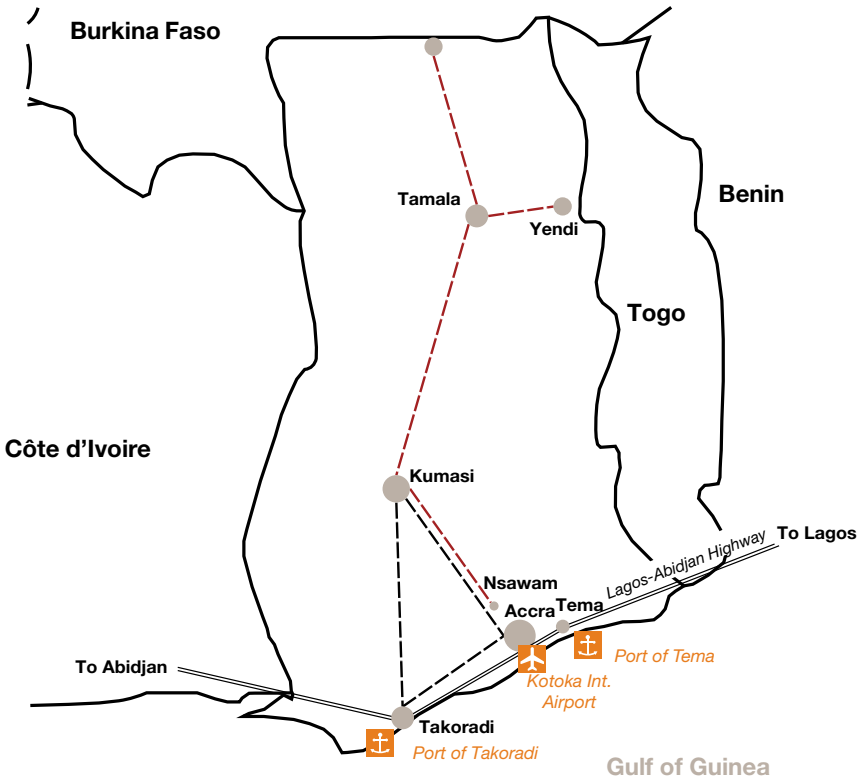
Ghana

Among world's fastest growing countries

Ghana is making strides to establish itself as an important gateway to the West African market. Key supporting factors are its abundant natural resources, economic liberalism and track record of political stability.



With annual GDP growth averaging 10.3% between 2010 and 2012, and forecast to average 5.9% between 2012 and 2017, **Ghana is among the world's fastest-growing countries and a rising star in Africa.**

Ghana's investor attractiveness is buoyed by its political stability (one of Africa's most stable governments), economic liberalism, abundant natural resources and diverse economy. Foreign direct investment inflows have flourished in recent years, especially since the commercialisation of oil began in 2007, which is a further factor contributing to Ghana's investor attractiveness.

On the downside, critical limiting factors are the rising tax burden, weak rule of law, as well as the country's growing fiscal deficit.

We believe that Ghana will continue to foster its reputation and position to be known as a safe gateway to West Africa and an ideal point of arrival for newcomers to Africa.

These bubbles represent the cities of Ghana and the size of the bubbles indicates the population size of the city

Airport | Port | Future Airport | Future Port | Future Railway | Future Road | Railway | Road

Main trading partners are European

Business should factor rising public debt in long-term planning

Growing opportunities and debt

Trade and economic factors favour growth, but Ghana's high fiscal deficit presents uncertain danger.

Trade represents a significant portion of Ghana's economic growth, with exports and imports accounting for 44% and 50% of GDP respectively. The principal foreign exchange earning products are gold, oil, and cocoa. **The main trading partners are led by developed European economies: the Netherlands, UK and France.**

The ongoing Eurozone crisis could negatively impact Ghana and in the longer term it should look to diversify its trade relationships. Intra-African trade is also very important. Bilateral trade between South Africa and Ghana, for example, has strengthened steadily since 1994, as relations improved and expanded in light of the political and economic transformations in both countries. Ghana is now South Africa's second-largest trading partner in West Africa, behind Nigeria.[i]

Ghana is a member of several trading blocs, including the Economic Community of West African States (ECOWAS) and Africa Economic Community (AEC). As part of its commitment to an open trade policy, the Government has focused on harmonising external tariffs with the members of ECOWAS. It has progressively eliminated or reduced its import quotas, tariffs and import licensing requirements over the last two decades. The Government has also ruled out the use of high tariffs to protect domestic industries.

