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# Contributions of multinational enterprises to economic development in Ghana: A myth or reality?

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## Abstract

Multinational Enterprises (MNEs) drive economic development and play dominant role in globalization of the world economies. Their activities are channelled through trade, foreign direct investment and transfer of knowledge and technology. This paper outlines MNEs operations and their contributions to socio-economic development of Ghana by examining their investment projects and impacts on the national economy as well as their social roles through corporate social responsibilities. A conceptual framework was proposed and case study approach was used to gain insight into the contribution of MNEs to socio-economic development. The study revealed that majority of MNEs in Ghana have created linkages with local firms for easy accessibility to inputs and local production techniques, capacity building as well as creating market opportunities. Few MNEs perceived policies and directions of government as influencing their activities. There is therefore the need for improvement in the implementation of policies and regulatory framework to enable Ghana obtain maximum benefits from the operations of MNEs.

***Keywords:*** Multinational Enterprises; Economic Development; Ghana; Foreign Direct Investment



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## 1. Introduction

### 1.1. Background

Multinational enterprises (MNEs) have been engines of global economic development, technology transfer and deepening globalization. They have developed not only within their domestic corporate framework but have also set up new subsidiaries in different economies. MNEs cover the entire spectrum of business activities from manufacturing to extraction, agricultural production, chemical processing, service provision, and finance among others. According to UNCTAD, Africa is one of the developing economies that saw an increase in the global foreign direct investment (FDI) inflows in 2012. Africa's global FDI inflows went up by 5 per cent to $50 billion (UNCTAD, 2012). However, in 2014, FDI inflows to Africa as a whole remained stable at $54 billion (UNCTAD, 2015). As a developing economy, Africa attracts huge FDI from emerging economies in Asia. China however is perceived as the robust investor in Africa among other emerging Asian economies. Chinese FDIs in Sub-Saharan Africa (SSA) have increased rapidly in recent years and have focused predominantly on Ghana and Nigeria (UNCTAD 2012). FDI flows from China to SSA reached US$3.1 billion in 2013, representing 7% of global FDI flows to SSA (Pigato and Tang 2015) and this has made China a major trading partner of SSA.

Ghana as a Sub Saharan African country receives a lot of attention from foreign investments. These investments cut across the key sectors of the economy (agriculture, industry and services). However, most of these foreign investments in Ghana are mainly concentrated in the mining subsector of the industrial sector. It has been observed that about 70 percent of total FDI inflows over the last 15 years went to this subsector. Within the services sector, Ghana has managed to attract significant amounts of foreign capital in telecommunications and banking (Fosu et al., 2014). With all the investments in the key sectors of the Ghanaian economy, it is inherently expected that these will contribute to socio-economic development to some degree. Development literature for instance is fraught with examples of the contributions of MNEs to socio-economic development in both developed and developing countries. Many economies have enunciated programmes to attract MNEs to invest in their countries. Ghana promulgated the Mining Code in 1986, Investment Code in 1994 and the Free Zone Act in 1995 as laws to provide conducive environment for investment in the industrial and mining sectors of the economy. The seeming political stability and favourable fiscal incentive packages especially under the Investment Code have contributed to the MNEs operations in the country. Also, the burgeoning oil industry has played a large part during the last five years in attracting large numbers of oil and gas companies and their service providers into Ghana.

To provide an institutional framework for attracting investments, Ghana Investment Promotion Centre (GIPC) was established with the mandate to encourage and promote investments in Ghana. It is also to create attractive incentive packages, conducive environment and provide services including assistance to procure permits required for the establishment and operation of enterprises for investments in Ghana. The political climate, regulatory and institutional frameworks of the host country are very important in attracting MNEs into the country. Most MNEs will hesitate to invest in a country where its regulation/ institutional frameworks are seen as inimical to their business interests such as restrictions on repatriation of dividends or profits. Countries with an attractive investment climate however, stand to gain in attracting MNEs. MNEs decision to invest in a particular country is generally influenced by profitability of the projects; ease with which subsidiaries' operations can be integrated into investors' global strategies and overall quality of the host country's enabling environment (Christiansen and Ogutcu, 2002).

The overarching objective of an institutional framework is to provide favourable investment climate to attract MNEs to support the socio-economic development of the country in terms of expanding employment avenues and invariably contributing to poverty reduction, adding value to agricultural products and supporting capability building and enhancement of the local firms. However, studies exploring issues about the contributions of MNEs to socioeconomic development in Ghana are scarce. Therefore, to improve understanding and contributions of MNEs on developing economies, this study examines investment projects and impacts of MNEs on the national economy as well as their social roles through corporate social responsibilities.

