

ASHESI UNIVERSITY COLLEGE

**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON GHANA'S
CAPITAL MARKET**

By

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Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:.....

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I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

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ABSTRACT

The objective of this study is to review and ascertain whether there is a positive or negative impact of foreign direct investment on the six selected companies. In addition, the study will examine how these impacts trickle down to the industry the six companies operate in and to the capital market as a whole.

In order, achieve this objective, the following research questions were used as a guide to the study.

- To what extent has FDI affected Ghana's capital market?
- What are the benefits of FDI support to the economy?

Both Primary and Secondary data were collected to draw a conclusion to the study. Interviews were conducted in six selected companies and other organisations such as the Ministry Trade and Industry, Ghana Investment Promotion Centre, Ministry of Finance and the Ghana Stock Exchange in order to draw a valid conclusion.

The result of the study indicated that there is a positive impact of foreign direct investment on the selected companies and the stock market in Ghana as well. These companies with FDI support do not only benefit from the financial resources but are also competing keenly in their various industries to be the market leaders.

Although the study was conducted on only six listed companies on the stock market, the impact in the selected companies and the stock market is very significant.

Companies are therefore encouraged to seek FDI support as one way to improve their operations.

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CHAPTER 1

Introduction

1.1 Background to Study

Foreign Direct Investment¹ on Ghana's capital market² is a "mixed blessing" to the capital structure of the Market (Ghana Stock Exchange). Although foreign direct investments have been beneficial to the stock market, they at the same time have some disadvantages. For the past ten years, the Government of Ghana through the Ministry of Trade and Industry has been implementing a Multi-Sectoral Programme to create an enabling environment to attract a critical mass of Foreign Direct Investment (FDI), to accelerate export-led economic growth; and to facilitate trade in the economy.

Foreign direct investment (FDI) in developing economies has grown rapidly following financial and political transformation globally. To increase their share of FDI inflows, most countries have eased restrictions on foreign direct investment, strengthened macro stability and privatized state-owned enterprises, embarked on domestic financial reforms and capital account liberalization with tax incentives and subsidies been granted to these various foreign organisations and individuals who intend to invest in Ghana.³

¹ in this study unless indicated otherwise the term Foreign Direct Investment is used to refer to foreign ownership of selected companies on the Ghana Stock Market

² Capital market and Ghana Stock Exchange will be used interchangeably in this research paper

³ Anokye, Adam, M., and George Tweneboah,. "Foreign direct investment and stock market development: Ghana." 1-13. *MPRA*. Adam, Anokye M. and Tweneboah, George, Oct. 2008. Web. 5 Oct. 2009. <http://mpa.ub.uni-muenchen.de/11261/1/MPRA_paper_11261.pdf>.

Foreign Direct Investment under the International Monetary Fund guidelines, is defined when an investor based in one country acquire assets or an asset in another country with the intent to manage that asset or assets. The inflows of FDI into a country imply a long-term objective and commitment.⁴ The concept of lasting interest is not defined by IMF in terms of a specific period, and the more pertinent criterion adopted is that of the degree of ownership in an enterprise. The International Monetary Fund (IMF) threshold is 10% ownership of the ordinary shares or voting power or the equivalent for unincorporated enterprises. The Organisation for Economic Co-Operation and Development (OECD) also recommends the 10 per cent numerical guideline of ownership of ordinary shares or voting stock to determine the existence of a direct investment relationship. If the criteria by IMF and OECD are met, then the concept of FDI includes the following organizational bodies:

- Subsidiaries (A corporation that is either wholly owned or controlled through ownership of a majority of its voting shares, by another corporation or business entity);
- Associates (in which the non-resident investor owns between 10 and 50 per cent), and;
- Branches (unincorporated enterprises, wholly or jointly owned by the non-resident investor).

⁴ Ayse Bertrand. "IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS." *DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)* (2000): 1-10. *Www.imf.org*. IMF, Nov. 2004. Web. 25 Mar. 2010. <<http://www.imf.org/external/np/sta/bop/pdf/diteg42829.pdf>>.

FDI, defined in accordance with IMF guidelines, can take the form of green-field investment in a new establishment or merger and acquisition of an existing local enterprise.⁵

FDI is also defined by the Investment, Economic and Financial report as an investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin.⁶

Foreign Direct Investment, in this research paper, refers, to the monetary investments by foreigners on the Ghana Stock Market. The Stock Market will be used interchangeably with Ghana Stock Exchange and Capital Market in this paper, to mean the same thing. Capital Flows from Foreign Direct Investment has been key to the degree of development for the Ghana's economy as well as Ghana's Capital Market. Economic globalisation in Ghana today is growing rapidly due to the inflow of Foreign Direct Investment. The Ghana Stock Market is no exception to this rapid growth. Evident to this, the Ghana Stock Market in 2008 witnessed one of the most outstanding performances of its listed equities. The sustained and improved performance of the Market for the year in review was the best in Africa and among the very best performers worldwide in the face of the global recession and its effect on capital markets. The year 2009 was a particularly difficult year for the stock market and this was against the background of 2008 being one of the best years of the

⁵ Nirupam Bajpai, and Nandita Dasgupta. "What Constitutes Foreign Direct Investment?" *Working Papers Series* (2004): 1-33. *Www.earth.columbia.edu*. Colombia University, Jan. 2004. Web. 25 Mar. 2010. <http://www.earthinstitute.columbia.edu/cgsd/documents/bajpai_fdi_india_china_004.pdf

⁶ Economy Watch. "Foreign Direct Investment Definition." *Economy Watch*. Web. 25 Mar. 2010. <<http://www.economywatch.com/foreign-direct-investment/definition.html>>.

market. The patch that the market went through in 2009 resulted from the effect of the global financial crisis.⁷

The positive response of the structural changes in attracting FDI and its consequence on their financial markets especially stock market is obvious. FDI to developing economies in West Africa for example increased from \$1.9 billion in 1995 to about \$15.8 billion in 2006. The market capitalization of emerging market countries almost tripled from about \$2 trillion to about \$5 trillion over the same period. These foreign investors have emerged as major participants in emerging stock markets through purchase of existing equity or recovery of their investment by selling equity in capital markets.⁸

Financial markets, and especially stock markets, have grown considerably in developed and developing countries over the last two decades. Better fundamentals (for example higher economic growth and more macro stability), structural reforms (notably privatization of state-owned enterprises), and policy changes to promote liquidity have aided in the growth of the Stock Market.

Globalization has also advanced in the last two decades with tighter links among financial markets and greater commercial presence of foreign financial firms around the world. This globalization of financial markets has gone together with an increase in cross border capital flows. The globalisation of financial markets have also been characterised by the

⁷ Ghana Stock Exchange. "Review of Stock Market Performance 2008." *Ghana Stock Exchange*. Ghana Stock Exchange, 7 Apr. 2009. Web. 25 Mar. 2010. <<http://www.gse.com.gh/index1.php?linkid=76&day=07&month=04&year=2009>>.

⁸ Anokye M. Adam, and George Tweneboah. "Foreign Direct Investment and Stock Market." *International Research Journal of Finance and Economics* (2006): 1-8. *Www.eurojournals.com/finance.htm*. EuroJournals Publishing, 2009. Web. 25 Mar. 2010. <http://www.eurojournals.com/irjfe_26_15.pdf>.

migration of securities market activities abroad particularly in the case of emerging markets like the Ghana Stock exchange.

Ghana Stock Exchange was granted a licence by the Securities & Exchange Commission to operate a Securities Depository on November 5, 2008 and started operations on November 14, 2008.

The Ghana Stock Exchange Securities Depository Company Ltd (GSD) has been set up to establish and manage a Securities Depository System (SDS). The system records maintain and register the transfer of securities by book-entry without any physical movement or endorsement of certificates. The implementation of the System by the Ghana Stock Exchange Depository Company will usher in a new era of fast and efficient delivery and settlement system on the market. A depository system is both a convenient and reliable medium to settle securities transactions. With this new innovation, the investor is freed from the handling of physical certificates.⁹

1.2 The Ghana Stock Exchange

The idea of establishing a stock exchange in Ghana dates back to 1968 and subsequent promulgation of the Stock Market Act of 1971, which laid the foundation for the establishment of the Accra Stock Market Limited (ASML) in 1971. An unfavourable macroeconomic environment, political instability and lack of government support undermined the take off of Accra Stock Market Limited (ASML) and as a result the idea of an exchange remained a mirage. In spite of these early setbacks, two stock

⁹ Ghana Stock Exchange. "Ghana Stock Exchange Securities Depository." *Ghana Stock Exchange*. Ghana Stock Exchange, 2008. Web. 30 Mar. 2010. <<http://www.gse.com.gh/index1.php?linkid=69>>.

brokerage firms, namely National Trust Holding Company Ltd (NTHC) and National Stockbrokers Ltd, now Merban Stockbrokers, prior to the establishment of the Ghana Stock Exchange in November 1990, did over-the counter (OTC) trading in shares of some foreign-owned companies. Under the supervision of the IMF and World Bank, Ghana underwent structural reforms in 1983 to remove distortions in the economy together with other financial reforms including but not limited to deregulation of interest rates, removal of credit controls, and floating of exchange rates. After the financial liberalization and the divestiture of a host of state owned enterprises the need for stock market in Ghana became unavoidable.¹⁰

The Ghana Stock Exchange was incorporated in July, 1989 as a private company limited by guarantee under Ghana's Companies Code, 1963 (Act 179). The Exchange was given recognition as an authorized Stock Exchange under the Stock Exchange Act of 1971 (act 384) in October 1990, and trading on the floor of the Exchange commenced in November 1990. In April 1994, it converted into a public company limited by guarantee. The Exchange is governed by, a Council with representation from Licensed Dealing Members, Listed Companies, the banks, Insurance Companies, Money Market and the public. The Council sets the policies of the Exchange and its functions include preventing fraud and malpractices,

¹⁰ Adam, Anokye M, and Tweneboah, George. "Foreign Direct Investment (FDI) and." *Munich Personal RePEc Archive* (2008): 1-`13. Oct. 2008. Web. 30 Mar. 2010. <http://mpira.ub.uni-muenchen.de/11261/1/MPRA_paper_11261.pdf>.

maintaining good order among members, regulating stock market business and granting listing.¹¹

The Exchange has grown significantly since its inception. The Exchange can now boast of growing from an initial eleven listed company in November 1990 to a current thirty six listed companies with a market capitalization of GH¢15.66 billion as at August 31, 2009.¹² Aside the listing of securities, the Exchange also has some bonds listed on it. The Ghana Stock Exchange has now moved from the Manual operating system to an automated operating system.

