

# *Business Opinion*

*A publication of The Institute of Economic Affairs*

*Vol. 2 No.1 January 2016*

## **IEA BUSINESS CONFIDENCE SURVEY**

### **SUMMARY**

The IEA Business Confidence Survey (BCS) is aimed at gauging the confidence of businesses and promoting evidence-based policies to enhance the business environment and performance. It seeks the views of businesses on their performance, the business environment and obstacles to doing business, future expectations of businesses and the direction of leading indicators such as future capital expenditure, employment and profit. This edition of The IEA BCS, which was conducted in July 2015, interviewed 95 businesses from the three key economic sectors (agriculture, industry and services) in four regions of Ghana: Greater Accra, Ashanti, Central and Eastern regions. This edition also compares the results for July 2015 together with those of November 2014 to ascertain whether there have been improvements in business performance and the business environment.

The survey results suggest that business performance improved slightly in the past six months (January-June 2015) when compared to the previous six months (June-December 2014). Although the financial sector encountered a drop in performance, it performed far better than the non-financial sector. The majority of businesses interviewed indicated that overall, the business environment has deteriorated. This was attributed to the erratic electric power supply, increased cost of production, increased taxes/government charges and macroeconomic instability (high inflation and exchange rate volatility). In spite of the deterioration in the business environment, businesses were optimistic about the future as majority of them expected better performance in the next six months. This optimism was based on expected improvement in the business environment, increase in orders, demand for goods and services and an end to the energy crisis. The report concludes with a set of policy recommendations aimed at improving the business environment in Ghana.



**Business Opinion** is a bi-annual publication of The Institute of Economic Affairs, an independent public policy Institute. This edition is sponsored by The International Development Centre / Think Tank Initiative (IDRC / TTI). Subscriptions to the Business Opinion are made available to those who make contributions to the IEA. Address all correspondence to:  
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## ACKNOWLEDGEMENTS

The IEA Business Confidence Survey was made possible with funding from The International Development Research Centre / Think Tank Initiative (IDRC / TTI). The survey report was prepared by the IEA research team, comprising Dr. Michael Ofori-Mensah (Senior Research Fellow), Prof. Joseph R.A. Ayee (Senior Adjunct Fellow), Mr. Samuel B. Manu (Research Officer) and Mr. Evans Nelson-Dziwornu (Research Officer).

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## PREFACE

The Institute of Economic Affairs (IEA), is Ghana's premier public policy think tank. The Institute's mission is to promote good governance and sustainable economic development in Ghana and West Africa, drawing on its evidence-based research and advocacy. Over the last twenty-seven years, The IEA has served as a centre for policy analysis, a forum for the exchange of ideas and a resource centre for public education. The IEA's research and persistent advocacy has also influenced several policy processes in Ghana and beyond.

Five years ago, the Board of the IEA recommended the addition of a Survey Unit to support the research work of the IEA's two Centres, namely the Economic and the Governance Centres. The addition of the Survey Unit was to strengthen the conduct of empirical research for policy discussion and formulation. Since its establishment, the work of the Survey Unit has focused mainly on socio-economic and governance issues - including peoples' living conditions; government's performance in addressing the socio-economic problems; trust in public institutions; corruption and public opinion of Members of Parliament. These surveys have enhanced public awareness of socio-economic and governance issues and informed debate on key challenges facing the country. Additionally, the reports produced from the Institute's surveys have provided concrete recommendations for consideration by policy makers.

In 2014, the Institute added a bi-annual Business Confidence Survey (BCS) to its survey work. The decision to conduct a BCS was in recognition of the role of the private sector as the key driver of the economy - the engine of growth. The IEA Business Confidence Survey is aimed at gauging the confidence of businesses and promoting evidence-based policies to enhance the business environment and performance. It seeks the views of Company Heads/Chief Executive Officers (CEOs) on the performance of their businesses, the business environment and obstacles to doing business, among others.

This edition of the IEA BCS, which was conducted in July 2015, covered 95 businesses from the three key economic sectors (agriculture, industry and services) in four regions of Ghana: Greater Accra, Ashanti, Central and Eastern regions. This edition also compares the results of the July 2015 BCS with the November 2014 edition to identify trends in business confidence and performance.

Experience has shown that surveys of this type provide valuable information to the businesses surveyed, policy makers and analysts. Indeed, this remains a core objective of this BCS - to provide data for monitoring the business climate and inform policy making that will advance the private sector in Ghana.

We hope you find this report useful and look forward to receiving your feedback.

Thank you.

Mrs. Jean Mensa  
Executive Director  
The Institute of Economic Affairs

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## 1. INTRODUCTION

### 1.1 Background

Recognising the critical role of the private sector as the key driver of the economy – the engine of growth – The Institute of Economic Affairs (IEA), Ghana late 2014, added a bi-annual Business Confidence Survey (BCS) to its portfolio of surveys. The essence of a BCS is to collect information on business performance and outlook.

Experience has shown that the BCS provides valuable information to the businesses surveyed, policy makers and analysts. Indeed, this remains a core objective of this survey – that is, to provide data for monitoring the business climate, which will inform policy making and ultimately advance the cause of the private sector in Ghana.

The IEA conducted its maiden BCS in November 2014 which sought the views of businesses on their performance, the business environment and obstacles to doing business, future expectations and the direction of leading indicators such as future capital expenditure, employment and profit. The July 2015 survey is the second IEA BCS. It is a follow-up on the November 2014 survey as it compares the results of both surveys to ascertain whether there have been improvements in business performance and environment.

The July 2015 IEA BCS interviewed 95 businesses from the three key economic sectors (agriculture, industry and services) in four regions of Ghana: Greater Accra, Ashanti, Central and Eastern regions.

### 1.2 Objectives of the Survey

As a sequel to the 2014 November BCS, the July 2015 BCS was also designed to seek the views of businesses on their current performance, the business environment, major obstacles to doing business, future expectations, and the directions of leading indicators.

The survey is aimed at collecting data that can be used for monitoring the business climate which will inform policy making and thereby advance the cause of the private sector in Ghana.

### 1.3 Scope

Specifically, the survey covered the following areas:

- Nature of business;
- Performance of business with respect to the financial and non-financial sectors of the economy;
- Employment;
- Overall assessment of business environment;
- Future expectation: employment, business performance and business environment;
- Macroeconomic environment;
- Ghana's economic performance;

- 
- Constraints to doing business; and
  - Leading indicators.

### **1.4 Justification of the Survey**

The IEA recognises that similar surveys have been conducted by the Bank of Ghana (BoG) and Association of Ghana Industries (AGI). The Bank of Ghana conducts its survey to inform the deliberations of the Monetary Policy Committee (MPC), on one hand, while the Association of Ghana Industries publishes the Business Barometer report on the performance and expectations of its members.

While supplementing these existing surveys, The IEA's BCS is different in terms of the business and geographical coverage, the publicity that will be given it, and the follow-up advocacy to promote business-friendly policies. As an independent policy think tank, The IEA's BCS will therefore complement and extend these surveys and also provide a more independent perspective of the performance of businesses in the country.



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## 2. SURVEY METHODOLOGY

### 2.1 Sample Design

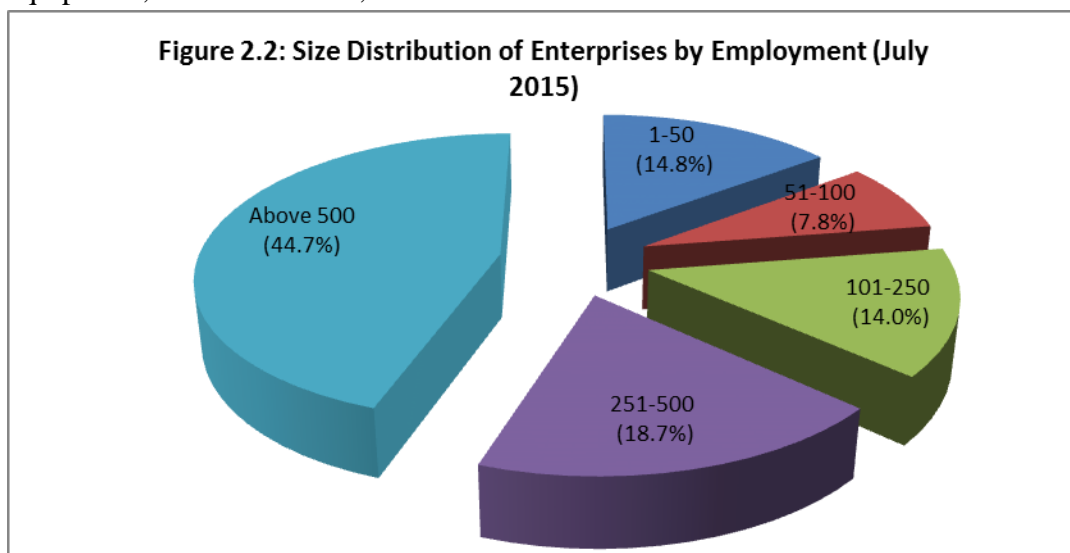
The survey used a stratified sample design. In this case, the subject under study was organized into sub-groupings so that the sample selection was “spread” properly across the sectors and regional divide.

