Africa Business Initiative
U.S. Chamber of Commerce

Investment Climate Update: Ghana

FROM THE STAFF

Investment Climate Update: Ghana highlights relevant news and analysis from a regulatory and investment perspective for businesses operating, or exploring investment opportunities in Ghana.

The U.S. Chamber of Commerce and The Whitaker Group, a strategic consulting firm mobilizing resources, partnerships, and capital for Africa's development, have partnered in this new initiative.

We welcome your feedback as we work toward our goal of informing business interests in Africa. Feel free to contact us at AfricaBusinessInitiative@USChamber.com.

- Investment Climate Update Staff

Utility Increases Draw Backlash

In May, the Ghanaian government approved new utility tariffs representing a nominal 89% and 36% increase on electricity and water, respectively.

The tariff increases represented the latest step in a long national and international dialogue around public utilities reform. Balancing expanding demand for services with the desire to experience full cost recovery was the subject of consultations with the World Bank that preceded a cumulative 72% increase in end-user electricity tariffs between 2002 and 2003.

Similarly, the March International Monetary Fund (IMF) mission to Ghana recommended that PURC, Ghana's Public Utility Regulatory Commission, move forward with tariff increases. Although PURC did not publish IMF's recommendations, utility providers made their requests public—155% and 40% increases in electricity and water, respectively.

In 2002, government subsidies to electricity utilities reached 11% of government spending, approximately 4 % of GDP. Dr. Kwabena Duffuor, Ghana's minister of Finance, said that more than 76% of Ghana's Sovereign Bond proceeds from 2008's supplementary budget were earmarked to cover utilities' capital expenditures.

This year's standoff between the government, utilities, and end users over supply and cost recovery was aggravated by the rate of increase and implementation. The hike was announced on May 31 and implemented the following day. Rather than being phased in, the already unusually high tariffs were enacted in full.

The news was met with strong reactions from both industry and consumers. The Industrial and Commercial Workers Union (ICU) threatened strikes, and in July, the Association of Ghana Industries (AGI) came out with its own assessment of on-the-ground tariff application. According to AGI's input-output cost analysis,

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Bidding on SOEs to Begin

Ghana's Divestiture Implementation Committee is readying for a bidding process on several major Ghanaian manufacturers.

GIHOC (Ghana Industrial Holding Company) Footwear, GIHOC Glass Company, Bonsa Tyre Factory, and Subri Industrial Plantation are all state-owned enterprises (SOEs) that the government will offer to private investors.

> *"The divestiture program is an ambitious attempt to unlock the economic potential of Ghana by permitting resources of people, money, and technology to be put to their best use."*
>
> - Ghanaian Divestiture Implementation Committee

The divestiture program is part of a reform program launched in 1988. The program was intended to reduce the size of the public sector and improve the performance of SOEs by mobilizing private sector management

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GCB Announces $50 Million Loan Provision

Ghana Commercial Bank (GCB) announced that it would make a $50 million (73 million cedi) provision to absorb the oil sector's potential losses on production set to begin this year. The allocation will cover bad loans made to local oil firms, stripping 18% of the bank's nonperforming loans from its books (currently 20% of all loans).

Analysts anticipate that large-scale oil production will be a major contributor to the 20% increase in Ghana's GDP predicted by the International Monetary Fund between 2010 and 2011. Similarly, GCB anticipates 20% loan growth in 2010 despite these outlays.

Samuel Amankwah, GCB's deputy managing director for finance, outlined three major paths to offsetting the loan provision. The bank first hopes to recover some portion of its existing nonperforming loans. GCB also sees room for increased consumer banking among the sector's newly employed and will deploy additional loans to small and medium size businesses prospering alongside the oil industry. Finally, GCB, half-owned by the Ghanaian government, will undertake cost-cutting measures.

GCB said it receives frequent acquisition inquiries from foreign banks, but its long-term aim is to reacquire control of Ghana International Bank, its former international wing, which was privatized separately in the 1996 division. ★

Courtesy of: af.reuters.com (27.July)

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actual utility tariffs increased as much as 300% in select sectors, including wood processing, rubber and plastics, and food processing.

AGI announced a series of conflict-mitigating recommendations. It called for a reclassification of the nonresidential and commercial classes in order to protect especially vulnerable small and medium enterprises. AGI also asked PURC to suspend the tariffs while reviewing AGI's proposal to institute a two-step increase: a 40% increase effective in July 2010 and a 20% follow-on increase in January 2011.

Ghanaian Vice President John Dramani Mahama met with AGI executives in early July to discuss these recommendations. Intensive stakeholder talks followed, and PURC announced that it would proceed with a tariff review in early August.

