ARC

AFRICA RISK CONSULTING

Ghana Monthly Briefing June 2017

Ghana Summary 16 June 2017

The New Patriotic Party (NPP) government begins energy sector reform. The finance ministry issues a tender for proposals from financial institutions to act as transaction advisers for a proposed 10 billion cedi (₵) ($2.35 billion) bond to refinance state-owned energy sector enterprises' debt. Energy minister Boakye Agyarko says that the government remains serious about development of nuclear energy power generation. Representatives from the Ghana Cocoa Board (COCOBOD) and the Ivorian Conseil Café-Cacao (CCC) hold a Joint Co-Operation on Cocoa technical committee, seeking to increase collaboration in cocoa policy. The Bank of Ghana (BoG) (central bank) announces a 1% cut to its benchmark interest rate to 22.5%.

Government begins energy reform programme

The ruling **New Patriotic Party** (**NPP**) has demonstrated its intent to begin wide-ranging energy sector reform, under its proposed 10-year **Power Sector Master Plan**. More broadly, the NPP has promised to conduct a technical audit on all power sector infrastructure to develop the programme.[1] Part of this plan will include listing state-owned enterprises in the energy sector on the **Ghana Stock Exchange** (**GSE**) to incite better and more responsible management.[2] Other energy sector specific campaign promises include:

- Liquidity injections to end short-term *dumsor* load shedding, and debt restructuring;
- Reduction of taxes on electricity tariffs.[3]

As a statement of intent to reform state-owned enterprises in the sector, the finance ministry issued a tender for proposals on 26 May from financial institutions to act as transaction advisers for a proposed 10 billion cedi (₵) ($2.35 billion) special purpose vehicle to issue a long-term amortising bond.[4] The debt would be used to refinance state-owned energy sector enterprises' debt. The bond will reportedly have a maturity of 15 years.[5] The indebted state-owned bodies include the **Electricity Co of Ghana (ECG)**, the **Ghana Grid Co Ltd (GRIDCo)** and the **Volta River Authority (VRA)**. The government announced in December that the energy companies' debt was an important factor for a higher-than-expected fiscal deficit.[6] In August 2016, these entities owed in excess of $1.53 billion in debt. This figure has risen. The vice president, Dr **Mahamudu Bawumia**, announced in April,

> *"There is $2.4 billion debt that is hanging over the neck of state-owned enterprises… What we are going to do is issue a 15-year long term to deal with this debt."*[7]

Creditors include banks and fuel providers for thermal power plants.[8] The finance ministry may still hold off on the energy bond, if the government decides to extend the **International Monetary Fund**

[1] www.newpatrioticparty.org
[2] Business Day, 10 Apr 2017.
[3] www.newpatrioticparty.org
[4] www.bog.gov.gh
[5] Citi FM, 31 May 2017.
[6] B&FT Online, 20 Dec 2016.
[7] Citi Business News, 30 May 2017.
[8] Source, journalist, Accra

ARC

(IMF) $918m extended credit facility (ECF) (see *ARC Briefing Ghana May 2017*). The finance ministry tender stated,

> *"The successful execution of this transaction and issuance of bond will enable [government] to put the sector back on a strong financial footing as part of steps being taken to comprehensively resolve the energy sector challenges in a sustainable manner."*[9]

The opposition **National Democratic Congress (NDC)** made clear that it would oppose the issuance of the bond until a parliamentary investigation is held into alleged conflict of interests around finance minister **Ken Ofori-Atta**.[10] NDC member of parliament (MP) for **Yapei Kusawgu** constituency **John Jinapor** said that the NPP's approach to issuing the new energy bond was non-transparent,

> *"If you do a bond, it comes at a cost. For the money you borrow, there is an opportunity cost, there is a risk element, and the price of money you borrow is the interest. What is the interest? How transparent is it? What are the flows from the* ***Energy Sector Levy****? Are they sustainable to pay on a yearly basis? If it is sustainable, why then must you go for that loan?"*[11]