The three major sectors of the economy investigated were: (i) agriculture; (ii) industry; and (iii) services. The list of companies was obtained from the relevant registered professional bodies. These were then grouped into the three sectors. The number of companies selected from each sector was based on the sector’s contribution to GDP. Using 2014 data, companies were selected from each sector according to the proportion of GDP arising from that sector.

Services contributed the largest sample of 47.4%, followed by industry (33.7%) and agriculture (18.9%). The share of the sample from each sector is shown in figure 2.1.

#### Measure of Size

The size of the companies was also considered (number of employees) in deciding which companies to include in the study. In other words, the sample covered small, medium and large scale enterprises. Enterprises engaging over 500 employees constituted 44.7% of the sample while those employing up to 50 employees made up 14.8%. The details of the distribution of companies according to size are shown in figure 2.2. This measure is also used by the Ghana Statistical Service (GSS). Other classifications include the value of fixed assets, plants and equipment, volume of sales, etc.



Source: IEA Survey, 2015

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## Sample Selection and Allocation

A total sample of 100 companies was randomly selected within each sector systematically and allocated to the Greater Accra, Ashanti, Western and Eastern regions. The four regions reportedly account for more than 70% of the output of all registered companies in the country. The number of companies sampled from each region and by sector is provided in table 2.1.

**Table 2.1: Sectoral Distribution of Enterprises by Region (%)**

Region	Agriculture	Industry	Services	Total
Greater Accra	5	21	36	62
Western	1	7	4	12
Ashanti	5	4	5	14
Eastern	8	1	3	12
Total	19	33	48	100

### Response Rate

At the end of the survey, ninety-five (95) companies were successfully interviewed out of the targeted one hundred (100) companies (table 2.2). For a survey of this nature, a 95% response rate is considered very high because it is extremely difficult to have the CEOs and Finance Officers granting interviews to researchers. Out of the five (5) unsuccessful interviews, three (3) enterprises indicated that the appropriate persons to respond to the questions were indisposed for the entire survey period while the remaining two (2) enterprises declined participation although they had earlier on agreed to participate in the survey.

**Table 2.2: Response Rate (%)**

Region	Agriculture	Industry	Services	Total
Greater Accra	5	21	34	60
Ashanti	5	4	3	12
Western	0	7	4	11
Eastern	8	1	3	12
Total	18	33	44	95

*Source: IEA Survey, 2015*

## 2.2 Data Collection

The survey was conducted in the last two weeks of July 2015 and ninety-five (95) enterprises were successfully interviewed out of the targeted 100. In order to get an accurate picture of the performance of the businesses and the business environment, the Chief Executive Officers (CEOs) and/or Finance Officers of the selected enterprises were interviewed. These officers are abreast with their company's performance and are therefore in a better position to provide the team with vital information such as profit, capital expenditure, inventory, etc. To ensure that a

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high response rate was attained, selected businesses were contacted by The IEA before the actual data collection exercise commenced. This led to not only a high response rate (95%) but also an overall improvement in the quality of the data collected.

### 2.3 Data Capture and Analysis

Data entry, processing and analysis were done using the SPSS software. Tables generated were exported to EXCEL for further analysis.

The weight placed on responses is crucial for results interpretation. As mentioned, the survey adopted the size weight in its data analysis where responses are weighted on the basis of the number of employees. The number of the employees of the businesses was used as a measure of relative importance of an enterprise. Businesses with employees within the range of ‘1-50’ were assigned a weight of 1, ‘51-100’, a weight of 2, ‘101-250’, a weight of 3, ‘251-500’, a weight of 4 and above 500, a weight of 5. This measure has been used in other studies and reports to measure size<sup>1</sup>. It is a more reliable measure when comparisons are to be made across different categories of enterprises.

In the analysis, the financial and non-financial sector enterprises were disaggregated to assess the relative performance and expectations of these two broad areas of business as they may not face the same range of constraints.

In addition, two stakeholder meetings were held to discuss the findings of the survey. The team first met with members of the academia before meeting the business heads to discuss the findings of the survey.

### 2.4 Quality Control

A number of quality control measures were put in place to ensure the integrity of the data collected. Twenty (20) experienced field workers with a minimum of Senior Secondary School (SSS) qualification were recruited as interviewers. An in-depth training regime and a field testing exercise was undertaken for supervisors and interviewers to adequately prepare them for actual field work.

Quality control measures such as effective supervision of the teams and editing of questionnaires after data collection to ensure accuracy and completeness, were also instituted during the field work. Where discrepancies were found, interviewers were made to track respondents concerned and rectify the problem. With this, a very high degree of accuracy during the data gathering process is assured.

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<sup>1</sup> The Ghana Statistical Service uses the number of employees as a measure of size in their classification of enterprises in Ghana. This method was used for the Ghana Living Standard Survey Round 6 (GLSS 6) conducted in 2012/2013 and the Integrated Business Establishment Survey 1 (IBES 1) conducted in 2015.

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Also, all the 100 selected companies were called by some staff members of The IEA to confirm their participation in the survey.

At the data capture stage, data was coded, double-entered, validated and thoroughly cleaned before analysis was done.

The four stages of quality control undertaken are known to maximize the validity of data collected, which ultimately makes good quality data available for analysis.

### 3. RESULTS OF SURVEY

#### 3.1 Sector Distribution of Sample

The results indicate that 47.4% of the companies surveyed belong to the services sector followed by industry (33.7%) and agriculture (18.9%). For the services sub-sector, a greater percentage of the companies belonged to the financial services (22.1%), trade (10.5%) and hotel and restaurants (10.5 %) while manufacturing (23.2%) and construction (7.4%) dominated the industry sub-sector. For the agriculture sub-sector, most of the establishments belonged to crops (11.6%). Overall, 77.9% of companies interviewed were engaged in non-financial activities while the remaining 22.1% were engaged in financial services such as banking, insurance, savings and loans etc. (table 3.1).

**Table 3.1: Distribution of Companies by Sector**

Sector	Number	Percent
Crops	11.0	11.6
Livestock	4.0	4.2
Fishing	2.0	2.1
Forestry/Logging	1.0	1.1
Agriculture	<b>18.0</b>	<b>19.0</b>
Manufacturing	22.0	23.2
Mining and Quarrying	2.0	2.1
Construction	7.0	7.4
Electricity/Water	1.0	1.1
Industry	<b>32.0</b>	<b>33.8</b>
Financial Services (e.g. Banking and Insurance)	21.0	22.1
Telecommunication	4.0	4.2
Trade (Wholesale and Retail)	10.0	10.5
Hotel and Restaurants	10.0	10.5
Services	<b>45.0</b>	<b>47.3</b>
Total	<b>95.0</b>	<b>100.0</b>
Financial Sector	<b>21</b>	<b>22.1</b>
Non-Financial Sector	<b>74</b>	<b>77.9</b>

*Source: IEA Survey, 2015*

#### 3.2 Nature of Business Activity

Table 3.2 shows that nearly half (48.9%) of the companies produced for the Ghanaian market only and a further 27% produced for both the domestic market and export. It is worth mentioning that 4.7% and 3.9% were solely engaged in the export market and import market respectively.

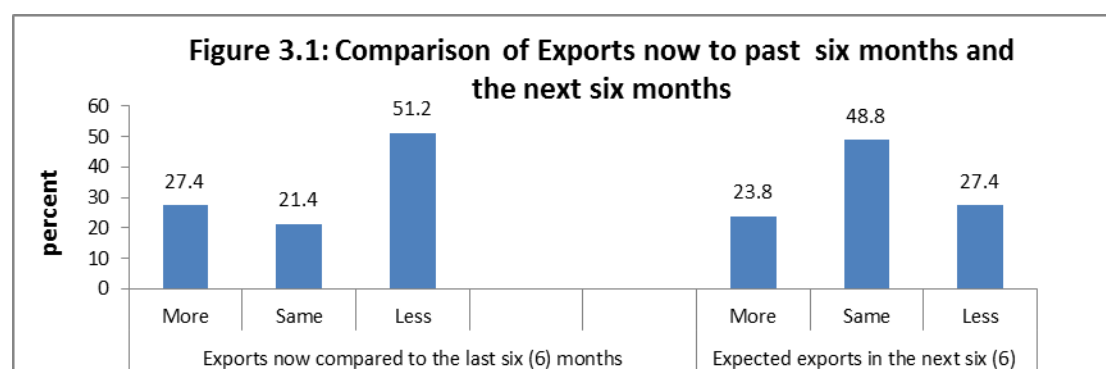
**Table 3.2: Nature of business activity**

Nature of Activity	Percent
Exports only	4.7
Imports only	3.9
Both Exports and Imports	7.7
Produce for Domestic market only	48.9
Produce for Domestic market and exports	27.0
Produce for Domestic market, imports and exports	7.7
<b>Total</b>	<b>100.0</b>

Source: IEA Survey, 2015

***Businesses exported less than the previous six months. Exports likely to fall in the next six months***

On the performance of exports, figure 3.1 reveals that majority of businesses engaged in export activities (51.2%) reported exporting less in the past six months compared to the previous six months. On the other hand, 27.4% of them exported more in the past six months than in the previous six months. The net effect is that businesses encountered a fall in their exports in the past six months. On the expectation for the next six months (July-December 2015), 76.2% of businesses were expecting their exports to either fall (27.4%) or remain the same (48.8%). A quarter, however, expected exports to rise in the next six months. The combined effect is that exports will likely fall in the coming months.



