

## AFRICA RISK CONSULTING

### Ghana Monthly Briefing August 2019

#### Ghana Summary 16 August 2019

*Finance minister Ken Ofori-Atta presents the mid-year budget statement and fiscal policy to parliament as local economists continue to warn about the country's ballooning debt service costs and its routine failure to collect its forecasted revenue. These issues are unlikely to be solved in the near-term with elections fewer than 15 months away. African maritime officials meet in Accra for the International Maritime Defence Exhibition and Conference (IMDEC) where Ghana's defence minister, Dominic Nitiwul, signs several construction and procurement deals to bolster the Ghanaian Navy's capabilities. The meeting comes amid a growing regional piracy threat, which has the potential to cause significant economic and reputational damages. Lands and natural resources minister Kwaku Asomah Kyeremeh temporarily shut down Chinese-owned Ghana Manganese Company (GMC) over allegations of financial infringements and tax evasion. The closure will do little to harm the Ghana's lucrative and well-respected mining industry.*

#### Mid-year budget fails to ease debt concerns

Finance minister **Ken Ofori-Atta** presented the mid-year budget statement and fiscal policy to **Ghana's** parliament on 29 July. Ofori-Atta requested to increase spending above the appropriated amount in the initial budget, and proposed hikes to taxes and levies to boost domestic revenue mobilisation and the scrapping of the luxury vehicles tax.<sup>1</sup> The **Institute for Fiscal Studies (IFS)**, a local economic policy think tank, raised serious concerns over the plans and urged the government to control expenditure and improve the tax regime.<sup>2</sup> However, the government's ballooning debt service costs and its routine failure to collect its forecasted revenue amount will not be solved with elections fewer than 15 months away.<sup>3</sup>

The IFS strongly criticised the government's current fiscal policy, which has pushed debt to 59.2% of gross domestic product (GDP), the highest in four years:<sup>4</sup>

*"Overall, the fiscal policy path the country is on is unsustainable, as the country's indebtedness looks likely to worsen on the basis of current spending and borrowing decisions. The government has to reverse course with a strategy that will reduce borrowing significantly in order to improve the debt dynamics, particularly with regard to the ballooning debt service costs."<sup>5</sup>*

Domestic revenue performance over the past three years has not met the budgeted estimates, with a shortfall of 15.5% recorded in the first half of 2019 and falling short by 10% last year.<sup>6</sup> Ofori-Atta plans to hike communication service tax, the road fund levy, the energy debt recovery levy, and the price stabilisation and recovery levy to improve persistent weak revenue collection. President **Nana Akufo-Addo** (2017-present) said in his 2019 State of the Nation address that the tax exemptions regime is "an Achilles heel in the management of the economy, and a growing threat to fiscal stability

<sup>1</sup> GhanaWeb, 29 Jul 2019

<sup>2</sup> 'IFS's Assessment of 2019 Mid-Year Fiscal Policy Review', Institute for Fiscal Studies, 6 Aug 2019

<sup>3</sup> Source, analyst, London

<sup>4</sup> Bloomberg, 28 May 2019

<sup>5</sup> 'IFS's Assessment of 2019 Mid-Year Fiscal Policy Review', Institute for Fiscal Studies, 6 Aug 2019

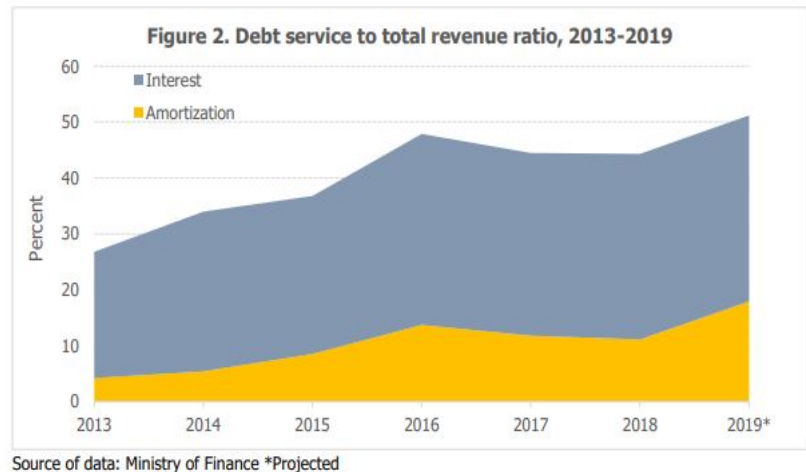
<sup>6</sup> 'IFS's Assessment of 2019 Mid-Year Fiscal Policy Review', Institute for Fiscal Studies, 6 Aug 2019 and Myjoyonline.com, 1 Apr 2019

