Goodman AMC

Doing Business and Investing In Ghana 2015

2015

Goodman AMC LLC

P.O.Box 1732, Adenta-Accra, Ghana
www.goodmanamcllc.com
relations@goodmanamcllc.com

Contents

Goodman AMC's Founding Partners tackle the trends shaping West Africa's 2nd largest economy to give an insight on what companies must do to operate effectively.

Introduction

What does it take to start a business in Ghana? According to data collected by Doing Business, starting a business in Ghana requires 8 procedures, takes 12 days, costs 19.2% of income per capita and requires paid-in minimum capital of 2.8% of income per capita.

Reasons Foreigners Invest in Ghana is that the economic policy generally welcomes foreign investment, viewing it as a means to promote capital formation, employment, productive capacity, and new technology. To reduce risks, companies and individuals need to spread their investments worldwide.

Ghana is viewed by many as the ultimate haven in Africa for preservation of capital because of its political and economic stability. The country holds the eighth spot in a ranking by Slate of Africa's safest countries, thanks to its relatively low level of unemployment and the absence of conflict in recent years.

Furthermore, the country ranks sixth among African countries in the Doing Business 2014 report and is one of the countries with the highest progression over the last five years. This explains why the country is attracting so many foreign investors and private equity funds such as Amethis Finance, which invested $10 million in UT Bank. ENI and Danone are also pursuing expansion on there.

This article therefore throws more light than ever before on some of the modern trends shaping the new phase of Ghana's economic growth, which type of business might benefit the most, and what could potentially go wrong. It also outlines what is involved in building a successful and profitable business in Ghana today as a foreign company.

Trends Shaping Growth and Creating New Opportunities in Ghana

Economic Growth

Ghana's economy has maintained commendable growth trajectory with an average annual growth of about 6.0% over the past six years. In 2013 growth decelerated to 4.4%, considerably lower than the growth of 7.9% achieved in 2012. Growth has, however, been broad-based, driven largely by service-oriented sectors and industry, which on average have been growing at a rate of 9.0% over the five years up to 2013.

The Ghana Investment Promotion Center estimated that the provisional figures for foreign direct investment in Ghana would reach $1.3 billion by the end of 2014, this is almost a 100% increase from that of 2013. Foreign direct investment in Ghana is still at one of its highest levels in the last 10 years, and growth trends suggest this will continue for the foreseeable future.

Over the past 30 years, the Ghanaian governments have allowed for foreign companies to participate in its domestic economic growth. As stated earlier, The Ghanaian economy revolves around the services sector, which accounted for approximately 50% of GDP in 2010 and employs majority of Ghanaians.

The economy continues to rely heavily on agriculture which accounts for 30.2% of GDP and provides employment for 56% of the work force mainly small landholders. The contribution of net exports and real estate to economic growth, infrastructure and domestic consumption has increased as traditional and new sources of growth for the economy, respectively rises. The current growth of the Ghanaian economy depends on some factors listed below.

Population Growth

According to the World Bank, Ghana had an estimated population of 18.83 million in 2000, which has increased to an estimated 25.37 million in 2013. By 2050 the population is expected to increase to almost 40 million. Furthermore, between 2013 and 2050, Ghana's active/working age population will grow from 56% of the country to 66%; a striking contrast to more mature developed countries whose populations are aging and moving into the dependent category, i.e. 65 years or older. Accordingly, expansion of the economically active population will lead to increased demand for goods and services.

Decrease in Poverty

Poverty levels in Ghana are projected to fall to 20% of the population by 2020 from nearly 45% in the 1980s. In fact, Ghana's GDP is growing even faster than its rapid rise in population.

Ghana's Exports

In 2011, the main contributors to Ghana's export revenue continued to be cocoa and minerals (mainly gold). Cocoa exports increased by 25.6 percent reaching US$ 2,870.8 million. The increase in cocoa exports is mainly attributed to the increase in the volume of cocoa products exported. (This has increased in recent years and is expected to continue to increase in 2012 as the economy moves up the cocoa value chain).

In the minerals subsector, gold earnings continued to be the major revenue contributor accounting for 97 percent of earnings in the mineral subsector. The remaining 3 percent consisted of revenue contributions of diamond, bauxite and manganese. Diamond and manganese experienced an increase in earnings (both in volume and unit price) while bauxite registered a decline. The production of timber and timber products recorded a decline of 13 percent in 2011.The cocoa and gold exports have greatly contributed to shaping the success of the Ghanaian economy by ensuring strong economic growth even in times of global financial distress.

The Non Traditional Export (NTE) sub-sector is made up of agricultural products, handicrafts and processed/semi-processed products. The NTE sub-sector as a whole recorded an increase of 49 percent in 2011. The main engine for this growth was accounted for by agricultural exports which increased in value by about 80 percent. Processed and semi-processed products accounted for about 45.3 percent of total earnings of the sub-sector while handicraft exports accounted for 28.8 percent of the total export value. Within these sub components of NTE, major earners were identified in increasing order which accounted for the growth in these three sub components of NTE.

In the agricultural products category, the five major earners, in decreasing order, were: cashew nuts; sheanuts; fresh or chilled fish; pineapples; and medicinal plants and parts. Earnings from cashew nuts more than doubled between 2010 and 2011 while earnings from medicinal plants and parts declined by about 21.5 percent. In the handicrafts category, the five major earners, in decreasing order, were: statuettes; basket ware; handicraft items; paintings and ceramic products. Earnings from handicraft items and paintings showed significant growth in 2011 whereas statuettes and basket ware reported a decline in growth.

Ceramic products also experienced an increase of about 65.4 percent in earnings between 2010 and 2011. In the processed and semi-processed category, the five major earners, in decreasing order, were: cocoa paste; canned tuna; cocoa butter; articles of plastic; and natural rubber sheets. The single largest contributor to NTE earnings was cocoa paste making up 31.2 percent of the total. Canned tuna also experienced the largest jump in earnings from 2010 to 2011, recording an increase of 89.6 percent. These five products registered an increase in earnings in 2011.