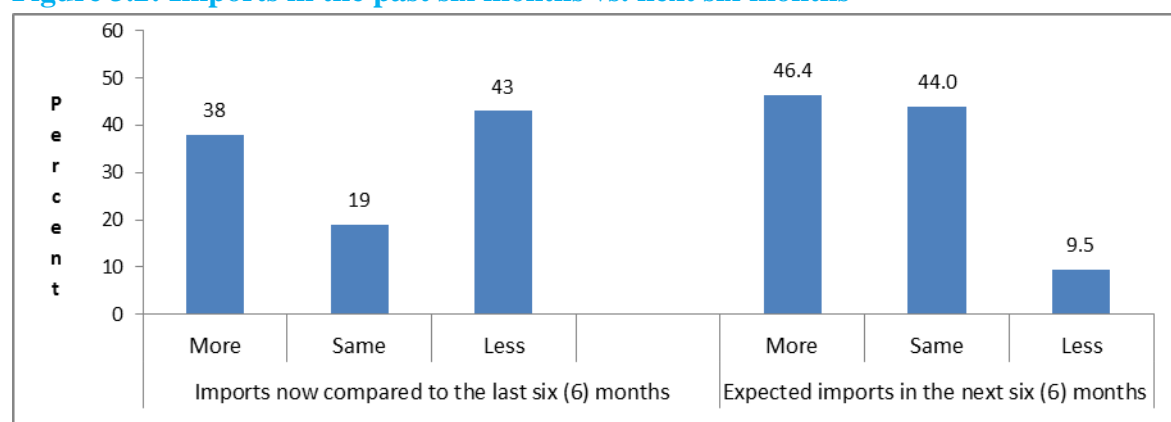
Source: IEA Survey, 2015

***Businesses imported less than the previous six months. Imports likely to increase in the next six months***

Figure 3.2 shows that 43% of businesses engaged in import activities reported importing less in the past six months (January-June 2015) compared to the previous six months (July- December 2014). On the other hand, 38% of businesses imported more in the past six months. On the expectation for the next six months, however, the outlook is positive because more companies were prepared to import more (46.4%) compared to those who were considering cutting down on

imports (9.5%). Forty-four (44) percent indicated that imports would remain the same in the next six months.

**Figure 3.2: Imports in the past six months vs. next six months**



Source: IEA Survey, 2015

The prediction of a reduction in exports and increase in imports for the next six months (July-December, 2015) could have dire consequences on the Ghanaian economy. Should this happen, Ghana is likely to face a situation of worsening balance of trade and a far worse rate of depreciation of the local currency, the Ghana Cedi.

### 3.3 Business Performance

#### 3.3.1 Business Performance in the past six months

The performance of businesses is a major indicator of the health of the economy. Sluggish business performance could indicate increasing obstacles to growth, lack of confidence in the business environment or a presage to a recession with adverse consequences for employment. On the other hand, a buoyant performance could indicate an upturn in the economy with positive consequences for employment and development. The survey critically examined the performance of businesses in the past six months (January-June, 2015) relative to the previous six months (July-December 2014) for the financial and non-financial sectors and the following are some of the findings:

- *Overall business performance improved significantly over the past six months when compared to the previous six months;*
- *Far more financial sector businesses performed better than non-financial sector businesses (63.4% vs. 38.1%) in the past six months when compared to the previous six months;*

- *About 37% of businesses in the non-financial sector's performance worsened in the past six months compared to 31% of financial sector businesses who reported worse performance for the same period; and*
- *About 60.0% of businesses in the agricultural sector reported worsened business performance in the past six months when compared to the previous six months.*

The overall results (table 3.3) show that 45.2% of the businesses interviewed reported of improved performance over the past six months compared to the previous six months while 34.9% indicated a worsened situation. At the sectoral level, the percentage of firms in the non-financial sector reporting of worsened performance was 36.5% while that of the financial sector was 31% (table 3.3). On the other hand, 63.4% of the financial sector businesses were better off compared to 38.1% of the non-financial sector businesses.

**Table 3.3: Business performance in the past six (6) months by key Sectors**

Sector		Performance six months before July 2015		
		Better	Same	Worse
<b>Financial vs. Non-Financial Businesses</b>	Non-Financial	38.1	25.4	36.5
	Financial	63.4	5.6	31.0
<b>Key Economic Sectors</b>	Agriculture	28.0	12.0	60.0
	Industry	47.3	26.4	26.4
	Services	47.1	16.9	36.0
<b>Overall Business Performance (Total)</b>		<b>45.2</b>	<b>19.8</b>	<b>34.9</b>

*Source: IEA Survey, 2015*

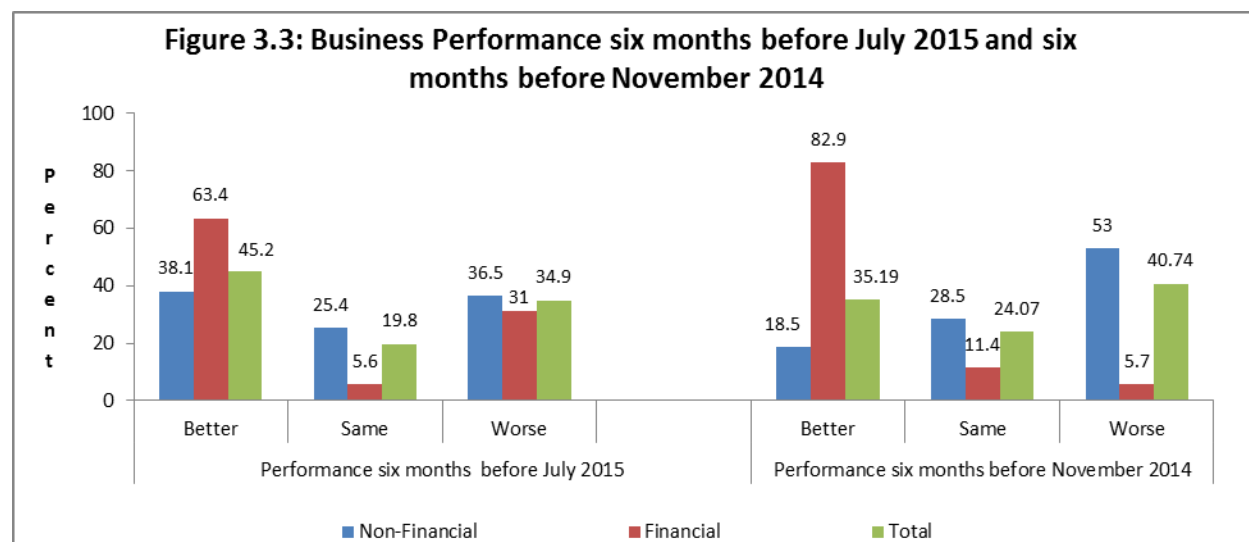
However, a comparison of broad sector indicates that businesses in the agriculture sector fared worse than those in the industry and services sectors in the past six months relative to the previous six months (table 3.3). Overall, the industry sector performed better than all sectors with about 47.3% of businesses in the sector reporting of better performance in the period under review. This was followed by the industry (47.1) and agriculture (33.3%) sectors.

Again, a different picture emerges when the two survey results are compared (November 2014 vs. July 2015) for the financial and non-financial sectors. Figure 3.3 below reveals that even though business performance improved by 10 percentage points from 35.2% in November 2014 to 45.2% in July 2015, the non-financial sector saw a bigger jump (from 18.5% up to 38.1%) while the financial sector had its percentage cut from 82.9% to 63.4%.

Although more companies reported being worse off in November 2014 (40.7%) compared to July 2015 (34.9%), far more financial sector businesses reported being worse off in July 2015



(31%) than in November 2014 (5.7%). On the other hand, the percentage of non-financial sector firms who reported worse performance fell by 16.5 percentage points.



Source: IEA Survey, 2015

Interactions with financial sector stakeholders revealed that the drop in financial sector performance in 2015 was largely due to: (i) increase in non-performing loans (bad debts); (ii) restrictions on amount of foreign exchange which could be withdrawn by depositors which might have caused capital flight; (iii) decreased non-financial sector's borrowing from the financial sector as a result of the high lending rates— a major source of revenue for the financial sector; and (iv) decrease in deposits from the public.

The poorer performance of the non-financial sector compared to the financial sector could be attributable to the many obstacles facing that sector. The exchange rate depreciation, erratic electricity power supply, high cost of raw materials and high cost of credit must have affected the non-financial sector firms much more adversely. On the other hand, the exceptionally high lending rates are more favourable to the financial sector.

