AGI Association of Ghana Industries

UNDP Ghana

THE AGI BUSINESS BAROMETER

4TH QUARTER 2011

SUMMARY REPORT

POOR FINANCIAL INTERMEDIATION SLOWS DOWN BUSINESS PERFORMANCE IN GHANA

The financial sector in Ghana remains inefficient, in the provision of credit at competitive lending rates to the private sector, according to the AGI 2011 last quarter Business Barometer. Efficient financial system helps in mobilizing savings and allocates credit at competitive rates to borrowers, but business operators in Ghana have identified low access to credit and high lending rates as the twin factors slowing down their businesses development. This calls for a pragmatic policy to address funding needs of entrepreneurs as lack of long-term capital in the country exacerbates the situation.

OVERALL PERCEPTION OF BUSINESS PERFORMANCE

The business community asserts current business performance remained unchanged in the third and fourth quarters of 2011. This is unusual as normally businesses perform better in the last quarter of the year because economic activities pick up due to the yuletide festivity. However, about 66% of the CEOs interviewed were very confident that their businesses will perform better in 2012 quarter one (2012 Q1) than the last quarter of 2011 (2011 Q4). The optimism of the CEOs were based on: an expected improved market; an anticipated enhanced consumer disposable income; and hopeful to win private sector projects.

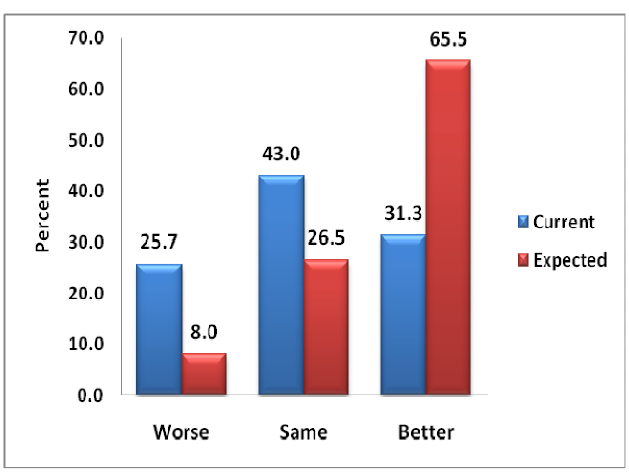

Fig. 1 Overall Business Performance for Q4 2011

On the contrary, 8% of the respondents expect their businesses to perform poorly in 2012 Q1, compared to that of 2011 Q4. Their pessimistic stance is based on perceived increase in utility tariffs; impact of high level of taxation; and high cost of raw materials.

OVERALL MAJOR CHALLENGES

For the third quarter running in 2011, difficulty in accessing credit is the topmost challenge in the business community's effort to develop businesses in the country. Cost of credit and high utility prices moved from third and fourth positions in 2011 Q3 to second and third respectively in 2011 Q4. This indicates the Business Barometer measures the happenings within the real economy, as the increases in the utility tariffs in the last quarter of 2011 was captured by respondents through upward movement of high utility prices on the overall major challenge ladder.

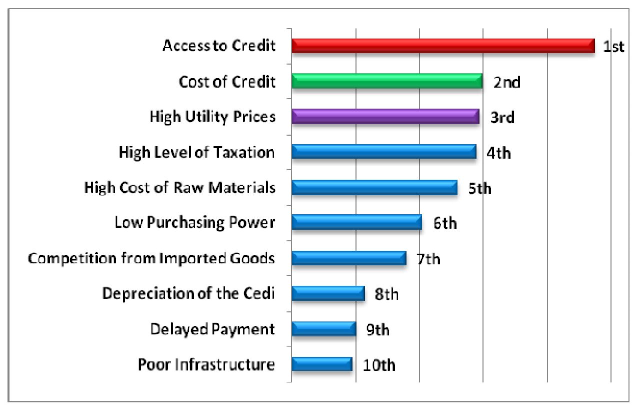

Fig. 2 Overall Challenges for Q4 2011

Again, depreciation of the cedi appeared for the first time in more than eight quarters, showing the volatility experienced by the cedi against major trading partners' currencies in the last quarter of 2011 was captured by the survey. The greatest mover was low purchasing power which dropped from second position in 2011 Q3 to sixth in 2011 Q4.

