

## AFRICA RISK CONSULTING

### Ghana Monthly Briefing July 2019

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#### Ghana Summary 17 July 2019

*Former minister for finance and economic planning, Seth Terkper, urges the government to tackle the debt crisis and excessive borrowing after the International Monetary Fund (IMF) and the World Bank state that Ghana has a high risk of debt distress. However, history shows that government spending will increase substantially in the run-up to next year's presidential elections. Economic Community of West African States (ECOWAS) members agree to adopt a new common currency called ECO, to be launched in 2020. Ghana and Cote d'Ivoire announce a fixed Living Income Differential (LID) of \$400 per tonne on all cocoa contracts sold by either country for the 2020/21 season. The plan is intended to reduce poverty and child labour, but analysts and traders worry it may have the opposite effect.*

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#### Debt repayment concerns with presidential elections looming

Former minister for finance and economic planning, **Seth Terkper**, said on 17 July that the government must “do more” to keep debt at a sustainable level and end excessive borrowing.<sup>1</sup> Terkper's call comes after both the **International Monetary Fund (IMF)** and the **World Bank** revealed that Ghana is at high risk of debt distress. However, the warnings are likely to fall on deaf ears in Ghana. Government spending is expected to increase considerably in the run-up to next year's presidential elections – as has been the case for previous elections. This will signal to lenders and investors that the country is not serious about mitigating its debt problem.<sup>2</sup>

Speaking to the Ghanaian news outlet, **Joy Business**, Terkper said government borrowing must come down:

*“You can do more. You can show the IMF that with oilfields we are not going to be struggling, we are not going to offset, we are not going to be borrowing. We are going to continue using our sinking fund. We need to pay our debt to keep it within sustainable limits.”<sup>3</sup>*

Terkper believes that if the current government fails to maintain fiscal discipline in the lead-up to the 2020 elections and also does not honour its debt obligations, Ghana could be seeking IMF help – again.

*“We could, is what some of us are saying, like offsets of arrears and the rest, and others are real, and I hope that there is a clarification that they are not real, then all of us can [relax] but if we continue despite the additional oil revenues and the others, we could be there.”<sup>4</sup>*

The IMF placed Ghana on **Post Programme Monitoring (PPM)** in June after the country's debt levels reached over \$1 billion, to support the management of its debt repayments. When a member country borrows money from the IMF, its policies come under closer scrutiny. Once a country has completed its lending programme, it may be subject to PPM, which is part of the IMF's safeguard architecture. Ghana exited an IMF programme in April after an initial three-year arrangement, approved on 3 April 2015, was extended for an additional year on 30 August 2017. Ghana got \$925.9m from the IMF during the four-year programme. In March, President **Nana Akufo-Addo** (2017-present) said the

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<sup>1</sup> GhanaWeb, 17 Jul 2019

<sup>2</sup> Source, analyst, United Kingdom

<sup>3</sup> Joy Business in GhanaWeb, 17 Jul 2019

<sup>4</sup> GhanaWeb, 25 Jun 2019

sixteen bailouts Ghana has received from the IMF since its independence in 1957 were “senseless” and hinted that there would be no more after the last one.

**The Economist** also raised concerns last month about Ghana’s burgeoning debt and increased government spending during election cycles.<sup>5</sup> The news outlet noted the rising civil discontent towards Akufo-Addo’s expanding government.

*“Since Nana Akufo-Addo took office as president in January 2017 the number of government ministers has soared by 42% to 125, each with a car, guards and a taxpayer-funded home.”<sup>6</sup>*

This spending is expected to increase considerably ahead of an election next year. Global investment bank **Renaissance Capital** director **Gregory Smith** notes that budget deficits were almost one percentage point of gross domestic product (GDP) higher in each of the seven election years since 1990 than in non-election years.<sup>7</sup> Worryingly, this trend appears to be accelerating, with deficits at almost three percentage points of GDP in 2012 and 2016.<sup>8</sup>

While commending the country’s expansion and various economic achievements under Akufo-Addo, **The Economist** also notes that significant progress is still needed, particularly in regards to poverty reduction.

