

January 29, 2018

## GHANA COCOA UPDATE

## Backing away from the third rail

Beholden as it is to constituencies in Western, Ashanti and Brong Ahafo regions, Ghana's NPP government has discovered that the producer price for cocoa constitutes a political third-rail. *The impasse is fraught with fiscal costs.*

1) Barely 10 days after the finance minister's trial balloon<sup>1</sup> - which the Agricultural Workers' Union promptly shot down<sup>2</sup> - COCOBOD officials have advised that **a downward revision of the administered cocoa price is no longer under active consideration**<sup>3</sup>.

2) Based on the most recent statistics available from the International Cocoa Organization, cumulative Ivorian shipments through the third week in December were 662,000 MT<sup>4</sup>. This marked **an 11.75% decline from the same period<sup>5</sup> a year earlier**, even though weather conditions have been pointing to another bumper harvest. **Clandestine exports to Ghana are clearly the most likely explanation** for this discrepancy.

3) To estimate the fiscal impact of COCOBOD's misguided largesse, we have assumed that **a cumulative 9% of CIV's 2017/18 crop<sup>6</sup>** - i.e. 180,000 MT - **is smuggled into COCOBOD's supply chain.**

- This season's **USD 1.3 billion COCOBOD loan** was enough to cover the cost of purchasing only 691,322 MT of cocoa at the LBC price, which **implied a cash shortfall of GHS 1.12 billion.**
- When we factor in the GHS 1.49 billion cost of purchasing the unbudgeted Ivorian beans, the **aggregate cash shortfall rises to GHS 2.62 billion.**

	Quantity (MT)	USD (000s)	GHS (000s)
Projected cocoa harvest (MT)	<b>850,000</b>		
COCOBOD px/MT (actual)	9.24%	1,829	8,302
COCOBOD procurement cost		-1,554,379	-7,056,879
Pre-export financing facility		<u>1,300,000</u>	<u>5,739,500</u>
<b>Primary surplus/deficit</b>		<b>-254,379</b>	<b>-1,123,081</b>
CIV harvest (MT)	<b>2,000,000</b>		
Cross-border diversions	9.00%		
Primary surplus/deficit	158,678	-254,379	-1,123,081
Unbudgeted CIV purchases	<u>180,000</u>	<u>-338,482</u>	<u>-1,494,398</u>
Cumulative surplus/deficit	<b>338,678</b>	<b>-592,860</b>	<b>-2,617,479</b>
Deficit/GDP			-1.29%

\* N.B. Crop quantities are presented in (actual) metric tons.

4) Equivalent to **approximately 1.30% of Ghana's GDP**, such an outcome would hardly be compatible with a fiscal consolidation programme<sup>7</sup> whose **2018 target is a public-sector deficit of only 3.9%.**

<sup>1</sup> Viz.: 'Cocoa is a problem. [...] Ghana needs to have a discussion at Cabinet level and put out a formula that is similar to that of Ivory Coast' - statement by Hon. Ken Ofori-Atta, as quoted in "Ghana to consider pay cut for farmers", by Bloomberg; posted Jan. 17, 2018.

<sup>2</sup> See "General Agricultural Workers' Union cautions government on reducing cocoa price", by Citibusinessnews.com; Jan. 27, 2018.

<sup>3</sup> See statement by Fiifi Bofo (manager in the office of COCOBOD's Chief Executive), quoted in "COCOBOD not considering reduction in cocoa prices", by Citibusiness.com; posted Jan. 27, 2018.

<sup>4</sup> See "November 2017 Review", by ICCO; posted Dec. 20, 2017.

<sup>5</sup> Shipments during the period in question account for approximately 58% of the total for the entire crop year.

<sup>6</sup> This is in fact considerably lower than the 20% rate of 'leakage' that the Ivorian authorities had anticipated at the start of the season.

<sup>7</sup> This is in fact the central pillar of Ghana's ECF programme. Launched in April 2015, its targets were revised in 2017, in response to the -9.3% fiscal blow-out during the final year of the Mahama administration.

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