Investment Behaviour in a Difficult Institutional Environment*

Paul Hare and Felicia Owusu Fofie[1]

Discussion Paper Series
Number Forty Six
June 2010

IPPG Discussion Papers
available at
www.ippg.org.uk

IPPG Programme Office, IDPM, School of Environment & Development
University of Manchester, Arthur Lewis Building, 2.023, Oxford Road
Manchester M13 9PL; Telephone 0161 306 6438; ippg@manchester.ac.uk
www.ippg.org.uk

* This paper has been written as part of the IPPG Research Programme funded by DFID and based at the University of Manchester. The authors are grateful for the research funding that enabled the research reported here to be carried out, and greatly appreciate the extensive cooperation received both from public agencies in Ghana and from private sector firms. The authors have revised the paper in the light of helpful comments from two anonymous referees, plus detailed commentary by Peter Quartey (ISSER, University of Ghana, Accra); they accept full responsibility for any errors and inaccuracies that may still be present in the paper.

[1] School of Management and Languages, Heriot-Watt University, Edinburgh EH14 4AS, Scotland, UK. Email: (Hare) p.g.hare@hw.ac.uk; (Owusu Fofie) f.owusu@hw.ac.uk

Paper prepared for the DFID-funded Research Programme, Institutions and Pro-Poor Growth (IPPG). The authors are grateful to DFID for the funding that made this research possible. The views expressed in this paper are entirely those of the author and in no way represent either the official policy of DFID or the policy of any other part of the UK Government.

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Abstract

After growing slowly and erratically for some decades after independence, Ghana's economy has performed much better during the past decade or so, helped by political stability and higher rates of investment. However, sustainable growth requires not only high volumes of investment, but efficient and productive investment. Accordingly, the research reported herein concerns a detailed study of investment in Ghana, focussing both on the general policy environment and also on the experience of two specific industries, namely food processing and timber products. Firms in four regions were interviewed, and significant barriers to efficient investment were identified. Formal rules and laws needed for investment were mostly in place, but their implementation needed better resourcing and firms highlighted problems of local political and kinship influences, poor infrastructure and high compliance costs as factors making investment more costly.

JEL Classification: O12, O17

Keywords: Ghana, economic growth, investment, institutions, infrastructure, formal rules, political influence

Investment Behaviour in a Difficult Institutional Environment

1. Introduction

While it cannot be claimed that economists have anything like a full understanding of the factors that enable countries to sustain economic growth over long periods, and hence rise out of poverty to become middle and high income countries, much has been learned about the development process. Interestingly, a surprisingly large number of developing countries has experienced one or more growth spells, though most have not sustained them for long (Hausmann *et al.*, 2005; and for West Africa, Imam and Salinas, 2008). This observation suggests that often, the issue is not so much how to get growth in a country going at a decent rate (let us say, at least 5-6% growth of real GDP per annum), but rather *how to keep it going*. What we think of as the success stories around the world, the countries that have grown rapidly not just for a few years but for decades, are then those that have managed to do this - think of Botswana, Singapore, China, Malaysia, (South) Korea, and a few others. For the rest, Rodrik (2007) has emphasised that growth is often held back by specific barriers or impediments, and so he argues for policy interventions that seek to overcome key barriers - if only we can identify them.

At the country level, and focussing on the very poorest countries in the world, Collier (2007) highlighted features that clearly inhibit economic growth, such as being landlocked (especially if communications are poor and the neighbours are either poor or engaged in civil war), engaging in civil or regional conflict, having a weak and corrupt government, or possessing abundant natural resources such as oil (or timber, or minerals). The last point is perhaps surprising, except that extensive empirical evidence has shown that countries with such resources tend to grow more slowly than one might expect, presumably because their possession opens up massive opportunities for corruption and makes politicians less accountable to their local populations because they need to raise less tax (Sachs and Warner, 2001; Mehlum *et al.*, 2005; Collier and Goderis, 2009).

An important factor well known to be important for economic growth is the rate of investment (fixed capital formation), typically measured as a share of GDP. It is clear, for instance, that countries that only invest 5-10% of their GDP are unlikely to be able to grow very rapidly, or at least not for long. And the more successful economies of recent decades have usually achieved investment rates of at least 25% of GDP, sometimes considerably higher. The general importance of investment for growth is emphasised in the recent Growth Commission report, where the authors state:

> "Strong, enduring growth requires high rates of investment. By investing resources, rather than consuming them, economies make a trade-off between present and future standards of living. That trade-off is quite steep. If the sustained, high-growth cases are any guide, it appears that overall investment rates of 25 percent of GDP or above are needed, counting both public and private expenditures." (CGD, 2008, p34).