Ghana is endowed with a number of natural resources, including arable land, forests and substantial deposits of gold, diamonds, salt, manganese and bauxite. Additionally, the commercialisation of oil since 2007 has broadened the scope of natural resources, enabling Ghana to become a net oil exporter, with production estimated to rise to 200 000 barrels per day by 2019.[ii] Gas is produced as by-product in the production of oil, but is currently not commercially viable.

The IMF predicts annual GDP growth of 5.9% between 2012 and 2017. This is more than robust and is expected to lead to a tangible increase in Ghana's per capita GDP and thus to rising demand in the retail sector. Still, the middle-class population, with per capita consumption levels of US$4-20 per day, presently constitutes only 19.8% of the total population.

A key risk in Ghana is the growing fiscal deficit, which widened to 12% of GDP in 2012. **Businesses should factor the risk of a rising public debt burden into their longer-term business planning processes.** Fiscal slippages in election years are not uncommon in Ghana, but the extent of the slippage last year was enormous even by the country's own standards. If spending is not cut back proportionately, Ghana could experience another fiscal blowout.

Business environment

Ghana has a quite favourable business environment.

Although Ghana might not have a demographic profile quite as favourable as some other African countries, it makes up for this by having a less restrictive business environment and better macroeconomic policies. Civil liberty improves Ghana's investment attractiveness, as does its legal and regulatory framework, which the World Bank/IFC's Doing Business Projects rates highly in sub-Saharan Africa for protecting investors' rights and interests.

Ghana's banking sector is well developed in the African context and it also has quite good labour market efficiency. But even though the country's laws make it relatively easy to hire and fire workers, it can be quite costly (in terms of severance packages).

There are other obstacles. Property rights are poorly protected and corruption persists due to overall weakness in the rule of law. Still, Ghana suffers less from corruption than other countries in the region, and among the least of all 10 countries survey in this report. Red tape is another issue. For examples, setting up a company is a lengthy process that involves numerous government departments and agencies.

Plans to more than double power capacity in
4 years

Nearly **54%** *of population has secondary education*

Political stability, but security issues

Ghana has been a stable democracy since 1992 and is considered a regional model for political and economic reform. After 20 years and two changes of government, democracy is very deeply rooted in Ghana and the prospect of a return to military rule seems implausible. Political stability adds tremendous value to Ghana's business environment.

However, despite its political stability and fairly favourable business environment, security remains an issue. Violent crime has grown in frequency over the past years and armed robberies have occurred in expatriate residential areas.

Piracy in the Gulf of Guinea provides a further threat, especially as vessels have been attacked while waiting to be served at Ghana's congested ports.[iii]

Energy crisis

Ghana's most pressing challenge lies in the power sector, where the lack of reliable power is a major constraint to economic growth. Due to rising demand and problems with the reliability of hydroelectric supply, the country is increasingly reliant on expensive oil-based generation. **The Government has plans to address the energy supply gap by increasing its power generation capacity to 5 000MW, from a current level of 2 000MW, within the next four years**.

The Government intends to diversify the power sector away from its overwhelming reliance on hydroelectric power towards thermal fuel sources by converting existing thermal power plants to be more fuel efficient as well as initiating renewable power projects.

Key indicators

Population size (million, 2012)	25.4
Population growth (2012-2020, avg p.a.)	2.0%
GDP (US$ billion, 2012)	40.4
GDP growth forecast 2012-2017 (avg, y/y rate)	5.9%
GDP per capita (US$, 2012)	1 622
Global competitiveness index 2012 (global rank/144 (score 1-7))	103 (3.79)
Corp. Income Tax (CIT) rate	25%
Top exports	Cocoa beans, whole or broken, raw or roasted (46.4%), Cocoa paste, not defatted (7.2%), Manganese ores and concentrates (5.7%)
Logistics Performance Index 2012 (global rank/155 (score 1-5))	108 (2.51)
Global Competitiveness Index 2012 - Infrastructure (global rank/144 (score 1-7))	110 (2.87)

Education and human development

Ghana has the advantage of comparatively high levels of education and human development.

Ghana's population is small in absolute terms, but its population density is much greater than in most other sub-Saharan countries. The World Bank's World Development Indicators suggest the population is growing fast at an estimated 2.0% per year.

The growing workforce is well-educated by sub-Saharan standards and nearly 54% of the population has at least secondary education. Government expenditure on education – 8.2% of GDP – is higher than in Kenya or South Africa. This has facilitated a fast-rising labour productivity at 7.9% per year between 2009 and 2011. Still, the country offers a large, low-cost labour pool. The majority of Ghanaians – an estimated 60% – still work in the agriculture sector.

