

24 August 1994
ENGLISH ONLY

TRADE AND DEVELOPMENT BOARD
Standing Committee on Developing
Services Sectors: Fostering
Competitive Services Sectors
in Developing Countries
Second session
Geneva, 18 July 1994
Agenda item 5

SERVICES IN THE GHANAIAN ECONOMY

*Presented by Mr. Kwado Agyepong
Coordinator of the National Inter-Institutional
Working Group on Services of Ghana */*

*/ The attached presentation is circulated in the form and language in which it was received.

TD/B/CN.4/Misc. 8
GE.94-53545

SERVICES IN THE GHANAIAN ECONOMY

General: The Economy of Ghana

The economy of Ghana has undergone several changes over the last forty years. The pre-independence era was one of economic laissez-faire with limited direct governmental participation and intervention in production enterprises. Public policy for production concentrated on agriculture and mining and was geared towards the promotion of the production and export of cash crops and minerals that were in demand in Europe.

2. After independence in 1957, and especially from 1960, Ghana adopted an interventionist policy with a commitment to economic growth through industrialization. The Government participated directly in productive enterprises. From 1966 the economy was returned to a private enterprise, market-oriented and decentralized system. In 1972 the open market policies were abolished and once again a command economy was re-instituted. Import controls were restored, the scope of price controls was widened, and some imported consumer goods were subsidized. A policy of self-sufficiency in agricultural production was pursued through a campaign to increase food production and the production of agricultural raw materials.

3. In 1983, an Economic Recovery Programme (ERP) was put into place to arrest the economy's steady decline since 1970, stabilize it and put it on a growth path. In 1986, after sufficient stabilization, a Structural Adjustment Programme (SAP) was implemented to bring about a sustained growth and development of the economy.

4. Various policy instruments were adopted under the ERP and SAP to streamline the performance of the economy. The major instrument used to address fiscal imbalance has been Government revenue augmenting or Government expenditure reducing through retrenchment of excess labour on the Government's payroll. The policy package for policy and financial management consisted of selective credit controls, retirement of Government debts to the banks, financial sector restructuring and establishment of the stock exchange. At the centre of Ghana's SAP are trade and exchange rate policies which tend to free the exchange rate from excessive controls which had characterized policies prior to ERP. Exchange rate liberalization was achieved by permitting the value of the Cedi in terms of the Dollar to depreciate towards its market value and removing exchange controls. Specific trade liberalization instruments included abolition of import licensing and reduction of tariffs on imports. In addition export promotion measures have been introduced to enable the export sector to take full advantage of the improved incentives created by the trade and payments liberalization measures. In addition to exchange rates other prices like interest rates and consumer goods prices have been deregulated. User charges for some of the services provided by Government have either been introduced or raised.

5. The response of the economy of Ghana to the various development strategies has been mixed. With short spells of

economic growth, problems were experienced in the 1960s and these got intensified in the 1970s and continued in the early 1980s. These problems can be summarised as :

- declining real output
- continued budget deficits
- rapid monetary expansion
- high domestic inflation rates
- persistent balance of payments deficits
- overvaluation of the Cedi
- a flourishing black market in foreign exchange, and
- loss of domestic goods and Government revenue through smuggling.

6. The economy responded positively to the incentives created under the ERP. In 1983, the growth of the economy increased by a modest 0.7 per cent after years of decline and by 1985 the growth rate had reached a healthy 5.4 per cent. The budget deficit was reduced to 2 per cent in 1985 and the rate of inflation was reduced from its peak of 123 per cent in 1983 to about 10 per cent.

7. The greatest credits of the ERP are the achievement of an impressive growth in exports; regaining international creditworthiness and the resumption of GDP growth. Despite these successes, there has been some concern in recent times about the sluggish growth in real gross domestic product and per capita incomes and the increasing deterioration in both the trade balance and overall balance of payments situation. The inability to mobilise private investment into the tradeable goods sector and the over-reliance on loans from public sector investments have cast doubts on the long-term prospects for the economy. The sustainability of the growth effort and its concomitant improvements in the standard of living of the people led to new talks centred around long-term strategy for accelerated growth aimed at increasing employment and reducing the level of poverty in the country.