In terms of the destination of these exports and imports to Ghana, we see that the share of commodities in Ghana's imports has increased over the years from 39.5 percent in 2008 to 79.4 percent in 2011 (as at end of third quarter). Since 2003, Ghana has imported most of its goods from China (mainly light manufactures) and Nigeria (mainly oil) and this trend continued in 2011. These two countries represent 19.0 percent and 11.8 percent, respectively of the value of total imports in the first three quarters of 2011.China and Nigeria both increased their exports to Ghana in 2011, China by 62 percent, and Nigeria by 27 percent, (as at end of third quarter).

Ghana's major exports are still concentrated in commodities with export destinations largely concentrated in industrialized countries. These exports accounted for 67 percent of total exports up to the third quarter of 2011. France received the single largest share (18.1 percent) of Ghana's exports. New export destination to Italy and China became part of Ghana's top ten export destinations. Ghana's export earnings continue to be vulnerable due to reliance on a narrow range of commodities as well as a narrow range of export markets. Exports to the rest of Africa continued to be minimal, at less than 10 per cent of total exports in 2011.

Ghana and EU Trade

Interim Economic Partnership Agreement (iEPA)

According to the EU, in late 2007 when the regional EPA with West Africa had not been concluded and the WTO-waiver for the ACP trade preferences was expiring, Ghana initialed an interim Economic Partnership Agreement (iEPA) with the EU which has, however, not yet been signed by the Government of Ghana. After the initialing of the iEPA in 2007, the EU afforded Ghana provisional duty-free-quota-free access to the EU market through market access regulation 1528/2007, which was subsequently amended in April 2013.

When the trade preferences granted under the market access regulation end on the 1st of October 2014, Ghana will only continue to enjoy duty-free-quota-free access to the EU market on the basis of the agreement itself – meaning that the iEPA would need to be signed ratified and implemented. Signing the iEPA will ensure continuous stable, predictable access to the EU market.

The main features of the iEPA are:

A trade agreement with the EU that is compatible with WTO rules and that provides a stable and predictable trade regime attractive to investors.

Gradual liberalization of 80% of imports from the EU over 15 years (focusing on poverty reduction-related goods such as pharmaceuticals, intermediate goods and inputs for local industry), only dismantling the first and lowest tariff items (at 5%) from 2013.

Protection of specific items by excluding them from liberalization. This exclusion list amounts to 20% of imports from the EU and the items were chosen by Ghana according to its development programme. These products are mostly concentrated in the agricultural and agro-processing sectors and include for example chicken, tomatoes, onions, sugar, tobacco, beer, worn clothes, wheat, frozen fish, and industrial plastics.

Safeguards allowing to temporarily reintroduce tariffs (can be used on all products) and a special safeguard to protect infant industries.

Cooperation on trade facilitation, standards, sanitary and phytosanitary measures, simplified rules of origin, especially in sectors such as textiles and clothing, agriculture and fisheries.

If adopted, the regional ECOWAS EPA will supersede Ghana's iEPA with the EU.
In the absence of ratifying the iEPA, Ghana would benefit from taking the option of the Generalized System of Preferences (GSP) for developing countries which would, however, lack the predictability and opportunities for dialogue under a contractual relationship and give less advantageous market access for Ghana's exports to the EU, including for important export products such as bananas, canned fish and processed cocoa.
Ghana has a huge trade and investment potential which could be further unlocked by a stable trade environment as offered in the EPA. When Ghana ratifies the interim EPA (iEPA) and starts opening up to the EU market, it would stimulate local and foreign investment, economic diversification and encourage a transfer of technology, making local businesses more efficient and bringing down the costs of inputs to local production chains. This will make the local producers more competitive and reduce the prices of consumer goods and food products. All this should have a positive impact on employment and private sector development in Ghana.

Government policy continues to be the critical shaping force

As the factsheet delivered in the second quarter of 2014 demonstrates, the government still controls the ability to push GDP growth rates up and down quite rapidly. In other ongoing government initiatives, Ghana experienced three difficult years characterized by declining economic growth, increasing inflation rates, rising debt levels and financial vulnerabilities. In 2014 economic growth reached its lowest level in many years, with non-oil GDP growing at 4.1%, in the context of high interest rates, a fast depreciating currency, low aggregate demand and a deepening energy crisis.

In an attempt to curb this, a Eurobond (USD1bn) and the annual Ghana Coco Board syndicated loan (USD1.7bn) alleviated some short-term pressures on reserves and the currency. The Government of Ghana petitioned the IMF in 2014 for a possible bailout because of high inflation rates, depreciation of the cedi, huge wage bill, among others. The Ghanaian Government reached an agreement on the 25th of February to receive about US$940 million from the International Monetary Fund (IMF), to help the country turn the ailing economy around.

Foreign Investors

In Ghana currently, non-resident foreign investors can now hold more than ten percent (10%) of any security listed on the Ghana Stock Exchange. Some few years ago they were only allowed a limit up to ten percent. Non-resident foreigners are permitted to invest in money market instruments of a tenure of three or more years. Again non-residents are also allowed to maintain foreign currency accounts with local banks, which can be credited with transfers in foreign currency from abroad or other foreign currency accounts. These are very positive changes that will go a long way to boost the market.