CHALLENGES BY SIZE

Table 1: Top 3 Challenges by Size

Size	Challenges		
	1st	2nd	3rd
SMEs	Access to Credit	Cost of Credit	High Level of Taxation
Large	High Level of Taxation	Competition from Imported Goods	Depreciation of the Cedi
African Giants	Competition from Imported Goods	Delayed Payment	High Level of Taxation

Whilst access to credit remains the key concern to SMEs in the country, depreciation of the cedi and competition from imported goods were singled out as obstacles to expansion of large and the very large firms respectively.

CHALLENGES BY SECTOR

The Agricultural sector identified access to credit, high cost of raw materials and cost of credit as the top three factors limiting the capacity of the sector to provide food security and raw materials to feed the manufacturing sector in the country.

AGRICULTURE

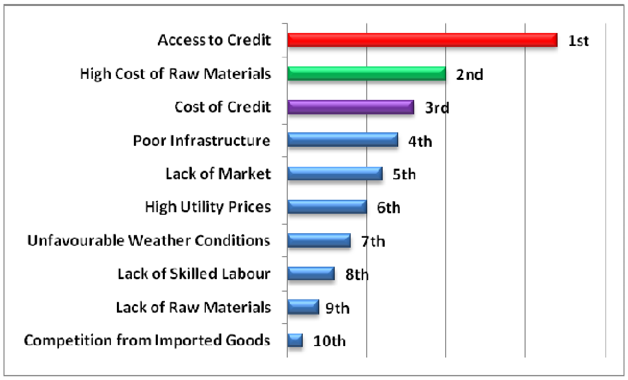

Fig. 3 Challenges Facing the Agriculture Sector

Other key obstacles to growth of the sector are lack of market for agricultural products (5^{th}), unfavourable weather conditions (7^{th}) and lack of raw materials (9^{th}). See Fig. 3 for details.

CONSTRUCTION

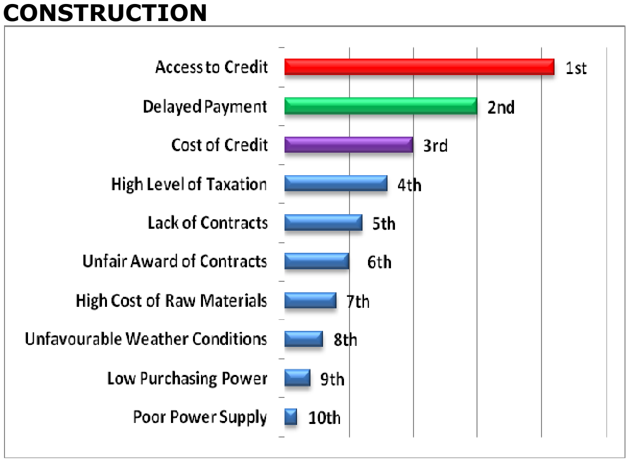

Fig. 4 Challenges Facing the Construction Sector

Low access to credit, delayed payment and high cost of credit were seen as the main reasons why the Construction Sector is not expanding. Unfair award of contracts (6^{th}) and unfavourable weather conditions (8^{th}) were also identified as major constraints to the progress of the sector.

MANUFACTURING

Key operators of the manufacturing sector interviewed revealed that high taxes, difficulty in accessing credit and high cost of raw materials are stifling growth of their businesses. Interestingly, operators in this sector believed instability of the cedi (8^{th}) impacted negatively on the growth of their businesses in 2011 Q4. This is true as depreciation of the cedi increases prices of imported raw materials through cost of the raw materials as well as import duties of such raw materials which are quoted in foreign currencies (see Fig. 5 for details).