### 1.2. MNEs in development context

Investments from MNEs have turned out to be the major source of revenue in almost every developing country contributing to socioeconomic development and stability (Latifi, 2004). Their operations are global in nature and they enter host countries in different ways and with different strategies. Some enter by first exporting their products to test market acceptability and share in a foreign country through export agents. Others establish sales branches or manufacturing plants to reduce operational costs as well as to take advantage of existing raw materials and favourable industrial conditions (Onyewuchi and Obumneke, 2013). Operations of MNEs have important implications for employment creation, resource mobilisation and utilisation, technology development and transfer, among others (Rehman, 2016). Earlier work by Kim and Han (2014) indicates that foreign capital contributes to the invigoration of an economy leading to the provision of more job opportunities. MNEs operations however, can result in income inequality by shifting the demand for labour. Their financial strength may be able to pay wages over and above what domestic firms could offer. Consequently, MNEs may be able to poach local skilled workers (Rehman, 2016).

MNEs through their operations in developing countries may help to achieve global development targets. Increased flow of technologies and FDI to Africa can contribute to the achievement of the Sustainable Development Goals (SDGs) target of reducing poverty rates through employment opportunities (UNDP, 2000). In addition, MNEs through their Corporate Social Responsibility (CSR) could also contribute back to the community in which they operate by expanding access to basic necessities and securing human and labour rights of citizens (Barkemeyer, 2011). It is also noted to signify a particular method to corporate regulation, which supports voluntary initiatives (Utting, 2007). Its effectiveness however depends on the existence of a pragmatic policy framework in the host country to guide such activities and to meet the developmental agenda of the country. Moreover, the activities of MNEs in a host country can contribute to improve productivity of domestic firms as indicated by María Cubillo-Pinilla, 2008. This could indirectly contribute to the profitability of the domestic firms as productivity increase is realised. This however depends largely on the receptiveness of the local firms to the new ideas being introduced by the MNEs

Relatedly, the impact of MNEs on local firms can be measured at an inter-industry (MNEs and local firms in different industry) and intra-industry (MNEs and local firms within the same industry) levels. Some scholars argue that there could be both negative and positive productivity effect depending on how the linkage is perceived. According to Gerschewski (2013), there tends to be negative intra-industry relationship due to the crowding out of local companies that are not able to compete against the MNEs. A positive inter-industry linkage between MNE subsidiary and local suppliers can also result from MNEs transferring technologies/knowledge to their local suppliers. Kok and Ersoy (2009) argue that MNEs and their FDI inflows are very important since they serve as catalyst for accelerated socio-economic development of third world countries. They indicated that, FDIs serve as vehicles for fast and efficient transfer and adoption of best management practices to domestic firms. The modern and efficient management practices can lead to knowledge transfer to host countries and boost the increased productivity in the local economy (Kampik and Dasch, 2010). However, this will also argued largely to depend on the absorptive capacity of the recipient country (Rehman, 2016).

Even though MNEs through their technical operations and CSR, contribute positively to socioeconomic development and thereby facilitate the achievement of growth targets, their operations in developing economies is being contended sometimes. Studies have highlighted concerns such as crowding out of local firms, use of technologies that local firms cannot absorb, reduction in domestic capital stock and tax revenues through unfavourable technology transfer arrangements as well as high capital flights through profit repatriations as negative impacts of MNEs on economies of developing countries (De Backer and Sleuwagen, 2003; Gorg and Greenaway, 2002).

## 2. Methodology

This study was based on a policy case study which was part of MNEmerge project, a collaborative research project funded by the European Union's Seventh Framework Programme (EU FP7) to provide a comprehensive framework for understanding the impact of Multinational Enterprises (MNEs) on the then United Nations Millennium Development Goals (MDGs). The case study approach was used to gain insights into how MNEs impact on the socio-economic development as well as understand the current policy environment regarding MNEs and MDGs in Ghana. It used data from both primary and secondary sources. Primary data was obtained from selected MNEs and policy institutions in Ghana. Data was collected from managers of MNEs and policy makers within Greater Accra Region where majority of MNEs subsidiaries are located. Two subsidiaries, two NGOs, two policy institutions, a supplier and a distributor were purposively selected due to the nature of information the study required. Data collection method was mainly with the aid of an interview guide through interviews with the policy makers, top managers of MNE subsidiaries and NGOs as well as the suppliers/ distributors of the MNE subsidiary. The interview process was recorded and transcribed with the consent of the interviewees. Data was captured on company's main activities, strategies, linkages, government impact on company's strategies and linkages, effects of FDI on Ghana's socio-economic development. Secondary data was obtained from GIPC, online resources, annual reports and other technical reports from the various key institutions interviewed.

To discuss the contribution of MNEs to socio-economic development, a conceptual framework (Figure 1) is proposed. The ability of a country to attract MNEs depends largely on two external factors, the national environment (institutional and regulatory frameworks) of the host country and the corporate business strategy of the MNEs.