However, high investment is a necessary rather than a sufficient condition for growth, since the resources mobilised for investment can be misdirected to unproductive or inefficient areas, and hence have little or no impact on a country's future output potential. Some studies show that investment tends to be more productive when a country's institutions are of higher quality (Gwartney *et al.*, 2006), while at the level of individual investment projects, Robinson and Torvik (2005) present examples and develop a simple model to show how political influences can drastically reduce the expected returns to investment (in the worst cases, returns can even be negative).

Keeping these observations in mind, in this paper we focus on investment in Ghana. Conceptually, our working hypothesis has three elements: (a) investment is important for growth; (b) the quality of investment matters; and (c) various features of the institutional environment of the country are likely to influence both the volume and quality of investment. By institutions here we mean, essentially, 'the rules of the game' under which commercial economic activity is conducted, and later we shall see that this idea needs to be understood in a multi-dimensional way (see North, 2005; Greif, 2006; Fafchamps, 2004; Bardhan, 2005). Fundamentally, suitable economic institutions are needed to protect agents' property rights, to facilitate transactions, and to foster cooperation; and both in design and implementation, diverse cultural and political factors influence how they can function in a given socie-economic context..

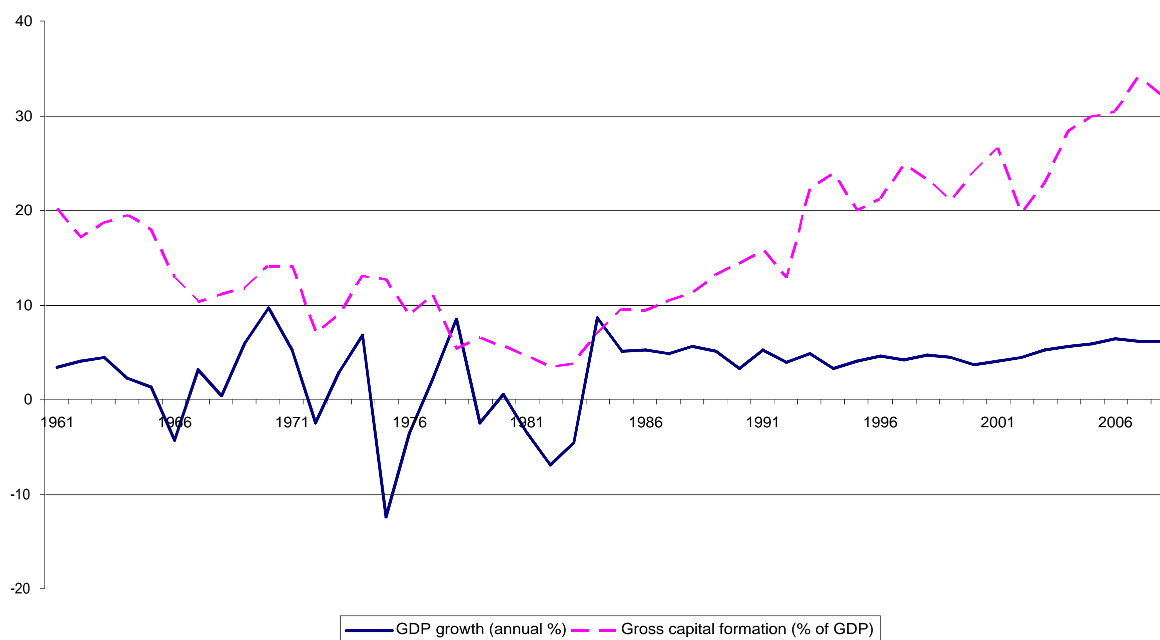
Accordingly, the next section provides both basic data on the country's growth and investment record since Independence and also introduces some indicators of the investment environment, noting some recent studies of investment conditions in Ghana. That sets the scene for our own micro-level study of investment in which we interviewed firms in four regions belonging to two sub-sectors of manufacturing, namely timber products and food processing, in order to learn how much investment had been undertaken in the last five years, and what factors had encouraged or impeded this activity. We were especially interested to find out how effective official policies towards investment were for individual firms, and to explore the impact of infrastructural and institutional problems on business. All this is reported in section 3. The final section of the paper concludes by drawing out concrete policy implications for Ghana from our empirical research.

