GHANA

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Politics frustrates pace of change

William Wallis reports on a country whose economy is among the fastest growing in the world

President Mills turns on the taps: oil cannot fix a system that, in election years, heats the economy as those in power try to spend their way to victory Reuters

It is 45 years since Kwame Nkrumah, Ghana's independence leader was overthrown in a coup that reverberated across Africa, signalling an end to his dream of a free, united and industrialising continent, facing the world from a position of strength.

Through the political turmoil and bankruptcy of the 1970s and the recovery that followed under Flight Lieutenant Jerry Rawling's meandering 20-year rule to today, it has been the vast Akosombo dam built during Mr Nkrumah's time that has powered the economy.

Mr Nkrumah's ideas, controversial as they sometimes were, are still resonating. Some of the same infrastructure plans he had, the road and rail networks, power and industrial plants have been dusted off now that the country can leverage bigger loans with newfound oil.

Accompanying these is a national desire to be treated by the rest of the world as an emerging black power rather than an aid-dependent African reformer, collecting World Bank stars.

Thanks to the onset of oil production following Africa's largest offshore discovery of the decade in 2007, the economy is growing faster this year, at 13.6 per cent, than most others.

When national income was recalculated in 2010 for the first time in 20 years, gross domestic product was raised $500 per capita to $1,300. This propelled the country into the lower middle income category less than a decade after it was classified as highly indebted and poor.

In 2012, Ghana is heading into an election year after becoming in the last decade one of only a handful of African countries to experience two peaceful and constitutional transfers of power.

For all its political tensions, it has become one of the few countries on the continent with a tradition of peaceful change.

Despite these achievements Ghana is neither entirely free, nor yet industrialising.

On both sides of a venomous political divide between left of centre and right of centre parties, roughly contingent with ethnic splits, this rankles.

Even if their country is feted as a star performer, Ghanaians seem disenchanted with their leaders and frustrated with the pace of change.

Accra's urbane elites agonise over why they have not done better, why poverty remains so pervasive and why their country still exports, as it did in colonial times, raw materials and imports manufactures rather than processing its own. They worry too about education standards, one foundation that Mr Nkrumah helped to lay that is fast eroding.

"To put it bluntly, growth has outstripped development in almost every aspect of our lives except telecoms," says the chief executive of an Accra-based bank. "When we had 7m people we had functioning railways. Now, we are 24m and have none to speak of."

A whiff of fatalism is detectable too, as millions flock to Pentecostal churches where pastors convey God's blessings to growing congregations in return for a chunk of their income in tithes.

The discovery of oil and rapid launch of production at the field operated offshore by Britain's Tullow Oil, has provided a renewed belief in Ghana's capacity to reach the land that Mr Nkrumah promised.

The quantities discovered so far are not on a par with Africa's biggest producers. But with more than 2bn barrels of proven reserves, prospective revenues go some way towards balancing the budget.

Oil earnings, and savings accrued to a stabilisation fund, should also cushion the country against the kind of external shocks that sent the economy reeling in the past, when the cost of oil imports rose, and staple exports gold and cocoa fell.

Both the latter have seen record revenues this year. But it is the gas, says Seth Tekper, the deputy finance minister, that is most strategic to Ghana, and could increase the output and lower the cost of electricity, helping to power industry in the future.

What oil will not do is fix the political system, which heats up the economy during election years, setting the country back each time, as whichever party is in power attempts to spend its way to victory. The prospect of easy money raises the stakes in the electoral contest.

Officials from both parties – the ruling National Democratic Congress, and opposition National Patriotic party – worry that whoever wins a year from now will be able to hang on for years.

"The commitment to the democratic principle is growing stronger," says Joe Abbey, who runs the Centre for Policy Analysis, an independent think-tank. "But we can't take things for granted."

Ghana's institutions are more robust than many on the continent. The electoral commission is considered genuinely independent, although a margin of just 40,000 votes in the last presidential elections in 2008 brought the country too close to the edge for comfort.

Against this, there are murmurings that the four-year electoral calendar, and binary party system are failing to meet aspirations, and that neither President John Evans Atta Mills, a former tax lawyer reputed for his integrity, nor his main challenger, Nana Akuffo-Addo, also a lawyer, has the strength of vision Ghanaians crave.

"A country that is developing needs a national project. People are waiting for a third force, something between these two dinosaurs," says Samia Nkrumah, daughter of the late independence leader who recognises that the "Nkrumah-ist" party she chairs has a way to go before it can match the other parties' organisation and finances.

"We should be much

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Inside

Entrepreneur defies experience to succeed with rice

Agriculture

William Wallis on a venture spurred on by Lehman's collapse

Nigerian born Toks Abimbola landed in Ghana as he might have done in his previous incarnation as an investment banker: with hand luggage and a room at the Holiday Inn in Accra.

Less than two years later he, his business partner, and the investors backing their start-up, have become the largest commercial rice farmers in the country, with 500 hectares of land under cultivation and another 4,500 hectares still to plant.

It is early days and there is plenty that could go wrong. But the trajectory of Gamco, their company, is of a kind that could break open Ghana's agriculture sector by showing what is possible in farming when the stars align.

Many parts of west Africa are littered with failed rice projects. These have mostly been piloted by the state, aided by foreign experts and investors, and abetted by development agencies.

The intention is usually noble: to show it is possible to become self-sufficient in food. But when projects fail, they often end up suggesting otherwise.

Rice is one of west Africa's single largest imports, a drain on foreign reserves and, recently, as world food prices have soared, a significant driver of inflation.

It engenders a precarious dependency. Africa imports rice from meagre Asian surpluses that are being sliced back as consumption grows in Asia. Yet, despite the strategic nature of the commodity, until now, it is hard to point to a single large-scale west African project that achieved its aim.

For all the talk of how central agriculture will be to Africa's development, farmers trying to scale up production of all but the most strategic crop, cocoa, list the same problems year after year: inadequate storage, poorly marketed inputs and complex overlapping land tenure systems that make it difficult to create the necessary scale.

Ghana is not a place where you can grab land. It is too subdivided and too emotive an issue.

That is why Mr Abimbola's confidence and the pace with which his group is clearing and planting, at 80 hectares a week, is so striking.

It was in late 2008, after the collapse of Lehman Brothers that the seeds of the project were sown. The west African infrastructure fund Mr Abimbola was trying to raise was dying in the midst of global financial meltdown. So he and his British Indian business partner began researching rice growing as an alternative to unemployment.

He identifies several ingredients of their initial success. One is the time they put in to researching successful models in other parts of the world.

Brazil has achieved spectacular growth in rice production in similar agronomic conditions, so they brought in Brazilian experts, and piggybacked on their extensive research and development.

Another important ingredient was ensuring they grew the right product. "African consumers are extremely discerning. There is no point growing something they are not going to eat," says Mr Abimbola.

Toks Abimbola looked at rice as an alternative to joblessness

Meanwhile, instead of negotiating an initial lease for the 5,000 hectares of undulating valley they are farming by the Volta river, they agreed to pay a share of revenues annually to the local community, ensuring their interest in the success of the farm.

