

AFRICA RISK CONSULTING

Ghana Monthly Briefing March 2016

Ghana Summary 3 March 2016

President John Dramani Mahama (2012-present) makes his final State of the Nation Address (SONA) before presidential elections in November. The speech sets out a narrative of fiscal consolidation. The continued shutdown of the Cocoa Processing Company (CPC) involves shareholders from government and Ghana Cocoa Board (Cocobod) as finance minister Seth Terkper aims to convene an emergency meeting. A group of 19 business unions and associations representing retail owners holds a three-day strike in Accra's business district in protest against increases in tax and the cost of utilities.

Mahama's SONA highlights fiscal tightening...

President **John Dramani Mahama** (2012-present) delivered his fourth **State of the Nation Address (SONA)** – and his last before presidential elections in November.¹ The underlying refrain of Mahama's SONA was that he felt he had, in some respects, lost touch with his electorate.² Mahama's message for the electorate – which he hinted was frustrated – was one of patience.³ He wished to “*show how the seeds we have been planting for the last three years have taken root and grown*”.⁴

*“Public confidence in the Mahama administration has been dipping since 2012. It was worse in the beginning of this year – especially with the plethora of corruption scandals in December [see ARC Briefing Ghana January 2016]. However, he appears to be working at it. The temporary relief in the four-year power crisis has marginally improved confidence in him. But his image is still badly bruised and voters are likely to punish him if there is no improvement.”*⁵

Mahama blamed economic underperformance on “*a narrow base of export commodities and a high dependence on imports*”.⁶ Ghana's economy remains heavily dependent on agriculture (overwhelmingly cocoa⁷), mining (95-98% of this was gold in 2014⁸) and oil. Between 2009 and 2014, the share of gross domestic product (GDP) of mining and oil increased⁹ from 2.1% to 9.5%.¹⁰ Both oil and gold prices fell significantly over the same period.¹¹ Agriculture's share of GDP fell from 32.9% to 20.7% from 2009 to 2014.¹² Although this was a positive move towards economic diversification, it had undesired repercussions for the cocoa sector. Cocoa prices had a strong recovery from 2014 to 2015, after a rut in the 2012-2013 period.¹³ However, Ghana's cocoa production reduced 11% from 2013-2015, as its neighbour and world leading producer **Côte d'Ivoire** increased production by almost 24%.¹⁴ As Mahama summarised:

¹ www.parliament.gh

² www.parliament.gh

³ www.parliament.gh

⁴ www.parliament.gh

⁵ Source, journalist, Accra

⁶ www.parliament.gh

⁷ Cocobod Annual Report

⁸ www.ghanachamberofmines.org

⁹ The oil economy in Ghana was non-existent in 2009, and started production in 2010.

¹⁰ www.africaneconomicoutlook.org

¹¹ www.nasdaq.com

¹² www.africaneconomicoutlook.org

¹³ www.nasdaq.com

¹⁴ ICCO Quarterly Bulletin of Cocoa Statistics, 27 Nov 2015.

“Despite this significant shift in the structure of the economy, the nature of our exports has virtually remained the same.”¹⁵

The second, core narrative was fiscal consolidation and austerity. Mahama stated that he will not make the same mistake as the previous government leading up to elections. The last **National Democratic Congress (NDC)** administration of former president **John Atta Mills** (2009-2012) overspent in order to boost its electoral chances against the main opposition **New Patriotic Party (NPP)**, and its leader **Nana Akufo-Addo**, in the 2012 election.¹⁶ Since April 2015, the **International Monetary Fund (IMF) Extended Credit Facility (ECF)** has agreed to a three-year \$918m programme with Ghana, which dictates economic policy.¹⁷ The IMF completed the second disbursement of the programme in January, for a total of \$114.6m.¹⁸ Mahama acknowledged that the IMF expects even greater fiscal prudence in 2016:

“Ghana is expected to achieve a budget deficit of 5.3% of GDP [in 2016] under the IMF ECF programme, which provides a tighter fiscal space than anticipated in the original programme.”¹⁹

Ghana is now at a 5.3% budget deficit, down from the 11.5% budget deficit rolled over from the 2012 administration.²⁰ Mahama described this inheritance as *“the bane of our economic management”*.²¹ Finance minister **Seth Terkper** suggested that the Ghanaian public should not view fiscal discipline as a negative:

“Before the IMF came in we had started it ourselves and it’s something we are continuing – with assistance from the IMF. And it shouldn’t be seen as paying off debts – we are still able to do projects. Our debt stock is going down. We are simply not overspending beyond the budget.”²²

Mahama’s tone has changed considerably in comparison to previous SONA’s.²³ Mahama did not mention the fiscal deficit once in his 2015 SONA, and only once in 2014 and 2013.²⁴ Several members of the opposition, including the NPP, the **People’s Progressive Party (PPP)** and the **Convention People’s Party (CPP)**, condemned Mahama for being *“unfactual”* and inaccurate.²⁵ Political analysts went so far as to call the SONA *“propaganda”* and *“a rhetorical performance”*.²⁶

... and focuses on the energy crisis

The politically contentious energy crisis, and the accompanying *“dumsor”* power cuts (see *ARC Briefing Ghana November 2015 and January 2016*), were also a focal point of the SONA. Mahama claimed that the power ministry awarded over \$6.3 billion worth of contracts in the energy sector from 2010-2015.²⁷ Mahama claims to have increased domestic power production by 800MW since the beginning of 2015 when he *“promise[d] to fix the power sector deficit”*.²⁸ Mahama’s government introduced several projects in 2015: the **Kpone Thermal Power Plant (KTPP)** (220MW); the **Takoradi II (T2 or TICO)** combined-cycle (110MW); the temporary **Karpower** barge (220MW); and the **Africa and Middle East Resources Investment Group (AMERI)** gas-powered plant (250MW).²⁹

¹⁵ www.parliament.gh

¹⁶ www.parliament.gh

¹⁷ IMF Press Release, 13 Jan 2016.

¹⁸ IMF Press Release, 13 Jan 2016.

¹⁹ www.parliament.gh

²⁰ www.parliament.gh

²¹ www.parliament.gh

²² Source, journalist, Accra

²³ www.parliament.gh

²⁴ Multiple sources: www.parliament.gh; www.presidency.gov.gh

²⁵ GhanaWeb, 26 Feb 2016.

²⁶ GhanaWeb, 26 Feb 2016.

²⁷ www.parliament.gh

²⁸ www.parliament.gh

²⁹ www.parliament.gh

This was reportedly the fastest increase in power generation in Ghana than at any time in its history.³⁰ However, there is disagreement about this figure. **African Centre for Energy Policy** deputy executive director **Ben Boakye** claims that KTPP should not be included in the calculation, as it is not yet fully operational.³¹

“800MW? I didn’t get how the computation was done... I don’t know where the excess is coming from.”³²

Mahama pledged to increase electricity production by over 12% – the current growth in demand for electricity.³³ He also claimed to have increased access to electricity from 76% to 80.5% of the population during his four-year tenure.³⁴ Despite these improvements, Mahama recognised a lack of competitiveness of “vital” national utility companies due to “legacy debts”, which he maintains past governments accumulated over two decades – less so during his tenure.³⁵ Mahama noted that state-owned power utilities, the **Volta River Authority (VRA)**, **Ghana Grid Company (GRIDCO)** and the **Electricity Company of Ghana (ECG)**, “owe colossal amounts” of debt.³⁶ In his SONA he justified the December 2015 tariff increases (59.2% increase in electricity and 67.2-89% increase in water) (see *ARC Briefing Ghana January 2016*).

“... while some subsidies have been paid over the years, perennial budgetary constraints and numerous competing demands have made it virtually impossible for successive governments to meet this [debt] obligation. [T]he operations of these power utilities cannot be sustained if nothing is done to arrest the situation.

The situation that we are faced with requires very difficult but necessary measures to sustain these vital utility companies. The alternative to not acting would be a total collapse of the power sector.”³⁷

Despite increases in power production, power cuts continue to be a feature of daily life in Ghana.

“Dumsor has improved... (but) we are not out of the woods yet. Blackouts now don’t last for more than six hours.”³⁸

Terkper to hold emergency talks with Cocoa Processing Company

The **Cocoa Processing Company (CPC)**, a former subsidiary of state-owned **Ghana Cocoa Board (Cocobod)**, is in talks with the government to salvage its financial situation.³⁹ Finance minister Seth Terkper raised the issue in parliament, following the announcement in January that the company would shut two of its three processing factories at **Tema** port for “maintenance” (see *ARC Briefing Ghana February 2016*). A press investigation found that the CPC – a **Ghana Stock Exchange (GSE)** listed company – was in serious financial trouble. The company declared that it had shut only temporarily, but the investigation found that the company was shutting down two of its factories due to over \$50m of debt arrears owed to Cocobod.⁴⁰ Cocobod – CPC’s largest shareholder – put CPC on a blacklist because of its unpaid debts, effectively forcing the company to buy its cocoa on the open market, and exacerbating its financial woes.