2. Investment in Ghana

2.1 Basic data

Since achieving Independence from British colonial rule in 1957, Ghana's economic progress has experienced two phases: stagnation, up to the mid-1980s; and gradually improving growth since then. Thus Chart 1, below, plots two key indicators, namely Ghana's real GDP growth rate from 1961 through to 2008, and the share of gross capital formation in GDP over the same period. What is very striking is that up to the mid-1980s, Ghana's economic growth rate fluctuated considerably, being as high as 8-10% in a few years but also turning negative several times. Hence over this 25 year period, especially when one allows for population growth averaging somewhat over 2% per annum, real living standards in Ghana barely advanced at all. Since the mid-1980s, helped by Ghana's growing political maturity and stability, the GDP growth rate has been consistently positive, generally in the range 3-5% per annum, and more recently rising to 6-7% per annum. While not spectacular, such a growth rate is already sufficient to raise average living standards at a noticeable rate, say by 30-40% over a decade.

Chart 1. Ghana: GDP Growth and Investment since 1960



Source: World Development Indicators for Ghana, World Bank

Moreover, using the World Bank measure of poverty, Ghana's poverty rate has fallen from 51.7% of the population in 1990, to 39.5% in 2000 and 33.4% in 2005 (*World Development Indicators*, various years; see also ISSER, 2008, p.23, which cites slightly lower figures). Hence Ghana is on track to meet the first of the key targets set in the UN's Millennium Development Goals, namely to 'Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day.'

As for investment, this started out in the early 1960s at a little less than 20% of GDP, but then steadily declined until by the mid-1980s it had fallen to barely 5% of GDP. No country can grow much or for long when the rate of investment is so low, and Ghana proved to be no exception to this observation. Fortunately, by the late 1980s the investment ratio was back above 10% of GDP. Thereafter it rose steadily and has exceeded 20% of GDP since the mid-1990s; in the last few years it has even reached and sometimes exceeded 30% of GDP. No doubt the impact of the world financial crisis and recession on Ghana will push the rate down again for a time. The interesting question for the present paper, however, concerns how efficiently and productively all this investment spending is being carried out.

Table 1 shows the division of gross investment between public and private investment, and also shows the sources of the associated savings, in each case covering the years 2000 to 2008. Private investment, which includes investment in public enterprises (of which Ghana has relatively few now, following the privatisation of the 1990s and the early 2000s), has gradually risen as a share of GDP, being around 20% of GDP in the last couple of years. Government investment (which also include errors and omissions in the national accounts) has fluctuated, but it has exceeded 12% of GDP for all of the past five years. Without more information, it is hard to be sure how much of this represents real investment in much needed public infrastructure, schools, hospitals, and the like, and how much represents statistical discrepancies. Since 2004, both private and

government savings have declined as shares of GDP, while foreign savings (essentially representing the deficit in the current account of the balance of payments) have risen to fill the gap. Even allowing for aid flows and foreign direct investment, it must be doubted whether such a high share of foreign savings in GDP could be sustained for long, though expected investment in the country's new oil sector will probably help to boost financial inflows for a time, and Ghana has attracted relatively large FDI inflows in recent years.

Table 1. Investment and Savings in Ghana (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross investment	24.0	26.6	19.7	22.9	28.4	29.9	30.4	33.8	36.2
Private (incl. public ents)	14.8	13.8	13.6	14.0	16.0	17.9	18.0	19.5	20.5
Central government	9.2	12.8	6.1	8.9	12.4	12.0	12.4	14.4	15.7
Gross national savings	15.6	21.3	20.2	24.6	25.7	22.8	20.5	21.8	16.9
Private (incl. public ents)	14.3	16.1	17.6	18.4	14.9	12.0	12.6	14.0	12.1
Central government	1.3	5.1	2.6	6.2	10.8	10.8	7.8	7.7	4.8
Foreign savings	8.4	5.3	-0.5	-1.7	2.7	7.1	9.9	12.0	19.3

Sources: IMF (2009), Table 1, p27; IMF (2007), Table 1, p20; IMF (2006), Table 1, p25; IMF (2003), Table 3, p32
Note: Figures shown for 2007 and 2008 are as estimated by the IMF.

2.2 Investment environment

When economists discuss the 'investment environment' of a country they usually have in mind a set of indicators, ideally ones that can be measured quite objectively, that sum up the conditions facing investors in that country. The relevant indicators are usually a mix of institutional variables (e.g. to do with rule of law, protection of property rights, bankruptcy, etc.) and official policies (e.g. how long it takes, what procedures are involved and how much it costs to set up a business). The World Bank publishes annual assessments of the business climate on over 180 countries around world in its *Doing Business* reports. The most recent issue, World Bank (2009), reports on 183 countries and covers ten key dimensions of the business environment. Table 2, below, shows how Ghana has fared in the last two years.

