Title: **Foreign Direct Investment (FDI); A Plausible Path to Economic Growth**

Topic:

Investigation into Strategies for Attracting Non-Oil-Related Non-Extractive Foreign Direct Investment (FDI) to Developing Countries: The Case of Ghana.

Bridget Awuah | Ashesi University College

Supervisor: Dr. Stephen E Armah

"Multinationals are not seeking to invest in all countries in the world. Rather, they seek to establish a presence in a small number of countries, with world competitive facilities that together strengthen their regional or worldwide comparative advantage"
(IEA, 2005)

ACKNOWLEDGEMENT

"A journey of a thousand miles begins with only a step", but it is indeed amazing how that step ends in a thousand miles journey. Today I recall the discussions I had with my family before my first day in college, the toils, the struggles suffered and the joys and successes attained. I never thought my day of gratitude would come neither did I think my final year would be so close. Many are those who say tomorrow never comes but am confident that my tomorrow has been achieved today.

I am grateful to the almighty God for his mercies and his presence in my life that always gave a hope of glory. For his protection and guidance, his unfading love and joy in my life and the wonderful family he gave me to support me.

My immense gratitude goes to mum (Joana Juliet Appiah), who has been my pillar and encouragement; mummy you have fought a good fight for me, you stood firm for me when no one else would and I am forever grateful to you. I promise never to put you to shame and to never let you down, for you I will climb the highest mountains of success until you tell me you are satisfied.

My sincere gratitude goes to my brothers (Kwame, Nana Amoa and Gorman) who supported me with love, words of encouragement resources, constant phone calls, throughout my entire life in college. I must say that your strife to succeed is what I look up to and in indeed I know I have learnt and learning from the best and some of the finest men Ghana has ever had.

Special thanks to my supervisor, Dr. Stephen E. Armah who supported me with resources, listened to my nonsense and crap I had to say, directed and guided me through out the duration of this project. You are a blessing to Ashesi and the best supervisor in the world!

Finally my appreciation goes to my entire family, Kwaku Amponsah Ofori, Mr. Emmanuel Bagger, Ms Coyita Pyne, Dr. Vladimir Antwi Danso Mr. Abrokwah and Mr. Asenso for their immense contribution to the success of this project.

ABSTRACT

As at 2008, the much awaited oil find in Ghana had been realized, and as a natural phenomenon much attention had been shifted to the industrial sector specifically the mining segment. Till date many are attracted to the industrial sector specifically the mining segment due to its acclaimed high returns and much FDI inflow.

The Ghana Statistical Service 2010 report showed that Ghana had increased its income by 60% to over US$44 billion coupled with a growth rate of 14%. However, theses figures did not commensurate the situation on ground and only pointed out that the oil find had pushed up the economy and as a result the high FDI inflows into the oil sector.

Ghana as a country has no much FDI inflows into the Non-oil and Non-extractive sectors which proves to be worrying since it posses many issues of the underdevelopment of these sectors as well as their inability to attract much FDI inflows. Therefore, this paper sought out to investigate into strategies that could be adopted to attract more Non-extractive FDI for the attainment of economic growth.

In doing so the 2 main institutions in charge of the Non-oil FDI inflows were investigated for data on FDI inflows as well as for the purpose of observing organizational behavior and strategies used.

Interviews were conducted purposefully in order to ascertain expert opinions on the topic, research question and research objectives in order for a comprehensive analysis to be drawn.

In the end it was clear that indeed Ghana had low Non-extractive FDI inflows which showed that those sectors were not attractive due to market failures and lack of investments by both the government and locals.

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List of Acronyms

GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
ICT	Information and Communication Technology
SSA	Sub-Saharan Africa
NPA	National Petroleum Authority
GIPC	Ghana Investment Promotion Centre
GFZB	Ghana Free Zones Board
GIMPA	Ghana Institute of Management and Public Administration
FDI	Foreign Direct Investment
UNCTAD	United Nations Conference on Trade and Development
NLC	National Liberation Council
NRC	National Redemption Council
AFRC	Armed Forces Revolution Council
GBA	Ghana Bar Association
NUGS	National Union of Ghana Students

GJA	Ghana Journalist Association
SMC	Supreme Military Council
PNDC	Provisional National Defense Council
SAP	Structural Adjustment Program
ERP	Economic Recovery Program
NDC	National Democratic Congress
NPP	New Patriotic Party
AAGDS	Accelerated Agricultural Growth and Development Strategy
FASDEP	Food and Agriculture Sector Development Policy
MDG	Millennium Development Goal
NDPC	National Development Planning Commission
HIPC	Highly Indebted Poor Country
GPRS	Growth and Poverty Reduction Strategy
NHIS	National Health Insurance Scheme
ADM	Arthur-Daniel Midland
HND	High National Diploma
MASLOC	Microfinance and Small Loans Center
LESDEP	Local Enterprise and Skills Development Program
MTP	Medium Term Program

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Foreign Direct investment (FDI) is defined by the IMF and OECD as investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI takes two forms; inward or outward, ensuing in a net FDI inflow (positive or negative) as well as a stock of foreign direct investment. However, net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans, whereas FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intra company loans, net of receipts from the repatriation of capital and repayment of loans.

1.1.2 DETERMINANTS OF FDI ATTRACTIVENESS

Foreign direct investment is done for many reasons including; taking advantage of cheaper wages, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment reinforces the idea of portfolio investment which is a reflexive investment in the securities of another country such as stocks and bonds, but in this case the investments are made in the form of ownership of an enterprise outside the economy of the investor. However, for an investor to acquire a lasting interest or effective control over an enterprise operating outside of the economy of the investor, certain variables are considered. Below is a tabulation of such variables.

Table 1 - Empirical Determinants of FDI to Africa: A synopsis of the literature

FDI Determinants

FDI Determinants	**Econlit references on Africa**	**Other references on Africa**
Market Size and Growth	Morisset (2000); Asiedu (2002a, 2006); Bende-Nabende (2002); Lemi and Asefa (2003); Yasin (2005); Dupasquier and Osakwe (2006); Fedderke and Romm (2006).	Agodo (1978); Bhattacharya *et al*. (1996); Elbadawi and Mwega (1997); Bhinda *et al*. (1999); Basu and Srinivasan (2002); Asiedu (2003); Onyeiwu and Shrestha (2004).
Availability of Natural Resources	Morisset (2000); Asiedu (2006); Dupasquier and Osakwe (2006).	Basu and Srinivasan (2002); Kolstad and Tondel (2002); Asiedu (2003); Onyeiwu and Shrestha (2004).
Costs and Skills of Human Capital	Morisset (2000); Bende-Nabende (2002); Lemi and Asefa (2003); Yasin (2005); Asiedu (2006); Fedderke and Romm (2006).	Bhinda *et al*. (1999); Odenthal (2001).
Quality and Quantity of Infrastructure	Morisset (2000); Asiedu (2002a, 2004, 2006); Lemi and Asefa (2003); Dupasquier and Osakwe (2006).	Bhinda *et al*. (1999); Pigato (2001); Asiedu (2002b, 2003); Onyeiwu and Shrestha (2004).
Openness of the Economy	Morisset (2000); Asiedu (2002a); Bende-Nabende (2002); Lemi and Asefa (2003); Yasin (2005); Dupasquier and Osakwe (2006); Fedderke and Romm (2006).	Bhattacharya *et al*. (1997); Asiedu (2002b); Onyeiwu and Shrestha (2004).
Economic and Political Uncertainty	Morisset (2000); Schoeman *et al*. (2000); Asiedu (2002a, 2006); Lemi and Asefa (2003); Yasin (2005); Dupasquier and Osakwe (2006); Fedderke and Romm (2006).	Collier and Pattillo (1997, 2000); Sachs and Sievers (1998); Haque *et al*. (2000); Jaspersen *et al*. (2000); Kolstad and Tondel (2002); Asiedu (2003); Martin and Rose-Innes

		(2003); Rogoff and Reinhart (2003); Onyeiwu and Shrestha (2004).
Institutional Quality	Asiedu (2004, 2006); Dupasquier and Osakwe (2006); Fedderke and Romm (2006).	Emery *et al*. (2000); Te Velde (2001); Asiedu (2003).
Investment Regulation	Bende-Nabende (2002); Asiedu (2004, 2006); Dupasquier and Osakwe (2006).	Basu and Srinivasan (2002); Asiedu (2003).
International Treaties and Guarantees	Morisset (2000); Lemi and Asefa (2003).	--
Investment Promotion	Dupasquier and Osakwe (2006).	Morisset (2003).
Return on Investment	Schoeman *et al*. (2000); Asiedu (2002a).	Jaspersen *et al*. (2000).
Others (e.g. Other cost-related factors; Concentration of other investors; Investment Incentives; Privatization; ODA;…)	Morisset (2000); Schoeman *et al*. (2000); Bende-Nabende (2002); Lemi and Asefa (2003); Yasin (2005); Fedderke and Romm (2006).	Te Velde (2001); Martin and Rose-Innes (2003)

Moreira.S.B. The Determinant of Foreign Direct Investment; What is the evidence for Africa. Poiseis,Tubarao, v.2,1, pg83-104 Jan/Jun 2009

1.1.3 IMPORTANCE OF FDI TO THE HOST COUNTRY[1]

- It is widely recognized that foreign direct investment (FDI) produces economic benefits to the recipient countries by providing capital which enhances domestic investment and innovation.
- Integration into global economy - A developing country, which attracts FDI, can gain a greater footing in the world economy by getting access to a wider global market.
- Technology advancement - FDI can introduce world-level technology and technical know-how and processes to developing countries. Foreign expertise can be an important factor in upgrading the existing technical processes in a host country. For example, the civilian nuclear deal between India and the United States would lead to transfer of nuclear energy know-how between the two countries and allow India to upgrade its civilian nuclear facilities.
- Increased competition - As FDI brings in advances in technology and processes, it increases the competition in the domestic economy of the developing country, which has attracted the FDI. Other companies will also have to improve their processes and products in order to stay competitive in the market. Overall, FDI improves the quality of a product and processes in a particular sector.
- Improved human resources - Employees of a host country that attracts and retains FDI gets exposure to globally valued skills. This upgrades and enhances the value of the human resources of the host country.

In essence, the whole idea of FDI is to fill the resource gap which obviously leads to economic growth;

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[1] *Moreira.S.B. The Determinant of Foreign Direct Investment; What is the evidence for Africa. Poiseis, Tubarao, v.2,1, pg83-104 Jan/Jun 2009*

Figure: 1 How FDI Fills the Resource Gap

1.1.4 Governments and their Policy Impact on the Inflow of FDI

OSAGEFO DR. KWAME NKRUMAH (1ST REPUBLIC OF GHANA: 1960-1966)

After Ghana gained its independence in March 1957, Dr. Kwame Nkrumah became Ghana's 1st head of state. Ghana at the time was the largest cocoa producer in the world coupled with resource endowment such as gold, bauxite, diamond and amongst others. With a focus on such resources Nkrumah adopted an industrialization and state-led strategy which focused on import substitution, as a result the economy tended to greatly daunt free trade. As part of Nkrumah's charisma one can safely say that he tilted towards socialist ideas as he included state interventions of social welfare services such as free education, housing and health care services. Due to the continuation of the post-war increase in the prices of raw materials and agricultural goods, particularly cocoa these socialist policies continued (Hutchful, 2002). Economic problems such as Incompetence, overstaffing and corruption became the order of the day since Nkrumah's state-led move brought about the redistribution of national prosperity and made it very cumbersome to defy such huge public expenditures. With such an economic condition it became difficult for the inflow of FDI since there was a focus on state-owned enterprises and a disregard of private firms. The state virtually had monopoly over businesses and as a result made it difficult for foreign firms to see Ghana as an attractive environment where business could be conducted since the economies of scale could only be enjoyed by the state-owned firms.

DR. KOFI ABREFA BUSIA; (2ND REPUBLIC OF GHANA: 1969-1972)

After Nkrumah was overthrown in a coup d'état in 1966, the NLC under the leadership of General Ankrah succeeded Nkrumah. Immediately he took office, the NLC instigated Ghana's first negotiation with the Bretton Woods institution of the IMF which sought to liberalize trade, removal of subsidies devaluation of the Ghana cedi and amongst others. As a result they neglected the industries established by Nkrumah and the state-led approach with the support of the Eastern Bloc in order to empower the private sector as a major engine of economic growth (Boafo-Arthur, 1999b: 47). However due to disagreements from the unions and the professional bodies (lawyers, teachers etc.) about the Market-oriented policies being used by the NLC, they were forced to hand over power to Dr. K. A. Busia

The Busia government was also a pro-IMF whose focus was to address the flaws of the private sector by using neo-liberal policies to revive the economy from a state of high inflation. In 1971 the Busia government introduced taxes on imports, introduced a development levy, withdrew subsidies, liberalized trade, abolished free education and transport and later devalued the Ghana cedi. These measures also raged disagreements and aroused another coup in 1972. With the measures adopted by this government the Ghanaian economy signaled to the outside world of its readiness to attract foreign investments. The idea of privatization adopted by this regime boosted investor confidence and a protection of property right.

Dr. Hilla Limann (3rd Republic of Ghana: 1979 to 1981)

The Acheampong government adopted the austerity measure of self reliance which in Ghanaian parlance is referred to as domestication[2] (D. Lartey, 2000). The NRC discarded the neo-liberal policies and the development levy adopted by its predecessor, reinstated full benefits to public sector workers, rebutted many of the country's external debts, and revalued the country's currency back to its original state before the Busia government came into power. This reduced the inflow of foreign direct investment; again, he introduced the Investment policy

[2] Dan Lartey first used the word domestication at the presidential debate OF Ghana in 2000

degree that require 51% equity participation in most foreign firms in Ghana and lead to an increase in Ghana's shares in Ashanti Gold Fields. Due to increases in the fuel prices from $3 to $9 per barrel as a result of the formation of OPEC and Arab league, Ghana was hit hard which lead to a plunge of the economy. Due to the massive corruption, nepotism and mismanagement that gained footing in this administration, the foreign exchange realized from the unprecedented increase in world producer prices of cocoa was largely diverted (Shillington, 1992:21). As a result, the economy could not attract FDI due to the austerity measures and later lead to the AFRC staging a coup against the NRC in June 4th 1979 and later handed over power to Dr. Hilla Limann in September 1979 (Gyimah-Boadi, 1993:6).

Mismanagement under the NRC/SMC lead to a collapsing social infrastructure, scarcity of consumer goods, weak state institutions and shortage of foreign exchange, indeed destitution and despondency became the order of the day in the lives of Ghanaians (Gyimah-Boadi, 1993:2). In order to revive the economy Dr. Limann sought to seek external assistance from the IMF. Civil society and Professional groups such as Ghana Bar Association (GBA), Ghana Journalist Association (GJA) and the National Union of Ghana Students (NUGS), through their agitation compelled the government to rescind its decision of negotiating assistance from the IMF. The pressure groups felt that the IMF conditionalities did not favor the economy and that it postulated a negative impact on the Ghanaian economy rather than a positive one. Due to the economic deficits faced by the Limann administration coupled with the fact it could not turn to the IMF for assistance, in my view, FDI was the most assured way to fill the increasing resource gap. However due to the fact the economy was not characterized by a market-oriented approach FDI inflow would definitely become difficult to attract since the weak institutions did not ensure private property right as well as the openness of the economy, of which are strong determinants of FDI.