The Emerging Ghanaian middle class

Ghana gets ranked among those countries which are estimated to have the strongest middle classes in Sub-Sahara Africa. (AfDB 2011)

For 2020 it predicts a rise of that number up to 6.5%. Projections are made until 2030 where 11% of the population should be within the category of middle class. The estimates are based on household earning or spending between US$10 and US$100 per person per day. Data accessible via PovcalNet leads to similar results for 2008. Approximately 97.29% of the Ghanaian population lives below a consumption or income line of US$10.8. 24.64% under the US$1.25 poverty line and 46.81% under the US$2 poverty line. As a result, 50.48% of the Ghanaian population live between US$2 and US$10.There is a wide gap between 1.48% and 50.48% of the population which both would count as middle class in different concepts. Applying the definitions for middle classes in the developing world to a country example demonstrates the already criticized arbitrariness and exaggeration concerning definitions and estimates of middle classes. According to the definition of Ravallion (2010), nearly half the population would be in Ghana's middle class while the other half would live below the poverty line. In these definitions, there is no distinction between middle classes and people who are not poor.

Since 2006, unemployment rate has been on the rise and was at 4.2 per cent in 2012. The ILO is expecting a further rise to over 5% from 2015. Youth employment was at 7.6% in 2012. In addition, more than 86% of total employment in Ghana was part of the informal economy. (UNDP/NDPC 2012) Therefore most of the people who live above the poverty line are not formally employed and therefore potentially do not have economic security. Together with the constantly high vulnerable employment, the security which can be seen as a precondition to define middle classes is missing. As implied above, structural change is missing in the economy of Ghana.

Over the last decade, six of the world's 10 fastest-growing countries were African. In eight of the last 10 years, Africa's lion states have grown faster than the Asian tigers. The fastest-growing economy in the world in 2011 (at 13%) was Ghana.

The Service and Industry Sectors

The Service and Industry Sectors

The Services Sector in Ghana is the largest sector, and has contributed about half, 49.5% of the country's GDP in 2013 from 48.4% in 2012. However, the growth rate has reduced from 11.0% in 2012 to 8.9% in 2013. The Financial & insurance activities in Ghana as well as the Information& Communication activities recorded the highest growth rates of 23.2% and 24.7% respectively.

The Financial & Insurance activities recorded the highest growth rates. Banks in Ghana continue to record huge profits. Ecobank Ghana recorded the highest profit in the banking industry so far; Ecobank Ghana's profits for 2014 hit 319 million Ghana Cedis, from 190 million. This actually represents almost, 70% jump in its earnings. Financial results released by banks in the country show that the pan African bank is currently on top with best profit after tax for 2014. Standard Chartered Bank which is also among the first tier banks in the country, posted a profit of 208 million Ghana Cedis, while Stanbic Bank's earnings hit 148 million Ghana Cedis after a 38% growth. Barclays Bank posted 177 million Ghana Cedis profit for 2014, while Access Bank ended 2014 with a profit of 123 million Ghana Cedis.

Agriculture has been recording the lowest growth rate in recent years. Though estimates show an improvement in the growth of the Agriculture sector in Ghana, 5.2%in 2013, compared to 2.35% in 2012, its contribution to the economy continues to decline, with its share reducing from 23.0% in 2012 of GDP to 22.0% in 2013.

In the Industry sector, the second largest sector with a share of 28.6%, the growth declined from11.0% in 2012 to 7.0% in 2013. Of all the activities, the Crude Oil production and its activities recorded the highest growth of 18.0% in 2013, though it showed a decline from 21.65 in 2012 to 6.5% in 2013.The Industry sector also respectively declined from 11.0% in 2012 to7.0% in 2013.

Multinationals in the industry sector continue to perform extremely poor mainly due to the current power crisis/challenges facing Ghana. Multinationals like Coca Cola have had to lay off workers due to such occurrences. In the case of a number of some multinationals, such as Goldfields, AngloGold Ashanti, Newmont, Schlumberger and Baker Hughes; falling prices of gold and oil on the world market has resulted in poor revenues, weak earnings and sinking stock prices. These have all contributed to lower employee morale and negative perception of executive performance while also triggering a high sense of job insecurity among their workforce.

Main INDUSTRY sectors in Ghana include:
Mining and Quarrying / Crude Oil
Manufacturing
Construction

Main SERVICES Sectors in Ghana include:
Trade; Repair of Vehicles, Household Goods
Hotels and Restaurants
Transport and Storage
Information and communication
Financial and Insurance Activities
Real Estate, Professional, Administrative &
Support Service activities
Public Administration
Defence and Social Security
Education
Health and Social Work
Community, Social & Personal Service Activities

Rapid Urbanization

Ghana’s growing and increasingly wealthy population is becoming more urbanized as well. By 2050, almost two-thirds of the population will live in cities; compared with 40% in 2010. 11 Approximately 15% of Ghana's population lives in its capital city, Accra.

Urbanization, in turn, will result in some Ghanaian consumers purchasing more goods and services, and will further make it easier for companies to reach consumers with products, services, and communications. Rapid growth in population and urbanization will also place increased constraints on Ghana’s infrastructure requirements, requiring greater levels of planning and urban investment from public and private sector players alike.

“IBM Smart cities” HAS BEEN ASSISTING The Metropolitan Assembly in Accra with Smart City projects, but Ghana’s major cities need everything from more efficient mass transit to better water usage.

Foreign Direct Investment (FDI)

2013 Index of Economic Freedom shows that Ghana's economic score is 61.3 and is ranked 7th out of 46 in the Sub-Saharan African region making its the overall score rise above the world's average. Government of Ghana has been taking significant steps to draw FDI into the country. According to the 2013 Investment Climate Statement –Ghana by the U.S Department of State, Ghana currently experiences an infrastructure gap of at least US $1.5 billion. To encourage foreign investment, the Government has replaced the previously unfriendly regulations with investor friendly laws. The Ghana Investment Promotion Center (GIPC) Act, 1994 (Act 478) governs investment in all sectors of the economy except minerals and mining, oil and gas and the Free Zones. Sector-specific laws further regulate banking, non-banking financial institutions, insurance, fishing, securities, telecommunications, energy, mining, and real estate.