The stock exchange was established with the following objectives;

- To provide the facilities and framework to the public for the purchase and sales of bonds, shares and other securities
- To control the granting of quotations on the securities market in respect of bonds, shares and other securities of any company, corporation, government, municipality, local authority or other body corporate;
- To regulate the dealings of members with their clients and other members;
- To co-ordinate the stock dealing activities of members and facilitate the exchange of information including prices of securities listed for their mutual advantages and for the benefit of their clients;
- To co-operate with associations of stockbrokers and Stock Exchanges in other countries, and to obtain and make available to

¹¹ CAL Brokers Limited. "The Ghana Stock Exchange." *IBroker Ghana*. CAL Brokers Limited, 2010. Web. 30 Mar. 2010. <http://www.ibrokerGhana.com/index.php?option=com_content&view=article&id=20&Itemid=24>.

¹² IBID

members information and facilities likely to be useful to them or to their clients.¹³

By virtue of the Stock Exchange Act 1971, in the Company's Code of 1963, the Exchange has the responsibility to prevent frauds and malpractices, maintaining good order among members, regulating stock market business, and granting listing.

1.3 Objectives of the Study

This study seeks to review and ascertain whether there is a positive or negative impact of foreign direct investment on the selected companies, and how this impact trickles down to the industry they operate and the to capital market as a whole.

Recommendations will be given, on how companies could structure their policies and management to attract FDIs. If the study establishes that the negative effects exceed the positive effects then companies would be advised to seek other means aside FDIs to improve their operations.

1.4 SIGNIFICANCE OF THE STUDY

By knowing the impact of FDI's, the study intends to give an insight to foreign investors who would wish to invest in Ghana by indicating how much effort and resources they should invest to yield greater returns. Decision and policy makers such as the Government of Ghana would be able to use the empirical evidence from this research to make important decisions, put in place policies and systems to make the environment conducive to attract foreign investors. Companies seeking FDI support can

¹³ GSE. "Historical background." *Ghana stock exchange*. Con-IMedia, 2008. Web. 21 Oct. 2009.

also draw up on information obtained from the study to better their policies and organisational structure in order to attract Foreign Direct Investment to boost capital and make more profit. Again, the study seeks to add to existing literature so others can draw from the findings to make informed decisions.

1.5 Research Questions

This study seeks to answer the following questions:

- To what extent has FDI affected Ghana's capital market?
- What are the benefits of FDI support to the economy?

1.6 Data: Mode of Data Collection

This research paper used a combination of quantitative and qualitative data collection modes either to offset the weakness of a particular mode with the strengths of another. The data collection methods sought to make information gathering simplified to give a correct representation of the population. The data collection methods will include:

- Face to face interviewing in which an interviews were conducted with of the head of departments and other members of staffs of some of the selected companies concerning the impact of FDI on their organisations
- Secondary data from the internet, books, newspapers and written article were also used to gather information for the research.

1.7 Scope & Limitations of the Study

The study covers only six companies list on the Ghana Stock Exchange. The remaining fifteen companies with FDI support were not covered, because of time and resource constraints. The listed companies to be covered are Cal Bank, HFC Bank, SIC Insurance Company Limited, Unilever- Ghana Limited, Aluworks Company Limited, and Pioneer Kitchen Ware Limited. These six companies were chosen from the banking industry and the manufacturing industry listed on the Ghana Stock Exchange. The components of the FDI support in these selected companies are divided into three; high, medium and low FDI support. Cal Bank and Unilever Ghana have the highest FDI support being 88.19% and 72.22% respectively. HFC Bank with FDI support of 19.3% and that of Aluworks Company as 11.19% are considered to have a moderate component of FDI support. SIC Insurance Company and Pioneer Kitchen Ware Limited have lowest FDI component in the group with 0% and 0.16% respectively.

The FDI support of these listed companies on the stock market ranges therefore from, two percent to ninety percent.¹⁴ Data collected for this research is specific to the selected companies and may not necessarily apply to all companies listed on some or all of the listed companies. This is because individual companies have their unique characteristics, needs and policies, which they go by in the company. For this reason, the research cannot be true for all companies listed on the Ghana Stock Exchange. The findings therefore from this research although may be generalised it should be noted it may not.

¹⁴ Ghana Stock Exchange. "Profile of Listed Companies." *Ghana Stock Exchange*. Ghana Stock exchange, 10 Feb. 2010. Web. 12 Feb. 2010. <<http://www.gse.com.gh/index1.php?linkid=46>>.

1.8 ORGANISATION OF THE STUDY

The first chapter of this research paper presents the background to the topic, give an overview of the Ghana Stock Exchange, lays out the objectives of the research, examines the research questions, gives account of how data would be collected, assess the limitations of this project and finally gives an organisational outline of the study.

The second chapter presents a review of related research on the topic. It reviews studies on FDIs, the development of FDIs in Ghana, and the Ghana Stock Exchange.

The third chapter will examine and the review of methods and their limitation used in the research. In this chapter, the mode of data collection, source and type of data to be used, sampling technique, methods of data collection, data collection tools, sample size, the data collection process, data analysis tools and methods and finally the limitations and the constraints of the study will be discussed.

Chapter four of the study presents analysis of the data and the findings from the research with the sample size. Information from the data collection mode would be clarified through the analysis.

The summary of the whole analysis, conclusion and recommendations from the research would be extensively discussed in the fifth chapter.

CHAPTER 2

Literature Review

2.1 Foreign Direct Investment & Its Components

According to the Economy, Investment & Finance Reports, Foreign Direct Investment (FDI) is any form of investment that earns interest in enterprises, which function outside of the domestic territory of the investor.¹⁵ In this research, FDI refers to the monetary resources foreigners invest in companies or their subsidiaries listed on the Ghana Stock Exchange. The research focus is only on foreign investors who live outside Ghana and invest their monies into the various companies listed on the Exchange.

According to the literature, FDI requires a business relationship between a parent company and its foreign subsidiary. Foreign direct business relationships give rise to multinational corporations (MNC). For an investment to be regarded as an FDI, the parent firm needs to have at least 10% of the ordinary shares of its foreign affiliates. The investing firm may also qualify for an FDI if it owns voting power in a business enterprise operating in a foreign country. This assertion by the Economy, Investment and Financial Report of the Economy Watch website is true but FDI can also be the monetary resources, expertise, machinery foreigners invest in companies outside their domestic countries. Parent firms setting up subsidiaries outside their domestic countries do not need to own at least 10% of the ordinary shares of the subsidiary to provide

¹⁵News Watch. "Foreign Direct Investment." *Investment, Economy and Financial Report. Economy Watch*. Stanley St Labs. Web. 9 Mar. 2010. <<http://www.economywatch.com/foreign-direct-investment>

FDI support, but can owe any percentage of the ordinary shares to provide the support. Foreigners for instance owe 0.16% shares of Mechanical LLOYD Company Ltd and continue to provide FDI support for the company¹⁶

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For example, a host country or the foreign firm which receives the investment, are also provided with a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development¹⁷. Ghana through FDI has received a lot of revenue, technology transfer, employment opportunities and expertise through Foreign Direct Investments.

According to International Monetary Fund (IMF) and the Organisation for Economic Co-Operation and Development (OECD) recommendations:

Direct investment is the category of international investment that reflects the objective of a resident entity in one economy (direct investor) of establishing a lasting interest in an enterprise (the direct investment enterprise) resident in another economy. "Lasting interest" implies the existence of a long-term relationship and a significant degree of influence

¹⁶ Ghana Stock Exchange. "Profile of Listed Companies." *Ghana Stock Exchange*. Ghana Stock exchange, 10 Feb. 2010. Web. 12 Feb. 2010. <<http://www.gse.com.gh/index1.php?linkid=46>>.

¹⁷ Jeffrey P. Graham, and Barry R. Spaulding. "Understanding foreign direct investment." *Understanding foreign direct investment* (2005). *Going global*. Going global, 18 June 2005. Web. 22 Oct. 2009.

by the direct investor on the management of the direct investment enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. Foreign direct investment flows are made of three basic components:

- Equity capital: comprising equity in branches, all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and are included under other direct investment capital) and other capital contributions such as provisions of machinery etc...
- Reinvested earnings: consisting of the direct investor's share (in proportion to direct equity participation) of earnings not distributed, as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor.
- Other direct investment capital (or intercompany debt transactions): covering the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor.¹⁸

2.2 FDI inflow in Ghana

Foreign direct investment (FDI) in developing economies has grown rapidly following financial and political transformation. To increase their share of FDI inflows, most countries have eased restrictions on foreign

¹⁸ Anna M. Falzoni. "International statistics on FDI." *Statistics on Foreign Direct Investment and* (2000): 1-35. /RESEARCH/Networks/FDIMC. 15 May 2000. Web. 27 Oct. 2009.

direct investment, strengthened macro stability, privatized state-owned enterprises, instituted domestic financial reforms, capital account liberalization and granted tax incentives and subsidies. Ghana for instance through the Free Zones Act, 1995 and the Ghana Investment Promotion Act 1994 has granted certain tax incentives and investor protection policies to attract foreign investors and also make the environment conducive for their operations. This initiative and policy taken in Ghana have increased the number of foreign direct investment and helped in economic growth.

