

STRATEGIES FOR PROMOTING PRIVATE SECTOR INVESTMENT IN GHANA

**An Address by the Chief Executive of
Ashanti Goldfields Company Limited
Coconut Grove, Elmina
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Your Excellency, distinguished ladies and gentlemen,

A very good afternoon to all of you.

I have been invited to give what has been labeled as an inspirational speech. His Excellency has spoken and we could not have had a more inspirational speech. I must admit that all sorts of adjectives have been used in the past to describe me but so far one that I have escaped from is suicidal and believe me I am not about to add that to the list. I am therefore not here to give any inspirational speech. I am here to take undue advantage of the presence of His Excellency and his team to inflict on them the random thoughts of a frustrated and distressed Ghanaian investor.

In case you are wondering where I am coming from let me first start with my credentials. I am a full-blooded Ghanaian. I carry no other passport but Ghana's. All my children carry no other

passports but Ghanaian. Even now, when I arrive at immigration in London, the question asked is “what will you be doing here during your stay and how long do you intend to stay?” Mr. President, I have no other country but this one.

Mr. President, like other Ghanaians I have responded to calls to invest in my own country. I had a choice but I elected to invest here primarily to get a good return and in the process assist with the nation’s development through the creation of jobs. Sadly, I have had my fingers burnt largely as a result of the macro economic policies we’ve had in the past and the Talibanic nature of the government we had over the last 20 years. My experience has not been a happy one and I have no doubt at all that mine reflects in large measure that of others, foreign and local. No wonder then that our economy is in such deep crisis.

Your Excellency, apart from the avowedly socialist policies of the Nkrumah’s regime between 1957 to 1966 and Jerry Rawlings’ brief flirtation with the east after 1981, every administration has promised a greater role for the private sector in economic development. In short every government since 1966 has promised the people of Ghana in one form or other “the Golden Age of

Business.” The results have not matched the promises made and Your Excellency, you will no doubt understand and appreciate that the 44 years of rhetoric has turned us in the business community into hardened cynics.

Mr. President, this is hardly surprising given the state and structure of the economy. I will illustrate the point with some statistics. Our GDP per capita of \$400 makes us one of the world’s poorest 50 countries, 45 years after independence. We are in the company of Togo, Benin, Niger, Sierra Leone, Ethiopia and others. In fact between 1960 and 1994 our GDP declined by 17%. For the same period India’s grew by 74%, Turkey by 140% and Thailand, a country whose comparable level of development at the time of its independence is often thought to parallel Ghana’s, grew by 408%. Life expectancy has also declined to 50 years and this is a country which has not been hit yet in a big way by the AIDS epidemic. In contrast, Malaysia which had its independence at the same time as Ghana, and had a similar GDP at the time has kept a steady 72 years for the same period. Our infant mortality rate has also increased to 57 per 1000 births as compared to Malaysia’s 15.

Your Excellency, I could go on. Clearly not enough is being invested in education, health and infrastructure and quite simply jobs are not being created in this economy.

Your Excellency, the fiscal discipline which your economic team is implementing and which has brought laudable results so far would, given the size of the public sector necessarily result in fewer jobs being created by government unless the gap created is filled with investments from other sources. All over the world there is broad consensus across the political divide that the only source of such investment is the private sector. But as we all know investment capital is not only scarce, it is indeed nomadic and for several and various reasons, Africa in general is not seen as a green pasture. Currently, Africa's share of foreign direct investment is a mere 1% of the global total and in fact between 1993 and 1997 the period considered to be Africa's best, Africa attracted less than Singapore in direct investments. There can be no doubt that the state of the world economy particularly post 11th September and the contagion of the Argentine economic difficulties will pose even greater challenges for Africa in our attempt to attract investments. For us here the situation is pretty dire. Actual foreign direct investment in the productive sector, that is not counting investment by

Ghanaians in the Diaspora in real estate, had declined from \$233 million in 1994 to \$62.6 million in 1999. 1999 was also a watershed for Malaysia in terms of foreign direct investment and yet their figure was \$1.5 billion. Our inability to attract substantial investment from the private sector in the area of job creation in particular, has serious implications for the stability of our infant democracy.