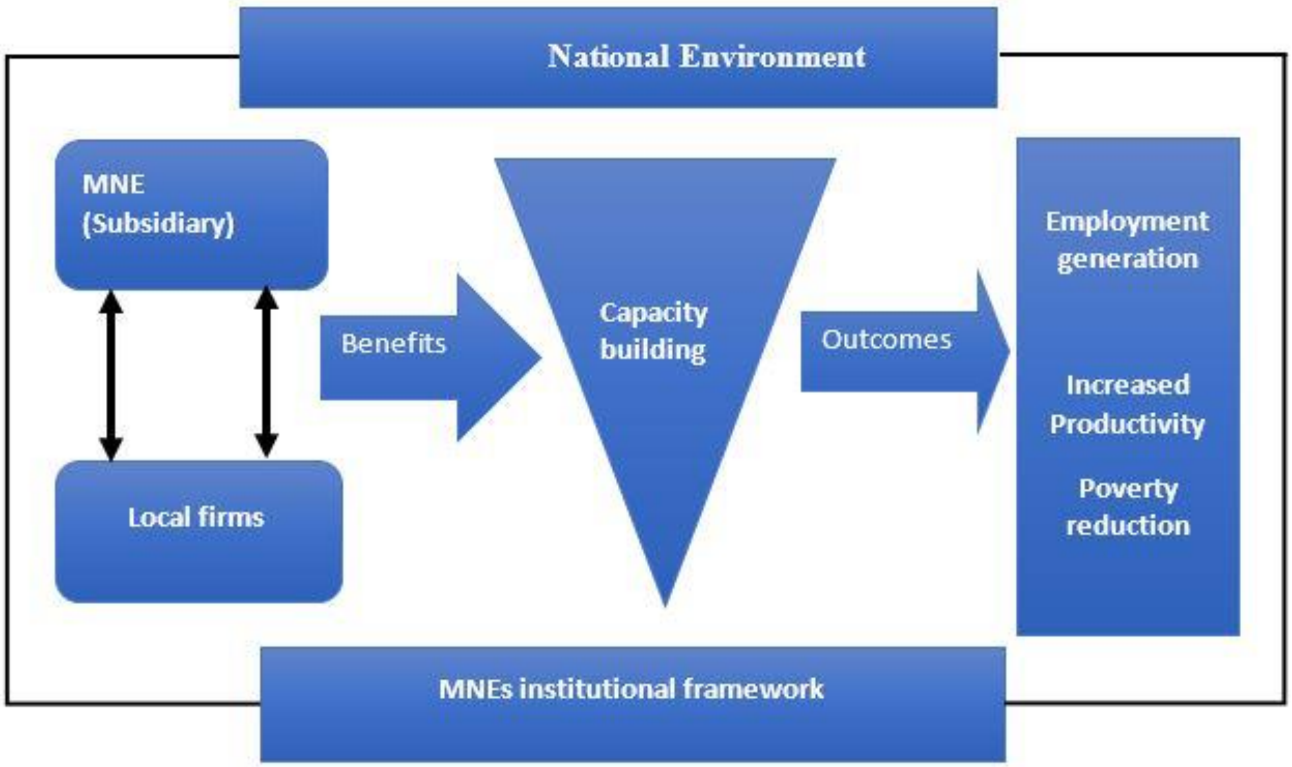


**Figure 1.** Conceptual framework for study (Source: Authors, 2015)

Within a host country, linkages between local firms and MNEs are crucial for mutual benefits as depicted in Figure 1. The local companies can benefit from technology transfer from the MNEs, whiles local indigenous knowledge can be transferred to the MNEs. There is also another benefit of market opportunities where the local firms can play intermediary roles to enable the MNEs access resources critical to their operations OECD (2005). This will occur in the form of subcontracting, outsourcing, licensing and franchising, among others (Figure 1). OECD (2005) adds that the ultimate benefits of MNE/local firm linkages depend on the enabling environment for investment as well as the strategies of those MNEs. The host country can play an important role in encouraging strategic linkages that could be mutually beneficial to the two parties. The outcomes of such interactions between the MNEs and the local firms can contribute to employment opportunities, which invariably reduce poverty in the country and also contribute to increased productivity of local firms. The study adopted the poposed framework (Figure 1) as an analytical framework to guide discussions for the study.

## 3. Results and discussions

MNEs operations in Ghana can be referred to the colonial era with companies such as United African Company (UAC), United Trading Company (UTC), Kingsway, Lever Brothers (UniLever) and Paterson and Zochonis (PZ) among others. Some of these companies are still in operation. An investment code was enacted in 1993 and the underlying objective of the Ghana's Investment Code (1994 and 2013) is to attract FDI to support the country's socio-economic development as well as achieve global development targets. This section looks at the activities of the MNES in relation to their investment projects and their attendant impacts on the national economy mainly centred on the investments attracted through GIPC and augmented the case study carried out in the country.