"You can't engage in agriculture in Africa without being inclusive. You want the community to develop in line with the farm. It's bad news if the farm is 10 years ahead," he says.

Crucially, their business model also involved the collaboration of Ghana's largest distributor of food and importer of rice, Finatrade. If other projects have failed, or struggled, it has often been because the managers underestimated capital costs.

Typically, before farms could reach the scale necessary to become profitable, credit starts slowing, drying up or disappearing through mismanagement.

Within three years, and with a targeted 30,000 tonnes production, Gamco will be a $100m business, Mr Abimbola believes.

Nabil Moukarzel, chief executive of Finatrade, which has annual turnover of $1bn, guarantees to buy Gamco's production for cash.

Mr Abimbola says his initial investment has been less than $10m. This was part funded by Summit Capital, a hard-nosed Seattle based hedge fund. Mr Abimbola is equally hard-nosed. "I didn't leave my flat [in London's elegant] Holland Park to live in the village. I came to make money," he says.

The farm employs several hundred workers mostly in their mid-20s. Some are university graduates with more of an appetite for farming than the received wisdom about the urban inclinations of Africa's educated youth would suggest.

For Mr Moukarzel, selling local rice is more lucrative and less trouble than importing. Buying locally also provides a hedge against febrile world food markets and the protectionist instincts of the government. "We need this to work to persuade the government that there is an alternative to slapping on tariffs," he says.

The region needs it to work too. Food production is rising up the priority list of African governments, as urban populations grow and inflation fosters social tension. So far, there are few models.

It's a marathon not a sprint, says Mr Abimbola. Success will come from "disciplined action every day".

UT Bank Reaching parts of the market others shun

A new bank has arrived in Accra that might just shake up Ghana's staid financial landscape. UT Bank was formed out of a financial services company 14 years ago by Prince Kofi Amoabeng.

A retired army captain and chartered accountant, he had $20,000 of seed capital. With a partner, he began providing short-term loans at steep rates from an office in the Makola Market, swimming in the same waters as loan sharks to the informal sector.

By all accounts the bank does what it says – it lends to real people. For that, it has drawn comparisons with Equity Bank in Kenya, which has conquered the east African market in the space of 10 years by finding a niche among previously unbanked segments of the population. UT'S model is different, however, from that of Equity, which has built much of its business on consumer loans.

UT is still what competitors refer to as "second tier". But it has been ascending rapidly since it bought the carcass of a defunct peer, and won regulatory approval 18 months ago to operate as a bank – meaning it can take deposits and provide lines of credit.

With about 350m cedis on its books, it provides almost as much funding to the private sector as Ghana Commercial Bank, the part state-owned bank that is the country's largest lender.

UT bank lends in smaller chunks, however, than is typical for the market – typically providing short-term financing of between $2,000 and $100,000.

The secret is simple, says Mr Amoabeng. He and his colleagues have found ways of controlling risk and retrieving loans in parts of the economy other bankers shun. Most of the bank's clients do not, at least initially, provide accounts.

By the time most banks in Ghana have sent loan requests up the hierarchy from this segment of the market – by some estimates 70 per cent of the economy – and come back with a decision, some businesses have gone bust, says Pearl Esua-Mensah, deputy managing director.

"When such a person comes to you, he usually needs money immediately. So we have to be responsive," she says.

Provided clients can answer a staple round of questions, UT bank guarantees to make decisions on loans within 48 hours.

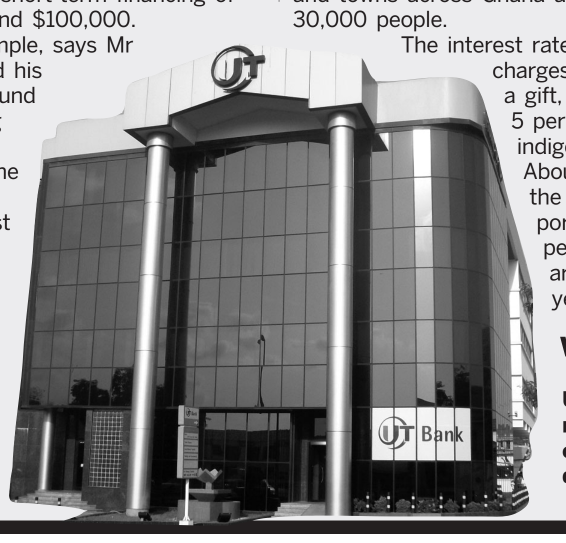
One of the keys, says Ms Esua-Mensah, is the ability to collateralise loans in the informal sector. The bank keeps a permanent office open at both the land and vehicles registry. Cars are a favourite. "Ghanaians don't want to lose them," she says. When financing trade, or clearing goods for clients through customs, the bank holds a portion of the imports until the loan is paid off.

Financial analysts familiar with UT, say the bank has also built its reputation on the strict military discipline with which its affairs are run and its ability to recover as well as collateralise loans. It does not go to the police and the courts.

Ms Esua-Mensah singles out Zoom Lion, a start-up that the bank financed, as a favourite tale. The company, which was running a small printing press, decided to go into street cleaning. Accra at the time was very dirty. With the credit provided by UT bank, the group began getting contracts from local councils to sweep the streets. Zoom Lion is now present in several cities and towns across Ghana and employs 30,000 people.

The interest rates UT bank charges are not exactly a gift, sometimes 3 to 5 per cent a month for indigenous traders. About 12 per cent of the bank's loan portfolio is non-performing. Profits are up 30 per cent year on year.

William Wallis



UT Bank: reputation built on military discipline

Ahead in the polls: Nana Addo Dankwa Akufo-Addo (above), the NPP candidate. His party accuses government of an uncritical relationship with China AP

Bid to shape next generation

Politics

Ministers compare the Ghana of today with Nkrumah era, says **Patrick Smith**

In monetary and political terms, the stakes in Ghana's elections in December 2012 could hardly be higher. The two main parties have been in campaign mode for the past six months, with local opinion polls putting the opposition marginally ahead.

Now classified by the World Bank as a lower middle-income country, Ghana is due to earn billions of dollars in oil exports over the next five years and wants to launch a fast track industrialisation plan.

But it is about more than economics: under its straight-talking director, Kwadwo Afar-Gyan, Ghana's Election Commission has won a reputation for running credible and generally peaceable elections over the past 20 years.

That reputation will be severely tested next year with some party militants taking about a "do or die" election.

Technology and Ghanaians' avid use of social media and the local FM radio stations in most big cities should provide some safeguards against the politics getting out of hand.

Politicians across the ideological spectrum calculate that the winners next year could hold power for a generation, and reshape the country in their image.

Ministers with a sense of history compare the Ghana of today with the independence era under Kwame Nkrumah, the first president after independence, who used $500m of foreign reserves from cocoa exports to embark on a sweeping modernisation programme.

Verdicts on the successes and failures of Mr Nkrumah's socialist policies mark out partisan politics more than 50 years later. Many of the landmarks and the former state-owned factories in the capital date to that era, and so do many of the arguments.

Ministers in the ruling National Democratic Congress (NDC) enthuse about the role of the "developmental state" and learning from the more corporatist strategies in Asian economies such as South Korea, Indonesia and China.

