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The Bank of Ghana (BoG) (central bank) cuts the benchmark interest rate 200 basis points to 23.5%. A few days after the announcement, BoG governor Abdul-Nashiru Issahaku resigns, reportedly due to his affiliation with the opposition National Democratic Congress (NDC). Ernest Kwamina Yedu Addison replaces Issahaku. Parliament approves 2017 budget tax cuts, abolishing 15 taxes. Ghana signs a double taxation agreement with Mauritius. The Ghana Cocoa Board (Cocobod) lowers its 2016/2017 cocoa production forecast by 50,000-100,000 tonnes.

BoG lowers benchmark interest rate 200 basis points

The **Bank of Ghana (BoG)** (central bank) on 27 March cut its benchmark interest rate 200 basis points to 23.5%.¹ The cut appears to show that the BoG is prioritising growth over inflation in 2017. The reduction is the BoG's largest since February 2010.² The current rate of 23.5% is the lowest interest rate in over three years.³ As reasons for the cut, the BoG cited:⁴

- A fifth consecutive drop in headline inflation – down from 17.2% in September, to 13.2% in February;
- An easing of core inflation over the same period from September to February;
- A higher-than-expected government budget deficit of 8.7% of GDP in 2016, projected for 6.5% in 2017;
- An uptick in both the global economy and the external sector in 2017;
- A 3.5% depreciation of the cedi since 8 March.

Local economists believe that the BoG had sought to prop up interest rates in order to pressure banks to lower lending rates.⁵ According to economists, the BoG's interest rate was above the market's perception of where interest rates should be.⁶ **Razia Khan**, head of **Africa** macro research at **United Kingdom (UK)**-based **Standard Chartered Plc**, referred to the move as “*catch-up easing*”.⁷ Professor **Godfred Bopkin**, head of finance at the **University of Ghana Business School**, also said that the BoG “*is playing catch up*”⁸, and should have made the cut at its previous monetary policy committee meeting in January 2017.⁹

¹ www.bog.gov.gh

² Source, journalist, Accra

³ Source, journalist, Accra

⁴ www.bog.gov.gh

⁵ Reuters, 27 Mar 2017.

⁶ Reuters, 27 Mar 2017.

⁷ Bloomberg, 27 Mar 2017.

⁸ Citi FM, 27 Mar 2017.

⁹ Citi FM, 27 Mar 2017.

... and the BoG governor resigns

The BoG on 30 March announced that governor **Abdul-Nashiru Issahaku** had resigned.¹⁰ Issahaku reportedly resigned due to personal reasons.¹¹ However, according to one local source, Issahaku resigned due his affiliation to the opposition **National Democratic Congress (NDC)**,

“He is a known member of the NDC. Remember the governor of the BoG is a political appointment with a guaranteed tenure. Usually politicians would want their favourite to be there. The moral of this story is that you can decide to stay in office, like many have done in the past, with a government they don’t support, and still work for the interest of the nation. But in this case he has resigned... When you become a lame duck governor, the honourable thing to do is to call it quits.”¹²

Another source claims that the appointment of Issahaku was entirely political, resulting in his accession to an office he was not qualified for,

*“Clearly, the resignation of the BoG governor is a political decision. [Issahaku] was sent to the BoG in 2013 by president **John Dramani Mahama** (2012-2016) as a second deputy governor. Two years later, he became governor. His critics say he did not have a macro-economics background and therefore could not handle [the role]. Even staff at the BoG felt disrespected that an outsider was brought to lead them when senior staff are better qualified.”¹³*

Employees at the BoG say that Issahaku was removed because President **Nana Addo Dankwa Akufo-Addo’s** (2017-present) **New Patriotic Party (NPP)** government felt it could not trust him.

According to a BoG employee,

“He indicated [his resignation] was personal to staff – we believe it was because the ruling party was not comfortable with him and was virtually kept in the dark on issues bordering on economic management.”¹⁴

Issahaku’s resignation took effect from 1 April.¹⁵ Akufo-Addo on 4 April swore in **Ernest Kwamina Yedu Addison** as new governor of the BoG.¹⁶ Akufo-Addo stressed that Addison is taking over amid difficult economic circumstances. Addison, until the appointment, was lead regional economist at the **African Development Bank (AfDB)**.¹⁷ Addison was previously director of research at the BoG between 2003 and 2011.¹⁸ Addison holds an M.Phil in economics and politics from the **University of Cambridge** (UK).¹⁹ Addison has a solid technocratic reputation,

“Addison, it is said, has always been groomed for this job... He doesn’t talk much, a close friend of his told me.”²⁰

Appointments at the BoG are political. It is possible that Issahaku was opposed to the rate change. The prior BoG policy appeared to forcefully maintain high interest rates, in order to contain inflation and stabilise the cedi. The NPP government, however, is seeking to prioritise growth in 2017, with a particular focus on local industry, which will require competitive interest rates for borrowing.

¹⁰ www.bog.gov.gh

¹¹ Citi FM, 29 Mar 2017.

¹² Source, journalist, Accra

¹³ Source, journalist, Accra

¹⁴ Source, BoG employee, Accra

¹⁵ Citi FM, 29 Mar 2017.