The Role of Services in the Economy

8. The importance of the services sector of the economy has received less attention by decision-makers in Ghana who, since independence, have concentrated their attention on agriculture and industry. The idea of services per se was not fashionable until recently although heavy investments in certain areas of the economy were actually in the services sector, for example, education and health. It must be emphasized, however, that agricultural development and the success of industrialization also depend on the quality of services, particularly, those connected with production (intermediate services) and on access to such services.

Structure of the Services Sector

9. In the national accounts of Ghana, the Services sector is classified into six main sub-sectors by the Ghana Statistical Service. These are :

- (1) transport, storage and communications;
- (2) wholesale, retail trade, restaurants and hotels;
- (3) finance, insurance, real estate and business services;
- (4) community, social and personal services; and
- (6) producers of private non-profit services.

Policies and Objectives of the Services Sector

10. Taking into account the serious deterioration of the economy in the 1970s and early 1980s, policies in the Services sector have concentrated mainly on the rehabilitation, maintenance and organization of social infrastructure.

11. The deterioration of transport and communication facilities made their rehabilitation and maintenance a priority area. In health and education rehabilitation, expansion and re-equipping of new and existing facilities have also received priority attention.

12. Government policy in the Services sector is also aimed at enhancing productivity, efficiency and profitability of parastatals involved in Services, particularly, transport and communications.

13. In striving for efficiency in the Services sector, Government made institutional strengthening a priority. Thus institutions such as health, education and banking services have been undergoing restructuring aimed at strengthening them to deliver public services more efficiently.

14. The ultimate objective of the policies pursued in the services sector is to enable the sector contribute to the task of raising the standard of living of Ghanaians.

Contribution of Services in the Economy

15. The Services sector in Ghana has been expanding rapidly since the inception of the ERP although it is still at a rudimentary stage. Its contribution to the economy has been rising to the extent that in 1992 it took over from agriculture as the dominant sector of the economy. The percentage contribution of Services in the gross domestic product in purchasers' value was 45.5 per cent while that for agriculture was 42.5 per cent.

16. With regards to composition, the services sector is dominated by activities and outputs that are not tradeable. They consist of largely wholesale/retail Services and government services both of which account for more than 50 per cent of the

total value of Services in the country. The prospects for trade in services look promising, especially when viewed from the performance of the tourism sub-sector and its untapped potential.

17. A large proportion of the Government budget is spent on the Services sector. From 1986 to 1990 the Government allocated about 80 per cent of the budget to the Services sector. In the absence of defence and public order Government expenditure on education is the highest followed by health.

18. Employment figures as recorded by the Ghana Statistical Service reveal that the Services sector is the dominant employer in established businesses in the country. The sector accounted for about 68 per cent of the people in recorded employment between 1985-1989. Community and social services comprising education, health, housing, recreational and welfare services had about 4.8 per cent of the people in their employment.

19. A stable and predictable regulatory environment is a vital pre-requisite for the development and growth of the economy including the Services sector. In order to ensure this the Government enacted an Investment Code (1985). The Code was amended in 1992 and is again being revised. Emphasis will now be placed on private sector investments as an important segment for accelerated economic growth. It is realised that the existing Investment Code is regulatory oriented and does not encourage the Ghana Investments Centre as established, to engage in investment promotional activities. The revision will seek to free the Centre from the approval regime and enable it to undertake more promotional work for the purpose of attracting more investment in the country.

Sub-Sector Studies

20. The National Research Team of Ghana in consultation with the Inter-Institutional Working Group selected the following sectors for indepth study, transportation, telecommunications and informatics, tourism, consultancy and research and financial Services. The following is a brief summary of the findings of the studies :

Transportation

21. The transport sub-sector is characterized by a net work of roads, a railway system, limited lake transport, air and maritime transport services. Road transport forms the major transport service accounting for more than 90 per cent of the national freight and passenger traffic. Improvements to all modes of transportation carried out as part of the ERP have contributed to the expansion in both internal and international trade.

The setting up of a satellite earth station which was re-commissioned in 1989 sparked off major changes and developments in the telecommunication services in Ghana, especially between the country and the outside world.