Ranged against them are MPs in the opposition New Patriotic party (NPP), who accuse the government of "statism" and an uncritical relationship with China. They say the NDC, which has its roots in the military-backed Provisional National Defence Council regime in the 1980s, is by turns dysfunctional and an exponent of command economics.

When it was in government from 2000-2008, the NPP under President John Kufuor claimed to have ushered in a "golden age of business". But the NDC has spent considerable time, since taking power in January 2009, investigating some of the NPP government's deals in telecommunications, gold mining, oil and gas and says it was more a "golden age of cronyism".

> Many of the landmarks date back 50 years, and so do many of the arguments

Already, the rhetorical temperature is soaring. Nana Addo Dankwa Akufo-Addo, the NPP's presidential candidate, has likened the NDC's president John Evans Atta Mills to "Dr Dolittle", much to the delight of local newspaper cartoonists. Although they are both lawyers and in their mid-60s, Mr Mills and Mr Akufo-Addo could hardly be more different temperamentally.

Mr Mills, who headed Ghana's internal revenue service, is academic and amenable: he rarely gives or takes offence. That cautious stance is not universally popular in the NDC.

Among Mr Mills' biggest critics is former President Jerry John Rawlings and his wife, Nana Agyeman Rawlings, who accuse Mr Mills of timidity, failing to rein in some of the influence peddlers around the government in Accra and, most of all, failing to raise living standards.

At the NDC national conference in July, Mrs Rawlings challenged him for the party's presidential nomination. Although she got just 90 votes compared with more than 2,000 for Mr Mills, the divisions opened up in the party by her campaign are yet to heal. Jerry Rawlings' record in power is controversial but he remains popular with voters in some of the poorest areas of the country.

The barons of the NDC are struggling to find ways to bring the former first couple back into the tent for fear of losing support in some of the most contested constituencies.

Mr Akufo-Addo, a seasoned defence counsel, hails from a political family: his father was briefly president during a break from military rule in the 1970s. With his Oxbridge intonation and combative style, Mr Akufo-Addo finally seems to have united his party behind him.

More of a social democrat-style politician than Mr Kufuor, Mr Akufo-Addo is focusing on cost-of-living issues, arguing that Mr Mills has failed to deliver the "better Ghana agenda" that he promised in 2008.

Mr Akufo-Addo lost that election to Mr Mills by just over 40,000 votes and is determined to win the return match.

In statistical terms, the Mills government may have delivered winning accolades, in public at least, from the World Bank and the International Monetary Fund, even if many Ghanaians are yet to see much practical benefit.

Mr Akufo-Addo and the NPP insist that much of the groundwork for this progress was laid during their time in power.

Yet the coming election will be more about the future and the extent to which Ghana can capitalise on its new economic circumstances. It will be up to the parties to persuade voters that they will be the best custodians of the incoming revenues.

For now, there is every reason to suspect that the contest next December will be as hard fought as the last one.

Politics frustrates the pace of change

Continued from Page 1

bolder and more courageous. But somehow, having an election every four years limits our ambitions," she says.

Yet, almost by default, because of its relative stability and low crime rate, Ghana is becoming the chosen centre in west Africa for business, "an accidental hub", as one banker puts it.

Rich Nigerians send their children to Accra private schools and universities, and increasingly are buying property in the city as second homes.

Among multinationals that have regional headquarters in Ghana are MTN, the South African mobile phone company, General Electric, and Nestlé.

Standard Chartered bank does all its west African backroom processing in Accra.

But if the country is being courted for its stable position in an increasingly strategic region for world energy supplies, it has also been harried by the international attention that oil has brought.

A bruising dispute with US companies in which the government was pressed into partial retreat by negative publicity in the US press and, according to senior officials, aggressive lobbying by the state department, brought this home last year.

Now, the International Monetary Fund has weighed in to challenge a $3bn Chinese loan towards financing the pipeline and plant to process gas and building a road and railway network in the region near-est the oil. Under the terms of an IMF agreement, Ghana is supposed to limit commercial loans to $800m a year.

These tussles have provided a reminder of how fraught it can be for a small African country to defend its interests, as Washington seeks to consolidate its influence, Europe fights to stay in the game, and China bangs at the door.

"The old style of diplomacy is under review and barefaced self-interest is no longer appropriate," says Mr Abbey, reflecting a common feeling that both European powers and the US have overstepped the mark in attempting to steer Ghana along the way.

He adds: "You [in the west] should stop pretending you are afraid on our behalf, because everyone knows you are afraid for yourselves."

As Mr Nkrumah believed, having stronger allies in the neighbourhood would help provide a more robust front. But Ghana finds itself curiously alone these days.

Nigeria, a natural English-speaking ally, is preoccupied with troubles at home, says a senior security official, while neighbouring Ivory Coast is in more hostile mode.

President Mills was slow to back the winner in its elections last year that almost led to civil war.

Ivory Coast has since, seemingly in retaliation, claimed some of the offshore waters where Ghana's oil was found.

Being top of the class in west Africa has its advantages. But it can also be lonely at the top.

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Rapid growth is yet to translate into jobs

Economy

Austerity put a chill on oil windfall, says **William Wallis**

Ghana is the fastest growing economy in the world this year, expanding at a forecast 13.6 per cent thanks largely to the onset of oil production.

It is also the only mainland country in west Africa to have achieved lower middle income status on statistics revised last year to take into account a decade of rapid expansion in services.

Yet, there is little sense of a boom. Three years into an International Monetary Fund-backed stabilisation programme, businesses are impatient, while the crowded streets of poor neighbourhoods speak of frustration and hardship.

Accra has its share of gifted entrepreneurial thinkers with the capacity to turn dreams into reality. In information technology, banking and even farming, projects are steadily getting off the ground.

Almost accidentally, as a result of all the troubles in the neighbourhood and the country's comparatively stable political environment, the capital is becoming the de facto regional hub for corporations.

But the pace of job creation is slow, government borrowing is still crowding out the private sector, bank lending rates are prohibitively high, and the feel-good factor that the first year of oil production was expected to bring has yet to materialise.

Joe Abbey, a former finance minister who runs the Centre for Policy Analysis, an independent think-tank, describes the growth as "jobless". Record production of cocoa was thanks, not to increased labour and land use, but to improvements in yields (and smuggling from neighbouring Ivory Coast.)

The first year of oil production has brought about 7 per cent of gross domestic product into the economy. But this was capital- rather than labour-intensive, and has produced little by way of a trickle-down effect.

Meanwhile, gold revenues increased not on the back of new mining ventures so much as on the soaring world price. Amid continuing constraints in power supply and credit, manufacturing, which might provide employment, is still struggling to get going.

The danger, as another election year approaches, is that the government might increase borrowing and turn on the taps again, just as the conditions for progress are beginning to fall into place. This is particularly so as Ghana will soon no longer have access to the soft loans that multilateral donors brought.

"This [lower middle income status] provides the basis for traditional partners to withdraw, and grant elements to decline. But if you use non-concessional loans in the same way, it will be a fast track to super-HIPC (highly indebted poor country) without hope of debt relief, Mr Abbey warns.

