



# Glimpse of Hope in West Africa

The Experience of  
South African Firms  
Doing Business in Ghana

Harry Besada

**The South African Institute  
of International Affairs**

**Business in Africa Research Project**

**Glimpse of Hope in West Africa**

**The Experience of South African Firms  
Doing Business in Ghana**

**Hany Besada**

**Series editor: Neuma Grobbelaar**

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## **About the Author**

Hany Besada is a researcher at the South African Institute of International Affairs working on the Business in Africa Research project. He would like to thank Neuma Grobbelaar for her unstinting assistance and guidance throughout the preparation of this report.

## **About the SAIIA Nepad Business in Africa Project**

The South African Institute of International Affairs (SAIIA) launched a three-year *Business in Africa* research programme in May 2003. This programme aims to develop policy recommendations for government and other interested parties — such as members of the business and academic worlds — so as to assist them in the important task of creating a more sustainable and supportive business environment in Africa. The

research project takes as its departure point the experience of South African investors in the rest of Africa. The programme proposes to draw lessons for policy makers from the successes, but also to note the failures of South African businesses on the continent. The *Business in Africa* project complements SALLA's existing New Partnership for Africa's Development (Nepad) governance and democracy project. It is widely recognised that the 7% average annual growth that is required under the Nepad programme will not be achievable through aid only, and that the private sector has a critical contribution to make. SALLA believes it is important to emphasise some of the positive aspects of doing business in Africa, while looking at some of the constraints that companies face on the continent.

SALLA is conducting a series of country and sectoral studies for this purpose, and Ghana was selected because of the substantial interest that South African businesses have shown in that country. Also, Ghana is generally regarded as a launching-pad into the Economic Community of West African States (ECOWAS) for companies wishing to expand into the region.

Neuma Grobbelaar, Deputy Director of Studies at SALLA, who is assisted by Hany Besada, Business in Africa researcher, heads the *Business in Africa* project. The following reports have been published in the series thus far:

Games D, *A Preliminary Survey: The Experience of South African Firms Doing Business in Africa*, Business in Africa Report 1, SALLA, 2003.

Grobbelaar N, *Every Continent Needs an America: The Experience of South African Firms Doing Business in Mozambique*, Business in Africa Report 2, SALLA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms Doing Business in Nigeria*, Business in Africa Report 3, SAIIA, 2004.

## **Methodology and Rationale**

This report is based on a series of interviews conducted in Ghana during July and August 2004 to elicit and analyse information on South African-based companies and subsidiaries operating in Ghana. For this part of the research, 26 companies were interviewed, and invaluable data were collected. The survey covered a wide range of South African business interests, and involved the sectors of mining, retail, insurance, transport, tourism, banking, telecommunication, construction, services, franchising, manufacturing, fishing, advertising, aviation and energy.

Research material was also gathered from other interviews held in Ghana, principally with representatives of other foreign companies, Ghanaian research institutes, the Ghana Investment Promotion Centre, the Ghana Chamber of Commerce and the South African High Commission in Ghana. Members of other Ghanaian government ministries were also consulted. For this specific part of the research, 13 interviews were arranged to enable the researcher to obtain a broader perspective on the business and investment climate in Ghana.

Key data were drawn from a wide range of sources, including the Ghana Ministry of Trade and Industry, the Ghana Investment Promotion Centre, the World Bank, the World Trade Organisation (WTO), the Centre for the Study of African Economies at the University of Oxford, the International Monetary Fund (IMF), the Ghana Institute of Economic Affairs, and the Organisation for Economic Co-operation and Development (OECD).

Even though much international research has been published on Ghana, very little of it has been directed towards prospective international investors and companies wanting to

expand their West African operations from Ghana. This study attempts to close the gap between perceived and real business constraints as a means of offering a clear analysis of the business environment in Ghana in the field of foreign direct investment (FDI).



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## **Executive Summary**

Relations between Ghana and South Africa have improved and expanded greatly since 1994 in light of the political and economic transformations in both countries. Both investors and government officials in South Africa regard Ghana as a beacon of hope in the volatile, unstable and conflict-ridden West African region. Since its first multi-party democratic election in 1992, Ghana has grown into a stable, vibrant democracy that has striven to rebuild its shattered economy following decades of military misrule and economic mismanagement. The robust economy that has

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**South Africa's foothold in Ghana is expected to develop into a firmly-established niche.**

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developed in recent years, generous government incentives for foreign investors, sound macro-economic reforms introduced by the government to slash inflation, debt, poverty and unemployment, and the implementation of IMF programmes designed to prepare the economy for stable growth have made Ghana a promising market for South African products and investments.

As a result, South Africa has taken advantage of Ghana's political and economic strength by increasing trade and investment with that country in recent years. Although a late entrant to Ghana's trade and investment market, which has historically been dominated by British, French and German interests, South Africa has been proactive in promoting its well-established brands and products as an alternative African choice for Ghanaians, who, for long periods, have relied on European goods (and investments).

The increase in South African exports and imports to and from Ghana positions the country as South Africa's second-largest

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trading partner in the West African region, after Nigeria. South Africa's foothold in Ghana is expected to develop into a firmly-established niche.

South African investment confidence is bolstered by the presence in Ghana of a highly educated and skilled pool of manpower, vast mineral and agricultural resources, the official use of the English language, a shared colonial legacy, and historical links dating back to Nkrumah's days and his country's support for liberation in South Africa. South African investment in Ghana also allows companies to use their operations there as a springboard to other West African markets. Ghana shares borders with a number of states that lack direct trade routes and ports to facilitate trade and investment with South Africa. Ghana's proximity to the rest of the West African region, its well-managed harbour and its political stability all enable it to serve as an access point to the rest of the region for South African products and investments.

However, the tremendous potential for the expansion of trade and investment between the two states does not imply that Ghana imposes no constraints on foreign investors or businesses. Most South African companies have encountered some risks and impediments associated with business practices in Ghana, as they have in other African countries. The main findings of the field research in Ghana concerning the experiences of South African companies and subsidiaries operating in Ghana include the following.

- South African companies in Ghana (small, medium, and large corporations) cover a broad spectrum. However, in terms of the gross amount of investment and profit returns, **the mining sector is by far the largest and most lucrative, with a heavy South African financial commitment.** Multimedia

communication, beverages and the franchising sectors also reflect a robust South African investment presence.

- With very few exceptions, the majority of South African firms have confirmed their intention of maintaining their Ghanaian operations in the near future. They are **optimistic about the political and economic prospects of Ghana**, and have expressed strong confidence in the country's leadership. The current administration is credited with many of the economic reforms and investment incentives provided to international investors in Ghana.
- On the negative side, **access to, and the cost of, finance constitute the biggest business constraint** facing South African (and other foreign) investors in Ghana. Applications to the Central Bank of Ghana from foreign firms requiring seed capital have to meet demanding prerequisites. Once granted, the loans are subject to high interest rates. These procedures follow Ghana's new monetary policy, which was introduced in 2000 to put a halt to the deteriorating macro-economic situation and to curb high levels of inflation. The prohibitive cost of raising finance (caused by high interest, borrowing and lending rates) is particularly burdensome for small and medium-sized foreign enterprises. These constraints apply to local firms as well.
- A **poorly functioning legal system poses another problem** for multinational corporations and foreign investors. Although the legal system is not weak in itself, the process of arriving at judgements is slow. Decisions pertaining to business disputes and the problems of international investors and firms often take a very long time. This tardiness has been blamed on the lack of a computerised court system and corruption. However, the government is in the process of establishing 'fast-track courts' with up-to-date computer technology to

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deal with the caseload backlog and bureaucratic red tape. This will help to address the legal problems encountered by business more promptly. →

- The slow pace of economic reforms in the past has also been attributed to bureaucracy and red tape, which continue to hinder the implementation of the current government's investment and trade policies, even though these were designed to bolster economic growth. A lack of structured and clearly formulated policies hampers the flow of information and opens up a space for **regulatory uncertainty and ad hoc decision-making**. The executive power to formulate and relay decisions is not vested in the civil service, but rather in government ministers.
- The timely transfer of goods and materials through the ports is retarded by **an inefficient customs service**. Red tape and the slow process of manual inspections are given as reasons for the delays in customs regulation at Ghanaian ports. However, the government has, as part of its Gateway Project (which began in 1998), started to use computerised scanning machines to accelerate the process of inspections. Moreover, it has set up strategic front-line offices to provide services that deal with the customs and immigration requirements of foreign investors.
- Corruption is an ever-present factor for South African and other international companies in Ghana. Although it is not as extensive as in other neighbouring West African states, such as Nigeria, **corruption does threaten the financial sustainability of foreign investments, especially that of small to medium-sized enterprises**. Large enterprises with international backing that have invested in nationally strategic sectors such as mining face little corruption and few bureaucratic hurdles, because of their importance to the

national economy. However, corruption levels in government have dropped because legislation opposing any form of bribery has been strengthened by the current administration. President Kufuor has established an Office of Accountability to oversee the performance of senior government functionaries. Several corruption prosecutions against former officials of the Rawlings administration are under way, and a former minister is now in jail. The president has also taken steps since 2001 to amend laws on public financial administration and public procurement. These efforts to combat corruption have borne fruit. A 2004 Transparency International global corruption ranking placed Ghana as the 64<sup>th</sup> least corrupt out of 133 countries in its Corruption Perceptions Index, an improvement on its 70<sup>th</sup> position in 2003. (Of the sub-Saharan countries included in the survey, Ghana was rated as the sixth least corrupt country, following Botswana, South Africa, the Seychelles, Mauritius, and Namibia).

- **Lack of disposable income constitutes another constraint** on FDI and trade. In 2003, Ghana's gross national income per capita was \$320. Although higher than that of many of its neighbours, it is relatively low in global terms. The ability of ordinary Ghanaians to purchase goods and products, whether manufactured by local or foreign firms, is severely restricted. Thus, South African companies, like other international firms, have to find a special niche in the Ghanaian market for their products.
- Some South African companies perceive Ghana's **comparatively small market size** as a business constraint. With its small population of just over 20.8 million people in 2004, Ghana's market could be seen as limited when compared with those of other West African countries such as Nigeria, which had a population of 137.3 million in 2004.

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However, many South African companies believe that a presence in Ghana will lead to an expansion of their operations into other parts of the West African region, thus creating a much larger market.

- On the positive side, the Ghanaian government has introduced **a new investment policy which provides very attractive incentive schemes** to lure South African and other foreign businesses to invest in Ghana. These include low equity requirements, full ownership, low corporate taxes, tax holidays, tax rebates offered as incentives to establish companies in certain locations, exemptions from customs duty on certain import items, and governmental investment guarantees that profits and dividends will be transferable out of the country.
- Ghana **provides an ample supply of skilled, educated and low cost labour** for many South African and other multinational firms. Ghanaians pride themselves in their work ethic and on the value the country has always attached to education and training. South African companies have found that in-house training for managerial positions seldom involves lengthy and rigorous (therefore expensive) procedures, because Ghanaians are already highly skilled. Language barriers are non-existent because English is the official language in Ghana, in contrast to the French used in many of its Francophone neighbours in West Africa. Thus, the language commonality serves South African firms in Ghana well.
- Most important, **Ghana is a beacon of peace and stability in the volatile West African region.** The stable political climate has attracted foreign investors who are averse to the risks associated with the political and economic instability that

prevail in the rest of West Africa. South African and other foreign firms see Ghana as a safe destination for investment.



## **Introduction**

Since the end of apartheid, South Africa has striven to reintegrate itself into the international community. It commenced by building political and economic relations with other countries in Sub-Saharan Africa, although it also extended its efforts to other regions of the world. Sub-Saharan Africa has historical, economic and cultural importance for South Africa, because many of its countries provided support to South Africans during their struggle to achieve multiparty democracy and freedom for the entire population. Moreover, the region is perceived locally as a vast untapped market for South African products that is close to its borders, making the cost of shipping or transporting exports relatively cheap. Following the consolidation of its position as the leading trading partner for the countries of Southern Africa, South Africa sought to expand its reach to other parts of the continent, competing with the traditional trading partners, principally former European colonial powers, of the countries of Sub-Saharan Africa.

In West Africa — a vast, economically viable region — South Africa sought to establish multilateral and bilateral trade agreements to expand trade with the region. In this part of Africa, Nigeria and Ghana constitute South Africa's biggest trading markets. Even though the trade volumes between Ghana and South Africa are relatively low compared with those between South Africa and its other global trading partners, it is expected that trade will continue to grow, reflecting South Africa's commitment to trade with other African countries as part of the New Partnership for Africa's Development (Nepad) initiative.

As West Africa's third largest economy (following Nigeria and Côte d'Ivoire), Ghana offers foreign direct investors a relatively large and economically viable market by the region's standards. The country's well-performing economy, political stability, sound monetary and fiscal policies, ample natural resources, and a per capita output that is twice that of the poorer countries in West Africa, have helped promote Ghana as a destination for South African products and investment over the past few years.

South Africa has invested heavily in Ghana's expanding economy in recent years. In the mining sector, several South African mining houses are involved in mining exploration and extraction ventures. The principal investment has been made by Anglo Gold, which has bought controlling shares in Ghana's Ashanti Gold Mines. Goldfields has invested heavily in Ghana's Tarkwa gold mine, the profits of which have surged. In the beverage field, South African Breweries (SAB) has bought a controlling interest in Ghana's Accra Breweries Limited. SAB's restructuring of the latter has resulted in a turnaround in its profit margins. In the multimedia and telecommunications sector, Multichoice operates a successful operation in Ghana, with more than 6,000 subscribers.

South African Airways (SAA) commenced flights to Accra on 1 April 1996. Since then, the airline has increased the number of flights to Accra to four times a week owing to a growth in demand from the business community. In addition, SAA has established code-share and strategic partnership agreements with Ghana Airways to improve co-operation. The franchise chains Steers and Nandos have taken advantage of Ghanaians' appetite for fast food. In the energy industry, Engen has started operations in Accra, where it maintains two petrol stations. It has plans to open more filling stations in other major cities. In the banking sector, Stanbic has opened a

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branch in Accra, and in the retail business, Shoprite Checkers and Woolworths have started operations in the capital and have expansion plans in the pipeline.