Your Excellency, in spite of the very depressing statistics I have quoted, I believe even more strongly now that if we put our minds to it we can turn rhetoric into action and in your eight-year presidency we can actually make Ghana the investment destination of choice in Africa. But before we can get there Mr. President, there are many, many hurdles to overcome. Some of these hurdles relate to our past efforts at governance. Frequent changes of government has not helped. It has been bad enough that we have not had the continuity to carry through good policies or even to learn properly from bad ones. And it is not the frequency of the changes per se that has been the problem, after all if that was the only consideration for attracting investments nobody will invest in Italy. It is the sheer trauma that accompanies our changes. The private sector is immediately brutalised.

Physical assets are seized, bank accounts frozen, business people thrown into jails and many exiled. These experiences have deepened the impression that it is economically unwise for high networth Ghanaians to invest at home. As a result potential foreign investors have a job looking for credible local investors as partners. This is a subject that I will return to later but for now I would like to talk about some of the things that we ought to do to create the right environment for the private sector to flourish.

First let me state the obvious – there can be no viable private sector without a strong, efficient and investor-friendly public sector. 20 years of Talibanic rule has sapped the confidence of the Civil Service. They are badly paid, and feel unappreciated. Their morale is desperately low and investors complain that the attitude of civil servants is one of hostility to them. Regulations, licensing, and inspection are said to be part of the weapons wielded by civil servants to frustrate the private sector. Ports and immigration procedures are cumbersome. For example, it takes about 20 days to take delivery of goods at the ports as against 15 days in Nigeria and of course 30 minutes in ports in the UK and France. Mr. President, the Civil Service needs complete re-orientation and we hope that this government will initiate an all-embracing education

and retraining of the Civil Service on their relationship with the private sector. I am afraid unless we address this problem, policy formulation and implementation will continue to be out of sync and the cost of doing business in Ghana will continue to be very high. This government has the opportunity to lay the foundation of a strong and productive private sector that truly serves as the engine of Ghana's economic growth. But to do so requires not just a clear and concise vision, it requires a muscular government, one that is committed to see its policies and principles carried through. The task ahead is daunting but the situation will be made even worse unless we are prepared to be radical in our thinking. We must first get into the mindset that says that all businesses in Ghana belong to the country and is therefore part of the nation's equity. After all computation of GDP assumes that all goods and services produced in the country belong to the country. This mindset will lead us to question why the state must have direct equity interest, in manufacturing, in the service industry etc. Why does Ghana have an interest in Coca-Cola, in Barclays Bank, in the textiles factory, in the steel works, in oil palm plantation amongst others? For as long as the private sector is interested in these areas, an aggressive but transparent privatization programme will free funds which are desperately needed to finance infrastructural

development without which there can be no viable private sector in key areas of the economy. Time is a luxury commodity we cannot afford, we must move pretty fast because we only have a small window of opportunity.

Our determination to make Ghana the gateway to the sub-region and the investment destination of choice will only be successful for as long as we continue to have an environment that is safe, friendly and economically attractive. Ours is a small economy and under normal circumstances investments to the sub-region will go to Nigeria first but it is a fact investors are nervous about Nigeria for all the reasons that we know. This may sound callous but the difficulties in Nigeria offers us a window of opportunity to create conditions which will make Ghana the investment destination of choice. This window will of course not stay open forever and therefore we must act positively and quickly. Our economic destiny lies in an integrated sub-region and we must therefore work hard to turn protocols into reality. Let's be frank, given the size of our economy, it is in our own interest that we work towards full integration in the shortest possible time. A Ghana which offers a safe and attractive haven for investors will reap the benefits of such integration. Your Excellency an impressive start has been

made. Significant achievements have been made in the first year in office: the Cedi is stable, lower inflation, lower interest rates, all these are critical for promoting the private sector and we must build on these achievements. The security situation is rather worrying given the spate of armed robberies that we have been experiencing lately. The situation is nowhere as bad as it exists in neighbouring countries. However, we must not be complacent and should address the problem.

Mr. President, there are many other constraints. We have a poor transport and communications infrastructure and government should step up the construction and maintenance of such infrastructure. This includes investments in internet/intranet infrastructure, good road network, national/internal business database, reliable and affordable power supply. A lot has been said about investors coming to construct roads on a BOT basis. Let's be realistic, the figures will just not add up. Tema motorway charges the equivalent of five cents per car and we all know the creative ways car owners evade such payments. A toll road between Kumasi and Accra will have to charge prohibitively high tolls to make it viable. Realistically speaking, for the foreseeable future, investments in road networks will remain the responsibility

of government and it is precisely because resources are scarce that some of us continue to question the logic of government tying up precious funds in ownership of companies.