Attracting FDI is a preoccupation of Ghana's opening up policies and economic reforms. Various Governments in Ghana have developed various new legislations to improve investment conditions and the business environment in order to attract FDI, putting Ghana in the top ten reformers globally for the second year in a row, according to the World Bank's Doing Business team. Ghana's shares of FDI quadrupled from 2005 to \$636M in 2006 and represent 19.4% of gross fixed capital formation according to 2008 World Investment Report (WIR).¹⁹ Still in 2008, Ghana experienced increased global attention as a result of hosting the 2008's Africa Cup, the UNCTAD XII (United Nations Conference on Trade and Development) and WAIPA (World Association of Investments promotion Agencies) meetings. This attention comes at a time when the country has had strong GDP growth and significant increases in FDI inflows.²⁰

¹⁹ Adam, Anokye M, and Tweneboah, George. "Foreign Direct Investment (FDI) and." *Munich Personal RePEc Archive* (2008): 1-`13. Oct. 2008. Web. 30 Mar. 2010. <http://mpra.ub.uni-muenchen.de/11261/1/MPRA_paper_11261.pdf>.

²⁰ World Bank, and IFC. "FDI Trends in Ghana." *FDI.net*. World Bank, 2008. Web. 21 Oct. 2009

In addition, stock markets have been established to intermediate funds towards investment projects.²¹ The Ghana Stock Exchange is not an exception to the inflow of direct foreign investment. Ghana had experienced increased global attention as a result of hosting the 2008's Africa Cup, the UNCTAD XII (United Nations Conference on Trade and Development) and WAIPA (World Association of Investments promotion Agencies) meetings. This attention comes at a time when the country has had strong GDP growth and significant increases in FDI inflows. In fact, UNCTAD reports that FDI flows into Ghana have tripled from 2005 to US\$435 million in 2006.²² In addition, the government has been active in improving the country's business environment and has been a top ten reformers globally for the second year in a row, according to the World Bank's Doing Business report.²³ Ghana, a naturally resource rich country, is home to a variety of sectors including agribusiness, tourism, manufacturing, infrastructure, and services among others. FDI's in general are contributing immensely to the development and growth of Ghana's economy.²⁴

According to the Business Monitor International, real GDP growth was to peak at 6.7% in 2008 due to strong private consumption and burgeoning foreign and local private investment. However, macroeconomic risk rose due to the unexpected increase of oil prices. Ghana in the year 2008 was to enjoy a peak year of economic expansion due to a coincidence of growth-enhancing factors. A real GDP growth of 6.7% in 2008, followed

3 Anokye, Adam, M., and George Tweneboah,. "Foreign direct investment and stock market development: Ghana." 1-13. *MPRA*. Adam, Anokye M. and Tweneboah, George, Oct. 2008. Web. 5 Oct. 2009. <http://mpra.ub.uni-muenchen.de/11261/1/MPRA_paper_11261.pdf>.

²² World Bank, and IFC. "FDI Trends in Ghana." *FDI.net*. World Bank, 2008. Web. 21 Oct. 2009

²³ *IBID*

²⁴ World Bank, and IFC. "FDI Trends in Ghana." *FDI.net*. World Bank, 2008. Web. 21 Oct. 2009

by moderation to 6.0% by 2010 and 5.4% by 2012 was anticipated by the Business Monitor International (BMI).²⁵ Private consumption is expected to remain on an upward trajectory, having received a boost from the Africa Cup of Nations football tournament. Foreign Direct investment, too, is looking strong with the emerging oil industry likely to attract increasing amounts of finance.

2.3 Stock Market Development In Emerging Markets

The stock markets in emerging markets have seen considerable development since the early 1990s. The market capitalization of emerging market countries has more than doubled over the past decade growing from less than \$2 trillion in 1995 to about \$5 trillion in 2005. As a percentage of world market capitalization, emerging markets are now more than 12 percent and steadily growing.²⁶ Stock market development has been central to the domestic financial liberalization programs of most emerging markets. Apart from their role in domestic financial liberalization, the stock markets have also been very important in recent years as a major channel for foreign capital flows to emerging economies. Net equity flows to the emerging markets have grown to roughly \$200 billion per year, providing an important source of capital for development. The share of foreign direct investment and portfolio equity in the finance mix of many developing countries has grown in recent years. Equity flows

²⁵ Business monitoring international. "Ghana: Peak Economic Expansion in 2008." (2004). *Business monitor international*. Business monitor international, 2009. Web. 4 Nov. 2009.

⁸Anokye M. Adam, and George Tweneboah.

²⁶ Charles Amo Yartey. "The Determinants of Stock Market development in emerging economies: is South Africa Different." *IMF working paper* (2008): 1-33. *International Monetary Fund*. International Monetary Fund, 2008. Web. 5 Nov. 2009.

accounted for 80 percent of total external financing to developing nations during 1999–2003, compared with just 60 percent during 1993–98²⁷.

The rapid development of stock markets in emerging market does not mean that the markets are matured. In most stock markets, trading occurs in only a few stocks which account for a considerable part of the total market capitalization. Beyond these actively traded shares, there are serious informational and disclosure deficiencies for other stocks. There are serious weaknesses in the transparency of transactions on these markets. The less developed of the stock markets suffer from a far wider range of such deficits.

Compared with the highly organized and properly regulated stock market activity in the US and the UK, most emerging markets do not have such a well functioning market. Not only is there inadequate government regulation, private information gathering and dissemination firms as found in more developed stock markets are inadequate. Moreover, young firms in emerging stock markets do not have a long enough track record to form a reputation. As a result, one expects share prices in emerging markets to be arbitrary and volatile. Empirical evidence indicates that share prices in emerging markets are considerably more volatile than in advanced markets.

Despite this volatility, large corporations have made considerable use of the stock market. For example, the Indian stock market has more than 8,000 listed firms, one of the highest in the world. Looking at the

²⁷ Charles Amo Yartey. "The Determinants of Stock Market development in emerging economies: is South Africa Different." *IMF working paper* (2008): 1-33. *International Monetary Fund*. International Monetary Fund, 2008. Web. 5 Nov. 2009.

corporate financing pattern in emerging markets found that contrary to expectation, emerging market corporations rely heavily on external finance and new equity issues to finance long term investment. This result indicates that stock markets have been successful in providing considerable funds to the top 100 corporations in emerging markets.²⁸

2.4 Foreign Direct Investment and Stock Markets

Foreign Direct Investment (FDI) in developing economies has grown rapidly following financial and political transformations. To increase their share of FDI flows, most of the countries eased restrictions on foreign direct investment, strengthened macro stability, privatized state-owned enterprises, instituted domestic financial reforms, liberalized capital account, as well as offered tax incentives and subsidies. In addition, stock markets have been established to help direct funds towards investment projects. The positive response of these structural changes in attracting FDI and its consequence on their financial markets especially stock market is obvious. FDI to developing economies in West Africa for example increased from \$1.9 billion in 1995 to about \$15.8 billion in 2006. The market capitalization of emerging market countries almost tripled from about \$2 trillion to about \$5 trillion over the same period. These foreign investors have emerged as major participants in emerging stock markets through purchase of existing equity or recovery of their investment by selling equity in capital markets, but the extent of their impact on

²⁸ Charles Amo Yartey. "The Determinants of Stock Market development in emerging economies: is South Africa Different." *IMF working paper* (2008): 1-33. *International Monetary Fund*. International Monetary Fund, 2008. Web. 5 Nov. 2009.

emerging stock market development of developing countries has received little attention.²⁹

2.5 The Effects of FDI on Ghana

Foreign direct investment (FDI) provides a major source of capital which brings with it up-to-date technology. It would be difficult to generate this capital through domestic savings, and even if it were not, it would still be difficult to import the necessary technology from abroad, since the transfer of technology to firms with no previous experience of using it is difficult, risky, and expensive.

Over a long period of time FDI creates many externalities in the form of benefits available to the whole economy which most companies cannot appropriate as part of their own income. These include transfers of general knowledge and of specific technologies in production and distribution, as well as industrial upgrading, work experience for the labor force and the introduction of modern management and accounting methods. The establishment of finance related and trading networks, and the upgrading of telecommunications services may also occur. FDI in services affects the host country's competitiveness by raising the productivity of capital and enabling the host country to attract new capital on favorable terms.³⁰ It also creates services that can be used as strategic

²⁹ Anokye M. Adam, and George Tweneboah. "Foreign Direct Investment and Stock Market." *International Research Journal of Finance and Economics* (2009): 1-8. EuroJournals Publishing. EuroJournals Publishing, 2009. Web. 5 Nov. 2009.

³⁰ Lipsey & Chrystal. "The Importance of Foreign Direct Investment." *Oxford University Press*. Oxford University Press. Web. 1 Feb. 2010.

inputs in the traditional export sector to expand the volume of trade and to upgrade production through product and process innovation.³¹

Beyond the initial macroeconomic stimulus from the actual investment, FDI will influence growth by raising total factor productivity and, more generally, the efficiency of resource use in the recipient company or economy. This works through three channels: the linkages between FDI and foreign trade flows, the spillovers and other externalities in relation to the country's business sector, and the direct impact on structural factors in the host economy. As countries develop and approach industrialized nation status, inward FDI contributes to their further integration into the global economy by engendering and boosting foreign trade flows. Apparently, several factors are at play. They include the development and strengthening of international networks of related enterprises and an increasing importance of foreign subsidiaries in MNEs' strategies for distribution, sales and marketing.³²

³¹ Richard G Lipsey, and Alec Chrystal. "The importance of foreign direct investment." *Oxford university press*. Oxford university press, 2007. Web. 5 Nov. 2009.

