

## Research on Strategies to Attract and Retain Foreign Direct Investment (FDI) in Oil and Gas Industry in Ghana

Samuel Kwadwo Frimpong\* Daniel Ofori Saviour Ayertey Nubuor

School of Economics, Wuhan University of Technology, Box 87#, #122 Luoshi Road, 430070 - Wuchang, Wuhan, China

\* Email of the corresponding author: [skfrimpong@gmail.com](mailto:skfrimpong@gmail.com)

### Abstract

Foreign Direct Investment (FDI) occurs when a firm invests directly in facilities to produce or market a product in a foreign country which is not its country of origin. This study was limited to Strategies to Attract and Retain Foreign Direct Investment (FDI) in Oil and Gas Industry in Ghana. To achieve the objectives of the study, investigations were conducted regarding the following factors as important measures of motivation for foreign investors to invest in Ghana, the factors that will ensure their continue stay and operations as well as factors that can attract more investors to the oil and gas industry. Data was also collected from local firms operating in the industry in order to have their opinion on the subject matter since they also have a role to play in attracting and retaining foreign investors. This was done through primary data collection by way of questionnaires. The result of the data analysis indicated that, the main motivating factor for the foreign investors to invest in Ghana is the raw material which in this case is the oil and gas. The local firms also rated this factor as the main reason in addition to political stability. For continued operational factors, the foreign investors rated political stability as what will determine their decision in that direction. In the case of attractive factors, majority of the foreign investors rated Flexibility of Investment Policies index or factor as very important to attract more investors. However, in the case of local firms' respondents, they strongly agree that, Taxes holiday is the main attracting factor for the foreign investors but company's documentation processes been so burdensome can hinder foreign firms from investing in the oil and gas industry in Ghana.

**Key Words:** Foreign Direct Investment, Strategies, Attraction, Firms and Institution

### 1.1 Background of the Study

Foreign Direct Investment is viewed as a major stimulus to economic growth in developing countries. It is perceived ability to deal with major obstacles such shortages of financial resources, technology, and skills has made it the centre of attention for policy makers in developing countries such as Africa. Globalization has resulted in increasing fragmentation of production network of multinational enterprises, several functions which used to be performed earlier in one location are now getting dispersed over multiple countries for maximizing the benefits offered by specific features of different locations, such fragmentation implies that countries are likely to fall behind in the race for attracting FDI, unless they strengthened their comparative advantages (Frimpong 2011)

One of Africa's most economically, politically and socially stable countries, Ghana is utilizing its strategic location and vast natural resources to drive impressive socioeconomic development in partnership with major international investors. Rich in gold, cocoa and other natural resources, the country of about 25 million people is known as West Africa's "Golden Gateway". The welcoming nation is enjoying solid growth that is attracting increasing numbers of foreign partners and helping the government achieve its goal of economic diversification (Frimpong 2012).

Bordered by Togo, Burkina Faso and Ivory Coast, Ghana in 2010 started to pump oil from the vast offshore Jubilee Field, which is estimated to contain around 1.5 billion barrels of black gold. Industry experts said the oil field generated as much as \$400 million in 2011, with a second offshore site found in September 2011 estimated to hold an additional 1.4 billion barrels.

Ghana shares many similarities with other regional countries, and the only way it could differentiate itself in attracting and retaining more FDI than other regional countries would be based on the strength and quality of its policies in favor of FDI. The country has a sustained and stable political environment that fosters the development and implementation of policies to create an attractive investment environment. The long sustained periods of policy development in the country in favor of FDI earned it the reputation of being a "frontrunner", or a "star pupil", in attracting FDI among African countries (UNCTAD, 2008).

Ghana's recent discovery of crude off its western coast in 2007 was met with cheers and joy amongst Ghanaians. This is because of the impression that oil production can bring about a transformation in Ghana's economy. However, along the production of oil and revenues from the production come challenges of various natures. One of which is the challenge of ensuring that the oil resources does not end up in the hands of a few individuals or groups who will merely seek to satisfy their own personal interest rather than the public's benefit.