Flt. Lt. JERRY JOHN RAWLINGS (4TH REPUBLIC OF GHANA: 1992 to 2000)

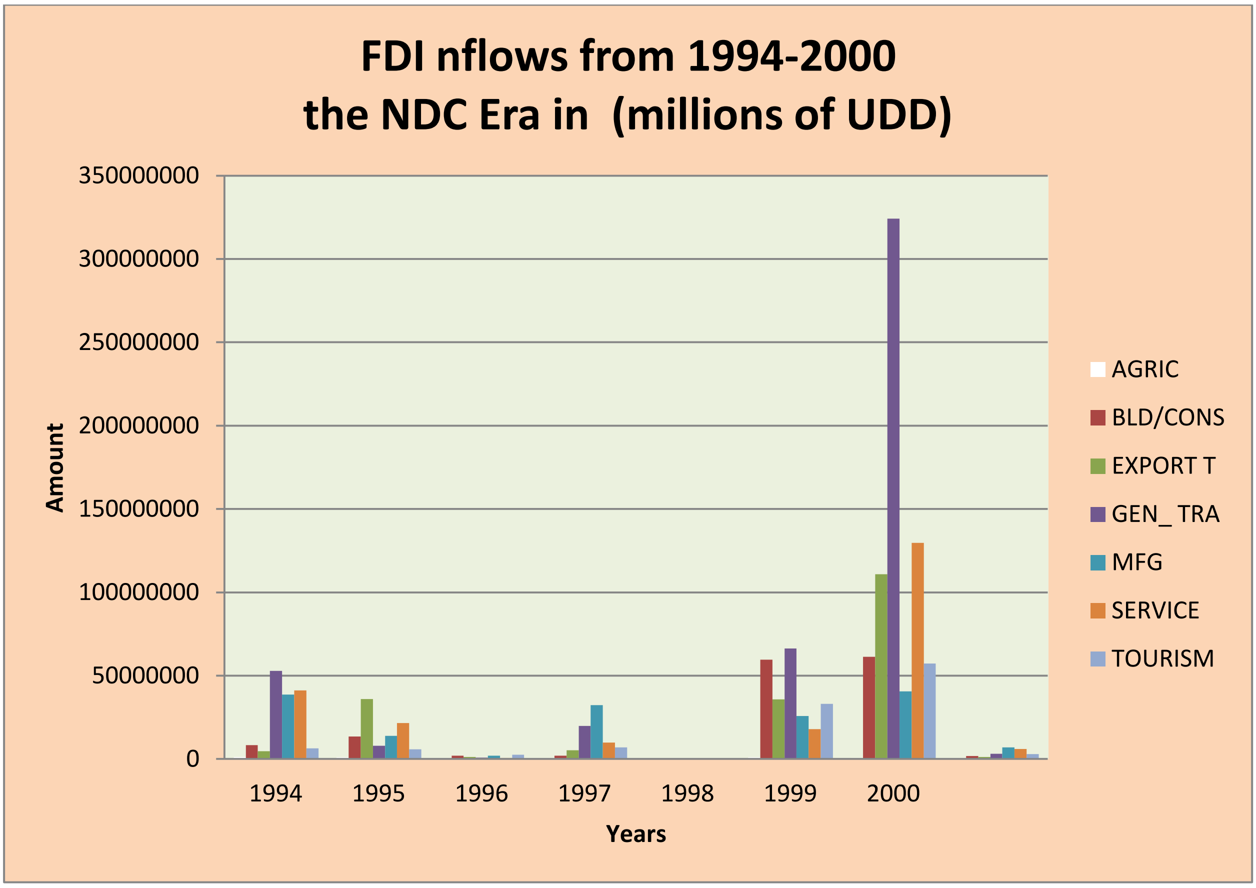
At this point the PNDC came to a realization that to revive Ghana's sinking or deteriorating economy, the only way out was to sought assistance from the Bretton Woods institutions (IMF and World Bank). The PNDC did this even though they knew it would not augur well with the general public considering the fact that it had been partly the reason for about 2 main coups. Kay and Gwynne (2000:51) observed that the capitalist system became the only viable alternative of pursuing economic development in the 1980's. This could account for the reason why the PNDC had no option but to negotiate with the Bretton Woods institutions.

Available statistics indicated that between 1970 and 1983, "the Gross Domestic Product (GDP) per capita fell by more than 2% per annum. Industrial output also dropped by 4.2% per annum, while agricultural production dropped by 0.2 % (Bawumia, 1998:50)". Within the same period, the ratio of exports to GDP fell from 21% to 4%, similarly, "the ratio of investment to GDP dropped by 14%, real wages reduced by 80%, with earnings from exports reducing by 50% of their 1970 levels. Per capita income equally declined by 30%" (World Bank cited in Brydon, 1999:368). Between 1974 and 1983, Ghana's currency was devalued only once (from 1.15 to 2.75 cedis to US$1), the unwillingness of the PNDC to undervalue the currency led to a buildup of external debt. Due to the existence of an overvalued cedi, exchange production for export was less profitable for major exports such as cocoa, and gold. Therefore, Ghana had to use its declining foreign exchange to import such essential commodities as spare parts, crude oil and drugs instead of raising exports to attract foreign exchange. This accounted for why Ghana's debt in 1982 stood at 105.7% of its GDP (Issahaku, p.7). In 1983 Ghana experienced both internal and external shocks, severe drought and bush fires caused a famine in the country and Ghana was only able to meet two-thirds of its own food requirement, and only Chad faced a worse food situation (Anyemedu, 1993:14). As a result, Ghana signed up to the Bretton Woods institutions of which she had to comply with their conditions which formed the Structural Adjustment 1 (SAP1; 1983-1986) which centered on reviving the economy through Economic Recovery Programs such as ERP 1 was an effort to restore fiscal discipline, inflation controls, encourage privatization, removal of subsidies encourage savings and investments, and to lessen Ghana's domestic and international imbalances (Rothchild, 1991:8). The SAP2 (1987-1992) focused on both economic and political conditionality which included reforms in the public sector, conduction of elections and so on. Around this period the Medium Term Agriculture Program (MTP; 1991) operationalized. It was a joint project between Ghana and the World Bank and aimed at establishing a support market-led growth in agriculture. By so doing interventions such as infrastructure, irrigation systems, research and extension services were invested in order to improve the agricultural sector.

The NDC Era

In 1992 Ghana returned to constitutional rule, with Flt. Lt. Jerry John Rawlings elected back as the first president under the fourth republic of Ghana. By 1994 the Vision 2020 (Accelerated Growth and Further Reduction) was initiated (a long-term development plan) and later launched in 1996. The first step of the plan was between 1996 and 2000, its main aim was to implement policy framework that would clearly underpin Ghana's long-term development goal as achieving a balanced economy, a middle income country status and a high standard of living. The graph below shows the FDI inflows during the NDC-Rawlings administration. Despite the interventions made in the agric sector by this government, "agricultural growth rate, declined successively from 5.1% in 1998, 3.9% in 1999 to 2.1% in 2000. In 2000 alone agricultural exports declined by 15%, whilst its contribution to total government revenue fell successively from 12.6% in 1998 to 6.9% in 1999 and further to 3.7% in 2000" (Appiah kubi, 2011).

Figure2: FDI Inflow from 1994-2000



Data from GIPC data base

John Agyekum Kuffuor (4^{th} Republic of Ghana; 2001-2009)

"Indeed when President Kufuor came into office in 2001 Ghana faced difficult policy choices emanating from the unfavorable economic policy environment and its negative impact on human development. The economy in 2000 was characterised by deteriorating GDP growth (3.7%), large fiscal deficits (8.5% of GDP), a heavy debt overhang (171% of GDP), very low level of international reserves for import cover (2 weeks), rapid deterioration of the cedi (49.8% (dollar)), high inflation rate (40.5%), very high interest rate (47%) and weak state institutions; a combination of which placed severe limitations on the nation's capacity to address the high incidence of poverty (40%)" (Appiah Kubi, 2011).

Agriculture became a priority of the Kuffuor administration since it employed about half of the country's population and also because it had seen series of decline from 1998 and 2000. In a quest to revitalize the agric sector modernized strategies that were based on rural transformation, "land reform, increased irrigation, increased mechanization, increased use of improved technologies, value addition to traditional crops such as cocoa, expanding cash crop production and strengthening support to the private sector" (Appiah Kubi, 2011) were all adopted in order to ensure a holistic approach. These strategies were all under several policies and development plans such as The Accelerated Agricultural Growth and Development Strategy (AAGDS, 2001), Food and Agriculture Sector Development Policy (FASDEP I & II), National Aquaculture Development Plan, CAADP, etc. which were became a part of Kuffuor's National

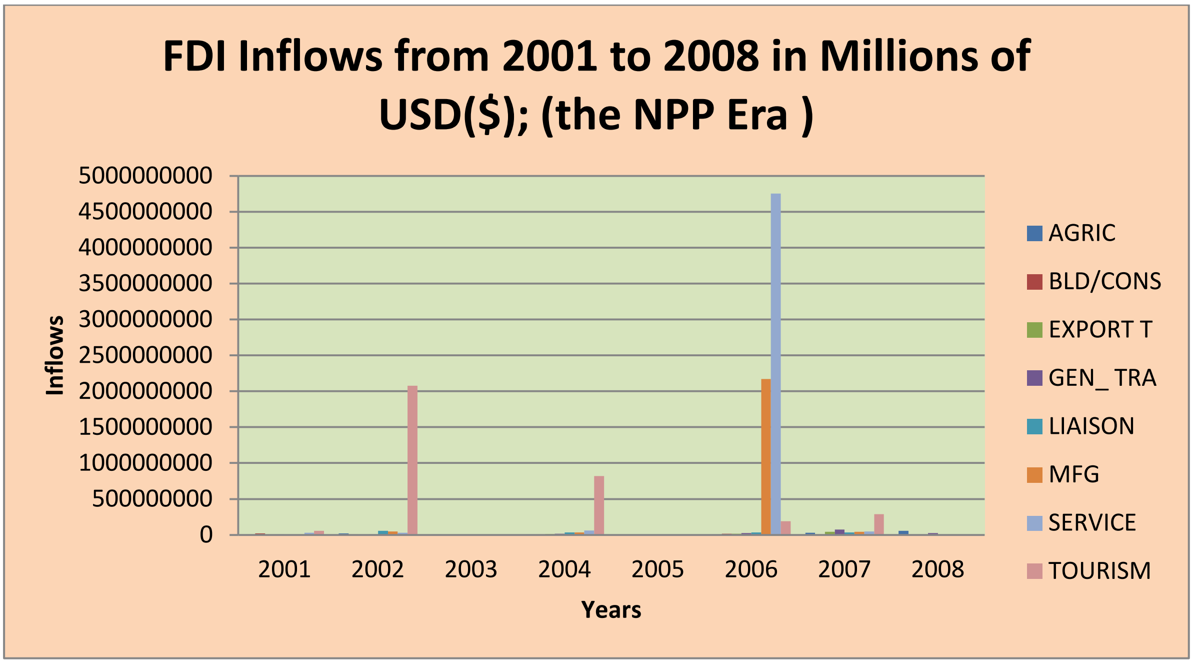
Medium Term Development Frameworks (GPRS I & II), to accelerate agriculture growth and development.

GPRS1 (2003-2005) was launched in 2003, and "reflected a policy framework that was directed primarily towards the attainment of the anti-poverty objectives of the UN's Millennium Development Goals (MDGs)" (NDPC, 2005). During this period Ghana was had signed up to become a Highly Indebted Poor Country (HIPC1).

In 2004 Kuffuor was given the mandate to lead the country for another 4 years as a result, GPRS1 continued until in 2006 when GPRS2 (2006-2009) was launched whose focal point was for "a new policy is to accelerate the growth of the economy so that Ghana can achieve middle-income status within a measurable planning period" (NDPC,2005). Also, during this period Ghana was still under the HIPC which was termed HIPC 2.

Available statistics points out that poverty levels reduced from 40% in 1999 to less than 26% in 2008, a success that made Ghana the only African country to have achieved the MDG 1 of halving poverty levels in the country ahead of the target date of 2015. In the mist of the global financial crisis, rising food and energy prices, as well as other external shocks, whose impact brought about social unrests in many other countries but passed by Ghana unnoticed. Social interventions such as capitation grants, school feeding programs, maternal free delivery, Metro Mass Transit (free bus fair for the aged and young), National Health Insurance Scheme (NHIS) were initiated and implemented during this administration. Below is a graph showing the FDI inflows under the Kuffuor administration.

Figure: 3 FDI Inflows from 2001 to 2008



Data from GIPC data base

Prof. John Evans Atta Mills (4th Republic of Ghana)

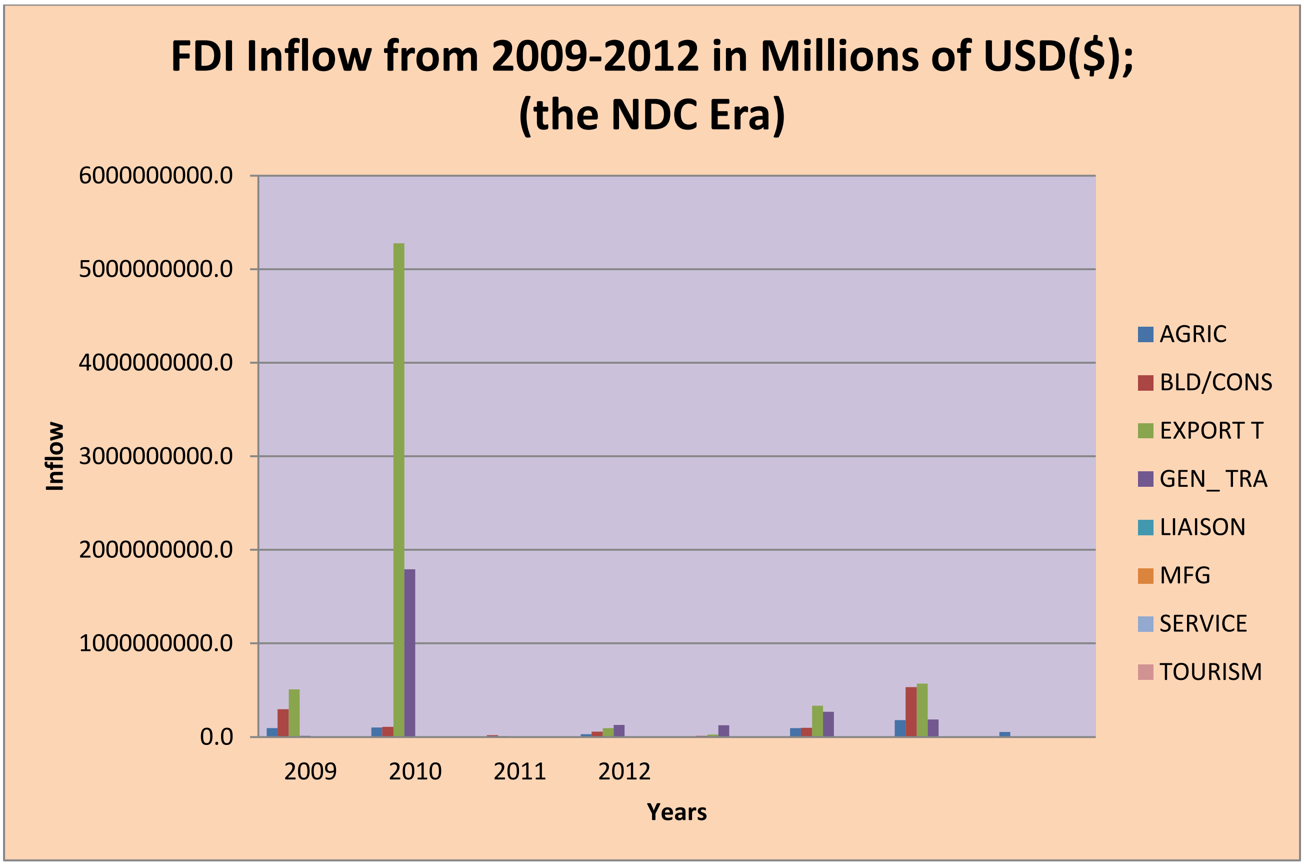
The medium-term national development policy framework adopted by this government was the GSGDA (GHANA SHARED GROWTH AND DEVELOPMENT AGENDA) also known as the Better Ghana Agenda accentuated the following: expanding access to potable water and sanitation, health, housing and education; reducing geographical disparities in the distribution of national resources; ensuring environmental sustainability in the use of natural resources through science, technology and innovation; pursuing an employment-led economic growth strategy that will appropriately link agriculture to industry, particularly manufacturing; and improving transparency and accountability in the use of public funds and other national resources (NDPC,2010).

