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Shok I.A.,
Kamyshanchenko E.N.,
Isaan J.

RECOMMENDATIONS ON ENHANCEMENT OF GHANA'S INVESTMENT ATTRACTIVENESS

Shok Irina Ahmedova, *PhD in Technical Sciences*
Belgorod State National Research University; 85 Pobedy St., Belgorod, 308015, Russia
schok@bsu.edu.ru
Kamyshanchenko Elena Nikolaevna, *Doctor of Pedagogics*
Belgorod State National Research University; 85 Pobedy St., Belgorod, 308015, Russia
kamyshanchenko_e @bsu.edu.ru
Isaan Japhar, M*anager for Investments*
Tamale, Ghana
saanjafar388@yahoo.com

Abstract

Ghana is endowed with natural resources and has a huge domestic market and a fast growing economy in Sub-Saharan Africa. There is every reason to believe that with updated and enforced reforms that improve institutions and economic policies, Ghana will serve as conducive climate to welcome foreign direct investment decisions. However, political instability, corruption, and several other elements make Ghana a far less attractive destination for direct foreign investment

Keywords: investment attractiveness; foreign investments; foreign direct investment; FDI; Sub-Saharan Africa; policy instability; intellectual property; corruption; regional integration; economy diversification.

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Шок И. А.,
Камышанченко Е.Н.,
Исаан Д.

РЕКОМЕНДАЦИИ ПО ПОВЫШЕНИЮ ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ ГАНЫ

Шок Ирина Ахмедовна, *кандидат технических наук*
Белгородский государственный национальный исследовательский университет
ул. Победы, 85, 308015, г. Белгород, Россия
schok@bsu.edu.ru
Камышанченко Елена Николаевна, *доктор педагогических наук*
Белгородский государственный национальный исследовательский университет
ул. Победы, 85, 308015, г.Белгород, Россия
kamyshanchenko_e @bsu.edu.ru
Исаан Джафар, *менеджер по инвестициям*
Тамале, Гана
jafar388@yahoo.com

Аннотация

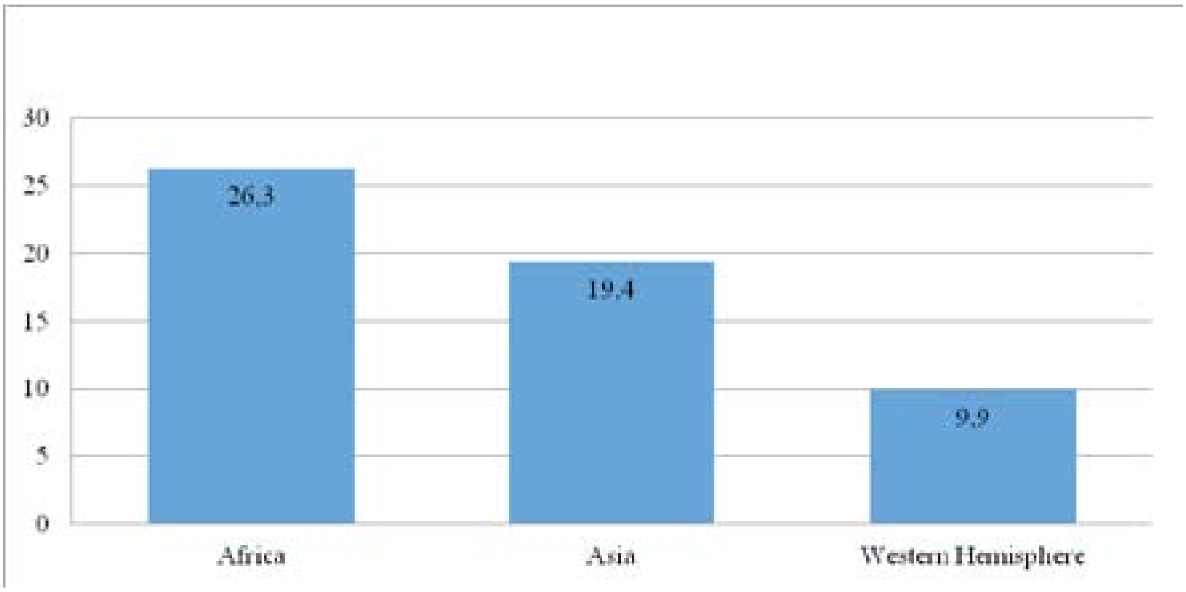
Гана наделена природными ресурсами и имеет огромный внутренний рынок и быстрый рост экономики среди стран Африки к югу от Сахары. Существует все основания полагать, что при введении новых реформ по улучшению государственных институтов и экономической политики, в Гане появится благоприятный климат для прямых иностранных инвестиций. Тем не менее, политическая нестабильность, коррупция, и ряд других элементов делают Гану непривлекательной для иностранных инвестиций.