The process of setting up a business in Ghana is extensive and complicated and investors have to conform to a list regulations and procedures of at least five government agencies including the GIPC, Registrar General Department, Ghana Revenue Authority (GRA), Ghana Immigration Service, and Social Security and National Insurance Trust (SSNIT). However, due to the latest changes, the average time required to set up a business in Ghana is about 12 days, down from 33 days in 2010 and 129 days in 2003, as per the report issued in 2012 by The World Bank's Doing Business 2013.

Public-Private Partnership

Ghana's Public-Private Partnership (PPP) infrastructural development law, when enacted, will support the implementation of the national PPP policy that was launched by the government to help both local and international investors who would want to participate in PPPs with the government.

The limited resources of the public sector have hobbled efforts to reduce Ghana's infrastructure financing shortfall. Ghana is presently facing a huge infrastructure gap averaging US$1.5 billion per annum as estimated by the World Bank. The deficit covers all the main infrastructure areas: roads, energy, water, aviation, housing, and ICT. In housing, for instance, the government estimates that the country needs to build about 1 million more units to bridge the demand-supply gap. The Public-Private Partnership (PPP) law that will help government leverage private resources to bridge the country's large infrastructure deficit.

The Government of Ghana is challenged by the demands of increasing urbanization, the rehabilitation requirements of aging infrastructure, the need to expand

networks to new populations, and the goal of reaching previously unserved or underserved areas. Furthermore, infrastructure services are often provided at an operating deficit, which is covered only through subsidies, thus constituting an additional drain on public resources.
The goal of an investor in entering into a PPP with the Government of Ghana should be to profit from its capacity and experience in managing businesses (utilities in particular). The private sector seeks compensation for its services through fees for services rendered, resulting in an appropriate return on capital invested.

The Rising Silicon Valley Phenomenon in Ghana

Technology and Social media is beginning to play a major role in the life of the modern day Ghanaian consumer. No consumer centered business can succeed in Ghana currently without a social media strategy today. In the next few years Ghana will be exporting IT talents as well as advanced apps and software's. Tech startups are currently on the rise in Ghana, examples like ZOOBASHOP, mPawa, Osiki are paving the way for tech in Ghana.

Young university graduates in Ghana are beginning to show a great interest in technology with the rise of tech incubators like MEST in Accra; to develop software applications that will provide solutions to pressing international problems-applications that must be launched in the global marketplace as real companies. It's a model that has worked well so far. Between 2008 and now, the Meltwater Foundation has invested over $1.5 million in these budding businesses. But it's not just about the money. MEST graduates who receive investment gain instant access to a global network of advisers and mentors. MEST startups like Dropifi became the first African start-up to be accepted into 500 Startups, the renowned Silicon Valley-based seed accelerator and investment fund.

Increasing Consumer Demands

The increasing demand for shopping malls and luxury goods in Ghana has made the average consumer increase love for foreign products their taste for fine things. The lifestyle, culture, and tradition of Ghanaian consumers influence their purchase decisions. Ghanaians are also very adaptive to new products but proud of their traditions. This attributes in essence shape and distinguish the Ghanaian consumer's perception of foreign goods from others. Ghanaians have a unique lifestyle and culture that has evidently contributed to a heightened willingness to trade their patronage for locally produced goods; commonly referred to as "Made-In-Ghana goods," for foreign goods. In Ghana, the appreciation for the cultural diversity is relentlessly promoted in every sphere of the economy. Coupled with the local, traditional efforts are the benefits of open borders, immigration, globalization, ethnic diversification and the influx of foreign goods; Ghanaians therefore tend to be well informed about foreign goods and are likely to patronize them. Thus, contrary to popular belief, Ghanaians are relatively more open-minded with respect to import.

Analysis on the specifics of lifestyles is essential in developing marketing strategies in Ghana. Consumer specific information such as; geographical distribution, economic condition and age etc. must be included in order to understand these consumer behavior which is of immense importance for the success of a business in Ghana.

A rise in purchasing power and a shift towards formal retail space in Ghana is also helping burnish a positive outlook for retailers in Ghana. Mall retailing is still in its infancy, particularly outside the capital, but international brands and developers are increasingly enthusiastic about the country.

Ghana has been attracting growing interest from foreign investors, due to oil-fueled economic growth in excess of 8%, along with rising incomes, political stability and – crucially for retailers – low level of modern retail penetration. Ghana's bona fide malls, West Hills Mall, Accra Mall, A&C Mall, have proved very popular, boasting occupancy rates near 100%, and a waiting list for retailers keen to open outlets. With a growing population of 2.5million plus in Accra, the city has capacity for more retail centers to augment the current 30,000 sq.metres of formal retail space.

Ghana's modern retail potential is therefore very huge. There is "huge opportunities" for modern shopping centre development in Ghana's growing regional centres, particularly Takoradi, the heart of the country's oil industry, and Kumasi, the second city and capital of the Ashanti region.

The Risks Involved in Doing Business

Infrastructure

Ghana, while being one of the most powerful nations in Africa in economic terms, has not quite been able to adjust their infrastructure to accommodate the needs of its booming economies. Shortages of electricity and water are possibly the most pressing issue in Ghana, with blackouts being experienced on a fairly regular basis sometimes for prolonged stretches of time and all across the nation. Addressing these issues is among the main responsibilities of the Ghanaian government so as to keep the growth rate positive and the nation prosperous.

Quite often the barriers to starting and maintaining a business come down to simple, yet often insurmountable factors, such as lack of roads, facilities, and electricity.