As a result of the framework, Ghana, as at 2011 had made progress in securing the gains made in the management of its macro-economy in 2010 as year on year inflation dropped to 8.7 % and the fiscal deficit fell to 4.3 % GDP (Africa

Economic Outlook, 2012). The GDP growth for 2011 increase sharply from 7.7 % in 2010 to 13.7 % (7.5 % non-oil) aided by oil revenues. Oil production and mining activities led industrial sector growth at 36.2 %. This was followed by the services sector (5.8 %) and the agricultural sector (5.2 %).

Under this government, social interventions such as free school uniforms, free laptops, also those that were initiated by the Kuffuor administration were continued. Below is a graph showing the FDI inflow accrued from this regime.

Figure: 4 FDI Inflows from 2009 to 2012



Data from GIPC data base

1.1.5 THE ECONOMY OF GHANA

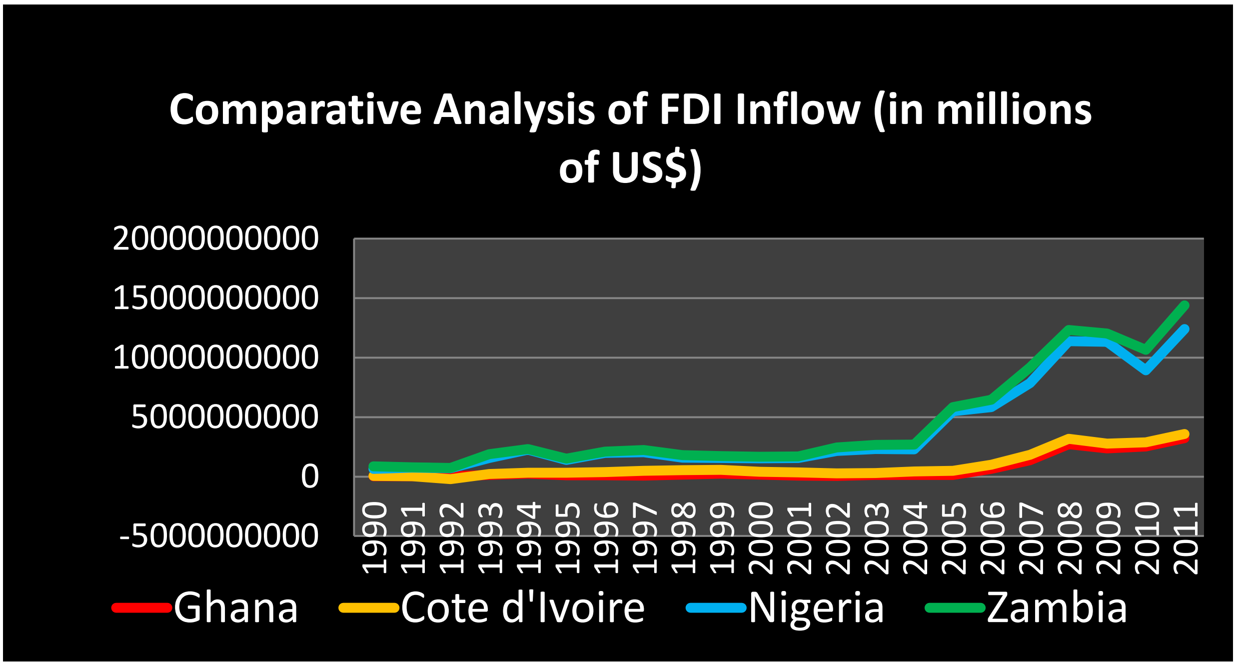
Developing countries like Ghana operate in the low-level equilibrium trap. That is; low savings rate coupled with low investment rates and therefore, low per capita income growth rate (Motaleb,2010). Taking a critical look at Ghana, two interest rates can be identified, interest on savings and interest on borrowing, that of borrowing is more than that of savings thereby discouraging borrowing and yet still not accounting for much increase in investments. For such countries to escape from this trap, capital introduction from abroad in the form of foreign direct investment becomes a necessity and an important financial source for capital projects, vital for an emerging country's development. This investment may be obtained through public or private funding, but the amounts required are generally above the capital that is available within the country's boundaries (ARANGO, 2005).

Inflows of financial capital in such countries have become critical, shaping in occasions the policies and political decisions of governments to attract Foreign Direct Investment (ARANGO, 2005). Based on a comparative discussion focusing on why some countries are successful in attracting FDI; larger GDPs, higher GDP growth rates, higher proportion of international trade and a more business-friendly environment were mostly the indicators that accounted for a more successful FDI attraction (Organization, W. H., 2012). However, a 2010 revision of Ghana's gross domestic data by the Ghana Statistical Service (GSS) has raised estimates of its income by 60% to over US$44 billion, suggesting that Ghana is now a lower-middle-income country. Outside the oil sector Ghana's economy will register strong growth, particularly in construction services as large infrastructure projects are carried out (World Bank, 2010).

Even though Ghana is equipped with all these characteristics coupled with an economic and political stability, security of foreign investment and property right as well as good infrastructure, a quarter of its population still lives below the poverty line and does not seem to be attracting higher non-oil related foreign direct investments as China, Indonesia, Egypt, and Botswana. Even though the IMF report 2010 indicates that for the past decade foreign direct investment (FDI) has witnessed an unprecedented increase in inflows to low-income countries, the impact cannot be felt in the non-oil-related sectors in Ghana; therefore, this paper seeks to investigate strategies that can be used to attract FDI in order to stimulate economic growth in Ghana.

The graph below shows a comparison between the FDI inflow to Ghana and some selected countries, the countries were selected based on reasons such as resource endowment, and a more business-friendly environment.

Figure: 5 Comparative Analysis of FDI Inflows to 4 African Countries



World Bank Database,

Comparing Ghana to Nigeria, using oil production as basis of the discussion, Ghana started major oil production in 2010 as compared with Nigeria that over 4 decades had been producing oil. The substantial increases in growth of FDI could be attributed to the budding oil economy that served as a new market and opportunity for investors.

Prior to the oil find, Ghana lacked the human capital, funding and technology that were needed in the oil production process, therefore this brought about a huge opportunity for many oil investors given that the quality of Ghana's oil is second to none.

Looking at the FDI reduction of Nigeria in 2010, it could be deduced that many of such investors migrated from Nigeria to Ghana since a new and better opportunity were being offered them. Security could have been a major influence of the reduction in FDI of Nigeria due to the high increase in piracy in the Niger Delta and the instability caused by the Boko Haram terrorists.

The comparative analysis between Ghana and Cote d'Ivoire is based on agriculture, mainly cocoa production, with Cote d'Ivoire being the highest cocoa producing country in the world and Ghana being the second. Before 2008 political stability existed in both countries but yet still Cote d'Ivoire as a country had a much higher FDI inflow than Ghana; both countries experienced fluctuations in FDI from 2006 to 2010 based on the graphs above.

The sudden rise in the FDI inflow of Ghana in 2008 could be as a result of the take-off of the GIPC and GFZB that brought about investors such as Cargill, Barry Callibaut, Arthur-Daniel-Midland (ADM) and amongst others, during the same period there was an anticipation of the oil find in Ghana and as a result had attracted the attention of many investors. In 2009 the inflow of FDI decreased in Ghana due to the impact of the recession on the country, cocoa prices in Ghana are much expensive than in Cote d'Ivoire due to the fact that the quality of cocoa produced in Ghana is much better than that of Cote d'Ivoire. The expensiveness of the cocoa in Ghana, pushed many of the investors to buy from Cote d'Ivoire during the period of the recession, however, in 2010 the inflow of FDI to Ghana increased considerably again due mainly to the tight monetary and fiscal discipline in 2009 and 2010 in addition to strong performance of the cocoa and gold sectors (IMF, 2011) as well as the oil production and the political and economic stability.

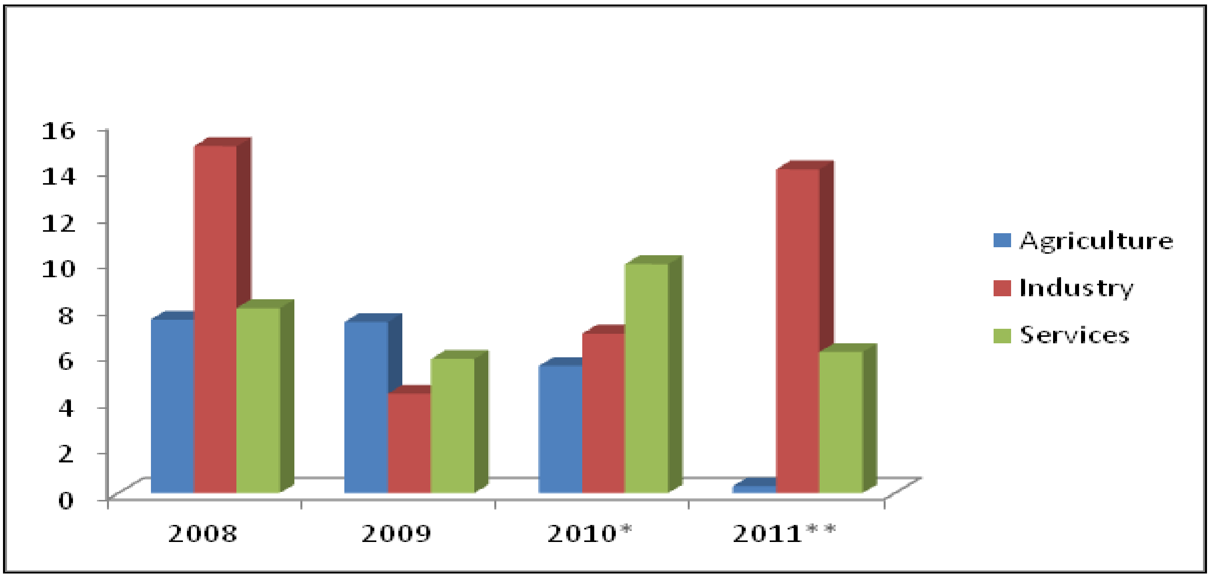
Within the same period the impact of the political instability had taken foothold in Cote d'Ivoire and major investors like Cargill shut down their plants as a result. The 2010 reduction of FDI inflow to Cote d'Ivoire could be seen as a gain to Ghana since some of the major cocoa manufacturing companies in the world such as Arthur-Daniel-Midland Corporation, Barry Callibaut and Cargill had already established plants in Ghana but had increased their production during the period in order hedge against the political instability in Cote d'Ivoire that had caused them to either reduce their production or shut down their plants in the country.

Zambia on the whole is doing better than Ghana and Cote d'Ivoire because of it continues research and development into what other countries are doing solve issues. Also, the country's investments in horticulture and the agric sector and not only focusing on the extractive industry is another plus for Zambia that must be commended.

Based on these analysis, it is of no doubt that FDI is a major contributor of economic growth, and that the determinants of FDI played a significant role in the FDI attraction process of most of these countries especially South Africa. However, Ghana's inability to attract more non-oil-related FDI to stimulate economic growth seems to be the reason why Ghana is not doing better than any of these countries economically. The production of oil has over shadowed Ghana's FDI inflows therefore, a pictorial view of graphs shows a good performance of the Ghanaian economy both in real GDP and FDI inflow, however the impact cannot be felt in real terms as stated above because the other sectors of the economy such as manufacturing, agriculture, textiles and so on are not being developed.

Below is a graph showing the state of sectors in Ghana from 2008 to 2011.

Figure 6: Growth Rates of the Components of the Real Sector from 2008 to 2011[3]



Source: *Ghana Statistical Service (2012).*

The graph above, gives a clear picture of what this paper is about. Currently, the agricultural sector is not seeing growth; recent data shows that the agricultural

[3] Provisional 2012 data from Ghana statistical service

sector growth rates have fallen drastically regardless of the government's pro-agric policy position.

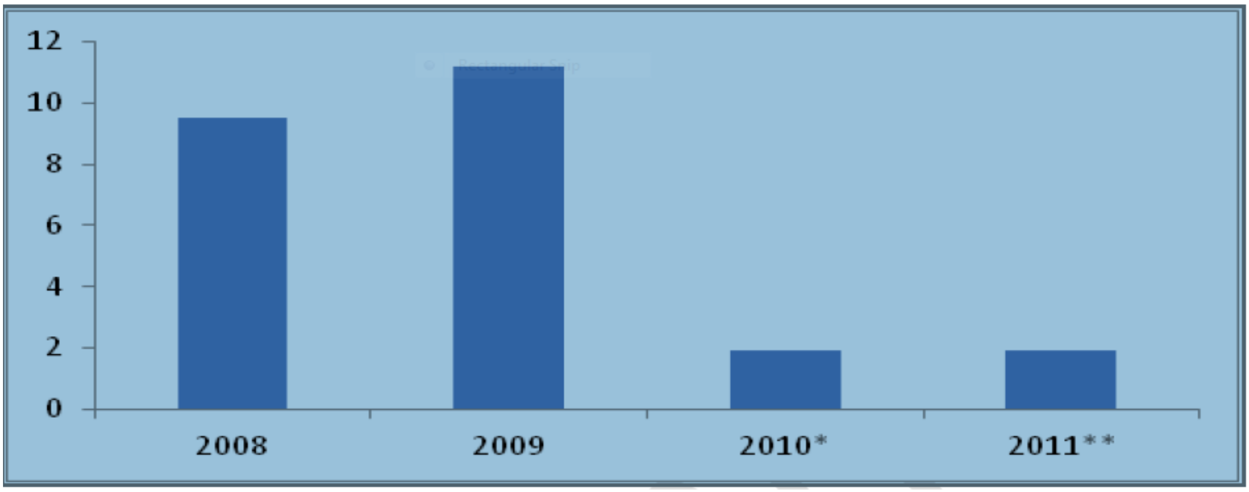
Formerly, the agricultural sector was the largest contributor to GDP, with an average contribution to GDP of 36% until 2010 (Ghana Statistical service). This was followed by the Service sector which contributed over 29.4percent and finally the manufacturing sector which contributed about 25.2percent. Due to the oil find, the service sector has recently emerged as the largest contributor to GDP and continues to grow more vigorously than the agric sector as a result of its major contribution and assistance to the oil sector (purchase of FPSO, insuring of such equipments against human and natural disaster, roads, transportation, housing and amongst others).