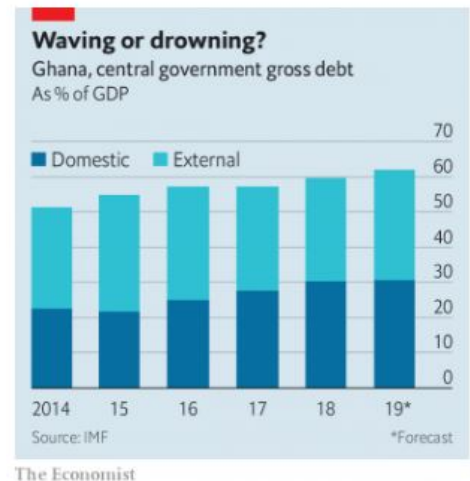
*“Yet the praise should be tempered. Some 3.1 million people, or about one-tenth of the population, live on less than \$1.90 per day, the World Bank’s measure of extreme poverty. It has been a stubborn problem. Although Ghana cut its poverty rate in half in the 20 years to 2013, most of that progress occurred in the 1990s, when it fell by almost two percentage points a year. Since 2006 progress has slowed to about one percentage point per year.”<sup>9</sup>*

### ECOWAS member states adopt ECO as common currency

Members of the **Economic Community of West African States (ECOWAS)** decided at the ECOWAS summit in **Abuja (Nigeria)** on 29 June to adopt a new common currency dubbed the ECO, which they plan to launch in 2020.<sup>10</sup> This will create the biggest single currency zone in **Africa**. Although all 15 ECOWAS member states<sup>11</sup> decided unanimously to adopt the ECO, there are concerns about the feasibility of the 2020 launch date.<sup>12</sup>

The idea to adopt a common currency for the region was first mooted in 1983.<sup>13</sup> More recently, 2003 was earmarked for the launch of such a currency.<sup>14</sup> A 2018 ECOWAS report underlined the need to liberalise regional trade, consolidate the customs union and create a free trade area to address increasingly complex regional economic issues.<sup>15</sup> **Niger’s** president and current ECOWAS chairman, **Mahamadou Issoufou** (2011- present), stated:

*“We are of the view that countries that are ready will launch the single currency and countries that are not ready, will join the programme as they comply with all six convergence criteria.”<sup>16</sup>*



<sup>5</sup> The Economist, 22 Jun 2019

<sup>6</sup> The Economist, 22 Jun 2019

<sup>7</sup> Gregory Smith quoted in The Economist, 22 Jun 2019

<sup>8</sup> Gregory Smith quoted in The Economist, 22 Jun 2019

<sup>9</sup> The Economist, 22 Jun 2019

<sup>10</sup> Al Jazeera, 30 Jun 2019

<sup>11</sup> ECOWAS member states are Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

<sup>12</sup> Quartz, 3 Jul 2019

<sup>13</sup> Jeune Afrique, 7 Jul 2019

<sup>14</sup> Quartz, 3 Jul 2019

<sup>15</sup> Al Jazeera, 30 Jun 2019

<sup>16</sup> Al Jazeera, 30 Jun 2019

Currently, only five of the 15 member states meet the criteria to adopt the currency – **Cape Verde, Cote d'Ivoire, Guinea, Senegal and Togo**.<sup>17</sup> These benchmarks include:

- not having a budget deficit exceeding 4%;<sup>18</sup>
- possessing gross reserves that can finance three months of imports;
- annual inflation of less than 10%;
- public debt that does not exceed 70% of GDP;
- nominal exchange rate variation of plus or minus 10%;
- central bank financing budget not more than 10% of previous financial year tax revenue.<sup>19</sup>

There is palpable scepticism about the practicality of adopting the new currency. Chief global economist for **Russia-based Renaissance Capital, Charlie Robertson**, notes that the ECOWAS member states are at different stages of development and it would be difficult to see them adopt the ECO in the near future.<sup>20</sup> Robertson says the 2020 timeline is unrealistic because there has been no significant progress with respect to the design, production and testing of currency notes.<sup>21</sup> Robertson also claims that **Nigeria**, which generates 67% of ECOWAS' gross domestic product (GDP), will dictate the fate of the currency.<sup>22</sup>