Both South Africa and Ghana are keen to expand trade and investment between the two countries. Although Ghana has not been a traditional partner for South Africa in the past and is not part of the Southern African Development Community (SADC), Ghana presents South Africa with a potentially lucrative market in West Africa. South Africa hopes to deepen trading relations with other parts of Africa and to take advantage of the potential for growth that some of these countries represent. It also hopes to be a strong contender for market share against its European competitors because of its familiarity with the risks associated with doing business on the African continent, and its consequent experiences in dealing with them.

## **Socio-Economic Overview of Ghana**

### **Political situation**

Although Ghana is today one of the most stable countries in Africa, it had its share of political upheaval after it became independent in 1957. Following the end of British rule, the country's population endured a succession of governments, five military and five civilian, which threatened to tear its social fabric apart between 1957–2000. (For a detailed account see the Ghana Timeline given on p.15).

Frustrated by the slow pace of reform, corruption in the military and the inability of the government to keep its promises to provide economic growth to Ghana, Flight Lieutenant Jerry John Rawlings deposed the government of President Akuffo on 4 June 1979. His Armed Forces Revolutionary Council (AFRC) introduced a brutal national campaign to root out corruption. The leaders of several opposition groups who were implicated in corruption were executed, including the former presidents William Akuffo and Ignatius Acheampong. Special tribunals were established to try other opposition officials and private individuals for corruption. However, the AFRC also drafted a new constitution for Ghana that paved the way for civilian government and national parliamentary and presidential elections.<sup>1</sup> Rawlings handed over the reins of government to the newly-elected president, Dr Hilla Limann, on 24 September 1979. A career diplomat and leader of the People's National Party (PNP), he was the apparent successor of Nkrumah. However, even though President Limann's party respected human rights and the rule of law, it failed to bring about economic growth. The gap between the rich and the poor

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<sup>1</sup> <http://www.nationbynation.com/Ghana/history2.html>.

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widened, and corruption among public officials continued. This prompted Rawlings to lead another coup that toppled President Limann on 31 December 1981.<sup>2</sup>

Rawlings dissolved parliament, prohibited all political parties, abolished the constitution, and became the chairman of the Provisional National Defence Council (PNDC). In 1992, following mounting international pressure for political reform and the reintroduction of democracy, Rawlings announced that Ghana would return to constitutional rule. In April 1992, a fresh round of elections took place. Rawlings managed to secure 58% of the vote, even though the outcome in his favour was disputed. The new constitution received a 92% approval rating and was ratified by a national referendum later in the year.

However, despite the return to so-called civilian rule, several thousand people were killed and many more displaced in ethnic fighting that broke out in northern Ghana,<sup>3</sup> on 3 February 1994, when the long-standing enmity between the Konkomba and Nanumba tribal groups erupted into violence. The Konkomba, who originated in the neighbouring State of Togo, demanded traditional landowning rights similar to those held by the native Nanumba. Troops were sent to restore order after at least 1,000 persons had been killed and more than 150,000 displaced as a result of the violent clashes.<sup>4</sup>

In December 1996, Rawlings was re-elected for a second and final term in office, this time securing 57% of the vote. The 1996 presidential elections were declared to have been free and fair by international observers. In December 2000, the opposing New Patriotic Party (NPP) candidate, John Kufuor, defeated Rawlings's hand-picked candidate, John Atta-Mills of

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<sup>2</sup> *Ibid.*

<sup>3</sup> <http://www.state.gov/r/pa/ei/bgn/2860.htm>.

<sup>4</sup> <http://www.onwar.com/aced/data/golf/ghana1994.htm>.

the ruling National Democratic Congress (NDC), by a margin of 56% to 44%. The NPP also won the majority of seats in Parliament (103) out of 200, followed by the NDC (89), Independents (3) and the People's National Congress (4).

Kufuor was inaugurated as President on 7 January, 2001 in what has been described as a smooth and exemplary transfer of power between the NDC and the NPP.<sup>5</sup> He has been widely applauded for his efforts to encourage Ghana to come to terms with its turbulent past. On 3 September 2002, he set up a National Reconciliation Committee to bring human rights abuses that had been committed by former military governments against political activists, civilians and opposition groups to the forefront. (Between 1982–1992, it is alleged that some 300 people were killed for political reasons by government agents).

Kufuor's entry into office heralded a wide range of political reforms and the restoration of civil liberties. As part of his government's commitment to uphold the rule of law and freedom of speech, President

Kufuor has abolished the legislation that allowed libel suits to be brought against journalists and political

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**Kufuor's entry into office heralded a wide range of political reforms.**

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commentators, and has established a national system to deal with juvenile offenders. He has also done away with community tribunals, which human rights groups had long denounced as representing infringements on citizens' personal freedoms. In addition, President Kufuor has been adamant over condemning corruption and ridding his government of it. He has pursued charges of corruption against high-profile

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<sup>5</sup> UK Trade & Investment Ghana Report, 2003, p.4.

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members of his administration, including the former Minister of Youth and Sports.

In addition, President Kufuor has sought to bring public procurement procedures in Ghana into conformity with the standards set by the WTO. The public procurement law, passed in January 2004, seeks to harmonise the many guidelines used in Ghana and in international trading regimes. The new law aims to improve the accountability, transparency and efficiency of government officials entrusted with the use of public resources. A Freedom of Information bill developed in consultation with members of civil society may also be passed to allow citizens access to government information.<sup>6</sup>

However, certain concerns threaten the stability of Ghana's political climate. A multitude of chieftaincy disputes are occurring throughout Ghana. These have produced ethnic tensions in the past because chiefs wield considerable power in Ghana and are revered by their local constituencies.

### **Ethnic and linguistic groups in Ghana**

The country has over 100 linguistic and ethnic groups. However, the population is classified into two major linguistic families, the Kwa and the Gur. The Kwa speakers, traditionally associated with the area south of the Volta, make up about 75% of the population. The major Kwa linguistic subgroup is represented by the Akan, who are further subdivided into many others, including the Ashanti, Bono, Fante, Akuapem, Akyem and Kwahu. Other Kwa linguistic groups are the Nzima, Ga, Gonja, Adangbe and Ewe. Members of the Gur linguistic family live mainly in the northern regions of the country. The principal Gur language is Dagbane, and the major Gur ethnic groups are the Dagomba and Mamprusi peoples.<sup>7</sup>

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<sup>6</sup> Public Affairs Section, US Diplomatic Mission, Ghana, 2004.

<sup>7</sup> <http://countrystudies.us/ghana/37.htm>.

In 2002, the Ghanaian government declared a state of emergency in the Dagbon traditional area in the Northern Region, after the Yendi traditional leader and countless of his supporters had been killed by neighbouring tribes. Other areas in which tension over political loyalties and traditional leadership is a source of potential conflict include the Upper Eastern province and the Upper Western region of the country.<sup>8</sup>

Ghana's most recent parliamentary and presidential elections took place in December 2004. President Kufuor stood for re-election against the NDC's candidate, John Atta-Mills. As expected, President Kufuor was given a further mandate as holder of Ghana's highest office, securing 53% of the votes as opposed to 44% for Atta Mills. Analysts attribute Kufuor's winning a second (and last) term due to his progressive policy agenda, which advocates economic reform, respect for human rights and democracy.

However, the 2004 elections were initially threatened by a nearly fatal accident that befell Alhaji Mohammed Mumuni, the presidential running-mate of Atta Mills. Mumuni was taken to hospital following a serious car accident in Accra on 29 September 2004. Rumors later surfaced that the accident might have been engineered for political reasons. In addition, a youth organiser belonging to the NDC, Haruna Iddrisu, declared that the party might boycott the 2004 elections because of the government's imposition of a state of emergency in the volatile Dagbon area.

Nevertheless, despite these incidents, in the event the Ghanaian presidential and parliamentary elections took place without any major disruptions and external observers declared them free and fair.

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<sup>8</sup> <http://www.ethnonet-africa.org/data/ghana/rep0403.htm>.



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<b>Ghana timeline</b>	
1952	Nkrumah becomes the first African prime minister and government leader, but shares power with the British governor, Sir Charles Arden-Clarke.
1957	Ghana is the first of the colonies in sub-Saharan Africa to gain independence.
1960	Nkrumah is appointed president of the republic.
1964	Nkrumah suspends the democratic constitution. Ghana officially becomes a one-party state and Nkrumah assumes the powers of a dictator.
February 1969	A bloodless military coup ends the rule of Nkrumah and his administration. The new military government calls itself the National Liberation Council (NLC), and aims to govern in a provisional capacity until an election has been held. Political parties are once again legalised.
September 1969	Multi-party elections are held in Ghana, and Dr Kofi Busia and the Progress Party form a new civilian government.
1972	Forces within the military carry out a coup. The National Redemption Council declares Colonel Ignatius Acheampong the head of state.
1975	Acheampong dissolves the government and replaces it with the Supreme Military Council (SMC), comprising only seven handpicked members.
1978	Acheampong is forced to resign as General William Akuffo takes control, creating the second Supreme Military Council. He promises to reinstate a civilian government. Political parties are once again allowed in Ghana, and a date for the elections is set.

<b>Ghana timeline (continued)</b>	
4 June 1979	Jerry Rawlings carries out a new military coup. The Armed Forces Revolutionary Council (AFRC) takes power, but continues to promise that a democratic election will be held later the same month.
18 June 1979	Dr Hilla Limann and his People's National Party win the election.
September 1979	The AFRC hands over power to Hilla Limann, and Rawlings and his soldiers return to the army.
1981	Jerry Rawlings once again seizes power through a military coup.
1992	Multi-party elections are held in Ghana. Rawlings wins the presidential election with nearly 60% of the votes.
1996	Rawlings is re-elected. His party, the NDC, retains the majority in parliament, but John Kufour's New Patriotic Party (NPP) also has strong representation.
2000	Rawling's presidency ends as the constitution allows a president only two terms in office. The NDC's vice president, John Atta Mills, is the new presidential candidate, but it is John Kufour from the NPP who wins the elections and becomes the new president.
December 2004	President Kufour is re-elected after winning 53% of the votes in Ghana's presidential elections.
Source: <a href="http://crawford.dk/africa/ghana_timeline.htm">http://crawford.dk/africa/ghana_timeline.htm</a> .2004	

## **Economic overview**

In comparison with other African states, Ghana has a relatively diverse and advanced industrial base, even though it is considered a low-income state, having a per capita income of

only \$320 in 2003.<sup>9</sup> The country is ranked 129<sup>th</sup> out of 175 countries in the 2003 United Nations Human Development Index. According to the United Nations Development Programme (UNDP), about 31.4% of the population were living below the poverty line of \$1 per day between 1983-2000.<sup>10</sup> The informal sector dominates economic activity in Ghana. The majority of Ghanaians are employed in the agricultural sector, mainly as subsistence farmers working on small plots. Only 15% of the total work force was employed in the formal sector during 1998-1999. The majority of those with jobs worked in the public sector and in state-owned enterprises.<sup>11</sup> In addition, only 27% of the work force were self-employed in non-agricultural activities, such as small scale trading.

Ghana remains highly dependent on technical assistance and aid for its economic development. Despite achieving 4.8% growth in 2003, (after a consistent decline in growth between 1998–2001), Ghana's government is aware that a full economic recovery remains far from being assured. Poverty continues to be widespread, especially in rural areas, despite government poverty alleviation initiatives that date back over a decade to the time of the Rawlings administration. As has already been noted, about a third of Ghanaians live below the poverty line, the majority of them in the rural parts of the country. The poorest areas are the mid-coast strip, the Volta Basin and the northern savannah, the main food-producing region. Although rural poverty has decreased noticeably over the past 10 years (reflecting the pro-rural bias of the Provisional National Defence Council), urban deprivation has grown under the

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<sup>9</sup> World Bank Quick Reference Tables, 2003.

<sup>10</sup> Population growth was put at a low 1.36% annually in 2004, according to the *CIA Factbook*, 2004.

<sup>11</sup> *Performance and Problems of Enterprises in Ghana*. Department for Agricultural Economics and Agribusiness at the University of Ghana and Centre for Development Research, Germany, 2004.

structural adjustment policies Ghana has had to adopt. Most of the political elite live in southern Ghana, while the bulk of Ghana's natural resources, industry and commerce are to be found in the western, central, Ashanti and Accra regions.<sup>12</sup>

Nevertheless, Ghana has double the per capita income and GDP of its poorer West African neighbours. In 2004, GDP stood at \$8.3 billion in contrast to \$7.9 billion in 2000.<sup>13</sup> By West African standards, the country boasts a rich and diverse resource base. Minerals such as gold, bauxite, diamonds and manganese ore are extracted and exported to earn

foreign currency. Ghana also has well-established import substitution industries. These include the assembly of cars, buses, and trucks;

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**The country boasts a rich and diverse resource base.**

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oil refining; the manufactures of tyres and textiles; tobacco; and flour and steel milling (using scrap for the latter). Consumer goods such as beverages and cigarettes are also produced. Remittances from abroad sent by Ghanaian expatriates working in the US and Europe are also an important source of income in the national economy. Tourism has become Ghana's third-largest earner of revenue, bringing \$600 million into the government's coffers each year. Tourism has also been a major stimulant to infrastructure development in Ghana since the mid-1990s.

Ghana's economic growth in recent years, especially since 2001, is a result of steps taken by the government to improve monetary and fiscal discipline. Its reformist policies have led to a drop in the interest and inflation rates and the stabilisation of the national currency, the cedi. The adoption of a new macro-economic strategy by government, combined with a recovery

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<sup>12</sup> <http://www.iss.co.za/>

<sup>13</sup> *Index of Economic Freedoms*, 2004.

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in the price of Ghana's main cash crop export, cocoa, and a surge in gold prices have also supported improved economic performance. GDP growth increased to 4.8%<sup>14</sup> in 2003 compared with 3.8% in 2000.

<b>Ghana's fiscal indicators</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004<sup>f</sup></b>
GDP per Capita (\$)	417.0	263.0	274.0	311.0	374.0	405.0
Real GDP (% change)	4.4	3.7	4.2	4.6	4.7	5.0
Real GDP per capita (% of GDP)	1.9	1.3	1.8	2.1	2.3	2.5
General government balance (% of GDP)	7.5	7.0	6.4	4.0	2.6	1.8
General government debt (% of GDP)	125.0	167.9	130.9	124.7	96.7	84.6
Net general government debt (% of GDP)	54.0	85.1	125.8	63.3	89.0	77.5
General government interest expenditure/revenue	27.6	34.2	28.7	26.6	26.1	15.9
Domestic credit to private sector and NFPEs (% of GDP)	14.6	18.6	16.6	14.6	15.4	19.1

<sup>14</sup> CIA Factbook, 2004.