Part of the problem is the politics. President John Evans Atta Mills inherited an unholy mess when he won power in 2008. The rival National Patriotic party had attempted and failed to spend its way to victory in elections.

Foreign reserves were drained and the budget deficit had reached a record 14.5 per cent. Just as Ghana seemed set to take off, it had to slow down again.

It is a pattern that has been repeated in election years since the beginning of multi-party politics in Ghana in the 1990s.

In an interview last year, John Kufuor the former president, defended his record, and the "golden age of business" he says he ushered in by adopting more liberal policies during eight years in power. But tellingly, he also said: "The important thing in an election year is to be able to roam with the budget."

Little of the money his government raised from a $750m eurobond, and the sale of Ghana Telecom went into productive investments. Instead, the incoming government was saddled with an array of nepotistic local contracts and dubious debts.

> The danger is, as an election year approaches, the government may 'roam with budget'

The first task, says Seth Tekper, the deputy finance minister, was to stabilise the economy. The timing was awkward. Just as the promise of oil revenues had raised popular expectations, the government was compelled to clamp down and usher in austerity.

Only now, three years later, it is planning to start spending with an infrastructure programme, financed mostly by borrowing from China, that might inject liquidity back into the economy.

In the minds of many businesspeople, the pattern of events has created a split between a party that favours business but overheats the economy and the current, more cautious, National Democratic party, instinctively more orientated towards state intervention and equally prone in the minds of its critics to corruption and waste.

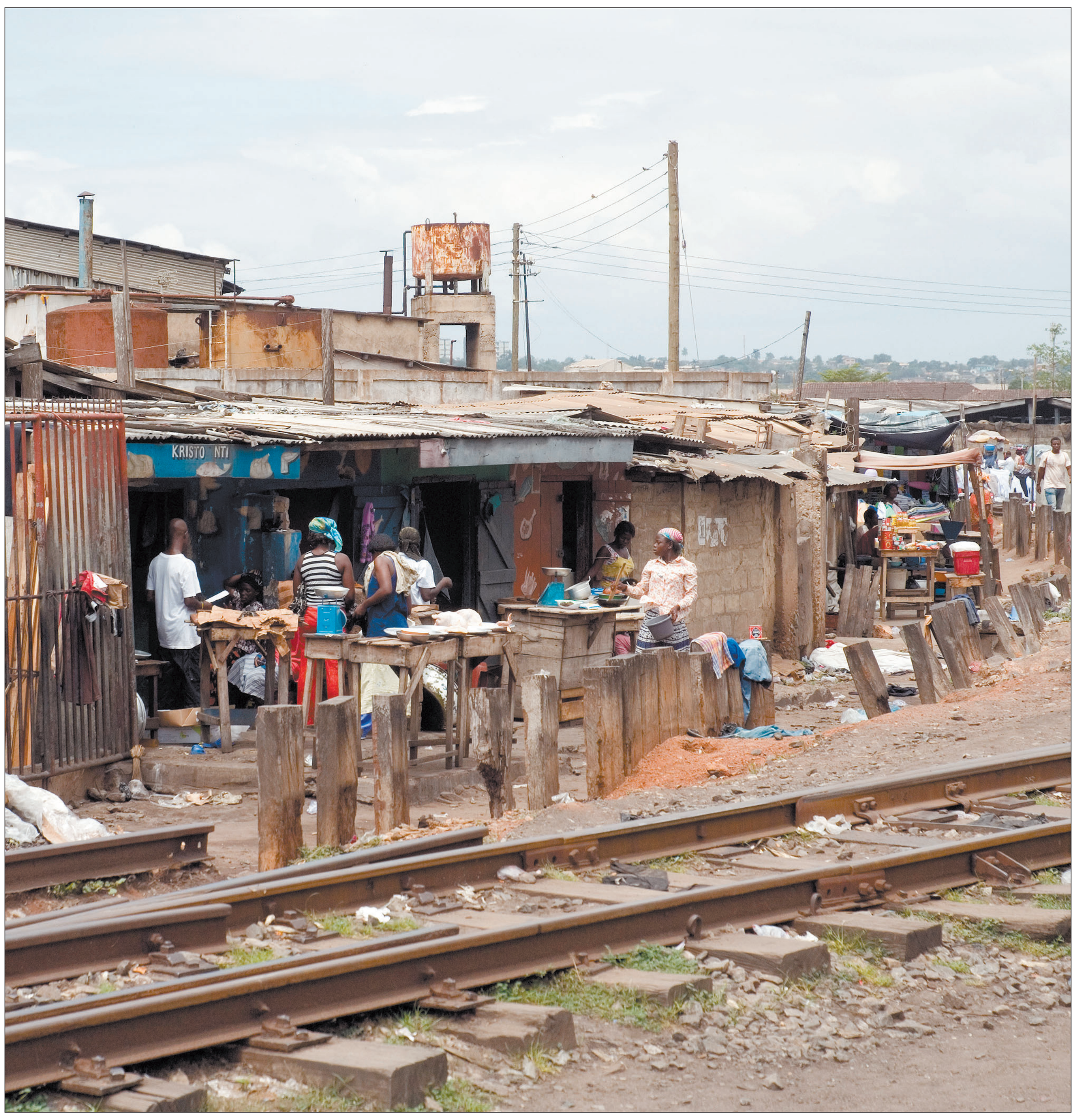
Mr Abbey, who can be relied on to give a caustic assessment of Ghana's progress nevertheless believes the economy is reaching the kind of stable footing that could engender real progress, provided fiscal discipline is observed.

He bases his optimism on several factors. One is oil, which will help to balance the budget and neutralise the swings in terms of trade.

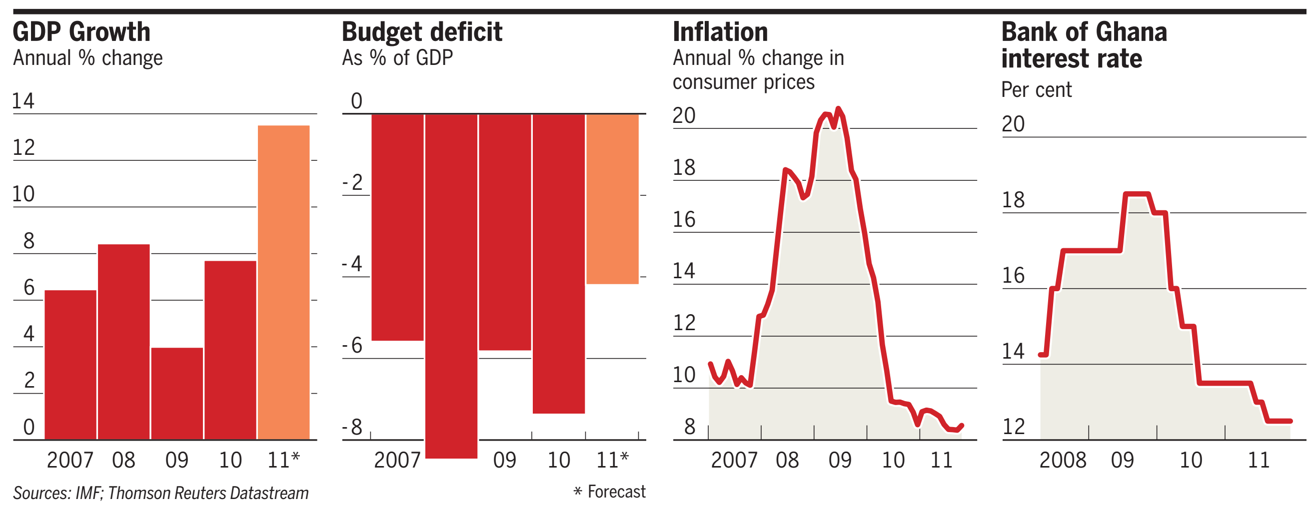
Another factor is recent progress in fiscal reform. Tax revenues went up in 2011 from among the lowest in the region, to closer to average, at 18 per cent of GDP. Having brought interest rates down and tamed inflation, the government now needs to deal with bad debts in the largest lenders.