¹⁶ GNA, 4 Apr 2017.

¹⁷ Citi GM, 30 Mar 2017.

¹⁸ Citi FM, 30 Mar 2017.

¹⁹ Citi FM, 30 Mar 2017.

²⁰ Source, journalist, Accra

Parliament approves 2017 budget tax cuts

Parliament on 16 March approved Akufo-Addo's 2017 budget tax cuts, despite protests from opposition members of parliament (MPs).²¹ The opposition to the NPP tax policy proposals shows that there are divisions over the NPP's policy direction. Finance minister **Ken Ofori-Atta** presented the 2017 budget to parliament in early March, proposing to "broaden the tax base whilst reducing and abolishing some taxes and levies".²² According to a local commentator, the NPP tax plan is too ambitious,

*"The cuts are part of a bigger plan to reduce or eliminate bottlenecks to make doing business in Ghana easier and competitive. In my view, the NPP's promise to widen the tax net largely hinges on the ability to roll out an efficient and effective national biometric database system that is robust enough to meet the needs of all user agencies. However, the reality is that it would be difficult to describe what the NPP is doing as tax reform – tax reform will require much more significant change."*²³

The parliamentary discussion revealed that the 2017 budget includes the removal of 15 taxes, through several bills: the **Income Tax (Amendment) Bill**, **Special Petroleum Tax (Amendment) Bill**, **Special Import (Amendment) Bill** and **Customs and Excise (Petroleum Taxes and the Petroleum Related Levies) (Repeal) Bill**.²⁴ Specifically, the budget proposes:

- Exemptions from taxation gains for listed members on the **Ghana Stock Exchange (GSE)**;
- Exemptions for the financial services industry from stamp duties for a period of two years, in order to enable recapitalisation;
- Intensifying transfer pricing audits of the extractives sector and integrated audits of special economic zone operators;
- Increasing domestic revenue collecting through the GRA, enforcing all employers' filing of an **Annual Tax Deduction Schedule**.²⁵

Ofori-Atta claims that the budget will "[tackle] the systemic abuse in the exemptions regime".²⁶

However, some tax experts believe that this reform could have some unwanted consequences. Legal and tax advisory **Ali-Nakyea & Associates** managing partner **Abdallah Ali-Nakyea** warned that the government also plans to withdraw some tax exemptions, which he claims could lead to an increase in corruption.²⁷ Ali-Nakyea said that the government will introduce refunds for some companies, in order to compensate for tax exemption withdrawals, which could encourage officials to demand "kickbacks or incentives".²⁸ The speed in refunding companies could also lead to a reduction in capital expenditure from larger companies. Ali-Nakyea said,

*"If you do not speed up the refund processes and it even takes two weeks, the time value of money is important because for those who are dealing with high cost of operations, we are talking about a lot of money."*²⁹

The Akufo-Addo government is employing a tax reform policy to obtain higher domestic revenue. As another example, Ghanaian foreign minister **Shirley Ayorkor Botchwey** recently signed a double taxation agreement (DTA) with the **Mauritian** government.³⁰ The DTA will encourage investors to

²¹ Graphic Online, 16 Mar 2017.

²² www.mofep.gov.gh

²³ Source, journalist, Accra

²⁴ Citi FM, 15 Mar 2017.

²⁵ Unless otherwise noted - Graphic Online, 22 Mar 2017.

²⁶ B&FT Online, 12 Apr 2017.

²⁷ B&FT Online, 12 Apr 2017.

²⁸ B&FT Online, 12 Apr 2017.

²⁹ B&FT Online, 12 Apr 2017.

³⁰ Citi FM, 10 Mar 2017.

expand operations in both Mauritius and Ghana without fear of double taxation. Investors in Mauritius tend to establish entities as global business companies (GBCs). GBCs are companies that do business elsewhere but are incorporated in Mauritius and regulated under Mauritius' **Financial Services Act of 2007**, which, depending on the registration of the company, can provide tax rates as low as 3% and DTAs. The respective governments also agreed to expand investment promotion initiatives in both countries, encouraging special investment/economic zones.³¹ Ghanaian vice president **Mahamadu Bawumia** said that the DTA could lead to imminent investment projects into Ghana,

"We have also agreed to pursue consultations on two project proposals submitted by Mauritius, namely, the setting up of a solar energy power generation and hospitality project."³²

An increasing volume of investment into Africa is channelled through Mauritius. Mauritius is viewed as an attractive destination for corporations and private equity funds. From 2004 to 2014, **Mauritius Financial Services Authority (FSA)** approved 38 private equity funds.³³

*"The scale of investments channelled through Mauritian-based firms is startling. For instance, 30% to 40% of investments from different countries into **India** have come through Mauritius for tax reasons, including some from Indian firms."³⁴*

The NPP is seeking to introduce a more progressive tax policy. Investors will welcome efforts to remove red tape and streamline tax collection. However, there are concerns that the changes in the tax system could raise corruption risks. Ultimately, meaningful tax reform will require a broader overhaul of the Ghanaian fiscal collection system in order to better enforce compliance.