International direct dialing (IDD) facilities are now available on many telephone sets. This facility has greatly improved Ghana's international trade activities. Partial de-regulation of the telecommunication service has enabled many private firms to enter the sub-sector and set up mobile telephone systems to improve access to the service.

In tandem with the developments in the telecommunications is the improvement in informatics. Many computer firms have been set up to import and sell computer equipment and software, provide after-sales and maintenance service and offer training programmes on the use of the hardware and software to their customers. The major shortcoming in informatics technology in Ghana is the unavailability of a reliable e-mail system. The system is now in a rudimentary stage with two modes which have limited access.

22. Tourism

Recent performance of the tourism sub-sector indicates that the sub-sector has a great potential to be a major foreign exchange earner in Ghana. Tourism receipts doubled between 1990 and 1992. The commendable performance of the tourism sub-sector is due to investments in the sub-sector by both the public and the private sector. The Government's interest has further been demonstrated by the creation of a Ministry of Tourism and the medium-term strategy is to develop eco-tourism and ethno-tourism. Ghana's appeal as a tourist destination is based on the existence of ancient cultures and festivals; numerous forts and castles; safe, swimmable and picturesque coconut fringed beaches and abundant sunshine; tropical rain forest reserve rich in unique and rare flora, mammals and bird life, and the largest man-made lake in the world.

23. Consultancy Services

Ghana has been developing its consultancy services with the formation of the Ghana Association of Consultants. Through the assistance of UNDP, the Association organized a training programme for its members to enable them handle the opportunities created by the growth in the economy. The continued implementation of the policy of decentralization of local Government would imply the availability of consultancy jobs in the areas of feasibility and technical studies, infrastructural development, and project management.

Penetration into the international consulting business is not easy. However, the promotion of African consultants by the African Development Bank and ECOWAS through a preferential treatment for projects located in Africa will go a long way to ease the difficulties involved in entry into international consulting business. Such a policy will help the African firms to build the requisite experience that will enable them compete more effectively with foreign firms in the future.

24. Financial Services

In Ghana financial services are available in both the formal and informal sectors of the economy. At the apex of the formal sector is the Bank of Ghana which is responsible for maintaining a sound monetary policy for Ghana. There are four commercial banks, three development banks, four merchant banks two smaller banks which grew out of the Post Office Savings Bank and Co-operatives as well as 123 rural banks (18 of which are currently distressed). There are also six non-bank financial institutions namely: Consolidated Discount House Limited, First Ghana Building Society, Social Security and National Insurance Trust Holding Company, Ghana Stock Exchange, Home Finance Company and Insurance Companies. The latest development in Ghana's financial services is the establishment (since 1987) of foreign exchange bureaux to buy and sell foreign currency officially.

Financial services in Ghana have been expanding to meet the challenges of a growing and modernising economy. The liberalisation of the exchange rate administration has made it easier for importers to secure foreign exchange and has improved the international payments situation which has spurred on growth in international trade. The establishment of the Ghana Stock Exchange has generated public interest in the trading of stocks.

Despite the progress made in the formal financial sector many Ghanaians continue to be served by the informal financial services which comprise a number of money lenders, credit unions, and thrift societies, commonly called "susu". The informal sector is the main source of credit to many retailers, small holders and artisanal processors.

Recommendations

25. The following recommendations have been made by the study to guide policy orientations :

- i) Ghana should recognise the importance of trade in services in either earning or saving foreign exchange for the country and improving the current account balance. Public policy must therefore be geared towards the promotion of trade in Services. In this respect, Ghana should continue to pursue the liberalisation policies that have been part of the economic reform programme which was launched in 1983, especially in the areas of trade and exchange rate liberalization. However, liberalisation should not tend to discourage domestic production. In this regard, the extent of liberalisation of the economy should be guided by research which examines the impact of liberalisation on domestic production of tradeables and non-tradeables.

