

**IN THE SECOND SESSION OF THE SEVENTH
PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA**

REPORT

**OF THE
FINANCE COMMITTEE**

ON THE

**TERMS OF A RECEIVABLES-BACKED TRADE
FINANCE FACILITY BETWEEN GHANA COCOA
BOARD (COCOBOD) AND A CONSORTIUM OF
BANKS AND FINANCIAL INSTITUTIONS, WITH
THE GOVERNMENT OF THE REPUBLIC OF
GHANA AS GUARANTOR, FOR AN AMOUNT OF
UP TO ONE BILLION, THREE HUNDRED
MILLION UNITED STATES DOLLARS
(US\$1,300,000,000.00) FOR THE PURCHASE
OF COCOA IN GHANA FOR THE 2018/2019
CROP SEASON**

23RD JULY, 2018

1.0 INTRODUCTION

The Request for Approval of the Terms on Receivables-Backed Trade Finance Facility Between the Ghana Cocoa Board (COCOBOD) and a Consortium of Banks and Financial Institutions, with Government of Ghana as Guarantor, for an amount of One Billion, Three Hundred Million United States Dollars (US\$1,300,000,000) for the Purchase Of Cocoa Beans in Ghana for the 2018/2019 Crop Season was presented to the House on Wednesday, 18th July, 2018 in accordance with Article 181 of the 1992 Constitution.

Further, a request for the Waiver of Stamp Duty amounting to Six Million, Five Hundred Thousand United States Dollars (US\$ 6,500,000) on the Receivables-Backed Trade Finance Facility.

Mr. Speaker referred the requests to the Finance Committee for consideration and report in accordance with article 174 of the 1992 Constitution and the Standing Orders of the House.

The Committee met with a Deputy Finance Minister, Hon. Charles Adu Boahene, the Chief Executive Officer of the Ghana Cocoa Board, Mr. Paul Evans Aidoo and officials from the Ministry of Finance and Ghana Cocoa Board to consider the referrals.

2.0 DOCUMENTS REFERRED TO

The Committee referred to the following documents:

1. The 1992 Constitution of Ghana
2. The Ghana Cocoa Board Act, 1984 (PNDCL 81)
3. The Standing Orders of Parliament of Ghana

3.0 BACKGROUND

The cocoa industry has contributed significantly to the economic development of Ghana over the years. Over the years, cocoa contributes about a quarter of Ghana's Gross Domestic Product (GDP). The industry has over the years created employment for millions of Ghanaians and serves as a major source of foreign exchange for the country.

One of the main functions of COCOBOD is to purchase, market and export cocoa and cocoa products produced in Ghana. To this end the Offshore syndicated Trade Finance Arrangement was put in place in 1994 to enable COCOBOD secure a loan facility to finance the purchase of cocoa and for other payments each year.

This year, the Board of Directors of COCOBOD gave approval for COCOBOD to borrow up to One Billion, Three Hundred Million United States Dollars (US\$1,300,000,000) for the purchase of cocoa for the 2018/2019 cocoa season. It is this facility that is currently before Parliament for approval in accordance with article 181 of the 1992 Constitution of the Republic of Ghana.

4.0 RATIONALE OF THE REQUEST

The Trade facility is to enable COCOBOD raise adequate funds to purchase cocoa beans from farmers through licensed buying companies for the 2018/2019 cocoa season.

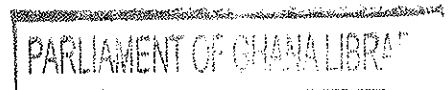
4.1 Rational for the Waiver of Stamp Duty

Section 32 (6) of the Stamp Duty Act, 2005 (Act 689) makes it imperative to stamp a loan document at 0.5% of the facility. In order to ensure that the full value of the loan is used for cocoa purchases in the 2018/ 2019 crop season, there is the need to waive the Stamp duty on the loan facility. The amount to be waived has been assessed as US\$6,500,000.

