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RESEARCH ARTICLE

FOREIGN DIRECT INVESTMENT IN GHANA: THE DISTRIBUTION AMONG THESECTORS AND REGIONS

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ABSTRACT

This paper evaluates and provides an integrated literature review of the flow of investment and the analysis of the distribution and allocation of the inflow of FDI in Ghana's economy. By considering FDI growth, export and import of merchandise trade, it was realized that, Ghana's international trade contribution to the world's development seems to be insignificant and majority of the country's export goes to the European market. The inflow of foreign direct investment in Ghana has grown rapidly since 2006, as a result of much effort done by the government to attract potential investors into the country. There are reasonable conditions and rights an investor enjoys for investing in Ghana. However, the result indicates the Greater Accra area receiving most of the registered projects compared to the other regions in Ghana. The rate at which investment was allocated to service sector has changed and much attention being focused on the manufacturing sector. Therefore, since the continuous expansion of investment in Ghana demonstrates to be favorable and beneficial to investors, the need of other factors to attract many substantial investors into the country are recommended.

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INTRODUCTION

Foreign direct investment is widely accepted by almost all the countries in the world, but there are few countries who enjoy a significant share of the world's total inflow and outflow of FDI. Investment plays an important role in the various countries economies which mean that, the stronger a country's economy is, the higher the possibilities of drawing in a more prominent of the world's total FDI demonstrating an out of line dissemination. FDI has to do with the flow of capital and other resources from one nation to another being it a short or long term. It generally includes participation in management, wander exchange of innovation and know-how (Stulz, 1981). Starting from a common doubt of foreign direct investment (FDI) in the early 1970s, developing nations' governments has presently come to grasp it warmly inside the ultimate decades or so (John Asafu Adjaye, 2005). The rapid increased in FDI over the past decades on the African continent is as a result of a reduction in foreign aids by some international donors. Between 2006 and 2016, Ghana has been absorbing much foreign direct investment into its economy and it's current ranked among the top receiving nations of the inflow of FDI in Africa. Outward investment in the west African region has increased over the past years of which Ghana contributes a great percentage share. A constant rise of inflow of FDI is a result the initiation of sound investment policies by the government. In Ghana, for instance, a legitimate instrument, Act 478 was declared in 1994 that went for diminishing obstructions to and making motivations to FDI (Cotton and Ramachandran, 2001). The purpose of this paper is to focus on the inflow of foreign direct investment and it distribution among the ten (10) regions in Ghana.

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Literature Review

This literature review shows empirical examinations done by numerous researchers in the field of FDI in Ghana and its effect on the economy. The correlation between China's FDI and Ghana's building and construction part execution (Kwasi Boakye-Gyasi and Yao, 2016) describe three theories of Chinese FDI in Ghana: Chinese FDI stream influenceeconomic and financial development through direct impact on building and construction division of Ghana, Chinese FDI streaminfluence monetary and economic development through roundabout consequences onbuilding and construction segment of Ghana, and Ghana's policies and approaches affect the impacts ofChinese FDI actions. They renowned low in cost impactof Chinese FDI in all of the different sectors of the Ghanaian economic system. There is apresence of blended empirical confirmation on the extent of profit from foreign direct investment inflow for the diverse nations economies (Baba Insah, 2013). Foreign investment may boost the productivity of all firms -not just those receiving foreign capital (Rappaport, 2000). However, the major determinants of foreign direct investment in Ghana using these hypotheses such as, Gross domestic product (GDP) growth influence FDI, inflation affect foreign direct investment, exchange chargeimpact on FDI, trade openness control FDI (Emmanuel Dodzi K. Havi and Prudence Attah-Obeng, 2013). The investment development path theory initiated by dunning in 1981 was used in examining the basis of the Chinese investment model and its impact in the Sub-Saharan Africa and Ghana as a case study (Joseph Yaw Abodakpi, 2015). There has been a tremendous effort over the past years in attracting sustainable foreign direct investment inflows to boost the country's gross domestic product different financial indicators (Francis Gyebi *et al*., 2013). Based on the impacts and significance of foreign direct investment propounded by most authors, this paper seeks to further review the inflow of FDI and its allocation among the various sectors and regions in Ghana.