Table 2. Ghana - Doing Business in 2009, 2010

	2010 rank	**2009 rank**
Doing Business - overall	92	87
Starting a business	135	136
Dealing with construction permits	153	144
Employing workers	133	134
Registering property	33	31
Getting credit	113	109
Protecting investors	41	38
Paying taxes	79	66
Trading across borders	83	80
Enforcing contracts	47	50
Closing a business	106	106

Sources: World Bank (2009), World Bank (2008)
Note. In the above rankings, larger numbers indicate worse performance, lower numbers indicate better performance.

Thus on these indicators, Ghana's position has slipped somewhat. This does not imply that the business environment has become worse in any objective sense, rather that enough other countries have introduced enough business-friendly reforms to raise them up the rankings ahead of Ghana. As always, what matters in such surveys and ranking is not how far a country has changed - and hopefully improved - relative to its own past situation, but how far it has changed relative to the better performing countries in the world (which are themselves always trying to improve), and relative to other countries actively reforming their business conditions. It is worth noting that Ghana's ranking is only a little behind those of two of the less market-friendly European countries, Greece and Macedonia, both ranked in the low 80s; Ghana is also considerably ahead of other West African countries such as Mali, Niger, Burkina Faso and Senegal (all ranked at 130 or worse), and is roughly on a par with Nigeria (also ranked in the low 90s).

A major shortcoming of these indicators, of course, is that they treat all firms and all sectors as if they faced the same business conditions, which is manifestly not the case. Many small firms manage to do business by operating informally, hence evading most formal regulation; and the very largest firms undoubtedly enjoy good access to the country's political leadership and top officials, so one suspects that if they find the general business conditions unduly inconvenient or onerous, they will be able to strike deals to enable business - including investment - to proceed. It is often asserted that such deals are inevitably highly corrupt, and this may well sometimes be the case. But at times, informal high-level partnerships between business leaders and political élites can cut through obstacles to desirable business opportunities that would otherwise prove insurmountable. Leaving aside the very largest and the very smallest (mostly informal) firms, we are left with the great mass of small and medium firms that cannot avoid being affected by the general business environment as defined by the World Bank indicators. It is mostly these firms that we discuss in our empirical survey, reported in the next section.

Focussing more specifically on the investment climate, rather than on general business conditions, the World Bank's *World Development Report 2005* is a good starting point (World Bank, 2004). As noted above, investment is needed to generate sustainable growth, and in most poor countries, achieving rapid economic growth has proved to be the most effective means of reducing poverty. Although foreign direct investment (FDI) contributes significantly to investment in many countries, most investment is normally funded from domestic sources of savings. Hence one element in creating a good investment climate has to do with the banks and how well they mobilise savings and lend to existing and new businesses. Moreover, investment is necessarily forward looking, and so investors need to know not only what the business environment is like 'today', but what it might be like in the future. No one can predict this with precision, naturally, but the point does suggest that issues of government credibility and policy stability are likely to be important. This means both general macroeconomic conditions, including inflation and interest rates (which have both declined recently in Ghana, supporting investment), and the major tax rates likely to affect business; and microeconomic conditions such as how well and how consistently property rights and business contracts are protected (and are expected to be protected in the future), the strength of competition in the given sector, or the quality and availability of public infrastructure needed to operate businesses. In addition, there must be a steady 'supply' of potentially profitable investment opportunities, allied with entrepreneurs in existing firms or new ones who are able to 'spot' the opportunities and mobilise the needed resources of finance, manpower, and capital to implement them. Taken together, these are difficult conditions to fulfil.

Unfortunately, although World Bank (2004) uses a variety of survey data to rate key characteristics of the investment climate in 53 developing countries, Ghana was not one of them. The data covered the following topics: policy uncertainty, corruption, the courts, crime, regulation and tax administration, finance, electricity, and labour. For each factor, the report assessed the fraction of surveyed firms that claimed that factor as a major constraint on their investment. Of Ghana's near neighbours, Senegal and Nigeria were in the survey, as were Kenya and Zambia in East Africa. For the last two countries, virtually all the World Bank indicators were reported as major constraints by at least 40% of the surveyed firms (Table A1, pp246-7), while the position was more mixed for Senegal and Nigeria (for the latter, the data were incomplete). Note that one can only survey firms that actually exist, but it is virtually certain that many potential firms failed to start up due to perceptions of the unfavourable environment. Naturally, these indicators cannot give us a precise picture of Ghana, but it would be surprising if the investment climate in Ghana were greatly out of line with these remarks.

