

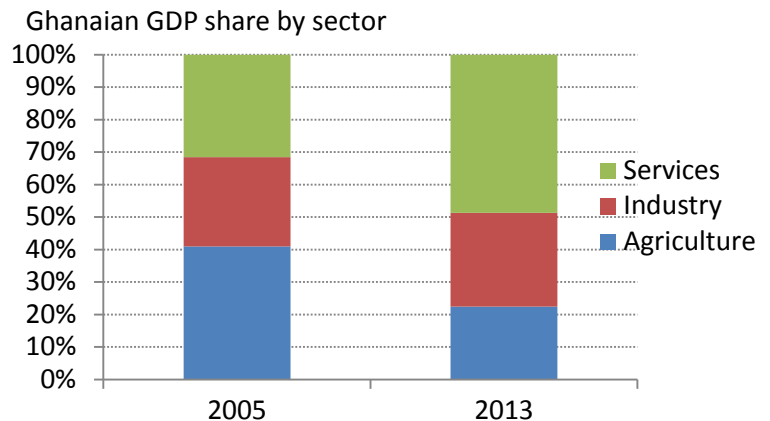
## FACTORS AFFECTING GROWTH IN GHANA'S SERVICES ECONOMY

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*The Ghanaian government has actively encouraged the development of the country's services sector, whose rapid expansion has broadened overall economic growth and contributed to low unemployment in Ghana. However, several factors limit the service sector's impact on the economy.*

### Services account for almost half of Ghanaian gross domestic product (GDP) and a substantial share of Ghanaian trade

- During 2005–13, the services sector<sup>1</sup> share of Ghanaian GDP rose from 32.2% to 48.8%, overtaking agriculture as the largest segment of Ghana's economy. The services sector is also an important source of jobs, having accounted for 43.1% of Ghanaian employment in 2010 (latest data available).
- Ghana's commercial services<sup>2</sup> exports and imports respectively accounted for 15.9 and 17.3% of total Ghanaian goods and services exports and imports in 2012. During 2005–12 Ghana posted continuous services trade deficits, which peaked at \$1.4 billion in 2011. However, growth in tourism and increasing government support for domestic service inputs in oil and gas operations reportedly may reduce this deficit's share of GDP.



Source: World Bank, World Development Indicators. accessed September 22, 2015.

**Favorable government actions and relative political and economic stability have helped support strong growth and earnings in several Ghanaian service industries. However, infrastructure weaknesses and other issues hinder business activity in these same services industries and limit their contribution to growth in other sectors**

### Banking Services

- Ghana's finance and insurance industry grew at an average annual rate of 15.4% during 2009–13, with the industry's share of Ghanaian GDP growing from 4.3% to 6.4%.
- During the last 25 years, Ghanaian banking sector reforms have, *inter alia*, lowered interest rates, raised capital requirements, established standard procedures for accounting and reporting, and increased the Bank of Ghana's supervisory abilities. These reforms have led a number of domestic and foreign banks to enter the market, increasing competition in the industry.
- Developments in training and financial regulation, the growing availability of information and communications technology (ICT) solutions, a skilled workforce, tax incentives for financial sector investors, and a relatively stable business environment have also contributed to the growth of Ghana's banking industry.
- Despite these advantages, growth in the banking industry is limited by factors such as a high share of non-performing loans; high interest rates resulting from significant commercial bank lending to the government; and high costs associated with the lack of skilled labor, unionization, and the maintenance of ATMs and branches in

<sup>1</sup> World Bank data on service sector GDP include net output in industries classified in divisions 50–99 of the International Standard Industrial Classification (ISIC). For more information on ISIC rev. 3, see <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=2>.

<sup>2</sup> World Trade Organization (WTO) data on commercial services—which are reported in accordance with International Monetary Fund (IMF) *Balance of Payments and International Investment Position Manual*, 6th ed.—exclude services that are provided to or by government entities and that are not classified elsewhere.

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remote locations. Banking sector weaknesses also impact other industries, as the high cost of lending and a lack of information on bank customers' credit histories hinder access to credit.

#### *Information and Communication Technologies Services (ICT)*

- Ghana's information and communication industry grew at an average annual rate of 26.5% during 2009–13, and grew as a share of total Ghanaian GDP from 1.8% to 2.4%.
- Seeing a connection between robust ICT infrastructure and the country's ability to attract investment and foster private sector growth, the Ghanaian government has supported the ICT industry through favorable policies and investment in the sector. For example, the government-established Ghana Investment Fund for Electronic Communications, which is funded through mandatory payments by telecommunications operators, supports ICT investment in rural areas.
- Ghana's ICT industry also benefits from a substantial number of projects funded by overseas investment, such as the Kofi Annan ICT Centre of Excellence, a project funded by the Indian and Ghanaian governments which aims to develop an ICT workforce; a chain of Internet cafés established by Vodafone Ghana; and an ICT park being built with World Bank funding.
- However, weak electricity infrastructure—which depends heavily on an unreliable supply of hydroelectric power—hampers Ghana's ability to attract investment and foster growth in both the ICT sector and the economy as a whole.

#### *Tourism*

- The hotel and restaurants segment—a component of the tourism industry—grew at a slower average annual rate (8.8%) than total Ghanaian GDP (9.6%) during 2009–13, with the segment's share of GDP falling from 6.2 to 5.2%. However, tourism is a key source of foreign exchange, and based on data reported in the WTO's *Trade Policy Review*, receipts and employment in the sector more than doubled during 2006–13, reaching about \$1.9 billion and 319,000, respectively.
- The Ghanaian tourism industry benefits from an endowment of natural, cultural, and historic attractions, along with accessibility and government support. Government plans to spur growth in the tourism industry include, *inter alia*, using public-private partnerships to boost investment in infrastructure, promoting Ghanaian travel to new audiences, and supporting worker training. Particular focuses include business travel, ecotourism, cultural tourism, and domestic travel.
- At the same time, growth in the tourism industry is limited by a lack of trained workers, a shortage of hotel rooms, and inadequate healthcare facilities in some locations. Limitations on tourism growth may, in turn, impact spending on related services and commodities such as construction, ICT services, food, and fuel.

#### *Transportation*

- Although Ghana's transport and storage industry increased at a slower average annual rate (6.8%) than overall Ghanaian GDP during 2009–13, the industry share of overall Ghanaian GDP grew, increasing from 10.5 to 11.0% during the period.
- Ghana's transportation industry has benefited from business-friendly policies, a stable political environment, and improved customs procedures and infrastructure. For example, the government has made significant investments in road expansion and repair, and port operations have been enhanced through automation and the introduction of electronic and technological improvements to surveillance, security, data interchange, and cargo handling.
- However, Ghana's transportation infrastructure remains underdeveloped. The condition of some roads is poor, and rural road span is insufficient. The rail network lacks the capacity to carry a large volume of freight, while the country's seaports are congested and beset by inefficient customs clearance processes and high fees. These issues reportedly impact Ghana's development as a regional provider of transportation services and hinder the growth and competitiveness of Ghana's tourism, minerals, and manufacturing industries.

Sources: African Development Bank, CommerceGhana.com, Economist Intelligence Unit, PricewaterhouseCoopers, Ghana Investment Promotion Centre, Ghana Statistical Service, IMF, World Bank, USAID, WTO, and African and U.S. press reports and journals.

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