

## **IPPG Programme: Project on Investment Selection in Ghana – Final Report (June 2010)**

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### **1. Introduction**

The research reported here was undertaken as a sub-project within the wider IPPG research programme funded by DFID for the period 2005-2010, and based at Manchester University; see programme website, [www.ippg.org.uk](http://www.ippg.org.uk). This sub-project was based at Heriot-Watt University during 2008-9 (one-year) and it employed one research associate as noted above.

The motivation for the research was the idea that, while investment is widely acknowledged as being a key element in successful processes of sustained economic growth, it is better understood as a necessary but not sufficient condition for growth. What is also important is the efficiency and effectiveness with which investment decisions are carried out, and the background processes that give rise to these decisions – the investment selection process. For around the world there are many examples of countries with quite high rates of gross investment that do not manage to grow particularly rapidly, if at all. And at the more microeconomic level, there are many reported instances of investments that have failed as a result of political and other influences distorting project location and other parameters vital for profitability.

It was therefore decided to carry out a firm-level study of the institutional conditions within which investment took place in selected countries/sectors. Initially, the plan was to study two countries in Africa, but finally the study was narrowed down to two sectors in a single country. The chosen country was Ghana, and the sectors on which the study focussed were: wood processing and timber products; and food processing.

Ghana was a very suitable country for this research as it had stagnated economically for some decades following independence, with living standards hardly any better in 1990 than they had been in 1960. But from the mid-1980s onwards, the rate of investment has gradually risen and overall GDP growth rates have risen too, exceeding 5% per annum in the second half of this decade – with a pause at the end of the decade in response to the world financial/economic crisis. This growth rate is high enough to raise living standards appreciably decade-by-decade, but is well below the best performance achieved in other recently fast growing economies. It therefore seemed interesting to explore how far shortcomings in the investment environment might be constraining the country's performance.

The sectors chosen for study are both sectors with plenty of firms in different regions of the country, supplying both the domestic and export markets. Hence they were judged large enough and diverse enough for this project.

## **2. Activities**

After a period of extensive desk research on the Ghanaian economy and political developments since independence, the core of the research involved three visits to Ghana.

### **(a) Initial visit, March 2009 (PGH and FOF)**

This was an exploratory visit lasting just one week. We met officials in several agencies concerned with investment support in Accra, visited a few firms in or near Accra, and also visited the Parliament to meet some politicians and their advisors. The visit established that our proposed research was feasible and that it would be supported and assisted by the agencies concerned.

### **(b) Policymaker and firm-level interviews in four regions of Ghana, April-July 2009 (FOF)**

The project research associate was in Ghana for two and a half months, interviewing officials and firm managers in four regions of the country, using interview schedules appended as Appendices 1(a), 1(b) below. The Association of Ghana Industries (AGI) provided lists of firms, and we wrote to all firms in our chosen sectors located in the four regions chosen for study. Most firms we approached agreed to be interviewed. During this period, 27 policymaker interviews were conducted, as well as 39 interviews with wood processing firms and 33 interviews with food processing firms.

### **(c) Policy workshop in Accra, November 2009 (PGH and FOF)**

This was held to present our initial findings. The workshop was attended by about 40 people, a mix of academics, managers from some of the firms that we interviewed, officials from agencies, MPs, and two government ministers. Part of the workshop was televised and PGH was interviewed for one of the main daily newspapers and a couple of radio stations.

## **3. Findings**

To date, one paper from the project has been written, following presentations of early drafts at several universities in Scotland. This is now available from the IPPG website at the address:

<http://www.ippg.org.uk/papers/dp46.pdf>

Other papers are in preparation and will appear later. However, from what has been done to date (i.e. as of end-June 2010), a number of interesting findings are worth noting. These are outlined in this section under the following headings: (i) institutions; (ii) standards and quality; (iii) infrastructure; (iv) trade; and (v) wider lessons.

### **(i) *Institutions***

The initial aim of the study was to investigate and explore the institutional barriers to successful manufacturing investment, but this actually proved harder to pin down than we anticipated, for the following reasons. One of the ideas was that local customary chiefs or

village heads, or parts of the kinship network, might influence investment. However, in food processing such influences were scarcely reported at all, while in timber and wood products the issue arose not so much directly in the firms we interviewed, but in relation to their access to locally available good quality timber supplies. Some firms reported difficulties over securing such access, because the forest was controlled by customary chiefs.