A report from Saturday July 7th 2012 September Newspaper; The Spectator, page 11; Under Mining Sector Contribution to tax revenue, paragraph 6 indicated that "foreign direct investment inflows into the mining sector from 1983 to 2011 was 6.2billion dollars and this came from producing, exploration and support services companies" (Ghana Statistical Service, 2012). Paragraph 9 of the same article indicated that mining companies returned about 3.1 billion dollars, representing 75% of mineral revenue alone through the bank of Ghana and other banks.

The bad policy initiated by the bank of Ghana particularly high interest rates of banks coupled with the depreciation of the Ghana cedi in 2012 as well as the payment of local currency for dollar withdrawals were deterrents to investments in the Ghanaian economy, Thereby reducing FDI inflow into the economy (Chronicle, 2012).

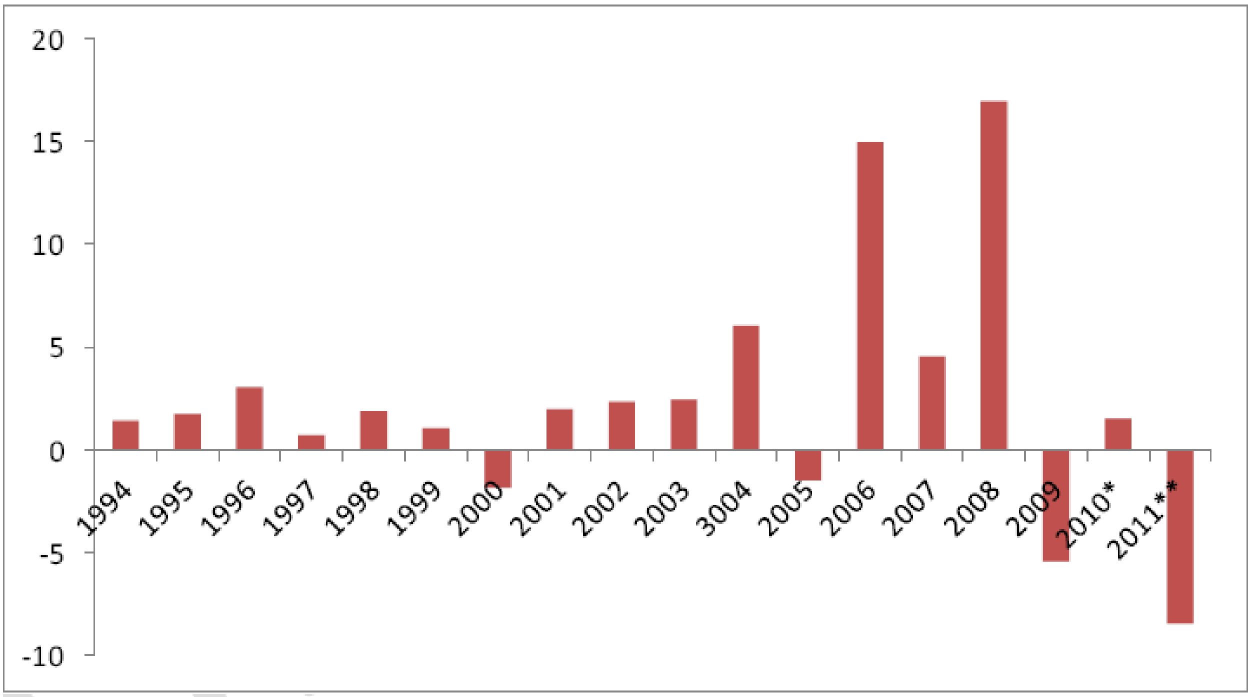
Below are graphs showing some components of the Agricultural sector:

Figure 7: Growth Rate of Crop production (excluding cocoa) from 2008 -2011



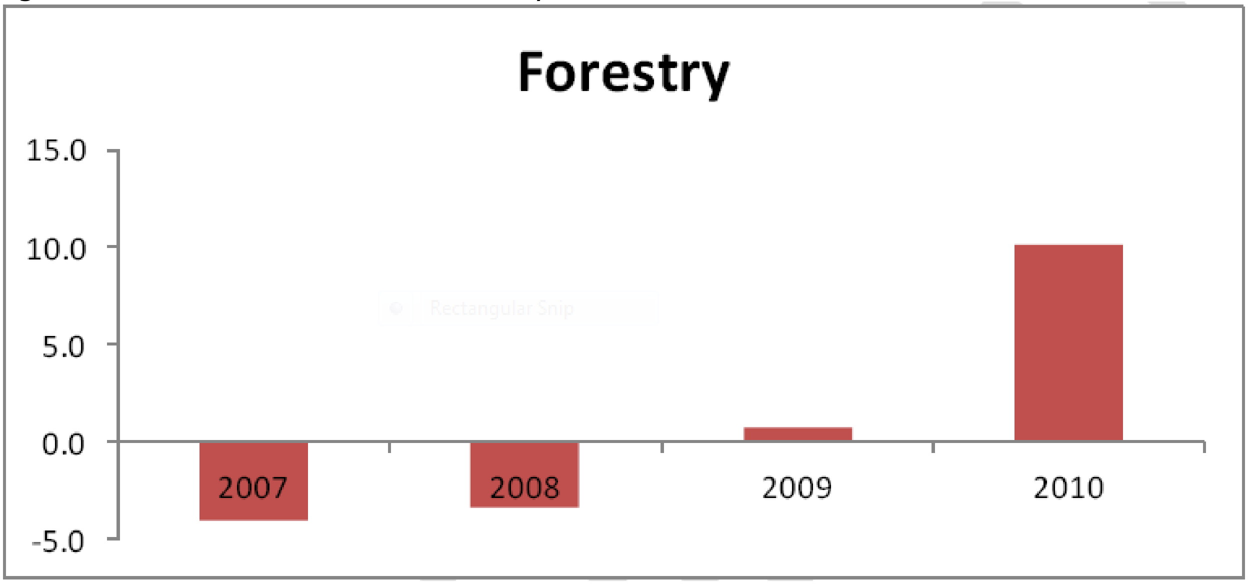
***Source**: Ghana Statistical Service (2012).*

Figure 8:
GDP Growth Rate of the Fishing/ Fisheries Sector from 1994 to 2011



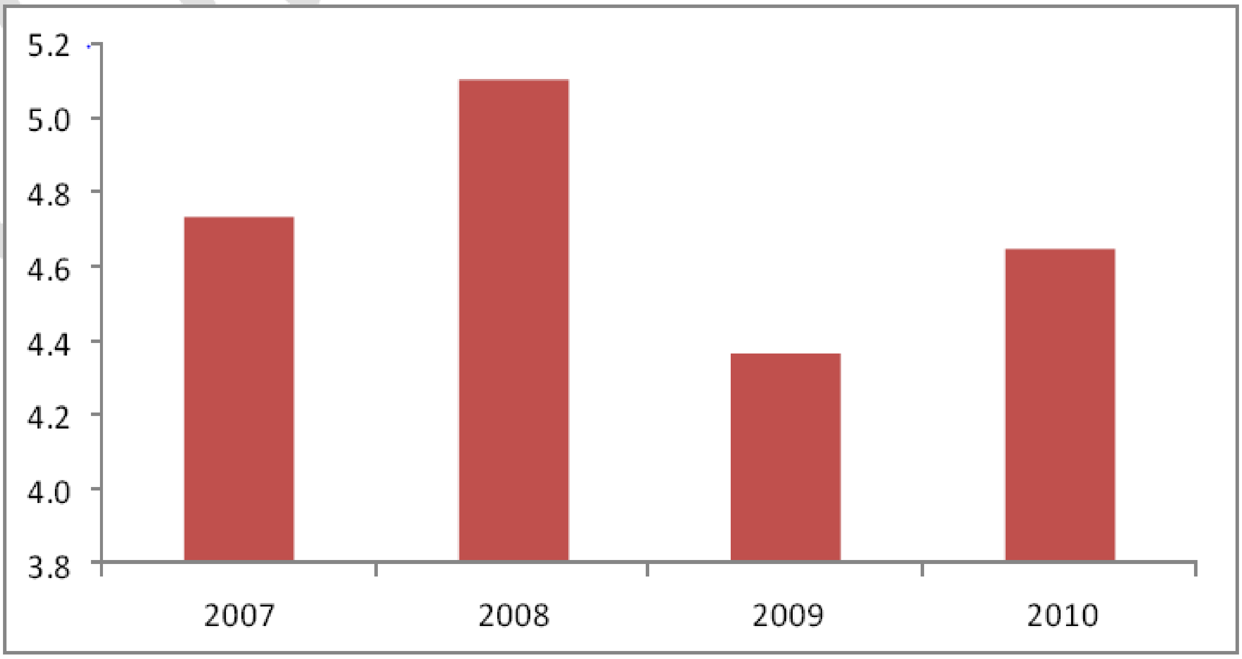
***Source**: Ghana Statistical Service (2012).*

Figure 9: Growth Rate of the Forestry Sector from 2007 to 2010



Source: *Ghana Statistical Service (2012).*

Figure 10: Growth Rate of the Livestock Sector from 2007 to 2010



Source: Ghana Statistical Service (2012)

The Industrial Sector

Table 2: Sectorial Make-Up of the Industrial Sector (2007-2010 Average)

Industrial Sector	% of GDP
Mining and Quarrying	43.20
Electricity	27.30
Water and Sewage	18.60
Manufacturing	10.90

Source: Ghana Statistical Service (2012)

The Service Sector

Table 3: Contribution of Different Components to the Service Sector

Service Sector	% of GDP
Construction	17.4
Financial & Insurance activities	12.9
Information & Communication	12.2
Education	9.5
Public administration	9.2
Health	8.1
Trade, repair of vehicles, household goods	7.9
Transport and storage	5.9
Hotels and restaurants	2.4

Source: Ghana Statistical Service (2012)

Deductions from the graphs above points to very significant growths in the industrial sector as a result of the oil find as a major driver of the Ghanaian economy, which has lead to substantial reductions in other sectors such as the agricultural sector and the service sector. Therefore, this is an indication that greater shares of the FDI inflow are directed to the industrial sector specifically the mining sector, of which the oil sector takes precedence. Nonetheless, for Ghana to benefit from its FDI inflows its investment agencies need to adopt strategies that can help the country attract more Non-oil-related FDI to stimulate substantial economic growth for the benefit of all citizens and to alleviate poverty as a result of its spillover effects (creating employment, healthcare, housing, education and so on).

1.1.6 OPERATIONAL VARIABLES

FDI → Independent variable

Economic Growth → Output

1.2 MOTIVATION

As at 2008, the much awaited oil find in Ghana had been realized, and as typical human beings much attention had been shifted to the industrial sector specifically the mining segment. Students studied along that field, policy makers devoted much attention to the oil segment of the sector, degree holders and HND holders also sort jobs in that field and as well the youth in the rural areas who were engaged in the agriculture sectors migrated to the location of the oil find specifically the Western region for labor opportunities. Till date many are attracted to the industrial sector specifically the mining segment due to its acclaimed high returns and much FDI inflow.

The Ghana Statistical Service 2010 report showed that Ghana had increased its income by 60% to over US$44 billion coupled with a growth rate of 14%. This got me thinking since the economy to me was to slow to be recording such growth that even developed countries such as the United States and the United Kingdom had not been recording and even China the fasted growing economy as we all know is even a little below 10% growth. I was forced to research on the growth of Ghana since the data released by the GSS was “too good to be true”. Upon my investigation, I found out that the oil find had pushed up the economy owing to the heightened FDI inflow to that sector and the shift of human resource to that sector and had as a result caused a surge in the other sectors of the economy (Agriculture sector, Service sectors and the other mining sectors). With this information I became enthusiastic as to how Ghana can revive its non-oil sectors through approaches that it can adopt to attract more non-oil-related FDI for economic growth.

1.3 PROBLEM STATEMENT

There is some confusion about why Ghana has a low FDI level compared to other low- middle income economies especially in the non-oil sector, despite the fact that the country is stable, bureaucracy is moderate and practical initiatives such as the Ghana Investment Promotion Center (GIPC) and the Ghana Free Zones Board (GFZB) have been put in place.

1.4 RESEARCH QUESTION

What Strategies can Ghana adopt to attract more Non-oil-related FDI to stimulate economic growth?

1.5 RESEARCH OBJECTIVES

- To examine why the inflow of Non-oil FDI is low
- To explore strategies that other countries have used to attract much higher Non-oil FDI and investigate if those strategies will apply to Ghana
- To indentify and explain ways by which FDI contributes to economic growth, specifically in Ghana
- To recommend strategies for attracting Non-oil FDI to Ghana.

1.6 RELEVANCE OF RESEARCH

- Since the oil find in Ghana has not been that long, there is a gap in literature that addresses the effect of the oil discovery on the Non-oil sectors.
- Since the oil industry accumulates high returns, there seems to be a shift of human capital from the traditional sectors to the oil sector, therefore this paper seeks to give an insight on the deficit in the human sector and as to how policy makers and researchers can address it.
- Benefits of FDI cannot have substantial impacts on Ghana's economy if it does not position itself to take advantage of the technological know-how, human resource development and global integration in the Non-oil sector.
- To establish strategies that can serve as guidelines for policy makers in order to attract and retain Non-oil FDI for economic growth in Ghana.
- To make known to Policy makers, Investment Promotion Institutions , economists, researchers, academicians and the general public as how FDI in general fuels economic growth.

Chapter 2: Literature Review

2.1 INTRODUCTION

The current debate on African economic development has devoted much attention to the role of external resource inflows, including foreign direct investment (FDI), and their potential contribution to accelerating growth and progress towards achieving development goals in Africa **(UNECA, 2006)**. Recent evidence indicates that FDI to African countries has been on the rise, especially since the 1990s **(Ndikumana, 2003; UNECA, 2006)**, which commensurate the general trend of private capital flows in developing regions. Despite the fact that the volume of FDI has increased substantially since the 1990s, Africa remains chiefly marginalized in the context of financial globalization. Though its share in the world FDI flows increased to 3.1% in 2005, it was still below that of the 1970s. Since attracting more FDI remains advantageous, African countries must be made more attractive to foreign investors. Given its relatively small market size as suppose to other locations, particularly in Asia, Africa faces many obscurities to achieving this goal. As a matter of fact, another challenge that exists is how to increase the impact of private capital inflow. Given that substantive increases in private capital inflows, has not had a meaningful impact on economic development in African countries: for example, the limited job creation resulting from FDI inflows to the continent **(UNECA, 2006)**. In the article entitled *"The Linkages Between FDI and Domestic Investment: Unraveling the Developmental Impact of Foreign Investment in Sub-Saharan Africa"* (**Ndikumana**,**2007**) the objective was to contribute to the literature on the causes and effects of FDI in African economies by focusing on the linkages between FDI and domestic investment. The empirical results in the study showed that the relationship between FDI and domestic investment runs both ways, suggesting a crowd in of private investment by FDI.