Ключевые слова: инвестиционная привлекательность, иностранные инвестиции, прямые иностранные инвестиции, страны Африки к югу от Сахары, политическая нестабильность, интеллектуальная собственность, коррупция, региональная интеграция, диверсификация экономики.

INTRODUCTION. Foreign investors regard Sub-Saharan Africa, which Ghana is a subset, as a high risk investment destination. Despite credible investment opportunities in Ghana, foreign investors are reluctant to invest in Ghana due to the high degree of uncertainty in the region, which exposes firms to potential risks [1]. In addition, political risks, ethnic and religious conflicts that materialized in neighboring countries are contagious due to the interdependence of regional economy. As a result, the interdependence of Sub-Saharan African economies affects investors' assessment of risk in Ghana. It is therefore not surprising that FDI (foreign direct investments) in the region have not been as successful as expected. For instance, in Nigeria, the issue of Boko Haram which is religiously connected has fueled the political instability in the region. The tensions which cropped up between Ghana and Ivory Coast led to the closing of the border in September 2012 will continue to undermine the security situation in the area. Because of information imperfection, foreign investors associate the occurrence of risk in one country with the likelihood of similar risks in Ghana.

The purpose of the work: This paper has explained some problematic factors of doing business in Ghana.

MAIN PART. As recorded in the literature, statistical discrimination has prepared the platform for foreign investors who want to invest in Ghana unable to differentiate between countries which have been affected by these risks. This implies that an increase in political instability in one Sub-Saharan African country will diminish the inflow of FDI to that country and others in the region. In a recent study, Rogoff and Reinhart (2003) study regional susceptibility to war indices for the period 1960-2001. They found that African countries are more prone to war than other regions. The regional susceptibility to war index is 26.3% for Africa compared to 19.4% and 9.9% for Asia and the Western Hemisphere respectively. The study also showed that there is a statistically significant negative correlation between FDI and conflicts in Africa (Fig.1).



Source: [1]

Fig. 1. Correlation between FDI and conflicts

Рис.1. Соотношение иностранных прямых инвестиций и конфликтов

Globalization has led to an increase in competition for FDI among economies thereby making it even more difficult for Ghana to attract new investment flows. Relative to other regions of the world, Sub-Sahara Africa is regarded as a low-income, high-risk as well as weak area. As result of these elements, foreign investors are indisposed to make new investments in Ghana. However, internally, African countries in particular have pursued various forms of economic reforms and liberalization of investment regimes in order to become more competitive in attracting FDI from foreign market. According to the Doing Business Report 2014, Rwanda, Burundi and Cote d'Ivoire are among African countries that have implemented a lot of effective reforms to regulate business activities. The report added that for past 9 years the pace of reform in Africa is three times as fast as the pace in advanced economies. Ghana suffered from all the indicators with the exception of getting electricity and paying taxes. The implication for the drop means that Ghana has weak regulatory and outmoded reforms to create the environment needed to attract foreign investors' decision in the country (Tab.1).

Table 1

Doing Business (Source: Doing Business Report 2014)

Таблица 1

Ведение бизнеса (Источник: Доклад о Ведении бизнеса за 2014 г.)