Aside from this, however, it proved very difficult to identify any other fundamentally institutional problems. We questioned each firm on issues to do with important aspects of institutional concerns, such as: property rights; facilitation of transactions; and promotion of economically desirable cooperation. We found examples of each of these, as reported in the paper referred to above. But the issues identified were rarely about institutions *per se*, but far more often were about resources, inefficiency, corruption, and other more familiar matters. These are the sorts of issue highlighted by the interviewed firms, and many of the same points were confirmed in the policy-maker interviews. Hence we were unable to conclude that key institutions were missing, but rather that institutions were present but not working as effectively as one would like. An example is noted below.

#### (ii) *Standards and Quality*

The Standards Board and Food Safety Agency were among the official bodies visited for the study. They regulated quality and safety standards in very much the same way that these functions are fulfilled in developed market economies such as the UK. However, while the legal framework within which they operate is largely satisfactory, their effectiveness is clearly impaired by lack of resources and difficulties over recruiting the skilled and technically trained personnel they need. Some firms reported long delays in securing permits for their activities and/or approval for new food products, and while the agencies themselves do have good, dedicated staff, they too reported that they could not operate as well as they would like to. In terms of personnel, the problem was seen in part as one of wages, in that well qualified individuals working in the private sector would expect to be paid much better than public agencies were allowed to pay. In addition, many well qualified Ghanaians left the country to work in countries that could pay them better. This is a difficult issue, affecting many developing countries, and we doubt whether the situation in Ghana is markedly different from elsewhere.

This is a field where the right organisations and procedures have been set up, but where funding and personnel constraints limit their effectiveness.

#### (iii) *Infrastructure*

Among the firms visited in the course of this research, infrastructure shortcomings proved to be the commonest cause of complaint, hindering production and raising costs. Issues cited included a lack of all-weather local roads in many rural areas, making access to market difficult at certain times; unreliable public electricity supply, forcing many firms to install their own generators, usually for emergency use; poor or non-existent public water supply – some firms reported having to pay water charges even when there was no public supply, so they had to dig their own boreholes to be able to function. In addition, many firms reported poor fixed line telephone and/or internet services, though in practice the widespread use of mobile telephony largely solved the telephone part of communications services.

(iv) *Trade*

As a small open economy, Ghana's development naturally depends in large part on successful exporting of minerals, agricultural and forest products, and manufactures. In regard to trade with the EU and other developed regions, few problems were reported by either firms or policy-makers interviewed for this study. However, despite belonging to the ECOWAS free trade area, several firms reported that trade with Ghana's immediate neighbours still faced massive and costly barriers. These included long delays at border crossings; a lack of common documentation to facilitate customs clearance; the retention of tariffs by some countries – in other words, at best only partial implementation of ECOWAS agreements. Delays and high costs at ports were also mentioned – and for some firms these costs were sufficiently high and unpredictable that exporting to neighbours was regarded as uneconomic.

(v) *Wider Lessons*

So what do we learn about institutions and their importance for successful development from this small sub-project? It seems to me that we learn that identifying the key institutions and institutional arrangements – the institutional matrix – is much harder than we thought at the start of the project, and that attempting to do so rarely reveals missing elements. Instead, what tends to emerge is partly a picture of overlapping, duplicated and at times inconsistent institutional features that don't necessarily fit together very well; and partly a picture of institutions and organisational arrangements that are under-resourced, lack well qualified staff, and that may be subject to various forms of inefficiency and corruption.

What also remains unclear, given this situation, is whether we are entitled to argue for sweeping institutional reforms as a pre-condition for getting the investment system to work more efficiently in Ghana; or whether, as the country develops and evolves, demands for institutional reforms and improvements will arise alongside the on going growth of the country. My instinct would strongly favour the second of these two views, though I acknowledge that I lack hard evidence.

**Paul Hare**  
**Edinburgh**  
**July 2010.**

## Appendix

### Interview schedules

#### (a) *Policy-makers*

### **IPPG: Investment selection in Ghana, 2009: Policymakers**

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#### **About the project**

Industrial development, essentially, means starting up lots of new firms and expanding existing ones, operating across many different sectors of production. Hence the quality and effectiveness of the associated investments are vital for successful industrial growth. It is never enough just to invest in new plant, equipment, buildings and so on, for investment must also be economically productive if it is to generate new jobs, earn profits, and contribute to sustainable economic growth. The research question, then, is to examine how investment projects are selected, what objectives they serve, and with what degree of effectiveness they are implemented. In many poor countries, much investment is heavily influenced by patronage and other political factors, often to the detriment of overall productivity. Thus an understanding of the wider institutional setting - including its political, economic and cultural/social aspects - is vital for this research.