The tendency has been to use the partly state-owned Ghana Commercial Bank to finance off-budget spending, including subsidies on imported fuel. This saddles the bank with non-performing loans and forces it to set interest rates at about 25 per cent. Other banks reap large profits by setting their rates close to the GCB's. Under these conditions, real sectors of the economy cannot grow.

The economy is becoming more diversified and sophisticated. But it mostly exports raw materials, as it did in colonial times and imports finished goods. Lower interest rates and the cheaper power that gas should eventually deliver, it would stand a better chance of industrialising.



On the rails: the first year of oil production has added 7 per cent to the country's GDP but little has trickled down Alamy



Nation eager to remain master of its own destiny

Oil

Field has been brought on-stream at cost and on schedule, says **William Wallis**

The Jubilee field: discovery heralded its potential transformation into a dynamic middle-income nation, free to choose its own development path

The geostrategic swagger that oil has brought Nigeria, Ghana's bigger west African neighbour has sometimes rankled in Ghanaian minds.

While Ghana has reformed and recovered over the decades to become one of Africa's most stable and prosperous democracies, its economy has been dependent until now on humiliating infusions of foreign aid.

It has suffered too from swings in trade terms, when the cost of oil imports rise and staple exports, gold and cocoa, fall.

Since the 1960s, when independence leader Kwame Nkrumah attempted to build an industrialised nation out of the cash crop and mines-based economy inherited from the colonial state, oil has been the missing ingredient.

So when a small US company found oil in 2007, 60km offshore in the Atlantic, the country seemed poised to realise a long cherished dream. The discovery of the Jubilee field heralded its potential transformation into a dynamic middle-income nation, free to choose its own development path.

Following a complex plot of personal rivalry, local intrigue and great power politics, the dream has turned into something of a soap opera. Oil production began on schedule in December 2010. Subsequent progress towards target output of 120,000 b/d has been hampered by technical difficulties.

Neighbouring Ivory Coast has complicated matters by raising maritime boundary questions around the Jubilee field and relations between stakeholders have oscillated from the suspicious to the acrimonious.

On top of this, there is the delicate task of meeting international expectations, as Washington seeks to consolidate its influence on Africa's newest oil producer, China and other emerging global powers bang at the door, and Europe fights to stay in the game.

Last year, the state-owned Ghana National Petroleum Corporation effectively vetoed a $4bn deal under which ExxonMobil would have bought out Kosmos, the privately owned US start-up that discovered Jubilee. GNPC officials had issues with the way ExxonMobil and Kosmos agreed the sale without requesting their consent. They favoured a deal with China and BP.

At the same time, the incoming government was investigating the relationship between Kosmos and EO, a minority stakeholder that the Texan company was financing and that had good connections to the former ruling New Patriotic party.

But the Chinese never quite arrived, BP was distracted by difficulties in the Gulf of Mexico, Russia and Libya, and Kosmos decided eventually not to sell. Instead, it listed on the New York Stock Exchange to raise its share of development costs.

Last July, GNPC approved the $300m sale to Britain's Tullow Oil of the EO Group's 1.75 per cent interest in Jubilee, just months after government officials had predicted charges against the company which, along with Kosmos, denies any wrongdoing. "We came under enormous pressure from Washington," says a senior official.

Less successful at managing the currents of Ghanaian politics were Aker of Norway and its local partners, who were kicked out of the South Deepwater Tano Block when allegations of impropriety began to surface following the change of government in 2009. The fate of the block, regarded as highly prospective, remains uncertain. In spite of apparent interest from international oil companies, there are no plans for a competitive licensing round.

The environment in the region has become more problematic. Last April, Laurent Gbagbo was ousted as president of Ivory Coast after a doomed attempt to manipulate election results. Ghana remained one of Mr Gbagbo's few allies almost until the end; within weeks of the installation of Alassane Ouattara as his successor, Ivory Coast made territorial claims on offshore waters already licensed by Ghana.

Officials say they first got wind of this when the Ivorian government wrote to oil companies requesting that they cease activities in waters long considered to be on Ghana's side. They acknowledge relations with the new administration in Ivory Coast are tense and privately maintain the border claim is a strategy designed at least partially to punish President John Evans Atta Mills for backing the wrong side.

While both countries continue to emphasise the need for a peaceful resolution to the dispute, legal moves to resolve a similarly complex demarcation of maritime boundaries in other parts of Africa have taken several years.

Against this uncertain background, Ghana's achievements in oil are impressive. One of the biggest oilfields in Africa has been brought into production at cost and on schedule, in the absence of any of the main international oil companies.

"Jubilee has set a good example for the rest of Africa. A lot of people who said oil would be a curse have been proved wrong," says Aiden Heavey, CEO of Tullow, operator of the field..

Accra has faced down some of the industry's biggest names in its determination to remain master of such a strategic resource, although infighting between rival factions within the administration is said to be at least partly responsible for the slow pace of efforts to develop gas reserves..

The government has pushed through legislation aimed at ensuring prudent management of the proceeds by dividing revenues between a stabilisation fund – to guard against swings in prices – a savings fund for the future and the rest which goes directly to the budget.

Meanwhile, Tullow, and Kosmos continue to report promising results from exploration efforts – including confirmation of two further fields that together could equal the Jubilee field's proven 1.2bn barrel reserves. Amerada Hess is also appraising a discovery.

Other potential investors continue to hesitate, perhaps helping to contribute to the best result for Ghana: an industry that is developing at a pace the country's emerging administrative capacity and political ambitions can most effectively absorb.

Turf wars stymie potential for increase in employment

Gas

William Wallis reports on the high political and economic stakes

The slow pace with which Ghana has set about developing the infrastructure to gather natural gas associated with its offshore oil looks set to have political as well as economic and technical consequences.

Ideally, pipes and processing plants would already be in place and connected to existing power plants when oil production began a year ago. Turf wars between different government institutions with opposing plans on how to go about this, together with disagreements with the oil companies over where to run the pipes, have contributed to delays.

Much hinges now on a tussle between the government and multilateral donors over Chinese financing towards building the infrastructure.

Technically, early recovery would have enabled Tullow, the operator of the Jubilee field, to avoid reinjecting gas as it pumped oil. Industry officials say further delays could make it necessary either to begin flaring – which is banned in Ghana – or to reduce output from the current 85,000 b/d to ensure the stability of the field.