<b>Ghana's fiscal indicators (continued)</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004<sup>f</sup></b>
CPI inflation (average % change)	12.4	25.2	32.9	14.8	26.9	10.0
Gross external financing requirement/foreign reserves (%)	370.1	447.9	274.0	106.0	78.6	71.3
Net general government external debt/CARs (%)	163.1	162.6	148.4	141.2	118.6	110.1
Net banking sector external debt/CARs (%)	1.7	1.7	3.8	4.0	3.7	3.4
Net non-bank private sector external debt/CARs (%)	18.6	12.6	9.0	0.3	0.1	1.4
f: forecast.						
Source: Standard & Poor's Sovereign ratings, Ghana, September 2003, p.7.						

<b>Ghana's financial indicators</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004<sup>f</sup></b>
Nominal GDP (\$)	7.7	5.0	5.3	6.2	7.6	8.4
Real per capita (\$)	417.0	263.0	274.0	311.0	374.0	405.0
Real GDP (% change)	4.4	3.7	4.2	4.6	4.7	5.0
Real per capita (% change)	1.9	1.3	1.8	2.1	2.3	2.5

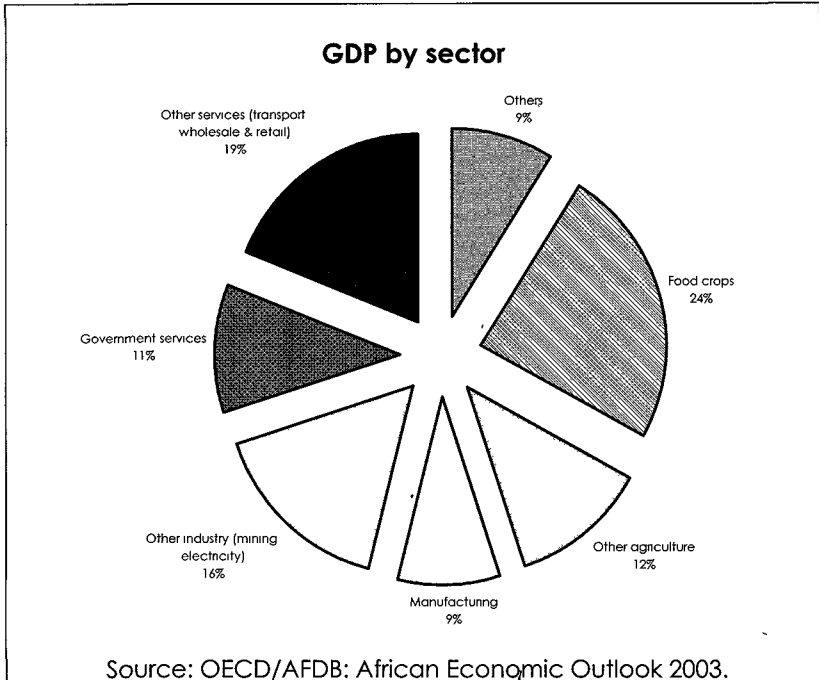
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<b>Ghana's financial indicators (continued)</b>						
Real domestic demand (% change)	8.7	4.5	5.1	1.7	5.1	3.9
Real investment (% change)	1.6	13.8	20.5	4.3	22.2	8.2
Real domestic investment (% of GDP)	21.5	24.0	26.6	19.7	23.0	23.7
Gross domestic investment (% of GDP)	9.4	16.4	23.1	19.2	21.4	22.4
Gross domestic savings (% of GDP)	12.6	0.8	0.0	1.5	10.0	5.0
Real exports (% change)	12.4	25.2	32.9	14.8	26.9	10.0
CPI inflation (% change)	56.9	67.4	25.4	12.6	41.1	43.5
Domestic credit to private sector (% change)	14.6	18.6	16.6	14.6	15.4	19.1
f: forecast.						
Source: OECD/AFDB: African Economic Outlook 2003.						

However, the structure of the economy still reflects minimal structural changes from the mid-1990s. In 2002, the services sector accounted for 35.2% of GDP, industry for 25.2% and agriculture for 39.2%.<sup>15</sup> Despite the relatively high share of industry in the GDP, the share of manufacturing is relatively low: it has remained between 8–9% since 1985. The share of manufacturing in industry fell from 65% in 1985 to 38% in 2001. This is partly the result of growth in the construction and mining

<sup>15</sup> *African Economic Outlook*, AFDB/OECD, 2003.

sectors, which accounted for 21% and 32% of the industrial sector respectively.<sup>16</sup>



## **Economic sectors**

### *Agriculture*

The agricultural sector, including forestry and fishing, is the mainstay of the Ghanaian economy. It employs over 60% of the work force, over 90% of whom are subsistence farmers working on plots of one hectare or less. Ghana has over 13.6 million hectares of arable land that are suitable for crops.

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<sup>16</sup> Bank of Ghana Annual Report, 2002.



Agriculture contributes 36% to total GDP. Cocoa is Ghana's main export crop, generating 34% of the country's total revenue earnings. The Ghanaian government is hoping, as part of its agricultural reform programme, to increase cocoa production from the current figure of 400,000 tonnes to 700,000 by 2009 by supplying tractors to farmers on easy and long-term financing terms. However, other crops and livestock are the second-largest contributors

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**Agriculture employs over 60% of the workforce.**

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to the country's agricultural output, earning 25% of the country's total GDP. These cash and subsistence crops include pineapples, yams, cotton, bananas, corn, kola nuts, wood, rice, sheanuts, cassava, copra, palm kernels, rubber, sugar cane, limes, tapioca, maize, peanuts, palm oil and coconuts. Agricultural output increased from 4% in 2001 to 4.4% in 2002, and to 6.1% in 2003 owing to the increased production of cocoa.<sup>17</sup> Yet the economy has been very vulnerable to fluctuations in global cocoa prices over the past decade. Policy changes, an expansion of the cocoa and forestry sub-sectors, a surge in cocoa prices and the favourable weather have, however, contributed to Ghana's agricultural gains over the last two years.

In addition, fishing has grown in importance. Currently, it contributes 5% to GDP. The country has a potential annual production of 655,000 metric tones of fish. Forestry is also becoming an important source of revenue for the Ghanaian government. Timber production contributes 4% towards total agricultural output. It was also Ghana's third largest source of revenue in 2003.

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<sup>17</sup> *African Economic Outlook*, AFDB/OECD, 2003.

## *Services*

The country's second-ranking economic sector is services, which contribute 30% towards Ghana's GDP and employ 25% of the work force. The services sector provides support to primary and secondary industries through offering storage facilities, distribution of industry and agricultural products and transportation; and professional backing in the form of financial accounting and business service. The public service and self-employed entrepreneurs also belong to this section of the economy. The sub-sectors that experienced the highest growth of around 5% in 2001 were wholesale and retail trade and tourism. The latter is fast becoming one of the largest sources of government revenue. Ghana attracted close to 500,000 visitors in 2002, reflecting a 10% rise in numbers of tourists compared with those of the previous year.

Since 2001, the Ghanaian government has also made impressive strides in improving and expanding access to telecommunication in both the rural and urban areas. This has been greatly assisted by the growth of the cellular phone market. In 2002, Ghana had three operators, which covered all areas of the country and catered for 217,084 telephone subscribers.

The government has also made great improvements in the financial sector. The planning phase for the construction of a new Stock Exchange in the capital is nearing completion, and other financial institutions and international banks, like Standard Charter and Barclays Bank, are setting up operations in the country.

## *Industry*

Growth in the industrial sector, which contributes 25% of the country's total GDP and employs 15% of the work force, has remained constant since 1997.<sup>18</sup> Until 2002, industry saw declining growth in all sub-sectors, especially in manufacturing. However, as a result of the new government's macroeconomic reforms in the industrial sector, industrial output increased by 4.7% in 2002 as opposed to 2.9% from 1998–2001.

Industrial activity has traditionally taken place in urban areas such as Accra, Kumasi and Tema, because of administrative, infrastructural and logistical limitations in other parts of the country. However, Ghana's industrial sector is diversified, with operations ranging from oil-refining, brewing, aluminium smelting, mining, agricultural processing, timber processing and sawmilling. Textiles, pharmaceuticals and cement are also produced. However, mining is the country's main industry. Gold is Ghana's largest source of revenue and foreign currency earnings. As mentioned earlier, the country also has large deposits of manganese ore, diamonds, bauxite, and aluminium. The mining sub-sector experienced a 4.5% increase in 2002.

## **The macro-economic environment**

### ***Fiscal policy***

The government of President Kufuor introduced a domestically controversial fiscal consolidation programme in 2001 to address the government's overall fiscal balance deficit and debt. Years

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<sup>18</sup> Institute for Security Studies. South Africa. *Ghana profile*, 2004.

of weak control over petroleum subsidies and wages had led to fiscal overruns and general financial mismanagement. The government introduced new taxes to generate much-needed revenue and initiated various measures to curtail public expenditure. These included the closure of public enterprises that had operated at a loss over many years, and a debt-recovery levy on petroleum and its by-products. A national health levy at a rate of 2.5% value added tax was also introduced as a means of providing health care for all Ghanaians, especially the poor and the unemployed, who would otherwise not be able to afford to use public health services. The government also strengthened its tax collection capacity by creating a bigger and more efficient revenue collection service.

The government's policies and provisions led to a reduction of the national deficit to 2.4% of GDP in 2004. This represented an improvement over the previous year's record of 4.4% of GDP and 8.5% of GDP in 2000.<sup>19</sup> However, the government's fiscal policy programme did not halt an increase in domestic spending attributable to higher unbudgeted subsidies on utilities, an increase in the price of petrol and the raising of civil servants' salaries. In 2002, government debt remained high, at 125% of GDP. Even though Ghana's external debt is expected to plummet under its Highly Indebted Poor Countries agreement (HIPC), its domestic debt is likely to remain constant. (See Box below)

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<sup>19</sup> Standard & Poors — Ghana 2003, p.8.

### **External debt**

In 2001, the government realised that its enormous external debt was an impediment to economic growth. Financing its debts and compounded interest was reducing the limited resources that the Ghanaian government had at its disposal for social spending and poverty reduction measures. Thus, the government sought debt relief under the HIPC Initiative from the IMF and the International Development Association (IDA). In 2002, the IMF and the IDA accepted the Ghanaian government's application. In return, Ghana agreed to meet the requirements stipulated by these institutions to reach the completion point under the Initiative.<sup>20</sup> These conditions included: the preparation of a Poverty Reduction Strategy Paper, outlining the key areas of development that the government intended to address; the initiation of structural and social reforms; and the introduction of a macro-economic stability programme to reduce inflation and increase economic growth.

On 15 June 2004, Ghana reached its completion point following an evaluation of the economic policies it had designed to qualify for debt relief under the HIPC Initiative. The World Bank found Ghana had fulfilled its obligation under the arrangement, by:

- reducing its inflation rate and strengthening its growth rate;
- using budgetary savings arising from reduced debt servicing payments to finance poverty reduction programmes;
- making the necessary moves to shift responsibility to local districts, as part of its decentralisation programme;
- addressing health issues by improving the supply of safe and accessible water to 46% of rural communities (as compared with only 40% in 2000);

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<sup>20</sup> The HIPC decision point is reached once a country has established a track record of reform and sound policies through IMF and World Bank-supported programmes. Usually these entail a Poverty Reduction and Growth Facility programme

**External debt (continued)**

- using budgetary savings arising from reduced debt servicing payments to finance poverty reduction programmes;
- making the necessary moves to shift responsibility to local districts, as part of its decentralisation programme;
- addressing health issues by improving the supply of safe and accessible water to 46% of rural communities (as compared with only 40% in 2000);
- raising gross enrolment rates at primary school for girls to 74% (from 72% in 2000); and
- improving its expenditure management policies by using a computer-based financial management information system to assist expenditure reporting.<sup>21</sup>

The government also formed a regulatory and oversight body that would oversee policy-making decisions and implement a new procurement code. In the energy sector, an automated price adjustment mechanism was introduced to reflect in local currency changes in international market prices. This was done to ensure the affordability of petroleum and electricity for low income Ghanaians.<sup>22</sup> These changes qualified Ghana for debt relief amounting to \$215 million per year from 2002–2011 under the HIPC, with the support of the World Bank and the IMF. In addition, the Paris Club cancelled more than \$1.644 billion of Ghana's debt after the country had reached its completion point under the HIPC Initiative. The funds freed by this arrangement are directed towards social development, infrastructure upgrading, health, and education, rural development, and improvements to the electoral system and political governance.

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<sup>21</sup> 2004 IMF Report No 04/209, p.9.

<sup>22</sup> *Ibid.*, p.9.

## **Monetary policy**

In 1999, the Ghanaian government was faced with enormous challenges that arose from various fiscal constraints, both internal and external. Foreign exchange rate earnings dropped significantly, owing to falling gold and cocoa prices and the rising cost of imported crude oil. A drop in export revenues and lower trade earnings, declining foreign aid to Africa and a reduction in FDI all affected the government's ability to manage its expenditure, resulting in increased borrowing and indebtedness.

The government embarked on a series of macro-economic policies designed to stabilise the economy and revitalise economic growth in 2001. The Ghanaian Central Bank was given responsibility for implementing a tight monetary policy that aimed to reduce the inflation rate to 12.5% and to meet a monetary growth target rate of 16% in the coming years. The government's monetary policy altered from a direct system of monetary management to a fully-fledged indirect system. The open market measures adopted under the latter improved the means by which the government managed its liquidity (a problem that had restricted currency flows into the economy for years).

For example by introducing repurchase agreements or repos, the government increased the minimum primary reserve requirements for banks to 9% from 8% making it possible for them to absorb pressures from the cedi and excess liquidity. As a result, consumer price inflation fell from a high of 41.9% in March 2001 to 14.3% in 2002, and again to a further record low of 11.2% in April 2004. The average interest on the 91-day Treasury bill fell from 47% in 2001 to 28.9% in 2002. These monetary results, coupled with strong monetary inflows and remittances assisted to increase consumer savings and gross

international reserves. The state enjoyed a surge of 22% in foreign currency deposits, a 52.8% increase in savings deposits, and gross capital savings of 20.3% of GDP in 2002, compared with 15.9% of GDP in 2001. In addition, there was an expansion of 13.6% of GDP in private gross capital formation in 2002, as against 11.6% in the previous year.<sup>23</sup>

### **Trade policy**

At the start of the 20<sup>th</sup> century, Ghana took a leading role in the West African region in attracting foreign trade. This enabled Ghana to transform the elements of its economy from a heavy reliance on subsistence agriculture to a more diversified economic base, in which trading and commerce contributed significantly to GDP. However, following Ghana's achieving independence in 1957, the country's exports dropped to pre-20<sup>th</sup> century levels.<sup>24</sup>

There has been some recovery from the trough of the mid-1980s, but the last two decades saw little growth. Exports continued to fluctuate around the level of \$100 per capita. One reason for the constant variations and the stagnant export figures is the oscillating price of cocoa. Moreover, Ghanaian governments failed to diversify their exports (although this has changed recently) and relied heavily on cocoa for foreign currency earnings. This commodity and associated products still provide two-thirds of the country's export revenues. Cocoa

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<sup>23</sup> African Development Bank Macroeconomic Indicators, 2002.