³² André-Pascal,. "Foreign direct investment for development: maximizing benefit and minimizing cost." (2002). OECD PUBLICATIONS,, 2002. Web. 5 Nov. 2009

CHAPTER 3

Methodology and Limitation

3.1 Overview

The collection of data is essential to draw a conclusion to this study. Both primary and secondary data, qualitative and quantitative data were used to draw the conclusions and make the recommendation in this study. This chapter covers the types of data and the sources, sampling techniques, data collection method, data collection process, data collection tools, area of study, sample size, administration and limitations of the data collected. The major goal of this paper is to review and ascertain whether there is a positive or negative impact on the selected companies, the industry, the capital market, the Ghanaian economy and on the foreign investors invests their resources. Below are the methods used to achieve this objective.

3.2 Research Design

Historical research design, case, and field research design methods were used to compare the impact of foreign direct investment in the selected companies. The purpose of using historical research design was to collect, verify and synthesize evidence to establish facts that defend the hypothesis. This design uses primary sources, secondary sources, and lots of qualitative data sources such as official records and reports. The case and field research design also uses direct observation and interviews to give a complete snap short of the cases being studied³³. Participants of the research included the head and employees of the selected institutions

³³ Carroll, Susan. "Types of research designs you can use for your dissertation." *Dissertation-Statistics.com*. Dissertation- Statistics.com. Web. 24 Feb. 2010. <<http://www.dissertation-statistics.com/research-designs.html>>.

3.3 Data Types and Sources

Primary and secondary data were used for the purpose of the study. The primary data collection method involves the researcher collecting data for the purpose of the study by means of interviews, observation and case studies.³⁴

Primary data were obtained from selected respondents in the sample size such as head of institutions, investment officers and employees of the selected companies. Primary data were also obtained from other organizations such as the Ministry of Trade and Industry, Ghana Investment Promotion Centre and the Ghana Stock Exchange.

Secondary data were also used as an additional source of data to draw a conclusion and make a recommendation. Secondary data are information relevant to the researches collected by other individuals and documented that are already available.³⁵ The sources of these data include newspapers, the internet, and books. Although secondary data is very useful to the research, the researcher using these data has no knowledge on errors made by the original researcher. This limitation was considered when the secondary data were used.

3.4 Sample Size

For this research, six companies selected from two industries listed on the Ghana Stock Exchange were selected for data collection. Amongst the

³⁴ Sure fire articles. "Data collection methods A Few Different Methods Used by Individuals." *Sure fire articles*. Sure fire articles, 26 Jan. 2008. Web. 15 Feb. 2010. <<http://surefirearticles.com/datacollection/primary-data-collection-a-few-different-methods-used-by-individuals.html>>.

³⁵ HD.gov human Dimensions methods. "Secondary data analysis." *HD.gov human Dimensions methods*. HD.gov human Dimensions methods, 16 Jan. 2009. Web. 15 Feb. 2010. <<http://www.hd.gov/HDdotGov/detail.jsp?ContentID=352>>.

selected companies, heads of the institutions, departments and employees were interviewed. Furthermore, managers and heads of departments from the Ghana Stock Exchange, Ghana Investment Promotion Centre and Ministry of trade and industry were interviewed.

The above sample size was used for the purpose of this research because opinions gathered from the interview were needed from the categories of respondents for analysis.

3.5 Data Analysis

The research gave both numeric and non- numeric data. With the non-numeric data, observations are categorized according to difference and or similarities. The qualitative data was summarised by determining the number or proportion of observation in each of several categories. The results were presented using histogram, and a table.

3.6 Tools for Data Analysis

In analysing the data collected, the measurement on the categories were organised before any summary of graphical presentations were made. The tools used in this process were tables and charts for pictorial displays. The purpose of these tools was to consolidate and summarize the data set so that it is more understandable.

The relevant data were sorted and put under three main themes for ease and clarity of analysis. These include: the impact of companies with high foreign direct investment, companies with medium foreign direct

investments and companies with very little or no foreign direct investments.

Interpreting and summarizing the information was the next step in the study after dividing the data into themes. The information obtained from the research was explained in order to address the research questions.

3.7 Limitations

The whole research was comparative in nature. Some of the limitations encountered during the research are discussed below. Convenience and judgemental sampling were used to choose candidates for the interview. Candidates for the research were readily available for the interview. This method was used because; the interview was directed to specific people in the organisation. The secondary data available for use in this research were old and out of date, with small sample size. The survey data were also limited because respondents self reports were heavily relied upon. This may be biased because there is a gap between what people say is happening and what is really happening on the ground.

Data collection and analysis were time consuming and disorganized using manual methods. The unstructured nature of the responses made the analysis and interpretation difficult.

Chapter 4

Summary Analysis and Discussion of Results

4.1 Overview of Chapter

The focus of this study is to determine whether the Foreign Direct investments received by the selected companies have imparted positively or negatively on Ghana's capital market. The main objective of this research as stated in the first chapter of the thesis is to review and ascertain whether there is a positive or negative impact on the selected companies, and how these impacts trickle down to the industry they operate and to the capital market as a whole. The research also sought to find answers to these questions

- To what extent has FDI affected Ghana's capital market?
- What are the benefits of FDI support to the economy?

Based on these research questions interview questions were drafted for the various institutions that were concerned in the research.

4.2 Sample Characteristics

The sample was taken from two industries listed on the Ghana Stock Exchange of which were further categorised into three, namely Companies with high percentage of FDI support, moderate percentage of FDI support and low or no FDI support for ease of comparison.

4.2 Data Analysis

Analysing the data for this research paper on the impact of Foreign Direct Investments on Ghana's Capital Market was done in two parts. The first

part of the analyses looks at the qualitative part of the information gathered through the various interviews conducted. The second part examines the quantitative aspect of the information obtained from the annual reports and other materials gathered.

Responses from companies with FDIs and companies with little or no FDIs

4.3 Why the companies sought for FDI support

The main reason given by the sampled companies with high and medium FDI support was to raise money for their operations.

Cal Bank, which has the largest FDI support amongst the selected companies in the banking industry according to the findings, sought these supports to raise additional capital for expansion. The company was able to secure foreign direct investment through the Ghana Stock Exchange. According to David Ganesha Tetteh, C.E.O of Cal Brokers Limited, these funds received from investors were used to expand the operations of the bank. The bank also used these funds to expand its operations by opening other branches, providing more ATM (Automated Teller Machine) services, hiring more people to work in these new branches, introducing new services and products such as internet banking and also improving their customer relation services. Cal Bank was listed on the Exchange in 2004 and has since then received FDI support.

Unilever Ghana Limited, also with a similarly high percentage of FDI component as that of Cal Bank, also sought FDI support for similar reasons as Cal Bank. Unilever too with this support has improved upon its operations. The departments of the company such as the Home and

Personal Care Division, which produces soaps, detergents and cosmetics, has increased its line of production and the Food Division has improved upon its products with the help of foreign direct investment. Unilever Ghana has been on the Ghana Stock Exchange since 1992, has since continued to receive FDI support to improve their products, and added more production lines to its operations.

Aluworks Limited and HFC Bank with moderate foreign direct investments have also improved their productivity and service quality respectively. From the research, Aluworks Limited and HFC Bank all sought for FDI supports to improve their operations, expand their various production lines, and improve the quality of services respectively.

From the research, it is clear that these selected companies seek FDI support to expand their product lines, improve their operations and services and to produce better products for the public use.

4.4 The position of the company before it opted for FDI support

The organisations with high and moderate FDI component all had different answers as to how the company was faring before the FDI support. One respondent from Cal Bank said the bank initially was operating as a merchant bank and did not have the liberty to open branches everywhere. The bank was restricted to opening one branch in a town as the law stated. Cal Bank before the FDI support was not a universal bank and did not have many branches and ATMs. HFC Bank, from the research, was again found to be in similar situation to that of Cal Bank before the FDI support. HFC Bank was formerly a Home Finance Company that provided mainly mortgage services to their clients. It was not involved in major

banking activities and did not have the liberty to open branches and operate as a universal bank.

Aluworks Limited before Foreign Direct Investments was a private company that provided and supplied aluminium mainly to its Ghanaian clients. The company had limited machinery; due to this, supplies could not meet demands the company received.

It was also established in the research that, Unilever Ghana without the FDI support was known as Lever Brothers, with the United African Company of Gold Coast (UAC) having established Lever Brothers. The company then had a strong commitment to the socio-economic development of the nation through trading, manufacturing, agriculture and real estate. The then Lever Brothers according to the research sold most of their manufactured products in Ghana. From research and interviews conducted in the sampled companies with foreign direct investment, it was established that these institutions without the FDI in their capital base were very much like any other ordinary institution in the industry. Almost all of these companies had little publicity with minimal clientele base. Cal Bank for instance operated as a merchant bank. The bank then was restricted and needed to operate within the laws governing merchant banks. Similarly, HFC as a mortgage company was also restricted to operate within the laws governing the mortgage industry in Ghana. Before the foreign direct investment, the operations of these companies were restricted and therefore could not compete with other companies in their various industries and the international market.