The most common reason given as to why Africa does not attract much FDI is the image that Africa is unfavorable location. Africa is painted as a continent of civil unrest, starvation, deadly diseases, and economic disorder. According to UNCTAD, the bad publicity the African continent gets has played a big role in discouraging foreign investors from investing (UNCTAD, 1999). This line of argument contradicts some literature on the concentration of foreign investment in Africa. Angola has received bad publicity in terms of the war in that country, but this did not deter foreign investors from investing there. Though the grisly aspects of African states receive attention, the positive developments in Africa are seldom reported and not widely known. Having established the weakness in our understanding of the drivers of FDI in Africa compared to the developed world as well as the Asian and Latin American regions, it is necessary for researchers, policymakers and foreign investors to improve our present understanding of the drivers of FDI in Africa. In the first place, improving our understanding will enable policymakers to develop the right kind of strategies and policies capable of attracting and retaining the right amount and type of FDI in their economies. In the first place, improving our understanding will enable policymakers to develop the right kind of strategies and policies capable of attracting and retaining the right amount and type of FDI in their economies. The findings of this study are also expected to further our understanding of the economic, policy and business facilitation factors that influence foreign investors to continue their operations in Ghana. Finally, it will also inform potential investors about the various policies in the country, the investment environment, and the benefits of investing in oil and gas industry in Ghana. Additionally, it will inform investors if Africa really is different, and whether it requires different strategies for their operations to succeed in the region. Finally, the study will serve as a bridge for further innovative studies by the research community.

### **1.2 Status of Oil and Gas Industry in Ghana**

Oil and gas resources are a principal source of public revenues and national wealth for the governments of net oil-exporting countries. As a major source of wealth and energy in Africa, oil and gas resources are critical for growth, development, and good governance. Africa has considerable oil and gas resources that can help accelerate growth on the continent if used strategically. Although new resources are discovered progressively, they are *not* equally distributed; indeed, 38 African countries are currently net oil importers. High and volatile oil prices are thus a challenge for all of Africa; they represent an opportunity to be pursued for exporting countries and an obstacle to be tackled for importing countries.

Until the discovery of oil in the Jubilee Fields in 2007 there were no companies or active commercial activities in the upstream (exploration) business of the petroleum sector. Since the discovery of the oil, however, the country's nascent petroleum industry has attracted attention from some of the world's top energy companies who are rushing to obtain stakes in the exploration of oil in Ghana. According to the Ministry of Energy, about fifty foreign companies had so far indicated their interest to invest in the upstream sector of the country's oil industry (Yeboah, 2009). Those interested parties include offers from the Chinese, US and Scandinavian oil companies. Some of these include Tullow Oil PLC, Kosmos Energy, Exxon Mobile, Anadarko Energy, Total SA, Chevron Corp, Royal Dutch Shell Group PLC, BP PLC, Cnooc, ONGC's Videsh Ltd, just to mention a few. But those oil companies that have secured stakes in the Jubilee Oilfield in Ghana are Tullow Oil PLC with 34.7%, Anadarko Petroleum Corp with 23.49%, Kosmos Energy with 23.49%, Ghana National Petroleum Corporation with 13.75%, Sabre Oil and Gas with 2.81% and EO Group with 1.75% (Bloomberg, 2009).

Tullow Oil PLC invested US\$3.1 billion in developing the Jubilee Field of Ghana which is estimated to contain 1.8 billion barrels of crude oil. The Jubilee Field started pumping crude oil at the end of 2010 and the volume of production is expected to increase to about 500,000 barrels of oil a day by 2014 setting the country up to become one of the world's top 50 oil producers. Tullow Oil PLC also declared that another offshore field called the Tweneboa Offshore Field has the potential to yield almost as much oil as the nearby Jubilee block (Bloomberg, 2009). In 2009, Kosmos indicated an interest to sell its 23.49% stake in the Jubilee Field and that generated huge interest from major oil companies. Exxon Mobile indicated their willingness to pay US\$4 billion for Kosmos stake while other oil companies those with or without stakes in the Jubilee Field also declared their interest to bid for the Kosmos stake. Even those with stakes in the Jubilee Field, especially the government-controlled GNPC, all registered their interest in buying Kosmos stake.

In another phase, Eni SpA, Italy's biggest energy company, acquired majority stakes in two oil and gas exploration licenses of Ghana after finding "high quality reservoir sands" at the Sankofa Well in Ghana. Eni SpA holds 47.22%, Vitol Group with 37.78% and the government GNPC also holds 15% (Bloomberg, 2009). Other reputable companies, such as Schlumberger; Vanco Energy Co; OAO Luke Oil, have established subsidiaries in the country to help drill oil rigs for these oil companies in Ghana, most of them are already adopting Ghana as the headquarters for their business operations in Sub-Saharan Africa.