Another pillar of the NPP's energy strategy appears to be nuclear energy development. Energy minister **Boakye Agyarko** said on 29 May that the government is serious about developing its nuclear generation capacity.[12] The move towards nuclear energy would provide diversification of Ghana's energy mix, and reduced its dependence on hydro and thermal power generation. Agyarko said that despite the **Ghana Atomic Energy Commission**'s establishment in 1992, the government has stalled nuclear energy development,

> *"Now has come the time for us to take nuclear seriously and make strides to make sure that we include nuclear energy as part of our energy mix."*[13]

The government seems to be serious about developing nuclear energy. According to one local source,

> *"Government does not only have the means, the government is satisfied with its quest to start using nuclear energy from 2024. It has already signed an agreement with* ***Russia*** *and* ***China****. The* ***United States (US)*** *and* ***South Korea*** *are in serious talks, according to* ***Wisdom Ahiataku Togobo****, director of renewable energy at the energy ministry, to get on board. Currently the country is undertaking a feasibility study for appropriate location, Wisdom told me. The target is to produce one gigawatt (GW) of power in 2024."*[14]

The government signed its third **Country Programme Framework** (**CPF**) with the **International Atomic Energy Agency** (**IAEA**) in October 2016.15 However, it has not made details of the CPF publically available.[16]

The NPP is pushing for major reform in the energy sector as a priority. Diversification of its energy mix, investing in renewables and nuclear power are key components of this strategy. The NPP strongly criticised the energy sector's management during the term of the former president, **John Dramani Mahama** (2012-2017), due to long-lasting and intermittent power outages. Although the political environment is receptive to energy sector reform, NDC legislators have shown that there is likely to be resistance to the means of financing the NPP programme. Fiscal restructuring at state-owned enterprises (SOEs) will prove the most difficult challenge for the energy ministry in the shorter term.

[9] www.bog.gov.gh
[10] Citi FM, 31 May 2017.
[11] Citi FM, 31 May 2017.
[12] B&FT Online, 29 May 2017.
[13] B&FT Online, 29 May 2017.
[14] Source, journalist, Accra
[15] www.gaecgh.org
[16] www.iaea.org

ARC

Ivoirian-Ghanaian technical committee meet to discuss joint cocoa strategy

Representatives from the **Ghana Cocoa Board** (**COCOBOD**) and its **Côte d'Ivoire**-based counterpart, the **Conseil Café-Cacao** (**CCC**)**,** held a meeting as part of the **Ghana-Côte d'Ivoire Joint Co-operation on Cocoa** technical committee between 2-3 June.[17] The committee is seeking to increase collaboration in order to improve productivity and marketing of cocoa, with greater transparency and predictability in policy-making. The committee discussed issues such as pest control, downstream development, price stabilisation, marketing structures and quality assurance.[18] Ghana and Côte d'Ivoire produce around 59.4% of world cocoa.[19] Ghana is the second largest producer with 19.6% , while Côte d'Ivoire is the largest producer with 39.8%.[20] Investors have often criticised COCOBOD and the CCC for their lack of cooperation in stabilising international prices, and their focus instead on maximising output.[21] The government of President **Nana Addo Dankwa Akufo-Addo** (2017-present) is seeking to increase cocoa production to 1 million tonnes, or an approximate 28% increase in production, by 2020 (requiring an average annual growth rate of 8.7% from 2017 to 2020).[22] A **World Bank** report published on 5 June said that underperformance of Ghana's cocoa production was due to poor management, corruption and underpayment of farmers.[23] The World Bank report said that,

> *"[COCOBOD] has been unable to achieve one of its most important goals – to stabilise farmgate prices at levels that permit farmers to earn an adequate return on their land, labour and capital… Successive governments have prioritised revenue collection, treating the final price received by farmers as a secondary consideration."*[24]