Politically, early recovery of gas would have been a boon for President John Evans Atta Mills' prospects of re-election. Ghana's power plants are partly run by expensive diesel imports. The West African Gas Pipeline which distributes from Nigeria along the Atlantic coast is so far insufficient to meet Ghana's needs.

Gas produced locally would have significantly lowered the output cost of electricity, and hastened the commercial viability of a new generation of power plants.

Meanwhile, ambitious plans to build an associated industrial complex might have helped deliver to the ruling party the hotly contested western region nearest the gas come the next elections in November 2012.

Gas, more than oil, has the potential to deliver thousands of jobs, both in associated industries, and through increased production of cheaper electricity.

Traditional chiefs in the western region have been vocal about the need to involve locals in the energy industry.

At Bonyere, near the border with Ivory Coast, and where the government had initially planned to run the pipe, Awulaye Anomor Adjaye, the local chief, has lobbied for his community to be given an equity stake in the gas plant and associated industry.

"There has to be a way that people see a direct benefit from the energy industry that is changing our existence," says Nana Awulai Amo Adjei, another traditional chief and academic involved in the campaign.

As things stand, the promise by the newly created Ghana National Gas Company to have everything in place before the elections looks optimistic. Prospects depend partly on a debate between the government and the International Monetary Fund over the Chinese funding that could make it happen.

Ghana has agreed the terms of a $3bn loan from the China Development Bank, that would finance, among other things, the construction of the gas infrastructure by China's Sinopec and be guaranteed by future oil production.

> Ideally, pipes and processing plants would have been connected to existing power plants a year ago

The loan, however, potentially breaches the terms of Ghana's IMF programme. After the rebasing of the economy in 2010 to take into account rapid growth in the services sector in particular, Ghana was reclassified as a Middle Income Country with per capita gross domestic product of more than $1,300.

Seth Tekper, the deputy finance minister

After a transition period of three years, it will no longer have access to soft loans from multilateral donors. In the interim, however, it can continue to do so if it limits the amount of funding on commercial terms to $800m a year.

Seth Tekper, the deputy finance minister, says the government only intends to use the maximum $800m from the Chinese loan, which is at Libor plus 2 per cent, over the next year.

He says all the projects it covers, including road and rail links, are self-financing. "In the case of the gas plant, it will pay for itself within five years," he says, adding that the government is relying on the IMF granting a waiver in this case.

Chinese officials are furious at the delay, which they see as further evidence of western interference in their attempts to scale up engagement with Ghana.

The stakes are high for all parties. If the IMF were to block the loan, it would delay gas recovery further and potentially force the government to hand over control of construction plans to the oil companies.

If the government went ahead regardless, it would derail the IMF programme and potentially cut off access to multilateral financing.

But the risks for the IMF and World Bank are also considerable. Both are trying to engage China in closer co-operation on the development agenda in Africa, but in the Democratic Republic of Congo and elsewhere, they have also angered the Chinese by stalling their plans.

A diplomat at the Chinese embassy in Accra says: "On one hand, our government is constantly approached by western countries appealing to us to co-ordinate our programmes with multilateral, tripartite operations.

"On the other hand, in some other fields, Chinese companies are stopped fairly or unfairly from reaching commercial deals. This is contradictory."

Terminals struggle to keep pace with trade

Ports

Robert Wright finds an uneven quality to infrastructure

High-tech terminal: but many of the roads beyond the port are heavily potholed Robert Wright

Modern container ships entering the port of Tema, west of Accra, pass, unnoticed by most of the crew, a series of symbols of the port's progress.

To the vessel's east lie the surf-pounded beaches that once served as the makeshift port for this part of Ghana's coast. The vessels pass tiny fishing smacks heading to and from Tema's fishing harbour but, until 50 years ago, similar craft would have shuttled goods to and from vessels waiting offshore to load and unload.

Once inside the breakwater of the 1960s-built harbour, the vessels are greeted by tall, modern quayside cranes. They are testimony to how Meridian Port Services (MPS), the largely private company that runs the terminal, has transformed operations since it took over the facility in 2007.

The changes have made possible a remarkable transformation in trade. Import growth through Tema, by far the country's leading port, has been running at 15 to 20 per cent in many recent years.

This year, import growth is running at 28 per cent and export growth at 25 per cent. Whereas the port's trade once came predominantly from Europe, 60 per cent of vessels calling at Tema now come from Asia.

A look beyond the terminal, however, reveals continuing difficulties. Containers are stacked high throughout the terminal and in every available spot on the edges of the port – testimony to the difficulty of handling such breakneck growth in a constrained space. Many of the roads beyond the port are heavily potholed and seriously overcrowded.

Nevertheless, Shamim ul Huq, managing director for Ghana of Maersk Line, the largest container shipping line serving the country, insists the main story of recent years has been the transformation in performance at Tema since MPS took over.

"It didn't happen from the very first day, but it has got significantly better," says Mr ul Huq, whose company is part of Denmark's AP Møller-Maersk. "There has been a more customer-centred approach."

The effects of the port's improved efficiency are to be found 45 minutes' drive from Tema at Makola Market, in the centre of Accra, where stalls are stacked high with boxes reading "Product of the PRC" and many of the models posing on the boxes for cheap electronic goods are Chinese.

Although most stallholders are reluctant to discuss their goods' Chinese origins, it is clear that Chinese goods now enjoy significant price and availability advantages over their rivals.

Mr ul Huq says Chinese imports account not only for the obvious consumer goods but also significant quantities of building materials provided under direct aid schemes from the Chinese government and, increasingly, foodstuffs.

Mary Kesewax, a stallholder in Makola Market who boasts proudly about the Ghanaian origin of her stall's cloth, has nevertheless just bought elsewhere in the market a large tin of imported Malaysian palm oil.

"A big chunk of what comes in from Asia is commodities such as rice, sugar, oil," Mr ul Huq says. "Palm oil is a big import."

Yet the journey back from Accra to Tema illustrates the difficulties faced by the privatised terminal at Tema and planned expansions at the Port of Takoradi, in western Ghana, the heart of the country's oil and gas industry.

Trucks hauling containers just released from the port stumble into potholes on the crowded road, while the sheer volume of traffic slows all movement to little better than walking pace.

The scene testifies to the struggle of all Ghana's infrastructure to cope with a sudden surge in growth that has produced a significant increase in vehicle traffic of all kinds.

Hans-Ole Madsen, head of business development for the Middle East and Africa for APM Terminals, AP Møller-Maersk's terminals arm, points out that terminals form only one link in the logistics chain. APM Terminals owns 35 per cent of MPS, while France's Bolloré Group owns another 35 per cent and the government's Ghana Ports and Harbours Authority owns 30 per cent.

> Import growth through Tema port has been running at 15 to 20 per cent in recent years

"There are a lot of other steps," Mr Madsen says. "The most obvious is, what does the infrastructure look like when you go outside the gate? We can become world-class inside the gate. If you go outside the gate and there's no road, of course you start choking up again."

Mr ul Huq accepts the point both about the landside infrastructure and the facilities inside the port of Tema.