There is some uncertainty whether the countries that use the CFA franc, which has been in circulation since 1945, will abandon their use of the ECO.<sup>23</sup> These countries are **Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo**. The CFA franc is regarded as a stable currency, since it has a fixed exchange rate with the euro, which has helped to maintain low inflation.<sup>24</sup> Robertson notes that it would not be pragmatic to abandon the CFA franc as countries such as Cote d'Ivoire and Senegal have received significant foreign investment and experienced positive economic growth as a result of their adherence to the CFA franc.<sup>25</sup> This would contrast with joining a common zone with countries that have much less stable currencies, like Ghana and Nigeria. The CFA franc has nevertheless attracted recent criticism for encroaching on sovereignty, particularly in the area of developing and enabling monetary policy flexibility.<sup>26</sup>

The adoption of the ECO has significant support from ECOWAS leaders who view the currency as a tool for the attainment of economic development initiatives. However, Nigeria-based intelligence firm **SBM Intel** claims that structural issues about inadequate supply chain infrastructure, arbitrary border tariffs and non-tariff barriers, deep corruption and wide-area insecurity need to be addressed for the currency to be fully beneficial.<sup>27</sup>

### **Ghana and Cote d'Ivoire impose \$400 per tonne charge on cocoa contracts**

Ghana and Cote d'Ivoire will impose a fixed **Living Income Differential (LID)** of \$400 a tonne on all cocoa contracts sold by either country for the 2020/21 season, according to an official letter seen by **Reuters**.<sup>28</sup> The premium replaces an earlier proposal for a floor price for cocoa contracts and is part of a wider plan to combat poverty among farmers in the neighbouring countries. Global cocoa companies, including **Hershey, Mars and Blommer Chocolate**, have reportedly endorsed the plan.<sup>29</sup> However, traders and analysts say the plan could encourage growers to boost production just as high prices curb consumption, setting the industry up for a dangerous boom-and-bust scenario.<sup>30</sup>

<sup>17</sup> Quartz, 3 Jul 2019

<sup>18</sup> Quartz, 3 Jul 2019

<sup>19</sup> Patriotic Vanguard, 1 Jul 2019

<sup>20</sup> Quartz, 3 Jul 2019

<sup>21</sup> Quartz, 3 Jul 2019

<sup>22</sup> Quartz, 3 Jul 2019

<sup>23</sup> Al Jazeera, 12 Jul 2019

<sup>24</sup> Al Jazeera, 12 Jul 2019

<sup>25</sup> Quartz, 3 Jul 2019

<sup>26</sup> Quartz, 3 Jul 2019

<sup>27</sup> Quartz, 3 Jul 2019

<sup>28</sup> Reuters, 11 Jul 2019

<sup>29</sup> Reuters, 11 Jul 2019

<sup>30</sup> Source, commodities analyst, Ghana

According to the official letter, funds raised by the LID will be used to help increase payments to farmers, with the aim being for them to get 70% of a \$2,600 a tonne target price. If market prices rise above \$2,900 a tonne, proceeds from the LID will be placed in a stabilisation fund that would aim to ensure the governments can pay farmers 70% of the \$2,600 target price when market prices fall. Cocoa prices on **London Cocoa Futures** hit a one-year high of £1,939 (\$2,424) on 8 July<sup>31</sup> amid confusion over a plan that marks the biggest shake-up of the cocoa market in years.

Critics say that the LID may lead to surplus production, and, in turn, cause traders to seek other sources of supply, or, that the price increase will reduce global demand for the crop – both of which will have an adverse effect on fighting poverty and child labour. Traders said the plan could lead to surplus production and might eventually prompt them to seek other sources of supply. Senior soft-commodities trader **Marcelo Dorea** at investment firm **First New York** said:

*"Fair to the farmers as it may be seen, there are unintended consequences. It has the potential to, over time, lead us onto sequential, structural surpluses and inevitably to lower futures prices."*<sup>32</sup>

The consequences of the LID will be seen at the start of the 2020-2021 season on 1 October. The ramifications may have a significant impact on Ghana's national election given the fact that the start of the season is several months before citizens will take to the polls. **University of Ghana** senior lecturer **Godfred Bokpin** said:

*"The government will seek to use this to tell farmers how much they are loved. The dividend comes back when votes are needed."*<sup>33</sup>

Both Ghana and Cote d'Ivoire said in June that they would fix a minimum price of \$2,600 per tonne free-on-board that chocolate companies must pay from the 2020/21 season if they want to access their cocoa (see *ARC Briefing Ghana June 2019*). Last month the countries suspended forward sales of cocoa for the 2020/21 season to give themselves time to implement the new pricing mechanism.