5.0 TERMS OF THE FACILITY

The terms of the facility are as follows:

Arrangers	ABN AMRO, Bank of China, ICBC and Standard Chartered Bank
Interest Margin	LIBOR + 60 basis points
Commitment Fees	35% on interest margin
Flat Fees (Participation and arrangement)	0.625% flat
Legal Costs and Other Expenses	Up to US\$66,000
Agency Fees	Nil
Security margin	Assignment of Cocoa Contracts for 110% of Facility Amount
Interest on Cash Collateral Deposit	To be Market-Related LIBID
Underwriting Level	Fully Underwritten
Estimated Total Cost (excluding Legal Fees)	US\$27,877,029.79



6.0 OBSERVATIONS

6.1 Utilization of 2017/ 2018 loan facility

The Chief Executive Officer informed the Committee that the syndicated loan for 2017/2018 was drawn down in three tranches. The first 50% drawdown was made on 6th October, 2017. Additional US\$450 million drawdown was made on 13th November, 2017. The last drawdown was made on 13th December, 2017 bringing the cumulative drawdown to the full amount of US\$1,250,000,000 (GH¢5,497,805,000).

The Chief Executive Officer stated that the stated amount was utilized as follows:

Seed fund to LBCs for cocoa purchases -	GH¢1,935,325,697.95
CTORs/ cocoa deliveries paid to LBCs -	GH¢2,813,860,155.30
Inputs/CODAPEC & Hi-tech Expenses -	GH¢395,822,471.63
Operational expenses -	GH¢382,796,675.12
Total -	GH¢5,497,805,000.00

6.2 Utilization of 2018/ 2019 loan facility

The Chief Executive Officer informed the Committee that for the 2018/2019 season, the facility amounting to US\$1,300,000,000 would be used for cocoa purchases and payment for other liabilities. The Breakdown of the Proposed use of Funds for 2018/2019 is attached as Appendix 1.

6.3 Need for Domestic Borrowing

The Chief Executive Officer informed the Committee that in 2017/2018 crop season, COCOBOD needed to borrow GH¢2.7 million to support its finances. He said the borrowing became necessary as a result of the decline in the world prices of cocoa as well as existing legacy debts.

6.4 Maintaining producer price of Cocoa

The Chief Executive Officer stated that COCOBOD would not reduce the farmer price of cocoa. He indicated that this was important in order to maintain interest in cocoa farming. He said in recent times, many farmers are divesting their lands into the cultivation of cashew and rubber as well as giving them out for mining. This has adversely affected total cocoa land size. He said that a reduction in the current farmer prices would further worsen the already existing situation. Even though many countries have reduced their producer prices in the face of declining world market prices, COCOBOD continued to maintain the current prices in order to keep the farmer in business.

6.5 Efforts to increase production

The Chief Executive officer informed the Committee that COCOBOD is undertaking a number of measures to help improve yield. So far a number of measures have been piloted and the results are positive. These include artificial pollination by using the hand, pruning of cocoa trees and application of fertilizers.

He said some of these measures have been implemented in the current crop season. He was optimistic that in the 2018/2019 crop season, most of the measures would be fully implemented to enhance yields.

6.6 Provision for stabilization Fund

The technical team informed the Committee that the Stabilization Fund is part of the positive margin between international prices and producer prices. Currently the producer prices are higher than the international prices hence the margin is adverse. If the situation improves, payments would be made into the Stabilization Fund.

6.7 Waiver of Stamp Duty

The Committee inquired of the Board why they should be exempted from the payment of Stamp Duty.

The CEO explained that currently COCOBOD is distressed financially due to declining world market prices. Therefore, paying the Stamp Duty would add further financial challenges to the Board. This can adversely impact on the purpose for sourcing the facility. In order to ensure that the object for the Trade Finance facility is realized, there is the need to exempt the facility from the payment of Stamp Duty.


