The South African Institute
of International Affairs

Business in Africa Research Project

Glimpse of Hope in West Africa

The Experience of South African Firms Doing Business in Ghana

Hany Besada

Series editor: Neuma Grobbelaar

SAIIA's Business in Africa Project is sponsored
by the Royal Danish Embassy, Pretoria

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

ISBN: 1-919969-21-7

Business in Africa Report No. 4

Please note that all amounts are in US$,
unless otherwise indicated.

Acknowledgements

The South African Institute of International Affairs (SAIIA) wishes to express its heartfelt appreciation to the Ghana Investment Promotion Centre and the Ghana Ministry of Trade and Industry. Both have provided valuable data that helped lay the foundation for this research report.

SAIIA also would like to thank South African firms (both in South Africa and in Ghana) as well as Ghanaian research institutes, other Ghanaian ministries, the Ghana Chamber of Commerce, and international organisations in Ghana for their participation in this survey, and for providing insight into their business experiences in Ghana.

About the Author

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

About the SAIIA Nepad Business in Africa Project

The South African Institute of International Affairs (SAIIA) launched a three-year *Business in Africa* research programme in May 2003. This programme aims to develop policy recommendations for government and other interested parties — such as members of the business and academic worlds — so as to assist them in the important task of creating a more sustainable and supportive business environment in Africa. The research project takes as its departure point the experience of South African investors in the rest of Africa. The programme proposes to draw lessons for policy makers from the successes, but also to note the failures of South African businesses on the continent. The *Business in Africa* project complements SAIIA's existing New Partnership for Africa's Development (Nepad) governance and democracy project. It is widely recognised that the 7% average annual growth that is required under the Nepad programme will not be achievable through aid only, and that the private sector has a critical contribution to make. SAIIA believes it is important to emphasise some of the positive aspects of doing business in Africa, while looking at some of the constraints that companies face on the continent.

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

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

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

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

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

Methodology and Rationale

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

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

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

Even though much international research has been published on Ghana, very little of it has been directed towards prospective international investors and companies wanting to expand their West African operations from Ghana. This study attempts to close the gap between perceived and real business constraints as a means of offering a clear analysis of the business environment in Ghana in the field of foreign direct investment (FDI).

Table of Contents

Executive Summary

Relations between Ghana and South Africa have improved and expanded greatly since 1994 in light of the political and economic transformations in both countries. Both investors and government officials in South Africa regard Ghana as a beacon of hope in the volatile, unstable and conflict-ridden West African region. Since its first multi-party democratic election in 1992, Ghana has grown into a stable, vibrant democracy that has striven to rebuild its shattered economy following decades of military misrule and economic mismanagement. The robust economy that has developed in recent years, generous government incentives for foreign investors, sound macro-economic reforms introduced by the government to slash inflation, debt, poverty and unemployment, and the implementation of IMF programmes designed to prepare the economy for stable growth have made Ghana a promising market for South African products and investments.

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

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

The increase in South African exports and imports to and from Ghana positions the country as South Africa's second-largest trading partner in the West African region, after Nigeria. South Africa's foothold in Ghana is expected to develop into a firmly-established niche.

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

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

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

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

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

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

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

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

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

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

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