In April 2009 the GNPC, which manages the country's oil and gas industry, also revealed that it was seeking investors to help fund a US\$1 billion natural gas processing plant and had received various expressions of interest from foreign companies. After the tendering process Oando Plc, Nigeria's biggest independent energy

company, Saipem SpA and Modec-Itochu of Japan were selected by the government to partner the GNPC in a joint venture to develop the gas facility. The energy sector looked set to attract more FDI inflow than any other sector in the economy. The rush for stakes in the petroleum sector in Ghana by the world's major oil companies gives credence to the quality of government policies in promoting the country for business operations. Ghana is therefore set to become one of Africa's newest oil exporters as production began at the offshore Jubilee Field.

## **2.0 Research Methodology**

This study deals with a relatively unexplored area – the strategies of attracting and retaining FDI in Ghana. For this reason it was felt that a mixed method of inquiry was considered the most appropriate to undertake a detailed investigation of the research questions, as it provides flexibility in the exploration, description and analysis of issues.

Given the research problem, the overall objectives of the study and the availability of literature and theoretical evidence on which to formulate propositions, an exploratory design was seen to be the most suitable for this study. In furtherance to that survey questionnaire and semi-structure interviews were employed in the primary data collection.

To reduce non-response rate in this research, each respondent was well informed of the purpose of the study and if keen in the topic was asked to fill in the questionnaire to help to accomplish the purpose. In all 94 questionnaires were retrieved from the foreign companies and out of these, 5 were answered incorrectly, thus making them unusable leaving the number of usable responses for the analysis at 89 questionnaires. In the case of local companies, all the 50 questionnaires were retrieved, out of these, 4 were answered incorrectly, thus leaving 46 for the analysis.

## **3.0 Data Analysis, Results and Discussion**

### **3.1 Analysis Based on responses by Foreign Firms**

According to the questionnaires that were administered to the foreign investors, 30 factors or indexes were presented to them and asked to rank them in order of importance. These factors were divided into three parts. The first part has the motivational factors; these factors are what motivated the foreign firms to invest in Ghana. The second part has the factors which will encouraged their continued stay or operations in Ghana and these are termed operational factors. Whiles the third part included factors that can attract more investors into the country. This ranking by the respondents was from a scale of 1 to 5 with 1 - been not very important, 2 - not important, 3 - moderate 4 - important and 5 - very important.

Motivation features included; Local Market (LM), Raw Materials (RM), Macroeconomic Environment (ME), Political Stability (PS), Labor Force (LF), Regulatory and Institutional Environment (RIE), Parent Company's Plan (PCP), Favorable Governmental Policies (FGP), Incentives Provided (IP) and Similarity in Culture (SM). The features for Continues Operational included; Credit Accessibility (CA), Utility Cost (UC), Utility Supply (US), Investors Security (IS), Taxes and other Charges (TC), Good Infrastructure – Transportation (GI), Good Telecommunication Services (GT), Skilled Labor (SL), Access to Land (AL) and Political Stability (PS). The features for Attractive Factors included; Personalities Acquaintance (PA), Legal System (LS), Level of Corruption (LC), Domestic Consultants (DC), Company's Finance (CF), Assistance (AS), Domestic Labor (DL), Bank Loan Regulations (BLR), Investment Policies (IP) and Companies Documentation (CD).

#### **3.1.1 Motivation Factors**

Motivation is a desire to achieve a goal, combined with the energy to work towards that goal. Among many motivation theories that have been proposed are Maslow's need – hierarchy theory, Herzberg's two – factor theory and Adams equity theory. Motivation theories fall into two main categories: content theories and process theories. Content theories of motivation explain the dynamics of employee needs, such as why people have different needs at different times. Process theories of motivation describe the process through which needs are translated into behavior (Frimpong 2009).

#### **How important were the following factors in Influencing your decision to Invest in Ghana?**

The figure and table below indicates the indexes or factors of motivation and the role each is perceived play in influencing foreign companies to invest in the Oil and Gas industry in Ghana. According to the figure bellow, out of 89 respondents, the majority rated Raw Materials (R M) index or factor as very important with 48 as the highest, meaning that, they strongly agree that, raw material is the main motivational factor for them to invest in Ghana. Under the important option, Political Stability (P S) received the highest of 43 saying it is important. However, under the not very important option, Similarity in Culture (S C) received the highest with 22 respondents saying it is not very important. Also, 45 of the respondents rated highest Macroeconomic Environment (M E) as not important factor or index under not important option.