<sup>24</sup> During the first decade of the 20<sup>th</sup> century, Ghanaian exports amounted to \$100 per capita. By 1954, they had reached a record of \$300 per capita. However, after independence Ghanaian exports returned to the levels of the first decade of the 20<sup>th</sup> century. By 1998 exports per capita had returned to the level of 1910.



prices were low following the Second World War, and started to pick up only in the 1990s owing to increasing demand from the West. Unfortunately, Ghana has failed to respond by increasing its cocoa output. In 1999, it produced 381 000 tonnes of cocoa, about 30% lower than its peak in 1965. To return to the 1965 per capita basis would require an increase in output of nearly 2 million tonnes.<sup>25</sup>

In addition, imports rather than exports have dominated Ghana's trade portfolio for decades. From 1995–1999, the average annual growth for exports stood at 11.5%, in comparison with 18.1% for imports over the same period. From 1996–2001, growth in imports averaged 11.5% annually, as opposed to 4.6% for exports. In 2003, import levels stood at \$2.96 billion higher than the \$2.89 billion recorded in 1998.<sup>26</sup> The commodities imported include machinery and spares, foodstuffs, capital equipment, petroleum products, raw materials and foodstuffs. On the other hand, in 2003 exports levels were \$2.29 billion, compared with \$2.1 billion in 1999.<sup>27</sup>

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**Imports rather than exports have dominated Ghana's trade portfolio for decades.**

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However, revenues from exports increased by only 0.4% over the same period because world commodity prices for gold and cocoa, Ghana's primary exports were stagnant. (Ghana also exports

timber, tuna, bauxite, aluminium, manganese ore and diamonds). This dilemma explains why Ghana's widening trade gap, which was 18.9% of GDP in 2001, in contrast to 5.6% in 1996, continues to present a case for concern. It also reflects

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<sup>25</sup> Francis T, *Export Growth and Trade Policy in Ghana in the Twentieth Century*. Oxford: University of Oxford, 2002.

<sup>26</sup> Ghana Investment Promotion Centre. Fact Sheet on Ghana.

<sup>27</sup> *Ibid.*

the inability of successive governments to diversify and strengthen the distribution of Ghana's merchandise exports. Reliance on primarily agricultural and raw material commodity goods for exports — which depend on prices set by fluctuating world markets — is part of a broad policy failure in Ghana's administrations since the mid-1950s.

The current trade policy of the Ghanaian government has been formulated with a view to strengthening and promoting three different areas of exports as a means to boost overall revenues, promote other commodities and establish other destinations for these products. The first is diversification of agricultural products. The second is processing these goods for export. Since 1985, non-traditional agricultural exports have increased steadily.<sup>28</sup> In 2002, they made up 17% of Ghana's exports, compared with 5% in 1985.<sup>29</sup> These exports include pineapples, pepper, bananas, cocoa waste, bola nuts, game and wild animals, fish and seafood. However, firms exporting these products are small in size, which limits their overall contribution to exports (\$59,452 in 2002). The third is the promotion of manufactured non-traditional commodities for export. Processed and semi-processed products now constitute 80% of Ghana's non-traditional exports. These include wood and aluminium goods, salt, non-ferrous metal scrap, processed natural rubber, canned tuna, plastic and processed foods. Firms exporting these commodities are medium to large-scale in size. In 2002, the export of these products hit a record high of \$273,112. In addition, the Ghanaian government is attempting to expand the manufacture of other non-traditional

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<sup>28</sup> Ghana's agricultural produce includes cocoa and cocoa products, palm products, shea nuts, timber products, coffee, and coconuts. Ghana's dietary staples are meat, fish, and poultry. Basic foodstuffs include corn, sorghum, plantains, cassava, millet, rice, yams, and peanuts.

<sup>29</sup> EU, *EU Market Access Opportunities for Ghana and position for EPA negotiations*. March 2004.

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commodities such as garments, textiles, handicraft, cassava starch and salt for export.

The contribution of exports to GDP rose from 21.8% in 1996 to 34.4% in 2001. Even though Ghana continues to rely heavily on its two principal exports, gold and cocoa (34% and 23% of total export respectively), it has made great strides towards diversification. In 2000, 80% of Ghana's exports consisted of 10 products, as opposed to just five in 1996.<sup>30</sup> The relatively high growth in non-traditional exports (NTEs) is partly responsible for the diversification of exports. Since 1996, NTEs have grown by 17.5% annually. According to the Bank of Ghana, the share of total exports of NTEs, excluding cocoa, cocoa products, wood products, sheanuts and coffee grew from 9.2% to 13.4% in 2001. Using the Ghana Export Promotion Centre's broader classification of NTEs, which includes all products except gold, cocoa, timber and electricity, NTEs are responsible for 22% of Ghana's exports, with a value of \$400 million of total exports.

<b>Composition of exports, 1996–2002</b> <b>(Percentage shares of total receipts)</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Cocoa beans & products	33.4	32.6	34.5	30.5	26.1	23.9	25.9
Cocoa beans	29.0	26.7	30.2	27.5	22.8	19.9	21.6
Cocoa products	4.4	5.9	4.4	3.0	3.4	4.0	4.3
Mineral exports (US\$ million)	42.1	42.5	40.0	41.4	45.2	43.3	42.0
Gold exports	40.2	40.1	38.3	39.3	42.0	38.7	38.6
Diamonds	0.9	0.8	0.6	0.5	0.7	1.3	1.2
Bauxite	0.5	0.7	0.4	0.4	0.8	1.0	0.8
Manganese	0.5	0.8	0.7	1.2	1.7	2.3	1.4
Timber & wood products	9.8	11.9	9.5	9.6	10.5	10.6	10.2

<sup>30</sup> IMF, *International Financial Statistics Yearbook*, 2003.

<b>Composition of exports, 1996–2002 (continued)</b>							
<b>(Percentage shares of total receipts)</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Lumber	5.4	7.0	4.8	4.9	4.0	3.6	4.2
Wood Products	4.4	4.9	4.7	4.7	6.5	7.0	6.0
All others	14.7	13.0	16.0	18.4	18.2	22.2	21.8
Non-traditional exports (1)	9.8	11.5	13.5	14.5	13.9	17.5	17.4
Other exports (2)	5.0	1.5	2.5	3.9	4.3	4.7	4.4
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-traditional exports (US\$million)	276.2	329.1	401.7	404.4	400.7	459.6	504.3
Notes:	<p>1. Defined to exclude cocoa and wood products. Data obtained from GEPC database.</p> <p>2. Mainly electricity and residual fuel oil, as reported by the Bank of Ghana.</p>						
Source:	<p>Customs Excise and Preventive Service (CEPS), Bank of Ghana and GEPC databases, 2002.</p>						

## **Trade and business linkages between South Africa and Ghana**

Even though Ghana's traditional and non-traditional exports have expanded since 1998, there are several obstacles that hinder further growth. Among them are the limited absorption capacity of West African markets and the ineffectiveness of the ECOWAS trade liberalisation scheme. The Ghanaian government has therefore looked for other markets for its exports, especially for its non-traditional products, which

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**Ghana is regarded by SA business as the gateway to the rest of West Africa.**

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continue to be discriminated against by the *Union Economique et Monétaire de l'Afrique de l'Ouest* (UEMOA)<sup>31</sup> states within ECOWAS. Sub-Saharan Africa constitutes the most lucrative and accessible destination for Ghana's new range of products. Ghana's traditional trading partners, the EU and the US, have imposed stringent requirements and tariffs on these commodities.

As the continent's largest economy, and possessing a sizable market of 42 million people, South Africa is an alternative and potentially viable destination for Ghana's traditional and non-traditional exports. In turn, Ghana represents an untapped market for South African exports, as the latter continues to expand its trade and investment links with other parts of Sub-Saharan Africa, that lie outside the sometimes-saturated market of the SADC countries. In West Africa, Nigeria and Ghana constitute South Africa's biggest trading partners.

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<sup>31</sup> This is an economic bloc of West African Francophone states within the ECOWAS community. Member states are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

However, South African firms and government economists hold the view that Ghana is the gateway to the rest of West Africa. The reasons are its central location and its accessible, well-maintained transit and trade routes to other parts of the region. Moreover, the country's booming economy and political stability offer South African firms a much more favourable trading opportunity for their products than other, more risky, politically unstable, large West African markets, such as those of Nigeria and Côte d'Ivoire.

<b>South Africa's trade with Ghana (R million)</b>			
<b>Year</b>	<b>Exports</b>	<b>Imports</b>	<b>Trade surplus in SA's favour</b>
1992	21,689	4,095	17,594
1993	69,159	5,778	63,381
1994	81,866	22,687	59,179
1995	176,731	16,931	159,800
1996	260,129	15,613	244,516
1997	395,226	16,817	378,409
1998	476,121	28,193	447,928
1999	560,435	25,372	535,063
2000	591,842	29,538	562,304
2001	678,529	28,031	650,498
2002	979,975	72,105	907,870
2003	1,161,799	52,499	1,109,300

Source: DTI, www.dti.gov.za, 2004.

Currently, Ghana is ranked 42<sup>nd</sup> in the list of South Africa's overall export destinations and 77<sup>th</sup> in terms of her overall imports to South Africa. In 2003, this country's exports to Ghana were R1.61 billion (\$231 million), in contrast to R979 million (\$141 million) the previous year and \$61 million in 1998.<sup>32</sup> Ghana imported processed and manufactured goods such as alloy products, chemicals, tobacco, plastics, rubber, machinery and

<sup>32</sup> South African Department of Trade & Industry, 2004.

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mechanical appliances, vinegar, base metals and rubber. On the other hand, South African imports amounted to R52 million (\$7.5 million) in 2003 a huge increase when compared with \$3.6 million in 1998. South Africa imported agricultural and semi-processed commodities such as vegetable products, wood, mineral products, basketware, textiles and wickerwork from Ghana.

In recognition of the increased trade between the two states, the South African Department of Trade and Industry has appointed a trade officer to the South African High Commission in Accra. The trade office has a mandate to explore opportunities on behalf of the South African government and the country's business sector to strengthen levels of investment and trade between the two states, and to take advantage of the incentives and macroeconomic policy reforms to encourage investment that are offered by the Ghanaian government. In addition, the two governments established the Ghana–South African Chamber of Commerce in October 2000 to encourage the sharing of information pertaining to export and investment opportunities in both states. On 1 November 2004, South Africa's foreign minister, Dr Nkosazana Dlamini-Zuma, paid a visit to Ghana, where she signed agreements to create a joint commission for co-operation, avoidance of double taxation and cultural interaction.

Although significant commercial dealings between the two states began only in 1996, South Africa has become one of Ghana's leading trading partners, and is the country's primary market in sub-Saharan Africa. It is now competing fiercely with other long-established buyers of Ghana's products such as the EU and the US, who seek greater market access into Ghana and the West African region. Trade between South Africa and Ghana is expected to expand in response to a number of new

trade initiatives sponsored by the two governments, and to the efforts of firms hoping to promote trade between the two states. For example, South Africa's Reverak Travel and Tours, with the co-operation of the Ghanaian government, held a Ghana–South Africa Expo 2004 that took place from 2–4 November 2004 in Accra to advertise the trade opportunities offered by the two markets.

## **Investment**

Attracting and maintaining FDI constitutes one of the Ghanaian government's core objectives in its long-term strategy to stimulate economic growth and reduce poverty. The country's economic recovery programme commenced in 1983, and was designed to provide the necessary incentives to attract foreign investment flows into Ghana. In 1994, the government identified a number of key areas of importance to potential and existing investors, and reformed its legislation to improve services and provide further stimuli for investment in Ghana.

One such key area was the acceleration of the government's privatisation programme to encourage foreign investors to buy or take shares in existing under-performing, state-owned enterprises. By the 1990s, the Ghanaian government had sold 300 of 350 of such enterprises to foreign investors. In addition, the government reviewed and introduced new investment legislation to improve the operating environment for foreign investors. Established in 1994, the Ghana Investment Promotion Centre (GIPC) regulates investment in all sectors of the economy except the free zone, and the mineral, gas and oil industries. The functions of the Centre include the following:



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- the identification of specific projects for participants;
- the provision of liaison between investors and government ministries;
- the initiation and implementation of measures that will enhance the investment climate in the country;
- the collection, collation and analysis of information about investment opportunities;
- the registration and recording of all enterprises;
- the provision and dissemination of current information on incentives available to investors; and
- the offering of assistance to incoming and existing investors by providing support services such as helping companies to acquire the permits required for the establishment and operation of enterprises.

As a result, the Centre assists to reduce the delays and bureaucratic procedures faced by foreign investors.

Under the GIPC Act, FDI in all sectors of the economy other than the mining and petroleum industries, free zones and portfolio investments, can be established without prior approval by the Centre. Specific legislation governs FDI in certain areas of the economy such as real estate, non-banking financial institutions, insurance, securities, banking and fishing. With respect to mining and minerals, the government passed the Minerals and Mining Law in 1986, and amended it in 1994. Its provisions pertain to all large-scale investments, and address all areas of concern for foreign investors (land ownership, incentives, expropriation, tax holidays and guarantees of protection by government).

Another key area for which the government has passed legislation is the expropriation of dividends and compensation. There are no restrictions on the transfer of funds outside the

country, provided that foreign investors can prove that the funds have been generated by investments made in Ghana. In addition, foreign investors may convert revenues generated in the local currency to other major international currencies at current exchange rates. Legislation also provides guarantees against the nationalisation of property unless national security or public safety is at stake. Thus, foreign investors are given substantial government assurance that their investments will not be subject to risk.