Unpredictability of the market

The capital market in Ghana is small in terms of instruments traded and the number of participants relative to that of the UK. Fluctuations in interest rates, high rate of inflation and instability of the cedi, have made it difficult for traders to predict the long- term effects of the capital market and as a result find it difficult to either invest or borrow from the market. An evaluation on the real return on the stock exchange by the Bank of Ghana revealed "the total annual returns on stocks listed on the Ghana stock exchange have followed an undulating pattern since 1991 falling every two years and rising every two years". (Bank of Ghana report)

Price Forecast

Unstable prices have been the bane of the market over the period of its existence. Prices of goods and services are so volatile. The same can be said of interest rates, inflation and foreign exchange rates. These conditions make its very difficult for any meaningful forecast or prediction for share prices thus reducing investor confidence in the market. Interests on government securities on the money markets are higher than securities on the capital markets such as bonds. Many investors would want to be sure of where they put their hard earn money

Contracts

For a derivative market to thrive, it requires strong legal systems for enforcement of contracts. The legal system in Ghana could not be said to have the capability to enforce such contracts. Aside of this there is also the lack of enough financial regulation to ensure the disclosure of adequate information by participants in the capital markets. There is also not enough information available to investors to make investment decisions about the markets. These unfavorable conditions create lack of investor confidence.

Industries with potential for faster growth in the next decade

Many of the industries with the highest growth potential in Ghana over the next ten years are in the services sector, but not all. For example, oil and agriculture will have segments with very rapid growth. Below is a very brief snapshot of where we see opportunities.

Agriculture

The agricultural sector is a key driver of the Ghanaian economy, contributing an estimated 21.3% for 2013 of the GDP. The sector contributes over 50% to national employment while growing at an annual rate of 5.3% (end of 2012).

1. There is a greater opportunity in the local investment of crops and livestock as Ghana imports over US$450 million worth of rice alone annually and also substantial amounts of chicken, meat and dairy products.

2. Tax holidays from 3 to 5 years exist for companies involved in agro processing. Companies engaged in the processing of waste products enjoy a seven-year tax holiday from date of commercial production. This makes the field of the agro-processing to add value for the local agricultural produce a great place for investment.

3. Opportunities abound for the services sector in agriculture. These include irrigation, heavy equipment hiring. Companies are also needed to provide post-production services in transport, packaging and There are further opportunities in the development of agricultural finance and insurance.

4. Inadequate and inappropriate storage facilities are constraints to agricultural production, thereby contributing to high post-harvest losses and low returns for farmers and processors. Opportunities therefore abound for the storage side of agricultural businesses with solar storage facilities the new trend

Financial Services (banks and other financial institutions)

In Ghana, the financial services industry is categorized into three main sectors:

- Banking and finance (including non-bank financial services and forex bureaus);
- Insurance; and
- Financial market/capital markets.

The institutions include both foreign and local major banks, rural and community banks, savings and loans companies and other finance and leasing companies.

As at the end of 2012, there were:

26 universal banks
136 Rural and community banks
145 non-bank financial institutions
333 forex bureaus
43 insurance institutions (life and non-life)
2 re-insurance institutions and
54 insurance brokerage firms

There is a high demand for various financial services in Ghana, as supported by the consistent high growth of companies in the banking sector. The relatively underdeveloped financial services sector in neighboring countries is an opportunity for financial service firms in Ghana to supply needed services in those countries.

Following Ghana's oil discovery in commercial quantities and on-going exploration activities, enormous opportunities exist for the banking and financial sector to finance and insure the numerous large-scale transactions taking place.

There is also a tax rebate for institutions financing the agricultural sector.

Availability of skilled professionals this sector due to the improved academic and training institutions available makes this sector lucrative.

Construction

Investment to deliver infrastructure is very viable and this shows how investment into construction hasn't been consumed yet indicating how the construction of Ghana's infrastructure is not yet complete. The construction sector in Ghana is expanding rapidly with a recent 20% growth in 2011 making it the second largest contributor to the National GDP in that financial year. With the booming real estate industry and high demand for infrastructure development, Ghana provides a wide range of possibilities for companies entering the market.

Most non-emergency government contracts for road construction are open to both local and international companies through a process of competitive bidding. There are many smaller local companies that would also be seeking partnership for financial assistance, equipment and training.

Key market opportunities in Ghana’s construction sector are dominated by residential and commercial development. The residential market is the most active, registering an estimated 85,000 transactions per annum over the past decade. Ghana’s housing deficit is currently hitting the one million mark with its annual housing requirement of about 130,000 units outstripping its supply of about 45,000 units. Property development will maintain its healthy growth and forward progress. The construction and building industry will continue to drive the economy.

Crude Oil

Foreign-based companies continue to enter the market and in sectors, such as oil and gas, the recent introduction of the local content laws means that a large number of foreign companies operating in Ghana require local partnerships in order to be allowed to do business. The discovery of oil in 2007 in Ghana’s Jubilee Field is worth $1.5 billion to $2 billion has driven many oil and gas investors to Ghana.

Due to the emerging nature of the industry, opportunities exist in virtually every area of the petroleum industry, both upstream and downstream.

Upstream Petroleum Sector:

•Geophysical (Site surveys, seismic data acquisition, processing and interpretation)
•Basinmodelling
•Geological Studies
•Biostratigraphy Sequence Stratigraphy
•Sedimentology
•Geochemistry
•Geochemical Studies
•Geographical Studies
• Equipment supply and/ or leasing (boats, barges, aircrafts, etc.)
• Supply of casings for boreholes

Drilling Products and Services:

• Land Drilling Rigs, Swamp Drilling Rigs, Petroleum Engineering & Consultancy Services
• Offshore Drilling Rigs (jack-ups, semi- submersible rigs, submersible rigs etc.)
• Offshore Rig Towing Services, Rig Move/Positioning Services
• Drilling Mud , Chemicals, Mud Logging & Mud Logging Services
• Drilling Site Preparation, Well Control & Blow-out Prevention
• Under-water Inspection, Sand Control, Fish & Fishing Tools
• Dry-dock facilities for offshore supply vessels, tugboats, & offshore rigs
• Measurement While Drilling (MWD) & Logging While Drilling (LWD) Services
• Casing & High Pressure Pumping ,Tubing Services ,Tools & Cased-Hole Electrical Logging
• Directional Drilling & Survey as well as Drilling &Work over
• Surface & Bottom Hole Sampling & Tubing Conveyed Perforation (TCP)
• Fluid Filtration, Solid Control and Laboratory & Pilling Services as well as PVT Analysis
• Mechanical Wireline Services and Petro physical& Reservoir Data Services
• Coil Tubing & Electrical Line and Production Logging
• Oil Field Waste Management, Jetty and Shore Support Services and Rigless Workover Services
• Well Production Testing, Wellhead Maintenance & Well Completion Services
• Supply of drilling materials and equipment (drill bits, drill pipes, drill collars, cone bits etc.)