4.5 When the companies sought for FDI support and how long they took to receive the support.

Most of the companies with high and moderate foreign investment received their support when they were listed on the exchange. Cal Bank according to the research listed on the Ghana Stock Exchange in 2004. The management of the company decided to move the bank from a merchant bank to a universal bank. In November 2004, after the bank has satisfied all the requirement of the stock market, it got listed on the stock market. According to the research, the bank, after being listed, received FDI support to expand its operations the following year. Foreigners subscribed to its shares and the purchase of its shares by both foreigners and Ghanaians have continued to date. Within the space of five years, Cal Bank can boast of 88.91% of its capital after the listing coming from foreign investors.

HFC Bank was converted into a public company in October 1994. It was then known as Home Finance Company. In November 2003, Home Finance Company was given a universal banking license. Upon securing the license, it added commercial and investment banking to its existing business activities under the name HFC Bank Ghana Limited. HFC also, after listing on the exchange, received investment outside the borders of Ghana. Currently HFC Bank has 19.3% of its capital base as investments from foreigners from outside Ghana.

Aluworks and Unilever also received foreign investments after listing on the Exchange. In November 1996, after listing on the Exchange, Aluworks moved from being a private company to being a public company. The company started receiving FDI support after it had listed on the exchange.

The company's continual existence as a listed company has kept its FDI support of 11.19% as part of its capital base.

After merge of Lever Brothers Ghana, with Unilever PLC to form Unilever Ghana in August 1991, Unilever Ghana has since received a number of FDI support. The current foreign holding in the company is 72.29%.

From the various findings it can be established that, the companies received FDI support only when the listed on the exchange. The time taken for the various FDI support to reach each company varies from company to company and from industry to industry because of the varying time in their listing on the exchange. For a company to receive a large amount of FDI depends on the company; and how the investors perceive the future prospects of the company. The variations in the amount invested and the length of time to receive the investment tells a person how investors cannot be predicted. The large amount of FDI in Unilever and Cal Bank shows the level of faith the investors have in these companies. It can be inferred that the investors believe these companies have the potential of doing well and increasing their achievements in the future.

4.6 How have the funds received transformed the operations of the company and the livelihood of the employees?

From the responses of the various organisations, the resources received have been used to improve the operations of the organisation. Cal Bank and HFC Bank, after listing and moving from a merchant bank and a mortgage company respectively, to a universal bank have opened up many branches and built ATM machines all around cities, towns and

vantage points in Ghana. Aluworks and Unilever have also increased their production lines, improved upon the quality of production as well as quantity produced and exported. Because of the FDI support, the working conditions of the workers have also improved. Result from the research show those workers in Cal Bank and HFC Bank occupying a spacious and comfortable environment. The increases in machinery and tools for production in Unilever and Aluworks have also increased productivity at the work place.

Those workers who have worked in Cal Bank and HFC Bank for ten years and more all claimed to be happy with their work. The main reason given was that, their work was more rewarding than it was when it was a private company. Responses from Aluworks and Unilever were no different from those of Cal Bank and HFC Bank. Work safety in the manufacturing industry is one thing the employees appreciate most in their working environment. The medical bills of the employees and their family and other welfare of the employees are also taken care of by the various companies. These contribute to the transformation FDI support has contributed in the lives and operation of the company.

4.7 Are these foreign direct investment received for the company repayable loan?

The FDIs received by these companies are not payable loans. The investors instead receive dividends for their investments. Any investor that wishes to withdraw his support sells off his shares from the company to another investor. The FDI components have been a continual investment the company has received and used for its daily operations. An

investor selling off his share as a means to with-draw their support does not sell the shares to the company but goes to a broker who then trades the shares on the exchange on behalf of the investor another investor be it a foreign investor or a local investor.

4.8 How long does the company plan to continue with these investments from these foreigners?

The responses by all the companies with the support show that, none of the companies plan to delist from the exchange and loses the foreign direct investments. The benefits the companies have gained from the FDIs are incentives not to delist from the exchange. Cal Bank and HFC Bank put in an application for a renounceable rights issue for their shares in 2009 and in 2010 respectively. Aluworks has also put in an application for a renounceable rights issue for its share from March 15th to April 16th this year. These developments in the various companies are clear indications that the companies with FDIs do not have any intension of delisting from the exchange.

4.9 Why the companies do not have FDI support

SIC Insurance Company Limited and Pioneer Kitchenware Limited on the other hand have little or no FDI component in their capital structure. From the interviews conducted, it was ascertained that, SIC Insurance Company Limited was initially a state owned corporations before it listed on the Ghana Stock Exchange in 2008. SIC was listed on the exchange because the Government of Ghana needed money to run the country. The

company does not have any FDI component in its capital structure because it was a state owned company before it got listed. Another reason why SIC does not have FDI support is, the company is barely two years on the stock market and investors would like to see trends of good performance before investing their monetary resources in the company.

Pioneer Kitchenware on the other hand had been listed on the exchange since 1995 and yet still, has a minimal percentage of foreign direct investment (0.16%). From the research, it was established that Pioneer Kitchenware Ltd's minimal FDI support is due its business nature. Pioneer Kitchenware manufactures and markets aluminium household hollowware products. The company offers heavy-duty pots, frying pans, trays, casseroles, basins, buckets, and colanders, including sieves³⁶. Although the company exports some of its products, the majority of its manufactured products are sold in Ghana. According to the research, foreign investors do not invest in the company because it is more rewarding to investors to invest in competitive firms in Asia and Europe.

It was gathered that these companies without FDI support, are in this situation because they companies are recently listed organisations and because of competition they face from other companies all over the world.

4.10 How the company has been faring with little or no FDI support.

³⁶ Bloomberg.com. "Pioneer Kitchenware Limited." *Bloomberg.com*. Business Week. Web. 4 Apr. 2010.

Both SIC and Pioneer Kitchen were both state owned companies before the government decide to off load part of its shares. Pioneer Kitchen was listed in 1995 whist SIC listed its shares in 2008. From the research, Pioneer Kitchenware after listing its shares has not been performing well in 2006 and in 2007. The company recorded huge amount of losses in these years. In 2006 the company recorded a loss of GH¢290099 and in 2007 recorded another loss of GH¢263,542. SIC on the other from 2002 to 2006 has been making profits from its operations. This shows that companies without FDI support may or may not perform better on their own.

4.12 Summary of Response from the Ghana Stock Exchange

The response from the interviews conducted showed that Ghana Stock Exchange is the mediator for all the listed companies that receive foreign direct investments. The rules and regulations of the exchange does not restrict any one including foreigners from holding shares in any company listed on the stock market. Foreigners living outside the country and foreigners living in Ghana are allowed to buy unlimited number shares in any listed company. Before, the exchange control rules of the stock market restricted foreigners from holding certain number of shares on the Ghana Stock Exchange. This rule stated that, no foreign organisation or group could hold more than 74% of a listed companies stock and a single foreign investor cannot hold more than 10% shares in a particular company. Foreign investors who wished to exceed these limited percentages needed approval from the Bank of Ghana to do so. However, in 2006, the rules were abolished. No restrictions were placed on any

stock of companies listed on the stock market except for the banking sector, where the Banking Act, 2004 governs the acquisition of a stake greater than 10% and which requires prior approval of the Bank of Ghana.³⁷ These regulations according to the research were abolished by the Bank of Ghana to encourage foreign investors to invest in Ghanaian companies and to help Ghanaian companies take advantage of opportunities outside Ghana.

The Ghana Stock Exchange, with the objective of growing Ghana's capital market to compete in the international market encourages Ghanaian companies to seek both local and foreign investments in their companies. The exchange does this by organising training for the public, educational visits, public forums, investment forums, adverts, publicities and interview with the press. The exchange also trains individuals and companies to gain professional understanding into the market through the security course organised by the Ghana Stock Exchange. The Exchange also collaborates with the Securities and Exchange Commission, the brokers and all related stakeholders to encourage organisations to list on the exchange to increase their capital structure. The Securities and Exchange Commission occasionally organise financial literacy week to enforce this publicity. The brokers are also occasionally on air educating the public. The trading results of listed companies are displayed on the GSE website and in the newspapers to increase awareness and publicity of such

³⁷ Bank of Ghana. *OPERATIONAL GUIDELINES FOR THE FOREIGN EXCHANGE ACT, 2006 (ACT 723)*. Tech. Bank of Ghana, 29 Dec. 2006. Web. 6 Apr. 2010.
<<http://www.bog.gov.gh/privatecontent/File/Secretarys/THE%20FOREIGN%20EXCHANGE%20ACT%202006.pdf>>.

opportunities. The Ghana Stock Exchange through these measures has succeeded in getting thirty-six companies listed since its inception.

From the interview conducted, it was ascertained that the performance of the listed companies affect the functions of the exchange. This effect could be positive or negative depending on how these companies perform. It was established that the performance of the selected companies with FDI support affect the functions of the stock market. Investors are encouraged to invest in the stocks of these companies because of the returns they would make on their investments. The good performance of stocks makes the market liquid, increase competition amongst stocks and the exchange competitiveness in the international front.

Although the operations of these FDI's affect the functions of the stock market, the Ghana Stock Exchange does not have the authority to regulate the operations of these FDI. It was gathered from the research that, the foreign investors after investing their monetary resources might not actively be involved in the operations of the company unless the investor is voted as a board member of that institution. The exchange does not control the activities of these FDI. The Bank of Ghana rather regulates the foreign exchange transactions of these investors

4.13 Summary of responses from Ghana Investment Promotion Centre (GIPC)

The Ghana Investment Promotion Centre is responsible for investments in all sectors of the economy except the petroleum exploration, minerals and mining exploration and extraction. GIPC co-ordinates and monitors all investment activities falling under Act 478 and assist both domestic and foreign investors in:

- Initiating and supporting measures that will enhance the investment climate in the country for both Ghanaian and non-Ghanaian companies.
- Promoting investments in and outside Ghana through effective promotion.
- Collecting, collating, analysing and disseminating information about investment opportunities and sources of investment capital, and advising on the availability, choice or suitability of partners in joint-venture projects.³⁸

Although GIPC is mainly concerned with both local and foreign, investors that establish businesses in Ghana, the organisation also has promotions that encourage listed companies to grow and attract more investors to invest in them. The corporate tax for companies listed on the Ghana Stock Exchange after January 1 2004 was 22% for the first three years of the company's existence on the stock market. This is a directive by GIPC is to encourage both local and foreign companies to list on the Exchange.