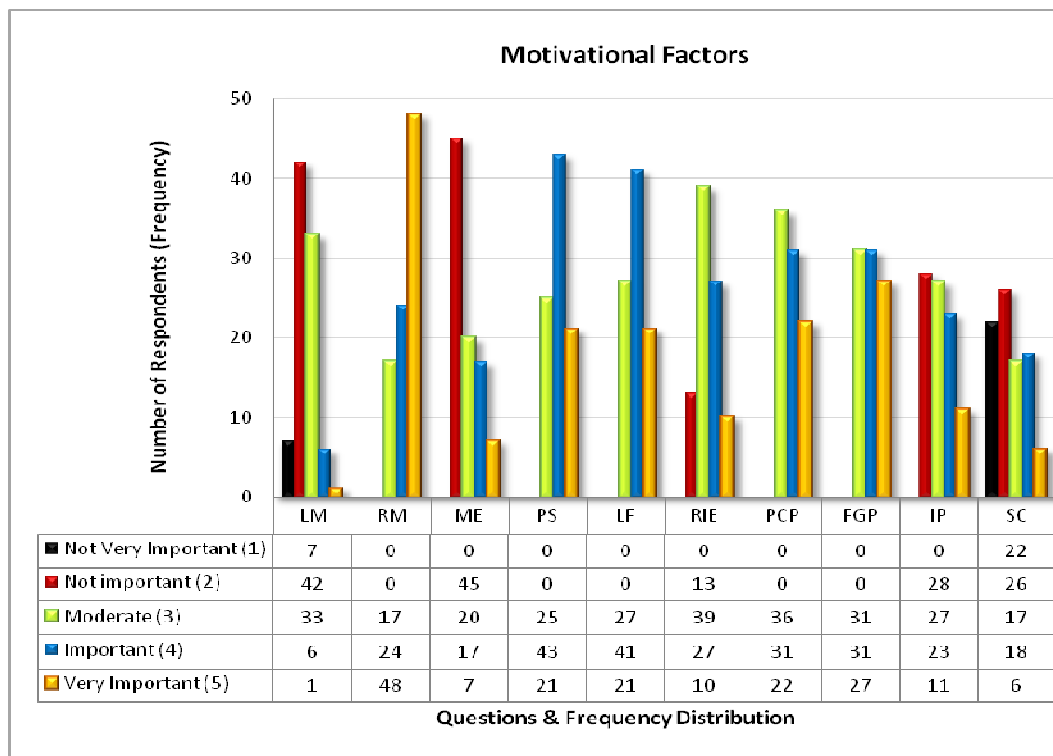


Figure 3 - 1 Motivational Factors

### 3.1.2 Continued Operational Factors

The reason for these factors under this option is to rate the indexes that encourages continue stay by the foreign companies in Ghana. The objective is to access and knows what will ensure their operation in Ghana. As stated above in the introduction, 10 factors were used to measure to find out how the investors see and rate the various factors. Bellow is the question that was posed to them and their responses as well.

#### How important are the following factors to your continued operation in Ghana?

The figure and table below indicates the indexes or factors that will ensure the continued operation of foreign investors in the Oil and Gas industry in Ghana. According to the figure bellow, out of 89 respondent, the majority rated Political Stability (P S) index or factor as very important with 49 as the highest, meaning that, they strongly agree that, Political Stability is the main factor that will determine their continue operation in Ghana. Under the important option, Utility Supply (U S) received the highest of 35 saying it is important.

However, under the not very important option, Credit Accessibility (C A) received the highest with 38 respondents saying it is not very important. Also, 33 of the respondents rated highest Utility Cost (U C) as not important factor or index under not important option.