Other pressing issues include unavailability of long-term capital and a complete absence of venture capital in the economy. Our Stock Exchange has not been very active in recent times largely on account of the macro economic fundamentals of the country. As these improve hopefully, we will see renewed activity in our equities. Even here our expectations must not be too high because sadly, emerging markets are bad news at the moment.

In this regard, there is a need for a complete overhaul of Ghana's corporate law. The Company's Code of 1969 Act 179 which was formulated in the '60s has hardly been reformed, except to a very limited and minor extent in the '80s. This law and others pertaining to business and investment are out of step with dynamic progress in the international corporate environment, and do not contain requisite provisions to facilitate and sustain investments. Indeed it is believed that the inadequacy of long term investments in critical areas can be partially ascribed to uncertainties in the regulatory framework. It is not enough to say that we are a country of laws,

investors believe that justice delayed is justice denied and anybody who has been to our courts to resolve investment disputes will attest to the frustrations we all have. The unsatisfactory legal and regulatory framework is compounded by a lack of an efficient and speedy judicial delivery system. If you want to compete then we need to look at our laws on insolvency, mergers and acquisitions, exchange control etc.

Let me now offer my views on the strategy going forward to increase the size of the private sector role in the economy. First of all we must stop spreading ourselves too thinly. Investible capital to our part of the world is scarce and we should therefore identify areas of comparative advantage where we would direct our scarce resources in creating an enabling environment. We should then target investors who are interested instead of sending large delegations to trade fairs and seminars. I have identified four key areas of comparative advantage. These are

- 1) Mineral resources
- 2) Agriculture and agro-processing
- 3) Tourism
- 4) Information Technology

I will take them in that order.

Mineral Resource Development

This sector is the largest contributor to our foreign exchange earnings and it is the sector which responded most favourably to the stimulus which came with the Economic Restructuring Programme. Ghana's potential in mineral resources is quite well known but I am afraid, your Excellency, this sector inspite of its huge potential is endangered specie – indeed the sector is dying. When exploration stops, mining dies. In the mining industry it is known that only one out of a hundred exploration projects will get to the feasibility stage. And only one out of every ten feasibilities result in a viable mine. Your Excellency, this is a very risky business with long lead times. The lead-time for bringing a surface mine into production from the exploration stage is five years and for an underground mine, seven years.

Ladies and gentlemen, exploration licenses issued by the Minerals Commission have fallen from a high of 104 in 1997 to 5 in 2000. A few years ago, almost every other house in the airport residential area was an office for a junior mining company. Today they have all left the country.

You will think that it is because of the depressed gold price, yet in Tanzania, their mining sector has over the last three years attracted 2.5 billion dollars when Ghana's attracted only 3.5 billion dollars in its best 15 years between 1985 and 2000. What little exploration funds are coming to Africa are all going to Tanzania, Mali, Burkina Faso and Guinea. Ghana was the first to modernise its mining code in 1986 and these countries have improved upon Ghana's and made theirs more attractive. Their laws do not contains provisions which give their governments controlling powers with regard to the ownership of mining companies, veto power in the events of stipulated corporate transactions and confiscatory powers in the event of bankruptcy of mining companies. These and other provisions in our laws have deepened investors' perception of political and economic risk in the country and have come to be regarded as investment depressants. Clearly, to revive the sector and stimulate renewed investments, the government has to make our laws more attractive in order to compete. Let me state a fact which may not be known to some of us. Apart from Obuasi and Tarkwa, most of our gold mines will close down within six years because they would have run out of all reserves and as I said this is now our number one foreign exchange earner.

Agriculture is another area of great potential and investments must be encouraged to stimulate other sectors of the economy. The majority of Ghanaians spend most of their income on food, so improved agriculture will enable workers to spend less on food and save part of their income for long term capital. Two key obstacles need to be confronted. Firstly, access to good farmlands is a problem and is something that I have already spoken about. The single biggest obstacle though to commercial farming is the issue of land. It is simply not possible to build a modern agricultural sector on a feudal land ownership system. It has taken an investment group I invited to this country 11 months to negotiate with 45 families for 1500 hectares of land. Isn't it a shame that there isn't even 1 one-thousand-hectare maize farm and that Ghana's biggest poultry farmer my good friend Kwabena Darko even has to import maize? I appreciate that land is a sensitive subject but if this sector is to realise its full potential then bold and decisive action possibly involving the creation of land banks must be implemented by government.