³⁰ Reuters, 25 Feb 2016.

³¹ GhanaWeb, 1 Mar 2016.

³² Source, journalist, Accra

³³ www.parliament.gh

³⁴ www.parliament.gh

³⁵ www.parliament.gh

³⁶ www.parliament.gh

³⁷ www.parliament.gh

³⁸ Source, journalist, Accra

³⁹ News Ghana, 23 Feb 2016.

⁴⁰ Reuters, 28 Jan 2016.

“They were given a huge loan by Cocobod to buy cocoa from the licence operators but the money was invested in something else ahead of the season and the business went bad.”⁴¹

Over the past few years CPC has lost ground in cocoa processing to large international competitors – Switzerland-based **Barry Callebaut**, United States (US)-based **Cargill**, Ghana-based **Niche Cocoa Industry Ltd** and US-based **Archer Daniels Midland (ADM)**.⁴² CPC’s market share reduced from 10.6% to 6.6% from 2012 to 2014, a sign that the company’s spiralling debt – and perhaps other factors such as elevated cocoa prices – was significantly affecting productivity.⁴³ CPC’s processing decreased by 50% from 2008-2014, from 40,000 to 20,000 tonnes, providing less income to repay its debt.⁴⁴ This figure reportedly dropped to 8,000 tonnes in 2015.⁴⁵

CPC appears to be unable to recover its financial position independently, and ostensibly requires some form of bailout. Its main shareholders are government institutions – Cocobod (57%), the finance ministry (26%) and the **Social Security and National Insurance Trust (SSNIT)**(10%).⁴⁶ Terkper confirmed on 23 February that he and Cocobod CEO **Stephen Kwabena Opuni** will meet to prepare an emergency meeting with CPC.⁴⁷ However, in a statement on 24 February, Cocobod appeared to play down the influence it holds as majority shareholder:

“We would like to put on record that CPC is a private company listed on the GSE. Individuals and organisations, including Cocobod, have shares in CPC. However, CPC is not managed by Cocobod. CPC has its own management and governing Board.”⁴⁸

The cocoa sector in Ghana has suffered in recent years, despite favourable world market conditions. Ghana produced over one million tonnes in 2011 and production has declined since then to around 740,000 tonnes in 2015.⁴⁹ Cocobod argues that this is due to a cyclical fluctuating trend in production, where more or less favourable conditions amplify and exaggerate production peaks and troughs.⁵⁰ Harsh and dry weather, disease such as swollen shoot and abnormal occurrence of pests are the main causes of Ghana’s declining cocoa production.⁵¹ In the case of cyclical declines, local processing companies are often forced to import cocoa to uphold domestic processing capacity.⁵² Cocobod spokesperson **Noah Amenyah** stated that the **Harmattan** wind, a south-blowing airstream originating from the **Sahara** desert, combined with a dearth of rainfall could cause a loss of as much as 25% of projected cocoa production in 2016.⁵³ In response to this potentially catastrophic projection, Cocobod has distributed free early-maturing hybrid seedlings, as well as fertilisers, which it hopes will help bolster production.⁵⁴

Retail shop owners declare a three-day strike across Accra

Business unions and associations declared a three-day strike across the Ghanaian capital **Accra**’s business district from 29 February to 2 March, in protest against tax and utilities hikes.⁵⁵ The single largest dedicated retail union, the **Ghana Union of Traders Association (GUTA)**, representing 30 sector association members,⁵⁶ led the action.⁵⁷ A further 18 unions joined the strike, including the

⁴¹ Source, journalist, Accra

⁴² Multiple sources: Cocobod Annual Report 2014; Cocobod Annual Report 2012.

⁴³ Multiple sources: Cocobod Annual Report 2014; Cocobod Annual Report 2012.

⁴⁴ Graphic Online, 9 Feb 2016.

⁴⁵ Graphic Online, 9 Feb 2016.

⁴⁶ www.annualreportsghana.com

⁴⁷ News Ghana, 23 Feb 2016.