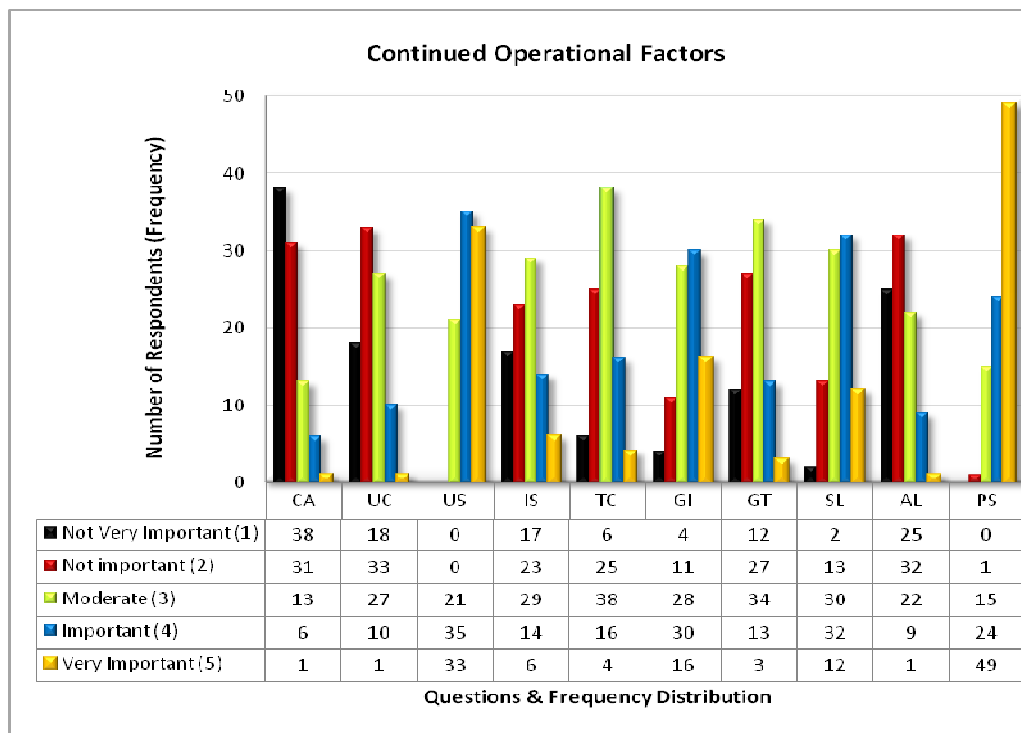


Figure 3- 2 Continued Operational Factors

### 3.1.3 Attractive Factors

These are factors set up to access what the foreign investors think the government should do in order to attract more investors into the oil and gas industry. Just like other sections, 10 factors were put forward for them to rate them according to their importance. Since they are foreigners, we feel their thought on factors to attract more foreign investors will be very helpful.

#### How will you rate the following factors in aiding to attract more Investors to Ghana?

The figure below indicates the indexes or factors that can attract more foreign investors to the Oil and Gas industry in Ghana. According to the figure bellow, out of 89 respondent, the majority rated Flexibility of Investment Policies (I P) index or factor as very important with 54. Under the important option, Company Documentation process been less burdensome (C D) received the highest of 39.

However, under the not very important option, Flexible Bank Loan Regulations (B R) received the highest with 26 respondents saying it is not very important. The respondents rated the same factor – B R with the same rating meaning it also received the highest rating under the not important option.