Indicator	Ghana	Burundi	Rwanda	Cote d'voire	Sub-Saharan Africa
Procedures (Numbers)	8	3	2	5	8
Time(days)	14	5	2	8	29.7
Cost(% of income per capita)	15.7	17.5	4.4	44.4	67.4
Paid-in Min (% of income per capita)	3.7	0	0	164.4	125.7

The strengthening of competition among Sub-Saharan Africa due to globalization has made an already bad situation worse. It must be pointed out that the intense competition resulting from FDI puts Ghana at a disadvantage in that it has failed to expand economic reforms needed to increase competitiveness and create a supportive environment for foreign investment. Although there have been reforms to attract FDI, flexible and updated business regulatory reforms need to be adapted to serve the changing external environment.

Ghana depends on mainly of primary commodities for export in the foreign exchange market. The prices of these commodities are volatile which are highly vulnerable to terms of trade shocks, resulting in high country risk thereby discouraging foreign investment. Recently attention has shifted from the natural endowments of resources and labor to acquired endowments of resources, such as the availability of intermediate goods and skilled labor. The availability of strategic assets, such technological and innovative assets e.g. brand names, has also become an important determinant in the location decisions of foreign investor.

Policy instability makes it difficult to tell what specific aspects of policies are promoted and implemented in Ghana. According to Global Competitiveness Index 2013-2014 report, policy instability scored the 9th position of the most problematic factors of doing business. This is due in part to the high frequency change in government and lack of transparency in macroeconomic policy. It will interest you to know that most governments propagate policies of their party when in power whilst relegating national policies that will promote attractiveness of FDI in Ghana. Policy instability breeds climate unpredictability which curtails foreign investors' confidence in Ghana thereby reducing FDI inflows. The lack of transparency in macroeconomic policy is of concern because it increases transaction costs thereby reducing the motivations to invest in Ghana for foreign investors. Regulatory policies are not only about drafting and implementation but also update and enforcement are needed to administer the rising need of foreign investors. Policies should be established in an open and transparent fashion to provide healthy climate for foreign direct investment inflows.

Corruption is one of the ingredients that hinder the enhancement of foreign direct investment in Ghana.

Corruption may take many forms including practices such as bribery, fraud, extortion and embezzlement. However, corruption with respect to FDI and international trade usually takes the form of bribery (bribes paid to and extorted by government officers) that is "a transaction that provides the parties involved with undue payment (interpreted widely to include any property having financial and non-financial value) or other benefit or advantage" UNCTAD (2001) police.

Corruption is not only a serious obstacle to investment, however it hamper social improvement such as education and health since it diverts funds away from development. When there is low development, corruption and low transparency are found to hinder FDI inflows Voyer and Beamish (2004) endorsed. Bribery, fraud and extortion are materials that discourage economic growth [2].

Bureaucracy, red tape and lack of transparency prepare the platform that generate unhealthy business environment in Ghana for foreign investors to invest. Global Competitiveness Report 2013-2014 endorsed this by ranking the inefficiency of government bureaucracy on the 4th position out of 16 factors among the most problematic elements for doing business. Burdensome administrative rules, as well as excessive requirement for licenses, approvals, and paperwork, all delay business activities in Ghana. In Ghana, for example, Ghana Cement Company Limited has monopolized cement manufacturing for more than four decades [3].

Excessive bureaucracy is usually associated with inefficient institutions, suggesting that legal and political systems are not open and public accountability is limited.

Foreign investors encounter difficulties where bribery, kickbacks and extortions are in the limelight. Also, where anti-corruption laws are ineffective, especially in the public sector, foreign investors are tempted to offer bribes to secure the successful establishment of their businesses.