Production Support Services:
• Wireline Services & Pipeline Laying/ Inspection
• Production Chemical Supplies & Management
• Engineering Design, Procurement/Construction of production facilities
• Corrosion Engineering & Environmental Engineering Services
• Blow Out Central Services & Flow Line Construction
• Oil Expand Terminal Design and Construction & Crude Oil Lifting
• Fire Fighting system Design and installation & 2/3 Phase Meter Supplies
• Supply & Maintenance of Safety Equipment
• Gas Valve Supplies & Installation

Reservoir Engineering:
• Consultancy Services
• Simulation
• Economic Analysis
• Complete Field Study

Down Stream Sector Business Opportunities (Marketing, Storage, Distribution, Transport, Refining):
• Technical Partnership
• Field Development Contractor Financing
• Gas utilization
• Refineries maintenance
• Pipeline/ Depots construction and maintenance
• Petroleum Products haulage
• Petroleum products marketing
• Petrochemicals
• Gas Development/conversion
• Butanisation project
• Fertilizer plants
• Vehicular fuels
• Methanol / MTBE plants
Gas Sector Opportunities

The government in December 2008finalised plans for the establishment of an onshore natural gas processing plant to process the natural gas that will be produced from the jubilee oil and gas field.

The first phase entailed a 150million ft.3 gas processing plant at Atuabo which is at least 50 km East of Effasu and 100km West of Takoradi. An 8km2 land area has been acquired to be developed into a petrochemical industrial park to house the gas processing plant and ancillary industries. The Atuabo Gas Processing Plant began commercial production of gas on April 1st 2015.

Opportunities available in this sector include:

• Production, transmission, distribution of Natural Gas –independent ownership
• Natural Gas Liquids (NGLs) – these liquids have high market value and find application either in their raw state as solvents, feed stock (for production of various chemicals) and liquid fuel or fractionated into their components, viz.: LPG, Natural Gasoline etc
• Natural Gas-Fired Equipment
• Independent Power Plant (IPP)
• Industrial market, commercial market and residential market
• Domestic natural gas sales and distribution
• Compressed natural gas as, (NG) automotive fuel, Gas Liquids (NGL), Gas to

Liquid Conversion (GTL), Methanol etc
• Ammonia/fertilizer plants
– not just among oil and gas sector companies but also among companies across a wide range of sectors, which are anticipating a resulting boost in Ghana's economic growth.

Energy
In Ghana, electricity accounts for 69% of modern energy used in the economy.

Electricity generation and distribution is largely state owned. However, the Government of Ghana has in recent times engaged in discussions with various investors regarding the construction of power plants. This is important because the country is going through its worst power crisis to date.

Ghana loses about 2% to 5% of GDP annually as a result of lost economic output due to the insufficient and unreliable power supply. There is therefore huge demand for investors in this sector.

American multinational conglomerate, General Electric (GE) has already realized this opportunity and is currently building a 1000-megawatt (MW) thermal power plant in Ghana. The GE initiative is a pure independent power producer (IPP) which means GE will finance the deal. The deal was signed on January 28, 2015 and it is a 1billion dollar deal.

Mining
Significant mining investment has been attracted into the country over some 20 years of stable multi-party democracy. The mining sector has therefore been an important part of Ghana's economy, with gold accounting for over 90% of the sector. The mining sector has produced 4,313,190 ounces of gold, which is the highest ever in the history of the country, resulting in export revenues of more than $5.6 billion. Ghana is the second largest gold producer in Africa and the 9th largest producer in the world. The sector directly contributed 38.3% of Ghana's total corporate tax earnings, 27.6% of government revenue and 6% GDP in 2011.This has included the development of a database on goods & services required by the mining industry; Investing in gold mining and services provides a huge opportunity

Inventories of iron, limestone, kaolin, salt, diamond and other industrial mineral resources exist, but are not exploited on a large scale. This also presents an opportunity for investors.

Tourism

Ghana is seen by travelers as one of the friendliest countries in Africa. Ghana is endowed with interesting tourist attractions, ranging from the warm sandy beaches of the Atlantic coast to rich tropical forests and unique wildlife. There are also cultural attractions such as handicrafts, traditional clothes (e.g. Kente), local cuisines, and several colorful festivals organized throughout the year. Ghana is also known for its historical European-built forts and castles that played a major part in the transatlantic slave trade. Opportunities abound in the setting up of resorts and hotels along these areas. Ghana is also one of the West African countries never affected by the Ebola disease. Ghana is easily accessible from various parts of the world.

E-tailing/E-commerce

This is a sector that is gradually gaining grounds in the bigger cities with the growing middle class and an increase in internet penetration. The payments system is in place, logistics are improving, and online providers are trusted. Many retailers will adapt, often with far fewer physical locations. Lamudi, Tisu.com, Jumia are all foreign owned.

Until recently, most goods were carried by individual truck owner–operators. As express parcels become a bigger industry on the back of e-tailing, e-commerce companies themselves are investing billions in modern warehouses and trucks. Zoobashop and Jumia are committed to investing on its own logistics.

Ghana provides a perfect place for investment in information technology due to its democratic stability and young budding talents and opportunities in the country.

Education

Private universities are the places to invest. Ghana has become the center of education for its neighbors in West Africa, notably Nigeria. Currently there are about 51 private universities affiliated to the Government universities. People are willing to spend on tutoring and support for their children is almost unlimited. As the middle class becomes wealthier, the increased ability to spend will drive market growth.