### 3.1. Investment projects

Ghana through the activities of GIPC continues to attract MNEs to invest in the country. For investment projects registered in the country by GIPC from 2010 to 2015, Ghana registered a total of 2,035 projects (Table 1). The highest number of projects was registered in 2011. This can be linked to the commercial production of oil and gas in the country, which attracted many MNEs to invest in the downstream activities of the oil and gas industry. The lowest number of projects was registered in 2015 (170).

**Table 1.** Investment Projects Registered by GIPC

| Year | Projects |
|---|---|
| **2010** | 385 |
| **2011** | 514 |
| **2012** | 305 |
| **2013** | 477 |
| **2014** | 184 |
| **2015** | 170 |
| **Total** | **2,035** |

*Source: GIPC Investment Bulletin, 2010 - 2015*

The sector that received many projects was the building/construction, which constituted 51% of the projects registered by GIPC. It was followed by manufacturing and the service sectors. The least sectors were agriculture, general trade and tourism (Figure 2).

The massive investment in the building/construction sector is as a result of the renewed interest in the Accra Metropolitan Area Strategic Plan that was published in 1995. The plan was to redevelop certain parts of Accra with stated objectives of increasing density of development whiles maintaining the character of the neighbourhood as a first class residential area, increasing and modernising the stock of residential properties to address the housing deficit and improve the urban landscape. Consequently, private real estate developers with foreign counterparts have invested heavily in the sector and modern housing infrastructures are being developed in the country's capital as well as the peri-urban areas around the city. The increased activities in the building and construction sector in effect gives employment to architects, artisans and ancillary workers. Between 1993 and 2013, most of the investors in Ghana were from USA and South Korea (Figure 3). Currently, Chinese investment has been considerable, with the value of Chinese registered projects in the third quarter of 2014 been USD 1,104.45 representing 81% of the value of projects registered in the quarter.

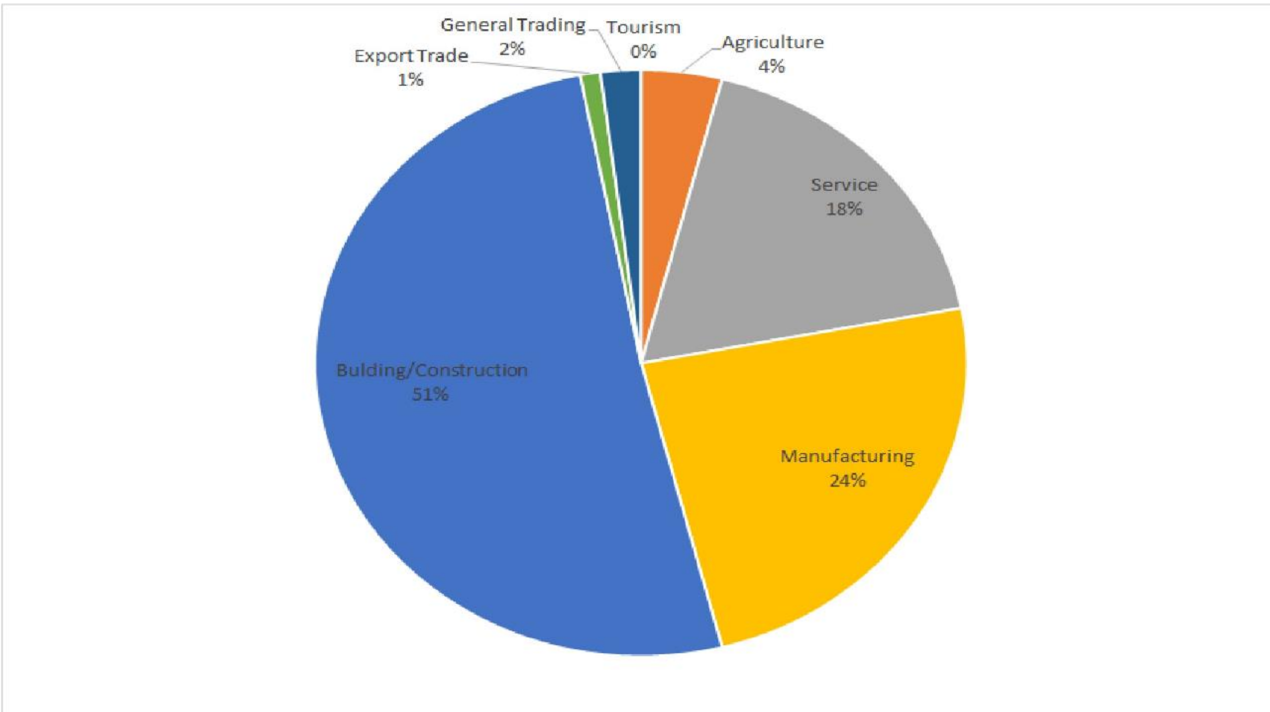


**Figure 2.** Investment Projects by Sectors (Source: GIPC Investment Bulletin, 2010 – 2015)

## 3.2. Value of registered projects

GIPC has attracted investments amounting to almost US$22m from 2010 to 2015 (GIPC, 2015). These investments are to boost the economic well being of the country in terms of job creation, poverty alleviation, value addition, improving the service sectors of the economy and bolster partnerships. Figure 4 shows the trend in the flow of investments into the country.