### 3.3.2 Sales and Profits in the past six months

#### *Sales improved but profits declined especially for agriculture and industry*

The performance of businesses in terms of sales and profits in the six months preceding the survey was also assessed by asking businesses to evaluate their performance regarding the two factors. Table 3.4a shows that though about two-thirds of the businesses interviewed reported better sales, only 38% of businesses reported better profit in the past six months. About 62% of businesses reported worse profit with far more non-financial companies reporting worse profit (71.4%) compared to the financial sector businesses (40.3%).

**Table 3.4a: Sales and Profits in past six months by Financial and Non-financial sectors**

Sector	Sales in past six months		Profit in past six months	
	Better	Worse	Better	Worse
<b>Non-Financial</b>	61.0	39.0	28.6	71.4
<b>Financial</b>	88.1	11.9	59.7	40.3
<b>Total</b>	<b>69.2</b>	<b>30.8</b>	<b>38.0</b>	<b>62.0</b>

*Source: IEA Survey, 2015*

As was observed in the financial and non-financial sectors, sales were generally better in the past six months (69.2%) with about three quarters of businesses in the industry (76.0%) and services (71.5%) reporting better sales in the past six months (table 3.4b). However, the majority of businesses in the agricultural sector (65.2%) reported of worse sales in the last six months. Unfortunately, the high sales did not translate into high profits as majority of businesses in all broad sectors reported worse profit with agriculture (82.6%) being the worst affected. About 60% of both services and industry companies also reported of worse profit in the last six months.

**Table 3.4b: Sales and Profits in past six months by Broad Sector**

Sector	Sales in past six months		Profit in past six months	
	Better	Worse	Better	Worse
<b>Agriculture</b>	34.8	65.2	17.4	82.6
<b>Industry</b>	76.0	24.0	40.0	60.0
<b>Services</b>	71.5	28.5	40.7	59.3
<b>Total</b>	<b>69.2</b>	<b>30.8</b>	<b>38.0</b>	<b>62.0</b>

*Source: IEA Survey, 2015*

In fact, lower profits in the period of high sales especially by the non-financial sector could be due to high cost of credit, high cost of raw materials and, more importantly, high levels of taxes and other government charges. This means that the firms' retained profit for ploughing back into the businesses will definitely decrease and this will not portend well for employment. Lower profits in agriculture will also discourage investors from going into that sector.

### 3.4 Employment: Comparison of Financial Sector and Non-Financial Sector

#### *Slight increase in employment intake*

The analysis shows that while 21% of all businesses interviewed were laying off workers, 30.7% were recruiting new ones and 48% maintained their staff numbers. It can be inferred from this that on a net basis, there was a slight increase in employment levels among the businesses interviewed in the past six months (table 3.5).

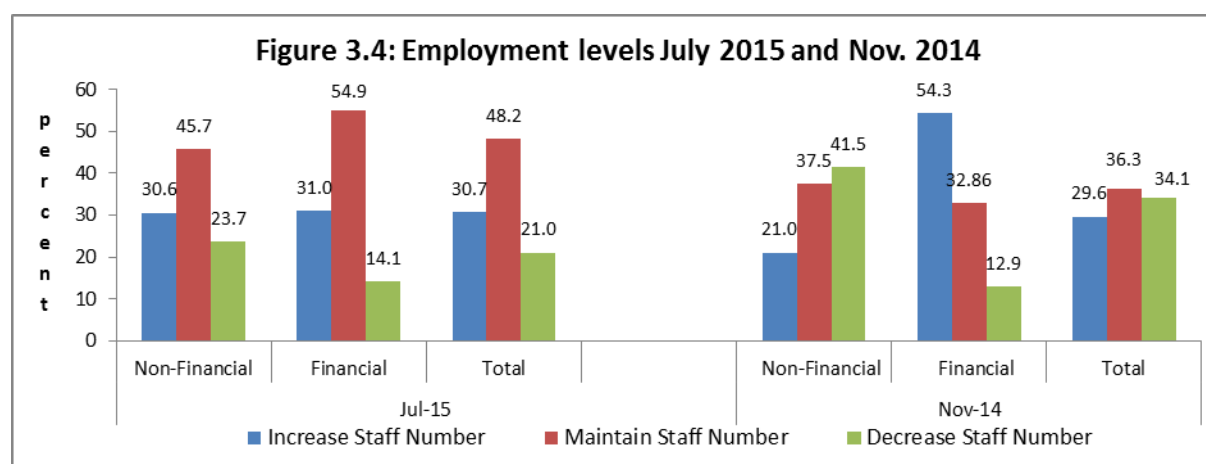
*Job Losses more pronounced in non-financial sector as 23.7% of non-financial sector businesses compared to 14.1% of financial sector businesses indicated that they have decreased their staff numbers.*

**Table 3.5: Employment in past six months by Financial and Non-financial sectors**

Sector	Increase Staff Number	Maintain Staff Number	Decrease Staff Number
Non-Financial	30.6	45.7	23.7
Financial	31.0	54.9	14.1
Total	30.7	48.2	21.0

Source: IEA Survey, 2015

Comparing the results of July 2015 to that of November 2014 surveys, it was revealed that whereas more financial sector firms laid off workers (up from 12.9% in November 2014 to 14.1% in July 2015), far less non-financial sector firms laid off staff (down from 41.5% in November 2014 to 23.7% in July 2015) (figure 3.4). This is expected judging from the previous discussion, that the performance of businesses in the financial sector significantly fell while that of the non-financial sector increased.



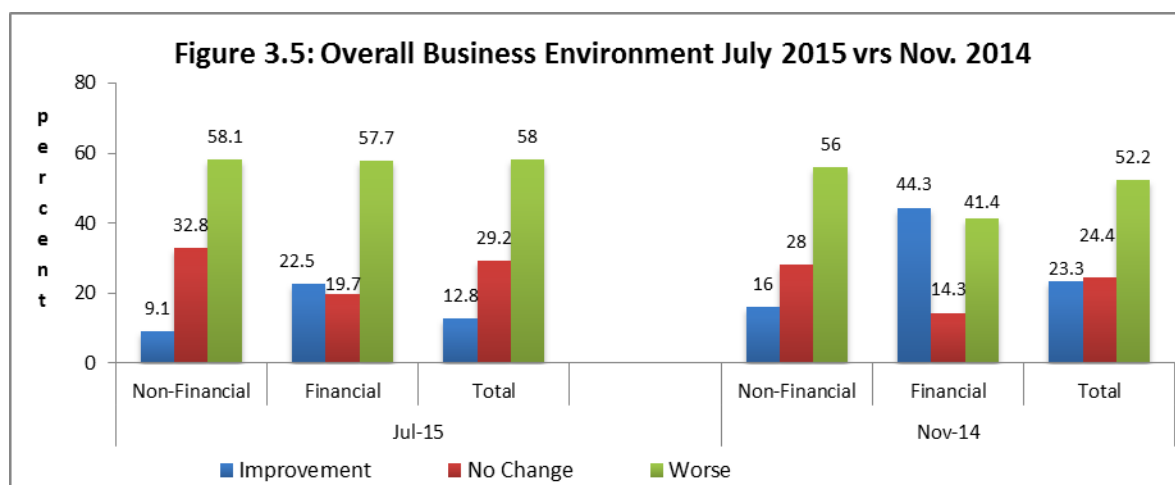
Source: IEA Survey, 2015

### 3.5 Overall Assessment of the Business Environment

*Overall the business environment deteriorated between November 2014 and July 2015 due to adverse macroeconomic conditions*

Majority of businesses interviewed (58%) reported of worsened business environment in the past six months (January-June 2015) compared to the previous six months (July-December 2014). There was not much difference between non-financial and financial sector businesses.

The proportion of firms which reported of worsened business environment increased from 52.2% in November 2014 to 58% in July 2015. The deterioration was worse among financial sector businesses (up from 41% in November 2014 to 57.7% in July 2015) when compared to that of the non-financial businesses (up from 56% in November 2014 to 58.1% in July 2015). However, the number which reported improvement in the performance reduced by almost half from 23.3% in November 2014 to just 12.8% in July 2015 (figure 3.5).



Source: IEA Survey, 2015

The worsened performance of the overall business environment in 2015 compared to 2014 could be as a result of the erratic electric power supply, increased cost of production, increased taxes/government charges and exchange rate volatility.

## 3.6 Outlook Based on Future Expectations

### 3.6.1 Forecasts about Employment

*Employment expected to increase slightly in the next six months*

Businesses were asked about their forecast of employment levels in the next six months (July-December 2015) (table 3.6). Their response shows that the overall net employment is expected to increase slightly in the next six months. About 28% of businesses were expecting to increase their staff numbers compared to 19% of businesses who indicated they would reduce their staff numbers. However, majority of businesses (52%) indicated they will maintain their staff numbers. This is not good for the country considering that unemployment, particularly among the youth<sup>2</sup> and graduates, is on the rise. Additionally, there are a lot of unemployed graduates in the system and the universities and polytechnics continue to churn out thousands of graduates every year.

<sup>2</sup> The Ghana Living Standards Survey Round 6 (GLSS 6) estimates that about 10.9% of the youth (15-24 years) are unemployed.