#### **Definitions**

*Investment* – Spending by a firm to introduce a new product or productive process, or to expand productive capacity. Typically this takes the form of buildings, vehicles (when not charged as a current expense), equipment, etc. It can also include intellectual property, such as a payment to use a particular brand or a particular productive process.

#### **Research ethics**

These interviews are being conducted in accordance with established principles of research ethics. Specifically, this means that no individual or firm will be identified in any paper or other report using information obtained through the interviews; all information will be used only by the two researchers named above and will not be passed on to any third party, academic or commercial; and the information collected will be held in strict confidence under secure conditions.

On request, anyone assisting the researchers with their data collection may be sent a copy of the main paper resulting from this research.

### **Interview Questionnaires/Schedules for policymakers**

#### ***Government/opposition, substantive/shadow Ministers***

- Has there been help from government in restructuring the industrial sector? Please elaborate.
- Has there been targeted help in rehabilitating particular industries or major industries?
- Why was such action taken or not taken?
- Has there been government intervention to support the expansion, diversification, modernisation and enhancement of the competitiveness of existing viable enterprises?

Can you give numbers or name some examples? What form(s) did such intervention take? Why was this action necessary?

- What measures, if any, are in place to promote the establishment of new industrial capacities? Possible measures could include support for increased investment, or for the development and acquisition of appropriate technologies in the following areas:
  - food and agro-based industries;
  - forest industries (incl. wood and wood products);
  - packaging industries.

### ***Policymaker - Trade***

- What is the government policy framework for trade, i.e. export development and promotion, inter- and intra-sectoral co-ordination in a globalised market, etc.?
- What are the key issues involved in creating a buoyant and self-sustaining export sector, i.e. efficient and effective export and import management practices to secure increased market access for Ghana's exports, especially of processed and semi-processed goods.
- Are there specific problems of market access (either within West Africa or more widely) that call for government attention/ intervention?
- Are there specific problems of product quality that call for government attention/ intervention?
- Are there institutional constraints that limit Ghana's trade (e.g. physical infrastructure such as road or electricity supplies; or institutional infrastructure such as adequate finance, permits and licences, etc.)?

### ***Policymaker - Industry***

- How do government policies help to promote accelerated and sustainable industrial development in Ghana?
- Officially the Government aims to increase the industry share in GDP to 37% (by 2020) from its current level of 16%, with an average industrial growth rate of 12%. Is this a realistic goal, and how far is it being achieved?
- What measures are in place to make Ghanaian manufactured goods competitive in the domestic and international markets? What additional measures are needed?
- How effectively have policies towards the manufacturing, agriculture, education and services sectors been joined up to support industrial advance in Ghana?
- How important is it for the government to ensure that industrial operations are environmentally friendly? How far does current policy succeed in this?
- Are there policies in place to encourage the use of local raw materials in the industry? If so, what are they? If not, do you think there should be such policies?

### ***Institutions working with trade and industry***

- How have you promoted the local indigenous private sector? Give specific examples.
- How have you involved both local and foreign private enterprises in the industrial development of the country?
- How have you enhanced Ghana's international competitiveness in goods and services through standardisation and other means?
- How do you contribute to capacity building in Ghana in such vital areas as: human resource development, technology, infrastructure, etc.?

### ***General questions***

- What are the practical issues involved in ensuring sound economic management for;
  - Accelerated growth?
  - Increased production?
  - Promoting sustainable livelihoods?
  - Providing direct support for human development and basic services?
  - Increasing the capacity of the public sector to deliver the services needed by business?
  - Enabling the private sector to be the leading engine of growth?

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### **(b) *Firms***

#### **IPPG: Investment selection in Ghana, 2009: Firms**

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## Interview Questionnaires/Schedules for management-level staff in firms

### 1. General information about the firm

Name of firm:

Address of firm:

How many branches/sites does the firm have?

Name of contact/interviewee:

What does the firm do?

Number of employees (paid, voluntary, family members):

Ownership type of firm (sole-proprietor, partnership, limited company, public company, other):

### 2. Investment behaviour

How long has the firm operated?