7.0 CONCLUSION

Considering the significant contribution of the cocoa industry to the economic development of Ghana, the Committee recommends to the House to adopt its Report and approve by Resolution, the

- Terms of a Receivables-backed Trade Finance Facility between the Ghana Cocoa Board and a Consortium of Banks and Financial Institutions, with the Government of Ghana as Guarantor, for an amount of up to One Billion, Three hundred million United States Dollars (US\$1,300,000,000) for the purchase of cocoa for the 2018/ 2019 crop season in accordance with Article 181 of the 1992 Constitution, Section 56 of the Public Financial Management Act, 2016 (Act 921) and Order 171 of the Standing Orders of Parliament, and
- Request for the Waiver of Stamp Duty amounting to Six Million, Five Hundred Thousand United States Dollars (US\$6,500,000) on the Receivables-Backed Trade Finance Facility between the Ghana Cocoa Board and a Consortium of Banks and Financial Institutions, with the Government of Ghana as Guarantor, for an amount of up to One Billion, Three hundred million United States Dollars (US\$1,300,000,000) for the purchase of cocoa for the 2017/ 2018 crop season in accordance with Article 174 of the 1992 Constitution and Section 36 of the Stamp

Duty Act, 2005 (Act 689) and Order 169 of the Standing Orders of the House.

Respectfully submitted.


HON. MARK ASSIBEY YEBOAH (DR)
CHAIRMAN, FINANCE COMMITTEE


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EVELYN BREFO-BOATENG (MS)
CLERK TO THE COMMITTEE

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APPENDIX 1

GHANA COCOA BOARD

PROPOSED USE OF FUNDS 2018/2019

	2018/2019 Proposed Budget
1 Tonnage	900,000.00
2 FOB Per Tonne (US\$)	2,100.00
3 Total FOB (US\$)	1,890,000,000.00
4 Less: Cocoa Delivery Committed	-
5 Net Revenue	1,890,000,000.00
6 Exchange Rate: US\$1/GH¢	4.54120
7 Total FOB Amount (GH¢)	8,582,868,000.00
8 REVENUE:	GH¢
9 Gross Cocoa Proceeds: A	8,582,868,000.00
10 Less Farmers' Services Provision:	Budget (GHS)
11 Cocoa Disease & Pest Control Programme	475,860,306.56
12 Fertilizer Budget (Hi-tech))	319,173,446.46
13 Farmers' Wards' Scholarship	3,647,285.99
14 Cocoa Roads	-
15 Industry Inputs (Sacks, Twine, Ink & Passbook)	76,067,796.61
16 Rehabilitation/Replanting	58,527,542.37
17 Child Education Support	2,917,828.79
18 Sub-total: B	936,194,206.78
19 Net FOB Revenue: A - B	7,646,673,793.22

Actual cocoa purchases as at 30th June, 2018 (tonnes)

20 DISTRIBUTION OF NET FOB	%	Cost/tonne	Budget (GHS)
21 Farmers' Cost	75.60	7,600.00	6,840,000,000.00
22 Stabilization Fund	-	-	-
23 Buyers Margin	6.98	702.21	631,989,000.00
24 CMC Internal Marketing Operations (CMC)	1.21	121.77	109,593,000.00
25 Finance Cost	5.69	572.42	515,178,000.00
26 Evacuation Cost	2.35	236.74	213,066,000.00
27 Disinfestation/Grading & Sealing (QCC)	1.81	182.45	164,205,000.00
28 COCOBOD & Divisions	6.29	631.91	568,719,000.00
29 Net Export Duty	-	-	-
30 Other Costs (Scale Insp./Phytosanitary)	0.04	3.78	3,402,000.00
31 Replanting/Rehabilitation-Coffee	0.02	2.27	2,043,000.00
32 Total Net FOB Shared (C)	100.00	10,053.55	9,048,195,000.00
33 Surplus/(Deficit) of Net FOB Revenue			(1,401,521,206.78)
34 Stabilisation fund			-
35 Net Deficit			(1,401,521,206.78)
36 Total cost of operations (B + C)			9,984,389,206.78
37 Proposed loan amount for 2018/2019 (USD1.3 billion) @ GHS4.5412			5,903,560,000.00
38 Syndicated loan proceeds as a percentage of total operational cost(%)			59.13