**Table 3.6: Expectation of Employment in the next six months by sector**

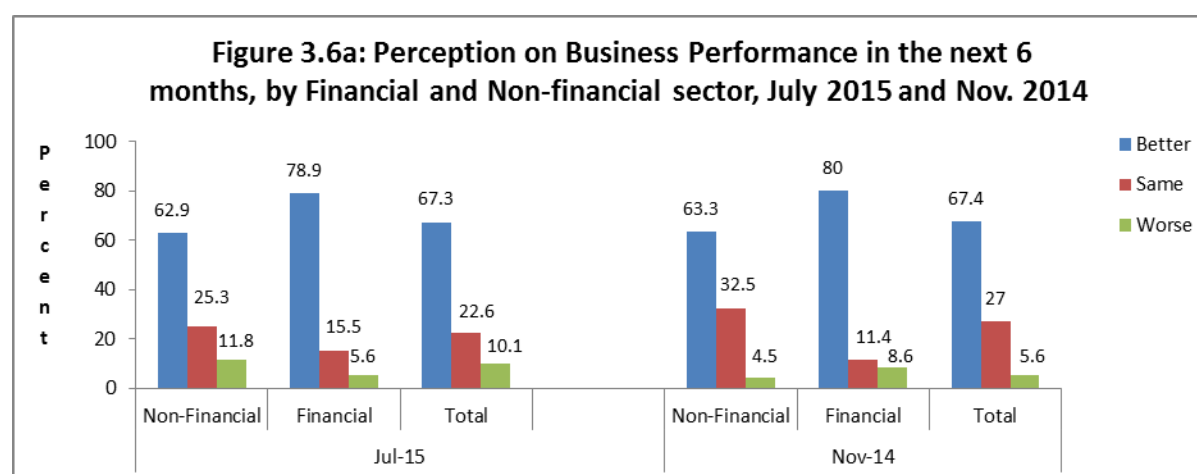
Sector	Employment level		
	More	Same	Less
Non-Financial	28.1	48.1	23.8
Financial	31.0	62.0	7.0
Total	28.9	52.0	19.1

Source: IEA Survey, 2015

### 3.6.2 Expectation of Business Performance in the next six months

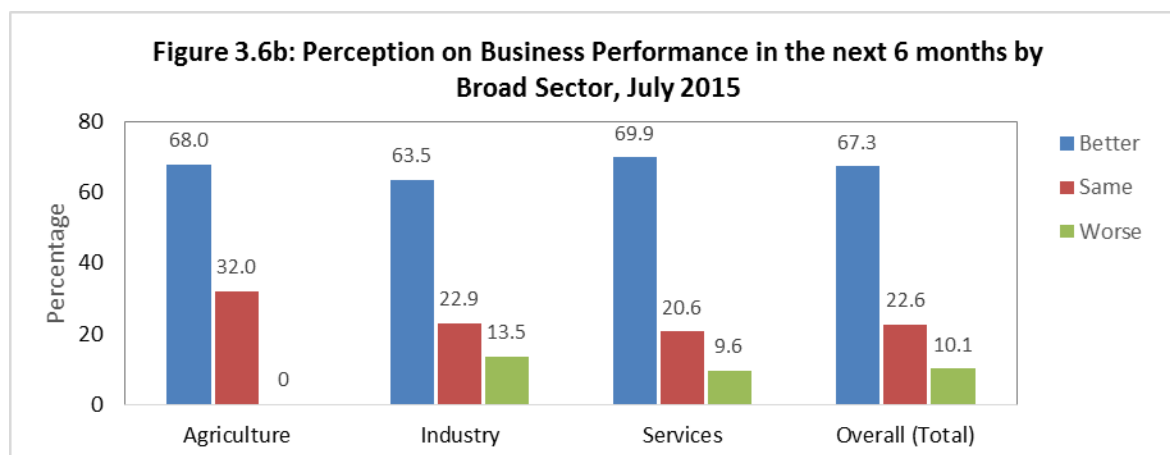
*Businesses were optimistic about their performance in the next six months. The financial sector more optimistic about better performance compared to the non-financial sector.*

Generally, businesses were optimistic about their future performance (figure 3.6a). An overall majority, 67.3% of businesses predicted better performance in the next six months (July - December 2015). Only 10.1% indicated their performance could worsen in the next six months. The optimism of better future performance was higher among financial sector businesses. About 80% of financial sector businesses predicted better business performance compared to 63% of non-financial sector businesses.



Source: IEA Survey, 2015

In broad sector terms, figure 3.6b shows that 69.9%, 63.5% and 68.0% of businesses in the services, industry and agriculture respectively have a better outlook in the coming six months (see figure 3.6b). The proportion of companies who were pessimistic about their future performance increased from 5.6% in November 2014, to 10.1% in July 2015 (about 80.4% increase) with an increased proportion of the non-financial sector companies being more pessimistic (162% increase) (figure 3.6a).



Source: IEA Survey, 2015

### 3.6.3 Reasons for Optimism in Business Performance

*Optimism based on expected increase in orders, increase in demand for goods and services and an end to the energy crisis*

Table 3.7 below shows that the main drivers for the optimism are: increased orders, general increase in demand for goods/services and an end to the energy crisis. A greater proportion of businesses (78.6%) expressed their confidence that the business environment will improve in the next six months due to expected increase in orders and another 75.3% believed that there would be an increase in demand for goods and services in the coming months.

Additionally, a little over half of the respondents believed that there would be an end to the energy crisis (53.2%) and 48.8% thought that there will be an improvement in infrastructure.

**Table 3.7: Drivers of optimism about business performance**

Expecting	Yes	No
Increased orders	78.6	21.4
General increase in demand for goods and services	75.3	24.7
End to Energy Crisis	53.2	46.8
Improved infrastructure	48.8	51.2
Better Govt./IMF Programmes	41.2	58.8
Decrease in cost of production	37.6	62.4

Source: IEA Survey, 2015

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### 3.6.4 Reasons for Pessimism in Business Performance

*Pessimism based on increase in cost of production, worsening energy crisis and pursuance of bad Government/IMF programmes*

Of the enterprises which were pessimistic about the performance of their business in the next six months, 91.9% expected the cost of production to increase while 83.8% expected the energy crisis to worsen. Again 56.8% felt that policy makers will continue with the “bad Government/IMF programmes” (table 3.8).

**Table 3.8: Drivers of pessimism about business performance**

Expecting	Yes	No
An increase in cost of production	91.9	8.1
A worsening Energy Crisis	83.8	16.2
Bad Govt./IMF programmes	56.8	43.2
Decreased orders	44.4	55.6
General decrease in demand for goods and services	44.4	55.6
Worsening state of infrastructure	30.6	69.4

*Source: IEA Survey, 2015*

Undeniably, the aspirations and concerns of businesses are well founded and need to be looked at critically by policy makers. For only prudent measures targeted at ending the energy crisis, lowering the inflation rates, reducing cost of borrowing and stabilizing the exchange rates, will build business confidence and spur businesses to expand and absorb more labour.

*Half of the businesses interviewed expect improvement in the Business Environment in the next six months*

As indicated in Table 3.9, 51% of the respondents were confident that the business environment will improve in the next six months (July-December 2015). Close to 30% of the respondents did not believe there will be substantial improvement in the business environment while a fifth estimated that the business environment will grow worse over the next six months.

However, there were no major differences between the financial and non-financial sectors. Slightly over 50% of firms in both the financial and non-financial sectors were optimistic of the future business environment.

**Table 3.9: Expectation of Business Environment in the next 6 months**

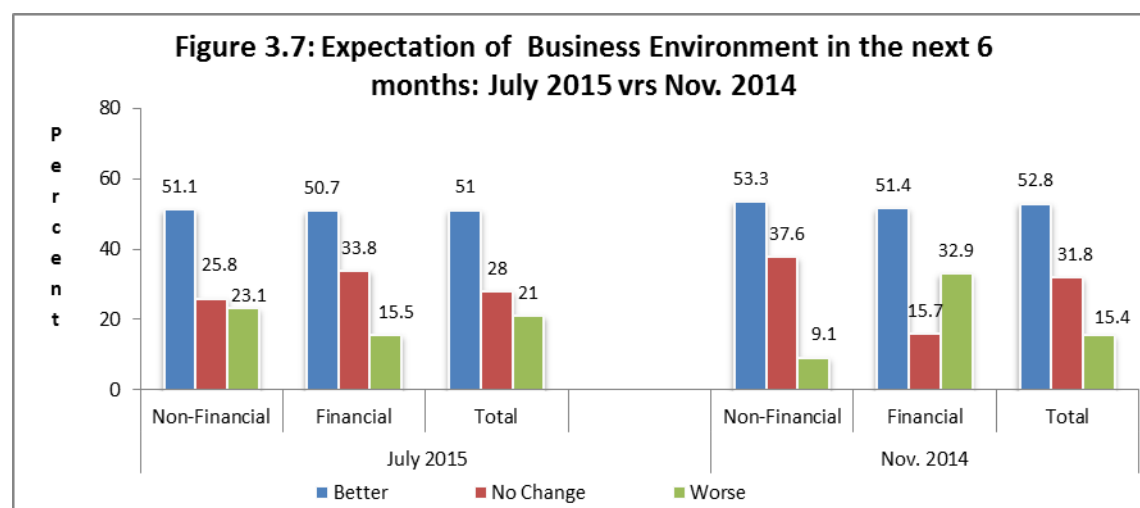
Sector	July 2015		
	Better	No Change	Worse
<b>Non-Financial</b>	51.1	25.8	23.1
<b>Financial</b>	50.7	33.8	15.5
<b>Total</b>	<b>51.0</b>	<b>28.0</b>	<b>21.0</b>

Source: IEA Survey, 2015

Comparison with the situation in November 2014 shows that:

- *The expectation of a better business environment declined from 53% in November 2014 to 51% in July 2015.*
- *The decline in business environment affected the non-financial sector more than the financial sector.*

A proportion of businesses in the financial sector which in November 2014 was pessimistic and felt the business environment would worsen, fell from 33% to 15.5% in July 2015 while that of the non-financial sector rose from 9.1% in November 2014 to 23.1% in July 2015 (figure 3.7).