Ghana at a Glance

Ghana is a democratic country which achieved independence from the British in 1957. The establishment of the 1992 constitution brought about general elections, which give citizens the right to vote for their favorite candidate, since immediately after the country gained independence, there were numerous coup which led to a military system of government for about 20 years. Ghana is arranged in the western portion of the African continent with neighboring nations like Nigeria, Burkina Faso, Cote d'lvoireand Togo. However, there are two mainstream religions, which is Christianity and Islam. Most of the populacehave placed with Christianity. Between 2006 and 2009 Ghana attained a significant economic growth as a result of sound macroeconomics indicators and efficient utilization of the country's resources. A country's economic growth depends on the maximization of its resource and an effective manufacturing sector. Over the past decades, Ghana's

https://www.ezilon.com/maps/africa/ghana-maps.html

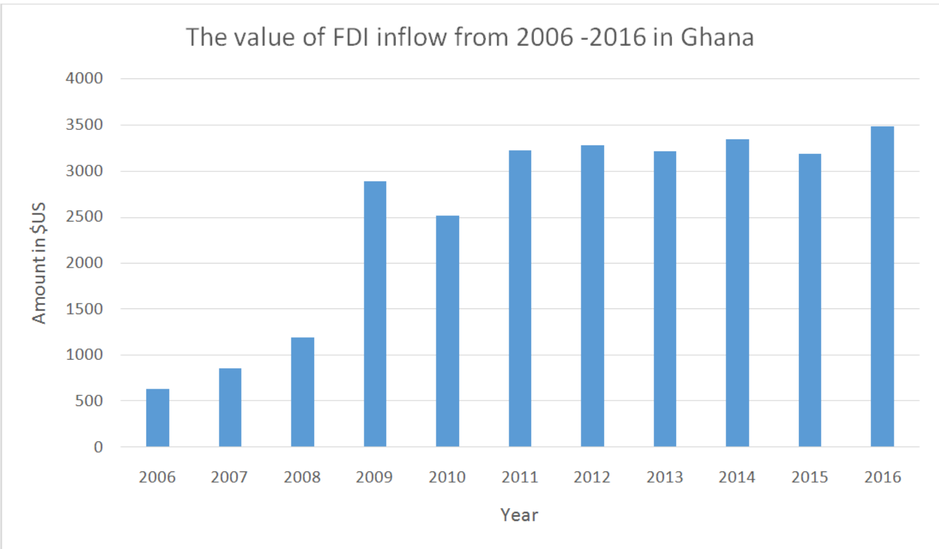
Figure 1

economy relies solely on the agricultural sector with cocoa production as a major source of revenue to the government. The composition and sectoral contribution to the gross domestic product highlighted the service sector as the greatest contributor of an estimated percentage of 59.4%, followed by the industrial sector with about 25.3% and 19.7% from the agricultural sector. Conversely, per capita was constant between 2014 and 2015 whiles in 2016, there was an increased by an insignificant amount of 100$. Ghana's real GDP growth was decreasing between 2015 and 2016. Import and export continues to affect the economic growth of the country because, the country imports more than its export of which there has always been a trade deficit. There are numerous commodities exported from Ghana but the major commodities for trading on the international market are cocoa, gold, timber and diamond which are always in their raw state without any value added. The major exporting destinations are Switzerland, India, UAE and China with an estimated percentage share of 17.5%, 14.6%, 13.3% and 8.8% respectively in 2016. Capital equipment, refined oil, foodstuffs and other manufactured product are mostly imported. China has become the biggest country for imported commodities in Ghana and other import partners such UK, US, Belgium and India in 2016. Over reliance on raw materials for export has proven Ghana's economy to be weak and unstable. The figure below shows the map of Ghana.

expanded in 1993. The investment mechanism in Ghana is effortless for any foreign investor. Under the investment policies in the country, the inflow and outflow of foreign direct investments are governed by three effective regulations. The GIPC Act, 2013 (Act 865) shaped the Ghana Investment Promotion Centre to energize and advance FDI in the country. The inpouringof FDI into Ghana expanded at a yearly come up with development at an estimated rate of 42% from $636 million to $2.527.4 million from 2006-2010. In the vicinity of 2010 and 2013 there was a hugeexpansion in FDI inflows from $2.527.4 billion to $6.821 billion representing 46%. The figure2 underneathdemonstrate the inflow of FDI in Ghana from 2006 to 2016.