The evidence supports the view that one way in which FDI can have a positive impact on growth is by enhancing domestic capital accumulation. However, the results also clearly indicated that private investment has a positive impact on FDI only if measures aimed at promoting domestic private investment, given that a strong investment performance will serve as a sign of high returns to capital, which in turn will attract more foreign capital. The paper concluded that National policies should aim at harnessing the balance between domestic private investment and FDI rather than regarding them as substitutes. Also, in the conclusion, the paper concerned itself with the importance of resource endowment as a driver of FDI; the study suggested that FDI is driven by different factors in resource-intensive countries relative to non-resource-intensive countries. An example was the fact that telecommunication infrastructure is critical for attracting FDI in non-resource-rich countries but not in those with resources. At the same time, the result also implies that there are alternatives to resource endowment as a means of attracting foreign investment. Thus, by designing the right policy mix at the macro and sector levels, African countries can make progress in overcoming marginalization in the global economy with regards to private capital flows.

With regards to this same resource endowment, **Sachs and Warner (1997)** were also of the view that the slow growth of less developed countries were as a result of the fact that such countries are endowed with natural resources but are yet still not growing as fast as the countries devoid of extensive natural resources. In an effort to control variables such as initial GDP, openness policy, investment rates, human capital accumulation rates, changes in the external terms of trade, government expenditure ratios, terms of trade volatility, and the efficiency of government institutions which were prime to other authors such as **(Carmignani and Chowdhury, 2010)**in their delivery on the subject matter, the outcome still remained negative showing a negative correlation between resource endowment and economic growth.

Considering this outcome, Sachs and Warner pointed out that the abnormal happening that we observe today of resource-poor countries doing better than resource-rich countries is nothing new and proved with evidence from the 17th century, where the Netherlands outperformed Spain in terms of economic development regardless of Spain's wealth in silver and gold, the 19th century, where Switzerland and Japan outdid resource-rich Russia and even more recently, it is obvious that the Newly Industrializing Economies (NIEs) of East Asia- Korea, Hong Kong and Singapore are doing far better than the oil-rich countries of Mexico, Nigeria and Venezuela **(Sachs and Warner, 1997)**.

Owing to the analysis above it is clear in our minds that developing countries especially the Sub-Saharan African (SSA) region are highly marginalized when it comes to FDI, therefore the literature review in this paper will present facts on the link between FDI and economic growth; specifically looking at the costs and benefits of the FDI on a host country and as to whether the benefits outweigh the costs. Also, the paper would focus on the distortions of FDI and how they can be curbed to foster economic growth, using Botswana as a typical example.

In the end the literature review should give an insight into the research question above (How can Ghana attract more FDI to stimulate economic growth).

2.2 COSTS AND BENEFITS OF FDI ON AN ECONOMY

According to the **OECD 2005** report on *Foreign Direct Investment for Development MAXIMISING BENEFITS, MINIMISING COSTS*, it was established that the FDI of the least developed economies, did not seem to impact greatly on growth, and identified it as a result of the presence of "threshold externalities". The paper emphasized that developing countries need to have reached a certain level of development in education, technology, infrastructure and health before being able to benefit from a foreign presence in their markets. **Borensztein et al. (1998)** is also of the same view, that education plays a key role in the spillover effects of technology. Imperfect and underdeveloped financial markets may also prevent a country from reaping the full benefits of FDI. This claim as made by the OECD is consistent with **Hermes and Lensink (2003)**, **Durham (2004)**, **and Alfaro et al. (2004)** in their respective articles on the linkages between the effectiveness and regulations of financial markets, FDI and growth; when they all found that countries with better financial systems and financial market regulations can take advantage of FDI more efficiently and achieve a higher growth rate.

De Gregorio (2003) contributes to the debate on the importance of FDI by noting that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity and growth throughout the economy. **Nafziger (2006)** seems to be of the same view only that his approach is different. In essence Nafziger stated that FDI does not generate debt servicing or capital outflows, but can potentially finance savings or balance of payments deficit, bring about transfer of technology and innovative methods of increasing productivity, fill part of the shortage of high-level skills, provide training for domestic managers and technicians and so on. Also, **Endozien (1968)** discussed the linkages and effects of foreign investment in Nigeria's economic development. According to him, a foreign investor by bringing simultaneously into the country capital, technical and managerial know-how can both quicken the process of economic development and make the process less painful.

Some other studies focused on specific aspects of MNC operations in developing countries such as the economic desirability of the technology brought into the developing countries, appropriateness of the technology chosen by them, their employment effects, their impact on regional and human development and their balance of payment effect. These include **Vaitso (1974)**, **Helleiner (1977)**, **Watanabe (1985)** and **Andres (1996)**.Other studies such as **Whiling JR (1991)**, **Lull and Mohammed (1983)** are of different views since they claim there exists controversies regarding the MNC contribution to the solution of the host developing countries balance of payments problems and their contribution to exports. MNC's are also criticized on the basis that they bring about capital flight, issues surrounding transfer pricing which is difficult to document or control, and that they try to keep their declared profits low either to avoid high tax rate or restrictions on profit repatriation **(Weiss, 1988)**. Several studies have also shown the negative non-economic effects of MNC on developing countries. These include **Matlelort (1983), Jean Louis et al in UNESCO (1982) and Kobrin (1979)**.

Hale and Long (2006) provide a more positive view of spillovers from FDI. They use the survey of 1500 firms in China to examine if there are technological spillovers from foreign firms to domestic firms in the same city and industry. They find out that there are indeed positive spillover effects from foreign firms operating in China. The generation of productivity spillovers is a potential way through which FDI can affect growth. Earlier studies such as **Blömstrom and Persson (1983)**, **Blömstrom (1986)**, **Blomström and Wolf, (1994)** found evidence that FDI has led to significant optimistic spillover effects on the labour productivity of domestic firms and on the rate of growth of domestic productivity in Mexico. However, **Kokko, Tansini and Zejan (1996)** pointed out in the case of Mexico and Uruguay that spillovers are difficult to discover in industries where foreign associates have much higher productivity levels than local firms.

Dolan and Tomlin (1980) found that FDI flows were positively associated with growth of per capita income but that the stock of FDI had a negative effect on growth. This result is supported by **Saltz (1992)** who confirms a negative stock effect for a sample of 75 developing countries for the period 1970-80.

Balasubramanyam, Salisu, and Sapsford (1996) analyzed how FDI affects economic growth in developing economies. Using cross-sectional data and OLS regressions, they found that FDI has a positive effect on economic growth in host countries with an export promotion strategy but not in countries using an import substitution strategy.

Nonetheless, using a panel of data for the period of 1970-1999 for 84countries, **Li and Liu (2005)** established a clear linkage between FDI and growth rates.

They confirmed this outcome using different econometric techniques, including a simultaneous equation system. In contrast, **Carkovic and Levine (2005)** also used a panel setting and control for simultaneity bias, but did not find robust results for positive growth effects of FDI inflows in their sample of 72 countries for the period of 1960-1995.

Oseghale et al (1987) studied the relationship between oil exports, foreign borrowing and direct foreign investment on economic growth, with specific reference to Nigeria between 1960 and 1984, using the two-gap model of Chenery and Strout. With regards to FDI, the study had showed a positive relationship with GDP and all the various sectors of the economy. Besides the aforementioned study, other studies had mixed results; showing an indifferent reaction of the costs and benefits of FDI and as to whether they outer perform each other **[Omtiri 1961, Olakanpo 0. 1962, Endozien 1968, Anyanwu 1998]**.

However, **Oyinlola's (1995)** result opposed the use of FDI. He examined the contributions of foreign capital to the prosperity or poverty of LDC. Foreign capital, according to him, includes foreign loans, direct foreign investments and export earnings. Using Chenery and Strouts' two-gap model, he found out that FDI is pro-consumption and pro-import and negatively related to gross domestic investments (GDI). He pointed out that FDI is therefore not directed for productive use; rather it is used to supplement consumption, substitute for domestic savings, devoted to the purchase of foreign goods and services, and repatriation of profit by investors. **Aryeetey et al, (2012)** argued that one way that FDI can directly impact on growth and poverty is through poverty creation by MNEs, however, FDI in SSA is largely concentrated in natural resources, and foreign investments in natural resources do not generate employment in host countries. In the submission they pointed out that even if SSA is successful in filling the resource gap with FDI, the increase in FDI may not necessarily lead to poverty reduction and growth, and may have negative consequences. Therefore, countries in the region should not just focus on attracting more FDI but should also be aggressive in attracting FDI in non-extractive industries.

Also, the study revealed that foreign borrowing is negatively associated with economic performance even though, the findings of the study had proved that foreign debts have the potential of being "engines of growth" for LDC's should loans be efficiently managed, and concluded that the greater the inflow of FDI the better the economic performance of the economy. **Sachs and Warner (1997)** also focused their article on the issue of quality of institutions and their effect on investment and to a large extent, growth. In their submission, they suggested that there is just about a direct relationship between rule of law and the quality of institutions and thus, considered rule of law to represent the efficiency of institutions in a legal and political framework. They concluded that the quality of institutions in a country is unswervingly related to growth while resource abundant countries tend to have lower quality institutions. It has accounted for their slow growth. However, an African country like Botswana with a substantial amount of natural resources has a different and a positive story to tell which I believe could serve as lessons to many African countries.

2.3 THE SUCCESS STORY OF BOTSWANA

Botswana has had the highest rate of per-capita growth in the world in the last 35 years (Todaro, 2009). This occurred despite adverse initial conditions, including minimal investment during the colonial period and high inequality. Botswana achieved this rapid development by following traditional economic policies leading to its success story, which remains a dilemma to many economist and some officials from developing countries, as they are of the notion that, "good economics" in Africa have proved politically infeasible. Botswana is a land-locked African country with no access to seaports and most of the country being a Kalahari Desert land suitable for summer forage.

A condition that is naturally associated with slow growth as only about 4% of the land can be used for agricultural purposes. Irrespective of this setback, the country has managed to reinforce that geography is not the only determinant of economic prospects neither is high population growth the only way of obviating rapid growth in income per capita. Rather good institutions can take advantage of opportunities of geography that have been dissipated as well as helping to overcome such constraints.

Botswana's success stems from favorable institutions particularly, the protection of property rights. This strategy emphasizes Dani Rodrik and Arvind Subramanian's paper on the **primacy of institutions**, where they both argued that the focus of every country's governance should be on good institutions; in that when a country has good institutions its policies and management would work harmoniously to achieve a collective good. If Botswana succeeded based on its institutions, by way of working to eliminate corruption in the mining sector and making the country attractive for the inflow of FDI through a strong protection of property right and the supremacy of its institutions as well as eliminating nepotism and bureaucracy when delivering improved government services, then it is of no doubt that foreign direct investment leads to economic growth with the aid of well grounded institutions and the right policy mix.

2.4 SUMMARY OF LITERATURE

Generally, the literature reviewed on FDI suggests a positive correlation with growth and to a large extent advocates that the marginalization of Africa in terms of FDI would be halted should they concentrate on effective ways of attracting FDI by focusing on the determinants of FDI as well as adopting effective techniques for investment promotion in their sub-region.

Many of the literature were of the view that FDI had a spillover effect, in that FDI amounts to more employment opportunities, which leads to payment of income, leading to higher GDP and amongst others. However, the point of contention here was that for a host country to reap such benefits that obviously leads to growth, its regulatory bodies such as the GIPC and GFZB in Ghana ought to set efficient rules and regulations that will govern such investments to prevent incidences such as capital flight but rather allow for a win-win situation.

It is important to note that National policies of African countries should aim at harnessing the balance between domestic private investment and FDI rather than regarding them as substitutes in order to encourage competition amongst local businesses and multi-national companies. Developing countries supposedly the sub-Saharan African countries are well known as the hub for natural resources but unfortunately are not growing as fast as the resource-poor countries and this has been described by many literatures as a resource curse to Africa.

Yes Africa is endowed with natural resources which are key for FDI attractiveness however Africa is not benefiting from FDI because of the inefficiencies in their institutions and governments, the fact that they are import based economies, poor in transparency and many others. Just as stated above, Africa is assured of growth from FDI should manufacturing and industrialization be heightened in all sectors amongst the locals so that the benefits from the FDI can supplement the internal investments to attain sufficient and positive growth. Indeed Botswana is a clear example for many African countries in terms of its FDI attractiveness.

CHAPTER 3: METHODOLOGY

3.1 INTRODUCTION

The primary objective of this study is to determine and evaluate what strategies Ghana can adopt to attract more non-oil-related FDI to stimulate economic, this is to prevent the country from experiencing a further curse from its oil find since the oil find seems to be causing an underdevelopment in the other sectors of the economy as explained above. This chapter discusses the research tools and methods of data collection used for this study. It explains the data collection methods to be used and who I will be getting the data from.

3.2 METHODS and DATA

1. Scope: This study focuses on non-oil-related FDI in developing countries but uses Ghana as a case study. The scope of the data considered ranges from the performance of the major sectors of the country (Agricultural sector, Industrial sector and Service sector), the inflow of FDI for the past few years, the impact of the inflow on the country and how the impact fuels growth. Data used dated back from the 1960's to 2012.
2. Research Design: Mainly explorative**.** Involved a critical review of previous literature supported by analysis of quantitative data and a validation of findings by means of qualitative techniques involving interviews of local experts.
3. Sampling Technique: My research focuses on strategies that Ghana can adopt to attract more FDI for economic growth. Therefore, to answer this question constructively, the researcher visited GFZB and GIPC to gather data on their various strategies used in attracting FDI as well as data of

FDI Inflows to Ghana from the 1960's and its commensurate impact on GDP till date.

In view of this, the research made use of both primary and secondary data. Primary data was a source of the most current information on my topic. The sampling technique used for the primary data was gathered after the purposive sampling technique had been used prior to visiting GFZB, GIPC. Secondary data was an integral part of the study since it provided already existing data and information on the FDI inflows in Ghana and other countries of interest as well as their effects on Ghana and the other countries. Examples of sources of my sources of secondary data were: Internet sources, Journals, annual reports and the budget statements of Ghana and if necessary other countries. Intense review of the literature provided the primary source of possible strategies to attract FDI to Ghana.

This research is an academic research and as such would be conducted within the eight months of an academic calendar specifically; September 2012 to April 2013 using Ghana as a case study but with specific institutions listed above. This paper would allow for snowballing if advised by any of the listed personnel's, as well the stake holders of this research are economists' policy makers, academicians, lecturers and the general public.