Current cocoa futures prices are at a five-year low, $1,961 per tonne.[25] According to COCOBOD CEO **Joseph Aidoo**, the cocoa price decrease has led to losses of $1 billion in cocoa revenue in the past six months.[26] However, due to centralised domestic cocoa price policies, COCOBOD and CCC-determined farmgate prices often are not directly reflective of international market prices.[27] Furthermore, COCOBOD and the CCC alter farmgate prices only twice in a season, meaning that significant divergences can arise between the countries' domestic cocoa prices and international prices in between these inter-season farmgate price changes.[28] Although COCOBOD and the CCC hedge against international price fluctuations, farmgate prices are often maintained at unsustainable prices amid, for example, election periods. Critics say that the incumbent party uses farmgate prices as a political tool to secure support.[29] Moreover, when there are significant divergences between COCOBOD and CCC farmgate prices, there can be an increase in illegal exporting at the Ghana-Côte d'Ivoire border, where producers from respective countries seek to sell their yields in the neighbouring country at a higher price.[30]

Stability in international cocoa prices will benefit both Ghana and Côte d'Ivoire to avoid the pernicious effects of price volatility, despite a low price environment. However, tighter collaboration in cocoa policy, considering their joint market share, is also likely to be highly effective in reversing a prolonged low cocoa price environment. The signature in April of the '**Abidjan Accord**' and the relocation of the **International Cocoa Organization (ICCO)** to **Abidjan** are both clear

17 GNA, 2 Jun 2017.
18 GNA, 2 Jun 2017.
19 www.icco.org
20 www.icco.org
21 Source, analyst, Abidjan
22 Reuters, 5 Jun 2017.
23 Reuters, 5 Jun 2017.
24 Reuters, 5 Jun 2017.
25 www.nasdaq.com
26 Starr FM, 2 Jun 2017.
27 Source, analyst, Abidjan
28 Source, journalist, Abidjan
29 Source, journalist, Abidjan
30 Source, journalist, Abidjan

demonstrations of this shift in cooperation between Ghana and Côte d'Ivoire (see *ARC Briefing Côte d'Ivoire April 2017*). It appears that policy conditions are improving in both countries to avoid future manifestations of the current cocoa *"price crisis"*[31] as ICCO chairperson **Luis Valverde** describes it.

BoG lowers its benchmark interest rate by 1%

The **Bank of Ghana** (**BoG**) (central bank) monetary policy committee, on 22 May, announced a 1% cut to its benchmark interest rate to 22.5%.[32] The interest rate decrease illustrates the shift in BoG policy since the departure of the former governor, **Dr Abdul Nashiru Issahaku**, in late March.[33] The BoG had already cut the interest rate from 25.5% to 23.5% in March, the largest cut since 2010 (see *ARC Briefing Ghana April 2017*). The BoG cited an improvement economic outlook, bolstered by:[34]

- A rate of headline inflation of 13% at the end of April, down from 17.2% in September 2016;
- Expected GDP growth of 4.1% in 2017;
- Increased oil production expected from the **Jubilee** and **Tweneboa, Enyenra, Ntomme** (**TEN**) oil fields;
- A rebound in the manufacturing industry;
- A boost to the banking system, with 30.9% asset growth since April 2016;
- An improvement in hard currency reserves, to $6.4 billion, or 3.7 months of import cover, from $4.9 billion at the end of 2016;
- An increase in business confidence;
- An easing of foreign exchange market volatility, with the cedi depreciating 1% against the dollar between 18 April and 18 May, compared to 3.5% at the previous MPC meeting;
- A 2.6 billion cedi ($597m) increase in credit availability for the private sector and public institutions;
- An easing of credit conditions for enterprises and households;
- Improved trade growth, and a trade surplus of 2.5% of GDP in the first four months of 2017, compared to 2.2% of GDP in the same period of 2016.

The shift in BoG interest rate policy since the arrival of **Ernest Addison** is undeniable. The investor community appears receptive to this change, while economic conditions are set for growth in 2017. Reform in the banking sector such as the increase in minimum capital requirements, facilitating larger scale lending, has also improved the view of debt financing in Ghana among the investor community (see *ARC Briefing Ghana May 2017*).

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting

[31] www.icco.org
[32] www.bog.gov.gh
[33] www.bog.gov.gh
[34] www.bog.gov.gh

and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: @ARCBriefing