Moore and Schmitz (2008) accept that for the longer-term, strengthening the formal and regulatory aspects of the investment climate, such as by enforcing property rights and protecting business contracts, is likely to stimulate investment. But in poor countries with weak institutions, they suggest that such a 'big push' for formal rules might not be the best way forward. Instead, informal and more personal links between major investors and members of the ruling elite (government, top civil servants, heads of regulatory agencies, and so on) might prove more productive. Such links carry a serious risk of corruption as noted above, but when they work well they might in due course foster a demand for improved formal regulation. Thus under suitable conditions it might be more effective to get investment going first, then reform the formal aspects of the investment climate later.

Ghana's broad economic structure has changed surprisingly slowly in recent years. Thus in the period 2000 to 2007, the share of agriculture in GDP declined slightly from 36% to 34.7%, the share of services rose modestly from 29.7% to 30.5%, leaving industry's share up a little, from 25.2% of GDP in 2000 to 26.1% in 2007 (ISSER, 2008, p8).

Industry itself comprises mining and quarrying, plus construction, both of which grew rapidly in recent years; electricity and water, whose output has actually fallen, and manufacturing, whose output has also stagnated or declined. Yet in the longer term, Ghana's growth will necessarily entail a shift of workers out of agriculture into higher productivity industry and services. On present trends, however, it is unclear how the needed additional jobs in these sectors will be created. Manufacturing itself, on which we focus below, currently accounts for about 8% of GDP.

3. Empirical Study of Investment in Ghana

3.1 Interviews

In our empirical work on Ghana, our concern was to examine how investment projects are selected, what objectives they serve, and with what degree of effectiveness they are implemented. For industrial success, one would expect to find that in the private sector, profit seeking was a major motive, hopefully the leading one; one would also hope to find a low incidence of so called 'white elephants', with little or no influence of political factors over the type and location of investments. However, it is known that 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, provided an essential backdrop for the study. Of course, these problems are not unique to poor countries, since industrial investment in more developed countries can also be subject to political influence (e.g. some aspects of British industrial policy in the 1970s).

The research operated at two levels. First, an initial series of interviews with politicians, agencies set up to support investment, and regulatory agencies was carried out in March 2009 in order to gain a clear understanding of the formal framework in which private sector investment took place. Further interviews of this sort, using a structured interview questionnaire, were carried out in the period May-July 2009. Second, during this latter period, interviews with firms in two selected sectors of manufacturing industry across four regions of the country were carried out, based on a second interview questionnaire that focussed in detail on firm-level investment experience; both interview schedules used for this research are available from the authors.

The selected sectors were wood processing (timber and wood products) and food processing. Both are relatively labour intensive, appropriate given our interest in economic growth paths that contribute to poverty reduction, since generating jobs is generally the most effective way of achieving this goal. *Ghana's 2003 Industrial Census*, available both in print and online at the Ghana Statistical Service website (www.statsghana.gov.gh), provides general data on all industries, and for wood processing we were also able to build on the earlier study of Owusu (2001). Both branches operate in the domestic market and also in export markets. The four regions selected were: the Greater Accra Region, Ashanti Region, Brong Ahafo Region, and the Western Region. To select firms for interview, we were aided by the Association of Ghana Industries (AGI), the country's leading business association. In wood processing, AGI has 97 member firms and in food and beverages it has 159 member firms (see AGI website, www.agighana.org), and we wrote to all AGI member firms in these sectors in our chosen regions. Almost all firms agreed to cooperate with our research, and altogether 39 wood processing firms and 33 food processing firms were interviewed during the second research visit to Ghana; they were asked about their investment experience during the past five years. In addition, 27 policymakers/regulators/legislators were interviewed.

Wood processing
Output of the wood processing sector has been growing since the mid-1990s, but exports from the sector have declined in recent years (ISSER, 2008, pp158-9); the sector employs about 4% of manufacturing employees. The export decline is partly due to competition from China in the EU market, partly due to environmental concerns over the sourcing of wood for furniture from 'sustainable forests'. The US, and increasingly the EU, are tending to require sustainable forestry certification - but apparently it is a costly and slow process to secure such certification in Ghana.

Food products and processing
This sector accounts for about 15% of manufacturing output and both output and exports have been expanding rapidly for at least the past decade, partly assisted by preferential terms of access to EU markets (ISSER, 2008, p157); the sector employs about 12% of manufacturing employees. Main food products are cocoa, dairy products, canned tuna; also edible oils and wheat flour. The main beverage products (especially for export) are tropical fruit juices.