- ii. In order to promote investments in services the Government should provide special incentives under the Investment Code. As an addendum to the Investment Code the time used for processing applications for Investments by the Investments Centre should be shortened so as not to frustrate potential investors. The Centre should take on the additional role of promoting investments in the country and not act as if it is a regulatory agency. This is being addressed by the new Investment Code now before Parliament.
- iii. The services sector must be given its due share of government investments, especially in the development of the social and physical infrastructure of the country. It is through this that the sector can play its meaningful role as the "engine of growth" for the economy. Areas that are vital include transport infrastructure, telecommunications, and human resource development (health and education.)
- iv. The rehabilitation of the telephone system of the country and the limited deregulation of the telecommunications sub-sector are commendable. Improvement in the international direct telephone dialling system is welcome but steps must be taken to reduce the drudgery of obtaining a telephone service in Ghana in order to expand the number of domestic users.
- v. With regard to transportation, there must be an expansion of the water and railway modes to take off some of the pressure on road infrastructure. Domestic air flights must be intensified and expanded to cater for a large section of the business community so as to reduce the travel time for transacting business. Although labour intensive techniques for feeder roads rehabilitation has poverty alleviation advantages, the extent of deterioration of Ghana's feeder road system calls for more quicker methods for the rehabilitation programme so as to realise the inherent economies from road infrastructure. Research into the impact of transportation on domestic production and exports will be useful in assessing the marginal benefits of investments in the transport sub-sector to justify the huge expenditures in transport infrastructural development.
- vi. Regulations must be relaxed to promote inter-country consulting activities, at least in the West Africa sub-region. Professional licence obtained in one West Africa country must make the holder eligible to practice one profession in another country. Where possible, common examining boards like the West African Examinations Council should be set up to administer professional examinations in the various countries of the sub-region so that qualifications will be recognised by all the countries.

- vii. Tourism promises to be a viable foreign exchange earner for Ghana. The trend is for heritage-tourism, eco-tourism and ethno-tourism. Attention should therefore be focussed on forts and castles along the coast and the nature parks and game production reserves in the interior and the north. Guided tours should be organised and accommodation and food must be available close to the tourists sites. The District Assemblies should consider investing in these ventures since the pay-offs can be substantial. The hotels must offer discount accommodation packages during the peak tourism seasons and these must be advertised abroad.
- viii. Apart from tourism it is difficult to penetrate the markets of the developed countries with other service products. Regional cooperation therefore offers a good avenue for the promotion of the production and trade in services. The economic Community of West African States (ECOWAS) offers an avenue for such cooperation and Ghana should play its role and encourage the other members to do likewise to further the aims and objectives of the Organisation.
- ix. The rural banks should be replaced with community banks so that it may be possible to have more than one rural bank in an area. The community banks should be allowed to operate with less regulations from the central bank so that the communities will have more control over them. Before giving permission for the establishment of community banks, the community bank model in Nigeria should be understudied in order to help design the Ghanaian one.
- x. To minimise fraud "susu" collectors should be registered with the Association of Credit Unions who will screen applicants before giving them licence. The licence should be renewed annually when no adverse reports have been levelled against the operator.
- xi. There must be education of the public about the operations of Ghana Stock Exchange so that participation will expand and the volume of trade increased.
- xii. The activities of the West Africa Clearing House should be revived and intensified to promote trade in goods and services in the sub-region.
- xiii. To encourage transfer of technology, regulations on expatriate employment and repatriation of profits in service organisations should be relaxed to attract direct foreign investments.
- xiv. The regulatory power of the Ghana Private Road Transport Union (GPRTU) is sometimes oppressive to non-members and

it should be reviewed especially when there are rival organisations in the system.

- xv. Ghana should explore the benefits that can be obtained from international service organisations and aspire to become member of those ones which can help develop its technology through training or direct access to foreign technology.
- xvi. Improvements in the health and education of the people help to alleviate poverty and tends to increase the consumption of goods and services. Public policy must be such that access to the poor is not made impracticable. A second look should therefore be taken at the user charge schemes introduced for health and education facilities so that they do not affect the poor unduly. Research to assess the impact of the schemes on access by different population groups is necessary.
- xvii. All organisations in the services sector should compile data on their operations for planning, monitoring and evaluation, and research. For easy accessibility such data should be collated by the Statistical Service and published periodically.
- xviii. There are too many rules and procedures concerning the services sector. Such rules and procedures will have to be simplified, streamlined, standardised, printed and gazetted to ensure transparency so that interested individuals and companies will be adequately and properly informed.