Investment Atmosphere in Ghana

With the government intentions of making the country a gateway to West Africa, much has been done to ensure a smooth process of investing in the economy of Ghana. The location of Ghana serves as a strategic advantage for investors to access the Economic Community of West African State market. Government policies for foreign direct investment allows an investor employ both domestic and foreign skilled and unskilled work, although there are quotas for a specific number of the local workforce to be employed in certain fields, but with regards to investments or business activities which



Source: UNCTAD 2017

Figure 2

FDI Growth in Ghana

The inflow of FDI into the Ghanaian economy has been expanding rapidly over the 25 years as much effort has been done by the government to create a business-friendly environment to entice substantial investors. Foreign direct investment reached a high level with an estimated amount of $3.2 billion in 2011 and attained the highest peak in 2012 since 1990. Conversely, between 1990 and 1991 FDI increased by an estimated amount $5.4 million. Foreign direct investment volumes and values were very low within 1990 and 1992 as a result of political instability and the military system of government. FDI rises from $22.5 million in 1992 to $125million in 1993 after the formulation of the 1992 constitution representing 555.5% rate of change. However, there was an instability in the inflow of FDI between 1993 and 1997 due a rise and fall in the inflow although, investment

requires higher expertise, the laws permit a 100% recruitment of expatriates. However, there is a 100 percent ownership of investment in Ghana, investment policies and regulations allows a total rightful ownership, allowing investors to control and manage their business operations without any intimidation from the government. Investment risks have become a major factor potential investors consider for a perfect place to do business. Ghana is joining numerous organizations which give assurance to investors. For instance, Ghana's membership to the MIGA, a unit under the World Bank, which gives investment assurance against non-commercial risk of investing in developing economies. Unlike countries such Gambia, Cote d'lvoire, Liberia and Somalia, which experienced civil wars as a result of general election, the political environment in Ghana is considered as one of the most peaceful places on the African continent and the world as whole. Since the formulation of the 1992 constitution of Ghana, there has been a smooth free and reasonable general elections, and a serene exchange of power from one government to another. The Ghana Investment promotion Centre, which was established by the government to control and regulate investment provide investment incentives and benefit to investors, which include customs import duty exemption of certain commodities and product such as industrial plants, agricultural products and machinery imported for the investment activities.

Ghana's Import and Export

Import and export is one of the economic indicators used to control a country's economic growth and development. Ghana's export and import are mainly classified into merchandise and commercial service trade, which includes Free-On-Board (FOB) value and volume of all commodities given to all the various parts of the world and Cost, Insurance and Freight (CIF) the amount of commodities/goods got from the other parts of the globe. The significance of Ghana's export and import of all commodities are of lower impacts on the world's total international trade, the country's percentage share of the world's trading in export and import accounted for 0.07% and 0.08% respectively. The main trading commodities are agricultural products, fuels and mining products, manufacturing and other commodities. In 2015, the agricultural products for exports accounted for the highest share of the total merchandise trade with 31.7%, fuels and miningproducts 28%, manufactured products and other products share were 8.8% and 31.5% respectively. However, the importation of manufactured goods had a greater percentage share of the total imports with 63.1% followed by agricultural products 11.7%, fuels and mining products and different goods accounted for 1.8% and 23. 3% accordingly. It has been observed over the past years, the service sector contributes a larger percentage share in the economic activities in Ghana and this has reflected on the international trade in commercial services as export and import of commercial service accumulated 0.12% and 0.12% percentage share in the world's total trade in commercial services in 2016. The table below shows, merchandise trading value of Ghana.

Table 1. Ghana's Merchandise Trade Values 2011-2015

Indicators	2011	2012	2013	2014	2015
Total merchandise Export	27,428.7	28,306.0	24,864.0	39,154.2	45,476.3
Total merchandise Import	19,064.8	24,420.9	25,777.3	39,458.7	46,830.1
Total merchandise Trade	46,493.5	52,726.9	50,641.3	78,612.9	92,306.4
ECOWAS Merchandise Export	8,929.9	3,237.9	2,182.7	3,853.5	4,837.0
ECOWAS Merchandise Import	1,846.1	1,782.0	1,999.0	1,256.5	1,675.3
Merchandise Trade Balance	8,363.8	3,885.1	(913.3)	(304.5)	(1,353.8)

Source: GSS 2016.

Note: all figures stated in the table above are in Ghana cedis million.