"The concern is that we've reached a point where the next development needs to take place," Mr ul Huq says.

Even though handling speeds at the berths have significantly improved, many of the ships dotted along the horizon are waiting for the chance to berth.

Demand for the terminal's two berths is such that, unlike the other significant west African ports of Lagos in Nigeria and Abidjan in Ivory Coast, Tema is unable to offer vessels fixed "berthing windows" – a fixed time when a berth will be free for them if they arrive on time. Instead, vessels are treated on a first come, first served basis and can wait offshore for several days.

"Today, MPS is operating two berths," Mr ul Huq says. "Everybody is waiting for those berths."

It is high time, he says, that MPS or another company with similar skills was given the chance to operate more berths. Only that will allow the ports to keep serving Ghana's fast-growing needs.

"There are certainly a lot of shipping companies that are anxious to come in in a more structured manner, having a proper berthing window," Mr ul Huq says.

Alphabet Soup What happens when the IMF and World Bank move in

Three decades of World Bank and IMF tutelage and Ghana has become one of Africa's highest-yielding producers of acronyms.

Three hundred are listed in the 2012 budget, which is guided by the new headline policy, GSGDA.

Few areas of public life go uncatered for by alphabet soup. As a strategic earner of hard currency, cocoa has its own subdivisions. Thus the general overseer, COCOBOD, manages everything from NPECLC to CRIP and CODAPEC.

SOBs are what MoFEP relies on for extra-budgetary spending during election years.

Ultimately, this drains reserves from the BoG.

"WAMI's half year surveillance report indicates that overall economic performance in the WAMZ remained strong," the finance minister announced in his 2012 budget speech. "Madam Speaker," he later pleaded, "as required by PRMA, government wishes to submit to this august house for your approval the ABFA."

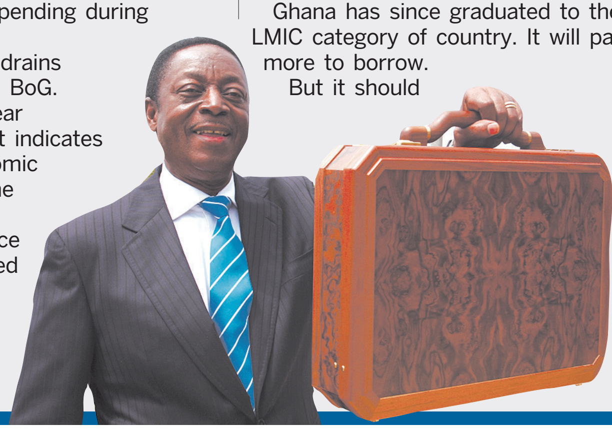
Years back, PUFMARP was conjured up to foster better management of public finances.

PUFMARP has since been replaced by the more sophisticated BPEMS (pronounced bee-pimms) also run by GoG out of MoFEP.

The hope is that GoG never strays the way of PIIGS. When it last did, it went HIPC.

Ghana has since graduated to the LMIC category of country. It will pay more to borrow.

But it should be freer to devise – on its own terms – the BPEMs of the future.


Budget day: Kwabena Duffuor, the finance minister

ABFA – Annual Budget Funding Account
BoG – Bank of Ghana
BPEMS – Budget and Public Expenditure Management Systems
COCOBOD – Ghana Cocoa Board
CRIP – Cocoa Road Improvement Programme
GoG – Government of Ghana
GSGDA – Ghana Shared Growth and Development Agenda
HIPC – Highly Indebted Poor Country
LMIC – Lower Middle Income Country
NPECLC – National Programme for the Elimination of the worst forms of Child Labour
PIIGS– Portugal Ireland Italy Greece and Spain
PMRA – Petroleum Revenue Management Act
PUFMARP – Public Financial Management Reform Programme
SOB – State-owned bank
WAMI – West African Monetary Institute
WAMZ – West African Monetary Zone

William Wallis

Incentives produce a steadily rising crop

Cocoa

Prospects will depend on young people staying on farms, reports **Orla Ryan**

Bean counters: the money they bring in transforms rural lives and remote villages during the busy season between October and January Reuters

When Ghana's cocoa crop topped 1m tonnes for the first time this year, the world's second-biggest producer had much to celebrate.

The beans that feed chocolate factories around the world remain one of the country's biggest export earners. The money they bring in for the country's estimated 720,000 cocoa farmers transforms rural lives and remote villages during the busy main season between October and January.

For the Ghana Cocoa Board, which runs the industry, the reasons for the bumper crop are clear.

"We are encouraging farmers to apply fertiliser. We are encouraging farmers to prevent the spread of disease. We have given them a very good price," says Yaw Adu-Ampomah, deputy chief executive in charge of agronomy and quality control.

"When we said we were going to get 1m tonnes, we knew what we were doing," he says, referring to the board's long-term strategy to increase production.

Good weather also helped output, analysts say.

"Two things went right: the weather was extremely good and the husbandry was good," says Jonathan Parkman, head of agriculture at Marex Spectron, the commodities broker.

"Every 10 days or so it rained just above normal. When they needed rain they got it. Basic husbandry can really boost productivity."

Mr Adu-Ampomah denies speculation that beans smuggled from Côte d'Ivoire – where European Union sanctions and a government ban halted exports this year – had boosted Ghanaian production.

But even if smuggling did figure in the bumper crop, Ghana's output represents a huge jump from the previous record of 740,000 tonnes in 2005-06. The Ghanaian regulator forecasts output of between 850,000 and 900,000 tonnes this season.

The rise in output is in no small part the result of a government plan to incentivise producers by paying them a decent price. This year, farmers will receive 3,280 cedis ($2,000) per tonne.

For several years, the government, which sells its cocoa forward, has sought to pay them a minimum of 70 per cent of the net free on board (FOB) price, where the seller is responsible for all costs up to the point where goods are loaded for transport.

Officials in nearby Côte d'Ivoire, which abolished its marketing board about 10 years ago, are working on a reform plan which in part seeks to replicate the Ghanaian experience.

> 'Two things went right: the weather was extremely good and the husbandry was good'

Much more needs to be done to boost productivity, which can in some cases be as little as 250 kilograms per hectare.

Productivity is at 40 per cent of its estimated potential, according to a 2008 report commissioned by Cadbury, the chocolate maker, on Ghanaian cocoa production. Farmers, who typically have smallholdings and lack formal training, rarely adopt a scientific approach to agriculture.

This weak productivity has its roots in the history of the west African crop. The cocoa boom of the last 100 years, which saw Ghana adopt the crop and quickly dominate the market in the early 20th century, was made possible by the ready availability of land and labour rather than advances in productivity or technology.

The marketing board is tackling this problem, it says. Its sales of subsidised fertilisers has reached one-fifth of farmers, says Mr Adu-Ampomah. Other growers – encouraged by the high yields of their neighbours – have also started to buy fertiliser and equipment.

Increased productivity could pose risks, however. Overall supply in the 2010-11 season, which has just ended, is expected to have outstripped demand by up to 400,000 tonnes. This has weighed on market prices.

Greater productivity should give farmers more choice and security, says Philip Sigley, chief executive of the Federation of Cocoa Commerce.