The next area is tourism and here I believe that the country's niche is emotional or sentimental tourism which would appeal to the

relatively affluent African-American middle class in search of their roots and looking to reconnect with Africa their motherland. A whole new industry can be developed on the history of slavery using Elmina Castle as the hub. This way you will be making efforts to revive the economy of the Central Region, which was after all, the main centre for the slave trade.

Ghana has long boasted a relatively better-educated English speaking workforce than most of its peers in Sub-Sahara Africa. The on set of the digital age presents an opportunity for the country to leverage this comparative advantage to compete for the IT back office industry with the current favourites such as India and countries of South-east Asian countries. It is an opportunity this administration should not let slip through its fingers.

Before I end, a few thoughts on where I think we need to direct our efforts in sourcing investments. For all the trade missions previous administrations have sent to the US, the UK and the rest of Europe, many of our recent large investments have come from companies from similarly emerging economies – Malaysia, Singapore and South Africa. The current evidence is suggesting that there is greater return in exploiting South-South linkages

rather than the previous North-south linkages that have characterised our investment promotion efforts so far. And why not? Many of these emerging partners have closer cultural affinity to us, and they have a greater appetite for risk than their colleagues in the North; and now, best of all they are accumulating capital that is looking for a home. This government must build on the relationships that have been forged in recent times to tap what I believe could be a veritable goldmine. In this regard, may I plead that in correcting past wrongs we show understanding for the cultural sensitivities of our new partners. May I also suggest that we aggressively court high net worth Africans such as Nigerians into coming here to invest. After all nobody doubts that they have accumulated substantial capital which may well be looking for a safe and an attractive environment. Mr. President, in our promotion efforts we should make it very clear to our diplomats that economic diplomacy is now the order of the day. They should be at the forefront to promote Ghana and attract investors and need I say that a friendly, courteous and more encouraging attitude from their staff would be of great help. The government also needs a proactive public relations unit to effectively market its policies to a discerning public. I would also like to comment briefly on another important source of our foreign exchange. Currently

we are told that repatriation from Ghanaians in the Diaspora is the country's third largest source of foreign exchange. I am afraid that unless working with our various embassies we come up with strategies for deepening the cultural ties between the new generation of Ghanaians in the Diaspora who are born American British, Dutch etc. this important source of foreign exchange will not be sustainable in the long-term and indeed may also become an endangered specie. After all let's face it, when the current generation who are repatriating monies to Ghana to look after their extended family and develop their houses when they pass away, the new generation may not have the same cultural affinity to the homeland, Ghana, and therefore may not feel the need to send any moneys home.

Mr. President, before I take my seat I must express my views on a subject which must be of concern to all of us and it has to do with what I call political name-tagging. Companies are labelled pro or anti the government in power and lose or win jobs as a result of their political association. Given the sheer size of the public sector and its associated political patronage, it is almost impossible for any business to survive without some flirtation with the government of the day. Mr. President, world class entrepreneurs are in short

supply in this country and I believe this is largely on account of the phenomenon I have described. I often wonder how big the private sector would have been in this economy if the likes of Siaw, Kowus, Boakye Mattress, Kojo Sardine, B.A. Mensah and others had been allowed to carry on business regardless of who was in power.

In conclusion let me state the obvious – we are in deep crisis and it cannot be business as usual. This ship has been taking water for a long time and we the passengers must expend our energies in plugging the holes and then bailing out the water. This is not the time for us to be preoccupied with who gets the best cabins on board. We cannot afford to fail because the alternative may be apocalyptic. We must all come together and work together to make the country an economic success. The viciousness, vindictiveness, pull-him-down syndrome, envy, back-stabbing – all these negative trends which have become so much a part of our current culture will not deter some of us from giving you and your government all the assistance that we can to ensure that this ship docks safely at the next port in 7 years time. Mr. President, you represent our best hope for two key reasons – firstly, the euphoria that accompanied your election, we have not seen its like since

independence and has brought a huge ground swell of support and goodwill for you. We know that this overwhelmingly popular mandate gives you the strength to take radical measures to correct the ills of the economy. Secondly, you are the first elected president to have run your own business, so you know all our problems. We are now asking you to lead us in action and we know you will not let us down. Thank you very much.