In furtherance of the investment promotion mandate given under section 2 of the Ghana Investment Promotion Centre Act 1994 (Act 478), the Ghana Investment Promotion Centre is mandated to encourage and promote investments in the Ghanaian economy through the negotiation of Bilateral Investment Treaties with interested countries. GIPC therefore has the autonomy to lead the investment drive in the country.

³⁸ GIPC. "Objectives & Functions." *Ghana Africans Golden Gate Way*. GIPC. Web. 1 Apr. 2010.

Chapter 5

Conclusion & Recommendations

5.1 Summary Conclusion

The objective of the this research was to review and ascertain whether there is a positive or negative impact on the selected companies, and how these impacts trickle down to the industry they operate and to the capital market as a whole.

Furthermore, the study aimed at providing recommendations to the selected companies, stakeholders such as policy makers and investors.

The study has also expanded the literature guiding foreign direct investment and the stock market in Ghana.

The following research questions were used to explore the above objectives.

- To what extent has FDI affected Ghana's capital market?
- What are the benefits of FDI support to the economy?

The result on the study on the impact of foreign direct investments (FDI) on Ghana's capital market indicated the activities of companies with FDI support affected the operations of the stock market. The effect these support had on the exchange was positive and it would take a whole lot of effort and commitment on the part of the exchange and the companies to maintain these support.

One of the means of improving the operations of the operations of the stock market was to put in measures to attract foreign investors. Some of these measures are quick settlement and clearance, efficiency of the exchange through higher protection of investors.

5.2 Discussion of Findings

The companies that have high and moderate FDI component included in their capital structure according to the findings from the research did much better than those without the FDI components did.

Companies like Cal Bank, HFC Bank and Unilever Ghana have increased their performance with these supports over the years. Profits received by these companies have seen continues increases due to the various FDI supports the companies received. These increases in profits have helped these organisations to increase the services they provide as in the case of Cal Bank and HFC Bank. Unilever on the other hand have also increased their production lines. With the help of FDIs Cal Bank has increased its branches and ATM to facilitate the services they provide. The company has also added other services such as internet banking, private banking and brokerage services. HFC has also increased its banking services, developed its real estate and investment services to compete in the banking industry. These foreign investors of HFC Bank do not only invest their monetary resources but also provide some strategic management services to the bank. The improvement in the quality of products produced by Unilever Ghana has also enabled it to be the market leader in the industry it operates. These investments provided by the foreigners, to a large extent, have enabled Unilever to acquire majority shares in Benso Oil Plantation to provide raw materials for their operations. The companies with the FDI support are competing keenly with other companies' in their respective industries. HFC Bank, Cal Bank and Unilever every now and

then advertise their various products and promotions to the Ghanaian public to patronise their services and products.

Aside the companies benefiting from these supports, employees welfare have also improved tremendously. HFC Bank for instance provides transport services to the children of employees. Aside these, the wages and salaries of employees in these companies have also increased.

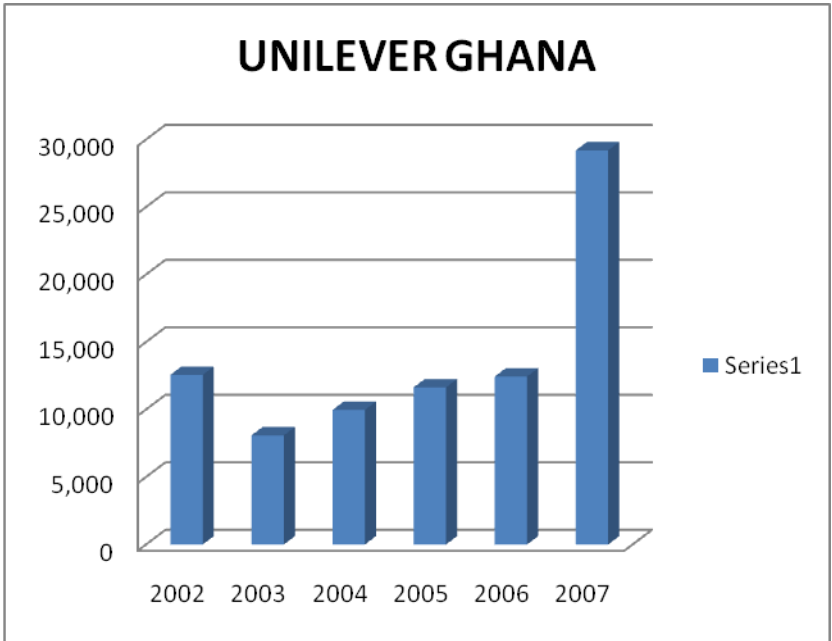
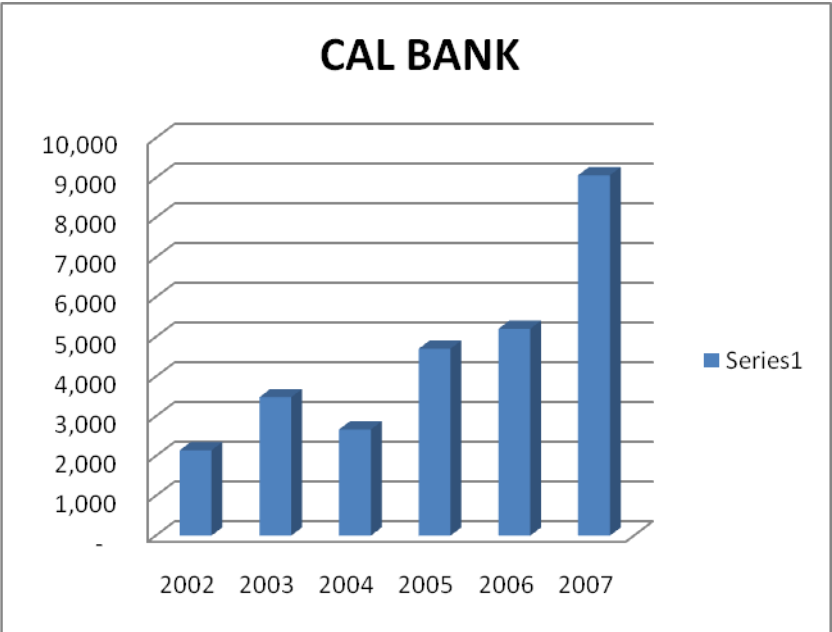
The FDI supports in these companies have also made trading on the Ghana Stock Exchange very active in terms of volume of stocks traded and market capitalisation. The stock market has seen a lot of improvement in terms of the number of right issues made in a year by various companies. The raising of capital through the exchange is now easy and the confidence level of investors in the exchange has increased considerably.

The operations of these companies have also impacted positively on the economy of Ghana. Many jobs have been created as a result of the increase in their operations. Their operations again have contributed to the increased Gross Domestic Products of Ghana.

Foreign investors investing their resources in these organisations have reaped and are still reaping the benefits from their investments. This therefore provides the lead to other foreigners who are uncertain as to whether to invest in Ghana, or elsewhere to invest in companies in Ghana.

From the graph (fig 1 and fig 2) below Cal Bank and Unilever Ghana have continued to increase their profits after they have sought for foreign direct investments. The profits they gained enabled them to increase their

market share and improve their operations. Unilever has achieved the position as the market leader in the industry it operates.



HFC Bank and Aluworks have also shown an undulating pattern in their profit base since they acquired the FDI support. Nevertheless, these companies have shown a massive improvement in their operations and in the welfare of their employees. Production lines and services have been added to the core operations of Aluworks and HFC Bank respectively.

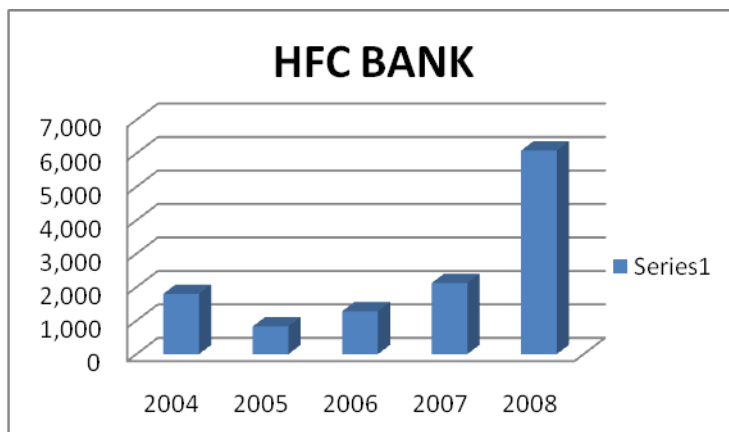


Fig 3

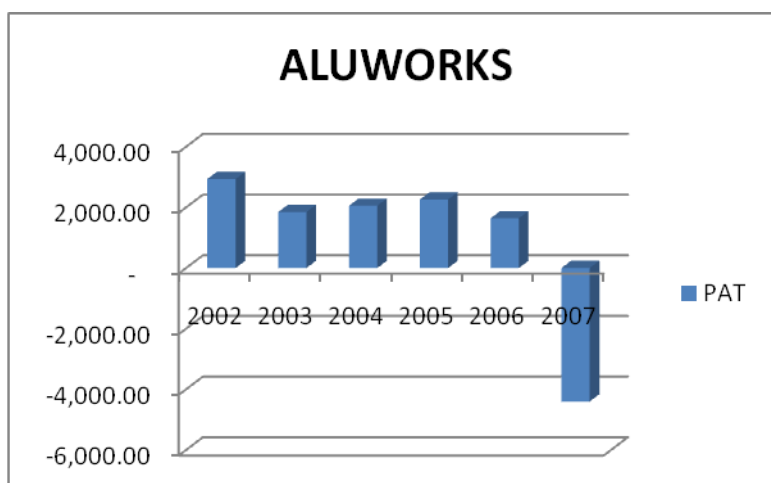


Fig 4

SIC Insurance Company (fig 5) has continually increased in profit margin without any FDI support. The continual increase in the company's profits has not however been able to grant it the position of the market leader. The company from the research however hopes to attract foreign

investments to increase their market share and expand into the West African market.