Source: IEA Survey, 2015

## 3.7 Ghana's Economic Performance

### 3.7.1. Overall Economic Performance in the past six months

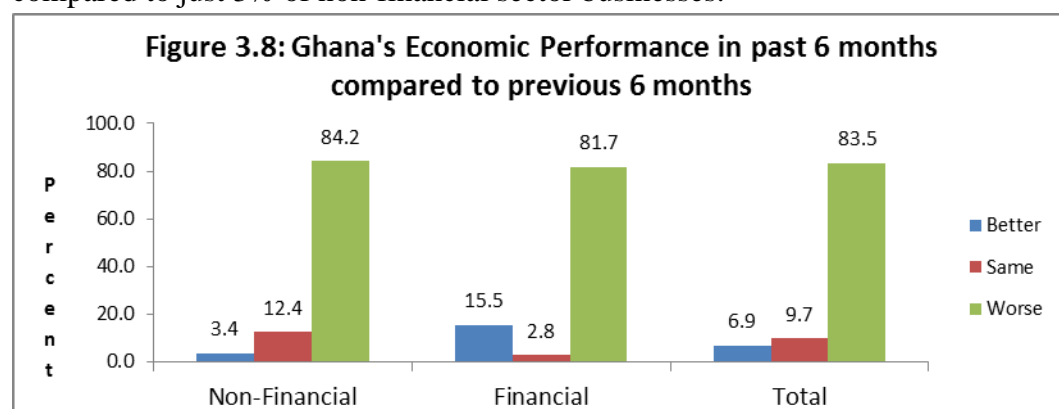
*Ghana's economic performance had worsened. The non-financial sector bare most of the brunt of the poor performance.*

The views of businesses on Ghana's economic performance over the past six months (January – June 2015) compared to the previous six months (July-December 2014) were solicited. Almost



84% of the respondents indicated that Ghana's economic performance had worsened in the first six months of 2015 compared to the past six months of 2014. Just about 10% of all businesses indicated that the performance had stayed the same while only 7% thought Ghana's economy performed better (figure 3.8).

However, 15.5% of the financial sector businesses said Ghana's economy performed better compared to just 3% of non-financial sector businesses.



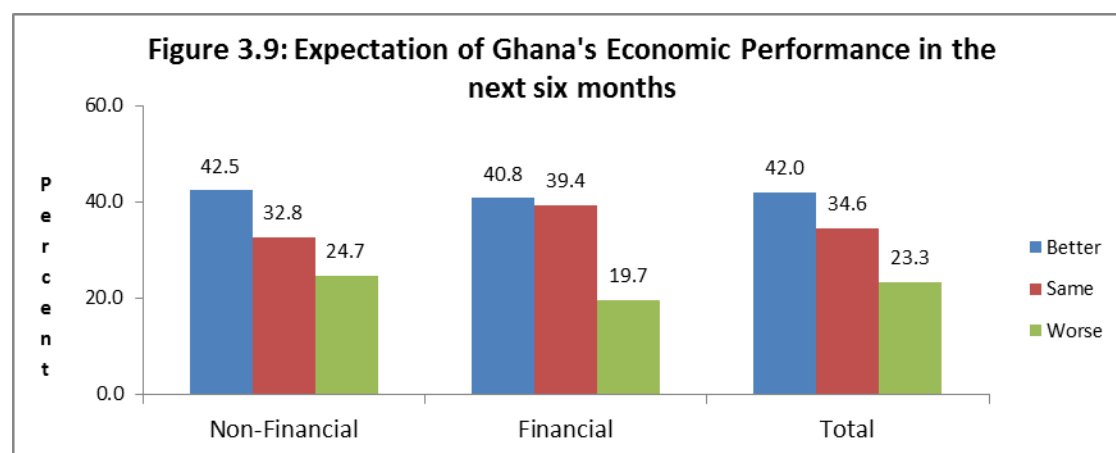
Source: IEA Survey, 2015

### 3.7.2. Economic Outlook in the next six months

*Forty-two percent of businesses expected upturn in Ghana's economy in next six months*

Overall results show that 42% of the businesses were optimistic that Ghana's economy will perform better in the next six months (July –December 2015). This view is shared by both the non-financial (42.5%) and financial sectors (40.8%). However, a quarter of all businesses interviewed expected the economy to worsen in the next six months (figure 3.9).

The upturn will of course be dependent on the condition that the macroeconomic indicators identified move in the right direction.



Source: IEA Survey, 2015

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## 3.8 Constraints to Doing Business in Ghana

### 3.8.1 Major Constraints to Business Growth

***Exchange Rate Volatility, Unreliable Electricity Supply, Taxes, Cost of Raw Materials and Cost of Credit are the Predominant Constraints to Business in Ghana.***

In order to accurately assess the needs of businesses and to prescribe policies that will sustain as well as boost business confidence and encourage them to invest more, the survey asked respondents about constraints to their operations and production.

The results captured in figure 3.10 identify the following top five challenges that hinder the growth of businesses in Ghana: exchange rate volatility (91%), electric power supply (89.9%), taxes (75.6%), cost of raw materials (73%) and cost of credit (72.9%). This may account for the poorer performance of the non-financial sector as these variables impact directly more on industry.

In recent times, the Ghana Cedi has experienced substantial depreciation against major currencies—the US Dollar, Pound and the Euro—since the second and third quarters of 2014 through 2015. This has, indeed, significantly affected many businesses, especially, the industrial sector, which depends heavily on imported raw materials.

For instance, the reliability of electric power supply is very important if businesses are to thrive. Having an uninterrupted supply of electricity is particularly important to industry. In most cases, businesses were compelled to procure electric generators. Not only were generators expensive but the cost of maintaining them was also prohibitive, increasing their cost of production and cost of doing business, thereby significantly affecting their profit levels. In addition, many firms were not able to meet their deadlines as a result of the erratic power supply. Consequently, productivity and efficiency of these firms were compromised.

Respondents also cited taxes and government charges as constraints on the growth of their businesses. For example, in recent times, businesses raised serious concerns about the introduction of the 17.5% VAT on financial transactions. A 5% Fiscal Stability Levy is also still in place for selected businesses. During the stakeholders meeting, participants from the manufacturing and trading sectors stated categorically that high taxes including withholding tax (which was increased from 5% to 7.5%) and tax stamp had very dire consequences for their businesses.

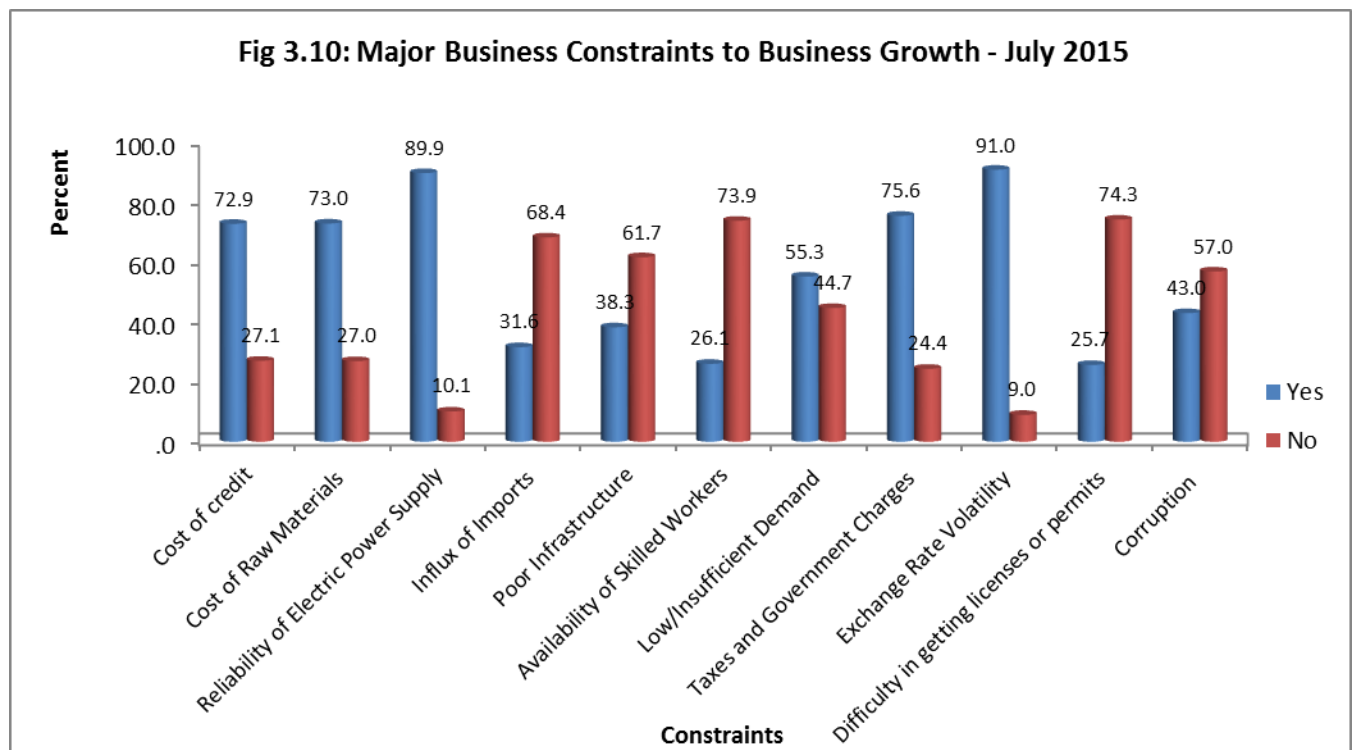
The cost of credit continues to be a major challenge facing the growth of businesses in the country. The IEA's work on the cost of credit, the AGI surveys and Global Competitive Index all indicate that the cost of credit is a major constraint to doing business in Ghana and this reduces the country's competitiveness.