Healthcare

The shortcomings of the mainstream public healthcare system in Ghana are not likely to be overcome quickly. Patients are looking for solutions where both cost and quality are more certain, and private and foreign companies are being encouraged to deliver. Investing in specialist hospitals is the key.

Leisure/Entertainment

Ghana has a burgeoning indoors entertainment industry. Investment in movie theaters has yielded 100 percent profits for companies like SilverBird, the only operators of movie cinemas in Ghana; they have enjoyed monopoly for a long time. Currently aside indoors movie cinemas, Ghana lacks indoor multi-purpose arenas which could be used to stage music concerts and also host both international and local conferences/summits. The only available auditorium currently being used in the whole of Ghana is the Accra International Conference Center with a capacity of about 1600 people in its plenary hall. An investment into a modern state of the art multipurpose arena will result in massive profits.

Telecommunications

Ghana is home to some of Africa's largest, most successful telecom giants. The pace at which Ghanaian consumers have embraced mobile communication services is very impressive. According to the Ghana's National Communication Authority, As at the end of January 2015, the total mobile subscriptions in the country was 30,629,604, meanwhile, the country's population was estimated at 26,566,240 so the number of mobile subscribers is even greater than the country's population since most Ghanaians use more than one mobile networks.When marketing is done correctly, Investing in a telecoms company can be very profitable

Internet/Wireless Services

Ghana, in 1999 had a total population number of 18,599,549 and 20,000 people out of that number was internet users. According to Internet world Statistic, this number continued to rise from 2,085,501 internet users out of a population of 24,791,073 in 2011 to 3,568,757 internet users out of a population of 25,292,392 as at June 30 2012.

With a penetration rate of 58.90%, according to the National Communications Authority; Mobile Data figures in Ghana recorded was 15,805,646 as at the end of January, 2015.

Research conducted on the growth and usage of internet in Ghana shows that 40.6% of Ghanaians depend on the internet as a means of gathering information on products and services.

Study on the growth and usage of internet in Ghana also shows that 33% of Ghanaians make use of online communication always, 25% made use of it frequently, with 30% using it occasionally. It just goes to suggest just how much communicating online has become part of the Ghanaian socio-cultural environment.

There is increase in internet usage in Ghana and this seems to be increasing each year, however, more can be done to enhance its growth. According to a study by Ookla, Ghana was ranked number one African country with the highest speed and 72nd in the world ranking with an average speed of 5.13 megabits per second ahead of Kenya in 2nd place and South Africa in 6th place in Africa.

Mobile Commerce

Mobile commerce services like mobile money has also become very popular and could even become a major blow to many banks in Ghana. As the number of mobile phone subscribers in Ghana increases, so does the market for mobile money services. The majority of Ghanaians lack any formal bank account.

A study by Kwami Ahiabenu II reports on how mobile money could change the shape of financial transactions in the country. He states that an estimated 80 percent of Ghanaians are “unbanked” – meaning they conduct their transactions outside the banking sector with no access to financial services. Products like “mobile money,” that enable safe and secure money transfers without the use of a bank account, could have a major impact on this unserved segment of the population. Mobile money gives anyone with a mobile phone the ability to transfer money, make cash payments and conduct other financial transactions over the phone. It is not surprising therefore that most consumers in Ghana will rather transact using mobile money.

MTN, a telco in Ghana, currently has a total Mobile Money customer base of about 6 million and monthly transaction volume of GHC 50 million ($12,500,000) . With the low numbers in terms of the banked in Ghana, Ghana has about just 4.5 million bank accounts, the Mobile Money provides a huge opportunity to investors since it complements the restricted number of bank branches in Ghana

Railway Transportation

Ghana's road network is facing a lot of challenges, because bulky goods which should have been shuttled via the railway system are being carried on the roads, due to Ghana's over-reliance on the road transport system, there has been enormous pressure brought on the roads as a result of the almost defunct railway industry. Road transport is the predominant mode of transporting Ghana, accounting for 94% of freight and 97% of passenger traffic movements.

The railway sub-sector currently has a very small share of the national transport market, with less than 2% of freight, mainly bulk minerals, and less than 1% of passengers. The ever increasing volumes in freight transport, especially with the advent of Ghana's oil and gas industry demands that a vibrant railway sector needs to be developed to help tackle the emerging consequences of the growth.

Railways will provide an easier and more efficient means of freight movement on the main network particularly on Ghana's Western line. Goods that could be transported include mineral ores, cocoa, cement, timber, food stuff etc.

Pharmaceutical

The pharmaceutical industry in Ghana continues to outperform markets in the sub-region, despite the fact that the country imports majority of its drugs, a survey report by the Business Monitor International (BMI) a marketing research company has said.

According to the report, Ghana's headline expenditure projections for pharmaceuticals would rise from GH¢480 million or $311 million in 2011 to GH¢572 million or $319 million in 2012; an increase of more than 19.1 per cent in local currency terms and more than 2.6 per cent in US dollar terms.

Assessing the pharmaceuticals industry's risk and reward ratings, the BMI report indicated that Ghana's score was stable, remaining in 18th position among the 30 key markets in the Middle East and Africa (MEA) surveyed in its first quarter 2013 of the pharmaceutical risk/reward ratings (RRR) matrix.

In February 2010, Adcock Ingram, a giant in the South African Pharmaceutical Industry invested over $16 million by acquiring a 60 per cent stake in the Ghanaian owned publicly listed Ayrton Drugs, a partnership that analysts strongly predicted would be mutually beneficial to both companies which has currently made both partners a fortune due to the increasing demand for pharmaceutical drugs.

Technology, Software, Big Data

The upsurge of the service industries; telcos, banks, insurance, investment banks, financial institutions etc. has made high technology software and big data to be in high demand from corporations in Ghana.

The services sector has expanded substantially over the last ten years, characterized by branch expansion and increased capitalization as institutions move to meet growing demand for consumer services across the country.