3.2 Findings
We now review the most significant results from the interviews carried out in Ghana, grouping responses into a number of broad categories. As far as possible, the chosen categories are mapped onto the three key functions of institutions that were identified in the introduction, namely protecting property rights, facilitating transactions, and supporting coordination; bearing in mind important cultural and political factors. Virtually all firms in our sample industries had carried out some investment over the five year period preceding the interviews, a diverse mix of capacity expansion, investment to enable the production of new products, and replacement of old equipment. In this paper, however, our focus is not so much on the investment *per se*, but rather on the conditions under which it took place.

Protecting property rights
In the business sphere, this concerns both property rights themselves - in buildings, machinery and equipment, and other business assets - and their protection; and in addition, the protection of business contracts against dishonest or insolvent business partners, and against the possible risks of state predation (or straightforward corruption). At the formal level, relevant laws have been in place for many decades, and both traditional and formal mechanisms are in place to settle disputes. However, not all business property is properly registered so legal title is not always secure, and court proceedings are commonly long-drawn out and costly, so where they can firms avoid recourse to the courts. Despite considerable uncertainty in these matters, our surveyed firms did not report problems of property rights and contracts as major concerns.

Facilitating transactions
Permits and licenses
Business permits and licences represent an important set of legal regulatory requirements. These must be obtained before any business is able to operate legally. State and local permits and licenses apply equally to proprietorships, partnerships, limited companies and corporations. The most common license is the general business license, for the privilege of operating in any business's jurisdiction. There are also special licenses that may apply, depending on the type of business. Most African countries, including Ghana, theoretically have zoning ordinances designed to protect land use and the character of neighbourhoods - these affect the physical location of businesses and they are regulated at the local, district or municipal level; in practice, however, these controls work very poorly. In Ghana, many businesses will require other permits, such as an FDB (Food and Drugs Board) permit (if operating in the food sector), a concession permit (for access to wood supplies), and these need to be secured before a general

business license can be obtained.

In addition, there are other state discharge permit requirements if one's business discharges anything into the air, water, or ground. There may also be permit requirements for the proper disposal of hazardous waste. Some businesses, by their very nature, require licensed professionals such as food technicians and wood experts. Operating without a required license or permit can expose a business to fines and penalties. In some cases, those fines can be levied for each day a firm remains out of compliance. Unfortunately, Ghana has no one-stop license and permit office, and the requirements relevant to a specific business usually relate to more than one office. As a result, completing all the necessary paperwork to establish a business can be a tedious process.

Our interviews with firms in the food and wood processing sectors revealed some interesting information about permits and licenses, in sharp contrast to the official position. Firms in the food sector claimed that officials mandated to issue permits were under-equipped to fulfil their role effectively and efficiently, while those in the wood sector were more concerned about widespread corruption and politicking over the issue of permits. Almost all respondents agreed to these views, including policy elites. There were also concerns over the concentration of the issuing authorities in Accra, the national capital, with very few regional offices. Poor ICT facilities and unreliable postal services then often oblige entrepreneurs to travel to the capital to secure their permits.

Access to credit and interest rates

Access by poor people and informal businesses to financial services is a powerful tool to fight poverty, since they can invest in income-producing activities and meet their vital needs such as health, education and nutrition. The country's banks have long considered the informal sector un-bankable (policymaker interview, 2009) and for the better part "shunned it, because of the perceived risk of high loan defaults and low savings mobilization potential" (policymaker interview, 2009). Actually, the banks can hardly be blamed for their rather dismissive attitude towards the informal sector because, traditionally, banking operations work with formal set-ups where proper books are kept and the firm has a defined management structure with a deep sense of appreciation for accountability. All of these are lacking in the informal economy, and what is worse is that - in the case of Ghana - the personal residential address system is nearly non-existent and many people do not have proper (i.e. legally enforceable) title to their assets to enable them to be used as collateral for loans.

Our interviews showed that SMEs were worst hit in terms of accessing credit from the banks. Also, they were commonly under pressure to pay illegal fees to get things done for them. A related problem mentioned by a number of firms, was the 'delayed payments' by government departments after firms had undertaken jobs for them. Interviewees were dissatisfied that no interest was paid on delayed payments even though Ghana has relatively high rates of inflation. Also interviewees believed the business tax system ought to be consolidated and harmonised as there were too many government agencies imposing diverse levies.