*The least constraints are acquiring licenses/permits and obtaining skilled workers. Firms, especially those in manufacturing, require highly skilled labour and not subpar university or polytechnic graduates.*

However, it appears that some of the most commonly identified constraints on the growth of business in Ghana do not seem to be important constraints in the study. The results show that 73.9% of the firms indicated that the availability of skilled labour was not a major constraint. Thus there is enough skilled labour to employ (figure 3.10).

Businesses also did not consider difficulties in obtaining licenses or permits a major constraint. Seventy-four percent (74%) of firms interviewed said they had no difficulty obtaining licenses. This may be due in part to the fact that our sample consists of well-established firms. It may also be due in part to the extensive reforms that Ghana has undertaken in the areas of regulations and processes for obtaining permits and licenses. The World Bank Cost of Doing Business reports rank Ghana highly in terms of the extent of reforms in the regulatory environment and the cost of doing business.

In addition, competition from imports is not regarded as a major constraint by businesses (68.4%). Finally, 57% of enterprises affirmed that corruption is not a major constraint to them.



Source: IEA Survey, 2015

### 3.8.2 Comparison of major constraints: July 2015 and November 2014

*Cost of raw materials, cost of credit, insufficient demand, taxes and exchange rate volatility all worsened between the two surveys.*

Exchange rate volatility overtook electric power supply as the main challenge to business in 2015 compared to 2014. In absolute terms, the percentage of businesses which reported in November 2014 that exchange rate volatility, taxes/government charges, cost of raw materials and cost of credit hampered their activities in November 2014 increased from 85.9% to 91%; 70% to 75.6%; 58.6% to 73% and 60% to 72% respectively in July 2015 (table 3.10). In relative terms, however, the proportion of businesses which reported constraints regarding the cost of raw materials, cost of credit, low demand, taxes and exchange rate volatility worsened by 24.6%, 21.5%, 15.7%, 8% and 6% respectively by July 2015 compared to November 2014. Despite the fact that electricity remained a major constraint in 2015, its effect on business improved slightly by 6%.

Conversely, the proportion of businesses which reported in November 2014 that availability of skilled workers constituted a major constraint declined from 33% to 26.1% in July 2015 (an improvement of 20.9%).

**Table 3.10: Comparison of major constraints: 2015 and 2014**

Major Constraints	2015-July	2014-Nov	% Change
Exchange Rate Volatility	91.0	85.9	5.9
Reliability of Electric Power Supply	89.9	95.6	-6.0
Taxes and Government Charges	75.6	70.0	8.0
Cost of Raw Materials	73.0	58.6	24.6
Cost of Credit	72.9	60.0	21.5
Low/Insufficient Demand	55.3	47.8	15.7
Poor Infrastructure	38.3	47.0	-18.5
Influx of Imports	31.6	36.9	-14.4
Availability of Skilled Workers	26.1	33.0	-20.9
Difficulty in getting licenses or permits	25.7	26.1	-1.5

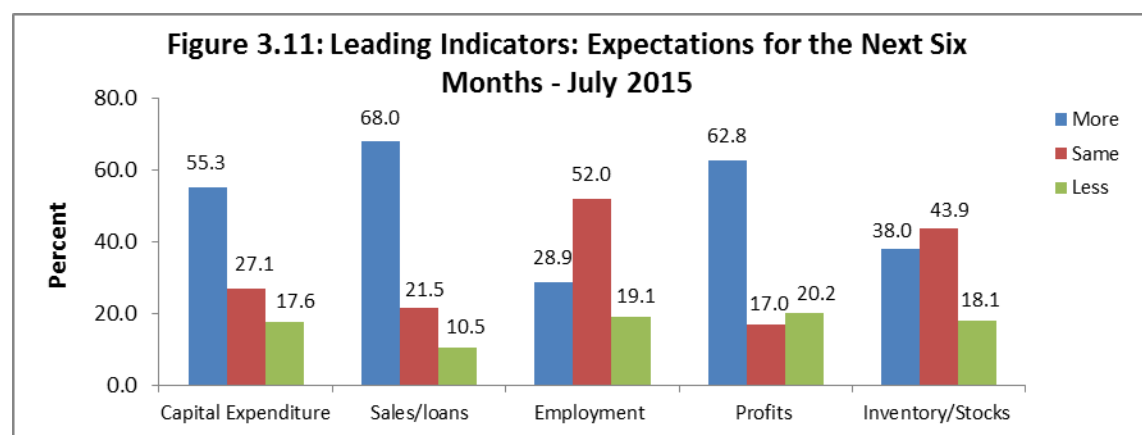
*Source: IEA Survey, 2015*

## 3.9 Leading Indicators

### 3.9.1. Leading Indicators for the next 6 months

Leading indicators forecast the upturn or downturn in the economy. Leading indicators are factors that signal the future direction or health of the economy. They include capital expenditure, sales, profits, employment as well as stocks/inventories. Companies' expectations with regards to these indicators in future periods are helpful in assessing how confident businesses are about their future performance as well as that of the economy as a whole. This

section discusses the business outlook as perceived by the key players in the next six months. Figure 3.11 depicts the overall business expectations for the leading indicators.



Source: IEA Survey, 2015

*Sales/loans, profits and capital expenditure expected to go up by more than 55% while employment and inventory/stocks are projected to increase by a maximum of 38%.*

Businesses' forecasts on sales for the next six months were quite optimistic as 68% of the respondents anticipated higher sales than recorded previously. Just about 10% of respondents indicated that they were expecting fewer sales in the next six months. A fifth of respondents expected sales to be the same. Close to 79% of financial sector businesses expected sales to increase compared to 64% from the non-financial sector. In addition, 13% of the non-financial companies expected sales to decrease compared to only 4% of the financial sector companies (table 3.11).

**Table 3.11: Forecasts about sales in the next six months by sector**

Sector	July 2015		
	More	Same	Less
<b>Non-Financial</b>	63.8	23.2	13.0
<b>Financial</b>	78.9	16.9	4.2
<b>Total</b>	<b>68.0</b>	<b>21.5</b>	<b>10.5</b>

Source: IEA Survey, 2015

Forecasts on profits for the next six months showed a similar pattern as 62.8% of businesses interviewed showed optimism in their level of profits for the next six months whereas about 17% of all businesses interviewed stated that there would be no changes in their level of profits in the next six months (table 3.12). Only about 20.2% of the businesses in the sample were pessimistic, indicating that their profit levels were likely to reduce in the next six months.

An interesting result, however, emerges when responses are disaggregated into financial and non-financial firms. Whereas 90% of the financial businesses predicted higher profits, only 52% of the non-financial sector businesses forecasted higher profits. Also, about 28% of firms from the non-financial sector compared with 1.4% from the financial sector estimated that the profit levels will fall in the next six months (table 3.12).

**Table 3.12: Forecasts about profits in the next six months by sector**

Sector	July 2015		
	More	Same	Less
<b>Non-Financial</b>	51.7	20.5	27.8
<b>Financial</b>	90.1	8.5	1.4
<b>Total</b>	<b>62.8</b>	<b>17.0</b>	<b>20.2</b>

*Source: IEA Survey, 2015*

### Capital Expenditure

With respect to capital expenditure, 55.3% of the respondents stated that their capital expenditure in the next six months will be much higher than what was undertaken in the past. This implies that the level of investment by companies is likely to increase and it shows a positive outlook for businesses as they will usually only undertake such expenditure when they anticipate favourable returns. However, the expected upturn is much higher in the financial sector (70%) than the non-financial sector (49.5%) (table 3.13).