Ghana's human development indicators have improved notably over the past few years, having achieved a medium level of human development according to the UNDP's Human Development Report.[iv]

Agriculture

Agriculture remains an important sector in Ghana's fairly diversified economy.

Being blessed with a diverse natural resource base, Ghana's economy is quite diversified and there are a number of sectors that contribute

Agriculture accounts for more than 1/2 of employment

Gold is top export earner

Piracy in Gulf of Guinea presents a threat

meaningfully to the country's GDP. Ghana is currently undergoing a transformation from an agriculture-based economy towards one that is industry and services based. Oil and gas are playing a role of growing importance in this transition.

However, agriculture is still a vital sector in Ghana and provides employment for more than half of Ghanaians. Arable land accounts for 21.1% of the total land area and Ghana is one of the countries in sub-Saharan Africa with the most agricultural potential.

Cocoa is the main agricultural revenue generator in Ghana and one of its principal earners of foreign exchange. The country is the second-largest cocoa grower in the world after its neighbour, Cote d'Ivoire. The country also has a strong forestry industry, which takes advantage of the arable land and large indigenous forests.

Mining and manufacturing

Gold is the top export earner and Ghana's reputation as a gold-rich country dates back to the days of the Ashanti Empire in the 18th century.[v]
In addition to gold, the presence of other minerals such as industrial diamonds, bauxite and manganese makes mining an important sector in Ghana.

The Government's focus on transforming Ghana into an industry- and services-based economy adds greater importance to the development of these sectors. While services were already the largest contributor to Ghana's GDP in 2011 (49%), manufacturing had a share of just 7% of GDP and contributed 12% to the country's exports. Ghana's industrial base is relatively advanced compared to many other African countries and its most important services sectors include trade, transport and storage, and real estate.

Logistics

Logistics Performance Index

Source: *World Bank*

Ghana's logistics performance and customs procedures are better than those of its regional peers.

Ghana is rated 108th out of 155 countries on the Logistics Performance Index 2012. This is an overall improvement of nine places since the previous assessment, which was driven by good rankings in international shipments and logistics quality and competence.

Important weaknesses remain in infrastructure, timeliness and tracking and tracing. Although the efficiency of Ghana's customs clearance procedures (speed, simplicity and predictability of formalities) is not exceptional (103rd), it has improved consistently since 2007.

It is now slightly better than average in the sub-Saharan region and better than its most competitive neighbour, Côte d'Ivoire, where difficulties with customs remain a huge problem for international shippers.

Transport

Transport infrastructure needs to be upgraded to meet the needs of a middle-income country.

Ghana has an advanced infrastructure platform when compared with other low-income countries in Africa. But as it approaches the middle-income threshold, Ghana will need to focus on upgrading its infrastructure indicators in line with this benchmark. Like electricity, infrastructure presents a major constraint to growth.

Following the successful commercialisation of its oil reserves, Ghana is in a position to raise additional public funding for infrastructure from its increased fiscal receipts and thus to address the country's infrastructure needs.

In addition, much of the transport investment is being funded and developed by Chinese companies and China will continue to be a major player in the region, despite growing anti-China sentiment during Ghana's 2012 election[vi].

Increasingly, the Government is also looking to partnerships with the private sector in the financing and delivery of infrastructure. Overall, Ghana's infrastructure situation is hopeful.

Unlike in many other African countries, Ghana's infrastructure backbone covers the entire national territory and helps to integrate its different regions. However, the distribution of infrastructure networks generally reflects the spatial distribution of economic

"Ghana is making major advancements and is an attractive investment destination, benefitting from a strong rule of law and stable political environment combined with a strong economic outlook in both the broader economy and the oil and gas sector in particular. It is particularly attractive for English-speaking companies – language barriers need to be accounted for when operating in Africa."

Marco Raffinetti, Divisional Chief Executive – Capital Projects, Grindrod Freight Services

activity, with a greater density of transport, power, and information and communications technology (ICT) infrastructure in the south and southwest of the country than in the north.

Ports

Ghana plans to make its ports a maritime hub for West Africa.

Ghana has made significant progress in modernising its ports sector and is committed to making further improvements. Still, ports in Ghana are struggling to keep up with the demands of the expanding economy.

Domestic maritime trade is served by two ports: Tema, around 25km east of Accra, the capital; and Takoradi, 230km to the west. The two ports handle more than 90% of foreign-trade volume.

While Takoradi is serving the rapidly developing offshore gas and oil fields, Tema in particular is also increasingly serving as an outlet for Ghana's landlocked neighbours, Burkina Faso, Niger and Mali. This trend has intensified since shippers began to shift over from the Port of Abidjan in 2011, following post-electoral violence in neighbouring Cote d'Ivoire, further adding to the total throughput at Ghanaian facilities.