and revenue generation.”<sup>7</sup> Ghana currently loses 4.66 billion Ghanaian cedi (GHS) (\$750m) annually over tax exemptions and the government estimates that the **Exemptions Bill** could save GHS500m (\$92m) of that if parliament enacts the bill (see below).<sup>8</sup>

Ofori-Atta said that projected government expenditure in 2019 has increased by GHS1.2 billion (\$221m), or 0.3% of GDP.<sup>9</sup>

Expenditure now stands at 21.6% of GDP. According to the IFS, this raises the deficit ratio from 4.2% to 4.5% of GDP.

The ratio of debt service expenditure to government’s total revenue and grants in 2019 is projected to hit 51.2%, increasing by 24.4% from a ratio of 26.8% in 2013. This means that for the first time in nearly two decades, debt servicing costs the government more than half of total public revenues.



In light of these economic concerns, the IFS outlined four recommendations to the government:

- Improve revenue forecasting and target setting;
- Curtail exemptions in the tax regime, which crucially includes enacting the Exemptions Bill;
- Reduce expenditure on goods and services, and restrict the roll-out of new consumption-based policy initiatives (e.g. **Free SHS, Nation Builders Corps** and **Planting for Food and Jobs**);
- Provide more information on energy sector indebtedness, particularly given the surge in amortisation spending in the mid-year budget.

The Exemption Bill, which was laid before parliament on 1 April 2019, intends to streamline tax exemptions and minimise its abuses. The **International Monetary Fund (IMF)** backed the Ghanaian government to overhaul its tax exemptions regime and said that it will improve the government’s domestic revenue mobilisation. However, ARC’s regional analyst said local businesses are worried that the bill could lead to high compliance costs and unclear compliance procedures, and ultimately impact on their competitiveness if it passes into law.<sup>10</sup> Deputy minister of finance **Kwaku Kwartan** has said that government is sensitive to the needs of the business community and that it will be willing to give tax exemptions if businesses are prepared to offer something in return.<sup>11</sup>

### Navy beefs up against piracy threat

Defence minister **Dominic Nitiwul** said on 25 July at the **International Maritime Defence Exhibition and Conference (IMDEC)** – the largest ever gathering of **African** maritime officials – that the government has signed construction and procurement deals to bolster the navy’s capabilities.<sup>12</sup> Ghana has been building up its naval capabilities for the past decade to protect its sea-based, export-dominant economy from the growing regional piracy threat, which has the potential to cause major economic and reputational damages.<sup>13</sup>

<sup>7</sup> Myjoyonline.com, 21 Feb 2019

<sup>8</sup> GhanaWeb, 6 Aug 2019

<sup>9</sup> ‘IFS’s Assessment of 2019 Mid-Year Fiscal Policy Review’, Institute for Fiscal Studies, 6 Aug 2019

<sup>10</sup> Source, analyst, West Africa

<sup>11</sup> GhanaWeb, 2 Jul 2019

<sup>12</sup> DefenceWeb, 31 Jul 2019

<sup>13</sup> Source, analyst, London

Nitiwul said he signed a \$200m contract to construct a **Forward Operating Base** at **Edzinlibo** in the **Western region** to protect the country's oil and gas infrastructure.<sup>14</sup> The deal will also include offshore patrol boats for the navy. Nitiwul also said he signed a contract with Ghana-based **Gulf Frontiers** for the procurement of six new patrol boats and to provide maritime patrol and transport services to the local and regional oil and gas industry.