MANUFACTURING

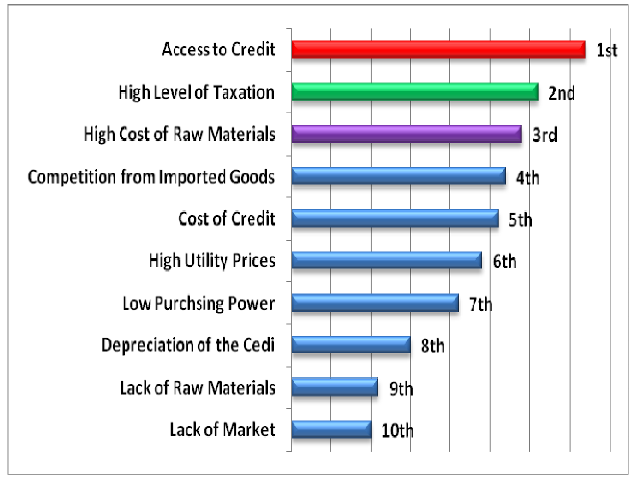

Fig. 5 Challenges Facing the Manufacturing Sector

SERVICE

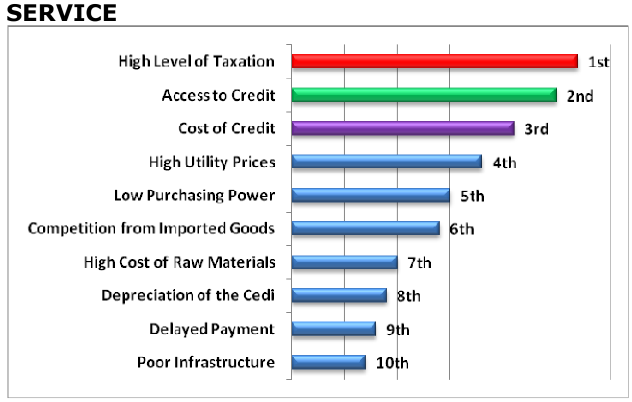

Fig. 6 Challenges Facing the Service Sector

According to Fig. 6, high level of taxation, access to credit and cost of credit are the top three factors limiting the growth of the Service Sector.

THE AGI BB INDICATOR (BBI)

The AGI BBI measures the level of confidence in the business environment and predicts short-term business trend. It simply expresses the state of the business climate in one number, ranging between +100 and −100. It is calculated out of "current" business mood and "expectations" for the future. 2011 Q4 recorded a positive indicator of 30.0 which indicates a marginal drop in business expectation over 2011 Q3 (which recorded an indicator of 30.1). This is an indication that the business community is fairly confident in the business environment going into the first quarter of 2012.

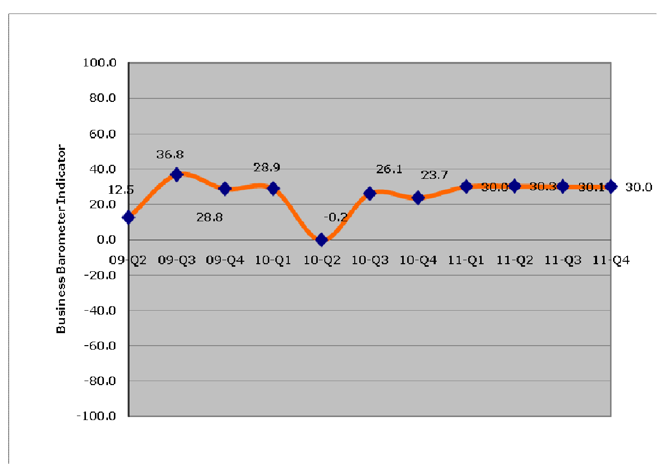

Fig. 7 AGI BBI