The ports at Tema and Takoradi are considered fairly well equipped to service local production and international traders. However, sharp increases in demand over recent years have led to congestion and capacity constraints, which have become serious impediments to further development.

The long lines of vessels outside the entrances to the ports, which remain exposed to the potential of pirate attacks, are constant evidence of the capacity gap in maritime facilities. What's more, cumbersome procedures in the clearance of goods have led shippers to call for the simplification of clearance procedures of goods at the country's ports and borders to prevent delays.

The Government is already trying to address these problems with expansion plans for the Tema and Takoradi harbours, but freight volumes will continue to rise too, suggesting that congestion problems will not go away.

At present West Africa lacks a clear maritime hub. Abidjan had begun to play that role, but with the political crisis in Cote d'Ivoire, major shipping lines diverted their West African operations to Malaga (Spain) or Tangiers (Morocco).

While Cote d'Ivoire has better port infrastructure at present, Ghana's political stability, better economic policies and strong economic growth give it strong potential to become the regional gateway.

Air transport

Low volumes in the air transport sector offer vast future potential.

Ghana's air transport market is small in absolute terms and average in the African context. The country has eight airports, including one international airport (Kotoka) in Accra. A number of major international airlines fly there regularly.

The bulk of the country's air transport market is international and fairly evenly divided between intra-African and intercontinental flights. Despite Ghana continuing to face significant safety and security issues in air transport, domestic and international passenger numbers have grown massively in the past few years.

With growing incomes and more and more foreign companies establishing themselves in Ghana, the prospects for the air transport industry are good. And, just like in the ports sector, West Africa lacks a clear air transportation hub. Accra is still behind rivals Lagos, Dakar, and Abidjan and requires significant investment to make it the regional leader.

Rail

Rail freight and passenger volumes are negligible.

Ghana's railways network is insignificant and appears to be largely neglected. It currently handles less than 2% of freight and passenger traffic. Rail infrastructure is concentrated in the south and was designed to transport export commodities. The network forms a triangle that links Accra-Kumasi-Takoradi, and currently only the Western line (Kumasi-Takoradi) is partially operational.

The railway also connects the major mining areas to the sea ports. In recent years, the Ghana Railway Company (GRC) has been increasingly unable to carry the full volume of mining traffic and a growing share of minerals is being diverted to the road network. This is severely limiting development of the mining sector in the Western region and it will clearly not be able to support the development of the emerging oil and gas industry.

There are big plans to upgrade and expand the railway network.

Government is spending on average
1.5%
of GDP on roads

These range from track upgrades to standard-gauge tracks, to the construction of new railway lines. One project will see the construction of a railway connecting Nsawam, running through Kumasi to Paga (on the Burkina Faso border) and from Tamale to Yendi. However, the Government has touted such plans time and again, but so far nothing significant has materialised.

Roads

Inland transport is happening on the roads, so road quality is essential to economic growth.

Road transport is by far the most important means of moving freight in Ghana and is the sector that requires the greatest consideration. Roads carry 95% of passengers and 98% of the country's freight. According to a World Bank report, Ghana's road transport indicators are strong. By almost all measures, they are well ahead of those found among low-income peers and nearing the levels expected of a middle-income country.

But some challenges remain. Road conditions, particularly in the north of the country, are still problematic, as is rural connectivity. Although rural road quality is remarkably good, the physical extension of the rural network appears inadequate. Urban congestion remains a particular problem in the main centres.

The Government is spending on average 1.5% of GDP on roads, one of the highest levels in West Africa. Projects include repaving and upgrading existing roads as well as investing in the road network near the oil-rich south-west region of the country.

In a collaborative project, six West African neighbours have agreed to invest and expand the Lagos-Abidjan highway, starting in 2014. The plan for the expanded highway is to provide a vital road link to the sea ports that are used by landlocked countries in the region such as Mali, Burkina Faso and Niger, but trade along the corridor could be hindered by customs barriers at each country's border.

Conclusion

Based on our analysis, we've assessed the investment potential for Ghana's transportation and logistics sector as shown in the graphic below.

Ghana – Investment potential assessment

1. Demographics and resources
2. Economics
3. Business environment
4. Trade and logistics
5. Transport infrastructure

Key:
- Attractive
- Average
- Unattractive

- Strong improvement expected
- Some improvement expected
- Stagnation/marginal change expected

End notes

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iv "Human Development Report 2013", United Nations Development Programme, http://hdr.undp.org/en/media/HDR_2013_EN_complete.pdf

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