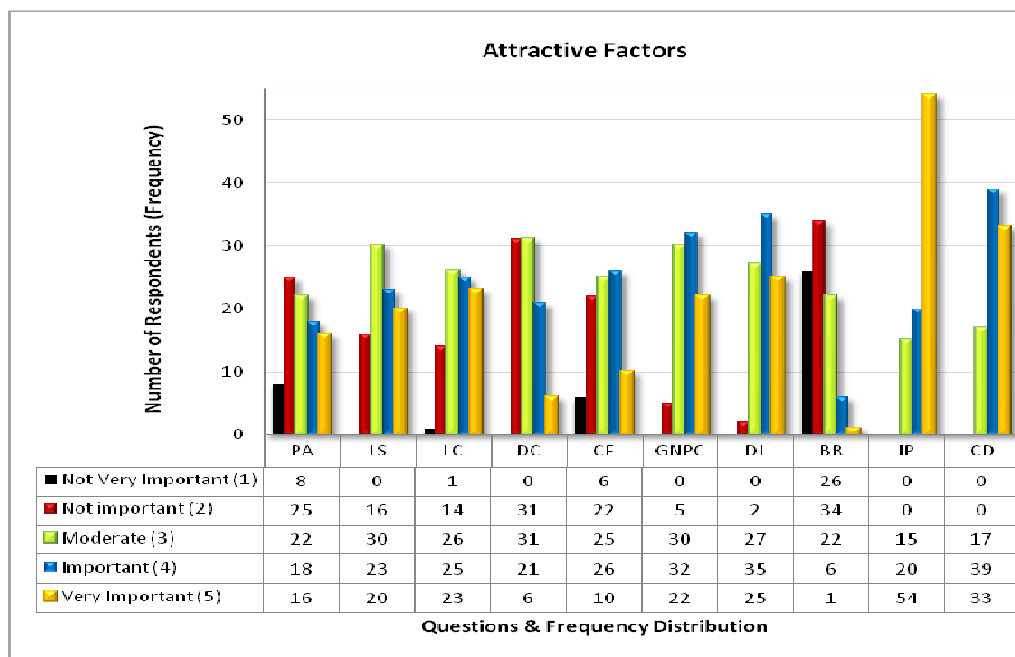


Figure 3- 3 Attractive Factors

### 3.2 Analysis Based on responses by the Local Firms

This section analyzed the responses received from the local firms operating within the oil and gas industry in Ghana. These firms are owned by Ghanaians. This is to give us an idea as to what their opinion is/are on the foreign investments in the oil and gas industry in Ghana. We deem it necessary because they interact with the foreign firms and therefore may also have an idea as to what the government can do to attract more foreign investors. Further, based on the response we got from the government institutions that assist foreign investors, most of the foreign investments are joint ventures. This implies that, the local companies have knowledge about what can attract and help retain foreign investors.

In all nineteen factors/indexes were posed to them to rate based on their agreement or not, from the scale of Agree, strongly agree and disagree. 1- Representing disagrees, 2 – representing agree and 3 - representing strongly disagree. In all nineteen factors/indexes were posed to them to rate based on their agreement or not. Five factors for the first section representing motivational factors, seven factors for the second representing attractive factors while and third sections representing problematic factors.

Motivational Factors included; Local Market (LM), Raw Materials (RM), Political Stability (PS), Labor Force (LF), Regulatory and Institutional Environment (RIE). The Attractive features included; Favorable Governmental Policies (FGP), Smooth Utility Supply (SUS), Security for Investors (SI), Taxes Holidays (TH), Good Infrastructure (GI), Remittance of Dividends (RD) and Skilled Labor (SL). The Challenges features included; Problems with Financing (PF), Insufficient Domestic Consultants (IDC), Insufficient Competent Domestic Labor (ICDL), Investment Policies (IP), Laws and Regulations (LR), Insufficient Good Infrastructures (IGI), High Level of Corruption (HLC) and Companies Documentation (CD).

#### 3.2.1 Motivational Factors

##### Motivating Factors for foreigners to invest in oil and gas industry in Ghana

The figure below indicates the indexes or factors of motivation for the foreign investors as in the opinion of local firms and the role each is perceived play in motivating foreign companies or investors to invest in the oil and gas industry in Ghana. According to the table, out of 46 respondents, the majority strongly agreed with both the Local Raw Materials (R M) index and Political Stability (P S) index with 30 as the highest. Under the agree option, Availability of labour force (L F) and Strong Regulatory and Institutional Environment in Ghana (R I E) received the highest of 19. However, under the disagree option, Large size of local market and growth (L M) index with 26 as the highest under disagreed option.