4. <u>Justification</u>: This study made use of a case study because the topic being studied is a real life scenario of which no study has been conducted. As such the idea of using Ghana is because of time constraint and its nearness to the researcher and the fact that the conclusions drawn can be

generalized for many African countries. The purposive sampling technique will be used because considering the topic, experts in the investment field and investment related institutions will have the required knowledge and expertise to provide the preferred information. The researcher employed a more qualitative approach because apart from the paucity of data available for a meaningful quantitative analysis, there seem to be a limited number of experts from the relevant institutions who were willing to engage in meaningful discourse on the subject. 15 experts (ministry of finance;6, Academia;4, GIPC; 1, GFZB;2, Policy experts; 2) from the different relevant institutions were interviewed in detail to find out how Ghana can attract more FDI, how Ghana can correct what is not working and consolidate what gains it has made. Sector specific questions in agriculture and manufacturing were also addressed. It would have been better to interview a lot more experts but availability and willingness of said experts was a major limitation of the project.

5. Data Collection: Data for this study was collected using observations, interviews, document reviews and literature from reliable sources. With regards to the interviews semi-structured interviews were used. This makes the interview flexible and allows me to probe more if not satisfied with answers given or in case of a follow-up question. Observations were drawn from the visits to GIPC and GFZB in order for a first hand conclusion to be drawn about the situations of these institutions. Documents of which has prime importance to this study were also collected from these institutions.

6. Data Analysis Techniques: Analysis of the interviews were descriptive and exploratory in nature and were used to find out if they were consistent

with my findings from the secondary data. Based on the Findings from the research conducted and reviews of the secondary data, the researcher was in a better position to make suggestions and recommendations on what strategies Ghana could adopt to attract more FDI for economic growth, using Rwanda, Malaysia, Zambia and Botswana as typical examples. The paper also made use of Content Analysis in order to allow for contents of interviews, documents and observations to be critically analyzed for accurate conclusions and recommendations to be made.

CHAPTER 4: ANALYSIS OF PROJECT RESEARCH AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

This chapter presents and discusses the findings from data collected. In discussing the findings, the main institutions that are responsible for attracting FDI into Ghana were reviewed with regards to their strategies and FDI inflows. Also, the research objectives were answered by first of all computing data on FDI inflows to the non-extractive sectors of Ghana as % shares of GDP. With regards to the strategies, the Free Zones concepts from Malaysia, Zambia, Botswana and Rwanda were reviewed to ascertain strategies that such countries are adopting and in effect to serve as lessons to Ghana.

4.2 INSTITUTIONS RESPONSIBLE FOR FDI ATTRACTION IN GHANA

In Ghana four major institutions have been set up for the management and attraction of FDI into different sectors of the economy. The Ghana Investment Promotion Centre (GIPC), the Ghana Free Zones Board (GFZB), the Ghana National Petroleum Council (GNPC) and the Ghana Minerals Commission (GMC). However, for the sake of this paper only GIPC and GFZB were relevant for the critical analysis of the problem.

1. Ghana Investment Promotion Centre

History: the Ghana Investment Promotion Centre was established in 1960 and since then it has undergone several in names but the current one being used is the Ghana Investment Promotion Centre. It was established by an Act of Parliament, Act 478 of the 1992 constitution of Ghana and has since then been directly under the office of the president. Ever since the existence of the institution, over 4000 companies have been registered with both foreign owned and joint ventures.

Aim: The reason for the establishment of such an institution was to attract, retain and promote FDI in the Non-Oil Sectors of Ghana, with mining as well being excluded. However, services of these sectors (petroleum and minerals) were handled by the GIPC.

Strategies:

- Direct Missions: traveling to embassies of countries
- Exhibitions in foreign countries
- Conferences in foreign countries
- Magazines; local and monthly informational guide

2. Ghana Free Zones Board

   History: The Ghana Free Zones Board was established on the 31st August, 1995 by an Act of Parliament- the Free Zones Act, 1995 (Act 504), to enable the establishment of free zones in Ghana for the promotion of economic development. The implementation of the Program actually commenced in September 1996. The Board has nine members appointed by the President in consultation with the council of state. The Board is chaired by the Minister of Trade and Industry, President's Special Initiatives and Private Sector Development. The day-to-day activities of the Board are managed by a Secretariat headed by an Executive Secretary.

Concept: the GFZB combines both the enclave and single-factory enterprise schemes which is designed to promote processing and manufacturing of goods through the establishment of Export Processing Zones (EPZs) and encourage the development of commercial and service activities at sea-and-airport areas. In essence, the whole idea behind the GFZB is for potential investors to use the free zones as a focal point to produce goods and services for foreign markets. The GFZB program is completely driven by the private sector and as a result, the governments' role is limited to facilitate, regulate and monitor activities of zone developers/ operators and enterprises.

Strategy: to attract investors into the Free Zones Programme and to create a viable and sustainable business environment, the GFZB offers extensive and generous incentives to potential investors interested in developing and operating free zones enclaves and single-factory free zones in Ghana. These incentives are divided into two, of which are:

Monetary Incentives:

- 100% exemption from payment of direct and indirect duties and levies on all imports for production and exports from free zones;
- 100% exemption from payment of income tax on profits for 10 years which will not exceed 8% thereafter;
- Total exemption from payment of withholding taxes from dividends arising out of free zones investments;
- Relief from double taxation for foreign investors and employees where Ghana has a double taxation agreement

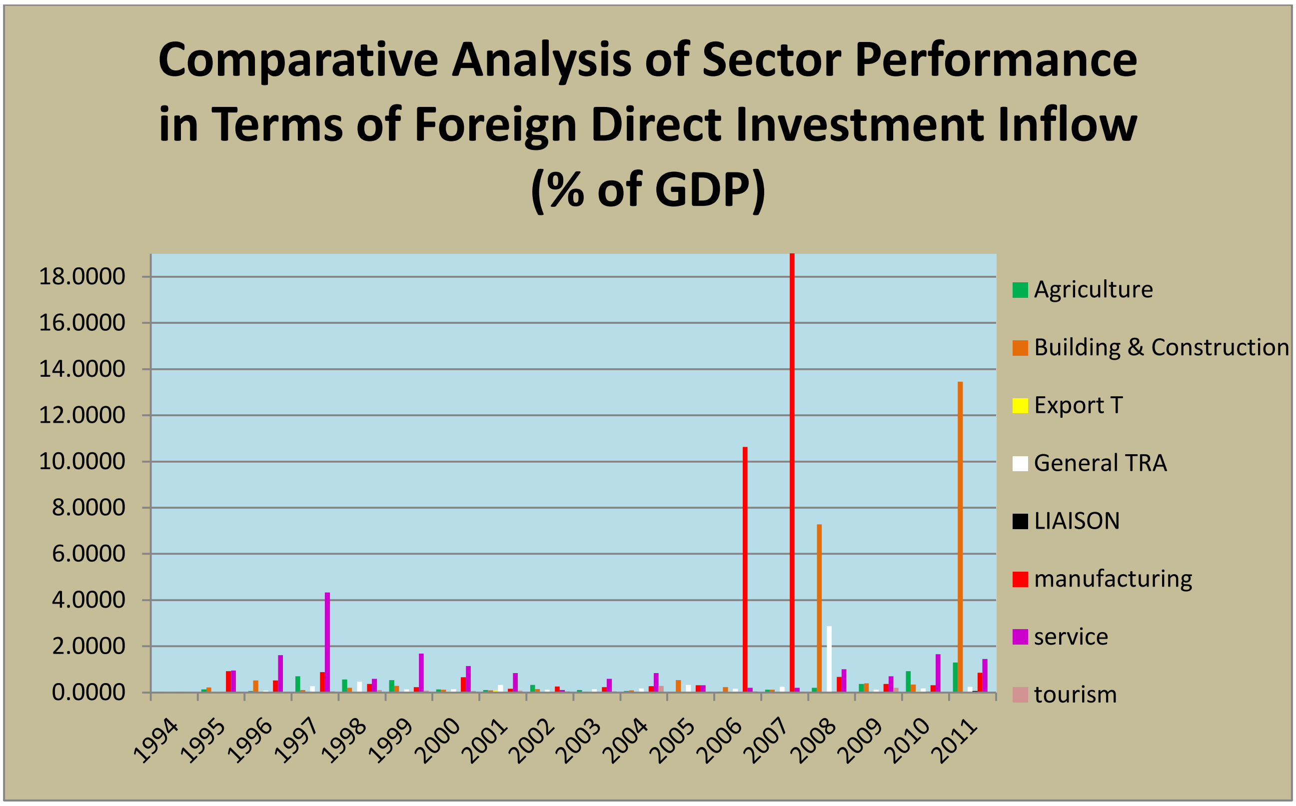
with the country of the investor or employees. Currently double taxation agreement has been ratified with France and the Netherlands.

Other Non-monetary Incentives:

- No import licensing requirements;
- Minimal customs formalities;
- 100% ownership of shares by an investor-foreign or national;
- There are no conditions or restrictions on: repatriation of dividends or net profit; payments for foreign servicing; payment of fees and charges for technology transfer agreements; and remittance of proceeds from sale of any interest in a free zone investment;
- Free zone investors are permitted to operate foreign currency accounts with banks in Ghana;
- At least 70% of annual production of goods and services of Free Zone Enterprises must be exported; consequently up to 30% of annual production of goods and services of a free zone enterprise are authorized for sale in the local market.
- Free Zone investments are also guaranteed against nationalization and expropriation.

Problems Identified from both Institutions:

4.3 FIGURE: 11 SECTOR BY SECTOR FDI INFLOW FROM 1994 to 2011[4]



Author computations

1994 to 2000

From this graph, it can be observed that FDI inflow into the Non-oil sectors of the Ghanaian economy has been really low and keeps fluctuating. In 1994 there was no FDI inflow at all and that could be as a result of the fact that Ghana had reversed back into an economic turmoil after it had become the success story of Africa when it achieved a 5.5% growth. The World Bank, which imposed the neoliberal policies on Africa, has admitted that while results are variable, most countries experienced little or no growth after undergoing structural adjustment (Gordon et al, 2013). This evidence shows why there was no FDI inflow during this period since the economy did not look viable for FDI attraction. From 1995 to 2000, the service sector short up

[4] Data from GIPC data base and as % shares of yearly GDP

and this was as a result of the fact that banks and financial services were being set up within the country, manufacturing came second and was as a result of the fact textile industries, tomato factories and so on had sprang up with the economy. Agriculture did fairly well and that could be associated with the MTP project that invested huge infrastructure, irrigation systems and extension services into the agric sector.

From 2001 to 2005

FDI % OF GDP looks minimal with the service sector still taking the lead. However, in real figures it really looks good, this could be attributed to the fact that GDP during that period grew to 5.8% as against 3.7% in 2000 (Awal, 2012). This obviously makes economic sense as one would expect that GDP of 5.8% would have a huge effect on FDI inflows if computed as % shares than 3.7% would. However, that notwithstanding, the low FDI inflows during this period could be attributed to the fact that Ghana had declared HIPC, and as a result investor confidence within the Ghanaian economy had be lost.

From 2006-2008

During this period Ghana had a B+ sovereign credit rating and had been selected as a beneficiary country by the US Millennium Challenge Account Corporation (Awal, 2012). These developments placed the country in a very auspicious and desirable position, also the debt burden that Ghana was forgiven for as a result of declaring HIPC as well as benefits realized gave government more capital in hand which allowed for fiscal space and so developmental projects were embarked upon which had a tendency of opening up the economy and increasing growth to about 7.3% in 2008; In real nominal GDP terms, the economy expanded to US$16.3 (Awal, 2012).

The manufacturing sector saw huge growth between 2006 and 2007 of about 19% of GDP; this can be attributed to the take-off the GFZB of which companies like Cargill, Barry Callibeaut, Arthur-Daniel Midland (ADM) and amongst others directly invested in Ghana. Also, during that period the government issued Ghana’s first ever sovereign credit bond in the London Stock Exchange and became the first post-HIPC country to access the international capital market (Awal, 2012). Construction also increased the following year and that could be due to the CAN 2008 football tournament, of which stadiums were renovated and constructed ahead of the tournament. The construction of the Presidential Palace and the construction of plants at the Free Zones enclave by companies. Since companies were flowing in, it was only fair that general trading increased since the inflow of firms within these period facilitated trade of goods produced here in Ghana.

From 2009 and 2011

Construction took the lead on the chart in 2009 and 2011 to about 9% and 13.5% of GDP respectively. This could be attributed to the oil find, since firms like Tullow Oil, COSMOS energy and many others had all flown into the economy and were constructing offices and plants. The rest of the sectors did fairly well, with the agric sector at least seeing some growth or FDI inflow.

An equally important feature of the FDI inflows according to Tsikata et al (2000) is the three-way nexus of economic growth, investment and political stability. One would expect that 2000, 2001 should have marked a significant FDI inflow in the history of the Ghanaian economy since it was within this period that Ghana had its first ever peaceful transition after being under military.

Despite the recent increase in FDI inflows, FDI levels are low compared to other developing countries or even to other (similar) African countries. Since the 1990s, Ghana has attracted only between 0.05 percent and 0.1 percent of total FDI to all developing countries (Aryeetey et al, 2008). While some successes has been made in efforts at attracting FDI, a lot still has to be done especially in the non-extractive sectors specifically in the agric sector where the country's comparative advantage can be identified.

4.4 WHY DOES GHANA SEEM TO BE EXPERIENCING LOW FDI INFLOW INTO THE NON-EXTRACTIVE SECTORS?

- Institutional challenges
- Current focus of FDI is in natural resources or extractive industries
- Small market size
- Market failures
- Apart from cocoa Ghana has not sufficiently focused on any crops or agricultural produce that can compete in the world market.
- Short-term nature of sectoral policies
- Non-existence of an industrial policy
- Lack of investment in the non-extractive sectors by locals
- Land tenure bottlenecks
- Underdevelopment of SMEs

Institutional Challenges

The_institutions responsible for attracting non-oil FDI seem to face certain challenges:

Table: 4

GIPC	GFZB
➢ Poor branding concept ➢ Poor facilities and physical evidence ➢ Lack of foresight ➢ Poor customer Service (specifically the receptions) ➢ Non-autonomy of board of directors	➢ Meaningful analysis is difficult due to the absence of accurate, current data on monetary value of FTZ incentives since inception, mainly on local and the national economy. ➢ Non-autonomy of board of directors

These issues make it difficult for these two institutions to deliver upon their promises.

Also, Ghana as a country has not fully embraced the idea of market creating institutions which has for over a long period accounted for the under performance of its market. Market creating institutions are those that protect property rights and ensure that contracts are enforced (Dani Rodrik et al, 2003). Therefore, when market creating institutions are fully embraced in Ghana, investments and entrepreneurship would be enhanced. With such an institution multinational companies are likely to invest since they are assured of a sound legal system, protection of their intellectual property right, the abundance of the supply of intellectual resources and high qualification of talent (Dunning 1996).

However, in the dearth of high quality institutions costs of transactions, negotiations and execution of a business is likely to increase which will obviously have a negative impact on the inflow of FDI since "MNCs make investments that can strengthen and supplement their competitiveness" (Xie and Wang, 2009) and not those that force them into financial duress.