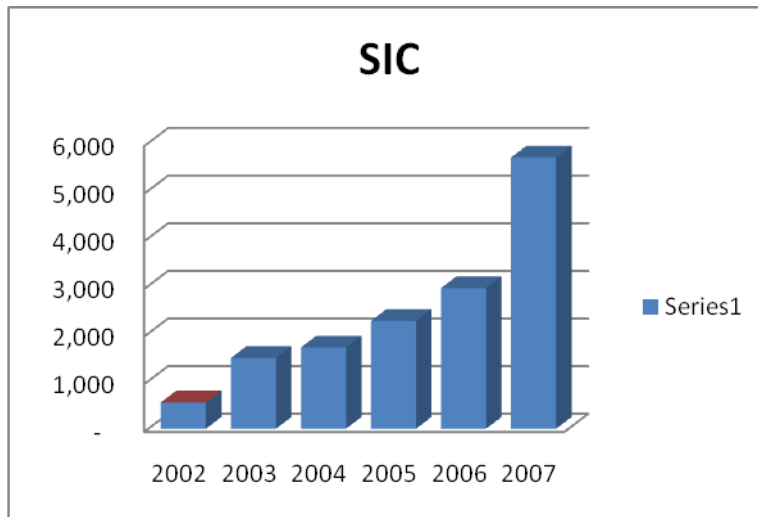


Fig 5

Pioneer Kitchenware on the other hand had seen a series of loss made with little FDI support. The company's current position on the market is not very attractive to catch the attention of foreign investors. The company however hopes to get more foreign direct investments in its capital structure to improve the operations and add more production lines to its products.

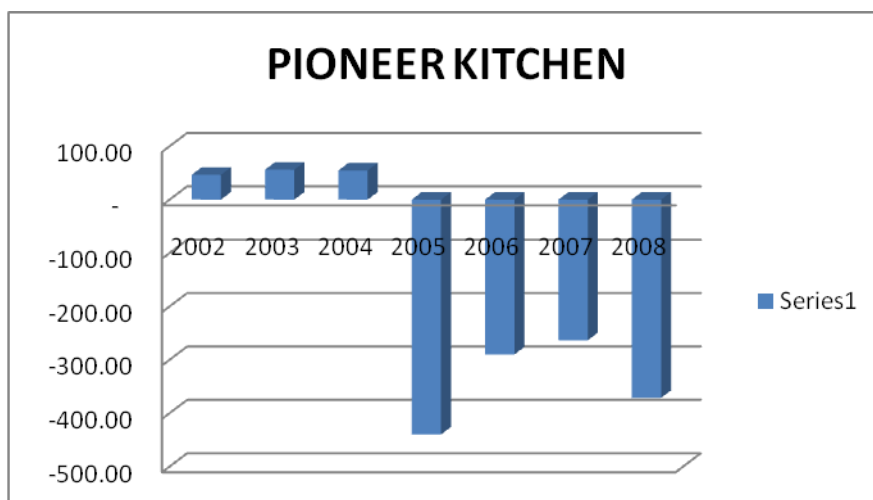


Fig 6

5.3 Recommendations

In-as-much as Foreign Direct Investment has helped the selected companies to improve their operations as well as the welfare of their employees, it should be noted that, for companies to improve their operations foreign direct investment is not the only thing companies need. The study revealed that companies could also improve their operations through good corporate governance. Without good corporate governance, a company can receive all the FDI it needs and can get, but could still not improve its operations. Companies should rather focus on improving their management and organisational structure so that waste of resources could be avoided to attract more FDI support. Companies should also focus on training their employees to bring the right attitude on board in the development of the organisation and increase productivity to increase their contribution for GDP growth.

Companies with little or no FDI support can also attract the support of these organisations and individuals by first improving their operations and management skills.

As it is proven that companies with foreign direct investment do better in their operations and make more profit than those companies without it, institutions and companies listed on the exchange and those that are not listed on the exchange should improve their operations by cutting the bureaucracies, encourage talented people to use their talents for the development of the organisation and make their policies flexible so as to attract these foreign investors. One way companies not listed on the

exchange can attract foreign investors is by listing on the Ghana Stock Exchange.

Foreign direct investments from the research conducted have shown to be very beneficial to the improvement of company operations and the increase of market share and value. Companies that want to improve their operations and increase their market share should seek more foreign direct investments in their capital base.

The Ghana Stock Exchange on the other hand can also help listed companies on the stock market to attract FDI's by constantly increasing the publicity they already have been doing for them. Through this, the exchange and the companies will realise mutual benefits.