For the five- year period, the highest investments in terms of value was US$6,820 million in 2011. Since then, the level has been decreasing with the least recorded in 2015 (Figure 3). Largely, the decline in the investment may be due to the energy crisis which hit Ghana within this period. The energy crisis served as a disincentive to investments since energy lies at the core of every human and economic endeavour. The other reason for this trend might be a shift of focus by foreign investors from the industrial sector to the oil and gas industry.

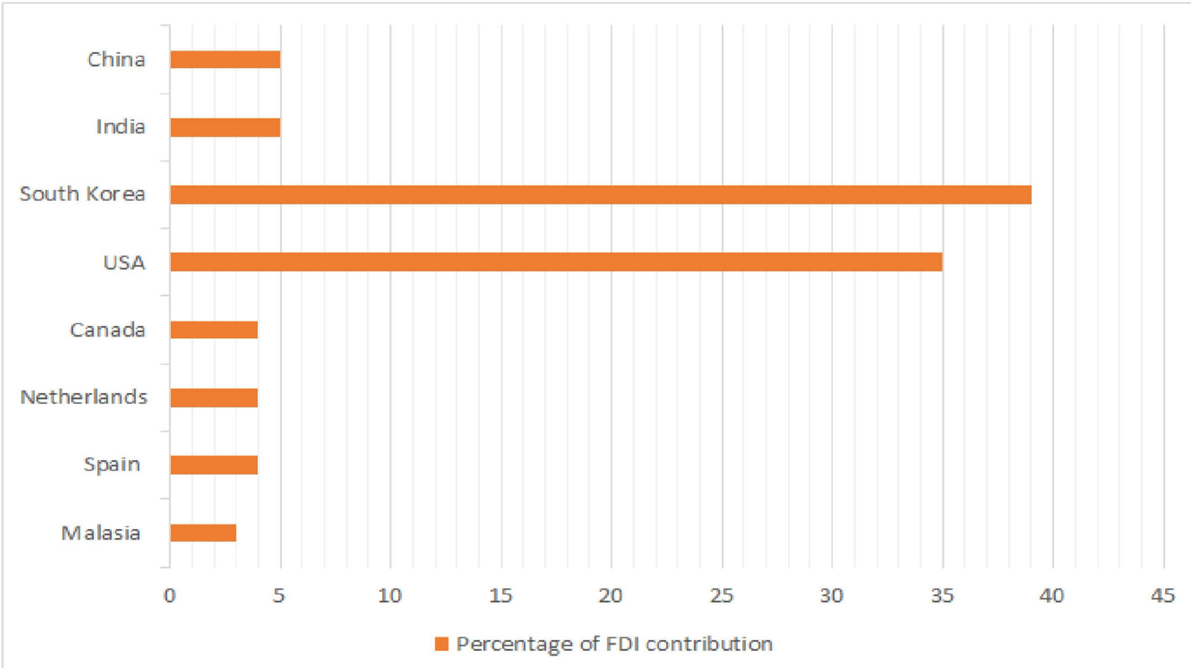


**Figure 3.** Percentage of FDI contributions by country (1993-2013) (Source: GIPC Statistics, 1993 – 2014)

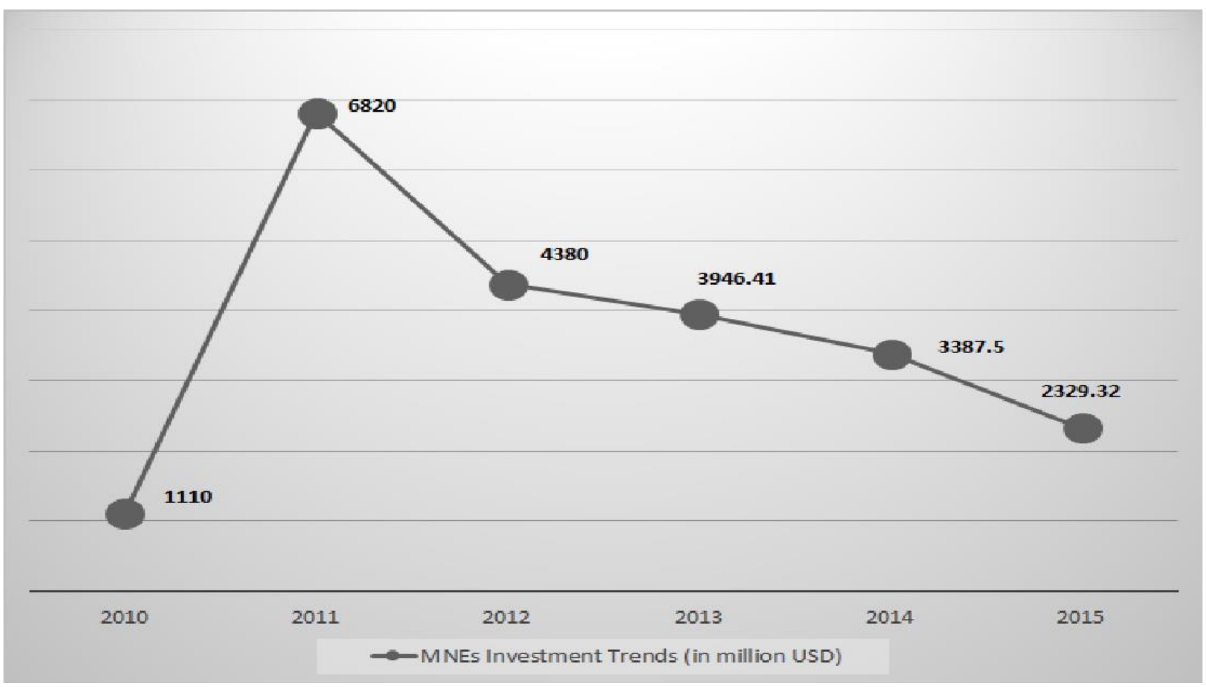


**Figure 4.** MNEs Investment Trend (in Million USD) (Source: GIPC Investment Bulletin, 2010 – 2015)

### 3.3. Employment

MNEs investment in Ghana created a total of 300,230 non-farm jobs (Figure 5) out of which 87% were to be Ghanaians and 13% expatriates. However, there has been a decline in the expected jobs to be generated by the MNEs. Meanwhile, employment opportunities contribute to reducing unemployment situation in the country. Creating more employment will have a positive ripple effect on the economy in terms of increased consumption of goods and services and contribute to economic bouyancy.

### 3.4. Government policies and linkages with domestic firms

MNEs create linkages with local suppliers in order to take advantage of the comparative advantage local firms have in producing certain inputs and accessing raw materials for their activities within the country instead of importing. According to results from the study, about 80% of MNEs have created linkages with local firms. These linkages were mainly created for easy accessibility to inputs and local production techniques, to build the capacity of firms as well as create market opportunities for actors along the production chain within the firms. This could increase turnovers, leading to increased incomes and improved scale of production. Meanwhile, only 20% of sampled MNEs reported that, government policies had influenced the establishment of linkages with local firms (Figure 6). This implies that only few perceived policies and directions of government concerning their activities has an influence on their decision to interact with local firms. Hence it denotes government has less influence in the decision of MNEs to form linkages with local firms.