"In essence, the absence of high quality institutes, FDI may give rise to the negative result, even blocks economic expansion and this may be of assistance to investment return for the multinational corporation but not in favor of the host country's welfare. Forasmuch, good institutions in the host country is vital to fully effect the potential from FDI as well as to attract more FDI" (Xie and Wang, 2009).

<u>Current Focus of FDI is in Natural Resources or Extractive Industries</u>

It is a natural phenomenon that FDI inflows are directed into the extractive resources (oil and mining) since returns in such resources are faster and quicker. With Ghanaian governments as well as governments from developing countries being short-term in nature, they tend to focus on such resources leaving the other sectors (agric, manufacturing, etc) underdeveloped. This as stated in my literature review has been proved by Ayeetey et al, 2012) that FDI in Sub-Saharan Africa is largely concentrated in natural resources, and foreign investments in natural resources do not generate employment in the host country, much less beneficial to the host country.

The whole idea of FDI in the extractive resources has several effects on the host country because it brings social and environmental effects also, since FDI inflows are geared towards the extractive industry Ghana's exports are mainly natural resources which could bring about a classic 'Dutch Disease' should natural resource exports intensify in countries from SSA. Therefore, national policies should aim at directing FDI to sectors where its impact will be significantly felt.

Small Market Size

Ghana has a current population size of about 24,652,402 (index mundi, 2013) compared to China, India, America and Indonesia with a population of (1,343,239,923) (1,205,073,612) (313,847,465) and (248,645,008) respectively. Ghana has a small market size which has been proved by (UNCTAD,2009) to be the most important location criterion for MNEs in manufacturing and service sectors.

Also, Cargill an MNC and a cocoa manufacturing company in Ghana only produces its semi-finished goods (cocoa powder, butter etc.) in Ghana because management claims that Ghana has a small market size and as a result the production of confectionary products would only yield losses or no returns.

However, Ghana can hedge against this constraint by forging a very strong economic relationship with its neighboring countries to allow for a wider market or serve as a direct link between MNCs and other neighboring countries.

Market Failures

In Ghana market failures have always been the order of the day and this occurs since allocations of resources have not been efficiently distributed. As a result, the outcome has always been undesirable since market failures in general lead to losses in social and economic welfare.

Ghana is characterized by poor institutions, mismanagement and nepotism and as a result leaders use public office as a means of enriching themselves or for their own selfish interest and not for a collective social good.

Infrastructure which is a part of the consumption bundle of households (or facilities consumption) and an important input in production (Aryeetey et al, 2012) is very poor in Ghana. However, research done by (Rehman, 2010) indicates that availability of infrastructure promotes FDI since it reduces transportation cost as a well as operational cost.

In essence lack of infrastructure and poor infrastructure such as the power shortages that frequently occurs in Ghana, shortages of water supply, poor roads linking manufacturing hubs to ports and harbors as well as the agricultural sites to potential markets and limited ports have negative impact on FDI and growth in general. Hence, public goods are necessities for growth and as a result the government of Ghana should pool resources to better these public goods and ensure an effective distribution in order to reduce the cost of doing business for both locals and MNCs.

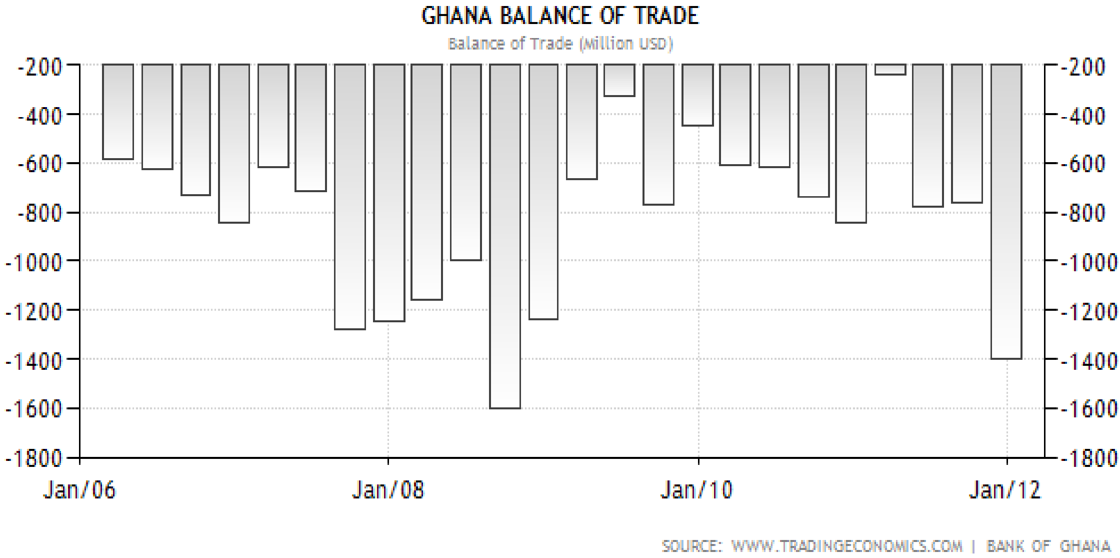
Also, the Government has to remedy market failures in areas like science, research, and infrastructural development where private investors are unable to appropriate all the benefits of their investment activities (Rehman, 2010).

Apart From Cocoa Ghana has not Sufficiently Focused on any Crops or Agricultural Produce that can Compete in the World Market

Ghana's major agricultural produce are cocoa, timber, rice, peanut corn, shea nut and banana, however, amongst all these crops Ghana is mostly known for the production of cocoa. Apart from cocoa the other crops listed above are not competing aggressively in the world market; this is because little attention is paid to these crops giving the short-term nature of Ghanaian governments. One may argue that cocoa is a hot commodity and as a result is expected to be doing better than these crops given the quality nature of the Ghana cocoa. In my opinion, I feel that if equal attention is paid to these crops and all the interventions that are invested in the cocoa farms are likely done in the farms of all these crops, agricultural produce should enter foreign markets and make headlines without any sweat.

Also, the fact that little attention is paid to the above listed crops accounts for the reason why there's relatively low FDI inflow into the agricultural sector and the reason behind Ghana's imports exceeding its exports. Hence, accounting for the negative balance of trade payment, below is a graph showing Ghana's balance of trade.

Figure: 12 Balance of Payment



<u>Short-term Nature of Sectoral Policies</u>

From my observations I realized that sectoral policies in Ghana are short-term in nature and as a result tend to make its implementation very cumbersome. Every government that comes into power comes with its own policy framework and as a result scraps what his predecessor started. The Vision 2020 (Accelerated Growth and Further Reduction) development plan and the Medium-Term Agricultural Development Plan which was initiated during former President Jerry John Rawlings period have all been abandoned. Meanwhile, countries like Malaysia and Rwanda are still implementing some of the goals under these development plans specifically; Malaysia is enhancing their SMEs which was in their vision 2020 whilst Rwanda is investing heavily in ICT within all its sectors which was also incorporated in their vision 2020. It is of no doubt that these investments are turning out successfully, given their increases in FDI inflows.

Non-existence of an Industrial Policy

An industrial policy is when" government deliberately attempts to promote industries" (Robinson, 2009). Industrial policy as referred to here has got nothing to do with "tariff and trade policy (protection), through tax relief, subsidies of various forms, export processing zones, to state ownership of industry" (Robinson, 2009). Rather an industrial policy that has a strategy, framework and a financing plan for industries in order for an internationally competitive industrial sector to be achieved which would end up promoting the inflow of FDI.

Just like the Asian countries specifically Taiwan did by identifying an industry it wanted to venture in (production of plastics), and identified a local business producing the same product but on a small scale and invested capital to turn it into a huge industry. Also, countries like Korea, India, etc. felt that rather than have Germany and the U.S produce and sell cars at higher prices they would adopt an industrial policy that gets them into the car producing industries (KIA, TATA) but at a cheaper cost comparatively.

Indeed, Ghana did have an industrial policy in the 1960's (Nkrumah's government-Industrialization) that failed due to the fact the framework did not suit the context of Ghana (Robinson, 2009). Nonetheless, this is the wakeup call for Ghana to design a new industrial policy that is able to withstand internal and external shocks and promote economic growth through FDI.

Lack of Investment in the Non-extractive Sectors by Locals

Early in the 1990's when there existed the Nsawam Canary, Darko farms, vibrant textile industries and so on, it was because locals were investing in the non-extractive sectors and as a result these firms have all died up but yet still are in the fond memories of Ghanaians. Today the culture has shifted because of the existence of market failures, quicker returns in the extractive resources, Non-availability of assistance from governments and so on.

Since Ghanaians themselves are not investing in the local non-extractive sectors, it undermines investor confidence and thus, reduces the inflow of FDI.

Land-tenure Bottlenecks

In Ghana, chiefs and families at the grassroots are the custodians of lands therefore; land is divided among individual members of the family who sell it on their own terms (business guide, 2011). Sometimes disputes might prevail as to who truly owns the land or boundary issues and incidence of double or many sale, these issues make it difficult for foreign investors to acquire land for agricultural purposes since litigation may come to play after the purchase of a land.

To address this issue, it is important for land policies to regulate access to land and the management of land. Ensure that the registration of land is done at the right place, right time and by the right owner. Also, the time it takes for a land to be registered is too long and as such policies should specify a speedy time frame for business purposes. By so doing the government would have to give the institutions in charge the needed resources to bring about the desired outcome. It is no doubt that a sound land policy is a critical success factor in economic growth, food security, conservation of the environment, protection of vulnerable groups, poverty reduction and housing which fuels FDI and eventually leads to economic growth.

Underdevelopment of SMEs

Small and Medium Enterprises (SMEs) play a major role in economic growth most especially when they are nurtured and improved by scaling them up into big firms. In Ghana the scaling up of SMEs is a major difficulty since the government is doing little to improve them and as well access to finance remains a key constraint.

When SMEs scale-up they tend to create a healthy competitive market, therefore, when MNCs invest in such markets they are not able to squeeze out these SMEs but are rather forced to innovate and bring about new improved methods that only expands the pie and creates more opportunities.

Also, when SMEs are scaled up it creates an opportunity of joint ventures and partnership with some MNCs which ends up reducing the initial investment cost of an MNC that could have been a major barrier.

Nonetheless, these can be achieved through the assistance of Micro-finance institutions and governmental support and assistance.

4.5 Lessons from Other Countries[5]

- Deepening investment in non-traditional export sectors:
  - Zambia: Greenfield investments in the agricultural sector, in particular horticulture and floriculture production, and in tourism.
  - Taiwan: Industrial investments in light industries and plastic industries
- Investments in ICT: Rwanda
  - Reason: This project is in line for attaining the countries vision 2020 goals and focuses on ICT for Socio-Economic Development in Rwanda, particularly for the five priority sectors namely, the Governance Sector, the Health Sector, the Education Sector, the Agriculture sector and the Business & Finance Sector, with a special focus on tracking the use of the deployed systems and applications (Ministry of youth and ICT, 2012).
  - Objectives: To develop a vibrant ICT industry and position Rwanda as the Regional ICT Hub;

    To facilitate the creation of a highly competitive service sector, fueling economic growth;

    To promote social and cultural interaction and integration in the society through the use of ICT;

    Enable efficient and effective service delivery through ICT.
    - Sector by sector ICT Innovation:

5

Information was derived from:
Ministry of Youth and ICT. (2012). *Rwanda ICT Sector Profile – 2012.* National Institute of Statistics of Rwanda.

Finance sector:

i. The Online Tax payment system, allowing citizens to file personal taxes online.
ii. The ePayment system, which allows citizens to pay their taxes online through their banks, hence reducing queues and time.
iii. The Single Electronic Window System, a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements, hence reducing the cost of doing business due to online clearance and allowing simplified procedures.

Education Sector:

I. The Carnegie Mellon University (CMU) facility at Telecom House was rehabilitated and its campus was launched in August 2012. The first intake of students for the 2012-2013 academic year of the Masters program has a total of 24 students.

II. kLab (knowledge Lab) was established as the first ever "ICT Innovation Center" in the country and made operation in July 2012, a project that was jointly implemented with the Rwanda ICT chamber. kLab, a technology space, brings like-minded innovators together and give them the resources they need to explore their ideas, learn from each other, and develop innovative ICT solutions. kLab is a technology space enabling ambitious entrepreneurs come together and develop their trailblazing ideas into successful businesses. Separately, the Korean International Cooperation Agency (KOICA) has approved the construction of a large ICT Innovation Center as a new project. The construction of this Innovation Center is planned to start in September 2013, in the Kigali Technopole.

III. The distribution of OLPCs reached 115,816 units, covering 227 schools. Digital content were also deployed in these schools, allowing primary school students to access courses in a digital format and improving quality of education.

Health Sector:

IV. The percentage of health facilities with functional infrastructure (computer, Internet, including modems) reached 84%. This allows the health facilities to access health information systems and medical records systems and provide better and timely reporting.

Governance Sector:

V. Sixty (60) new Service Access Points were deployed (2 per sectors) and are fully owned and managed by the relevant districts. With consideration to the existing Business Development Centers, these access points are now totaling to 91 Access Points, providing Business Plans, ICT trainings and access to online information and services.

VI. The Document Tracking was deployed in 25 institutions (with almost all ministries) and currently being deployed for 40 additional institutions (that includes all provinces & districts).

This automated tool will allow sensible reduction of paper usage in Government.

VII. The Automated Passenger Clearance System, a system that supports the automation of the migration services rendered to border communities and airports. Using Biometric data, the system removes the need for human input and passport stamps, reduces the migration clearance processing time, eliminates risks of fraud and detects use of illegal and forged documents.

VIII. A total of 7 institutions are now connected to the National identification Authority Database using online secure authentication, namely Traffic Police, RRA, MTN, TIGO, AIRTEL, B.N.R /Credit Reference Bureau, Immigration. Through this secure access, these institutions are able to provide better and quicker services to their constituencies.

Agriculture Sector:

IX. The eSoko system usage has increased, empowering more farmers with timely crops market price information, reaching for more than 54,000 transactions, translating to more informed market pricing decisions and ultimately more successful farming.