**Free zones**

In September 1995, the Ghanaian government passed a law that established free zones aimed at promoting economic development. The country's first free trade zone was opened in May 1996. It is located near Tema Steelwork Ltd in the Greater Accra Region, and at two other sites near Takoradi. In addition, the Kotoka International Airport in Accra and the seaports of Takoradi and Tema are parts of an expanded free zone area created by government for foreign investors. Incentives provided to encourage qualified foreign companies to invest include guarantees that the income tax rate after 10 years shall not exceed 8%; complete exemption from payment of income tax on profits for 10 years; and full non-liability for withholding taxes on dividends.<sup>34</sup> In order to qualify to operate in these free zones, foreign investment enterprises are required to export more than 70% of their products.

The government has in recent years created other means to attract FDI. These include graduated and reasonable corporate taxes; tax holidays ranging from 5–10 years, depending on the sector in which the investment is made; other tax concessions such as a five-year loss carry-over, and

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<sup>34</sup> *Ibid.*

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research and development (R&D) expenditure deductibility and accelerated depreciation for plants and buildings. There are also incentives of between 25–50% for establishing operations in certain locations; tax rebates for manufacturing companies; and customs duties exemption for the importation of machinery and plant equipment; immigrant quotas are automatic; and foreign investors are exempted from double taxation.<sup>33</sup>

However, despite the new laws and incentives and the more liberal investment regime in Ghana, FDI inflows into the country remain volatile and unpredictable. An overall global decrease in FDI to both developed and less developed states, political instability in West Africa, policy uncertainty and economic deterioration have all led to fluctuations in FDI entering Ghana.

From 1985–1995, the annual average FDI influx into Ghana was \$51 million or 4.4% of gross fixed capital formation, reflecting the confidence and interest of global investors in the government's privatisation programme and other economic reforms. Ghana was ranked among the top 10 investment destinations for FDI in Africa. In 1999, FDI skyrocketed to \$267 million owing to massive global investment in Africa.<sup>35</sup> However, in 2000, Ghana's FDI declined to \$115 million. It fell further, to \$89 million, the following year because of instability in the region and the global decline in FDI that mirrored a general economic downturn after the terrorist attacks on American soil on 11 September 2001.<sup>36</sup> By 2003, FDI had recovered to \$137 million (or 10.7% of gross fixed capital formation) as a result of increased confidence in the Ghanaian economy caused by

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<sup>33</sup> Ghana Investment Promotion Centre. *A Brief Guide to Investing in Ghana*.

<sup>35</sup> UNCTAD World Investment Report 2004.

<sup>36</sup> *Ibid.*

the government's macro-economic reforms and new investment policies.

<b>Foreign Direct Investment in Ghana 1999–2003</b>				
<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
\$267 million	\$115 million	\$89 million	\$58.9 million	\$137 million
Source: Ghana Investment Promotion Centre, 2004.				

In terms of sectoral distribution, 70% of all FDI is directed towards the mining and energy sectors. International consortia have invested in Ghana's mineral wealth, especially in gold, diamonds, aluminium, manganese, bauxite, oil and natural gas. The Ghanaian government has reserved the right to retain a 10% free share in any investment in this sector, with an option to acquire a further 20% in mining explorations and investments. In the services sector, foreign investors have put increased funds into tourism, banking, public works and construction. Even though the services sector contributes the smallest volumes of FDI, it accounts for the largest share of FDI in terms of registered projects. Between 1994–2002, 53.32% of all registered investment projects, worth \$944.37 million, were in services. FDI in manufacturing is concentrated on resource-based activities such as the processing and exportation of canned fish and pineapples to the EU and North America. From 1994–2002, FDI in the manufacturing sector amounted to \$345.64 million, and represent 19.52% of all registered investment projects.

<b>Cumulative and yearly sector breakdown/investment cost of projects: January 2001–March 2004</b>			
<b>Sector</b>	<b>Total projects (%)</b>	<b>Total investment cost (\$ mn)</b>	<b>Total investment cost (%)</b>
Manufacturing	135,27.11	50.99	16.59
Service	145,29.12	142.65	46.40
Tourism	6,012.05	13.64	4.44
Building & construction	336.63	16.81	5.47
Export Trade	163.21	5.95	1.94
Agriculture	438.63	35.23	11.46
General Trade	6,613.25	42.14	13.71
Total	498,1.00	307.41	100.00

Source: Ghana Investment Promotion Centre, 2004.

The sources of FDI into Ghana have begun to change in recent years. Traditionally, European countries, especially the UK, have been the largest investors in Ghana, mainly in resource-based activities such as mining. Even though the UK is the largest investor in the country, with 164 projects, other states such as South Africa have begun to compete for larger shares of investment in Ghana.

Another reason for improved economic co-operation between Ghana and South Africa has been better implementation of numerous African Economic Union accords that support pan-African development and a common political vision. A strong political will to boost trade and investment between the two countries has also driven South African investment into Ghana. South African companies now play a leading role in the mining sector, especially following the merger of Anglo Gold with Ghana's Ashanti Goldfields (worth over \$1.4 billion in April 2004), and the acquisition of some goldmines by Goldfields. A sectoral breakdown of total investments supports the claim that the mining sector has attracted the greatest amount of South African FDI.

AngloGold, Goldfields and RandGold have invested in gold exploration and extraction as well. South African investment accounted for over 60% of total FDI in the Ghanaian mining sector. In the beverage industry, the South African company SABMiller entered the beer market through a merger with the ailing Ghana Brewery in 1997. South African entrepreneurs have poured more than \$21 million into the services sector, particularly in telecommunications; another \$5 billion into general trade; \$4 million into the building, construction and manufacturing industries; and \$1.5 million into tourism.

With an estimated annual rate of \$5 million of FDI, South Africa ranked second after Nigeria among other African states in terms of the volume and spread of its investment in Ghana. According to GIPC statistics, a total of 35 multinational and small-scale South African companies were registered in Ghana between 1994–2003. This amounts to an estimated \$36 million worth of investments from South Africa during the period, excluding investments made in the mining and energy sectors. In March 2004, there were 29 South African investments in Ghana outside the mining sector, making it the country's 14th largest source of FDI. The projects were divided as follows: two in building/construction, four in general trade, four in liaison, one in manufacturing and 18 in the services sector.

Even though Ghana's investment relations with South Africa date back only a few years, Ghana's younger and older generations are keen to experiment with the services and products offered by its sub-Saharan partner. Given the alternative of using and buying goods and services of the same quality coming from Europe or from South Africa, Ghanaians have expressed an enthusiastic preference for the latter.

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<b>Registered projects classified by country and economic activity: September 1994–March 2004</b>					
<b>State</b>	<b>Total</b>	<b>Agri- culture</b>	<b>Building/ Construc- tion</b>	<b>Exports/ trade</b>	<b>General trade</b>
Britain	164	2	12	9	11
India	155	18	7	13	19
China	141	5	10	3	15
Lebanon	122	2	13	6	19
USA	120	13	7	4	1
Germany	99	10	9	4	1
Korea	62	12	3	1	4
Italy	57	1	13	4	2
Netherlands	56	9	3	7	2
Switzerland	49	6	5	4	3
Nigeria	46	2	1	3	5
France	37	4	0	1	2
Canada	33	3	4	1	4
South Africa	29	0	2	0	4
Belgium	25	6	2	4	4
Australia	24	1	0	1	0
Denmark	23	2	1	1	1
Spain	15	2	3	1	2
UK/India	14	1	1	0	4
British Virgin Is	13	1	0	0	0
Taiwan	13	1	0	1	1
Malaysia	12	0	0	0	0
Ivory Coast	11	0	2	1	0
Hong Kong	10	0	0	0	2
Israel	9	2	0	0	1
Others	354	27	27	29	39
<b>TOTAL</b>	<b>1693</b>	<b>130</b>	<b>125</b>	<b>98</b>	<b>146</b>

Source: The Ghana Investment Promotion Centre, 2004.

<b>Registered projects classified by country and economic activity: September 1994–March 2004 (continued)</b>				
<b>State</b>	<b>Liaison</b>	<b>Manufacturing</b>	<b>Services</b>	<b>Tourism</b>
Britain	19	34	64	13
India	15	59	12	12
China	5	44	27	32
Lebanon	1	44	19	18
USA	6	20	50	19
Germany	5	24	36	10
Korea	3	16	15	8
Italy	1	27	3	6
Netherlands	2	7	17	9
Switzerland	4	10	14	3
Nigeria	5	9	20	1
France	1	11	10	8
Canada	0	6	13	2
South Africa	4	1	18	0
Belgium	0	1	7	1
Australia	2	7	10	3
Denmark	4	5	9	0
Spain	0	4	2	1
UK/India	1	7	0	0
British Virgin Is	2	1	8	1
Taiwan	0	7	2	1
Malaysia	3	1	8	0
Ivory Coast	1	4	2	1
Hong Kong	5	2	0	1
Israel	0	2	4	0
Others	22	82	89	39
<b>TOTAL</b>	<b>111</b>	<b>435</b>	<b>459</b>	<b>189</b>
Source: The Ghana Investment Promotion Centre, 2004.				



## **South African Companies in Ghana — Perceptions, Challenges and Experiences**

The SALLA survey of South African companies investing in Ghana found that almost all respondents regard the country as very friendly to foreign investors. Given that government's FDI incentives and strong commitments to economic liberalisation, South African companies were eager to expand their existing presence in the country. They were also in agreement that Ghana is a gateway to the rest of the West Africa and most said they were planning to extend their operations beyond Ghana and into the region. South African investors said they perceived Ghana as a safer destination for their investment, than Nigeria, Côte d'Ivoire or other turbulent states in the region.

The Ghanaian government and the Ghana Investment Promotion Centre (GIPC) have been assiduous in assisting South African companies to open businesses in Ghana. Many of the representatives of South African companies and Ghanaian business, and of the government officials interviewed said that there is a general desire in Ghanaians to see South Africans become the leading investors in the country. Moreover, many Ghanaians in business and government circles indicated that South Africans have a good understanding of the Ghanaian market, and are therefore able to adapt easily to the challenges it presents. South African investors are also perceived as important allies in Ghana's economic development, and as part of the larger South–South co-operation and development process.

South African companies have become key players in the mining, telecommunications, services, construction, tourism and general trade sectors. South Africa is also making

headway in competing with long-established investors from Europe and Asia in the franchise and retail, advertising, banking and insurance sectors.

Some of the main South African companies that have committed themselves to doing business in Ghana are AngloGold Ashanti, Goldfields, SABMiller, Woolworths, Engen, Hytec Engineering, Afripa Telecom, African Explosives Limited, Multichoice, Alliance Media, Steeledale, Stanbic Bank, Shoprite Checkers, Sherwood, Steers, SAA and 3M South Africa.

## **Mining**

In the mining sector, South African companies are the dominant foreign direct investors, owning a 60% market share of total investments. As mentioned earlier, in April 2004, the South African company AngloGold merged with Ghana's Ashanti Goldfields in a deal worth \$1.4 billion. The resulting consortium has become one of the most important foreign investment giants in the country, and one of the world's leading gold producers. Basing their calculations on a combination of AngloGold's financial and technical expertise and Ashanti's growth potential and gold reserves, analysts forecast sustainable growth in gold production for the next few years in Ghana.

The other large South African investor in the sector is Goldfields. Operating in Ghana since 1993, this mining company has established itself as one of the largest and most important foreign players in Ghana, with investments totaling more than \$500 million. Its operations expanded with the purchase of Ghana's Obosso goldfields in January 2002. It now holds 71.1% of the shares while its partner, the Canadian

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business lamgold, owns 18.9%. The Ghanaian government has retained a 10% interest.<sup>39</sup> The acquisition was reportedly worth \$67.3 million. Goldfields Ghana is set to increase its gold production from its current 800,000 ounces annually to 1 billion ounces per year.<sup>40</sup> The profitability of its current Ghanaian operations has prompted the company to look into further expansion of its Tarkwa and Damang mines.<sup>41</sup>

## **Multimedia communications**

South Africa is a dominant investor in Ghana's multimedia communications sector, with a market share of 90%. Multichoice, the pioneer of multi-channel digital satellite television in Africa, launched its operation in Ghana in 1994. Multichoice, which has invested over \$8 million, has launched a widely popular pay-TV venture with Ghanaian partners. The company is expecting to triple its subscriber base over the next couple of years, as a result of a relatively stable exchange rate and growing consumer spending on its products among Ghanaians.<sup>42</sup> Multichoice Ghana reported that the positive aspects of its experiences when opening operations in Ghana included the country's strong focus on publicity, good working relations with state regulators, and a strong commitment to social responsibility on the part of Ghana's citizens.<sup>43</sup> It expects to expand its coverage into other parts of Ghana, including the Ashanti and Western regions. This is being made possible by improvement in the country's infrastructure.

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<sup>39</sup> [www.ghanaweb.com/GhanaHomePage/economy](http://www.ghanaweb.com/GhanaHomePage/economy).

<sup>40</sup> [http://www.miningwatch.ca/publications/Cdn\\_Cos\\_in\\_Ghana.html](http://www.miningwatch.ca/publications/Cdn_Cos_in_Ghana.html).

<sup>41</sup> [www.goldfields.co.za/Investor/resentations/2003/010803/q4f2003\\_results.pdf](http://www.goldfields.co.za/Investor/resentations/2003/010803/q4f2003_results.pdf)

<sup>42</sup> [www.businessin africa.net/features/trade/320510.htm](http://www.businessin africa.net/features/trade/320510.htm).

<sup>43</sup> *Ibid.*

## **Advertising**

Companies from South Africa are new entrants to the Ghanaian advertising industry, enjoying a market share of 10%. One of the bigger South African investors in this industry is Media Alliance. The company strives to supply Ghana with quality, world-standard advertisement products, using South African logistics and expertise to create material appropriate to Ghanaian culture and the average citizen's disposable income.

## **Brewing**

South African investors are dominant players in the Ghanaian brewing industry. One company that is widely recognised among Ghanaian beer drinkers is Accra Brewery. As has been mentioned, SABMiller, the South African-based brewery giant, merged with the Accra Brewery in 1997, acquiring a controlling interest of 69%. SABMiller invested \$9 million in rehabilitating the Accra Brewery and in this way helped to turn the enterprise around. Accra Brewery had been using outdated techniques, ageing machinery and suffering from mounting debt, but SABMiller's interventions transformed it into one of the most viable companies in Ghana. In 2003, production outstripped the local consumption of beer by 35.5%.<sup>44</sup> By 2004, the company had doubled its operating profits, and increased its turnover by 60%.