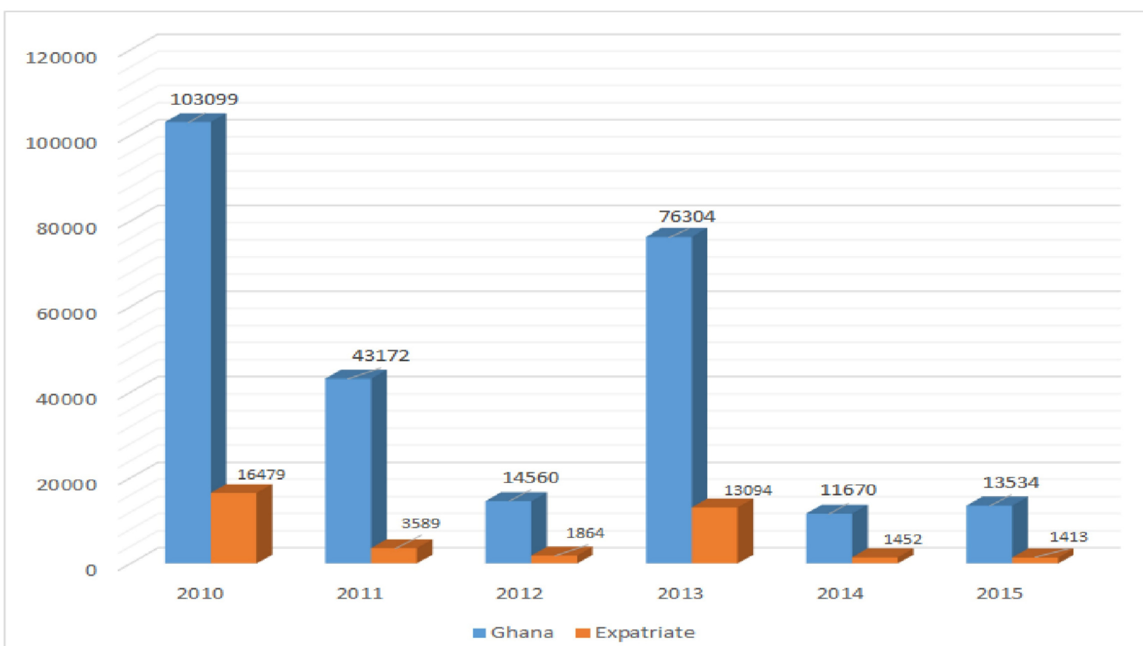


**Figure 5.** Employment generation by MNEs activities versus domestic (Source: GIPC Investment Bulletin, 2010 – 2015)

Meanwhile, some policies and directions of the government of Ghana concerning FDI include the establishment of the Ghana Investment Promotion Centre (GIPC) in 1994, to promote and encourage foreign and also domestic investment activities in the country. Incentive packages and tax exemptions, long tax holidays for companies registered by the Centre are some of the key attractive indicators for MNEs investments. In addition, MNEs are allowed to retain large proportions of their profits in foreign accounts. The GIPC Act also guarantees profit, interest or dividend transfers arising from any investment. Ghana has also enunciated an industrial policy that is designed to promote increased competitiveness and enhanced industrial production, with increased employment and prosperity for all Ghanaians. It is also to provide a broader range of fair-priced, better quality products for the domestic and international markets.

In encouraging foreign investment inflow, government's policy objective is demonstrated by sending investment missions abroad and hosting international events that focus on FDI in Ghana (GIPC, 2014). For example, the 5th African – American Summit and the 3rd Pan African Investment Summit held in May and September 1999 respectively, ignited renewed interest in the country. Some of these policies of the country may influence the decision of MNEs to form linkage with local firms. For example, under the industry policy, the government underlined the importance of industrial linkages and provided a policy objective of building capacity of the domestic firms to benefit from subcontracting and partnership with large companies.

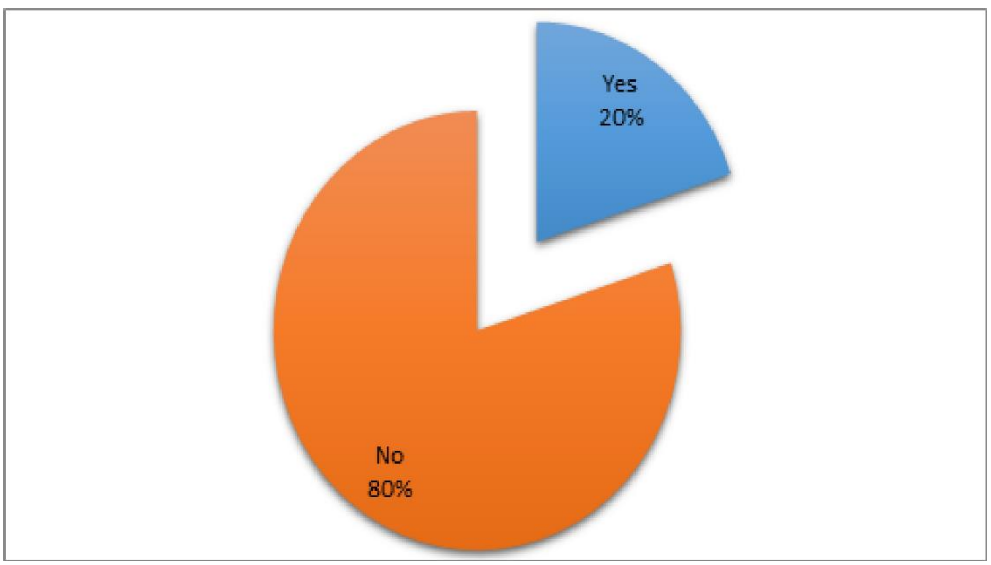


**Figure 6.** Government's influence on MNEs forming linkages with local firms (Source: CSIR-STEPRI/MNEmerge field survey, 2015)

## 3.5. Corporate social responsibility

In recent years, Corporate Social Responsibility (CSR) has become a key concept in demonstrating corporate sensitivity to local development challenges. The CSR activities are broad and can include community assistance programs, supporting educational needs, ensuring community health and safety, sponsorship, enabling employees to do voluntary work in the community and others. Some CSR activities of selected MNEs in Ghana are presented in Table 3.

Obviously, some of the CSR are responses to needs while others formed part of the MNEs CSR programme. However, they addressed needs of society but invariably complement developmental activities.

## 3.6. Poverty reduction

Higher incidence of poverty has serious consequences on the socio-economic development of every country. This affects quality of life and the general well-being of society hence its inclusion in the global SDGs. Ghana's poverty rate has declined substantially over the past two decades from 51.7% in 1992-92 to 28.5% in 2005-06 and 7.7 % in 2013 (GSS, 2014). Importantly, MNEs have contributed towards the achievement of this goal. The direct creations of jobs and linkages with domestic firms have contributed to achieving this situation. Table 4 summarises some of the activities of the MNEs and their contributions to poverty reductions in the country.