Was substantial capital spending needed to set up the firm? (If so, how was it funded?)

Has the firm, in the past five years, invested in new capacity to *expand production of existing products*, or replaced old capital (this includes investment in new locations)?

*If so*, did this require large capital spending? (specifically, how much was spent?)

How much extra production could the firm then supply?

Was the additional capacity created with the home/domestic/local market or export markets in mind?

Has the firm, in the past five years, invested in new capacity to *begin production of one or more new products* (this includes investment in new locations)?

*If so*, did this require large capital spending? (specifically, how much was spent?)

How much extra production could the firm then supply?

Was the additional capacity created with the home/domestic/local market or export markets in mind?

If no investment was undertaken during the previous five years, why was this? (Was it entirely the firm's decision, or were there 'blockages' external to the firm? In the latter case, explain the nature of these 'blockages'.)

For firms that undertook capital investment, how were their investment projects financed? (own funds, friends and family, banks or other financial institutions, share issue, foreign direct investment, other). Where possible, please specify the funding by source (amounts of percent of total), and the terms of the funding (such as interest rates, period of loan, security required, etc.)

How easy was it to obtain the necessary amount of finance for the investments?

Were the costs of your investments in line with your initial estimates?  
(If costs were higher than expected, how were the additional costs financed?)

How many additional jobs were (a) expected; and (b) actually created as a result of the undertaken investments?

Were the investments judged to be successful, in terms of (a) improving profitability; (b) improving market share in existing markets; (c) gaining access to new markets; (d) in any other way?

If the investments were judged to be unsuccessful, please explain how, and if possible, why (in other words, what went wrong?).

### ***3. Policy and institutional environment relating to investments***

#### *3.1 Factors specific to the firm*

How does the firm take investment decisions?

Who decides?

What guidelines are used to evaluate possible projects?

Where do ideas for investment projects originate?

How often does the firm consider possible new investment projects?

Does the firm experience external influence over its investment decisions? (This could include local government, political parties, kinship organisations, trade associations, etc.)

#### *3.2 More general aspects of the policy/institutional environment*

*(Note: for firms operating in the informal economy, much of what follows will not apply – but then need to ask why the firm chooses to operate outside the formal sector)*

Permits/licenses

How many are needed to undertake and implement an investment project, how long does it take to get them, what does it cost, and how are the costs divided between official fees and unofficial/informal payments (to expedite service)?

Health and safety

What issues/policies in this area are relevant to the firm?

How well are the formal rules in this area implemented?

How far is investment in the firm influenced by health and safety concerns?

Product quality (including health issues for food products)

What issues/policies in this area are relevant to the firm?

How well are the formal rules in this area implemented?

How far is investment in the firm influenced by product quality concerns?

Labour regulation

What issues/policies in this area are relevant to the firm?

How well are the formal rules in this area implemented?

How far is investment in the firm influenced by concerns to do with labour force regulation?

Is there an adequate local supply of workers with the right skill levels?

Business services (IT, accounting and auditing, recruitment, consultancy, marketing, transport services, other)

Does the firm use external business services?

If so, are they of adequate quality to meet the firm's needs?

If they are not of adequate quality, please specify in what ways they fall short of what the firm needs.

Taxation: What do you think of Ghana's tax system as it affects your business?

Are the tax rules facing the firm clear and efficiently administered? (this includes business taxes, sales taxes paid by the firm, other duties and levies). If there are problems, please provide details.

Is there any special tax allowance for investment (either encouraging or discouraging investment)? If so, please provide details.

Is imported equipment for investment projects assisted through the tax system (e.g. duty-free)?

Infrastructure

How would you assess the quality of the infrastructure available to your firm? Is it good enough to enable you to conduct your business efficiently?

Electricity supply

Other energy supplies (gas, oil, wood, coal)

Water power (where applicable)

Water supply (for drinking, for industrial uses)

Telecommunications and IT

Railways

Public transport

Local roads

National roads

Other transport links (e.g. airports, ports, etc.)

If there are deficiencies in the available infrastructure, how do you deal with them?

Does local, regional, national government assist you?

Do the infrastructure companies themselves help you?

Do local/regional/national political organisations help you?

Do you have to make informal/unofficial payments in order to obtain the service quality you need for your business?

Are you expected to make a contribution from your own resources to improve the local infrastructure (i.e. in addition to the normal user fees and charges)? Give details/examples where possible.

Any other issues?

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