Accra Brewery claims 34% of the market — this figure is expected to double by the end of 2004.<sup>45</sup> It is now the second-

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<sup>44</sup> *Ibid.*

<sup>45</sup> *Ibid.*

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largest brewery in Ghana. For the present, it is concentrating on further rehabilitating its plants in Ghana, as well as improving its cooling and packing capacities.

## **Manufacturing**

Steeledale, 3M South Africa and African Explosives are the largest South African investors in the manufacturing sector, which has enjoyed strong growth since 1999. With a market share of 30–35%, South African companies are becoming prominent in Ghanaian industry. Established in South Africa in 1969, Steeledale is a leading manufacturer of wire products, welded mesh (used in the agricultural industry), security fencing, construction and mining. The company expanded into Ghana in 1999, making an initial combined commitment of more than \$320,000 with its partner Stype Investment. Since then it has increased its investment in Ghana to more than \$600,000.

3M Ghana, a subsidiary of the 3M Group, is a diversified manufacturing corporation that sells over 60,000 product lines that range from consumer and healthcare to telecommunication and transport commodities. The company has operated in Ghana since 2002, having made an initial investment of less than \$7 million. It works with a number of Ghanaian local partners and distributors.

African Explosives Limited is one of South Africa's leading suppliers and manufacturers of commercial explosives, blasting solutions and services to the mining, construction and quarrying industries. The company first entered Ghana in 1994 with an initial investment of \$2 million, which has since grown to \$10 million.

## **Engineering**

South African companies have yet to penetrate the Ghanaian engineering industry fully. At present their market share is less than 10%. One of the only significant South African investors in the industry, Hytec Engineering, first ventured into Ghana only two years ago. A leading hydraulic cylinder manufacturer in Southern Africa, Hytec has since committed more than \$6 million to its Ghanaian operations.

## **Services**

The services sector has enjoyed the largest South African foreign investment of any other segment of the Ghanaian economy. More than \$21 million in FDI has been committed since 1994. South African Airways (SAA) and Sherwood constitute some of South Africa's largest investors in services. SAA began operations in Ghana in 1996. Since then, it has increased flights to and from South Africa to four times a week, in an effort to meet increased demand from business people and travelers flying between the two countries. Although most people traveling to and from Ghana on SAA do so for business purposes, there is an increased growth in tourism. SAA was voted the best airline in Ghana in 2004. Its flights to Ghana are very profitable owing to the increasing size of its market share and the significant rise in the number of South Africans visiting Ghana over the last four years. Moreover, SAA faces no serious competition in Ghana, as it is the only airline that provides direct flights to Ghana from South Africa.

Sherwood is a South African specialist procurement and logistics company, which entered Ghana in 1999. The

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company provides these services to large multinational companies such as Accra Brewery and AngloGold Ashanti.

## **Telecommunications**

In the telecommunications subsector, South African companies hold around 35% of the market share. The most significant of these is the Afripa Group, a subsidiary of the South African-based telecommunications company bearing the same name which also has a presence in Benin, Ivory Coast, Niger and Mali. The company uses a USAT network capable of providing nationwide coverage, and currently provides a telecommunication infrastructure using 654 KB access via CDMA radio.<sup>46</sup> The company deployed frame relay technology to cover Takoradi, Accra and Kumasi in 2000.<sup>47</sup>

## **Banking**

South African banks are new entrants into Ghana. They control slightly more than 3% of market share, and have revenues of over \$10 million. Stanbic, a subsidiary of South Africa's Standard Bank, began operations in Ghana in 1994, although it was not until 1999 that South African investors had acquired a controlling interest. At the moment, they hold a 96% interest in Stanbic Ghana as regulated by the Bank of Ghana; the remaining 4% is distributed amongst Ghanaian investors. The

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<sup>46</sup> <http://www.mbendi.co.za/indy/cotl/cotl/af/gh/p0005.htm>.

<sup>47</sup> *Ibid.*

bank is rapidly restructuring its operations following three years of negative results.

## **Retail**

Investment in Ghana by South African retail chains is growing. Following an initial outlay of more than \$4 million, these chains are expected to pump more than \$30 million in capital into Ghana over the next three years, as the number of stores increases. South Africa's current market share of 10% of the sector is expected to grow to 60–80%, because there are few large international retail stores in Ghana. The Shoprite group of companies started operating in Ghana in October 2003. Currently, there are four Usave stores (in Accra, Tema and Takoradi) and a fifth store is expected to open soon in a \$25-million mall that is being planned in central Accra.

## **Energy**

South African companies constitute a small but growing number of investors in the energy sector. With a market share of 2% and investments totaling more than \$3.8 million, these businesses are aiming to expand their investment in Ghana over the next couple of years. However, they face stiff competition from other multinational competitors such as Total, Shell and Mobile, which have been operating in Ghana for a much longer period. One of South Africa's petroleum giants, Engen, entered the Ghanaian energy sector in 1999. Because of start-up costs and the need for restructuring, it was only in 2003 that Engen realised profit on its investment in Ghana.



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Currently, the company controls three petroleum stations in Ghana, located in Accra and Tema. It is now poised to see its market share expand and its profit margins increase.

### **Franchising**

Franchising chains from South African are quickly taking advantage of the growing market for fast food among Ghanaians. Steers and Nandos are the two largest South African fast food chains operating in the country. Steers, South Africa's leading fast food franchise, entered Ghana in 2000. With an initial investment of more than \$1 million, Steers is one of many fast food chains in the country that is wholly operated by Ghanaians as a franchise. It has a 15% market share. Its main competitors include Nandos, Frankees, Southern Fried Chicken and Popeyes.

## **Reasons for doing business in Ghana and nature of investments**

The survey findings reflect a number of diverse reasons given by South African companies as to why they chose to invest in Ghana. The majority, especially the larger South African businesses, claimed that they entered Ghana for strategic reasons because they view the country as an access point to all the markets of the ECOWAS countries. Moreover, the country's membership of the World Trade Organisation (WTO), its free export zones (where goods traded with other ECOWAS states are exempted from customs duties and tariffs) and its quota-free access to the EU and US markets all provide good reasons for investment.

In addition, the majority of those surveyed conveyed their optimism about the economic and political future of Ghana. Many South African investors in Ghana see the country as a model on the African continent because of its political stability and economic vibrancy. They are satisfied with the structural reforms and policies undertaken by government to spur economic growth, ensure currency stability, encourage rapid expansion of its stock market, foster the growth of its non-traditional and traditional exports, expand its infrastructure and increase FDI. To many investors, this translates into an environment of stability and economic growth that bodes well for their operations in Ghana.

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**The majority of firms surveyed were optimistic about Ghana's economic and political future.**

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This is especially true for smaller South African companies. Many of these firmly believe that their market share and revenues will grow in the light of Ghana's recent economic

expansion. They expect to reap the benefits of a rise in income levels and a thirst for foreign goods and services among Ghanaians. Even though the majority of businesses also indicated that profit margins were a factor that prompted them to invest in Ghana, many reported that the contributions of their Ghanaian operations to the parent company's earnings were not more than 10% on average. There were, however, some exceptions, such as Goldfields and AngloGold Ashanti.

Lastly, it is important to note that one overwhelming reason for investment given by respondents to this survey was their appreciation of the well-educated, industrious and hardworking work force that Ghana offers. There is a strong emphasis on education in all of Ghana's ethnic and socio-economic groups, and the country's literacy rate is above 74.8%, one of the highest on the continent.

In terms of the nature of investments, most South African companies are greenfield entries. There has also been a surge in the number of acquisitions and mergers, as in the cases with AngloGold with Ashanti and SABMiller with Accra Brewery. Like other South African companies, both AngloGold and SABMiller have elected to work with local partners as a risk-mitigating choice, even though it is not required by Ghanaian law. Local partners tend to know the market and business climate much

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**South African business face stiff competition from international firms.**

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better than foreign investors can; they can also act as intermediaries in disputes between South African firms and the government or with other Ghanaian firms. In the majority of the South African firms interviewed, local partners were seen as having contributed greatly to the overall viability of their companies, and were therefore regarded as important assets.

Overall, South African business have fared remarkably well in the Ghanaian market. The majority of those interviewed stated that they were dominant or important players in their markets. Even though most of the companies surveyed enjoy a market share of between 10–50%, the majority are optimistic that it will grow in the near future. South African companies have proved to be resilient and strongly motivated foreign investors in Ghana, in spite of the fierce competition that characterises its market. The strongest rivals to the South African firms are European multinational corporations and American, Indian and Chinese companies.

## **Costs of doing business in Ghana**

According to United Nations Conference on Trade and Development (UNCTAD), Ghana has achieved two ratings that place it among the leading six countries in Africa. One is calculated on progress made in improving its business environment, and the other is based on its attractiveness to FDI. Both of these ratings cover the 2000–2003 period.

The cost of setting up a company in Ghana can be expensive and time-consuming as it is in other destinations in West Africa. However, once the operation is established and running, Ghana offers a less costly place in which to do business than other countries in the region such as Nigeria. The GIPC stipulates that the minimum equity or equipment in capital goods required to set up a business is \$10,000 for joint ventures with a Ghanaian partner, \$50,000 for 100% foreign-owned ventures and \$300,000 for firms that will be engaged in trading activities. Since 1994, the Ghana Investment Promotion Act has helped cut down on many administrative costs, and has also reduced the time it takes to open an operation in

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Ghana by establishing the GIPC, which has a mandate to help administer and set up businesses for international investors. The Investment Act also accelerated the time taken by the Ghana Immigration Service to issue working visas to expatriates, by linking immigration quotas to investment levels.

Foreign firms are required to submit applications for registration of their businesses with the GIPC and the Registrar-General's Department within five business days. Although the process by which a business is approved by government through the GIPC would normally take 85 working days,<sup>48</sup> South African companies like other international investors, have found that it can take up to two years to obtain an allocation of land for business activities, and a further year before they are ready to start their operations in Ghana. This is mainly attributable to the lengthy process of site development, which is influenced by matters such as land allocation, building permits and meeting environmental standards.

Aside from the costs attached to setting up a business, investors face other financial charges. Accommodation and food are relatively expensive in the country: a typical 3-star hotel room costs approximately \$75 per day, and an average meal in such a hotel can amount to c80,000 (cedis).<sup>49</sup> Thus, investors are often encouraged to buy their own accommodation in Ghana in preference to rent. However, houses in Ghana's big cities, such as Accra, Kumasi and Takoradi are also expensive, because Ghana relies heavily on imported building materials. Sudden rises in interest rates, devaluations of the cedi (in the past) and the privatisation of the government's housing scheme have also helped to push housing prices to record heights. In the 1990s, Ghana's housing

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<sup>48</sup> *Doing Business in 2005 Sub-Saharan Africa*, Regional profile, IMF, p.6.

<sup>49</sup> In October 2004, the exchange rate was \$1:c900.0.

price to income ratio was 1:12, one of the highest in the world. Prospective tenants also reported that it took six months on average to find a place to rent, and that most landlords required a two-year advance before they allowed tenants to move in. Expatriates with families are also encouraged by other foreign direct investors to enroll their children in one of the two international schools in Accra, which are more expensive than the average Ghanaian school.

Nevertheless, Ghana is seen as being one of the least expensive countries in sub-Saharan countries in which to open a business with 87.5% of GNI per capita.<sup>50</sup> Moreover, once a company has been set up, foreign firms face no major expenses additional to those incurred in running their business, provided that the capital needed to maintain or expand the firm is provided from subsequent profits or from abroad by the parent company. As has been noted, access to finance is extremely difficult and expensive in Ghana, especially for small to medium-sized businesses.

On the positive side, Ghana has lower corruption rates than other West African investment destinations such as Nigeria; lower-priced utilities than those elsewhere in the region; an adequate and relatively constant supply of water and electricity; inexpensive labour; and a low crime rate (which means a consistent drop in insurance premiums). All of these help to reduce the costs of doing business in Ghana over the long term, ensuring a sizable return on investment. According to the United Nations Industrial Development Organisation (UNIDO), about 60% of foreign companies in Ghana report better than expected performances on their investments between 2000–2003.

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<sup>50</sup> *Doing Business in 2005 Sub-Saharan Africa, op. cit.*, p.6.

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<b>Business start-up costs and delays</b>		
<b>Office</b>	<b>Costs</b>	<b>Delays</b>
I. General approvals, permits & licences		
Registrar-General	Processing: c10,000 Forms: c500 Stamp Tax: 0.2%>c25,000	5 days
Ghana Investment Promotion Centre	Registration: \$250 Form: c10,000	5 days
Internal Revenue Service	Internal Revenue Service Registration: c2,500	1 hour
	Tax Clearance Certificate: c500	1 hour
Ghana Immigration Service	Processing Fee: c20,000/yr	2 weeks
Accra Metropolitan Authority	Business licences (industries): c50,000–c120,000 Property tax: 0.5% of assessed value	Licenses
II. Site development		
Lands Committee	Development Charge: c10 million (for 2 acres) Surveying: c100,000	3–6 months (can take up to 2 years)
Town & Country Planning	Development Permit Processing: c3,000	8–12 weeks
Accra Metropolitan Authority-City Engineering	Building Permit Form: c5000 Processing Fee: 0.625% estimated building cost	1–3 months
Accra Metropolitan Authority-Health	None	3 days
Environmental Authority Agency	Processing: c10,000–c100,000	Up to 21 days if no impact 1–3 months for minimum report

<b>Business start-up costs and delays (continued)</b>		
<b>Office</b>	<b>Costs</b>	<b>Delays</b>
III. Utility providers		
Electricity Corporation of Ghana	Installation: c8–9 million per km for 11 kv	1 month to prepare cost estimate 2–3 months for installation
Ghana Water & Sewage Corporation	Installation: c140,000–340,000	2–8 weeks
Posts & Telecommunication Corporation	Installation: c50,000–100,000/line Deposit: (International Direct Dial Service) c200,000 line	Minimum 7 days
IV. Specialised		
Standards Board	Testing fee: c25,000–50,000	4–8 weeks
Factories Inspectorate	Processing fee: c10,000–30,000	2–3 weeks
Social Security and National Insurance Trust	None	2–3 days
Ministry of Food & Agriculture	None	1 week
Ghana Tourism Board	Hotel application: c15,000	2 weeks
Forestry Department	Timber concession processing fee: c500,000	2–3 months
Source: The Ghana Investment Promotion Centre		

## **Main constraints on doing business in Ghana**

South African businesses entering Ghana face a number of challenges and problems, as do other foreign investors. Most of these constraints stem from differences in the structures of the Ghanaian as opposed to their home economies, cultural dissimilarities and conflicting business practices. Some of the major business constraints faced by South African enterprises,



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based on information gained from the interviews and surveys conducted are outlined below.