The maritime sector is a cornerstone of the local and regional economy. Ports and harbours are a gateway for more than 80% of the country's international trade.<sup>15</sup> As noted by Nitiwul:

*"As we all know the sea is the super highway for global trade and Africa's quest for a continental free trade area cannot be successful without a secured maritime domain."<sup>16</sup>*

The **Gulf of Guinea** is one of the world's most notorious areas for piracy and kidnapping.<sup>17</sup> The **International Maritime Bureau** has reported that since 2018, there has been a "marked rise in attacks against ships and crews around **West Africa**." Ghana, **Benin**, **Togo**, **Côte d'Ivoire**, **Nigeria** and the **Democratic Republic of the Congo** have all experienced piracy and maritime crime. The **United States (US) Naval Forces Europe-Africa** commander, **Admiral James Foggo**, told IMDEC attendees that Ghana is an essential partner for the US and that the partnership is crucial to maintaining maritime security in the Gulf of Guinea.<sup>18</sup>

The rise in attacks has coincided with the rapid development of offshore oil and gas blocks in the region, which has given perpetrators the name of 'Petro-pirates'. Ghana has experienced 10 actual and reported pirate attacks in the past two years.<sup>19</sup> In October 2017, Ghana's navy commissioned four patrol boats donated by **China**. In 2008, the navy bought two Chinese military patrol vessels. The navy has also purchased patrol boats from **South Korea**, the US and **Germany** over the past decade.

### Brief closure of Ghana Manganese Company

Lands and natural resources minister **Kweku Asomah Kyeremeh** shut down Chinese-owned **Ghana Manganese Company (GMC)** between 6 and 12 August over allegations of financial infringements and tax evasion.<sup>20</sup> While this caused short-term operational problems for buyers of Ghana's manganese, it will have done little to damage the strong reputation of the country's mining sector, which benefits from a stable economy and abundant natural resources.<sup>21</sup>

GMC chief operating officer **Benjamin Astu Quarshie** said the company has set up a committee to ensure the issues are dealt with, and that he is cooperating with the government.<sup>22</sup> GMC shut down following a government investigation that revealed that it avoided paying GHC1.94 billion (\$360m) in taxes and royalties and committed price manipulation between 2010 and 2017. Quarshie denied the allegations and claimed that a **Ghana Revenue Authority** report exonerates the company. Government later ordered GMC to resume its operations after a two-day meeting between government officials and GMC on 6 and 9 August.

China-based mining company **China Tian Yuan Manganese Industry Group Co Ltd** bought GMC in 2018.<sup>23</sup> The company owns and operates the 175 square kilometre **Nsuta-Tarkwa** manganese mine in the Western region, the country's only operational manganese ore mine, and directly employs more than 650 people.<sup>24</sup>

<sup>14</sup> DefenceWeb, 31 Jul 2019

<sup>15</sup> DefenceWeb, 31 Jul 2019

<sup>16</sup> DefenceWeb, 31 Jul 2019

<sup>17</sup> Aljazeera, 24 Jul 2019

<sup>18</sup> DefenceWeb, 24 Jul 2019

<sup>19</sup> DefenceWeb, 31 Jul 2019

<sup>20</sup> GhanaWeb, 5 Aug 2019

<sup>21</sup> Source, analyst, London

<sup>22</sup> Unless otherwise stated: GhanaWeb, 5 Aug 2019

<sup>23</sup> Modern Ghana, 19 Mar 2019

<sup>24</sup> PR Newswire, 11 May 2017

Ghana's extractive industry contributes to 64% of the country's total exports, 10% of total GDP, 2% of employment and 18% of total government revenue.<sup>25</sup> Gold is the dominant commodity within the country's mining sector, contributing 96% of total mineral exports in 2015, while manganese contributed 1.95%, bauxite 1.24% and diamonds 0.31%.<sup>26</sup> Manganese ore is an essential element needed for processing stainless steel.