This is due to the continued economic growth, foreign investment, increasing diversification and a number of large investments in both the private and public sectors in Ghana.

For instance, new technologies are helping to drive a wave of innovation across the banking services sector as banks create new and accessible banking channels and take banking services to previously *unbanked* parts of society. New products and a growing customer base translate to increased pressure on banks to manage and secure their data. By the nature of their business, financial firms are required to store immense amounts of data under incredibly strict compliance with a number of regulators.

Ghana is now shifting to the era of Big Data with multinationals like IBM and Hewlett-Packard taking opportunity of these findings. Banks, telcos and financial institutions in Ghana are all shifting to Big Data as client's sensitive big data needs continues to increase and the amount of data continues to grow at an exponential rate to reflect the growth in the sector. Industry statistics estimate that banks in our markets spend between 7-10 percent of their operating income on managing data.

Doing Business Effectively in Ghana

When it comes to Ghana the main concern about doing business here is not necessarily about detecting the opportunity, mostly it's about the lack of resources to manage and undertake the plan in a more effective and results driven approach. The effectiveness of your employee engagement strategies, choosing the right entry strategy, strategic alliance with local players—all play a key role. A strong consensus is emerging that partnerships with the local private sector firms in Ghana are the primary route into Ghana, since they have a strong vested interest in a partnership's success. They also have a much better knowledge of business conditions than the government.

There remain sharp discrepancies between Ghanaian firms and investors from mature economies in their approaches to investment on the country. Although the modern financial system has developed numerous ways of measuring and assessing risk, the Ghanaian experience so far suggests that chronic under investment in Africa has as much to do with poor perception as real risk.

When it comes to Ghana there are a number of clear lessons:

Establish the right entry strategy

A foreign investor may team up with a Ghanaian entrepreneur or company for a joint venture, usually in the form of a partnership or a limited company. However, under the Ghana Investment Promotion Centre Act, 1994 (Act 478), a minimum equity capital of US$10,000 is required from any foreign investor who intends to enter into a joint venture partnership with a Ghanaian in any area of economic activity, except trading. In trading, the minimum equity capital requirement is US$300,000.

Foreign investors are permitted 100-per-cent ownership of an enterprise provided the investor satisfies section 19 (2b) of the GIPC Act, 1994 (Act 478). Wholly foreign-owned enterprises must have a minimum paid up capital, the equivalent of US$50,000 in all areas of economic activity except import trading, where the minimum equity capital requirement is US$300,000. In the cases of export trading and liaison (external) offices, there is no minimum foreign equity requirement.

If regulations require that you have a joint-venture partner especially in the Ghana's oil and gas sector where the Local Content Law necessitates a joint venture partnership. Carefully select the right local partner/target by understanding the equity story, the shareholding structure in what may be a family business, the M&A experience of the shareholders, management capability and integrity are critical for would-be global acquirers. Your local partner should be able to build on local understanding, establish relationships and networks assist in managing risks and help execute the entry strategy. Also make sure everyone involved is very clear on the joint venture's goals and objectives, and has a good understanding of how those goals are to be accomplished.

Conversely, although entering the Ghanaian market via an acquisition can be expensive and time consuming, it can provide immediate access to existing distribution channels, networks, and the opportunity to gain deep local market insights that companies can scale up to address other markets.

Understand the evolution of government policies

You need to understand the evolution of government policies in Ghana and make sure your plans and intents align with these policies. Create a good relationship with government and make sure that this relationship aligns with your business objectives. Work with management consultants in order to get a sound understanding of the Ghanaian market and a broad knowledge of the macro-economic and political environment. This includes insight into the availability of resources and local labor, regulation, tax legislation, culture, the competitive market and access to capital.

Prepare for enough initial cash flow

Because of high interest rates, borrowing money from banks in Ghana is very expensive. It is therefore critical that foreign investors have ample cash flow to keep their businesses going in the early stages. When starting a business in Ghana, it is important to come with a sufficient cash flow, because one of the issues in the country is bank interest rates, which are above 20%.

Understanding the local market

Companies interested in entering and winning in Ghana need to devise a structured approach to understand and do business with Ghanaian consumers. By focusing on the unique needs, behaviors, and preferences of Ghana's consumer segments, and by applying an orderly approach to market entry and ongoing success; companies can capture the Ghanaian opportunity on their own terms, and in the process, ensure long-term profitable growth.

Foreign investors need to understand that Ghana is different demographics and that the strategy that worked for them in other countries or territories doesn't necessarily mean that same strategy will be successful in Ghana.

Talent acquisition and development
Empowering the Ghanaian organization

You will need a well-placed staffing strategy that pulls the best local resources together and acquires foreign expertise where necessary.

Many multinationals in Ghana are stuck in a profitability trap characterized by a lack of commitment to build country-specific operations and management systems. When expatriate company heads are brought in, their efforts often fall victim to short rotation cycles that inhibit the execution of long-term strategy.

Local empowerment should extend beyond the country head to lower levels of management, which can help drive innovation and entrepreneurialism on the ground and decrease times to market for new products.

You need the right people—especially in middle management, a group critical to the successful execution of a growth strategy.
In order to progress in this direction you need to move in three directions:

First, create more globally visible local roles, which may include representation on executive committees. Such positions emphasize entrepreneurship and greater authority and offer higher compensation.

Secondly, promote a meritocratic culture: accelerated career tracks, fair and transparent advancement processes, the absence of a “glass ceiling” for locals, a performance-based system that motivates self-starters and differentiated incentives for high performers.
Thirdly, offer mobility and tailored leadership programs. Structured global rotations for strong performers and leadership-development courses (especially with some form of certification) are proving to be effective recruiting and retention tools.

Authors

Isma-il Sulaiman and Bernard Boachie-Danquah are the Founding Partners of Goodman AMC, and are both renowned strategy consultants with extensive experience on the African market.