### **• Lack of disposable income**

With an average per capita income of just \$320 in 2003, Ghanaians suffer from a lack of disposable income that constitutes a problem for South African companies operating in that country. Ghanaians have not seen their income levels increase in decades because of political turmoil and economic stagnation. However, as a result of the current administration's poverty reduction programme, Ghana expects income levels to rise. The government aims to make Ghana a middle-income state by 2020. South African firms complained that average Ghanaians, who are trying to make their meagre incomes stretch sufficiently to support their families, are unable to afford the commodities they produce. Because superior-quality but expensive products are supplied by South African firms, many Ghanaians are opting to buy lower-quality imitations at lower cost from Asia instead. Over a third of Ghana's population are poor, and only 43% of Ghanaians live in the urban centres. The remaining 57% live in rural and, in most cases, deprived areas. Nevertheless, in spite of the limited purchasing power of most Ghanaians, South African firms expressed optimism about their future prospects, claiming that they always managed in the past to find a niche in the market for their products.

- **Bureaucracy**

Bureaucratic red tape represents one of the most serious business constraints faced by many South African firms, especially small to medium-sized ones. Many companies reported that the regulatory regime for business in Ghana is not clearly defined, and that the decision-making process does not involve the civil service. Instead, the government has exclusive power over business affairs in the country. All decisions affecting foreign investment and the economy are made by government ministers, who are often overstretched. As a result, not only do decisions take a long time, but their enforcement is often delayed.

- **Corruption**

Corruption in Ghana was seen as less prevalent than in other West African states, most notably Nigeria. The majority of South African businesses indicated that they did not consider corruption as a major obstacle to doing business in Ghana. For

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**The government does not tolerate corruption in strategic sectors of the economy.**

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example, in comparison with Nigeria, bribes are not a prerequisite to establishing a company or facilitating a business transaction in Ghana, even though they reported having had to give 'gifts' or provide favours in return for services rendered by Ghanaians. Moreover, firms indicated that the government did not tolerate corruption when it came to large firms such as AngloGold Ashanti or Goldfields, who contribute substantially to the national economy, or are instrumental to specific industries. Instead, the government has

blamed the level of corruption on foreign firms because they insisted on bribing Ghanaian officials in the past. This was a result of the misconception that it is a required practice, as it is in many in other African countries.

- **Tenure/property rights**

South African investors have faced many obstacles and bureaucratic hurdles in attempting to buy land or make concessions to other individuals who claim rights over purchased lands. The most common complaint concerns the extreme slowness of the land acquisition procedure. One reason given for the delay in allocating land for commercial activities is Ghana's contested property rights. Because of the country's turbulent history of coups and frequent changes of government, land ownership has become a murky issue. It is common to find more than one individual laying claim to the same piece of territory. Land is usually privately owned in Ghana. Although the government and tribal leaders have bought land from private citizens, the problem arises in finding the true owner of land and establishing its boundaries. The absence of written titles and

records detailing purchase agreements over the years has led to many land disputes. Responsibility for

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**Access to land is a major obstacle facing foreign investors.**

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settling land ownership claims has been delegated to tribal leaders by the government. However, an already complex process has been complicated by nepotism and bribery, which have influenced their decisions on disputed property and lands. The process of applying to tribal leaders to buy land to

set up a business is also prone to indefinite delays, which add to the costs of foreign investors.

Thus, access to land is a major obstacle facing South African and other foreign investors in Ghana. Over the years, the difficulty of obtaining property rights has inhibited the growth of existing South African enterprises, and has made the establishment of other businesses more time-consuming and complicated.

- **Delays in the legal system**

Complaints about the Ghanaian legal system tended to focus on its slowness, as opposed to the weakness of those in other West African states. Compared to its neighbours, Ghana has a relatively strong, well-developed legal system. The government has passed many laws regulating virtually every aspect of FDI in all areas of the economy. In the past, however, the courts have been dilatory in ruling on disputes involving South African firms, the government, Ghanaian customers or partners, and at times equally tardy in enforcing their decisions. The delays are attributable to institutional inefficiencies, resource constraints, corruption and nepotism. To remedy the situation, the government has established 'fast-track' courts to improve efficiency in resolving some cases. These courts are better equipped divisions of the High Court of Justice and have the task of handling and filing judgements on disputes involving foreign investors within six months. However, there have been incidents involving South African firms where decisions made by the courts have taken longer than the stipulated six months.

• **Cost of, and access to, finance**

One of the biggest obstacles facing South African firms, especially small to medium-sized ones, is raising finance. In Ghana, 85% of all domestic lending is short-term. The Bank of Ghana has set long-term investment finance at only \$100 million (1.5% of GDP), with external sources contributing US\$20 million.<sup>51</sup> Banks have imposed high interest rates, usually 22%, on all loans. This has restricted the ability of smaller sized enterprises to raise loans. In addition, banks have stringent borrowing requirements, which make it more difficult for small and medium-sized enterprises to meet them. For example, the banks demand 100% collateral in the form of cash or assets on all loans. As a result, smaller-sized firms have been forced to rely on existing profits or the overseas assets of their parent companies to finance projects. It was noted that 55% of all firms in Ghana have a zero investment (that is they work simply on a daily basis, with no capital), making future growth or expansion of their enterprises extremely difficult to achieve.<sup>52</sup>

In the light of their limited access to finance in Ghana, South African investors are calling on South African banks to expand into that country to take advantage of the opportunities it offers. South African banks are seen as a possible catalyst for further investment growth between the two countries, because they are expected to provide easier terms of credit to smaller South African firms.

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<sup>51</sup> International Competitiveness In NTEs: Ghana, World Bank, 2001.

<sup>52</sup> *Ghanaian Manufacturing Enterprise Survey 2000*. University of Oxford: Centre for the Study of African Economics, 2002.

<b>Ghana's domestic credit and investment rates from 1997–2002</b>						
<b>Domestic credit and investment rates</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Private sector domestic credit (US\$ millions)	685.25	805.91	697.56	986.26	984.44	n/a
Private sector domestic credit as a proportion of GDP (%)	9.17	10.45	14.01	18.58	16.15	n/a
Bank lending rates (interest rate spread (%))	35–51	30–48	28–47	39–55	39–55	n/a
Inflation	27.9	n/a	12.4	25.2	32.9	14.8
Treasury bill 91 day (interest rate %)	42.5	26.8	31.4	38.0	27.0	25.0
Net interest spread (%)	10.5	11.0	15.2	10.5	14.4	10.1
Interest rates	45%	37.00%	34%	42%	3.31%	38.5%
Cedi/\$ depreciation		4.0%	33.0%	100.0%	4.32%	12.0%

Source: Bank of Ghana Annual Reports.

### • Infrastructure

Ghana has one of the most developed infrastructure networks in West Africa. However, some South African companies complained that the government could do more to improve its infrastructure, which would help to attract more FDI and retain the existing international businesses. Kotaka International is the only international airport in Ghana, and because of increasing

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trade and tourism, it is struggling to cope with the higher volumes of passengers and freight. In 2001, it handled more cargo than any airport in the region because of instability in Nigeria and Côte d'Ivoire. At that time Kotaka was used for 22% of all regional freight. This helped to lower airfreight rates. However, high handling costs and delays are a major obstacle for companies. South African firms have also complained about the lack of regular and reliable access to cargo space for exports, both at the harbours and the airport. In terms of ports, Ghana's charges for sea freight are among the lowest in Africa.<sup>53</sup> However, port costs are higher in Ghana than in other West African states with access to the sea, and the ports are inefficient and do not use their existing capacity effectively.

Road transport accounts for 94% of total domestic and intra-regional freight in Ghana.<sup>54</sup> However, many South African firms criticised the poor quality of the roads. Ill-maintained transport routes have meant delays in the delivery of products to their destinations, higher costs of vehicle maintenance and increased transport charges for goods. Nevertheless, the government has recently initiated various roadwork projects to improve and maintain key roads in the capital and Kumasi. Ghana's railway system is poorly developed, and the existing network is in disrepair. The country has a freight service from Obuasi to Takoradi, which transports ore.

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<sup>53</sup> *Ghana: International Competitiveness. Opportunities and Challenges facing NTEs*, World Bank, 2001.

<sup>54</sup> *Ibid.*

## **Some policy recommendations**

Representatives of South African firms, other foreign firms, Ghanaian officials, and international organisations in Ghana who were interviewed in this survey outlined a series of policy recommendations. These suggest improvements that they would like to see implemented to make Ghana a more investment-friendly destination.

### **Recommendations to the Ghanaian government**

- **Consolidation of laws relating to hazardous goods.** The government needs to consolidate the laws that pertain to hazardous goods. Companies involved in manufacturing and industry would like government to accelerate the pace at which laws are passed, and to create an overall framework that covers all hazardous goods being imported or processed in the country.
- **Swifter processing of applications for work permits.** Interviewees called on the government to take steps to ensure that the Ghana Immigration Service issues work permits in a timely and efficient manner.
- **More efficient custom clearance.** Foreign firms would like to see Ghana's customs procedures further revamped and restructured, although they are grateful for the current reforms already undertaken by the government to make customs clearance at the ports and airports more efficient. With the introduction of automated inspection machines at the ports and airports, clearance of both imported and exported goods is expected to take less time.



- **Issuance of more soft loans over a long-term period.** Small and medium-sized companies would like to see the government issue more soft loans, with reduced interest rates. At the moment, banks impose severe restrictions on long-term loans. These are compounded by high interest rates and high collateral terms.
- **A more coherent ECOWAS agreement.** Many foreign investors and their Ghanaian counterparts would like to see the Ghanaian government negotiate a more coherent ECOWAS agreement with other English and French speaking members of the regional organisation. This would allow more Ghanaian products to be exported to French-speaking ECOWAS member countries. (South African investors also complain about the delays and high costs involved in labeling their products in French for exportation to Ghana's Francophone neighbours.)
- **Improvement in petroleum margins.** In the energy sector, there is a call on the government to increase petroleum profit margins by at least 40% to parallel those in the rest of the West African region. Currently, the gas margin is set at \$22 per cubic metre in Ghana, as opposed to \$31 in the lowest profit margin of any other country of West Africa. In the past, the government regulated the petroleum sector, and subsidised it heavily in light of the increasing price of crude oil in the global market.
- **The easing or removal of visa restrictions.** In the tourism sector, companies would like the government to ease or remove visa requirements for travelers, back-packers and business people from South Africa wishing to visit Ghana. At the moment, it takes four days for a business-related visa to be issued and various costs are involved.

- **Promotion of Ghana as a tourist destination.** Another recommendation of South African tourism in Ghana is that the government should advertise Ghana as an alternative tourist destination in West Africa. The country boasts game reserves, beautiful beaches and historic sites such as the Cape Coast slave fortress (which thousands of Afro-Americans visit each year to explore their past). In sum, Ghana offers a very attractive African holiday destination to South African travelers.
- **Setting up special courts for investors.** South African businesses urge the government to set up special courts to deal with the legal issues and problems of investors, to speed up the process by which decisions are reached. The special courts would also ease the backlog of cases before both the ordinary courts and the 'fast-tracked' courts. Even though the latter have accelerated the resolution of court cases involving foreign direct investors, the special courts would go even further to address investors' problems more efficiently, because they would handle only cases relating to FDI.
- **Intervention in land disputes.** Foreign investors, including South Africans, would like to see more government intervention in disputes over land rights. Due to a lack of formal registration and inadequate records of land purchases, which have caused land to be claimed by multiple owners, foreign investors are faced with vast amounts of legal and bureaucratic red tape when it comes to land purchases. The role of tribal leaders in making decisions with regard to land disputes has evoked mounting criticism from local and foreign investors, who claim that the process is not only inefficient but corrupt.
- **Control over cheap, inferior goods.** A number of South African firms expressed a desire to see the Ghanaian

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authorities curtail the influx of cheap, inferior imports, which is undermining sales of their own products. Ghana is continually being flooded with goods from East and Southeast Asia. However, many Ghanaians are better able to afford such products, such as cars and car parts, than the superior equivalent.

### **Recommendations to the South African government**

Policy recommendations directed towards the South African government suggested means to promote and enhance trade and investment opportunities between the two countries.

- **Preferential import duties for Ghanaian imports.** Those interviewed recommend that the South African government should lower import duties on products originating from Ghana, as a way to boost that country's exports. At present, South Africa's trade balance with Ghana is heavily tilted in favour of the former. Ghanaian officials are calling for a comprehensive trade treaty, which would eliminate tariffs between Ghana and South Africa. This would help boost Ghanaian products exported to South Africa and vice versa. Free trade between the two countries would go a long way to enhance co-operation in the fields of technology, economic development and poverty alleviation, from which both countries would benefit.
- **Promotion of Ghanaian investment in SA.** There is a strong call on the government to help promote the growth of Ghanaian businesses in South Africa by providing incentives and eliminating barriers to their growth and development. Ghanaian investment in South Africa is minimal compared with South African FDI into Ghana.

- **Sharing of information and expertise.** The South Africa government should encourage the sharing of expertise in the fields of technology transfer, skills development, and business and investment laws pertaining to mining, land and property rights with Ghana.
- **Easing of visa requirements.** A number of Ghanaian officials have called for a lifting of visa requirements for Ghanaian travelers coming to South Africa to explore investment and business opportunities in the country. At the moment, Ghanaians are required to obtain a visa before arriving in South Africa for either holiday or business purposes.
- **Establishing trade and investment missions.** There is a need for the government to set up fact-finding trade and investment missions to Ghana to help collect information on that country's business environment, the investment opportunities it offers, as well as the obstacles and challenges that exist in the different sectors. This would go a long way towards introducing South African companies to the Ghanaian market before investing. It would also help reduce the chances of companies failing and returning to South Africa. (In 2001, Pep Stores, which had a chain of footwear and clothing outlets in Ghana, collapsed. They attributed their failure to an over-liberalised economy with weak regulation, specifically of wholesale goods, and the bulk dumping of used clothing).
- **The need for local partners.** Interviewees wished to stress the advantages for South African companies of having local partners who know the Ghanaian market, and hoped that government would support this, and encourage firms to register on the Ghanaian stock market. These moves would help to reduce the chances of failure over the long term.