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APPENDIX

TREND OF PROFITS FROM THE SIX SELECTED TABLE

Companies With High FDI Support

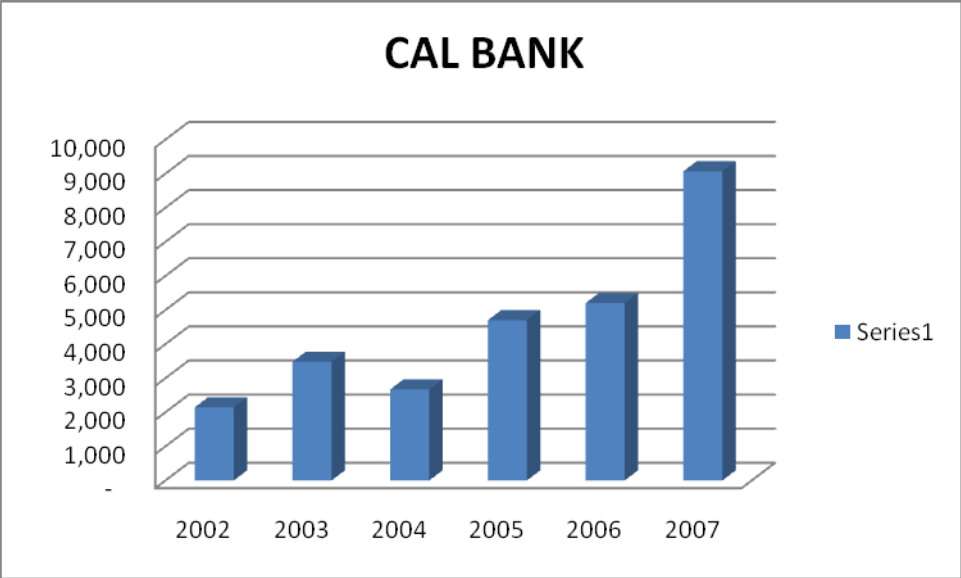


Fig 1

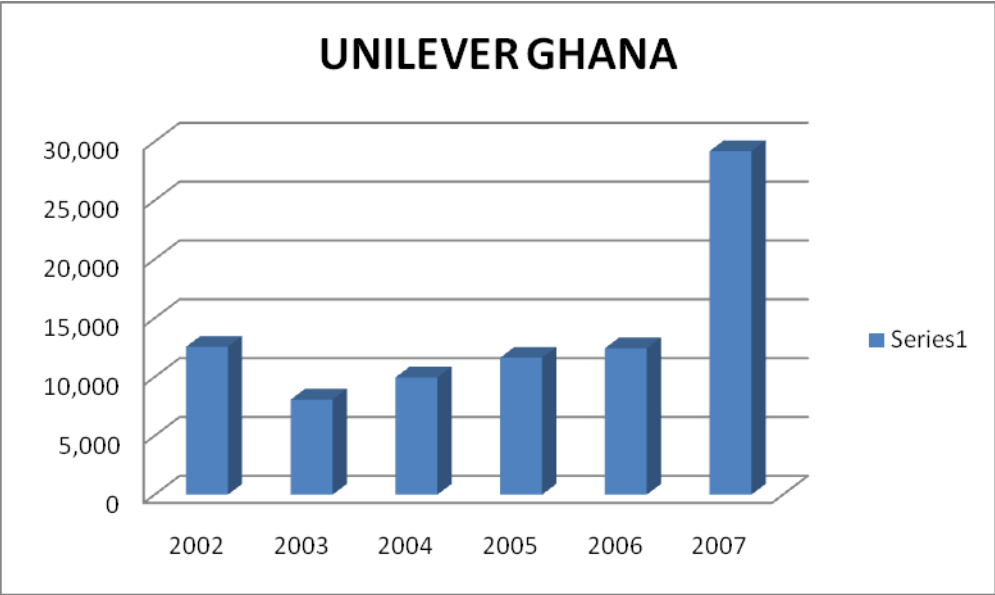


Fig 2

Companies With Moderate FDI Support

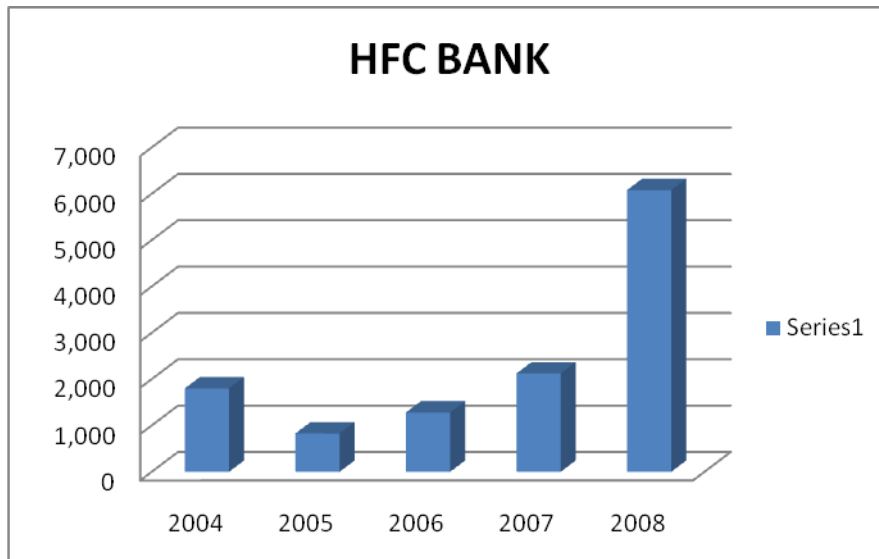


Fig 3

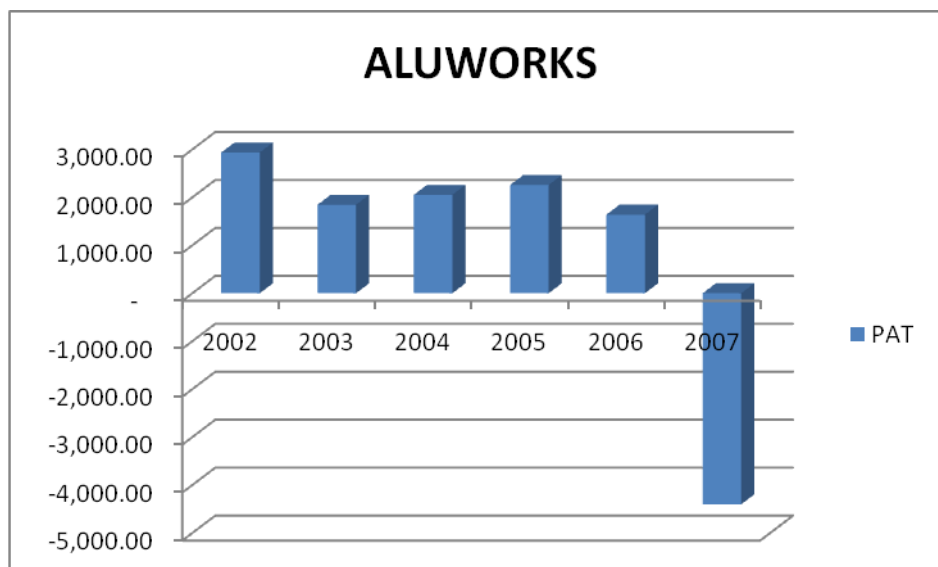
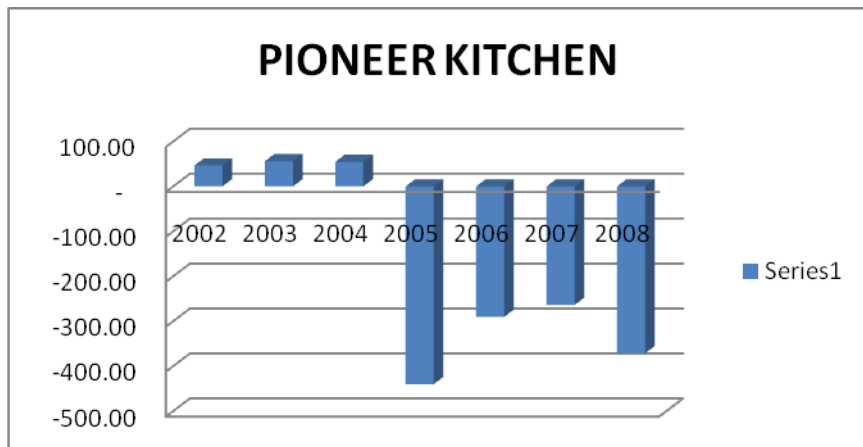
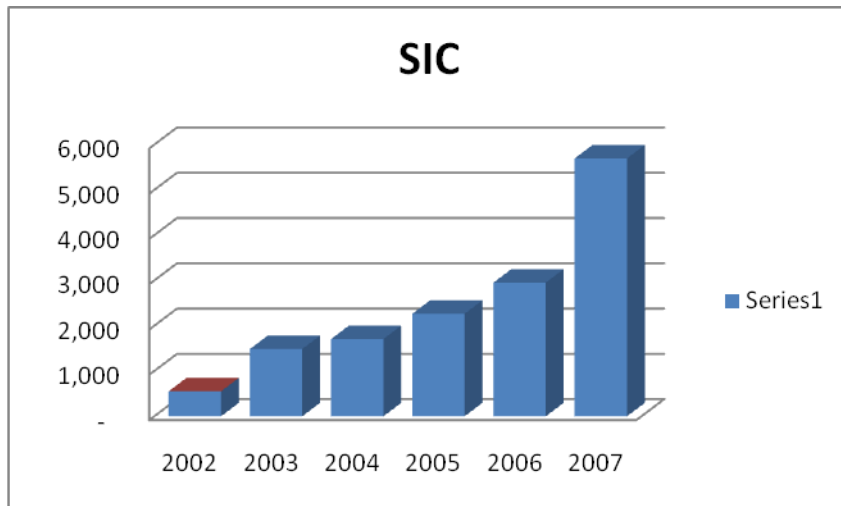


Fig 4

Companies With Little or No FDI Support



PLACES FOR INTERVIEW AND INTERVIEW

QUESTIONS

PLACES:

Primary data

Cal Bank- (88.91%) - 2004 P.O.Box 14596, Accra-Ghana

HFC- (19.3%) P.O. Box CT 4603. Cantonments. Accra.

SIC (N/A)- P.O. Box GP 50. Accra

Aluworks- (11.19%) - 1996 P.O. Box 914, Tema

Pioneer Kitchenware Ltd (0.16%)- P.O. Box 164. Tema

Unilever (72.22%) P .O. Box 70. Accra

GIPC- **Ghana Investment Promotion Centre** Post: P. O. Box M193, Accra-Ghana

Ghana Stock Exchange- P.O. Box 1849 Accra

Ministry of trade and industry- P.O. Box M47 Accra

Ministry of Foreign Affairs- P. O Box M53, Accra

IMPACT OF FOREIGN DIRECT INVESTMENT ON GHANA'S CAPITAL MARKET and the Ghanaian economy

INTERVIEW QUESTIONS

Research questions

- Why do companies in Ghana seek external funding?
- To what extent has FDI affected Ghana's capital market?
- What are the benefits of FDI support to the economy?

Objective

To ascertain whether there is a positive or negative impact of FDI in the selected companies, and how these impact trickle down to the industry they operate, and the Stock market

INTERVIEW QUESTIONS

General (selected Companies)

1. Why does the company has amount of FDI
2. What was the position of company before it sort for resources outside the borders of Ghana
3. When did the company decide to seek these investments outside the borders of Ghana?
4. How long did it take the company to receive these funds?
5. How has these funds transformed :

- a. the operations of the company?
 - b. the livelihood of employees?
6. Are these foreign direct investment repayable loan?
 7. What improvement has the company seen since the support of these FDI's
 8. How long does the company plan to continue with these supports?
 9. What is the general economic value of these support to company, the and the employees?
 10. Aside, the funds invested by these foreign investor, does the company also receive any form of support from these investors?

For companies without FDI

1. Why does the company have minimal FDI component in its capital base?
2. How has the company been faring without FDI support?
3. Do you think the company needs to seek foreign direct investments? if yes
 - a. How does the company plan to do that
 - b. If no why not?

GSE- Questions

1. Does the exchange encourage companies, which are not doing well to seek FDI Support?
2. If yes, how does it do that? If No, why?
3. how does the performance of these companies with FDI affect the functions of the exchange?

4. Are there any regulation concerning the how much foreign can invest in any listed company? Why is it so if there is? why not if there isn't any such regulation?
5. Does the GSE have the power to control the operations of these FDI's?
6. what is the current market capitalisation?
 - a. what percentage is of this capitalisation is foreign?
7. What are some of the problems associated with these FDI's?

GIPC

1. What are some of the measures and promotion initiated to by the institution that support investment climate?
2. What are the methods or instruments used in the collecting, collating, analysing and disseminating information about investment opportunities in Ghana?
3. Aside identifying specific projects and inviting interested investors for participation in those projects, does institution encourage investors to invest on companies listed on the exchange? How does it do that?
4. What services does the institution provide for foreign investors
5. Does the institution have any program that encourage foreign investors to invest in companies listed on the exchange?

MINISTRY OF TRADE AND INDUSTRY

1. What are some of the policies the ministry has foreign investment?
2. Does these policies affect all investors in the various industries?

- 3.** Aside the policies the ministry has for FDI's, how does the ministry make it easy and convenient to attract these FDIs?
- 4.** How does the ministry monitor and ensure the operations of these investors are beneficial.
- 5.** Does the ministry have control over the operations of companies listed on the exchange?
- 6.** What does the ministry do to help boost FDI on the exchange?
- 7.** How does the ministry ensure that these FDIs yield a mutual benefit to the company and the investors?