"Through diversification, the land that is released by improved productivity [should] be brought into food-crop production," he says, adding that this would not only boost food security but would give rural communities additional sources of income.

At the same time, the horizons of rural Ghanaians now stretch farther than the cocoa farm. The average age of farmers is 51 and even if farm-gate prices remain high, many of their children are eager to start life in the city, their earnings do not depend on the vagaries of the weather and where they can receive a monthly income – not just a bumper pay-out once a year for the cocoa harvest.

"There is a genuine concern that young people do not want to be cocoa farmers – we have ageing trees and ageing farmers, although in Ghana there has been a commitment to replanting the trees," says Mr Sigley.

The fate of the cocoa industry rests on the willingness of smallholders in remote communities to harvest the beans. If future generations are to farm the main ingredient needed for the world's favourite sweet, says Mr Sigley, then the government and donors need to invest more in rural communities.

Growing backlash against groups who are 'minting it'

Mining

The government is trying to extract more revenue from the industry, writes **William Wallis**

Ghana was not called the Gold Coast for nothing. When a group of children ran excitedly back to their parents last month, claiming to have found glittering traces of dust on the sandy beach, they set off a gold rush that has drawn thousands of people to the coast.

Initially, state officials were sceptical about the find, which is situated just below the 15th century Portuguese fort at Elmina ("the mine"). But tests later showed the gold was for real. The luckiest digger found six ounces worth about $6,000 in Accra, according to traders on site.

The government was effectively powerless to stop the rush, even though erosion at the beach could tarnish one of Ghana's biggest tourist draws, and mercury associated with crude refining will cause environmental pollution.

Illegal mining is proliferating across a gold belt that stretches all the way from Elmina to Bolgatanga, 400 miles to the north. One of the latest controversies involves Chinese diggers who, with local partners, have started mining in growing numbers.

The informal rush is indicative of a broader problem with the country's mining sector – the sense that foreign companies have minted it from their concessions delivering few benefits either to the Ghanaian economy or to the wider population beyond the employment they provide.

Ghana was one of the first African countries in the 1990s to deliver a mining code designed to draw in foreign investors. In the past 18 years alone, miners have extracted 36m ounces from Ghana's seams, generating about 40 per cent of export earnings. But in generating the investment necessary, the government set the bar low. Ever since, there has been a growing backlash.

Governments across Africa are trying to extract more revenue from the mining industry against the backdrop of booming commodity prices and widespread perceptions that the region's mineral wealth has not translated into broader prosperity.

In Ghana's case, this led to a rise in corporate taxes for miners from 25 to 35 per cent in the 2012 budget. The government is also seeking to impose a 10 per cent windfall tax.

The corporate tax is problematic, however. Ghana granted stabilisation clauses to many of the companies who rushed to the country in the 1990s and thereafter. Any subsequent changes to the terms, would be a breach of contract.

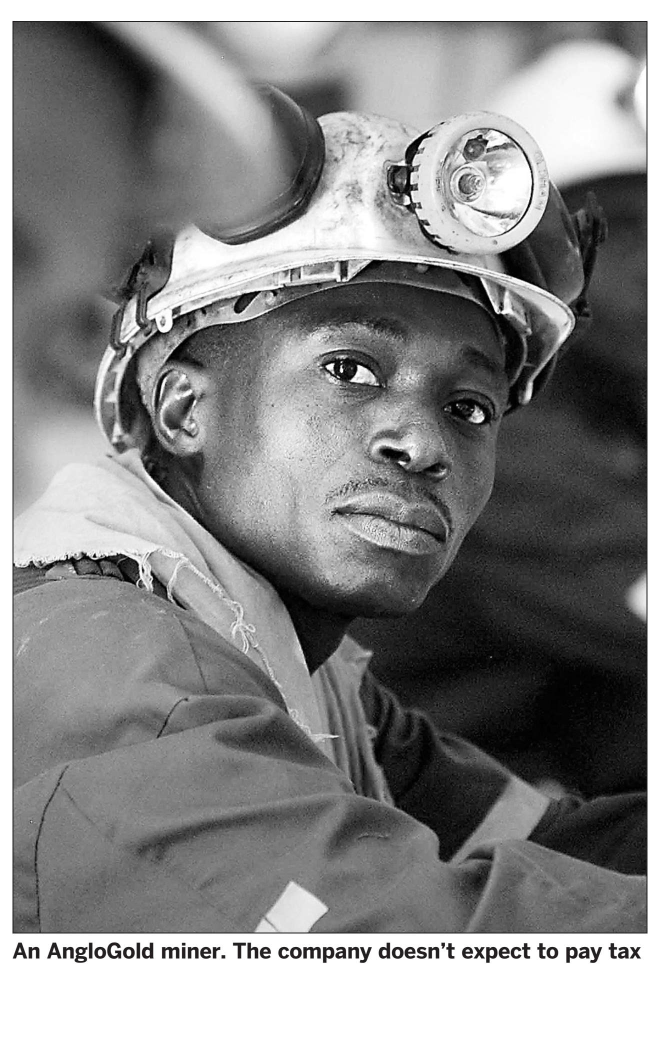
AngloGold Ashanti, for example, has said it does not expect to be affected by the new taxes because of the agreement it signed with the Ghanaian state in 2004.

This, it says, should keep in place the taxation conditions agreed at the time for the next 15 years.

Officials from other mining companies have been quick to label the move as a sign of "resource nationalism" creeping in to Africa's second largest gold producer, and the world's ninth. But the backlash is also the result of genuine grievances.

> There is a perception that mineral wealth has not translated into broader prosperity

Tax breaks and other incentives mean that, of mining revenues totalling $2.1bn in 2009, only $146m – or 7 per cent – was paid to the state in royalties, taxes and dividends, according to the Chamber of Mines.



An AngloGold miner. The company doesn't expect to pay tax

One lawyer employed by a gold miner in the 1990s told the FT that the company he worked for systematically falsified its accounts to underestimate profits, thereby depriving the state of millions of dollars in taxes.

There are growing suspicions in government circles that similar tax fraud, known as transfer pricing, has been exercised systematically by companies in the sector.

But the new tax regime has also alarmed some investors, who argue it will make Ghana less competitive and will stymie fresh investment. "Is Ghana pricing itself out of the market," asks a banking executive. It is a question some of the gold companies have been quick to answer.

Gold Fields, the world's fourth-largest gold miner, has said planned projects that could bring $1bn in investment are at risk because of the changes announced. The company is targeting an increase in its output in west Africa to 1.25m ounces in 2015 from just under 1m now.

Julian Ashun, an Accra-based businessman with a gold concession, says the answer is to devise a sliding scale of royalties and taxes, depending on the price.

Ghana has applied one for the oil industry in such a way that when prices rise, the profits are shared equally between the state and companies, and when world prices fall, company investments are protected.

"The problem at the moment in the gold sector, is that government tends to get a smaller share in royalties the higher the gold price goes. The tax regime should change depending on the price environment."

Mr Ashun also argues that better regulation is required so that Ghanaians can go into small-scale mining more readily and legally. When there is rush, the benefits can be spread more evenly and with less damage to the environment.