bank, 30 Apr 2015.

²⁸ Bloomberg, 29 Apr 2015.

²⁹ Spy Ghana, 13 May 20145

³⁰ Reuters, 13 May 2015.

³¹ Reuters, 13 May 2015.

³² Reuters, 13 May 2015.

³³ Reuters, 13 May 2015.

³⁴ Reuters, 13 May 2015.

the end of 2015 before cutting the rate to 20% at the last Monetary Policy Committee of 2015 in November.³⁵

The **Ghana Statistical Service** confirmed on 29 April that GDP grew just 4% in 2014, down from 7.3% in 2013.³⁶ Growth in the last quarter of 2014 was 4.6%. Various commentators and economists have attributed the decline to reduced oil revenues, following the fall in the international oil price, and the continuing power crisis.³⁷ The government expects GDP growth to fall to 3.9% in 2015, the weakest growth in two decades. Most analysts point to the government's austerity measures implemented in the 2015 budget as the reason for further decline.³⁸

The government hopes an **International Monetary Fund (IMF)** three-year \$918m financial assistance package signed on 3 April will improve investor confidence and growth. Following the agreement, share prices on the **Ghana Stock Exchange (GSE)** have increased. The **GSE Composite Index** increased 2.2% in April, the third consecutive monthly increase. However, low government revenues from the cocoa sector further weaken the economic outlook. A government source told the press that it expects below 700,000 tonnes output for the 2014/15 season, reduced from an initial target of 1m tonnes.³⁹ **European** cocoa traders and chocolate makers said the season was the worst in five years.⁴⁰

Implications

The preliminary arbitration ruling indicates that international arbitrators are unlikely to rule against Ghana and re-draw its maritime boundary with Côte d'Ivoire. The ruling provides relief for the Ghanaian government: Ghana-based think-tank **Africa Centre for Energy Policy** said halting the development of the TEN field could have cost the government up to \$6 billion over two years. Tullow also said that suspending operations would have cost \$1-2 billion for the project partners.⁴¹

Key donors with an active role in the Ghanaian power sector, the US government and the IMF included, have urged the government to commit to private sector involvement in the sector. The government has liberalised production in the last decade and now relies on **Independent Power Producers (IPPs)** to drive the planned increase in power generation. However, the ruling **National Democratic Congress (NDC)** grassroots support base is generally against privatisation of state utilities. It appears the NDC will delay an announcement on private sector involvement in the ECG during its current term in office (until the next general elections in December 2016 and the process will probably be left to the next government formed in early 2017. This is in line with the MCC's statement that the government has committed to the operating concession or part privatisation in 18 months to two years.

The BoG's surprise move to raise interest rates signals the government's lack of success in containing inflation and spurring growth. While business confidence has improved marginally since the IMF agreement in April, the weak economic data indicates the economy will not start its recovery until at least the start of 2016.

³⁵ Reuters, 11 May 2015.

³⁶ Bloomberg, 29 Apr 2015.

³⁷ Bloomberg, 29 Apr 2015.

³⁸ See ARC Briefing for Guinea, Mar 2015

³⁹ Reuters, 5 May 2015.

⁴⁰ Bloomberg, 11 May 2015.

⁴¹ Reuters, 24 Apr 2015