## Planner

17-19 Jul 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** meets;  
 22 Jul 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** press release;  
 17-19 Sep 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** meets;  
 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

17 Jul 2019 **Accra (Ghana) GhanaWeb**. Former finance minister **Seth Terkper** challenges the government to keep debt levels down by ending excessive borrowing;  
 16 Jul 2019 **Accra (Ghana) GhanaWeb**. **Japan-based Toyota** opens new country headquarters in **Accra**;  
 16 Jul 2019 **Accra (Ghana) World Oil**. **Pan-African** infrastructure solutions provider **Africa Finance Corporation** announces it has invested \$100m in **Aker ASA** subsidiary, **Aker Energy AS**, to develop the **Deepwater Tano Cape Three Points** offshore oil block;  
 16 Jul 2019 **Accra (Ghana) GhanaWeb**. **Tema Port** marketing and public affairs manager **Serwaa Opoku-Fosu** reaffirms that the paperless processes at Ghana's ports have improved the

<sup>31</sup> www.commodity3.com, accessed on 17 Jul 2019

<sup>32</sup> Marcelo Dorea quoted in Business Times, 16 Jul 2019

<sup>33</sup> Godfred Bokpin quoted in Business Times, 16 Jul 2019

turnaround time of cargo, transparency and eased of doing business;

16 Jul 2019 **Accra (Ghana)** *Ghanaian Times*. Government sets up a **Special Committee** to raise funds to pay arrears owed contractors;

16 Jul 2019 **Accra (Ghana)** *Ghanaian Times*. The **National Petroleum Authority** says petroleum consumption increased from 3.4 to 3.9 million metric tonnes from 2017 to 2018;

16 Jul 2019 **Accra (Ghana)** *Ghanaian Times*. The second largest opposition party, the **Progressive People's Party**, announces nomination forms will be opened for presidential candidates of the party in February 2020;

15 Jul 2019 **Accra (Ghana)** *Ghanaian Times*. Foreign affairs and regional integration minister **Shirley Ayorkor Botchwey** appeals to **South Korean** manufacturing companies to invest in Ghana;

15 Jul 2019 **Accra (Ghana)** *GhanaWeb*. The **National Identification Authority** begins charging foreigners \$120 for a non-citizen **Ghana** identification card;

10 Jul 2019 **Accra (Ghana)** *Reuters*. Ghana and **Ivory Coast** impose a fixed "*living income differential*" of \$400 a tonne on all cocoa contracts sold by either country for the 2020/21 season;

11 Jul 2019 **Accra (Ghana)** *GhanaWeb*. The **Ghana Police Service** confirms the detention of **Interpol**-wanted gold dealership founder, **Nana Appiah Mensah**, who had been held for six months in the **United Arab Emirates**;

11 Jul 2019 **Accra (Ghana)** *Aljazeera*. President **Nana Akufo-Addo** says **Africa** must change its relationship with **Europe** following talks with **French** counterpart **Emmanuel Macron** in **Paris** (France);

11 Jul 2019 **Johannesburg (South Africa)** *This Day*. **South Africa's** department of home affairs adds **Ghana** to a list of seven countries whose nationals will be permitted to enter South Africa visa-free;

11 Jul 2019 **Accra (Ghana)** *African Development Bank Group*. The **Green Climate Fund** announces a \$20m grant to the **African Development Bank's** affirmative finance action for women in **Africa** programme to support micro, small and medium enterprises in Ghana's agricultural sector;

6 Jul 2019 **Lagos (Nigeria)** *CNN*. **Economic Community of West African States** announces the name 'ECO' for a planned single currency to be used in the region;

4 Jul 2019 **Accra (Ghana)** *Ghanaweb*. **Ghana** and **Cote d'Ivoire** announce a \$400 per tonne **Living Income Differential** to be paid to cocoa farmers;

3 Jul 2019 **Abidjan (Cote d'Ivoire)** *Reuters*. **Cote d'Ivoire** and **Ghana** fail to reach an agreement with the chocolate industry over how to introduce a new floor price for their exports;

24 Jun 2019 **Accra (Ghana)** *Bloomberg*. The cocoa harvest falls 6% to a three-year low due to disease;

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