The PURC news came together with an announcement from Ghana's Energy Minister that the World Bank had allocated an additional $70 million to upgrading electricity infrastructure. ★

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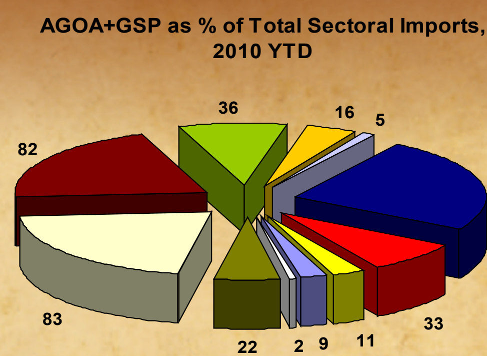
AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA) EXPORTS IN Q1 2010 INCREASED 23% OVER Q1 2009



AGOA + the Generalized System of Preferences (GSP) as % of Total Sectoral Imports, 2010 YTD

OPIC Board Approves $150 Million for Investment Fund in West Africa

The U.S. Overseas Private Investment Corporation (OPIC) approved $150 million in financing for a private equity investment fund supporting technological investment in West Africa. The fund was selected from among entrants to OPIC's call for proposals for a Global Technology and Innovation Fund.

OPIC's chosen fund, the Capital Alliance Private Equity III Limited Fund, will invest in well-performing companies with high growth potential, as well as turnaround situations and regional cross-border expansion opportunities. Investments will stretch across a number of sectors including telecommunications, business and financial services, logistics, electric power, and oil and gas. The fund's target capitalization is $350 million.

OPIC selected a Lagos-based firm, African Capital Alliance Ltd., to act as fund manager. Gulf of Guinea countries will be the primary focus of investments.

OPIC's news follows on the heels of additional World Bank investments in Ghana's telecommunications and electric power generation. In July, the World Bank announced an additional $44.7 million in financing for the eGhana Project—an ongoing effort to leverage information communication technology for growth and employment. In late June, the World Bank also approved $70 million to improve the operational efficiency of Ghana's electricity distribution system through the Ghana Energy and Access Project. ★

Courtesy of: opic.gov (24. June), ghanabusinessnews.com (09. July), allbusiness.com (25. June)

FAST FACTS:

- Annual percentage difference in the Producer Price Index (PPI) increased to 19.4%, 3.3% over May's PPI.
- Ghana's exports increased by 21% in Q1 2010; nontraditional exports rose to $400 million.
- Two-way trade between the United States and Ghana increased 98% to $361 million in Q1 2010 over Q1 2009.
- Ghana reached its lowest inflation rate in three years in June at 9.52%; the Bank of Ghana predicts inflation to reach 9.2% by the end of 2010.

Jatropha

- The jatropha caucus grows in arid and semiarid lands, allowing it to flourish in noncompetitive spaces with consumer food production.
- Primarily a biofuel source, a jatropha crop grosses more than $800/acre compared to $500/acre for corn.

Ghana's Transit Reforms Set Regional Example

Ghana's reengineered transit systems have led to significant efficiency gains that could serve as a regional model says the International Finance Corporation (IFC) in its 2010 Investment Advisory Services report. Among key reforms: an improved sealing system, strengthened documentation, the implementation of an electronic tracking system and a refocused system of payment guarantees.

According to the IFC, these improvements have helped reduce overland transit time from Tema to Paga from more than five days to three. Moreover, these reforms have ensured the safety and value of overland cargo.

Prior to 2007, noncontainerized trucks (accounting for 85% of shipments) traveled in escorted convoys to avoid compromise. Technical and mechanical problems often stopped entire convoys and paperwork had to be aggregated for all convoy members at each border crossing.

Ghana's new truck sealing systems, introduced in 2007, seal trucks at customs to the standards of Economic Community of West African States (ECOWAS), facilitating processing at borders and ensuring the value of cross-country cargo.

In 2007, Ghana Community Network (GCNet) partnered with the government of Ghana to develop an electronic system to enhance the processing of trade and customs documents. GCNet provided key upgrades, installing cameras at transit checkpoints to verify the integrity of transit vehicles, as well as a transponder-based tracking system that enables officials to monitor vehicles between Ghana ports and borders in real time.

In addition to increasing the efficiency of the transit system, Ghana's revised system of transit guarantees has generated cost savings. The change in Ghana's guarantee fee, formerly 0.5% of the cargo value and now 0.5% of the taxes and duties at risk, not only relieves shippers of fees on nontax eligible shipments but also on goods not required to be insured.

The IFC already sees evidence of Ghana's reforms in the greater liberalization of West African interregional shipment. After years of anticipation, a Burkina Faso-Togo border post, featuring Ghana's streamlined technology, will become operational this year.

Ghana's planned improvements for 2010 will also strengthen regional connections and increase efficiencies. Ghana and Mali are in the final planning stages for an expansion of a GPS-based tracking system throughout their segments of the Tema-Bamako corridor.

The IFC notes that fuller participation of the West African States' individual customs administrations will build on Ghana's strong base. Nontariff barriers, in particular, should be a focus for reduction in order to make the most of the hard-won transit improvements. ★

Courtesy of: ifc.org (April 2010)

Bidding on SOEs to Begin

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and capital. Coca-Cola Ghana was formed from the divesture of Ghana National Trading Company's Bottling Section in 1995. Coca-Cola has invested more than $7 million since purchasing the business.

Of the companies on the block, Bonsa Tyre Company Ltd. is the only tire manufacturing company in Ghana—one of three in the West-African sub-region. GIHOC Glass Ltd. is one of two glass manufacturers in the Economic Community of West African States (ECOWAS), producing both hollow and sheet glass.

More than 300 SOEs operate across Ghana's industries, including manufacturing, agriculture, mining, timber, and hospitality. ★

Courtesy of: ghanaweb.com (26.July)