Data and Methodology

The data for this paper has been generated from a secondary source. The majority of information has been collected from the Ghana Investment Promotion Centre (GIPC) which is a governmental organization responsible for investment activities in Ghana and the United Nations Conference of Trade and Development (UNCTAD). Data on merchandise trade of Ghana and the breakdown has been collected from the Ghana Statistical Service (GSS). However, other published papers and literature have also been taken into consideration.

Registered Projects in Ghana, Sectoral and Regional Distribution

In 2009, the number of registered projects was 257 with an estimated amount of $619.99 million which imply an increase within the quantity of initiatives compared to the variety of registered projects in 2008. There has been a complete quantity of 385 registered projects in 2010 compared to 2009. However, in 2010 the foreign direct investment component of the registered projects accounted for US$ 1.11billion which represent 86.59% of the full expected value and a substantial increase of 101.34% correlated with the US$ 551.30 million recorded in 2009. The number of registered projects attained a significant growth as there were 514 registered projects in 2011 with an estimated value of US$7068 million and there was a declined in projects to 399 in 2012. Between 1994 to 2013, there has been an estimated number of 4714 of registered projects which has been distributed among the eight (8) sectors of the Ghanaian economy. The building and construction received the largest amount of the total value of the registered projects whiles the service sector received the highest number of registered projects. The table 2 shows a sectoral distribution of the total number of registered projects and the estimated amount of money received by each sector.

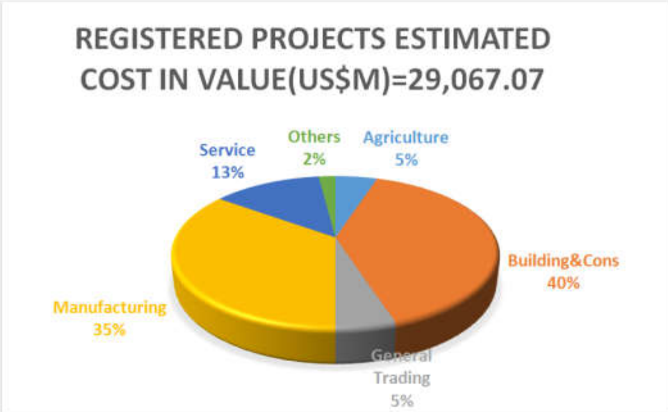
Table 2. Regional Distribution of Registered Projects from Sept 1994-Jun 2013

Sector	Number of Projects	Total estimated value ($M)
Agriculture	243	1,323.79
Building& construction	409	11,593.44
Export Trade	220	94.27
General Trading	771	1,493.52
Liaison	244	219.19
Manufacturing	1044	10,286.33
Service	1382	3,774.04
Tourism	403	282.46
Total	4714	29,067.07

Source: GIPC 2013

From the table is seen that, the allocation of registered projects is not uniformly distributed among the various sectors in the aspect of the volume and value. The amount of money allocated to certain vital sectors, which contributes a greater percentage to development and the welfare of the people is very insignificant. However, considering the agriculture sector of the Ghanaian economy, it serves as a source of employment to about 65% of the total population. The export trade sector received the least value of money from the total number of registered project from 1994 to 2013, which shows less attention is being geared to the development export trade in the economy.Conversely, the tourism sector absorbed the third least amount of money been allocated to the various sectors, Ghana is well known in the field of tourism, but there has been a least amount of capital and projects are being assigned to it from the sectoral distribution between 1994 to 2013. The figure below shows the percentage share received by each sector in the distribution of the valueof registered projects.

The Figure 3 above indicates that, building and construction received a greater percentage of the total estimated value of registered projects from 1994 to 2013 followed by the manufacturing sector. According to the GIPC, in 2017 during the first quarter 49 projects were registered with an approximate value of US$ 3,040.13 million, 46 projects were registered in the second quarter with an estimated amount of US$ 206.74 representing a decreased in the value compared to the first quarter. However, there were 44 newly registered projects during the third quarter with an estimated value of US$119.81 reflecting a reduction in both the numbers and values compared to the first and second period. The table 3 below shows the sectoral distribution of newly projects in 2017 for the first quarter to the third quarter.