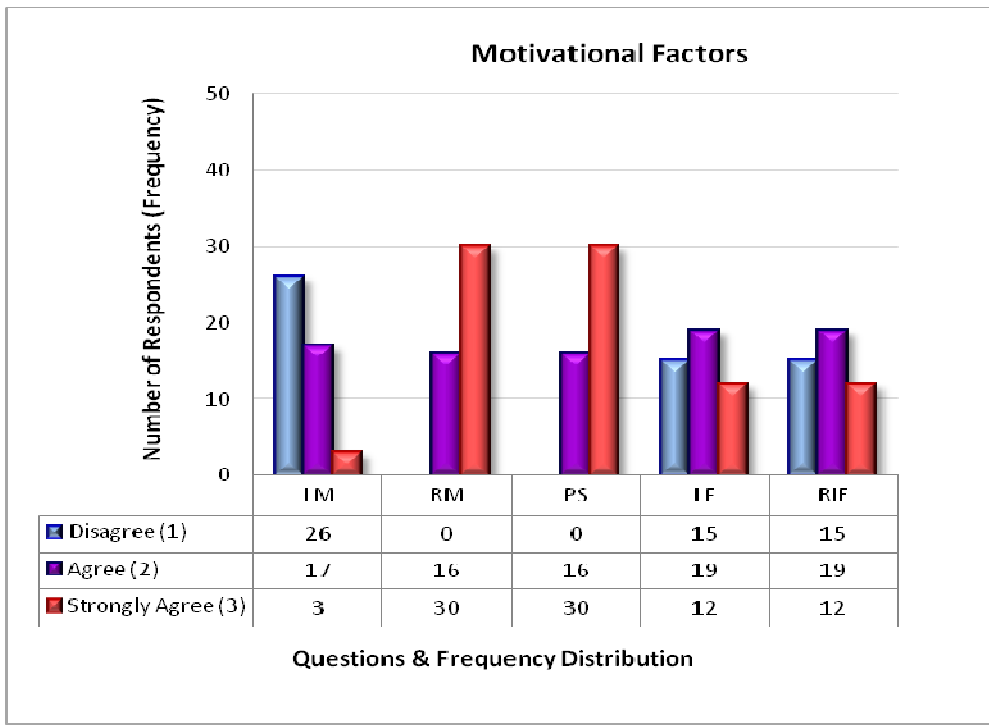


Figure 3- 4 Motivational Factors

### 3.2.2 Attractive Factors

#### Necessary Incentives to attract foreign investment in oil and gas industry in Ghana

The figure below indicates the indexes or factors of attractive factors for the foreign investors as in the opinion of local firms and the role each is perceived play in attracting foreign companies or investors to invest in the oil and gas industry in Ghana. According to the table, out of 46 respondents, the majority strongly agreed with Taxes holidays (T H) index with 29 as the highest. Under agree and disagree options, Skilled labor (S L) received the highest of 26 for agreed.

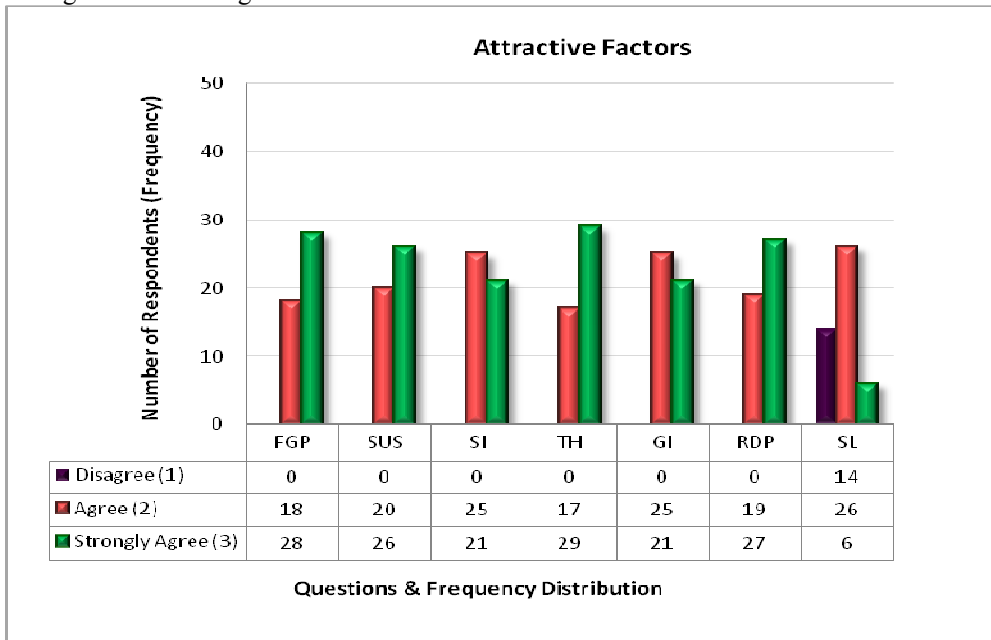


Figure 3- 5 Attractive Factors

### 3.2.3 Problematic Factors

#### Problems that may hinder foreigners to invest in oil and gas industry in Ghana

The figure below indicates the indexes or factors of problematic factors that can hinder the foreign investors as in the opinion of local firms and the role each is perceived play in hindering foreign companies or investors to

invest in the oil and gas industry in Ghana. According to the table, out of 46 respondents, the majority strongly agreed with Companies documentation processes been so burdensome (C D) index with 28 as the highest. Under agree option, Insufficient domestic consultants (I D C) received the highest of 34. For the disagree option, Problems with financing (P F) received the highest with 28 respondents disagreeing to this index.