## Planner

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

15 Aug 2019 **Johannesburg (South Africa) Bloomberg**. **South Africa**-based mining company **Gold Fields** announces plans to invest in **Ghana**;

14 Aug 2019 **Accra (Ghana) Bloomberg**. Deputy government statistician **David Kombat** says inflation rose 0.6% in July as utility tariffs increased;

14 Aug 2019 **Accra (Ghana) GhanaWeb**. **Germany**-based technology conglomerate **Siemens** commits to continued investments in Ghana;

12 Aug 2019 **Accra (Ghana) GhanaWeb**. **Chinese**-owned mining company, **Ghana Manganese Company**, resumes operations after being temporarily shut down by the government for tax evasion;

8 Aug 2019 **Accra (Ghana) GhanaWeb**. The **Association of Ghana Industries** business barometer for the second quarter of 2019 showed an upsurge in business confidence from 99.8% to 103.2%;

7 Aug 2019 **Accra (Ghana) GhanaWeb**. Aviation minister **Joseph Kofi Adda** says a new state-run airline is expected to launch in two months;

7 Aug 2019 **Accra (Ghana) Ghana Business News**. The **Institute for Fiscal Studies**, a local economic policy think tank, urges the government to control expenditure and improve its tax regime;

6 Aug 2019 **Abidjan (Cote d'Ivoire) Jeune Afrique**. President **Alassane Ouattara** says **Cote d'Ivoire** and **Ghana** will not sell cocoa from the 2020/2021 season for less than \$2,600 per tonne;

6 Aug 2019 **Accra (Ghana) Business Ghana**. The **World Business Angels Investment Forum** opens an office in **Accra**, becoming its first office in **West Africa**;

5 Aug 2019 **Accra (Ghana) ESI Africa**. Environment minister **Kwabena Frimpong-Boateng** signs a \$5.7m agreement with the **German** government to construct a 400kW waste-energy plant in **Kumasi**;

<sup>25</sup> Ghana Extractive Industries Transparency Initiative, 5 Apr 2019

<sup>26</sup> 'Ghana's Gold Mining Resources: An Analysis of Company Disclosures', Natural Resource Governance Institute, Sep 2018

5 Aug 2019 **Accra (Ghana)** *GhanaWeb*. Lands and natural resources minister **Kweku Asomah Kyeremeh** announces the shutdown of **Ghana Manganese Company** due to financial infringements;

31 Jul 2019 **Accra (Ghana)** *Africanews*. **United States' House of Representatives** speaker **Nancy Pelosi** addresses Ghanaian parliament to observe the 400th anniversary of the first enslaved Africans arriving in the US;

31 Jul 2019 **Accra (Ghana)** *DefenceWeb*. Defence minister **Dominic Nitiwul** signs a \$200m contract to construct a **Forward Operating Base** at **Edzinlibo** in the **Western Region** to protect the country's oil and gas infrastructure;

31 Jul 2019 **Accra (Ghana)** *Reuters*. **South Africa**-based department chain **Woolworths** closes down its operations in Ghana;

30 Jul 2019 **Accra (Ghana)** *CCI France Ghana*. Ghana set to sign an MOU with the **Cote d'Ivoire** government to facilitate the bilateral trade in gas;

29 Jul 2019 **Accra (Ghana)** *Institute for Fiscal Studies*. Finance minister **Ken Ofori-Atta** presents the mid-year review of the 2019 budget statement and fiscal policy to parliament;

25 Jul 2019 **Accra (Ghana)** *GhanaWeb*. Opposition party, the **National Democratic Congress**, says that **Ghana** may need to import cocoa for its local industry if production does not increase;

22 Jul 2019 **Accra (Ghana)** *CNBC Africa*. The **Bank of Ghana** (central bank) keeps its benchmark policy rate at 16%;

18 Jul 2019 **Accra (Ghana)** *Ghanaweb*. Oil and gas exploration company **AGM Petroleum** discovers oil at the **South Deepwater Tano** offshore block;

17 Jul 2019 **Accra (Ghana)** *Petroleum Economist*. The **Africa Finance Corporation** invests \$100m in **Aker Energy AS**, the Ghanaian subsidiary of **Norway**-based **Aker Group**, to finance the **Deepwater Tano/Cape Three Points** block;

### About Africa Risk Consulting:

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