Source: Author's Calculations based on the data from GIPC

Figure 3

Table 3. Sectoral Distribution of Registered Projects 1st quarter to 3rd quarter 2017

Sectoral Composition of New Projects	Newly Registered Projects	Estimated Value of Projects (US$M)	% of Estimated Value
Agriculture	1	6.91	0.3
Building & construction	10	31.94	0.9
Export Trade	3	4.55	0.1
General Trading	26	44.67	1.3
Liaison	28	412.72	12.3
Manufacturing	37	2,648.75	78.7
Service	34	217.13	6.4
Tourism	0	0	0
Total	139	3,366.68	100

Source: GIPC 2017 (first to third quarter reports)

From the table 3 above it seen that, the manufacturing sector received both highest number and value of registered projects projects for the first three quarters of 2017. The tourism sector of the economy had no registered projects.

Regional Distribution of Registered Projects

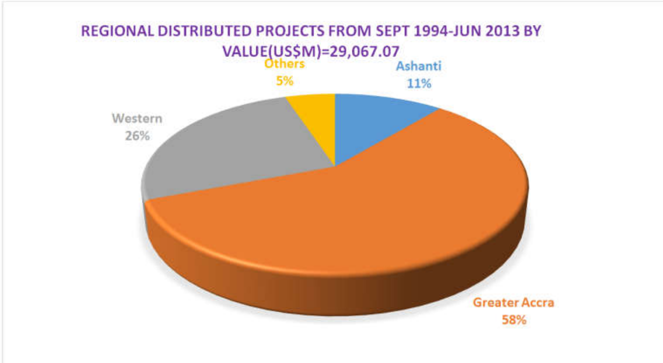
The geographical landmark of Ghana is made up of ten (10) regions, the allocation and distribution of registered projects are usually based on economic zones and the market size of various regions. However, the table 4 below shows a regional distribution of registered projects from 1994 to 2013.

Table 4. Regional Distribution of Registered Projects from Sept 1994-Jun 2013

Region	No. of Projects	Total Estimated Cost (US$M)
Ashanti	271	3,195.62
Brong Ahafo	40	354.21
Central	108	420.11
Eastern	105	241.45
Greater Accra	3879	16,890.77
Northern	43	357.33
Upper East	8	3.79
Upper West	4	1.97
Volta	56	98.17
Western	200	7,503.65
Total	4,714	29,067.07

Source: GIPC 2013

From the table aboveit is seen that, the Greater Accra Region received the highest number of registered projects followed by Ashanti region and the Western region. The Upper West region received the least value and number of registered projects. Figure 4 below indicates the percentage of the total estimated value of registered projects from 1994 to 2013.



Source: Author's calculations based on data from GIPC (2013) Annual Report

Figure 4

From the Figure 4 clearly indicates that, the Greater Accra region percentage share of the total estimated cost registered projects accounted for more than half of the total value distributed among the ten (10) regions within the country. However, the top three (3) region accounted for 95% of the total estimated cost of the registered projects. During the 2017investment period, of the 49 newly registered projects in the first quarter, the Greater Accra region received 39 projects, 3 projects in Eastern, Western had 2 projects, 2 registered project in the Northern and 1 project each to the Brong-Ahafo and Ashanti respectively. Conversely, out of the 46 total registered project in the second quarter, the Greater Accra region absorbed 39, Ashanti region had 5 whiles Western and Eastern region received 1 project each. In the third quarter, out of the 44registered projects, the Greater Accra received 37 projects, Ashanti and Western region had 2 projects each whiles Central, Northern and the Volta region obtained 1 project respectively.

Why does this matters?

Considering the population size of each region compared to the allocation and distribution of foreign direct investment does not aid in the development of some of the regions in the country. There has been large population density in Greater Accra and the Ashanti region as many people move from other regions to settle down in these two major regions with motive seeking for jobs.Enormous infrastructural development is taking place in the Greater Accra locale, with thenotion of theGreater Accra area is the capital region of the country.

Conclusion

The purpose of this research is to be useful to the policy-makers in the various sectors of the Ghanaian economy, government, theten (10) regions as well as potential investors that would like to have much information about investing in which region in Ghana. However, the government should put in much effort to develop and promote investment in other regions instead of focusing much on the Greater Accra region only. There should be availability of ready infrastructures, incentives and sound investment policies to attract foreign direct investment in the other regions of the country.It is recommended that, the government of Ghana should support the manufacturing and the industrial sectors in order to ensure efficiency and mass production for export thereby reducing the rate of importation. The outcome of this paper indicates that, there are risks of investing in some regions and sectors in the country as a result of some unfavorable conditions.

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