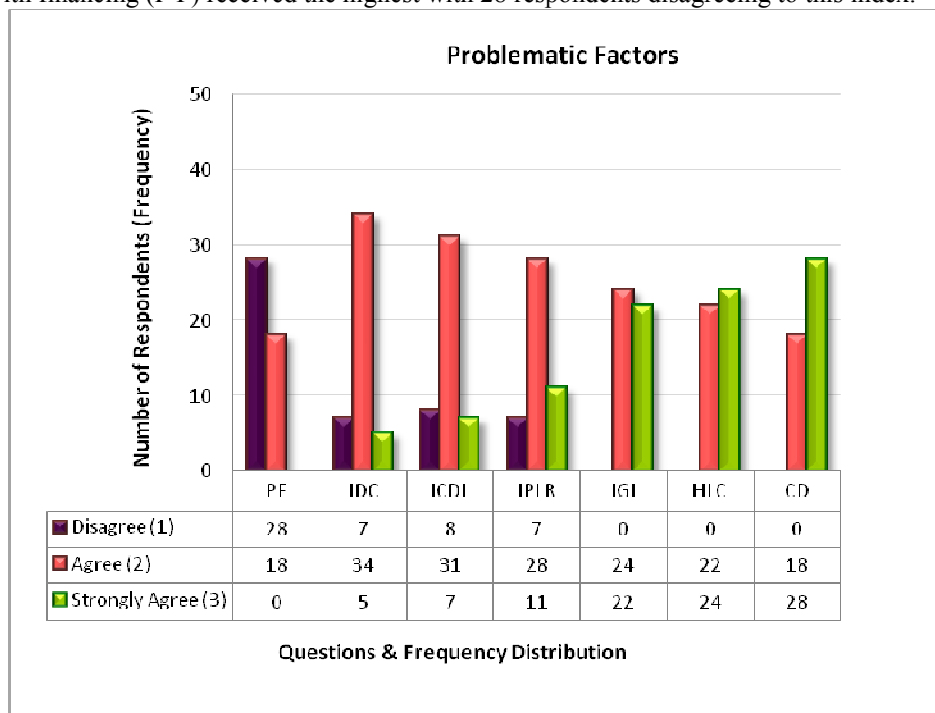


Figure 3- 6 Problematic Factors

#### 4.0 Conclusion

It is very important for the government of Ghana to ensure that, the stable political atmosphere Ghanaians enjoy now continues. This is because, a stable political environment is what will ensure that, investors within the oil and gas industry as well as other sectors of the economy will continue to operate in the country. Competitiveness and innovation are very important and not totally endowed by nature. In the era of globalization, created competitive advantages are more important than natural one. Maintaining economic and political stability will create a climate favorable for investment. Also, with the requirement of skilled labor in the oil and gas industry as well as other industries, it is very important for the country to ensure that, it labor force is well trained in the application of high technologies in order for it to be relevant in today's labor market. This is because most FDI is likely to use modern, up to date and state of the art technologies and operate in knowledge driven sectors, Therefore the capability of the country to apply the existing high technologies, rather than producing them is likely to increase the attractiveness of the country for more FDIs.

#### Reference

- [1] Bloomberg: Accessed 14/11/2009
- [2] Frimpong, S.K. & Nubuor, S. A Research on the Chinese Investments in Ghana, Journal of Economics and Sustainable Development, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online), Vol. 4, No. 4, 2013
- [3] Frimpong, S.K. A Study on the Effect of Brand on Consumer Purchasing Decision in Ghana - Domestic versus Foreign Brands, Proceedings of 8th International Conference on Innovation and Management, Kitakyushu [C], Japan, November 30 – December 2, 2011
- [4] Frimpong, S.K., Motivation for Product Innovation – The case of Manufacturing Companies in China. Proceedings of the 4<sup>th</sup> International Conference on Product Innovation Management, [C] Wuhan, China, August, 2009
- [5] Frimpong, S.K., Research on Relationship between China and Ghana: Trade and Foreign Direct Investment (FDI), Journal of Economics and Sustainable Development [J], ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online), Vol. 3 No. 7, 2012
- [6] UNCTAD World Investment Report, New York, 1996, 1998, 2004, 2006, 2007, 2008.
- [7] Yeboah, S. Thirst for Nation's Oil – Anticipating Another Battlefield?. The Chronicle, 26th August, 2010. Available on <http://ghanaian-chronicle.com/?p=5349>. Accessed on 20/09/2010. 2009.



This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage:

<http://www.iiste.org>

## CALL FOR PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** <http://www.iiste.org/Journals/>

The IISTE editorial team promises to review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

### IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