Cocobod lowers cocoa production forecast

Ghana Cocoa Board (Cocobod) CEO **Joseph Boahen Aidoo** confirmed on 13 March that it has lowered its production forecast for the 2016/17 season by between 50,000 and 100,000 tonnes, to 800,000 tonnes.³⁵ The announcement should have a positive effect on international market cocoa prices, which have declined since July 2016. Aidoo announced total purchases of 657,349 tonnes until 23 February, down from 660,673 at the same time in 2016.³⁶ Cocobod still expects Ghana to surpass its 2016/17 production level of 780,000 tonnes by 20,000 tonnes, due to more favourable weather conditions.³⁷ Ghana is the world's second largest producer of cocoa after its neighbour **Côte d'Ivoire**.³⁸ One local source believes that Cocobod, rather than cocoa producers, stands to benefit,

"Globally, cocoa output is expected to decline this year. That means prices are likely to go up on the international market. Unfortunately, that would end up most likely as profit for Cocobod, rather than benefit the farmer... My fear is that local cocoa processing companies may end up suffering in the end."³⁹

A few weeks later, however, Aidoo confirmed that Cocobod is likely to exceed its revised 800,000 tonne cocoa production target for the 2016/2017 season.⁴⁰ Aidoo said that there have been good rains since his announcement, as cocoa purchases totalled 691,149 tonnes as of 23 March.⁴¹ This comprises a 4% increase compared to the same period in the 2015/2016 season.⁴² Aidoo said,

³¹ Citi FM, 10 Mar 2017.

³² Citi FM, 10 Mar 2017.

³³ CCRED Review, Apr 2014.

³⁴ CCRED Review, Apr 2014.

³⁵ Reuters, 13 Mar 2017.

³⁶ Reuters, 13 Mar 2017.

³⁷ Reuters, 13 Mar 2017.

³⁸ www.icco.org

³⁹ Source, journalist, Accra

⁴⁰ Reuters, 7 Apr 2017.

⁴¹ Reuters, 7 Apr 2017.

⁴² Reuters, 7 Apr 2017.

“The rains have been good for us this year and the outlook is very good... Indications are that we’re likely to cross the 800,000 mark.”⁴³

In order to encourage producers to boost their output, the agriculture ministry, on 7 April, announced that it has cut the price of compound fertiliser by 47.8% for farmers.⁴⁴ This will lead to an increase in government subsidies for fertilisers, which in turn will add pressure on the government budget. Agriculture minister **Dr Owusu Afriyie Akoto** said that the government is now paying a 50% subsidy on the total price of compound fertiliser.⁴⁵ Akoto says that the agriculture ministry brought in the change to encourage farmers to use fertilisers and increase crop yields.⁴⁶ **Philip Abayori**, president of the **Ghana Agricultural Chamber of Commerce**, said that the price of fertiliser was too high for farmers,

“The fertiliser was taking about 45% and in some cases 60% of the cost of production. In that case, it hardly made the farmers competitive compared to their peers from across the sub-region.”⁴⁷

Furthermore, Aidoo said that Cocobod is encouraging the government to reinforce security measures at the Côte d’Ivoire border, after the Ivorian government cut farmgate prices by 36 % on 31 March.⁴⁸ Aidoo said that he feared that Ghana’s higher farmgate price could tempt Ivorian producers to export their beans to Ghana illegally.⁴⁹ This could have a negative impact on Ghana’s cocoa quality, which is of a higher standard than Côte d’Ivoire’s.⁵⁰ According to one source, Ghana’s preventive measures are not geared towards stemming inward cocoa smuggling,

“We may end up seeing a lot of [Ivorians] bringing their cocoa here for better prices. Unfortunately, our border control policy focuses more on preventing smuggling out but does not do much to discourage inflow.”⁵¹

Local commentators believe that Ivorian and Ghanaian government policies are not helping to improve cocoa prices,

“International prices are not improving because we care too much about increasing output in producing countries. Even when nature puts stumbling blocks in the way of producing countries... we make too much of a conscious effort to turn that around. There is no sense of potential scarcity in the system.”⁵²

The cocoa production forecast cut appears to be the least of the government’s worries in the current cocoa sector climate. The Ivorian farmgate price drop puts great pressure on border control provisions to impede illegal imports into the country. Furthermore, the fertilizer subsidy increase will eat into Cocobod’s budget, especially in a low cocoa price environment. Cocobod’s policy appears to be achieving a maximum output as a bottom line, regardless of the peripheral costs or impact on international market prices.

⁴³ Reuters, 7 Apr 2017.

⁴⁴ Citi FM, 7 Apr 2017.

⁴⁵ Citi FM, 7 Apr 2017.

⁴⁶ Citi FM, 7 Apr 2017.

⁴⁷ Citi FM, 7 Apr 2017.

⁴⁸ Reuters, 7 Apr 2017.

⁴⁹ Reuters, 7 Apr 2017.

⁵⁰ Reuters, 7 Apr 2017.

⁵¹ Source, journalist, Accra

⁵² Source, journalist, Accra

About Africa Risk Consulting:

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