⁴⁸ GhanaWeb, 25 Feb 2016.

⁴⁹ News Ghana, 25 Feb 2016.

⁵⁰ News Ghana, 25 Feb 2016.

⁵¹ News Ghana, 25 Feb 2016.

⁵² News Ghana, 25 Feb 2016.

⁵³ The Africa Report, 9 Feb 2016.

⁵⁴ The Africa Report, 9 Feb 2016.

⁵⁵ Africa News, 29 Feb 2016.

⁵⁶ www.guta.com.gh

Importer and Exporters Association of Ghana, the Customs Brokers Association, the Ghana Institute of Freight Forwarders (GIFF), the Food and Beverages Association, the Ghana Automobile Dealers Association (GADA) and the Ghana Chamber of Commerce and Industry.⁵⁸

The local **Association of Ghana Industries (AGI)**, with over 1,200 members from the business community and government, refused to accompany the strike movement.⁵⁹ The AGI is one of the largest industry associations in Ghana. However, it claims that GUTA and others did not consult it prior to the formation of the regrouped union movement.⁶⁰ One source claimed that AGI declined to join because it was already in a different negotiation package with the government and supported the latest **Economic Community of West African States (ECOWAS)** common external tariffs (see below).⁶¹

The grouped unions were protesting the tax duties and utilities increases in effect since December 2015.⁶² These included significant increases of 59.2% and 62.9% respectively in domestic electricity and water tariffs.⁶³ In addition, the government's December 2015 **Energy Sector Levy (ESL)** increased the prices of all oil products by 27%.⁶⁴ The strike motion demanded a reconsideration of the ECOWAS common external tariffs, introduced at the beginning of February.⁶⁵ GUTA president **George Ofori** claimed that cumulative import duties will amount to around 50%. The group is also concerned over a 2% special import tax and the cancellation of a flat value added tax (VAT) rate of 3% for the informal sector, which is now 17.5%.⁶⁶ GUTA members said the 90% participation rate of unionists strongly indicated the impact of the increased taxes and energy costs.⁶⁷

Implications

Mahama's message of fiscal consolidation does not bode well for his re-election hopes. The cutbacks Mahama has needed to make in order to reduce the fiscal deficit, as the IMF advocates, have made him very unpopular. The dim global commodities outlook has intensified export frailties within Ghana's economy. The cocoa sector's underperformance could have worrying longer-term effects for Ghana's more diversified economy, not least if the current commodities slump extends beyond average projections. Improvements with regards to the energy crisis, however, may prove an important redeeming factor for Mahama to win back parts of his electorate.

The CPC's downward spiral is a further indication of the struggles that smaller local companies face when seeking to compete independently against the world's largest players. The CPC's finances indicate bad management, and explain why the government and Cocobod feel the need to intervene. However, it would appear unlikely that the government could undertake the bailout due to its current fiscal consolidation efforts. Nonetheless, a bail-out could bolster national competitiveness and ensure that the CPC is able to operate at full capacity. The problem is not recent, and has gradually worsened over the past few years. Ghana's domestic production problems do not help the situation. When operational again, CPC could be forced to import beans at a higher price, putting the company at a disadvantage.

The retail strike in Accra appears to be a direct response to Mahama's fiscal consolidation efforts, which the IMF's ECF necessitates. The scale and participation rate of the strike demonstrate the severity of the measures introduced, and the increasing unpopularity Mahama faces domestically. The

⁵⁷ Africa News, 29 Feb 2016.

⁵⁸ Africa News, 29 Feb 2016.

⁵⁹ News Ghana, 29 Feb 2016.

⁶⁰ News Ghana, 29 Feb 2016.

⁶¹ Source, journalist, Accra

⁶² Africa News, 29 Feb 2016.

⁶³ Peace FM, 10 Feb 2016.

⁶⁴ Multiple sources: Citi FM, 4 Jan 2016; Pulse, 29 Feb 2016.

⁶⁵ GhanaWeb, 4 Feb 2016.

⁶⁶ Source, journalist, Accra

⁶⁷ Source, journalist, Accra

tax increases would appear to affect the SME retail sector most heavily, as they cause a more significant surge in operations costs relative to income. The strike would appear unlikely to mitigate or reverse the NDC's fiscal consolidation process. However, the so far peaceful dynamic of the strike – and its bargaining power – could change, especially if the strike were to extend further, and beyond Accra.

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