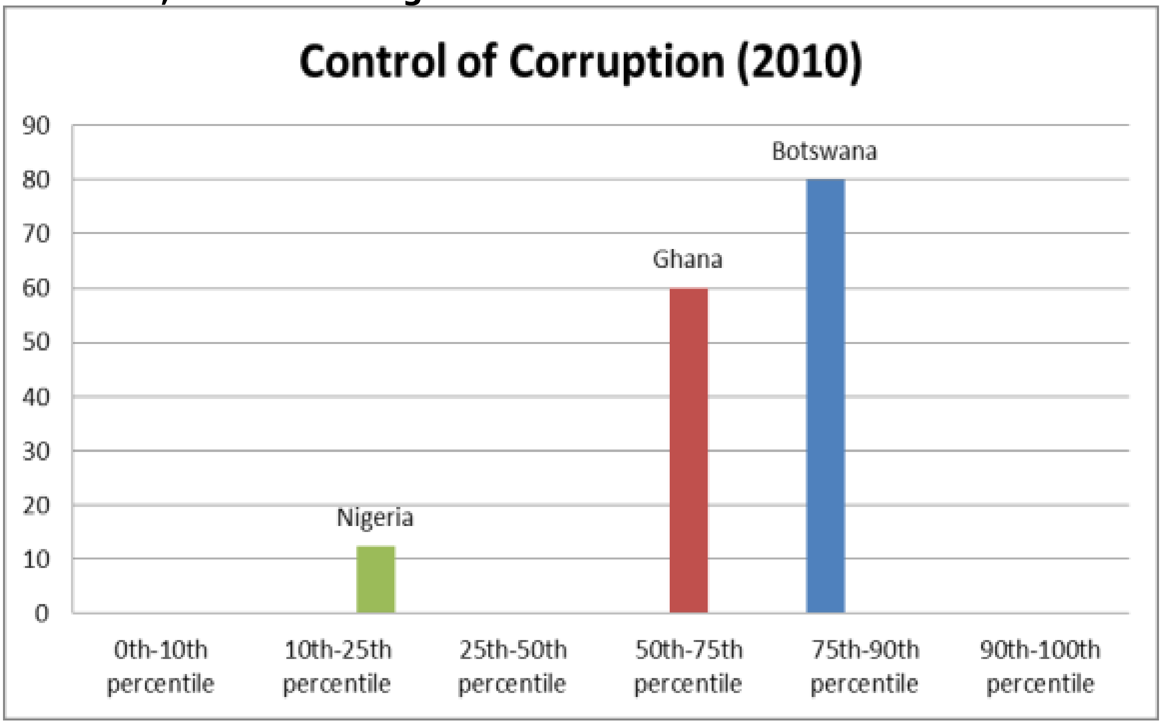
X. The Fertilizer Voucher Management System has issued more than 800,000 fertilization vouchers, allowing 2.4 million farmers to benefit from the fertilizers distribution countrywide.

On the whole total investments of FDI in ICT has reached more than 44 million USD in Rwanda, with more than new 4,046 direct jobs created by the ICT investments ((Ministry of youth and ICT, 2012). Also, the country was ranked the most dynamic African country in the ITU ICT Development Index (IDI), in the ITU "Measuring Information Society 2012".

Even though the government is putting in efforts to ensure that every child owns a laptop in Ghana, as well as the "Hope City" project which is a partnership between the Ghana government and rlg to build a computer hub just like the KLab in Rwanda, there is still much to be done to match up these ICT interventions by Rwanda in order to attract more FDI into the ICT sector of the economy.

- Good institutions coupled with low levels of mismanagement and corruption: Botswana

Figure 13: A comparison of the level of control of corruption in Botswana, Ghana and Nigeria[6].



Apronti, M. (2012). *AN EVALUATION OF GOVERNMENTAL POLICIES USED IN THE MANAGEMENT OF NATURAL RESOURCES: A FOCUS ON BOTSWANAAND NIGERIA AND LESSONS FOR GHANA.* Accra.

Figure 12 illustrates the corruption control rate of Botswana, Ghana and Nigeria. Looking at the graph Nigeria seems to be doing poorly Ghana and Botswana, Ghana is fairly above average and Botswana which is the best amongst these countries and also the best in Africa is ranked 30th out of 133 countries.

Though Ghana is not doing badly, much effort should be put in place to drastically reduce its corruption rates, just like Lee Kua Yew and his officials did to rid Singapore off unclean governance by letting go all forms nepotism, bureaucracies and sticking to the basics of transparency, accountable

[6] The governance indicators presented here sum up the views on the quality of governance provided by enterprises, citizens and expert survey respondents in industrial and developing countries and are gathered from institutes, think tanks, non-governmental organizations and international organizations.

governance, moral high grounds and the dedication to succeed by beating down corruption irrespective of the transgressions suffered.

- Development of SMEs: Singapore, Korea and Malaysia

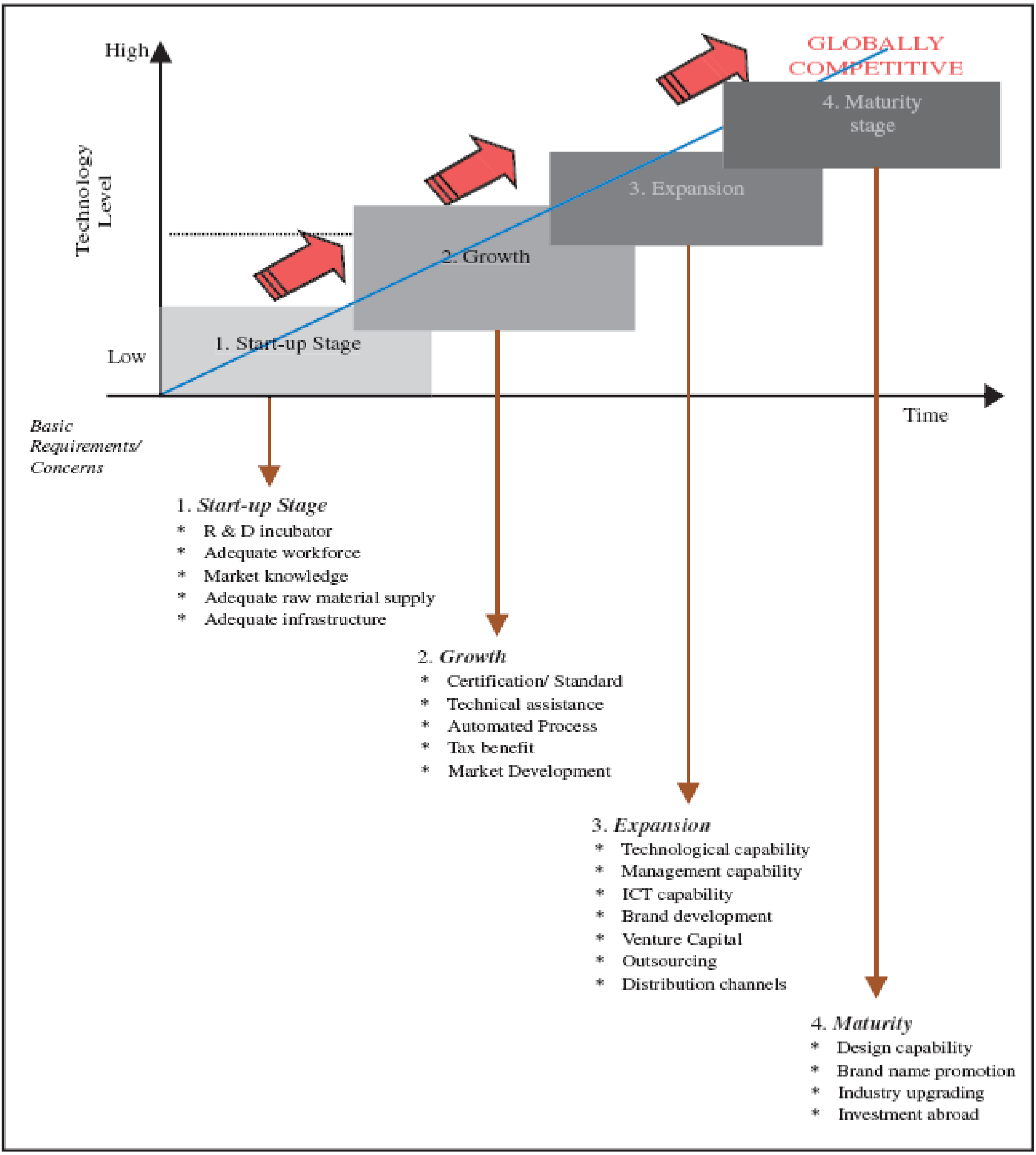
Even though this particular concept is being practiced by the above mentioned countries, the Malaysian model is the point of concentration since it is currently being adopted by Zambia, an African country and seems to be auguring well in Zambia's context.

The Malaysian Model

"In Malaysia SMEs are vital components of the country's economic development. According to SMIDEC (2002), SMEs accounted for 93.8 per cent of companies in the manufacturing sector. They contribute 27.3 per cent of total manufacturing output, 25.8 per cent to value-added production, own 27.6 per cent of fixed assets, and employ 38.9 per cent of the country's workforce. In addition, value added products from SMEs are expected to be worth RM 120 billion — or 50 per cent of total production — in the manufacturing sector by 2020" (Saleh et al, 2006).

SMEs are defined in Malaysians own context by identifying firms in the various sectors and subsectors that fall under the definition or qualify to be SMEs and formulating effective development policies and support programs such as technical and financial support. Below is a pictorial view of the framework that is used in governing SMEs in Malaysia.

Figure: 14 **The Malaysian Model (Phases of Enterprise Development (four stages)**



Saleh, A. S., & Ndubisi, N. O. (2006). An Evaluation of SME Development in Malaysia. *International Review of Business Research Papers* , 1-2.

4.6 How FDI Fuels Economic Growth

- **The Solow Model**

  Solow (1957) Postulates that once there are investment inflows obviously economic growth would be achieved. Therefore, once there are FDI inflows economic growth would occur.

- **GFZB: ACHIEVEMENTS AS AT 2011**
  - Total capital invested by Free Zone Enterprises was estimated at **US$217 million.**
  - The value of Production by Free Zone Enterprises was about **US$1.09 billion**.
  - The value of Export for the same period was about **US$1.91 billion.**
  - Total Employment figure was about **30,080** comprising of **29,216** nationals and **864** expatriates.
  - Total Duties/Levies paid on sales into the local market was estimated at **US$4.70 million** whilst an estimated amount of **US$1.05 million** was spent on training Ghanaian employees.
  - Social Security contributions paid was estimated about **US$8.79 million**.

Looking at these components and figures, it is clear in our minds that indeed FDI helps fill the resource gap which eventually leads to economic growth.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The general phenomenon is such that resources in extractive industries yield quicker and higher returns in the short-run, therefore governments and individuals in developing countries prefer to invest in such resources rather than the traditional sectors without a thorough consideration on its effects in the long-run.

Current research has proved that FDI inflow into the extractive industries is not substantially beneficial to the host country since it does not fully help fill the resource gap. This is because, returns to the host country which is usually in the form of expensive specialized equipment and experts from the home of the MNC will obviously not create job opportunities improve human resource quality, boost government revenue substantially and so on that have a tendency of attaining economic growth for the host country.

Even though FDI leads to economic growth, "National policies of African countries should aim at attracting more non-extractive FDI as well as harnessing the balance between domestic private investment and FDI rather than regarding them as substitutes in order to encourage competition amongst local businesses and multi-national companies".

5.2 Recommendations

- Industrial policy; by so doing discriminatory industry codes would be coined in order to allow for FDI attraction in the non-extractive sectors
- Invest in Research and development in order to identify innovative ways of making the non-extractive resource sectors attractive.

- Embark on broad synergy; where industrial complexes are built and as a result people manufacture related goods. In this case the output of one firm becomes the input of another, as in the case of the Ayensu starch company where starch is produced and used as raw material by other firms to produce chemicals.
- Education systems should be linked to the agric and manufacturing sectors; the Ghana education system is theoretical in nature and highly lacks practical and technical knowledge. Therefore, the education system at the SHS level should include practical's where SHS students can confidently do internships during vacations especially in the manufacturing and agricultural sectors before they enter the universities.
- Investment in the non-extractive sectors by locals, obviously charity begins at home, therefore governments should enthuse locals through incentives in order for the locals to be attracted to the non-extractive sectors. By so doing we are assured of having a playback of the Darko farms, Nsawam canary, Ghana Textile Manufacturing Company (GTMC), Juapong Textile Ltd and amongst others.
- Investments in SME's; though MASLOC (Microfinance and Small Loans Center) and LESDEP (Local Enterprise and Skills Development Program) have been established to facilitate the scaling up of SMEs, it is still not enough and as a result, governments should investigate into what other countries have done especially the "Asian tigers" and how best they can be adopted to suit Ghana's context.
- Improve institutional quality and reduce government influence within institutions in order to create healthy business environments and boost investor confidence.

- Invest more in ICT: even though some efforts are being made in this area much more needs to be done in order to integrate ICT into the real sectors of the economy as Rwanda is doing.
- Government should revisit Vision 2020 (Accelerated Growth and Further Reduction) as well as the Food and Agriculture Sector Development Policy (FASDEP I & II) or the National Aquaculture Development Plan since they contain good ideas that can be implemented now to improve Ghana's developmental challenges and agriculture deficits.

Limitations:

- Data collection is a major challenge encountered so far in this research.
- Due to the unavailability of time this research will not be representative.
- The inconsistency in some information gathered forced the researcher to rely on the compelling one.

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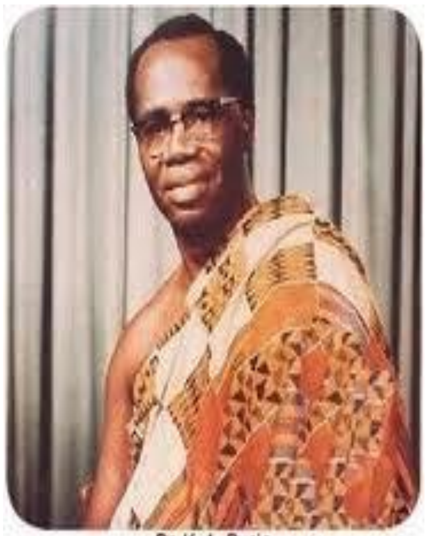
Appendix 1

Kwame Nkrumah

General Ankrah

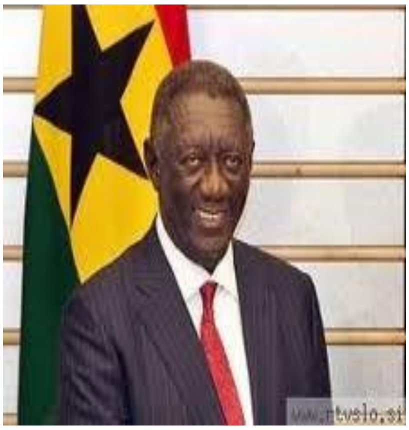


Dr. K. A. Busia

General Acheampong

Hilla Limann

Flt. Lt. Rawlings



John Agyekum Kuffuor

Evans Atta Mills

Appendix 2

Interview Questions

Question	Opinion
1. **Why do you think Ghana is doing relatively poorly in attracting non-oil, non-extractive FDI?**	
2. **What strategies would you prescribe or should Ghana adopt to attract more non-oil, non-extractive FDI?**	
3. **Do you think the current strategies being adopted are adequate? Why or why not?**	
4. **Is Ghana an import substitution country or an export promotion country, if any what impact does it have on FDI?**	
5. **In what ways do you think Ghana can improve its non-oil, non-extractive FDI inflow?**	
6. **FDI inflow into the agriculture sector is so low despite the many interventions, what do you think could be the reason and what can be done about it?**	
7. **Does FDI fuel economic growth of a host country, specifically Ghana; if yes how and if no why?**	
8. **Do you think other countries are using better methods and strategies that Ghana could adopt?**	
9. **Does the hope city project by**	

rlg have any impact on FDI, specifically in ICT and in regards to what Rwanda is doing in terms of ICT	
10. **Which of the economic reforms had a major impact on FDI and how?**	
11. **Other opinions are welcome.**	