**Table 3.** Corporate Social Responsibility of Selected MNEs in Ghana

| COMPANY | CORPORATE SOCIAL RESPONSIBILITIES |
|---|---|
| A | • Provision of Scholarship eg. Spent GHS 1.60 million as scholarships and surgeries<br>• Infrastructural development support eg building classroom blocks in the Srafa and Immuna Communities.<br>• Donations such as buses to the Akropong school of Blind<br>• Supporting health systems especially the maternal health systems .eg. Twifo Praso Government Hospital.<br>• Entertainment eg. Lifestyle, football, music |
| B | • Infrastructural development in communities eg. invested about GHS6.5 million in deprived communities.<br>• Support for health and educational sectors in regions such as Greater Accra, Central, Western, Eastern and Volta |
| C | • Health education eg Nestle Healthy Kids Program to promote nutritional education and practice<br>• Cocoa Plan eg empowering women in cocoa chain supply<br>• Grains Quality Improvement projects which seeks to improve the quality and quantity of grains and cereals produced eg farming in Northern Ghana.<br>• Sports |
| D | • Health eg refurbishment of 37 Military Hospital's Maternity Ward<br>• Provision of educational materials eg supply of books, uniforms to Mangoase Senior High School<br>• Provision of scholarships and sponsorship |
| E | • Health and Education: provide scholarship for education in both senior high school and tertiary levels.<br>• Provision of ambulances to three of the most deprived rural communities to assist with management of emergency medical cases |

**Table 4.** Activities of Selected MNEs in Poverty Reduction

| Name of Firm | Activities | Poverty Reduction |
|---|---|---|
| **A** | Regularly reviews the supply systems of its local suppliers to ensure goods and services offered are of the best quality. | Provides technical training and financial assistance to assist in upgrading technological and managerial capabilities of committed and loyal clients.<br><br>Provide market for the products of farmers who are part of its outgrower scheme |
| **B** | Engages in programmes farmers are trained by the Ministry of Food and Agriculture and the International Institute of Tropical Agriculture on how to improve and eliminate aflatoxins from their farm produce.<br><br>Also cocoa farmers are trained to produce high quality products | With improved production, farmers earn premium payments for their products and the programme has impacted over 9000 farmers. |
| **C** | Creates market opportunities for producers and smallholder farmers through their out-grower networks.<br><br>Training of farmer groups to operate as businesses and optimize their productivity | Optimized productivity ultimately increases on-farm income and hence reduction in poverty<br><br>Reduction in post-harvest losses due to enabled market opportunities, hence increasing total revenue |
| **D** | It supports locally made products and assist suppliers to increase their scale of production, quality and access to market.<br><br>It works to increase agricultural productivity, high-value commercial and basic food crop production, and private-sector investment in agriculture.<br><br>Help link farmers to markets by coordinating and leveraging its activities with other Ghanaian agriculture projects and through other local development partners. | Works and collaborates with local firms both in the public and private sectors to enable the local firms adopt projects after its completion to increase their alternative sources of income<br><br>Improved farmer income due to increased productivity of farm output as a result of best practices introduced to farmers. |

*Source: CSIR-STEPRI, 2015*

## 4. Conclusion

Development literature has enunciated the contributions of MNEs to socio-economic development of developing economies. Ghana has received investments from MNEs in similar direction that cuts across manufacturing, industry and service sectors of the economy. This makes the contributions of MNEs to economic development of the country on which this study is focused a reality. Operations of MNEs in the country were discovered to make considerable contributions to the national economy and successfully assist government in the achievement of some of the global development goals.

The synergy between conducive national environment (institutional and regulatory frameworks) and the corporate business strategy of the MNEs epitomises the conceptual framework proposed for this study. It was established that, through activities of GIPC, Ghana continues to attract MNEs to invest in the country. Activities of MNEs in Ghana were identified in relation to investment projects and their impacts on the national economy in terms of employment, revenue to the government and linkages with domestic firms among others. The study revealed that, about 80% of MNEs have created linkages with local firms. However, it was further revealed that, only 20% of the linkages with domestic firms were influenced by government policies. Linkages were created mainly for easy accessibility to inputs and local production techniques, build the capacity of firms as well as create market opportunities for actors along the production chain within firms.

The expected employment avenues to be created, revenue to the government, linkages with local firms, social support from the MNEs through their CSR will go a long way to enhance the socio-economic development of the country. Social support from the MNEs through CSR will go a long way to facilitate the achievement of growth targets. Most of these CSR initiatives address issues such as health, education, water and sanitation, sports and entertainment among others. In conclusion, MNEs have made considerable contributions towards the development of the national economy and contribute significantly to the achievement of some global development goals in Ghana. This is the reality about the contributions of MNEs to Economic Development in Ghana. In this vein however, it is important that Ghana design strong policy and regulatory frameworks to enable the country obtain maximum benefits from the operations of MNEs.

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