Intellectual property protection is a major concern in developing economies especially vital is Ghana. Even if the law of intellectual property protection exists in Ghana, however its enforcement by the right institution is limited. For instance, in Ghana enforcement of unauthorized use, reproduction of products such as pharmaceutical products, food beverages, as well as videos, books, computer software has not received a lot of encouragements. Piracy of assets results in the production of fake products to consumers and replicates the original product of the innovator as well which result in decline in sale and fall in profitability. However, even when such violators of properties are apprehended they go with impunity. The Ghana Food and Drugs Board as well as other institutions have made several attempts to curb the infringement of property but have not received the necessary resources and most importantly delay in the court procedures that hinder enforcement. Piracy of intellectual property is common in Sub-Saharan Africa which Ghana should not be ignored. Foreign investors will spurn their decision to invest in a country with an unprotected intellectual property [4].

Strengthening of Financial Infrastructure is a factor investors consider vital when embarking on investment decisions. Inefficient financial systems have been a major constraint to investment in Sub-Sub-Saharan Africa which Ghana is a subset. For effective financial policy building, Ghana must therefore pay a great deal of attention to the development and sustenance of a sound and credible financial system. Global Competitiveness Report of 2013-2014 established that Ghana's financial market development ranked 106th out of 148 compare to 59th position out of 144 in 2012-2013 report. The weaken of financial market in Ghana will deter foreign investors from investing in the country.

CONCLUSIONS. Ghana needs to improve policy stability to attract foreign investment. The policy stability will maintain an existing domestic investors, foreign investors as well as attracting potential investors. The environment must be predictable and facilitative while the protective legal instruments must be enforceable by way of a free and fair judicial system to ensure sustainable investment. Transparent domestic policies contribute to attracting foreign investors' decision. In addition, appropriate macroeconomic policy stability frameworks, which support national interest in terms of attracting FDI into Ghana, should be supported by updated and enforcement of reforms. Thus, Implementation of policies and reforms that supports macroeconomic policy stability in Ghana is vital for the emergence of investors responsive to domestic environment [5].

Diversification of the economy is paramount to curtail shock for countries that trade in primary commodities for export. Ghana relies on export of primary commodities for foreign exchange earnings. This exposes the business climate of Ghana to significant terms of trade shocks. However, diversification of the economy will enable Ghana to cushion the effects of these shocks and reduce country risk. The reduction of risk through diversification in Ghana will increase the attractiveness of the economy to foreign investors in the secondary and tertiary sectors [6].

The Sub-Saharan Africa needs regional integration to develop its market and attract foreign investment. A well-designed and effectively implemented regional integration process can help address the stigma of "imperfect communication" and political instability.

Integration is vital tool for the development of regional stability and management of regional public goods and services, and to support other developmental programs such as commonly shared infrastructure and environmental protection. The constructive role played by the African Union(AU) and the Economic Community of West African States (ECOWAS) in ending the conflicts in Liberia and Sierra Leone is worthy of emulation Economic Commission for Africa (2004). Regional integration through the formation of regional groupings can also be used to reduce the incidence of domestic policy reversals and improve the credibility of economic policies in the region. The point here is that in an environment in which national governments have a credibility problem, regional groups can provide an external agency of restraint on domestic policies [7].

Compared to investing in stand-alone countries, foreign investors prefer to invest in countries that are part of an economic bloc because industries that they build within the AU or ECOWAS receive preferential treatment for exports to other member countries which Ghana is a key member. Expansion of market size within the ECOWAS give firms within Ghana the opportunity to increase the scale of operations in both production and marketing. This leads to greater concentration and increased efficiency in these activities [8].

Protection of intellectual property rights is a perpetual problem, especially for companies that internationalize through FDI, licensing, and collaborative modes. Intellectual property is often the basis of firms' competitive advantage and long term performance. It is therefore, pertinent for foreign investors that establish their presence in Ghana through these modes are protected [9]. Intellectual property laws should be updated and enforced to secure the long continuity of both existing and potential firms in Ghana. In addition, World Trade Organization (WTO) and Intellectual Property Organization (WIPO) which Ghana is a member have devised strict standards for intellectual property protections. Since patent, trademarks, as well as copyright laws vary substantially around the world, Ghana should enforce such standards to protect foreign investors who are vulnerable to piracy. Particularly inclined are firms in the pharmaceuticals, software, publishing, and music industries.

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