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- **Reducing the prices of air tickets.** There is a strong argument in favour of lowering the prices of air tickets on SAA flights to and from South Africa. The cost at present is high, as SAA has a monopoly on direct flights to Ghana from South Africa. Tickets from Ghana to South Africa could cost the same as tickets from Ghana to European destinations. Lowering the price of tickets would also help to promote South Africa as a destination for Ghanaian travelers who are accustomed to flying to Europe for their shopping, holiday and business needs.

## **Lessons from Ghana**

Several lessons for current and prospective investors and the governments of both countries can be drawn from the experience of South African companies and subsidiaries operating in Ghana.

First, the Ghanaian government has been proactive in implementing much-needed economic reforms, which have led to an improvement in the country's macro-economic profile. The Kufuor administration has kept its promise to address many of the country's economic ills through structural reforms. It has achieved macro-economic stability, built infrastructure, and reduced Ghanaian foreign debt through the HIPC initiative. These moves have proved largely successful, and have made Ghana one of the economic success stories of West Africa. This has resonated well with foreign and local investors alike. As a result, Ghana has maintained and attracted more FDI than its neighbours in recent years. Foreign investors view Ghana as an attractive and viable destination, and are optimistic about the future prospects of the country and their businesses in Ghana.

Second, Ghana's growth into a stable, proactive democracy has helped to make Ghana a promising target for FDI and improved its links with its trading partners. Ghana's successful and peaceful transition from military to civilian rule and its subsequent peaceful elections have helped to strengthen multiparty democracy and the rule of law. Ghana's political stability has attracted foreign investors avoiding the risks associated with the political and economic instability that is rife in other countries in West Africa. In addition, Ghana has benefited from trade redirected to its ports from Côte d'Ivoire.

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The country has now become a transit point for goods traveling between countries in West Africa.

Third, the Ghanaian government has been largely successful in identifying and rooting out corruption. Once endemic throughout much of its post-independence history, corruption has largely disappeared during the past few years under Kufuor's administration. The government has adopted draconian measures to put a stop to bribery in the ministries and public bodies. A number of ministers and government officials have been targeted, investigated and found guilty of corruption. The harsh sentences given to convicted government officials have helped to boost confidence in the private and public sectors and among foreign investors, who believe that the government is serious about ending corruption. Even though this scourge continues to exist in Ghana, the government is proud of the steps it has taken to eradicate it. According to Transparency International, the level of corruption in Ghana is much lower than in many other sub-Saharan countries.

Fourth, standards of living in Ghana remain low. This has meant limited consumption of foreign goods and services. Many foreign business in the retail, services and communications sector have indicated that this is an aspect that hampers the further growth of their businesses. Even though the Ghanaian government is striving to improve living standards and increase the level of disposable income among Ghanaians, ordinary citizens have yet to feel the benefits of improved macro-economic conditions in the country. So far, they have not translated into an improvement in their lifestyles. It is likely to be many years before the average Ghanaian can reap the benefits of the government's success in accelerating economic growth and bringing about macro-economic stability.

Fifth, it is imperative that prospective and current investors are well acquainted with Ghanaian business culture, its dynamic traditions and norms if they are to succeed in that country's market. Ghanaians are very proud people, with long and deep traditions and a heritage that goes back hundreds of years. They have long made it clear that they would like to be treated as equal partners when it comes to business transactions, because as educated and enterprising people, they would like to have a say in how things are run in their country. It is important to make Ghanaians an essential part of any foreign business. A number of foreign investors reported that they found it extremely helpful to have Ghanaian local partners, because they brought to the companies their knowledge of the Ghanaian market and the country's business practices, which would otherwise have been lacking.



## **Conclusion**

In a region plagued by political turmoil, conflict and economic stagnation, Ghana is regarded as a success story. It has transformed itself politically from a series of military dictatorships and an economy nearing collapse to a democratic, politically stable state that shows impressive economic growth and decreasing inflation and national debt. By tightening its fiscal and monetary policies, Ghana has also strengthened its macro-economic stability.

As a result, foreign direct investors have taken notice of Ghana's remarkable transformation to increase their commitments in the country. Attracted by the liberalisation of the country's investment policies and the growing number of incentives provided by the government, a number of South African firms, among investors from other countries, have entered the Ghanaian market in recent years. Ghana offers international investors a safe destination in West Africa's volatile region, and promises high returns on investment.

Generally speaking, two South African mining giants and companies in the services, telecommunications and manufacturing sectors have all expanded their operations in Ghana in response to the favourable business experiences that they have had in the country. They regard Ghana as a business-friendly destination offering immense opportunities. There is a trend among foreign investors such as South Africans to use Ghana as a launching pad for other destinations in the region. Indeed, Ghana is viewed as the gateway to the ECOWAS market of 250 million people. Since its creation, the ECOWAS protocol on trade has also greatly enhanced Ghana's status as an economic force in the sub-region. It has also improved intra-regional trade.

Trade and investment between South Africa and Ghana are poised to expand in the near future, as both countries study ways in which to boost co-operation in both the economic and political spheres. Strong political and historical ties, which can be traced back to the 1950s, have helped to support close economic relations between the two governments. South African investors see Ghana as an ideal destination for South Africa's growing trade with other regions in sub-Saharan Africa outside the SADC grouping. Sharing similar legal and political policies, language, democratic institutions and economic policies, Ghana and South Africa are poised to improve relations, including trade and investment, over the coming years.

## **Appendix A**

### **Breakdown of Ghana's exports by major trading partners, percentages**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
EU-15 <sup>55</sup>	57.8	55.0	59.2	54.5	50.2	49.1	51.4
US	10.5	9.4	7.9	10.4	13.1	12.0	6.9
Japan	4.2	5.0	3.7	3.3	2.9	2.9	3.7
Africa	7.3	8.0	7.9	8.0	10.2	11.0	10.7
EU 10 new members (2004) <sup>56</sup>	1.0	1.8	3.2	1.3	1.3	0.9	1.4
Other Europe	2.6	3.8	3.2	5.8	5.2	6.1	5.8
Others	8.6	9.7	9.8	10.2	11.4	12.5	14.6
Source: EU Market Access Opportunities for Ghana and position for EPA negotiations. March 2004.							

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<sup>55</sup> The 15 EU member states were Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden and the UK.

<sup>56</sup> The 10 new EU member states that joined on 1 May 2004 are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia

## Appendix B Ownership structure of projects and investments

<i>Period</i>	<i>Ownership Structure</i>	<i>Number of project</i>	<i>Total investment (\$ mn.)</i>
January 01–March 04	100% F	187	105.22
January 01–March 04	F/GJV	311	202.19
January–March 04	100% F	17	7.38
January–March 04	F/ GJV	20	19.22
2003	100% F	64	36.26
2003	F/GJV	88	82.12
2002	100% F	54	24.38
2002	F/GJV	84	40.75
2001	100% F	52	37.20
2001	F/GJV	119	60.10
September 94–December 00	100% F	322	455.87
September 94–December 00	F/GJV	762	1,152.64
F: Complete foreign ownership F/GJV: Foreign & Ghanaian joint venture Source: The Ghana Investment Promotion Centre.			

## Appendix C

### Regional distribution of total investment projects by sectors

<b>Region</b>	<b>Total</b>	<b>% of grand total</b>	<b>Agriculture</b>	<b>Manufacturing</b>	<b>Construction</b>
Greater Accra	1,245	78.70	54	360	102
Ashanti	111	7.02	5	34	9
Western	72	4.55	5	18	4
Central	54	3.41	16	9	3
Eastern	45	2.84	26	6	3
Volta	25	1.58	16	4	1
Northern	16	1.01	6	0	0
Brong Ahafo	9	0.57	2	4	1
Upper East	4	0.25	0	0	1
Upper West	1	0.06	0	0	1
<b>Total</b>	<b>1,582</b>	<b>100.00</b>	<b>130</b>	<b>435</b>	<b>125</b>

<b>Region</b>	<b>Tourism</b>	<b>Service</b>	<b>Export trade</b>	<b>General trade</b>
Greater Accra	133	390	75	131
Ashanti	14	31	10	8
Western	12	22	6	5
Central	17	7	2	0
Eastern	5	3	2	0
Volta	2	1	0	1
Northern	5	3	1	1
Brong Ahafo	0	1	1	0
Upper East	1	1	1	0
Upper West	0	0	0	0
<b>Total</b>	<b>189</b>	<b>459</b>	<b>98</b>	<b>146</b>

Source: The Ghana Investment Promotion Centre, 2004.

## Appendix D

### Investment guarantees and incentives in Ghana

#### 1. Customs import duty

<b>Customs import duty exemptions</b>			
<b>Heading Number</b>	<b>Tariff Description</b>	<b>Import duty (%)</b>	<b>VAT (%)</b>
82.08	Knives and cutting blades	5.0	0.0
84.71	Automatic data processing machines and units thereof	0.0	12.5
85.01	Solar, wind, & thermal energy generating sets, electric generating sets of 375 KVA and above	5.0	0.0
98.07 98.08	Air-conditioners; furnishing including carpets, bedding and fixtures; fans and radio sets; refrigerators/deep freezers; television sets; public address systems; and crockery	10.0	0.0
44.07	Sawn, chipped, sliced or peeled wood	0.0	12.5
76.01	Aluminum ingots	5.0	12.5
45.03	Floats (of natural cork) for fishing nets	0.0	12.5
58.08	Float cords for fishing nets	0.0	12.5
70.20	Floats (of glass) for fishing nets	0.0	12.5
78.06	Lead weights for fishing nets	0.0	12.5
98.02.30 R00	Inputs for the manufacture of fishing nets & fishing ropes	0.0	12.5
98.10	Recording instruments for the music industry	0.0	12.5

- i. Import duty imposed on vehicles depends on the type of vehicle. All motor vehicles with a cylinder capacity not exceeding 1,900 attract an import duty rate of 5%. Motor vehicles having a cylinder capacity exceeding 1,900 but not exceeding 3,000 are charged an import duty of 10%. Other

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vehicles of cylinder capacity exceeding 3,000 and those designed for traveling on snow, golf cars and similar vehicles rate an import duty of 20%.

- ii. Commercial vehicles for the transport of goods such as trucks, tippers and lorries attract a duty of 5%.
- iii. Commercial buses with seating capacity of above 30 passengers, workshop vans, breakdown vehicles, mobile showrooms, ambulances, hearse and motor bikes are exempted from the payment of import duty.
- iv. All the types of vehicles referred to in i, ii, iii above are liable for a Value Added Tax (VAT) rate of 12.5%, except ambulances, which are VAT-exempt.
- v. Exemptions from payment of customs import duty and other related charges may be granted for any special equipment that is not zero-rated, upon application to the GIPC.

## **2. Income tax incentives**

### **A. Corporate tax**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
Listed companies	30.0%	30.0%	30.0%
Non-listed companies	32.5%	32.5%	30.0%
Newly listed companies (effective 2004)	25% (for 3 years)		

- i. Income from non-traditional exports: 8%
- ii. Hotels: 25%
- iii. The tax rate applicable to income derived by a financial institution from a loan granted to a farming enterprise for use by that enterprise in the production of its income: 20%.

- iv. The tax rate applicable to income derived by a financial institution from a loan granted to a leasing company for use by that company for the funding of acquisition of assets for lease is 20%.

## **B. Exemptions**

- i. Tax Holiday (from start of operations)
  - a. Real Estate: The income of a company from a business of construction for sale or letting of residential premises is exempt for five (5) years from the date of commencement of operations.
  - b. Rural Banks: 10 years
  - c. Agriculture and agro-industry:
    - Cocoa farmers and producers: income tax exempt
    - Cattle ranching: 10 years
    - Tree cropping (e.g. coffee, oil palm, shea butter, rubber and coconut): 10 years
    - Livestock excluding cattle and poultry: 5 years
    - Fish farming, poultry and cash crops: 5 years
    - Agro processing — the business of converting crops, fish or livestock produced in Ghana into edible canned or other packaged product other than in their raw state: 5 years
  - d. Waste Processing (including plastics and polythene): 7 years
  - e. Free zones enterprise/development: 10 years and 8% thereafter.
- ii. Locational incentives (tax rebates)
  - a. Manufacturing industries located in regional capitals other than Accra and Tema: 25 % rebate



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Elsewhere: 50% rebate

b. After the initial five year tax holiday period, agro-processing enterprises which use local agricultural raw materials as their main inputs, shall have corporate tax rates fixed according to their location as follows:

- Accra-Tema: 20%
- Other Regional Capitals: 10%
- Outside Regional Capitals: 0%
- All over Northern, Upper East, Upper West Regions: 0%

### **C. Capital allowances**

Capital allowances are granted to persons who own depreciable and use these in the production of income. Depreciable assets are grouped in classes. The applicable capital allowance rates are as follows:

<b>Class</b>	<b>Assets included</b>	<b>Rate</b>
1	Computers and data handling equipment	40%
2	i. Automobile, trailers, plant and machinery used in manufacturing ii. Plantation equipment	30%
3	i. Mineral petroleum exploration rights, locomotives, water transportation equipment in respect of mineral and petroleum in year of operations. ii. Buildings, structures and works of permanent nature used in respect of mineral and petroleum exploration. iii. Plant and machinery used in mining or petroleum operations.	80% of cost in year of purchase; 50% of residue annually thereafter; uplift of 5% on cost in the following year
4	Locomotives, water transportation equipment, aircraft equipment not included in other class	20%
5	Buildings, structures and works of a permanent nature other than those mentioned in class 3 above	10%
6	Intangible assets, e.g. goodwill	Useful life

**3. Carry forward losses**

Tax losses are carried forward for five years. They are lost if unutilised after the lapse of the fifth year. Only businesses involved in manufacturing mainly for export, farming and mining have this right.

**4. Investment guarantees**

i. Free transferability of capital, profits and dividends

The GIPC Act 478 provides guarantees to all enterprises, including free transferability through any authorised dealer bank in freely convertible currency of dividends or net profits attributable to the investment; payments in respect of loan servicing where a foreign loan has been obtained; remittance of proceeds (net of all taxes and other obligations) in the event of sale or liquidation of the enterprise or any interest attributable to the investment. Guarantees against expropriation of private investments provided under Act 478 are buttressed by the constitution.

Source: Ghana Investment Promotion Centre

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