**Table 3.13: Forecasts about Capital Expenditures in the next six (6) months**

Sector	July 2015		
	More	Same	Less
<b>Non-Financial</b>	49.5	30.4	20.1
<b>Financial</b>	70.4	18.3	11.3
<b>Total</b>	<b>55.3</b>	<b>27.1</b>	<b>17.6</b>

*Source: IEA Survey, 2015*

### Employment

The outlook for employment in the next six months, on the other hand, is not very promising. More than half (52%) of the businesses expected employment to remain the same while 28.9% of them expected employment to increase. However, about a fifth of respondents expected employment to go down. This implies that net employment will not exceed 10%. In fact, expected reduction in employment will affect about a quarter of businesses in the non-financial sector compared to just 7% in the financial sector (table 3.14).

**Table 3.14: Forecasts about Employment in the next six (6) months**

Sector	More	Same	Less
Non-Financial	28.1	48.1	23.8
Financial	31.0	62.0	7.0
<b>Total</b>	<b>28.9</b>	<b>52.0</b>	<b>19.1</b>

Source: IEA Survey, 2015

### Inventory/stocks

In the overall sample, about 38% of all businesses projected higher stocks or inventory while 44% and 18% of the respondents predicted no changes and lower stocks/inventory respectively. Predictably, the reduction in inventory/stocks is likely to affect 23% of the non-financial sector while none of the financial sector businesses interviewed expected a loss in inventory/stocks (table 3.15).

**Table 3.15: Forecasts about Inventory/stocks in the next six (6) months**

Sector	July 2015		
	More	Same	Less
Non-Financial	39.4	37.7	22.9
Financial	32.6	67.4	0.0
<b>Total</b>	<b>38.0</b>	<b>43.9</b>	<b>18.1</b>

Source: IEA Survey, 2015

## 3.9.2. Trends in Leading Indicators

- *Sales and profits projected to increase over the November 2014 levels.*
- *Capital expenditure, employment, and inventory/stocks expected to fall from the November 2014 levels.*

Table 3.16 compares the results of July 2015 survey with those of the November 2014 survey. The proportion of businesses which expected sales to increase rose 5 percentage points from 63.6% in November 2014 to 68% in July 2015. Similarly, the proportion of businesses which expected profits to go up increased tremendously from 37% in November 2014 to 63% in July 2015.

### Employment and Inventory

In like manner, fewer businesses in July 2015 compared to November 2014 expected both employment and inventory/stocks to increase. Whereas in November 2014, more than half of businesses interviewed expected employment (50%) and inventory/stocks (52%) to increase, the proportions dropped to 28.9% and 38% respectively in July 2015.

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**Table 3.16: Trends in Leading Indicators: July 2015 and November 2014**

Indicator	2015-Jul			2014-Nov		
	More	Same	Less	More	Same	Less
Sales (goods and services, loans, insurance premiums)	68.0	21.5	10.5	63.6	21.3	15.1
Profits	62.8	17.0	20.2	37.4	43.1	19.5
Capital Expenditure	55.3	27.1	17.6	61.1	23.7	15.3
Inventory/Stocks	38.0	43.9	18.1	52.3	38.3	9.4
Employment	28.9	52.0	19.1	50.4	27.3	22.3

*Source: IEA Survey, 2015*



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## 4. CONCLUSION AND POLICY IMPLICATIONS

### Summary of Results

#### 1) Nature of Business

Exporting businesses exported less in the survey period than the previous six months. The forecast of exports is likely to fall in the next six months. On the other hand, businesses imported less in the past six months (January-June, 2015) than the previous six months (July-December 2014). Imports were projected to increase in the next six months (figure 3.2).

#### 2) Performance of Businesses

Forty-five (45) percent of businesses reported of improved business performance in the first half of 2015 (January-June 2015) while 34.9 % of them reported of worsened performance (figure 3.3). The financial sector performed better (63.4%) than the non-financial sector businesses (38.1%). However, the big edge of the financial sector over the non-financial sector whittled down by 20 percentage points between November 2014 and July 2015 due mainly to increase in bad debts. It is also worth emphasising that 50% of businesses in the agricultural sector performed worse (table 3.3).

Though about two-thirds of businesses interviewed reported better sales, 62% of them reported decline in profits in the last six months (table 3.4a). The companies which reported worse profit levels were much higher for the non-financial sector (71.4%) compared to the financial sector (40.3%). The worsened profits may be attributable to high interest rates, high cost of raw materials, high cost of credit, high taxes and high exchange rate volatility experienced by the non-financial sector firms which are mostly into the import and export trade as well as the production of goods. Lower profits in the agriculture sector will also discourage investors from going into it.

#### 2) Employment

There was a slight increase in the employment levels (30.7%) by all businesses in the past six months (table 3.5). In terms of outlook for the future, more than half (52%) of all businesses intended to maintain the same level of staff. This is not good for the country considering that unemployment, particularly, among the youth and graduates, is high (table 3.6).

#### 3) Overall Business Environment/Macroeconomic Environment

From the last half of 2014 to the first half of 2015, the Ghanaian economy experienced a lot of instability resulting from inflation, depreciating currency and high cost of credit. About 96.8% of businesses indicated that the current changes in the price of goods and services were either very rapid or rapid. Ninety-eight (98) percent of businesses thought that the currency depreciation was either too fast or fast while 92% of the firms expected the cost of credit to go up.

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Eighty-four (84) percent of businesses were of the view that Ghana's economic performance worsened in the last six months (Jan-June 2015) compared to the previous six months (figure 3.8). The non-financial sector bore most of the brunt of the poor performance compared to the financial sector. A quarter of the companies expected the economy to worsen in the next six months (figure 3.9).

Consequently, businesses reported a deterioration in the business environment in the last six months. The decline was greater in the financial sector (41.4% to 57.7%) compared to the non-financial sector (56% to 58.1%) between November 2014 and July 2015.

The deterioration could be attributed to adverse macroeconomic conditions such as: high inflation, currency instability, high cost of credit, high taxes/government charges, high cost of raw materials and erratic electric power supply.

#### **4) Future Expectation**

In spite of the constraints confronting businesses, 67.3% of the companies predicted better performance in the next six months (figure 3.6a). Only 10.1% indicated that their performance could worsen in the next six months. More financial sector businesses (78.9%) reported of better performance in the last six months compared to the non-financial sector (62.9%). However, the proportion of companies which were pessimistic about their future performance increased from 5.6% in November 2014 to 10.1% in July 2015.

#### **5) Constraints to Doing Business**

The top five challenges that hindered the growth of businesses in Ghana are: (i) exchange rate volatility (91%); (ii) electric power supply (89.9%); (iii) taxes (75.6%); (iv) cost of raw materials (73%); and (v) cost of credit (72.9%). The least constraints were getting licenses/permits (25.7%) and obtaining skilled workers (26.1%). Indeed, as far as businesses are concerned, corruption is not considered a major constraint (figure 3.10).

#### **6) Leading Indicators**

The results show that sales/loans, profits and capital expenditure were all expected to go up by more than 55% but employment and inventory/stocks were projected to increase not more than 38%. Capital expenditure, employment, and inventory /stocks, on the other hand, were expected to fall from the November 2014 levels.

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## Policy Recommendations

The following recommendations are proposed for the attention of policy makers based on the findings of the survey:

- 1) Most businesses are apprehensive about the business environment. They are of the view that the cost of production is prohibitive and the issue of “bad government/IMF programmes” will continue. To stem pessimism and boost business confidence, there is a strong need for the government to critically consider reviewing some taxes such as withholding tax, tax stamp and others downwards and also removing obstacles which delay the payment of duty drawbacks to firms. Moreover, firms should be allowed to carry their unutilised capital allowance forward.
- 2) There is the need to address the high electricity tariffs as a matter of urgency since cheap and reliable power supply facilitates business operation. Government should explore the most efficient and cost effective way of producing electricity for industries and other consumers.
- 3) Government interventions are needed to boost capital expenditure and address the downward trend in the unemployment issue. Though enterprises mentioned that the availability of labour is not a major hindrance to businesses engaging additional hands, a restructuring of the educational system is necessary. These changes must incorporate hands-on training and more technical and practical programmes to ensure that graduates have the requisite skills needed by industry before leaving school. . The government must also assess the labour market to know the supply shortages and the skills needed to fill those gaps.
- 4) Government should put in measures which will help stabilise the currency, reduce the high government taxes (especially on agricultural inputs), lower the high interest rates and high inflation rates (to boost demand). This will make businesses more competitive and encourage them to increase investment and employ more staff. It is believed that improving the business environment will help firms to engage more workers.
- 5) The Ministry of Trade and other focal government Ministries, Departments and Agencies should work closely with the Business Sector Advocacy Challenge (BUSAC) Fund to assist in improving Ghana’s business climate. BUSAC is about to start its third phase after spending over twenty million dollars (USD20 million) over the last ten years to advocate for improvements in Ghana’s environment in which the private sector operates.

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