Poor infrastructure

In several West African countries, including Ghana, electricity and water are not reliably and universally available, and the transport network (limited rail and air, mostly roads) lacks capacity and is mostly of poor quality. These deficiencies have a big negative impact on business, raising costs (for back-up generators, digging artesian wells, and the like) and undermining competitive-ness (on electricity in Africa, see Foster and Steinbuks, 2009; on infrastructure in Africa more generally, see Calderón, 2009).

Though formally, improving infrastructure is a key government responsibility, the EU has pledged some help for developing countries in Africa, the Caribbean and Pacific (referred to as the ACP countries) to improve their domestic infrastructure. The goal is to facilitate their participation in world trade under the auspices of Economic Partnership Agreements (EPAs). These accords have been in place since the end of 2007 and they bring ACP-EU trade into compliance with World Trade Organization rules. The agreements provide for better access to Ghana's markets for EU produce, and there are concerns that the country might not be able to withstand such competition. This is not unlike similar concerns regarding the transition economies as they discussed accession to the EU, with accession only taking place once the EU Commission felt confident that the economies of the new member states were ready to cope with EU competition.

Our interviews indicated that Ghana's two shipping ports located in the south are insufficient to enable firms in the northern sector to export their goods efficiently. These firms saw a need to complete the proposed inland port in the northern sector to ameliorate the shipment problems they faced, though major road improvements would also be required. Bad roads and irregular electricity and water supplies were a major issue for almost all interviewees.

ECOWAS

The Economic Community of West African States (ECOWAS) was founded in 1975 and its membership comprises 15 West African states; its secretariat (or, since January 2007, Commission) is located in Abuja, Nigeria. The goal of ECOWAS is to promote economic integration across the states of West Africa, not unlike that promoted across the EU (formerly the European Economic Community). The ECOWAS region contains a market of well over 200 million people, of which Ghana represents about 9%; Ghana produces about 6% of the region's GDP. As concrete steps towards regional integration, Ghana has abolished entry visas and permits for ECOWAS nationals, adopted the ECOWAS travel certificate and put into use the ECOWAS Brown Card scheme - the last of these relates to vehicle insurance, however, and is considered largely ineffective. Ghana has not yet adopted the harmonized immigration and emigration form nor set up the committee to monitor programmes on free movement of persons and vehicles. Also, all vehicles entering Ghana must pay a transit tax in foreign exchange. The harmonized customs documents, the certificate of origin, and the common customs nomenclature (HS) are all in use. The country has ratified the protocol on the Community levy and has designated a national guarantor for transit operations. Ghana has lifted tariff barriers under the ECOWAS Trade Liberalization Scheme (TLS) for unprocessed goods but not for industrial products, and has removed barriers of a monetary nature, such as the requirement to pay hotel bills and port and airport taxes in foreign currency. However, vehicle transit charges are still payable in foreign currency.

Ghana is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, which provides investment guarantees against non-commercial risk for investments in developing countries. Additionally, the Government has entered into bilateral Investment Promotion and Protection Agreements (IPPAs), as well as double taxation treaties with a number of countries to further enhance the protection and security of the investment regime.

Despite this impressive catalogue of formal measures, it appears that there remain substantial informal barriers to trade within the ECOWAS region. Thus our research revealed that Ghana's road border crossings with neighbouring states could be subject to long delays, illegal payments to expedite crossings, and disputes over the required documentation and the prevailing customs and tariff rules, all of which seriously impede normal trade. In addition, some informants indicated that it was uneconomic to export their products by sea to other ECOWAS states (such as Lagos in Nigeria) as the costs of

doing so were uneconomically high due to port delays, high landing charges, and corruption. One example was the claim that it cost three times as much to ship a container of goods from Tema to Lagos than it normally does to Amsterdam.

Supporting coordination

Quality control

Traditionally in Ghana, quality improvement is directed at the identification of defects that have already occurred. However, to create and maintain a competitive working environment, management must also depend on pro-active prevention rather than on reactive prevention. Good quality control systems help to reduce costs and increase productivity, profits and other measures of success, both in domestic and export markets. Although many quality improvement methods have been developed and applied in recent years, Ghana's manufacturing industries do not routinely adopt them. In many firms, product quality, reliability and safety are not seen as core aspects of the production process, and regulatory arrangements are mostly too weak to enforce such conditions. The issue is at least in part a coordination problem, in that if some firms operate to poor quality standards and the market tolerates this, then there is little competitive pressure on other firms to comply with official standards.

Our firm-level interviews showed that quality is sometimes compromised due to difficulties in obtaining high quality raw materials, inefficiencies on the part of staff in terms of getting appropriately skilled personnel to run the plants, together with an ineffective work culture. There are also shortcomings in the technology used to check the product quality. Interestingly, all these issues commonly arose in Eastern Europe, when firms were trying to restructure in order to adapt to the new market environment during the 1990s. Many firms only succeeded in returning to profitable operation after re-building their entire supply chain to enforce both high quality material and component supplies and high quality service to final customers.

Institutions and regulatory agencies

Interviews with the 27 policymakers implied that the formal institutions supporting business and investment were often unable to fulfil their constitutional mandates as completely as one would like. Thus most regulatory agencies were in practice constrained by inadequate logistical capacity and a lack of technical expertise. Some regulatory bodies believed this was related to the priorities of the political elites (who were unwilling to allocate more resources to regulation). Moreover, official inspections are costly both for the inspectorate division of any given agency and for firm owners alike, which sometimes led to 'compromise' between the two. Further, "We have serious issues with duplication of documentation by the various institutions we work with" (interview, 2009). Institutions do not always work together effectively, with legislative confusion quite common - as, for instance, between, FID (Factory Inspectorate Division), and the Tema Health Group on the one hand and the GSB (Ghana Standards Board) and the FDB (Food and Drugs Board) on the other hand. All 72 firms interviewed cited complicated systems, corruption, and bureaucracy in the process of acquiring permits and licences; and land acquisition problems were also widely cited.

Political, cultural and kinship influences over investments

In Ghana, politics, cultural and kinship influences have both positive and negative impacts on investment decisions. All 33 interviewees from the wood- processing sector agreed that political and kinship influences were important for their investment decisions, largely because local and regional political factors, and sometimes kinship factors, influenced their ability to secure concessions, i.e., the rights to cut timber in specific areas. Some firms claimed that unregistered companies often had access to a variety to concessions due to their political connections, while registered firms struggled to source their raw materials within a reasonable distance of their plants. In food

processing, on the other hand, only 5 of the 27 interviewed firms expressed concerns about political or kinship influences.

4. Conclusions and Policy Implications

For the sake of brevity, we merely list here the major conclusions of our study of investment in Ghana, particularly the areas where policy can be greatly improved.

- Ghana has most of the right laws and formal rules in place to support investment, together with the right organisations through which the prevailing laws and rules can be implemented. However, these are not enough to get investment moving since effective implementation at the level of individual firms/investment projects depends on some additional factors. These include:
    - Adequate resourcing of the public organisations that support investment, monitor product quality, issue licences, etc. This means both budgetary allocations, as well as measures to ensure the availability of suitably skilled and trained personnel.
    - Local/regional customs and practices, often to do with kinship and local political influence, can affect investment both positively and negatively. These factors cut across the formal rules and laws in diverse and complex ways (especially, in this study, in wood-processing firms).
    - The cost to firms of complying with the prevailing rules and laws can be both high and unpredictable due to corruption (illegal side-payments to 'get things done'), the centralisation of most offices in the capital, and the poor coordination between different agencies supposedly supporting businesses.
- Most firms interviewed had major complaints about the public infrastructure available to them (and most policymaker interviews concurred). Key difficulties concerned the availability of electricity and water, many firms incurring large additional costs to keep production going in the face of seriously unreliable public supplies. This makes firms less competitive both in their own home market and in export markets.
- Transport and communications were the two other areas of infrastructure most often cited in our interviews. Outside the capital and coastal areas, local roads are frequently unmetalled and are impassable in parts of the rainy season; often firms have been expected to contribute to road building and/or maintenance costs as a condition of getting permission to undertake investment. Fixed line telephone services are not widely available outside the main urban areas, though mobile network coverage is better, with over one-third of the population having access to a network. Internet links are uncommon, with under 5% of the population regularly connected. Again, these shortcomings add to business costs.
- A vital resource for investors is access to credit, and here we found a very mixed picture, with SMEs experiencing particular difficulties in obtaining credit. Yet these are the firms most critical for Ghana's economic future, since some will grow to be the success stories of the next decade or two. Banking networks across Ghana are quite sparse, some regions having very few bank branches, with the result that little local knowledge can be assumed to be present in the banks - this makes them understandably cautious about investing in some regions/sectors.
- Last, as a small, open economy, Ghana's sustained growth depends on success in its export markets. In principle, the country's membership in ECOWAS plus the concessions granted by the EU through its ACP programme should be extremely helpful in this regard. But we found that significant trade barriers remain in place, in part due to inefficient and/or corrupt implementation of agreements made within ECOWAS, in part due to the technical difficulties of complying with EU food quality standards, an area where Ghana's public support needs substantial enhancement.

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